Important Questions Part-1
Fundamentals of partnership and Goodwill

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1. **Define partnership.**
   Ans. When two or more persons enter into an agreement to carry on business and share its profit and losses, it is a case of partnership. The Indian partnership Act, 1932, defines Partnership as follows:
   "Partnership is the relation between persons and who have agreed to share the profits of a business carried on by all or any of them acting for all.
2. **What do you understand by 'partners', 'firm' and 'firms' name?**
   Ans. The persons who have entered in to a Partnership with one another are individually called 'Partners' and collectively 'a firm' and the name under which the business is carried is called 'the firm's name'.
3. **Write any four main features of partnership.**
   Ans. Essential elements or main features of Partnership :
   i. Two or more persons: Partnership is an association of two or more persons.
   ii. Agreement: The Partnership is established by an agreement either oral or in writing.
   iii. Lawful Business: A Partnership formed for the purpose of carrying a business, it must be a legal business.
   iv. Profit sharing: Profit of the firm is share by the partners in an agreed ration, if the ratio is not agreed then equally. Profit also includes loss.
4. **What is the minimum and maximum number of partners in all partnership?**
   Ans. There should be at least two persons to form a Partnership. The maximum number of Partners in a firm carrying an banking business should not exceed ten and in any other business should not exceed ten and in any other business it should not exceed twenty.
5. **What is the status of partnership from an accounting viewpoint?**
   Ans. From an accounting viewpoint, partnership is a separate business entity. From legal viewpoints, however, a Partnership, like a sole proprietorship, is not separate from the owners.
6. **What is meant by partnership deed?**

Ans. Partnership deed is a written agreement containing the terms and conditions agreed by the Partners.

7. **State any four contents of a partnership deed.**

   Ans.

   i. The date of formation and the duration of the Partnership
   ii. Name and address of the Partners
   iii. Name of the firm.
   iv. Interest on Partners capital and drawings
   v. Ratio in which profit or losses shall be shared

8. **In the absence of a partnership deed, how are mutual relations of partners governed?**

   Ans. In the absence of Partnership deed, mutual relations are governed by the Partnership Act, 1932.

9. **Give any two reason in favour of having a partnership deed.**

   Ans.

   i. In case of any dispute or doubt, Partnership deed is the guiding document.
   ii. It can specify the duties and powers of each Partner.

10. **State the provision of 'Indian partnership Act 1932‘ relating to sharing of profits in absence of any provision in the partnership deed.**

    Ans. In the absence of any provision in the Partnership deed, profit or losses are share by the Partners equally.

11. **Why is it important to have a partnership deed in writing?**

    Ans. Partnership deed is important since it is a document defining relationship of among Partners thus is assistance in settlement of disputes, if any and also avoids possible disputes: it is good evidence in the court.

12. **What do you understand by fixed capital of partners?**

    Ans. Partners' capital is said to be fixed when the capital of Partners remain unaltered except in the case where further capital is introduced or capital is withdrawn permanently.

13. **What do you understand by fluctuating capital of partners?**

    Ans. Partner‘s capital is said to be fluctuating when capital alters with every transaction in the capital account. For example, drawing, credit of interest, etc

14. **Give two circumstances in which the fixed capital of partners may change.**

Ans. Two circumstances in which the fixed capital of Partners may change are :

i. When additional capital is introduced by the Partners.
ii. When a part of the capital is permanently withdrawn by the Partners.

15. **List the items that may appear on the debit side and credit side of a partner's fluctuating capital account.**

    Ans. On debit side: Drawing, interest on drawing, share of loss, closing credit balance of the capital. On credit side : Opening credit balance of capital, additional capital introduced, share of profit, interest on capital, salary to a Partner, commission to a Partner.

16. **How will you show the following in case the capitals are?**

    i) Fixed and ii) Fluctuating

    1. **Additional capital introduced**
    2. **Drawings**
    3. **Withdrawal of capital**
    4. **Interest on capital and**
    5. **Interest on loan by partners?**

    Ans.i) In case, capitals are fixed:

    a. On credit side of capital
    b. on debit side of current A/c
    c. on debit side of capital A/c
    d. on credit side of current A/c
    e. on credit side of loan from partner's A/c

17. **If the partners capital accounts are fixed, where will you record the following items:**

    i. **Salary to partners**
    ii. **Drawing by a partners**
    iii. **Interest on capital and**
    iv. **Share of profit earned by a partner?**
    v.

    Ans.

    1. Credit side of Partner's current A/c

2. Debit side of Partner's current A/c
3. Credit side of Partners current A/c
4. Credit side of Partners current A/c

18. **How would you calculate interest on drawings of equal amounts drawn on the Last day of every month?**

    Ans. When a partners draws a fixed amount at the beginning of each month, interest on total drawing would be on the amount withdraw for 6.5 months at the agreed rate of interest per annum. Apply the following formula.

    Interest on drawing = total drawing x $\frac{Rate \times 6.5}{100 \times 12}$

19. **How would you calculate interest on drawing of equal amounts drawn on the last day of every month?**

    Ans. When drawing of fixed amounts are made at regular monthly intervals on the day of every month, Interest would be charged on the amount withdrawn at the agreed rate of interest for 5.5 months. Apply the following formula.:
    Interest on drawing = Total drawing x $\frac{Rate \times 5.5}{100 \times 12}$

20. **How would you calculate interest on drawing of equal amount drawn in the middle of every month?**

    Ans. Interest on drawing = Total drawing x $\frac{Rate \times 6.0}{100 \times 12}$

21. **Ramesh, a partner in the firm has advanced a loan of a Rs. 1,00,000 to the firm and has demanded on interest @ 9% per annum. The partnership deed is silent on the matter. How will you deal with it?**

    Ans. Since the Partnership deed is silent on payment of interest, the provisions of the Partnership Act, 1932 will apply. Accordingly, Ramesh is entitled to interest @ 6% p.a.

22. **The partnership deed provides that Anjali, the partner will get Rs. 10,000 per month as salary. But, the remaining partners object to it. How will this matter be resolved?**

    Ans. No, he is not entitled to the salary because it is not so, Provided in the Partnership deed and according to the Partnership act, 1932 if the Partnership deed does not provided for payment of salary to Partners, he will not be entitled to it.

23. **Distinction between Profit and loss and profit and loss appropriation account:**

    Ans.

	Profit & Loss A/c		Profit & Loss Appropriation A/c

i)	Profit and Loss A/c is prepared to ascertain net profit or net loss of the business for an accounting year.	i)	In case of partnership firms, profit and loss appropriation A/c is prepared to appropriate / distribute the profit of the year among partners.
ii)	It is prepared by all the business firms.	ii)	Only partnership firms and companies prepare profit and loss appropriation A/c

24. **State the Average period to be taken for calculating interest on drawing in different cases if amount is withdrawn on regular interval.**

Ans. TABLE SHOWING THE AVERAGE PERIOD WHEN WITHDRAWALS ARE **MADE REGULARLY**

	DATE OF WITHDRAWAL	AVERAGE PERIOD		
1	Beginning of every month	(12+1)/2	=	6.5
	Middle of every month	(11.5+0.5)/2	=	6
	End of every month	(11+0)/2	=	5.5
2	Beginning of every quarter	(12+3)/2	=	7.5
	End of every quarter	(9+0)/2	=	4.5
3	Beginning of half year	(12+6)/2	=	9
	End of half year	(6+0)/2	=	3

Important Questions Part-2
Fundamentals of partnership and Goodwill

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1. **Define Goodwill or give one Definition of Goodwill.**
   Ans : <u>Eric L. Kohlar</u> "Goodwill is the excess of the price paid for a business as a whole over the book values or over the computed value of all tangible assets purchased. Normally, goodwill thus acquired is only one type appearing on books of account and in financial statements."
2. **Why 'Goodwill' considered an 'Intangible Asset' but not a 'Fictitious Asset'?**
   Ans. Goodwill is an intangible asset, which cannot be seen or touched but it helps the business to earn more profits. It is shown in the balance sheet under the head of fixed assets. Goodwill is not a fictitious asset; it can be purchased or sold like other fixed assets.
3. **How does the factor 'Location' affect the goodwill of a firm?**
   Ans. Location is an important factor for a business. If a business is situated at a good place or good location, it will earn more profits and goodwill. Where the traffic of customers is heavy, the goodwill of the firm will increase.
4. **How does the factor 'Quality of Products' affect the goodwill of a firm?**
   Ans. A business producing high-quality goods for the customers will have more Goodwill. If the demand and supply for the product is stable, it will attract more customers and therefore will have more Goodwill.
5. **How does the factor 'Efficiency of Management' affect the goodwill of a firm?**
   Ans. Goodwill is the result of hard work and efficiency of management. If the management is skillful, hard-working and efficient, it will help in earning more profits and therefore will have more Goodwill.
6. **What is meant by Super Profit?**
   Ans. The Term super profit is described as excess profit of a business made over normal profit. In simple words, it is the difference (excess) between Average Annual Earning (actual) of the business and the expected or normal return on capital invested.
   Super Profit = Average Profits – Normal Profits
7. **Give two main steps involved in valuing the Goodwill by according to Super Profit Method.**

Ans. Step 1. Calculation of Super Profit i.e. Average Profits – Normal Profits Step 2. Calculation of Goodwill i.e. Super Profit x No. of years purchase

8. **Give the formula for calculation of Goodwill by Capitalization of Average Profits.**
   Ans. Goodwill = Capitalized Value – Net Assets
   i. Net assets include all assets except goodwill, fictitious assets and non trade investments.
   ii. Calculate capitalized value i.e. Average profits/Normal rate of return x 100
9. **Give the formula for calculation of Goodwill by Capitalization of Super Profits.**
   Ans. Goodwill = Super Profits x 100/Normal rate of return
10. **State any two circumstances when there is need to revalue the goodwill.**
    Ans.
    i. When there is change in profit sharing ratio.
    ii. When a new partner is admitted
11. **How do we record goodwill in the books of Accounts as per the Accounting Standards?**
    Ans : As per the Accounting Standards Goodwill should be recorded in the books only when some consideration in money or money's worth has been paid for it. Whenever a business is acquired for a price (payable in cash or in shares or otherwise) which is in excess of the value of the net assets of the business taken over, the excess should be termed as 'goodwill'
12. **Explain any 2 Features or characteristics of Goodwill.**
    Ans : Features or Characteristics of Goodwill are given below:
    1. Intangible asset : Goodwill is an intangible asset, which cannot be seen or touched but it helps the business to earn more profits. It is shown in the balance sheet under the head of fixed assets. Goodwill is not a fictitious asset, it can be purchased or sold like other fixed assets.
    2. Change in value: The value of goodwill does not remain same for a long time. It fluctuates time to time because of some internal and external factors. The depreciation does not affect he goodwill.
13. **Explain any four factors affecting the Goodwill.**
    Ans : Following factors are affecting the Goodwill:
    1. location of the business : location is an important factor for a business. If a business is situated at a good place or good location, it will earn more profits and goodwill.

Where the traffic of customers is heavy, the goodwill of the firm will increase.

2. Nature of business : A business producing high-quality goods for the customers will have more Goodwill. If the demand and supply for the product is stable, it will attract more customers and therefore will have more Goodwill.
3. Efficiency of management : Goodwill is the result of hard work and efficiency of management. If the management is skillful, hard-working and efficient, it will help in earning more profits and therefore will have more Goodwill.

   Monopoly: When there are no competitors or less competitors in the market or a business firm enjoys monopoly, it will help in earning more profits than normal and therefore will have more Goodwill.

14. **What is the need for the valuation of Goodwill in case of partnership?**

    Ans : Following are reasons for valuing the goodwill in case of partnership:

    When there is change in the profit-sharing ratio
    1. At the time of admission of a new partner
    2. At the time of retirement of partner
    3. At the time of death of a partner
    4. At the time of dissolution

       When the firm is sold as a going concern
15. **Define purchased Goodwill and Self Generated Goodwill.**

    Ans: Purchase goodwill: it takes place when a business is purchased, for example A Ltd. purchase the business of B Ltd. the actual value of the business of B Ltd. is Rs.25,00,000 but total payment made by a limited is Rs.30,00,000. The value of Goodwill will be Rs.5,00,000 (30,00,000 – 25,00,000)

    Self Generated Goodwill : Self Generated goodwill (Non Purchased Goodwill) arises when a business creates its own Goodwill or generate goodwill internally over the years.
16. **What are the methods of Valuation of Goodwill?**

    Ans: following methods are used to calculate the Goodwill :
    1. **Average Profits Method** : In this method, The average of the profits of last few years is multiplied by an agreed number Approximately 2 to 5 years to calculate the value of Goodwill.

       Goodwill = Adjusted Average Profit x No. of Years Purchase
    2. **Super Profit Method**: The Term super profit is described as excess profit of a business made over normal profit. In simple words,it is the difference (excess)

between Average Annual Earning (actual) of the business and the expected or normal return on capital invested.

To calculate the goodwill under super profit method, first we calculate the actual average profit and than Normal Profit (which is calculated on the basis of capital employed) difference of average profit and normal profit is known as super profit.

Super Profit = Average Profit – Normal Profit Goodwill = Super Profit x No. of years purchase

3. **Capitalisation of Average Profits** : According to this method it is assumed that goodwill is difference of capitalized value of Average profits and actual capital employed. In simple words, The actual capital employed (Net Assets) is deducted from the capitalized value of the average profits on the basis of normal rate of return.

   Value of Goodwill : Capitalised value of Average profit – Net Assets

4. **Capitalisation of Super Profit**: This is another method of calculating goodwill, goodwill amount calculated by this method will be same as calculated according to the capitalisation of average profit method.

   Value of Goodwill = Super profit x 100/Normal rate of return

17. **Distinguish Between Average Profit Method and Super Profit Method.**

Ans:

Basis	**Average Profit Method**	**Super Profit Method**
Meaning **Calculation of Goodwill**	This is the average of fast few years profit divided by No. of years. Average Profit x No. of years Purchase	This is the excess of average profit over normal profits Super Profit x No. of years purchase

Important Questions Part-3
Fundamentals of partnership and Goodwill

1. **What do you mean by Reconstitution of Partnership?**
   Ans : Partnership is the result of an agreement and any change in the agreement or relations of the partners will result in the reconstitution of the partnership firm. It means new agreement takes place. The firm is therefore, said to be reconstituted.
2. **State any two occasions on which reconstitution of partnership firm can take place.**
   Ans.
   i. When there is change in profit sharing ratio
   ii. when a new partner is admitted to the firm.
3. **How is a new partner admitted?**
   Ans : A new partner can be admitted in the partnership business only with the consent of all the old partners.
4. **What are The two main financial rights of a new partner?**
   Ans : Two main rights of a new partners are :
   1. Right to share in the future profits of the partnership firm.
   2. Right to share the assets of the partnership firm.
5. **What is the nature of Revaluation Account?**
   Ans : By Nature it is a Nominal account and the main purpose of this account is to calculate the profit or loss after the revaluation of assets and reassessment of liabilities.
6. **Give two Circumstances in which sacrificing ratio may be applied.**
   Ans :
   1. When a new partner is admitted ;
   2. When there is Change in profit sharing ratio
7. **Can a partner be exempted from sharing the losses in a firm? If yes, under what circumstances?**
   Ans : Yes, it can be done by the mutual consent of all the existing partners.
8. **State the meaning of Sacrificing Ratio.**
   Ans : Ratio in which partners sacrifice their share of profit in favour of a new partner or incoming partner is called sacrificing ratio. It is the difference of old share and new share

of the partners.

Sacrificing Ratio = Old Ratio - New Ratio

9. **What is the nature of Revaluation Account?**
   Ans. Revaluation Account is a Nominal Account.
10. **Why is it necessary to revalue the assets and liabilities of a firm on its reconstitution?**
    Ans. The main purpose of revaluing the assets and liabilities is to ascertain the profit and to adjust it in old partners capital/current accounts so that a new partner may not be affected by such profit or loss because it is concerned with only old partners.

11. **Why are Reserves and Surplus and Accumulated Profits & Losses are distributed at the time of reconstitution of firm?**
    Ans. Old reserves, Profits, losses etc. are belong to only old partners that's why they are distributed by the old partners. New partner will not share these reserves and profits etc.
12. **Why goodwill is adjusted at the time of admission of a partner?**
    Ans. Old partners will sacrifice in favour of new partner that's why a new partner is required to compensate them for their sacrifice.
13. **Why a new partner is admitted to the firm?**
    Ans. The main purpose of admitting a new partner is to strengthen the financial resources of the business for its growth and expansion and to take advantage of his managerial skills for efficient management.

14. **Pawan and Jayshree are partners. Bindu is admitted for 1/4th share. What is ratio in which Pawan and Jayshree will sacrifice their share of profit in favour of Bindu?**
    Ans. Pawan and Jayshree must sacrifice in favour of Bindu in their Old profit sharing ratio.
15. **In the partnership deed, how are mutual relations of partners governed?**
    Ans. In the absence of partnership deed, mutual relations of partners are governed by provisions of Partnership Act, 1932.
16. **A and B are partners in a firm without a partnership deed. A is an active partner and claims a salary of Rs.18,000 per month. State with reasons whether the claim is valid or not.**
    Ans. A's Claim is not valid because there is no partnership deed.
17. **State any two reasons for the preparation of Revaluation Account at the time of**

admission of a new partner.

Ans.

i. To show the assets and liabilities at their current values.
ii. To protect the right of partners that no partner can take advantage due to change in the value of assets/liabilities.

18. **What is Hidden Goodwill?**

    Ans. When the value of Goodwill is not mentioned, it is assumed that goodwill is hidden or to be calculated. To calculate the hidden goodwill actual capital should be deducted from the total required capital.

19. **State the other right which a newly admitted partner acquires beside the right to share profits of the firm.**

    Ans. Right to share the assets of the firm.

20. **What is Revaluation Account? How it is differ from Profit & Loss Appropriation A/c?**

    Ans. Revaluation account is a nominal account which is prepared to record the change of assets and reassessment of liabilities. The profit or loss calculated through this account is transferred to the partners' capital/current account in their old profit sharing ratio while Profit and Loss Appropriation Account is prepare for the division of profit among the partners.

21. **Why is it necessary to adjust goodwill at the time of change in profit sharing ratio?**

    Ans. At the time of change in profit sharing ratio, the gainer partner is required to compensate to the sacrificing partners. That is why goodwill is adjusted at the time of change in profit sharing ratio.

22. **Give the Formula for calculating 'Gaining Share' of a partner in a partnership firm.**

    Ans. To Ascertain the gaining share of a partner, his new share should be deducted with old share

    i.e. Gaining Share = New Share – Old Share.

23. **Give two circumstances in which sacrificing ratio may be applied.**

    Ans.

    i. At the time of admission of a partner
    ii. When there is change in profit sharing ratio of existing partners

Important Questions Part-4
Fundamentals of partnership and Goodwill

1. **Define Partnership.**“partnership is 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.”
   Ans: Indian partnership Act 1932.
2. **What is meant by partnership?**
   Ans: Partnership is an agreement between two or more persons to carry on legal business with the aim of profit. In simple words, when two or more persons are in agreement and ready to share the profits and losses of the business carried on by all or any of them acting for all is known as partnership.
3. **Give any two Features/Characteristics/Elements of the partnership.**
   Ans: Two or more persons: A single person cannot become a partner with himself. To commence the partnership business minimum two persons are required. In simple words, there should be at least two or more persons to start a partnership business. According to the companies act 1956 (section 11) maximum number of partners can be 10 in case of banking business and 20 in case of any other business.
   Sharing of profits: Partnership is the relation between persons who have agreed to share the profits. All profits of partnership business should be distributed among the partners. Whenever there is dispute for the distribution of profits in such a case provisions of Indian partnership act 1932 are applicable on the other hand if partnership is formed by two or more persons for the purpose of charitable activity, it will not be termed as partnership.
4. **What do you mean by Partnership Deed?**
   Ans : Partnership deed is a written agreement signed by all the partners. It is a document which contains all terms and conditions of partnership agreed by the partners. Partnership deed is the backbone of partnership. It can be presented as evidence in the court of Law.
5. **Give any four Contents of Partnership Deed?**
   Ans : Contents of partnership deed are:
   1. Name of the firm ; address of Firm ; its main Business

2. Names and addresses of all partners
3. Date of commencement of partnership
4. Capital contributed by each partners

6. **What advantages does a firm perceive in having a Partnership Deed?**

OR

Why is it necessary to have a partnership deed?

OR

What is the importance of partnership deed?

Ans : Partnership Deed is important for the following Reasons :

i. Partnership deed is helpful in the smooth functioning of the partnership firm.
ii. It helps in avoiding the disputes among other partners regarding profits etc.
iii. All rights, duties and the liabilities are mentioned properly in partnership deed. So there is no chance of any confusion or misunderstanding.
iv. It may be presented as evidence in the court of law.

7. **What are the provisions In the absence of partnership deed?**

Ans: Following provisions are applicable in the absence of partnership deed:

i. No partner is entitled to interest on capital. [Section 13 (c)]
ii. No interest on drawing is to be charged by the firm. [Section 13]
iii. Partners are entitled to share the profits equally. [Section 13 (b)]
iv. No one partner is entitled to get remuneration/salary and commission for taking part in the carrying of firms business. [Section 13 (A)]
v. Interest on partner loan will be paid@6% whether firm is in profit or loss [section 13 (D)]

8. **Distinguish between Fixed and Fluctuation Capital method.**

Ans:

Basis	**Fixed Capital Method**	**Fluctuating Capital Method**
Meaning	The capital of the partners shall remain fixed	Balance of accounts go on changing time to time
	Adjustments for interest on capital, Salary, commission etc. are shown in	Adjustments for interest on capital, Salary, Commission

Adjustments	current account and not in the fixed capital account	etc. are shown in the capital account
Positive and Negative Balance	Balance of this account is always positive	Sometimes balances of this account may show negative balance.
Number of Accounts	Two accounts are prepared under this method : 1. Partners Fixed Capital Accounts 2. Partners Current Accounts	Only one account is prepared under this method i.e. Partners Capital Account

9. **Give two circumstances in which the fixed capitals of the partners may change.**
   Ans: Two main Circumstances are:
   1. When additional capital is introduced by the partners
   2. When some part of Capital is permanently withdrawn by the partner.
10. **What is meant by 'Unlimited Liability of a partner'?**
    Ans : The liability of each partner is unlimited, it means if the assets of partnership firm is not sufficient to pay its liabilities, partner will lose his capital as well as his private property. In simple words, property of the partners can be used to meet the liabilities of the business.
11. **Do all firms need a Deed and registration?**
    Ans : Registration of a Partnership firm is optional and not compulsory. Unregistered partnership firm cannot file any suit But the third party can file suit against the unregistered partnership firm [Section 69 of the companies Act 1956]
12. **Can a partner be exempted from sharing the losses in a firm? If yes under what circumstances?**
    Ans: A partner can be exempted from sharing the losses in a firm only if it is provided in the Partnership deed.
13. **Where would you record the interest on drawings when capitals are fluctuating?**
    Ans : In case of fluctuating capital interest on drawings will be shown in Partners Capital A/c.
14. **Where would you record the interest on Drawings when capitals are fixed?**
    Ans: in case of fixed capital interest on drawing is shown in the debit side of Partners

current Account.

15. **Do all firms of business organizations prepare the profit and loss Appropriation Account?**
 Ans: Profit and loss appropriation account is prepared in the case of partnership business. In case of sole proprietorship profit and loss appropriation account is not prepared.
16. **State any three items that should be included in the partnership agreement from accounting point of view.**
 Ans: i) Interest on Partner's Capital ; ii) Interest on partner's Drawings; iii) Profit Sharing Ratio of the partners
17. **Ram and Mohan are partners in a firm without any Partnership deed. Their capitals are: Ram Rs.8,00,000 and Mohan Rs.6,00,000. Ram is an active partner and looks after the business. Ram wants that profit should be shared in proportion of capitals. State with reasons whether his claim is valid or not.**
 Ans : This Claim is not Valid because there is no partnership deed in such a case profits will be shared equally.
18. **A and B are partners in a firm without a Partnership Deed. A is Active partner and claims a salary of Rs.18,000 per month. State with reasons whether this claim is valid or not.**
 Ans : This Claim is not Valid because in the absence of partnership deed no salary is to be paid to any partner.
19. **What is meant by unlimited liability of a partner?**
 Ans. It means that private assets of a partner can be used to pay off firm's debts if a firm is not able to pay its debts of its assets are less than the firm's debts.
20. **What is the maximum limit of partners in case of banking and non-banking business?**
 Ans. 10 In case of banking business and 20 in case of non-banking business.
21. **Define Partners, Firm and Firm's name.**
 Ans : Partnership is the agreement between two or more persons. The persons running a partnership business are individually known as partners' and collectively they are 'Firm'. The name under which all business activities are performed is known as 'Firms' name.
22. **How would you calculate interest on drawings of equal amount drawn by a partner on the 1st day of every month?**

Ans. Total Drawings x Rate/100 x 6 ½ /12.

23. **How would you calculate interest on drawings of equal amount drawn by a partner in the middle of every month?**

    Ans. Total Drawings x Rate/100 x 6/12.

24. **Give the average period in months for charging interest on drawings for the same amount withdrawn at the beginning of each quarter.**

    Ans. 7 ½ Months.

25. **A partnership deed provides for the payment of interest on capital but there was a loss instead of profits during the year 2012-13. At what rate will the interest on capital be allowed?**

    Ans. Situation 1. In case of loss, no Interest on capital is allowed because interest on capital is an appropriation.

    Situation 2. If interest on capital is treated as charge than whether there is profit or loss, interest on capital be given to the partners.

26. **Is a sleeping partner liable to the acts of other partners?**

    Ans. Yes, because there is mutual agency relationship among the partners that's why sleeping partner is also liable to the acts of other partners.

27. **Is it necessary to have an agreement to form a partnership?**

    Ans. Yes, it is necessary to have an agreement to form a partnership as per section 4 of the Indian Partnership Act, 1932.

28. **State the purpose of allowing interest on Drawings of a Partner**

    OR

    Why interest on drawing is charged?

    Ans: The main purpose of charging interest on drawing is to prevent one partner getting an advantage over the other. Mainly interest is charged in the following circumstances:

    1. When there is no limits fixed for the partners for drawings.
    2. When amount withdrawn by the partners as drawing is unequal.

    For example amount withdrawn By A as Drawings Rs.30,000 and the B Rs.4,000. Rate of interest is 10% p.a. In such a case A is getting advantage of drawings, but at the time of paying interest he has to pay more interest than B.

29. **If a fixed amount is withdrawn for personal use on the last day of every month of calendar year, for what period amount of drawings will be calculated?**
Ans. Drawings will be calculated for 5 ½ Months.

30. **Give any two Differences between Capital Account and Current Account.**
Ans:

Basis	**Capital Account**	**Current Account**
Requirements	Capital Accounts is Prepared all Conditions whether the Capitals are fixed or Fluctuating	Current Account is Prepared only when capitals are fixed
	Adjustments for interest on capital Salary ,Commissions etc. are Show in the Capital Account	Adjustments for interest on capital, Salary, Commissions Etc. are Shown in Current Accounts and not the Fixed Capitals account

Important Questions Part-5
Fundamentals of partnership and Goodwill

1. **What is the status of partnership from an accounting view point?**
   Ans. From an accounting viewpoint, partnership is a separate business entity. From a legal viewpoints, however, a Partnership, like a sole proprietorship, is not separate from the owners.
2. **List the items that may appear on the debit side and credit side of a partner's fluctuating capital account.**
   Ans. On debit side : Drawing, interest on drawing, share of loss, closing credit balance of the capital.
   On credit side : Opening credit balance of capital, additional capital introduced, share of profit, interest on capital, salary to a Partner, commission to a Partner.
3. **Give two points of difference between Profit and Loss and profit and loss appropriation A/c.**
   Ans.3 Distinction between Profit and loss and profit and loss appropriation account:

	Profit & Loss A/c		Profit & Loss Appropriation A/c
i)	Profit and Loss A/c is prepared to ascertain net profit or net loss of the business for an accounting year.	i)	In case of partnership firms, profit and loss appropriation A/c is prepared to appropriate / distribute the profit of the year among partners.
ii)	It is prepared by all the business firms.	ii)	Only partnership firms and companies prepare profit and loss appropriation A/c

4. **P and Q are partners with capitals of Rs. 6,00,000 and Rs. 4,00,000 respectively. The profit and Loss Account of the firm showed a net Profit of Rs. 4, 26,800 for the year. Prepare Profit and Loss account after taking the following into consideration:-**
   i. **Interest on P's Loan of Rs. 2,00,000 to the firm**
   ii. **Interest on 'capital to be allowed @ 6% p.a.**
   iii. **Interest on Drawings @ 8% p.a. Drawings were ; P Rs 80,000 and Q Rs. 1000,000.**
   iv. **Q is to be allowed a commission on sales @ 3%. Sales for the year was Rs. 1000000**

v. **10% of the divisible profits is to be kept in a Reserve Account.**

Ans: Profit and Loss Account for the year ended

Particulars	Amount	Particulars	Amount
To Interest on P's Loan A/c To Profit transferred to P&L Appropriation A/c	12000 414800	By profit before interest	426800
	426800		426800

Profit and Loss Appropriation Account for the year ended.

Particulars	Amount	Particulars	Amount
To interest on Capital		By profit and Loss A/c (Profit)	414800
P 36000		By interest on drawings	
Q 24000	60000	P 3200	
To Q's commission	60000	Q 2000	5200
To reserve A/c	30000		
To profit			
P's Capital 135000			
Q's capital 135000	270000		
	420000		420000

5. **Yogesh, Ajay and Atul are partners sharing profits in the ratio 4:3:2. Yogesh withdraws Rs.3,000 in the beginning of every month. Ajay withdraws Rs. 2,000 in the middle of every month whereas Atul withdraws Rs. 1,500 at the end of every month. Interest on capitals and drawings is to be calculated @ 12% p.a. Ajay is also to be allowed a salary of Rs. 1,000 per month. After deducting salary but before charging any type of interest, the profit for the year ending 31st December, 1997 was Rs.,1,14,780. Prepare Profit & Loss Appropriation Account, Partners' Capital**

Accounts and Current Accounts from the additional information given below:

i. No interest is to be given on the partners' capital.
ii. No interest is to be charged on the personal drawings of the partners.
iii. No Salary Remuneration or Commission is to be given to any partner for his active participation.
iv. If any partner has given loan to the firm interest at the rate of 6% p.a. can be given.
v. Profits and losses will be shared among all the partners equally irrespective oF their capitals.

Ans.6 When there is no agreement between the partners, whether written or verbal, expressed or implied accounts of partners are determined by the following rules given in the Indian Partnership Act, 1932 sections 12 to 17.

6. **Ram and Shyam were Partners. in a firm sharing profits in the ratio of 3 : 5. Their Fixed Capitals were ': Ram Rs. 5,00,000 and Shyam Rs. 9,00,000. After the accounts of the year had been closed, it was found that interest on capital at 10% per annum as provided in the partnership agreement has not been credited to the Capital Accounts of the partners. pass necessary entry to rectify the error.**

Ans Rs. Interest on Ram's Capital of Rs. 5,00,000 @ 10% = 50,000
Interest on Shyam 's Capital of Rs. 9,00,000 @ 10% = 90,000
Total interest to be allowed = 1,40,000
Profit already distributed 140000 in the ratio 3:5 ie 52500 and 87500 the difference is 2500 . The entry is Ram A/C Dr 2500 To Shyam A/C 2500

Important Questions Part-6
Fundamentals of partnership and Goodwill

1. **A and B are partners sharing profits in the ratio of 3 : 2 with capitals of Rs. 50,000 and Rs. 30,000 respectively. Interest on capital is agreed @ 6% p.a. B is to be allowed an annual salary of Rs. 2,500. During 2006, the profits of the year prior to calculation of interest on capital but after charging B's salary amounted to Rs. 12,500. A provision of 5% of the profits is to be made in respect of Manager's commission. Prepare an account showing the allocation of profits and partners' capital accounts.**
   Ans.1 Profit and Loss Appropriation Account

Particulars		Amount Rs	Particulars	Amount Rs.
To Interest on Capital			By Profit after B;s Salary but before other adjustment	12500
A	3000			
B	1800	4800		
To Manager;s Comission (5% of rs. 7,700*)		358		
To Profit transferred to:				
A's Capital A/c	4389			
B's Capital A/c	2926	7315		
		12500		12500

Provision is made on profit after charging interest on capitals,i.e. 12,500- 4,800 Rs. 7,700 .

Particulars	A	B	Particulars	A	B
To Balance c/d	57389	37226	By Balance b/d	50000	30000
			By interest on capital	3000	1800

			By salary	-	2500
			By P and L Appropriation A/c	4389	2926
	57389	37226		57389	37226

2. X and Y are partners sharing profits and losses in the ratio of 3: 2 with capitals of Rs. 50,000 and Rs. 30,000 respectively. Each partner is entitled to 6% interest on his capital. X is entitled to a salary of Rs. 800 per month together with a commission of 10% of net 'Profit remaining after deducting interest on capitals and salary but before charging any commission. Y is entitled to a salary of Rs. 600 per. month together I. with-a commission of 10% of Net profit remaining after deducting interest on capitals and salary and after charging all commissions. The profits for the year prior to calculation of interest on capital but after charging salary of partners amounted to Rs. 40,000. Prepare partners' Capital Accounts: -
   i. When capitals are fixed, and
   ii. when capitals are. fluctuating.

   Note: (1) Calculation of interest on Capital: Interest for 3 months i.e. from 1st April to 30th June 2004

	A	B
A on Rs. 5,00,000 @ 10% p.a.	12500	
B on Rs. 3,00,000 @ 10% p.a.	7500	

Interest for 9 months i.e. from 1st July, 2004 to 31st March, 2005:

A on Rs. 3,50,000 @ 10% p.a.	26250
B on Rs. 3,50,000 @ 10% p.a.	26250

3. **Ram and Shyam were partners in a firm. The partnership agreement provides that:**
   Ans. Profit and Loss Appropriation Account

Particulars		Amount	Particulars		Amount
To salary to Ram		6000	By Profit Loss A/c		60000
To Commission to					

Shyam @10% on (60,000-6,000),		5400	By Interest on Drawings @6% on annual drawings-		
To Interest on Capital:					
Ram	1080				
Ram	16000		Shyam	900	1980
Shayam	12000	28000			
To Profit					
Ram.s Current A/c	13548				
Shyam’s Current A/c	9032	22580			
		61980			61980

i. **Profit sharing ratio will be "3: 2.**
ii. **Ram will be allowed a salary of Rs. 500 p.m.**
iii. **Shyam who manages the sales department will be allowed a commission equal to 10% of the net profit after allowing Ram's salary. '**
iv. **8% interest will be allowed on partners' fixed capitals.**
v. **6% interest will be charged on partners' annual drawings.**
vi. **The fixed capitals of Rain and Shyam were Rs. 2,00,000 and Rs. 1,50,000 respectively. Their annual drawings were Rs. 18,000 and Rs. 15,000 respectively. The net profit for the year ended nearly amounted to Rs. 60,000. Prepare firms Profit and Loss Appropriation Account.**

Note : As 6% interest is to be charged on annual drawings, it will be charged for the full year and not for 6 months.

4. **P and Q are partners with capitals of Rs. 6,00,000 and Rs. 4,00,000 respectively.**
The profit and Loss Account of the firm showed a net Profit of Rs. 4, 26,800 for the year. Prepare Profit and Loss account after taking the following into consideration: -

i. **Interest on P's Loan of Rs. 2,00,000 to the firm**
ii. **Interest on 'capital to be allowed @ 6% p.a.**
iii. **Interest on Drawings @ 8% p.a. Drawings were; P Rs 80,000 and Q Rs. 1000,000.**
iv. **Q is to be allowed a commission on sales @ 3%. Sales for the year was Rs. 1000000**
v. **10% of the divisible profits is to be kept in a Reserve Account.**

Ans.4 Profit and Loss Account for the year ended

Particulars	Amount	Particulars	Amount
To Interest on P's Loan A/c	12000	By profit before interest	426800
To Profit transferred to P&L Appropriation A/c	414800		
	426800		426800

<u>Profit and Loss Appropriation Account for the year ended.</u>

Particulars		Amount	Particulars		Amount
To interest on Capital			By profit and Loss A/c (Profit)		414800
P	36000		By interest on drawings		
Q	24000	60000	P	3200	
To Q's commission		60000	Q	2000	5200
To reserve A/c		30000			
To profit					
P's Capital	135000				
Q's capital	135000	270000			
		420000			420000

Notes:

i. If the rate of interest on Partners' Loan is not given in the question, it is to be wed @

6% p.a. according to the Partnership Act.

ii. Interest on Partners' Loan is treated as a charge against Profit, so it is shown in the debit of Profit and Loss A/c.
iii. If the date of Drawings is not given in the question, interest on drawings will be charged and average period of 6 months. .
iv. Reserve Fund is calculated at 10% on Rs. 3,00,000 (i.e. Rs. 4,26,800 + Rs. 5,200- 12,000 - Rs. 60,000 - Rs. 60,000.

5. **A, and C are partners with fixed capitals of Rs. 2,00,000, Rs. 1,50,000 and Rs. 1,00,000 respectively. The balance of current accounts on 1st January, 2004 were A Rs. 10,000 (Cr.); B Rs. 4,000 (Cr.) and C Rs. 3,000 (Dr.). A gave a loan to the firm of Rs. 25,000 on 1st July, 2004. The Partnership deed provided for the following: -**
   i. **Interest on Capital at 6%.**
   ii. **Interest on drawings at 9%. Each partner drew Rs. 12,000 on 1st July, 2004.**
   iii. **Rs. 25,000 is to be transferred in a Reserve Account.**
   iv. **Profit sharing ratio is 5:3: 2 upto Rs. 80,000 and above Rs. 80,000 equally. Net Profit of the firm before above adjustments was Rs. 1,98,360.**

   From the above information prepare Profit and Loss Appropriation Account, Capital and Current Accounts of the partners.

   Ans. Profit and Loss Appropriation Account for the year ended 31st December 2004

Particulars		Amount	Particulars		Amount
To Interest on Capital at 6%:			By profit and Loss A/c (being profit)		198360
B	9000		By interest on drawings @ 9% p.a.		
C	6000	27000	A	540	
To reserve A/c		25000	B	540	
To profit			C	540	1620
A's current A/c	62410				

B's current A/c	46410				
C's current A/c	38410		147230		
			199230		199230

Capital Accounts

Particulars	**A**	**B**	**C**	Particulars	**A**	**B**	**C**
To balance b/d	2,00,000	**150,000**	**1,00,000**	By balance c/d	**2,00,000**	**150,000**	**1,00,000**

Particulars	A	B	C	Particulars	A	B	C
To balance b/d	-	-	3000	By balance b/d	10000	4000	_
To drawings	12000	12000	12000	By interest on capi	1200	9000	6000
To interest on	540	540	540	By P&L A/c	62410	46410	38410
drawings							
				To balance c/d	71870	46870	28870
	84,410	59,410	44,410		84,410	59,410	44,410

Calculation of Distribution of Profits:

A upto Rs.

B upto Rs.

6. **From the following balance sheet of X and Y, calculate interest on capitals @ 10% p.a. payable to X and Y for the year ended 31st December, 1998.**

Liabilities	Amount	Assets	Amount
X's Capital	50,000	Sundry Assets	1,00,000
Y's capital	40,000	Drawings X	10,000
P & L appropriation A/c (1998)		20,000	
	1,10,000		1,10,000

During the year 1998, X's drawings were Rs. 10,000 and Y's Drawing were Rs. 3,000. Profit during the year, ,1998 was Rs:'30,000.

Ans.

Calculation of Opening Capitals	X Rs.	Y Rs.
Capitals as on 31st Dec., 1998	50,000	40,000
Add : Drawings (Previously deducted) .	-	3,000
	50,000	43,000
Add : Drawings (Previously deducted) .	5,000	5,000
Opening Capitals	45,000	38,000
Interest on 'capitals :@ 10% p.a;	4,500	3,800

Working Notes:

the partners.

1. As X's drawings are shown in the Balance Sheet, it means his drawings are not deducted . from his .capital till now, so his drawings are not included back.
2. Profits for 1998 were Rs. 30,000 and profits of Rs. 20,000· are, shown in the Balance Sheet, which means only Rs. 10,000 profits were distributed between

7. **Yogesh, Ajay and Atul are partners sharing profits in the ratio 4:3:2. Yogesh withdraws Rs.3,000 in the beginning of every month. Ajay withdraws Rs. 2,000 in the middle of every month whereas Atul withdraws Rs. 1,500 at the end of every month. Interest on capitals and drawings is to be calculated @ 12% p.a. Ajay is also to be allowed a salary of Rs. 1,000 per month. After deducting salary but before charging any type of interest, the profit for the year ending 31st December, 1997 was Rs.,1,14,780. Prepare Profit & Loss Appropriation Account, Partners' Capital Accounts and Current Accounts from the additional information given below:**
   Ans. When there is no agreement between the partners, whether written or verbal, expressed or implied accounts of partners are determined by the following rules given in the Indian Partnership Act, 1932 sections 12 to 17.
   i. No interest is to be given on the partners' capital.
   ii. No interest is to be charged on the personal drawings of the partners.

iii. No Salary Remuneration or Commission is to be given to any partner for his active participation.
iv. If any partner has given loan to the firm interest at the rate of 6% p.a. can be given.
v. Profits and losses will be shared among all the partners equally irrespective of their capitals.

8. **P and Q are partners from 1st January, 1998 without any partnership agreement and they introduced capital of Rs. 40,000 and Rs. 20,000 respectively. On 1st July, 1998, P advances Rs. 10,000 by way of loan to the firm without any agreement as to interest. The Profit & ,Loss Account for the year 1998 disclosed a profit of Rs.14,250; but the partners cannot agree upon the question of interest and upon the basis of division of profits. You are required to divide the profit between them giving reasons for your method.**
Ans.

Profit and Loss Appropriation Account
(For the year ended 31st December, 1998)

Particulars		Amount	Particulars	Amount
To Net profit:			By Net profit from P & L A/c	
P's Capital A/c	6975		Less: Interest on P's Loan @	14250
Q's Capital A/c	6975	13950		
		13950		13950

Notes -:

1. In the absence of any agreement between the partners, profit and loss will be divided equally.
2. If any partner gives loan to the firm then he is entitled interest on that loan @ 6% p.a. in case there is no agreement between the partners.
3. No interest on capital will be give, to any partner as there is no agreement between the partners.

9. **A and B are partners. Except that interest on their capital @ 9% p.a. and charged OD the drawings at the same rate they had no other agreement, either written or oral, between them. A presented the following P&L App. Ale at the end of the year.**

P and L Appropriation Account

Particulars		Amount	Particulars	Amount
To Interest on capitals @ 9% p.a			By profit for the year	6150
A on Rs. 60,000		5400	Less:Interest on B/s Loan @ 5%	
B on Rs. 30,000		2700	By Interest on drawings of B @ 9%	
To salary to A		4000		
(For working as manager)				
To profit				
A 2/3	16000			
B 1/3	8000	24000		
		36,100		36,100

Ans.9

Interest on Rs. 40,000 for 12 months = Rs. 40,000 X 12/12 X 6/100

= Rs.2,400. Interest on Rs. 5,000 for 5 months = Rs. 5,000 X 5/12 X 6/100 = Rs. 125.

Interest on Rs. 5,000 for 12 months = Rs. 5,000 X 1.5/12 X 6/100 = Rs. 37•50

Total Interest to be allowed on X's capital = Rs.2,400 +: RS. 125 +Rs. 37•50= Rs. 2,562.50

10. **X and Y are partners. X's capital is Rs. 10;000 and Y's capital is Rs. 6.000. Interest is payable @ 6%,p.a:.Y is entitled to a salary of Rs. 300 per month. Profit for the current year before charging any Interest and Salary to Y is Rs. 8,000 Divide the profit between X & Y. '**

Ans.

Profit and Loss Appropriation Account for the year ending on

Particulars		**Amount**	**Particulars**	**Amount**
To Interest on Capital:			By Profit before adjustments	8,000
X	600			

Y	360	960		
To Salary to Y		3,600		
To net Profit transferred				
X	1,720			
Y	1,720	3,440		8,000
		8,000		

11. **A and B are partners' sharing profits in-proportion of 3. : .2 With Capitals of Rs. 40,000 and Rs. 30,000 respectively': Interest On Capital is. agreed at 5% p; a.. B is to be " allowed an annual salary of Rs. 3,000 which. has not : been Withdrawn. During 2007 the profits for the year prior to calculation ~f Interest on Capital. But after chargin B's salary amounted to Rs. 12,000. A provision of 5% of this amount is to be. made in respect of commission to the manager. Prepare an account showing the allocation of profits.**

    Ans.

    Profit and Loss Appropriation Account for the year ending on 31st Dec. 2007

Particulars		Amount	Particulars	Amount
To Interest on Capital:			By Profit after B's Salary but	
A	2,000			
B	1,500	3,500		
To Manager's Commission				
(5%) of Rs. 12,000		600		
To Net profit transferred				
A's Capital A/c	4,740			
B's Capital A/c	3,160	7,900		
		12,000		12,000

12. **Amit and Vijay started a partnership business on 1st January, 2007. Their capital contributions were Rs. 2,00,000 and Rs. 10,0000 respectively. The partnership deed provided:**

i. **Interest on capitals @10% p.a.**
ii. **Amit, to get a salary of Rs. 2,000 p.m. and Vijay Rs. 3,000 p.m.**
iii. **Profits are to be shared in the ratio of 3:2.**

The profits for the year ended 31st December, 2007 before making above appropriations were Rs. 2,16,000. Interest on Drawings amounted to Rs. 2,200 for Amit and Rs. 2,500 for Vijay. Prepare Profit and Loss Appropriation Account.
Ans. 12 Profit, and Loss Appropriation Account for the year ending on 31st Dec., 2007

Particulars		Amount	Particulars		Amount
To Interest on Capital:	**Rs.**		By Profit before adjustments		
			By Interest on Drawings		2,16,000
Amit	2,000		Rs.		
Vijay	1,500	35,000	Amit	2,200	
Amit	24,000				
Vijay	36,000	60,000			
To Net Profit transferred					
Amit Capital A/c	75,420				
Vijay Capital A/c	50,280	1,25,700			
		2,20,700			2,20,700

13. **A, B and C entered into partnership on 1st April, 2006 to share profits & losses in the ratio of 4:3:3. A, however, personally guaranteed that C's share of profit after charging interest on Capital @ 5% p.a. would not be less than Rs. 40,000 in any year. The Capital contributions were: A, Rs. 3,00,000; B, Rs. 2,00,000 and C, Rs. 1,50,000. The profit for the year ended on 31st March, '2007 amounted to Rs. 1,60,000. show the Profit & Loss Appropriation Account.**

Ans.13 Profit and Loss Appropriation Account for the year ending on 31st March 2007

Particulars		Amount	Particulars	Amount

To Interest on Capital:			By Profit before adjustments	1,60,000
A	15,000			
B	10,000			
C	7,500	32,500		
To net Interest on Capital:				
A.(51,000-1,750)	49,250			
B.(1,27,500x3/10)	38,250			
C.(38,250+1,750)	40,000	1,27,500		
		1,60,000		1,60,000

14. **Ram and Shyam were Partners. in a firm sharing profits in the ratio of 3 : 5. Their Fixed Capitals were ': Ram Rs. 5,00,000 and Shyam Rs. 9,00,000. After the accounts of the year had been closed, it was found that interest on capital at 10% per annum as provided in the partnership agreement has not been credited to the Capital Accounts of the partners. pass necessary entry to rectify the error.**

Ans. Interest on Ram's Capital of Rs. 5,00,000 @ 10% = Rs.50,000
Interest on Shyam 's Capital of Rs. 9,00,000 @ 10% = Rs.90,000
Total interest to be allowed = Rs.1,40,000
Profit already distributed 140000 in the ratio 3:5 ie 52500 and 87500 the difference is 2500 .
The entry is Ram A/C Dr 2500
To Shyam A/C 2500

Important Questions Part-7
Fundamentals of partnership and Goodwill

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

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

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

Salary = 8000×12 <u>=Rs. 96,000</u>

Total <u>**2,56,000**</u>

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 31st 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 To Balance c/d	4,000 52,400	8,000 22,500	By Balance A/c (Capital) By Salary A/c By Interest on capital A/c By Profit and Loss Appropriation A/c	40,000 6,000 2,400 8,000	25,000 1,500 4,000
	56,400	30,500		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 To Balance c/d	4,000 12,400	8,000 -	By Salary A/c By Interest on capital A/c By Profit and Loss Appropriation A/c To Balance c/d (Closing Balance)	40,000 2,400 8,000	1,500 4,000 2,500
	16,400	8,000		16,400	8,000

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

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

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 chane	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 X 1000	1,500	By Profit & Loss A/c (Net Profits)	1,500

Y <u>500</u>	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

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

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

Interest allowed by y = $1500 \times \frac{600}{1800}$ = 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 By Loss transferred to Capital	1,500 300

X1200 Y 600	 1800	A/cs X120 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 8000	36,000 12,000

Add: Drawings already credited Less: Profits already credited Opening capitals or capitals in the beginning Interest on Capital @ 10% p.a.	56,000 16,000	48,000 16,000
	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.

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

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 31-12-2014 31-03-2015	5,000 10,000 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 31-12-2014 31-03-2015	5,000 10,000 15,000	08 03 00	400 300 000
			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.)
Closing Capital Add: Drawings already credited Less: Profits already credited Opening capitals or capitals in the beginning Interest on Capital @ 10% p.a.	48,000 8000	36,000 12,000
	56,000 16,000	48,000 16,000
	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.

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

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.)
01-08-2015 31-12-2014 31-03-2015	5,000 10,000 15,000	08 03 00	40,00 30,00 00000
			70,000

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

= $70,000 \times \frac{12}{100} \times \frac{1}{12}$ = 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.** 1000×12 =**12, 000.**

Solution:

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

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

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

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

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

$12,000 \times \frac{Rate}{100} \times \frac{5.5}{12}$ = 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

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

$= 48,000 \times \frac{10}{100} \times \frac{5.5}{12}$ = Rs. 3,000

Case II - Drawing made in middle of each quarter

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

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

Case III - Drawing made at end of each quarter

Interest on drawing = $Amount \times \frac{Rate}{100} \times \frac{4.5}{12}$

$= 48,000 \times \frac{10}{100} \times \frac{4.5}{12}$ = Rs. 1,800

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)

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

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

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

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

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

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

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

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

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

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

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

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.)
To Profits transferred to Capital A/c of : A 2,12,500 B 2,12,500		By Profit and Loss A/c Net Profits 4,30,000 Less : Int. on A's Loan <u>5,000</u>	1,500
	4,25,000		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 31.3.2015	By Bank A/c By Profit and Loss appropriation A/c	500000 2,12,500	300000 2,12,500
		7,12,500	5,12,500			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 2015 Mar., 31	By Bank A/c By interest on Loan A/c	2,00,000 5,000
		2,05,000			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.)
31.3.2015	Dipankar's Current A/c Dr. To Manoj's Current A/c (Being adjustment entry passed)		30,000	30,000

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
	Total A	**90,000**	**60,000**	**30,000**
	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	Nil	30,000
		Credit		Debit

11: A and B are partners in a firm sharing profits and losses in the into 3:2. The following was the Balance Sheet of the firm as on 31.3.2015.

Balance Sheet

As on 31-3-2015

Date	Particulars Rs.	Rs.	Assets	Rs.
31.3.2015	------- 60,000 20,000	80,000	Sundry Assets	80,000
		80,000		80,000

The profits Rs. 30,000 for the year ended 31-03-2015 were divided between the partner, without allowing interest on capital @ 12% p.a. and salary to A Rs. 1,000 per month. During the year A withdrew Rs 10,000 and B Rs. 20,000.

Pass the necessary adjustment entry and show your working clearly.

Solution

Book of A and B

Journal

Date	Particulars	LF.	Debit (Rs.)	Debit (Rs.)
31.3.2015	B's Capital A/c Dr. To A's Capital A/c (Being interest on capital and salary to A not Charged, now rectified)		5,280	5,280

Working Notes :

1. Calculation of Opening Capital: As Closing Balance Sheet is given so before calculation of interest opening capital should be calculated.

Particulars	A (Rs.)	B (Rs.)
Capital at the End Add : Drawings Less : Profits during the year Opening Capital	60,000 10,000	20,000 20,000
	70,000 (18,000)	40,000 (12,000)
	52,000	28,000

2. Calculation of Net Effect

STATEMENT SHOWING ADJUSTMENT

Particulars	A (Rs.)	B (Rs.)

A. Amount to be given (credited) Interest on Capital (Not provided) Salary to A (Not provided) Total A B. Amount already given to be taken back Now (Debited) : Loss to the firm due to Interest on Capital and Sal A be debited to the partners in their profit sharing ratio (Rs. 18,240+3,360=21,600) Total B NET E NET Effect (A-B)	5,280 12,000	5,280 - 3,360
	18,240	
	12,960 12,960	8,640 8,640
	5,280 Credit	5,280 Debit

12: Ram, shyam & Mohan are partners in a firm sharing profit & losses in the ratio of 2:1:2. Their fixed capitals were Rs. 3,00,000, Rs. 1,00,000 an Rs. 2,00,000 respectively. Interest on capital for the year ending 31st March, 201 was credited to them @ 9% p.a. instead of 10% p.a. The profits for the year before charging interest was Rs. 2,50,000. Prepare necessary adjustment entry.

Solution:

Journal

Date	Particulars	L.F.	A (Rs.)	B (Rs.)
31.3.2015	Shyam's Current A/c Dr. Mohan's Current A/c Dr. To Ram's Current A/c (For interest less charged on capital now rectified)		200 400	600

Working Notes:

Table showing Adjustment

	Ram (Rs.)	Shyam (Rs.)	Mohan (Rs.)	Total
Interest already credited @ 9% Interest that should have been credited @ 10%	27,000 30,000	9,000 10,000	18,000 20,000	54,000 60,000
Partners less credited Debit profits which were reduced	3,000 2,400	1,000 1,200	2,000 2,400	6,000 6,000
By Rs. 6,000 in ratio of 2:1:2	600 Cr.	200 Dr.	400 Dr.	

When interest charged is more

13: A, B & C are patterns in a firm sharing profits & losses in ration of 2:3:5. Their fixed capitals were Rs. 15,00,000, Rs.30,00,000 & Rs. 60,00,000 reactively. For the year ended 31st March 2015, interest was credited 12% intend of 10%. Pass the necessary adjustment entry.

Solution

Journal

Date	Particulars	L.F.	A (Rs.)	B (Rs.)
	C's Current A/c Dr.			

31.3.2015	To A's Current A/c To B's Current A/c (For interest excessive charged now rectified)		15,000	12,000 3,000

Working Notes:

Table showing Adjustment

	A (Rs.)	B (Rs.)	C (Rs.)	Total
Interest already credited @ 12% Interest that should have been credited @ 10%	1,80,000 1,50,000	3,60,000 3,00,000	7,20,00 6,00,000	12,60,00 10,50,000
Partners less credited with By recovering this interest profits will be increased by Rs. 2,10,000 & divided in 2:3:5	30,000 42,000	60,000 63,000	1,20,000 1,05,000	2,10,000 2,10,000
Net Effect	12,000 Cr.	3,000 Cr.	15,000 Dr.	— —

14: A and B were partners in a firm sharing profits and losses in the ratio of 3:2. They admit C for 1/6th share in profits and guaranteed that his share of profits will not be less then Rs. 25,000. Total profits of the firm for the year ended 1st March, 2015 were Rs. 90,000. Calculate share of profits for each partner when.

1. Guarantee is given by firm.

2. Guarantee is given by A

3. Guarantee is given by A and B equally.

Solution:

Case 1. When Guarantee is given by firm.

Profit and Loss Appropriation Account

For the year ending on 31st March, 2015

Dr. Cr.

Particulars	(Rs.)	Particulars	Rs.)
To A's Capital A/c (3/s of Rs. 65,000) To B's Capital A/c (2/s of Rs. 65,000) To C's Capital A/c (1/6 of Rs. 90,000 or Rs. 25,000 whichever is more	39,000 26,000 25,000	By Profit and Loss A/c	90,000
	90,000		90,000

Profit and Loss Appropriation Account

For the year ending on 31st March, 2015

Dr. Cr.

Particulars	(Rs.)	Particulars	Rs.)
To A's Capital A/c (3/6 of Rs. 90,000) 45,000 Less : Deficiency Borne for C (10,000) To B's Capital A/c (2/6 of Rs. 90,000) To C's Capital A/c (1/6 of Rs. 90,000) 15,000 Add : Deficiency Recover form A10,000	35,000 30,000	By Profit and Loss A/c (Net Profits)	90,000

	90,000		90,000

Cose: 3. When Guarantee is given by A & B equally.

Profit and Loss Appropriation Account

For the year ending on 31st March, 2015

Dr. Cr.

Particulars	(Rs.)	Particulars	Rs.)
To A's Capital A/c (3/6 of Rs. 90,000) 45,000 Less : Deficiency Borne for C (1/2 of Rs.10,000) <u>5,000</u> To B's Capital A/c (2/6 of Rs. 90,000) 30,000 Less : Deficiency Borne for C (1/2 of Rs. 10,000) <u>5,000</u> To C's Capital A/c (1/6 of Rs. 90,000) 15,000 Add : Deficiency Recover form A 5,000 Deficiency Recovered From B <u>5,000</u>	40,000 25,000 25,000	By Profit and Loss A/c (Net Profits)	90,000
	90,000		90,000

Important Questions Part-8
Fundamentals of partnership and Goodwill

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1. **Define partnership.**
   Ans.1 When two or more persons enter into an agreement to carry on business and share its profit and losses, it is a case of partnership. The Indian partnership Act, 1031, defines Partnership as follows : "Partnership is the relation between persons and who have agreed to share the profits of a business carried on by all or any of them acting for all.
2. **What do you understand by 'partners', 'firm' and 'firms' name?**
   Ans.2 The persons who have entered in to a Partnership with one another are individually called 'Partners' and collectively 'a firm' and the name under which the business is carried is called 'the firm's name'.
3. **Write any four main features of partnership.**
   Ans.3 Essential elements or main features of Partnership :
   i. Two or more persons : Partnership is an association of two or more persons.
   ii. Agreement : The Partnership is established by an agreement either oral or in writing.
   iii. Lawful Business : A Partnership formed for the purpose of carrying a usiness, it must be a legal business.
   iv. Profit sharing : Profit of the firm is share by the partners in an agreed ration, if the ratio is not agreed then equally. Profit also includes loss.
4. **What is the minimum and maximum number of partners in all partnership.**
   Ans.4 There should be at least two persons to form a Partnership. The maximum number of Partners in a firm carrying an banking business should not exceed ten and in any other business should not exceed ten and in any other business it should not exceed twenty.
5. **What is the status of partnership from an accounting viewpoint?**
   Ans.5 From an accounting viewpoint, partnership is a separate business entity. From a legal viewpoints, however, a Partnership, like a sole proprietorship, is not separate from the owners.
6. **What is meant by partnership deed?**
   Ans.6 Partnership deed is a written agreement containing the terms and conditions agreed by the Partners.

7. **State any four contents of a partnership deed.**
   Ans.7
   i. The date of formation and the duration of the Partnership
   ii. Name and address of the Partners
   iii. Name of the firm.
   iv. Interest on Partners capital and drawings
   v. Ratio in which profit or losses shall be shared
8. **In the absence of a partnership deed, how are mutual relations of partners governed?**
   Ans.8 In the absence of Partnership deed, mutual relations are governed by the Partnership Act, 1932.
9. **Give any two reason in favour of having a partnership deed.**
   Ans.9
   1. In case of any dispute or doubt, Partnership deed is the guiding document.
   2. It can specify the duties and powers of each Partner.
10. **State the provision of 'Indian partnership Act 1932' relating to sharing of profits in absence of any provision in the partnership deed.**
    Ans.10 In the absence of any provision in the Partnership deed, profit or losses are share by the Partners equally.
11. **Why is it important to have a partnership deed in writing?**
    Ans.11 Partnership deed is important Since it is a document defining relationship of among Partners, thus is a assistance in settlement of disputes, if any and also avoid possible disputes :it is a good evidence in the court.
12. **What do you understand by fixed capital of partners?**
    Ans.12 Partners' capital is ;said to be fixed when the capital of Partners remain unaltered except in the case where further capital is introduced or capital is withdrawn permanently.
13. **What do you understand by fluctuating capital of partners?**
    Ans.13 Partners capital is said to be fluctuating when capital alters with every transaction in the capital account. For example, drawing, credit of interest, etc.
14. **Give two circumstances in which the fixed capital of partners may change.**
    Ans.14 Two circumstances in which the fixed capital of Partners may change are:
    i. When additional capital is introduced by the Partners.

ii. When a part of the capital is permanently withdrawn by the Partners.

15. **List the items that may appear on the debit side and credit side of a partner's fluctuating capital account.**

    Ans.15 On debit side : Drawing, interest on drawing, share of loss, closing credit balance of the capital.

    On credit side : Opening credit balance of capital, additional capital introduced, share of profit, interest on capital, salary to a Partner, commission to a Partner.

16. **How will you show the following in case the capitals are**

    i) Fixed and ii) Fluctuating

    Ans.16 i) In case, capitals are fixed: a) on credit side of capital (b) on debit side of current A/c (c) on debit side of capital A/c (d) on credit side of current A/c (e) on credit side of loan from partner's A/c

    a. **Additional capital introduced**
    b. **Drawings**
    c. **Withdrawal of capital**
    d. **Interest on capital and**
    e. **Interest on loan by a partners ?**

17. **If the partners capital accounts are fixed, where will you record the following items :**

    Ans.17

    i. **Salary to a partners**
    ii. **Drawing by a partners**
    iii. **Interest on capital and**
    iv. **Share of profit earned by a partner ?**
    v. Credit side of Partner's current A/c
    vi. Debit side of Partner's current A/c
    vii. Credit side of Partners current A/c
    viii. Credit side of Partners current A/c

18. **How would you calculate interest on drawings of equal amounts drawn on the Last day of every month?**

    Ans.18 When a partners draws a fixed amount at the beginning of each month, interest on total drawing would be on the amount withdraw for 6.5 months at the agreed rate of interest per annum. Apply the following formula. Interest on drawing = total drawing x

$\frac{Rate}{100} \times \frac{6.5}{12}$

19. **How would you calculate interest on drawing of equal amounts drawn on the last day of every month?**

 Ans.19 When drawing of fixed amounts are made at regular monthly intervals on the day of every month, Interest would be charged on the amount withdrawn at the agreed rate of interest for 5.5 months. Apply the following formula.

 Interest on drawing = Total drawing x $\frac{Rate}{100} \times \frac{5.5}{12}$

20. **How would you calculate interest on drawing of equal amount drawn in the middle of every month?**

 Ans.20 Since the Partnership deed is silent on payment of interest, the provisions of the Partnership Act, 1932 will apply. Accordingly, Ramesh is entitled to interest @ 6% p.a.

21. **Ramesh, a partner in the firm has advanced a loan of a Rs. 1,00,000 to the firm and has demanded on interest @ 9% per annum. The partnership deed is silent on the matter. How will you deal with it?**

 Ans.21 The stand of remaining Partners in the Partnership deed does not stand scrutiny. Since all the Partners to the deed had agreed to Anjali's salary, it will be paid to him.

22. **The partnership deed provides that Anjali, the partner will get Rs. 10,000 per month as salary. But, the remaining partners object to it. How will this matter be resolved?**

 Ans.22 No, he is not entitled to the salary because it is not so, Provided in the Partnership deed and according to the Partnership act, 1932 if the Partnership deed does not provided for payment of salary to Partners,

23. **The partnership deed is silent on payment of salary to partners. Alok, a partner, has put a claim that since he manages the business, he should get monthly salary of Rs. 10,000. Is he entitled to the salary.**

 Ans.23 Distinction between Profit and loss and profit and loss appropriation account:

	Profit & Loss A/c		Profit & Loss Appropriation A/c
i)	Profit and Loss A/c is prepared to ascertain net profit or net loss of the business for an accounting year.	i)	In case of partnership firms, profit and loss appropriation A/c is prepared to appropriate / distribute the profit of the year among partners.
ii)	It is prepared by all the business firms.	ii)	Only partnership firms and companies prepare profit and loss appropriation A/c

Important Questions Part-9
Fundamentals of partnership and Goodwill

Goodwill Nature And Valuation

I. (Average Profit Method): Akansha, Chetna and Dipanshu are partners in a firm shring profits and losses in the ratio of 3:2:1. They decide to lake jatin into partnership form January 1, 2015 for1/5 share in the future profits. For this purpose, goodwill is to be valued at 2 times the average annual profits of the previous four years. The average profits for the past four years were.

Year	(Rs.)
2012 2013 2014 2015	96,000 60,600 62,400 84,400

Calculate the value of goodwill.

Solution

Formula

Average Profit = Total Profits/No. of Years.

Goodwill = Average Profit $\times$ Number of years of purchase

Year	(Rs.)
2012 2013 2014 2015	96,000 60,600 62,400 84,400

Total Profits	**Rs. 3,03,400**

Average profit = 3,03,400/4 = Rs. 75,850

Goodwill = $75,850 \times 2$ = Rs. 151,700

2: The profits of a firm for the last five years were:

Year →	2011	2012	2013	2014	2015
Profits (Rs.)	**45,000**	**50,000**	**52,000**	**65,000**	**85,000**

Calculate the value of goodwill on the basis of two years of purchase of weighted average profits, the weights to be used are 2011-1, 2012-2, 2013-3, 2014-4 and 2015-5

Solution:

Year	Profit (Rs.)	Weights	Weights Profit × Weight
2011 2012 2013 2014 2015	43,000 50,000 52,000 65,000 85,000	1 2 3 4 5	43,000 1,00,000 1,56,000 2,60,000 4,25,400
Total		15	9,84,400

Weighted Average Profit: = $\frac{Total\ product\ of\ profits}{Total\ of\ weights} = \frac{9,84,000}{15}$ = 65,600

Goodwill = Weighted Average Profit × No. of years of purchase.

Rs. 65600×2 = Rs. 1,31,200

3: (Super Profit Method)

A firm earned net profits during the last three years as:

Year	2011-13	2013-14	2014-15
Profits (Rs.)	**36,000**	**40,000**	**44,000**

The capital investment of the firm is Rs. 1,20,000. A fair return on the capital having regard to the risk involved is 10%. Calculate the value of goodwill on the basis of three years purchase of the super profit for the last three years.

Solution:

Average profit : $\frac{36,000+40,000+44,000}{3}$ = 40,000

Normal profit = $\frac{Capital\ Employed \times Normal\ Rate\ of\ Return}{100}$

Normal profit = $\frac{1,20,000 \times 10}{100}$ = Rs. 12,000

Super profit = Average profit – Normal profit

= Rs. 40,000 – 12,000 = Rs. 28,000

Goodwill = Super profit $\times$ No. of years of purchase.

= Rs. $28,000 \times 3$ = Rs. 84,000

4 (Capitalisation Method): A earns Rs. 1,20,000 as its annual profits, the rates of normal profit being 10%. The assets of the firm amounted to Rs. 14,40,000 and liabilities to Rs. 4,80,000. Find out the value of goodwill by capitalization method.

Solution:

Capitalised value of the firm Average Profit $\times \dfrac{100}{Normal\ Rate\ of\ Return}$

= Rs. $\dfrac{1,20,000 \times 10}{100}$ = Rs. 12,00,000

Capital employed = Total assets – liabilities

= Rs. 14,40,000 – 4,80,000 = Rs. 9,60,000

Goodwill = Capitalised value – Capital Employed

= Rs. 12,00,000 – 9,60,000 = Rs. 2,40,000

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5. (Average profit method): A and B are partners in a firm. They admit C into the firm. The goodwill for the purpose is to be calculated at 2 year's purchase of the average normal profits of the last three years which were Rs. 10,000, Rs. 15,000 and Rs. 30,000 respectively. Second years profit included profit on sale of Machinery Rs. 10,000. Find the value of goodwill of the firm on C's Admission.

Solution:

(1) Calculation of Average Profit:

Year endedRs.

1st Year10,000

2nd Year (Rs. 15,000 – Rs. 10,000)5,000

3rd Year30,000

Total ProfitsRs. 45,000

Average profit = $\dfrac{Total\ profit}{No.\ of\ years} = \dfrac{45000}{3}$ =Rs. 15,000

Goodwill = Average profit $\times$ No. of years of purchase

$= 15000 \times 2$ = Rs. 30,000

6 (Super profit method): The average net profits expected of a firm in future are Rs. 68,000 per year and capital invested in the business by the firm is Rs. 3,50,000. The rate of interest expected from capital invested in this class of business in 12%. The remunerating of the partners is estimated to be Rs. 8,000 for the year. You are required to find out the value of goodwill on the basis of two years' purchase of super profits.

Solution:

Average Profit = Average Net Profit – Partner's remuneration

(i) Average profit =Rs. 68,000 – Rs. 8,000 = Rs. 60,000

(ii) Normal profit = $\frac{Capital\ employed \times Normal\ rate\ of\ return}{100}$

= Rs. $3,50,000 \times \frac{12}{100}$ Rs. 42,000

(iii)Super Profit = Average profit – Normal profit

= Rs. 60,000 –Rs. 42,000 = Rs. 18,000

(iv) Value of goodwill = Super profit $\times$ No. of years' of purchase

= Rs. $18,000 \times 2$ = Rs. 36,000

7. (Super profit method): On April 1st, 2014 an existing firm had assets of Rs. 75,000 including cash of Rs. 5,000. The partners' capital accounts showed a balance of Rs. 60,000 and reserves constituted the rest. If the normal rate of return is 20% and the goodwill of the firm is valued at Rs. 24,000 at 4 years purchase of super profits, find the average profits of the firm.

Solution:

(1) Calculation of Normal Profit

$$= \frac{Capital\ employed \times Normal\ rate}{100}$$

$$= \frac{75,000 \times 20}{100}$$ = Rs. 15,000

(2) Calculation of Super Profit:

Goodwill = Super profit $\times$ No. of years' of purchase

Rs. 24,000 = Super profit $\times 4$

Super profit = $\frac{24,000}{4}$ = Rs. 6,000

(3) Calculation of Average Profit:

Super Profit = Average profit – Normal profit

Rs. 6,000 = Average Profit – Rs. 15,000

Average Profit Rs. 6,000, Rs. 15,000, Rs. 21,000

(B) Capitalisation of super profit method: Under this method, goodwill is calculated by capitalizing the super profit on the basis of Normal Rate of Return.

Goodwill = $Super\ profit \times \frac{100}{Normal\ Rate\ of\ Return}$

8: M/s Aradhya having the assets of Rs 10,00,000 and Liabilities of Rs 4,20,000. The firm earns the annual profit of Rs. 90,000. The rate of interest expected from the capital having regard to the risk involved is 15%. Calculate the amount of Goodwill by Capitalisation of Super Profit method.

Solution:

Super Profit = Average/Actual Profits – Normal Profits

Actual Profits = Rs. 90,000

Normal Profit = $Capital\ Employed \times \frac{Normal\ Rate\ of\ Return}{100}$

Capital Employed = Total Assets – Outside’s Liabilities

= Rs. 10,00,000 –Rs. 4,20,000

= Rs. 5,80,000

Normal Profit = Rs. $5,80,000 \times \frac{15}{100}$

= Rs. 87,000

Super Profits = Rs. 90,000 – Rs. 87,000

= Rs. 3,000

Goodwill = $Super\ Profits \times \frac{100}{Normal\ Rate\ of\ Return}$

= $3,000 \times \frac{100}{15}$

Ans : Goodwill = Rs. 20,000