# Chapter 3
# Accounts of Partnership Firms-Fundamentals

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## I. Choose the Correct Answer

**Question** 1.
In the absence of a partnership deed, profits of the firm will be shared by the partners in …………….
(a) Equal ratio
(b) Capital ratio
(c) Both (a) and (b)
(d) None of these
**Answer**:
(a) Equal ratio

**Question** 2.
In the absence of an agreement among the partners, interest on capital is …………….
(a) Not allowed
(b) Allowed at bank rate
(c) Allowed @ 5% per annum
(d) Allowed @ 6% per annum
**Answer**:
(a) Not allowed

**Question** 3.
As per the Indian Partnership Act, 1932, the rate of interest allowed on loans advanced by partners is …………….
(a) 8% per annum
(b) 12% per annum
(c) 5% per annum
(d) 6% per annum
**Answer**:
(d) 6% per annum

**Question** 4.
Which of the following is shown in Profit and loss appropriation account?
(a) Office expenses
(b) Salary of staff
(c) Partners' salary
(d) Interest on bank loan

**Answer**:
(c) Partners' salary

**Question** 5.
When fixed capital method is adopted by a partnership firm, which of the following items will appear in capital account?
(a) Additional capital introduced
(b) Interest on capital
(c) Interest on drawings
(d) Share of profit
**Answer**:
(a) Additional capital introduced

**Question** 6.
When a partner withdraws regularly a fixed sum of money at the middle of every month, period for which interest is to be calculated on the drawings on an average is …………..
(a) 5.5 months
(b) 6 months
(c) 12 months
(d) 6.5 months
**Answer**:
(b) 6 months

**Question** 7.
Which of the following is the incorrect pair?
(a) Interest on drawings – Debited to capital account
(b) Interest on capital – Credited to capital account
(c) Interest on loan – Debited to capital account
(d) Share of profit – Credited to capital account
**Answer**:
(c) Interest on loan – Debited to capital account

**Question** 8.
In the absence of an agreement, partners are entitled to …………..
(a) Salary
(b) Commission
(c) Interest on loan
(d) Interest on capital
**Answer**:
(c) Interest on loan

**Question** 9.
Pick the odd one out …………..
(a) Partners share profits and losses equally

(b) Interest on partners' capital is allowed at 7% per annum
(c) No salary or remuneration is allowed
(d) Interest on loan from partners is allowed at 6% per annum.
**Answer**:
(b) Interest on partners' capital is allowed at 7% per annum

**Question** 10.
Profit after interest on drawings, interest on capital and remuneration is ₹ 10,500. Geetha, a partner, is entitled to receive commission @ 5% on profits after charging such commission. Find out commission. ……………
(a) ₹ 50
(b) ₹ 150
(c) ₹ 550
(d) ₹ 500
**Answer**:
(d) ₹ 500

## II. Very short Answer Questions

**Question** 1.
Define partnership.
**Answer**:
According to section 4 of the Indian Partnership Act, 1932, the partnership is defined as, "the relation between persons who have agreed to share the profits of a business carried on by all or any of them acting for all.

**Question** 2.
What is a partnership deed?
**Answer**:
A partnership deed is a document in writing that contains the terms of the agreement among the partners. It is not compulsory for a partnership to have a partnership deed as per the Indian Partnership Act, 1932. But, it is desirable to have a partnership deed as it serves as evidence of the terms of the agreement among the partners.

**Question** 3.
What is meant by the fixed capital method?
**Answer**:
Under the fixed capital method, the capital of the partners is not altered and it remains generally fixed. Two accounts are maintained for each partner namely

- Capital account
- Current account.

The transactions relating to initial capital introduced, additional capital introduced, and capital permanently withdrawn are entered in the capital account and all other transactions are recorded in the current account.

**Question** 4.
What is the journal entry to be passed for providing interest on capital to a partner?
**Answer**:
(a) For providing interest on capital

| Date | Particulars | L.F. | Debit (₹) | Credit (₹) |
|---|---|---|---|---|
| | Interest on Capital A/c Dr.<br>To Partner's Capital current A/c | | xxx | <br>xxx |

(b) For closing interest on capital account

| Date | Particulars | L.F. | Debit (₹) | Credit (₹) |
|---|---|---|---|---|
| | Profit and Loss appropriation A/c Dr.<br>To Interest on Capital A/c | | xxx | <br>xxx |

**Question** 5.
Why is the Profit and loss appropriation account prepared?
**Answer**:
The profit and loss appropriation account is an extension of the profit and loss account prepared for the purpose of adjusting the transactions relating to amounts due to and amounts due from partners. It is a nominal account in nature. It is credited with net profit, interest on drawings and it is debited with interest on capital, salary, and other remuneration to the partners. The balance being the profit or loss is transferred to the partners' capital or current account in the profit-sharing ratio.

## III. Short Answer Questions

**Question** 1.
State the features of a partnership.
**Answer**:

1. A partnership is an association of two or more persons. The maximum number of partners is limited to 50.
2. There should be an agreement among the persons to share the profit or loss of the business. The agreement may be oral or written or implied.
3. The agreement must be to carry on a business and to share the profits of the business.
4. The business may be carried on by all the partners or any of them acting for all.

Question 2.
State any six contents of a partnership deed.
Answer:
The contents of the partnership deed are:

1. The name of the firm and nature and place of business.
2. Date of commencement and duration of business.
3. Names and addresses of all partners.
4. Capital contributed by each partner.
5. Profit-sharing ratio.
6. Amount of drawings allowed to each partner.

Question 3.
State the differences between the fixed capital method and the fluctuating capital method.
Answer:

| S. No. | Basis of distinction | Fixed capital method | Fluctuating capital method |
|---|---|---|---|
| 1. | Number of accounts | Two accounts are maintained for each partner, that is, capital account and current account. | Only one account, that is, capital account is maintained for each partner. |
| 2. | Change in capital | The amount of capital normally remains unchanged expect when additional capital is introduced or capital is withdrawn permanently. | The amount of capital changes from period to period. |
| 3. | Closing balance | Capital account always shows a credit balance. But, current account may show either debit or credit balance. | Capital account generally shows credit balance. It may also show a debit balance. |
| 4. | Adjustments | All adjustments relating to interest on capital, interest on drawings, salary or commission, share of profit or loss are done in current account. | All adjustments relating to interest on capital, interest on drawings, salary or commission, share of profit or loss are done in the capital account. |

Question 4.
Write a brief note on the applications of the provisions of the Indian Partnership Act, 1932 in the absence of a partnership deed.
Answer:

1. Remuneration to partners: No salary or remuneration is allowed to any partner; op [ Section 13 (a)]
2. Profit-sharing ratio: Profits and losses are to be shared by the partners equally. [ Section 13 (b)]
3. Interest on capital: No interest is allowed on the capital. Where a partner is entitled to interest on capital contributed as per partnership deed, such interest on capital will be payable only out of profits. [ Section 13 (c)]
4. Interest on loans advanced by partners to the firm: Interest on the loan is to be allowed at the rate of 6 percent per annum. [ Section 13 (d)]
5. Interest on drawings: No interest is charged on the drawings of the partners.

**Question** 5.
Jayaraman is a partner who withdrew ₹ 10,000 regularly in the middle of every month. Interest is charged on the drawings at 6% per annum. Calculate interest on drawings for the year ended 31st December 2018.
**Answer**:
Jayaraman:
Interest on drawings: $10{,}000 \times \frac{12}{24} \times \frac{6}{100} \times 12 = ₹\ 3600$

## IV. Exercises

**Question** 1.
Akash, Bala, Chandru, and Daniel are partners in a firm. There is no partnership deed. How will you deal with the following?

1. Akash has contributed maximum capital. He demands interest on capital at 10% per annum.
2. Bala has withdrawn ₹ 3,000 per month. Other partners ask Bala to pay interest on drawings @ 8% per annum to the firm. But, Bala did not agree to it.
3. Akash demands the profit to be shared in the capital ratio. But, others do not agree.
4. Daniel demands a salary at the rate of ₹ 10,000 per month as he spends full time for the business.
5. The loan advanced by Chandru to the firm is ₹ 50,000. He demands interest on loan @ 12% per annum.

**Answer**:

1. No interest on capital is payable to any partner.
2. No interest is charged on the drawing made by the partner.
3. Profit should be distributed equally.
4. No remuneration is payable to any partner.
5. Interest on the loan is payable at 6% per annum.

**Question** 2.
From the following information, prepare capital accounts of partners Rooban and Deri, when their capitals are fixed.

| Particulars | Rooban ₹ | Deri ₹ |
|---|---|---|
| Capital on 1st April, 2018 | 70,000 | 50,000 |
| Current account on 1st April, 2018 (Cr.) | 25,000 | 15,000 |
| Additional capital introduced | 18,000 | 16,000 |
| Drawings during 2018 – 2019 | 10,000 | 6,000 |
| Interest on drawings | 500 | 300 |
| Share of profit for 2018 – 2019 | 35,000 | 25,800 |
| Interest on capital | 3,500 | 2,500 |
| Salary | Nil | 18,000 |
| Commission | 12,000 | Nil |

**Answer**:
Capital Account

**Dr** **Cr**

| Particulars | Rooban | Deri | Particulars | Rooban | Deri |
|---|---|---|---|---|---|
| To balance c/d | 88,000 | 66,000 | By balance b/d | 70,000 | 50,000 |
| | | | By bank A/c | 18,000 | 16,000 |
| | | | By Balance b/d | 88,000 | 66,000 |

Current Account

**Dr** **Cr.**

| Particulars | Rooban | Deri | Particulars | Rooban | Deri |
|---|---|---|---|---|---|
| To Drawing | 10,000 | 6,000 | By balance b/d | 25,000 | 15,000 |
| To Interest on Drawing | 500 | 300 | By share of profit | 35,000 | 25,800 |
| To Balance c/d | 65,000 | 55,000 | By Interest on capital | 3,500 | 2,500 |
| | | | By Salary | | 18,000 |
| | | | By Commission | 12,000 | |
| | 75,500 | 61,300 | | 75,500 | 61,300 |
| | | | By Balance b/d | 65,000 | 55,000 |

**Question** 3.
Arun and Selvam are partners who maintain their capital accounts under fixed capital method. From the following particulars, prepare capital accounts of partners.

| Particulars | Arun ₹ | Selvam ₹ |
|---|---|---|
| Capital on 1st January, 2018 | 2,20,000 | 1,50,000 |
| Current account on 1st January, 2018 | 4,250(Dr.) | 10,000(Cr.) |
| Additional capital introduced during the year | Nil | 70,000 |
| Withdrew for personal use | 10,000 | 20,000 |
| Interest on drawings | 750 | 600 |
| Share of profit for 2018 | 22,000 | 15,000 |
| Interest on capital | 1,100 | 750 |
| Commission | 6,900 | Nil |
| Salary | Nil | 6,850 |

**Answer**:
Capital Account

**Dr** **Cr.**

| | Arun | Selvam | | Arun | Selvam |
|---|---|---|---|---|---|
| To balance c/d | 2,20,000 | 2,20,000 | By balance c/d | 2,20,000 | 1,50,000 |
| | | | By bank | – | 70,000 |
| | 2,20,000 | 2,20,000 | | 2,20,000 | 2,20,000 |

Current Account

**Dr** **Cr.**

| | Arun | Selvam | | Arun | Selvam |
|---|---|---|---|---|---|
| To balance b/d | 4,250 | – | By balance b/d | – | 10,000 |
| To Drawings | 10,000 | 20,000 | By share of profit | 22,000 | 15,000 |
| To Interest on Drawings | 750 | 600 | By Interest on capital | 1,100 | 750 |
| To balance c/d | 15,000 | 12,000 | By Commission | 6,900 | – |
| | | | By Salary | – | 6,850 |
| | 30,000 | 32,600 | | 30,000 | 32,600 |
| | | | By Balance b/d | 15,000 | 12,000 |

Question 4.
From the following information, prepare capital accounts of partners Padmini and Padma, when their capitals are fluctuating.

| Particulars | Padmini ₹ | Padma ₹ |
|---|---|---|
| Capital on 1st January 2018 (Cr. balance) | 5,00,000 | 4,00,000 |
| Drawings during 2018 | 70,000 | 40,000 |
| Interest on drawings | 2,000 | 1,000 |
| Share of profit for 2018 | 52,000 | 40,000 |
| Interest on capital | 30,000 | 24,000 |
| Salary | 45,000 | Nil |
| Commission | Nil | 21,000 |

Answer:

**Dr** **Cr.**

| | Padmini | Padma | | Padmini | Padma |
|---|---|---|---|---|---|
| To Drawings | 70,000 | 40,000 | By bal. b/d | 5,00,000 | 4,00,000 |
| To Interest on Drawings | 2,000 | 1,000 | By share of profit | 52,000 | 40,000 |
| | | | By Interest on capital | 30,000 | 24,000 |
| To balance c/d | 5,55,000 | 4,44,000 | By salary | 45,000 | |
| | | | By commission | | 21,000 |
| | 6,27,000 | 4,85,000 | | 6,27,000 | 4,85,000 |
| | | | By balance b/d | 5,55,000 | 4,44,000 |

Question 5.
Mannan and Ramesh share profits and losses in the ratio of 3:2 and their capital on 1st April, 2018 was Mannan ₹ 1,50,000 and Ramesh ₹ 1,00,000 respectively and their current accounts show a credit balance of’ 25,000 and ₹ 20,000 respectively. Calculate interest on capital at 6% p.a. for the year ending 31st March, 2019 and show the journal entries.

**Answer**:

| **Mannan:** | **Ramesh:** |
|---|---|
| $1,50,000 \times \frac{6}{100} = 9000$<br><br>Interest on Capital:<br>Mannan's Capital = 9,000<br>Ramesh's Capital = 6,000 | $1,00,000 \times \frac{6}{100} = 6000$<br>Journal Entries:<br>Interest on Capital A/c 15,000<br>To Mannan's Capital A/c 9,000<br>To Ramesh's Capital A/c 6,000<br>(Interest on Capital entered) |

**Question** 6.
Prakash and Supria were partners who share profits and losses in the ratio of 5:3. Balance in their capital account on 1st April, 2018 was Prakash ₹ 3,00,000 and Supria ₹ 2,00,000. On 1st July, 2018 Prakash introduced additional capital of ₹ 60,000. Supria introduced additional capital of ₹ 30,000 during the year. Calculate interest on capital at 6% p.a. for the year ending 31st March, 2019 and show the journal entries.
**Answer**:

| **Prakash:** | **Supria:** |
|---|---|
| $3,00,000 \times \frac{6}{100} = 18,000$ | $2,00,000 \times \frac{6}{100} = 12,000$ |
| Additional capital: (on 1st July) | Supria's Total Interest: |
| $60,000 \times \frac{6}{100} \times \frac{9}{12} = \underline{2700}$ | $30,000 \times \frac{6}{100} \times \frac{6}{12} = \underline{900}$ |
| Total Prakash's Interest: 20,700 | Supria's total Interest: 12,900 |

Journal Entries

| Particulars | L.F. | Debit | Credit |
|---|---|---|---|
| Interest on capital A/c Dr | | 33,600 | |
| To Prakash's Capital | | | 20,700 |
| To Supria's Capital | | | 12,900 |
| (Interest on capital entered) | | | |

**Question** 7.
The capital account of Begum and Fatima on 1st January, 2018 showed a balance of ₹ 50,000 and ₹ 40,000 respectively. On 1st October, 2018, Begum introduced an additional capital of? 10,000 and on 1st May, 2018 Fatima introduced an additional capital of ₹ 9,000.
**Answer**:
Calculate interest on capital at 4% p.a. for the year ending 31st December 2018.

| Begum: | Fatima: |
|---|---|
| $50{,}000 \times \frac{4}{100} = 2{,}000$ | $40{,}000 \times \frac{4}{100} = 1{,}600$ |
| Additional capital: | |
| $10{,}000 \times \frac{4}{100} \times \frac{3}{12} = \underline{100}$ | $9{,}000 \times \frac{4}{100} \times \frac{8}{12} = \underline{240}$ |
| Begum's Total Interest: 2,100 | Fatima's Total Interest: 1,840 |

**Question** 8.
From the following balance sheets of Subha and Sudha who share profits and losses in 2:3, calculate interest on capital at 5% p.a. for the year ending 31st December 2018.
Balance sheet as on 31st December, 2018

| Liabilities | ₹ | ₹ | Assets | ₹ |
|---|---|---|---|---|
| Capital accounts: | | | Fixed assets | 70,000 |
| Subha | 40,000 | | Current assets | 50,000 |
| Sudha | 60,000 | 1,00,000 | | |
| Current liabilities | | 20,000 | | |
| | | 1,20,000 | | 1,20,000 |

Drawings of Subha and Sudha during the year were ₹ 8,000 and ₹ 10,000, respectively.
Profit earned during the year was ₹ 30,000.
**Answer**:

| Capital | Subha | Sudha |
|---|---|---|
| (+) Drawings | 40,000 | 60,000 |
| | 8,000 | 10,000 |
| | 48,000 | 70,000 |
| (-) Profit | 12,000 | 18,000 |
| | 36,000 | 52,000 |

| Subha: | Sudha: |
|---|---|
| $36{,}000 \times \frac{5}{100} = 1{,}800$ | $52{,}000 \times \frac{5}{100} = 2{,}600$ |
| Interest on Capital: | |
| Sudha's Capital : 2,600 | |
| Subha's Capital : 1,800 | |

**Question** 9.
From the following balance sheets of Rajan and Devan who share profits and losses 2:1, calculate interest on capital at 6% p.a. for the year ending 31st December 2018.

Balance sheet as on 31st December 2018

| Liabilities | ₹ | ₹ | Assets | ₹ |
|---|---|---|---|---|
| Capital accounts: | | | Sundry assets | 2,20,000 |
| Rajan | 1,00,000 | | | |
| Devan | 80,000 | 1,80,000 | | |
| Profit and loss appropriation A/c | | 40,000 | | |
| | | 2,20,000 | | 2,20,000 |

On 1st April, 2018, Rajan introduced an additional capital of ₹ 40,000 and on 1st September, 2018, Devan introduced ₹ 30,000. Drawings of Rajan and Devan during the year were ₹ 20,000 and ₹ 10,000 respectively. Profit earned during the year was ₹ 70,000.

**Answer**:

| | Rajan | Devan |
|---|---|---|
| Capital | 1,00,000 | 80,000 |
| (+) Drawings | 20,000 | 10,000 |
| | 1,20,000 | 90,000 |
| (–) Additional capital | 40,000 | 30,000 |
| | 80,000 | 60,000 |
| (–) Profit | 20,000 | 10,000 |
| | 60,000 | 50,000 |

| Interest on Capital | |
|---|---|
| Rajan: $60,000 \times \frac{6}{100} = 3,600$ | Devan: $50,000 \times \frac{6}{100} = 3,000$ |
| Additional capital: $40,000 \times \frac{6}{100} \times \frac{9}{12} = \underline{1800}$ | $30,000 \times \frac{6}{100} \times \frac{4}{12} = \underline{600}$ |
| Rajan's Total Interest: 5,400 | Devan's Total Interest: 3,600 |

**Question** 10.

Ahamad and Basheer contribute ₹ 60,000 and ₹ 40,000 respectively as capital. Their respective share of profit is 2 : 1 and the profit before interest on capital for the year is ₹ 5,000. Compute the amount of interest on capital in each of the following situations:

1. if the partnership deed is silent as to the interest on capital
2. if the interest on capital @ 4% is allowed as per the partnership deed
3. if the partnership deed allows interest on capital @ 6% per annum.

**Answer**:
1. No Interest on capital is allowed.

2. Since the profit is sufficient, Interest on capital will be provided.
Ahamad:
$60,000 \times \frac{4}{100} = ₹\ 2,400$
Basheer:
$40,000 \times \frac{4}{100} = ₹\ 1,600$
3. Since the profit is insufficient, Interest on capital will be provided.
Ahamad:
$60,000 \times \frac{6}{100} = ₹\ 3,600$
Basheer:
$40,000 \times \frac{6}{100} = ₹\ 2,400$
Profit of 5,000 will be distributed to the partners in their capital ratio of 3:2.

**Question** 11.
Mani is a partner, who withdrew ₹ 30,000 on 1$^{st}$ September, 2018. Interest on drawings is charged at 6% per annum. Calculate interest on drawings on 31$^{st}$ December, 2018 and show the journal entries by assuming that the fluctuating capital method is followed.
**Answer**:
Mani:
$30,000 \times \frac{6}{100} = ₹\ 600$
Interest on drawings of Mani = ₹ 600.
**Question** 12.
Santhosh is a partner in a partnership firm. As per the partnership deed, interest on drawings is charged at 6% per annum. During the year ended 31$^{st}$ December, 2018 he withdrew as follows:

| Date | ₹ |
|---|---|
| February 1 | 2,000 |
| May 1 | 10,000 |
| July 1 | 4,000 |
| October 1 | 6,000 |

Calculate the amount of interest on drawings.
Interest on Drawings = Amount x Rate of Interest x Period
Feb 1 ⇒ $2,000 \text{ x } \frac{6}{100} = ₹\ 600$
May 1 ⇒ $10,000 \text{ x } \frac{6}{100} \text{ x } \frac{8}{12} = ₹\ 400$

July 1 ⇒ 4,000 x $\frac{6}{100}$ x $\frac{6}{12}$ = ₹ 120

Oct 1 ⇒ $6{,}000 \times \frac{6}{100} \times \frac{3}{12}$ = ₹ $\underline{90}$

Total Interest $\underline{720}$

**Question** 13.
Kumar is a partner in a partnership firm. As per the partnership deed, interest on drawings is charged at 6% per annum. During the year ended 31st December, 2018 he withdrew as follows:

| Date | ₹ |
|---|---|
| March 1 | 4,000 |
| June 1 | 4,000 |
| September 1 | 4,000 |
| December 1 | 4,000 |

Interest on Drawings = Amount x Rate of Interest x Period

March 1 ⇒ 4, 000 x $\frac{6}{100}$ = ₹ 200

June 1 ⇒ 4, 000 x $\frac{6}{100}$ x $\frac{7}{12}$ = ₹ 140

Sep 1 ⇒ 4,000 x $\frac{6}{100}$ x $\frac{4}{12}$ = ₹ 80

Dec 1 ⇒ $4{,}000 \times \frac{6}{100} \times \frac{1}{12}$ = ₹ $\underline{20}$

Total Interest $\underline{440}$

**Question** 14.
Mathew is a partner who withdrew ₹ 20,000 during the year 2018. Interest on drawings is charged at 10% per annum. Calculate interest on drawings on 31st December 2018.
Mathew:

20 000 x $\frac{10}{100}$ x $\frac{6}{12}$ = ₹ 1, 000

**Question** 15.
Santhosh is a partner in a partnership firm. As per the partnership deed, interest on drawings is charged at 6% per annum. During the year ended 31st December, 2018 he withdrew as follows:

| Date | ₹ |
|---|---|
| March 1 | 4,000 |
| June 1 | 4,000 |
| September 1 | 4,000 |
| December 1 | 4,000 |

Calculate the amount of interest on drawings by using product method.

| Date of Drawings | Amount | Period | Product |
|---|---|---|---|
| Feb 1 | 2000 | 11 | 22,000 |
| May 1 | 10,000 | 8 | 80,000 |
| July 1 | 4,000 | 6 | 24,000 |
| Oct 1 | 6,000 | 3 | 18,000 |
| | | | 1,44,000 |

Interest on drawings = Product x Rate of interest x $\frac{1}{12}$

= 1,44,000 x $\frac{6}{100}$ x $\frac{1}{12}$ = ₹ 720

**Question** 16.
Kavitha is a partner in a firm. She withdraws ₹ 2,500 p.m. regularly. Interest on drawings is charged @ 4% p.a. Calculate the interest on drawings using average period, if she draws

1. At the beginning of every month
2. In the middle of every month
3. At the end of every month

**Answer**:
1. At the beginning of every month = 2, 500 x 12 x $\frac{4}{100}$ x $\frac{13}{24}$ = ₹ 650
2. In the middle of every month = 2,500 x 12 x $\frac{4}{100}$ x $\frac{12}{24}$ = ₹ 600
3. At the end of every month = 2, 500 x 12 x $\frac{4}{100}$ x $\frac{11}{24}$ = ₹ 550

**Question** 17.
Kevin and Francis are partners. Kevin draws ₹ 5,000 at the end of each quarter. Interest on drawings is chargeable at 6% p.a. Calculate interest on drawings for the year ending 31st March 2019 using the average period.
**Answer**:
Calculation of interest on drawings of Kevin.
Total amount of drawings = 5000 x 4 = 20,000

$\frac{\text{Average period}}{12}$

$= 20{,}000 \times \frac{6}{100} \times \frac{4.5}{12} = ₹\ 450$

**Question** 18.
Ram and Shyam were partners. Ram withdrew ₹ 18,000 at the beginning of each half year. Interest on drawings is chargeable @ 10% p.a. Calculate interest on the drawings for the year ending 31st December 2018 using the average period.
**Answer**:
Total amount of drawing: 18, 000 x 2 = 36,000

Interest on drawings = Amount x Rate of Interest x $\frac{\text{Average period}}{12}$
$= 36{,}000 \times \frac{10}{100} \times \frac{9}{12} = ₹\ 2700$

**Question** 19.
Janani, Kamali and Lakshmi are partners in firm sharing profits and losses equally. As per the terms of the partnership deed, Kamali is allowed a monthly salary of ₹ 10,000 and Lakshmi is allowed a commission of ₹ 40,000 per annum for their contribution to the business of the firm. You are required to pass the necessary journal entry. Assume that their capitals are fluctuating.
**Answer**:

| | | |
|---|---|---|
| Kamali's Salary A/c<br>To Kamali's capital A/c<br>[Kamali's Salary transferred to her capital A/c] | Dr. | 1,20,000<br>1,20,000 |
| Lakshmi's commission A/c<br>To Lakshmi's capital A/c<br>[Commission transferred to her capital A/c] | Dr. | 40,000<br>40,000 |
| Profit and Loss appropriation A/c<br>To Kamali's salary A/c<br>To Lakshmi's Commission A/c<br>[Salary and Commission account transferred] | Dr. | 1,60,000<br>1,20,000<br>40,000 |

**Question** 20.
Sibi and Manoj are partners in a firm. Sibi is to get a commission of 20% of net profit before charging any commission. Manoj is to get a commission of 20% on net profit after charging all commission. Net profit for the year ended 31st December 2018 before charging any commission was ₹ 60,000. Find the commission of Sibi and Manoj. Also, show the distribution of profit.

**Answer**:

Calculation of Commission:

Commission to Sibi:

$$\text{Net profit before comission} \times \frac{\text{\% of commission}}{(100 + \text{\% of commission})}$$

$$= 60{,}000 \times \frac{20}{100} = ₹\ 12{,}000$$

Commission to Manoj:

$$\text{Net profit after Sibi's comission} \times \frac{\text{\% of commission}}{(100 + \text{\% of commission})}$$

$$= 48{,}000 \times \frac{20}{100} = ₹\ 8{,}000$$

**Question** 21.

Anand and Narayanan are partners in firm sharing profits and losses in the ratio of 5 : 3. On 1st January 2018, their capitals were ₹ 50,000 and ₹ 30,000, respectively. The partnership deed specifies the following:

1. Interest on capital is to be allowed at 6% per annum.
2. Interest on drawings charged to Anand and Narayanan are ₹ 1,000 and ₹ 800, respectively.
3. The net profit of the firm before considering interest on capital and interest on drawings amounted to ₹ 35,000.

Give necessary journal entries and prepare profit and loss appropriation account as of 31st December 2018. Assume that the capitals are fluctuating.

**Answer**:

Profit and Loss Appropriation Account

**Dr** **Cr**

| Particulars | | Amount | Particulars | Amount |
|---|---|---|---|---|
| To Interest on Capital | | | By profit and loss A/c | 35,000 |
| Anand: | 3000 | | By Interest on drawings: | |
| Narayanan: | 1800 | 48,000 | Anand: 1000 | |
| | | | Narayanan: 800 | 1,800 |
| To share of profit | | 32,000 | | |
| Anand's Capital A/c – 20,000 | | | | |
| Narayanan's Capital A/c – 12,000 | | | | |
| | | 36,800 | | 36,800 |

Journal Entries

| Journal | | L.F. | Debit | Credit |
|---|---|---|---|---|
| Interest on Capital A/c | Dr. | | 48,000 | |
| To Anand's capital A/c | | | | 3,000 |
| To Narayanan's capital A/c | | | | 1,800 |
| [I.O.C @ 6% p.a provided]. | | | | |
| Profit and loss appropriation A/c | Dr. | | 48,000 | |
| To Interest on capital A/c | | | | 48,000 |
| [I.O.C A/c closed]. | | | | |
| Anand's Capital A/c | Dr. | | 1,000 | |
| Narayanan's Capital A/c | Dr. | | 800 | |
| To Interest on drawings A/c | | | | 1,800 |
| [I.O.D charged] | | | | |
| Interest on drawing A/c | Dr. | | 1,800 | |
| To Profit and loss Appropriation A/c | | | | 1,800 |
| [I.O.D transferred] | | | | |
| Profit and loss appropriation A/c | Dr. | | 32,000 | |
| To Anand's Capital A/c | | | | 20,000 |
| To Narayanan's Capital A/c | | | | 12,000 |
| [Profit transferred] | | | | |

**Question** 22.

Dinesh and Sugumar entered into a partnership agreement on 1st January 2018, Dinesh contributing ₹ 1,50,000 and Sugumar ₹ 1,20,000 as capital. The agreement provided that:

1. Profits and losses to be shared in the ratio 2 : 1 as between Dinesh and Sugumar.
2. Partners to be entitled to interest on capital @ 4% p.a.
3. Interest on drawings to be charged Dinesh: ₹ 3,600 and Sugumar: ₹ 2,200
4. Dinesh to receive a salary of ₹ 60,000 for the year, and
5. Sugumar to receive a commission of ₹ 80,000

During the year ended on 31st December 2018, the firm made a profit of ₹ 2,20,000 before adjustment of interest, salary, and commission.

Prepare the Profit and loss appropriation account.

Profit and Loss Appropriation Account

| Dr | | | Cr |
|---|---|---|---|
| **Particulars** | **Amount** | **Particulars** | **Amount** |
| To Interest on Capital:<br>Dinesh: 6,000<br>Sugumar: 4,800 | 10,800 | By Interest on drawings:<br>Dinesh: 3,600<br>Sugumar: 2,200 | 5,800 |
| To Dinesh's Salary | 60,000 | By profit and loss A/c | 2,20,000 |
| To Sugumar's Commission | 80,000 | | |
| To share of profit<br>Dinesh's capital 50,000<br>Sugumar's capital 25,000 | 75,000 | | |
| | 2,25,800 | | 2,25,800 |

**Question** 23.
Antony and Ranjith started a business on 1st April 2018 with capitals of ₹ 4,00,000 and ₹ 3,00,000 respectively. According to the Partnership Deed, Antony is to get the salary of ₹ 90,000 per annum, Ranjith is to get 25% commission on profit after allowing salary to Antony and interest on capital @ 5% p.a. but before charging such commission. Profit-sharing ratio between the two partners is 1:1. During the year, the firm earned a profit of ₹ 3,65,000.
**Answer**:
Prepare profit and loss appropriation account. The firm closes its accounts on 31st March every year.

| Dr | | | Cr |
|---|---|---|---|
| **Particulars** | **Amount** | **Particulars** | **Amount** |
| To Antony's Salary | 90,000 | By profit or loss | 3,65,000 |
| To Interest on capital:<br>Antony: 20,000<br>Ranjith: 15,000 | 35,000 | | |
| To Ranjith's Commission | 48,000 | | |
| To share of profit<br>Antony's Cap: 96,000<br>Ranjith Cap: 96,000 | 1,92,000 | | |
| | 3,65,000 | | 3,65,000 |