

Chapter 2- Accounting for Partnership Firms- Fundamentals

Exercise

Question 1

In the absence of Partnership Deed, what are the rules related to :

- (a) Salaries of partners,
- (b) Interest on partners' capitals
- (c) Interest on partners' loan
- (d) Division of profit, and
- (e) Interest on partners' drawings

Solution:

The rules are

- (a) Partners will not be allowed any salary
- (b) On partner's capital, no interest will be allowed
- (c) Only 6% interest in Partner's Loan
- (d) Profit distribution to be done in equal ratio
- (e) In partner's drawings, no Interest will be charged

Question 2

Following differences have arisen among P, Q and R. State who is correct in each case:

- (a) P used ₹ 20,000 belonging to the firm and made a profit of ₹ 5,000. Q and R want the amount to be given to the firm?
- (b) Q used ₹ 5,000 belonging to the firm and suffered a loss of ₹ 1000. He wants the firm to bear the loss?
- (c) P and Q want to purchase goods from A Ltd., R does not agree?
- (d) Q and R want to admit C as a partner, P does not agree?

Solution:

- (a) P will pay ₹20,000 along with ₹ 5,000 profit to the company as the money belongs to the company. It is because of the relation between the principal and agent. Here, P is both the principal and the agent to Q and R and the firm. And according to the Partnership Act rules, if an agent makes a profit made by utilising the firm's assets is due to the company.
- (b) Q has to pay the firm ₹ 5,000. The Partnership Act, 1932, all the partnership firm partners' are liable for all the losses made by their negligence. In this scenario, Q is liable for the loss as he has utilized the company's property and portrayed himself as a principal and not an agent to the firm and other partners.
- (c) A partner can purchase and trade products without discussing with the other partners. The discussion happens only if a partner has some restriction to purchase and trade firm properties and a public notice is issued.
- (d) In this scenario, C will not be included in the firm as P, has disagreed to admit C. The Act says, a new partner will not get admission to a firm if the existing partners disagree for his/her

admission.

Question 3

A, B and C are partners in a firm. They do not have a Partnership Deed. At the end of the first year of the commencement of the firm, they have faced the following problems :

- (a) A wants that interest on capital should be allowed to the partners but B and C do not agree.
- (b) B wants that the partners should be allowed to draw a salary but A and C do not agree.
- (c) C wants that the loan given by him to the firm should bear interest @ 10% p.a. but A and B do not agree.
- (d) A and B having contributed larger amounts of capital, desire that the profits should be divided in the ratio of their capital contribution but C does not agree.

State how you will settle these disputes if the partners approach you for purpose.

Solution:

	Disputes	Reasonable Judgements
(a)	A wants that interest on capital should be allowed to the partners but B and C do not agree.	The partnership Act says, no capital interest will be granted because between A, B, and C no agreement has been signed regarding capital interest.
(b)	B wants that the partners should be allowed to draw a salary but A and C do not agree.	No partners are liable for any salary because of no partnership agreement.
(c)	C wants that the loan given by him to the firm should bear interest @ 10% p.a. but A and B do not agree.	Only 6% interest is allowed on a partner's loan when there is no partnership agreement.
(d)	A and B having contributed larger amounts of capital, desire that the profits should be divided in the ratio of their capital contribution but C does not agree.	Profits will be equally shared in the absence of a partnership agreement

Question 4

Jaspal and Rosy were partners with a capital contribution of ₹ 10,00,000 and ₹ 5,00,000 respectively. They do not have a Partnership Deed. Jaspal wants that profits of the firm should be shared in their capital ratio. Rosy convinced Jaspal that profits should be shared equally. Explain how Rosy would have convinced Jaspal for sharing the profit equally.

Solution:

In any partnership firm when there is no partnership deed, then the rule of the Indian Partnership Act of 1932 applies. In the act, when the agreement is not signed then the profit should be distributed equally to all the partners.

In this scenario, Jaspal's point of view does not align with the partnership Act rule and therefore, Rosy would have convinced her by explaining her the Partnership Act, 1932 provisions.

Question 5

Harshad and Dhiman have been in partnership since 1st April, 2018. No partnership agreement was made. They contributed ₹ 4,00,000 and ₹ 1,00,000 respectively as capital. In addition, Harshad advanced an amount of ₹ 1,00,000 to the firm on 1st October, 2018. Due to long illness, Harshad could not participate in business activities from 1st August, 2018 to 30th September,

2018. Profit for the year ended 31st March, 2019 was ₹ 1,80,000. The dispute has arisen between Harshad and Dhiman.

Harshad Claims :

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

Dhiman Claims :

- (i) Profit should be distributed equally;
- (ii) He should be allowed ₹ 2,000 p.m. as remuneration for the period he managed the business in the absence of Harshad;
- (iii) Interest on Capital and loan should be allowed @ 6% p.a.

You are required to settle the dispute between Harshad and Dhiman. Also, prepare Profit and Loss Appropriation Account.

Solution:

Harshad Declaration:

- (i) According to Indian partnership act 1932, in the absence of agreement, only 6% of interest is allowed on a partner's loan and no interest will be incurred in partner's capital..
- (ii) As per the partnership act 1932, in the absence of agreement profit will be shared equally.

Dhiman Claims:

- (i) True, according to partnership act 1932, if no agreement is signed between the partners the profit will be equally distributed.
- (ii) No partners are entitled to any sort of salary or remuneration when there is no agreement.
- (iii) Here, if there is no agreement between the partners only 6% will be allowed to partner's loan and no interest in a partner's capital.

Profit Distribution:

Dr.		Profit and Loss Adjustment Account as on 31st March, 2019		Cr.	
Particulars		₹	Particulars	₹	
Interest on Partner's Loan			Profit and Loss A/c	1,80,000	
Harshad $1,00,000 \times (6/100) \times (6/12)$		3,000			
Profit and Loss Appropriation A/c		1,77,000			
		1,80,000			1,80,000

Dr.		Profit and Loss Appropriation Account as on 31st March, 2019		Cr.	
Particulars		₹	Particulars	₹	
Profit transferred to			Profit and Loss Adjustment A/c	1,77,000	
Harshad's Capital		88,500			

Dhiman's Capital	88,500		
	1,77,000		1,77,000

Question 6

A and B are partners from 1st April 2018, without a Partnership Deed and they introduced capitals of ₹ 35,000 and ₹ 20,000 respectively. On 1st October 2018, A advanced loan of ₹ 8,000 to the firm without any agreement as to interest. The profit and Loss Account for the year ended 31st March 2019 shows a profit of ₹ 15,000 but the partners cannot agree on payment of interest and on the basis of division of profits.

You are required to divide the profits between them giving reasons for your method.

Solution:

Profit and Loss Account as on March 31, 2019			
Dr.			Cr.
Particulars	₹	Particulars	₹
A's Loan Interest	240	Profit (before Interest)	15,000
Profit transferred to:			
A's Capital A/c	7,380		
B's Capital A/c	7,380		
	15,000		15,000

Working Notes 1: Loan interest Evaluation

Loan interest to be provided @ 6% p.a.

Loan Amount = ₹ 8,000

Time (from 1st October to 31st March) = 6 months

A's loan interest = $8,000 \times \frac{6}{100} \times \frac{6}{12} = ₹ 240$

Working Notes 1: Profit Share of Partner Evaluation

Equal distribution of profit

Profit after A's loan Interest = ₹ 15,000 – ₹ 240 = ₹ 14,760

Therefore, A and B profit-sharing = $14,760 \times \frac{1}{2} = ₹ 7,380$

Question 7

A and B are partners in a firm sharing profits in the ratio of 3: 2. They had advanced to the firm a sum of ₹ 30,000 as a loan in their profit-sharing ratio on 1st October, 2017. The Partnership Deed is silent on interest on loans from partners. Compute interest payable by the firm to the partners, assuming the firm closes its books every year on 31st March.

Solution:

The total advanced amount given by the partners = ₹ 30,000

Profit-sharing ratio = 3:2

A's advance = $30,000 \times \frac{3}{5} = ₹18,000$

B's advance = $30,000 \times \frac{2}{5} = ₹12,000$

Duration (from 1st October, 2017 to 31st March, 2018) = 6 months

Rate of Interest = 6% p.a.

Interest incurred on Advances Evaluation

A's advance interest = $18,000 \times \frac{6}{100} \times \frac{6}{12} = ₹ 540$

B's advance interest = $12,000 \times \frac{6}{100} \times \frac{6}{12} = ₹ 360$

Note: Because there is no partnership agreement only 6% of the interest rate is allowed on the loan.

Question 8

X and Y are partners sharing profits and losses in the ratio of 2 : 3 with capitals ₹ 2,00,000 and ₹ 3,00,000 respectively. On 1st October, 2018, X and Y gave loans of ₹ 80,000 and ₹ 40,000 respectively to the firm. Show distribution of profits/losses for the year ended 31st March, 2019 in each of the following alternative cases:

Case 1: If the profits before interest for the year amounted to ₹ 21,000.

Case 2: If the profits before interest for the year amounted to ₹ 3,000.

Case 3: If the profits before interest for the year amounted to ₹ 5,000.

Case 4: If the loss before interest for the year amounted to ₹ 1,400.

Solution:

Loan Interest Evaluation

X's loan interest for six months = $80,000 \times \frac{6}{100} \times \frac{6}{12} = ₹ 2,400$

Y's loan interest for six months = $40,000 \times \frac{6}{100} \times \frac{6}{12} = ₹ 1,200$

Case 1- Profits without the interest = ₹ 21,000

Profit and Loss Account as on March 31, 2019			
Dr.			Cr.
Particulars	₹	Particulars	₹
X's Loan Interest	2,400	Profit (before interest)	21,000
Y's Loan Interest	1,200		
Profit transferred to			
X's Capital A/c ($17,400 \times \frac{2}{5}$)	6,960		
Y's Capital A/c ($17,400 \times \frac{3}{5}$)	10,440	17,400	
	21,000		21,000

Case 2 – Profits before interest ₹ 3,000

Profit and Loss Account as on March 31, 2019			
Dr.			Cr.
Particulars	₹	Particulars	₹

Interest on X's Loan	2,400	Profit (before interest)	3,000
Interest on Y's Loan	1,200	Loss transferred to-	
		X's Capital A/c ($600 \times 2/5$)	240
		Y's Capital A/c ($600 \times (3/5)$)	360
			600
	3,600		3,600

Case 3- Profits before interest ₹ 5,000

Profit and Loss Account as on March 31, 2019			
Dr.			Cr.
Particulars	₹	Particulars	₹
Interest on X's Loan	2,400	Profit (before interest)	5,000
Interest on Y's Loan	1,200		
Profit transferred to:			
X's Capital A/c ($1400 \times 2/5$)	560		
Y's Capital A/c ($1400 \times 3/5$)	840		
	1,400		
	5,000		5,000

Case 4- Loss before interest ₹ 1,400

Profit and Loss Account as on March 31, 2019			
Dr.			Cr.
Particulars	₹	Particulars	₹
Loss (before interest)	1,400	Loss transferred to-	
Interest on X's Loan	2,400	X's Capital A/c ($5,000 \times 2/5$)	2,000
Interest on Y's Loan	1,200	Y's Capital A/c ($5,000 \times 3/5$)	3,000
			5,000
	5,000		5,000

Question 9

Bat and Ball are partners sharing the profits in the ratio of 2 : 3 with capitals of ₹ 1,20,000 and ₹ 60,000 respectively. On 1st October, 2018, Bat and Ball gave loans of ₹ 2,40,000 and ₹ 1,20,000 respectively to the firm. Bat had allowed the firm to use his property for business for a monthly rent of ₹ 5,000. The loss for the year ended 31st March, 2019 before rent and interest amounted to ₹ 9,000. Show distribution of profit/loss.

Solution:

Profit and Loss Account as on March 31, 2019			
Dr.			Cr.
Particulars	₹	Particulars	₹

Loss (before interest)	9,000			
Rent (5,000 x 12)	60,000	Loss transferred to:		
Bat's loan Interest	7,200	Bat's Capital A/c	31,920	
Ball's loan Interest	3,600	Ball's Capital A/c	47,880	79,800
	79,800			79,800

Working Notes 1: Partner's Loan Interest

Bat's Loan interest for six months = ₹ 2,40,000 X 6/100 X 6/12 = ₹ 7,200

Ball's Loan interest for six months = ₹1,20,000 X 6/100 X 6/12 = ₹ 3,600

Working Notes 2: Loss distribution to partners Evaluation

Bat's Loan share = 79,800 X 2/5 = ₹ 31,920

Ball's Loan share = 79,800 X 3/5 = ₹ 47,880

Question 10

A and B are partners. A's Capital is ₹ 1,00,000 and B's Capital is ₹ 60,000. Interest on capital is payable @ 6% p.a. B is entitled to a salary of ₹ 3,000 per month. Profit for the current year before interest and salary to B is ₹ 80,000.

Prepare Profit and Loss Appropriation Account.

Solution:

Profit and Loss Appropriation A/c				
Dr.				Cr.
Particulars		₹	Particulars	₹
Interest on Capital:			Profit and Loss A/c (Net Profit)	80,000
A	6,000			
B	3,600	9,600		
Salary to B (₹ 3,000 × 12)		36,000		
Profit transferred to:				
A's Capital A/c	17,200			
B's Capital A/c	17,200	34,400		
		80,000		80,000

Working Notes 1: Capital Interest Evaluation

A's Capital Interest = ₹ 1,00,000 X 6/100 = ₹ 6,000

B's Capital Interest = ₹ 60,000 X 6/100 = ₹ 3,600

Working Notes 2: Partner Profit Sharing Evaluation

Divisible Profit = ₹ 80,000 – ₹ 9,600 – ₹ 36,000 = ₹ 34,400

A and B profit sharing = 34,4000 X 1/2 = ₹17,200 each

Question 11

X, Y and Z are partners in a firm sharing profits in 2 : 2 : 1 ratio. The fixed capitals of the partners were : X ₹5,00,000; Y ₹ 5,00,000 and Z ₹ 2,50,000 respectively. The Partnership Deed provides that interest on capital is to be allowed @ 10% p.a. Z is to be allowed a salary of ₹ 2,000 per month. The profit of the firm for the year ended 31st March, 2018 after debiting Z's salary was ₹ 4,00,000.

Prepare Profit and Loss Appropriation Account.

Solution:

Profit and Loss Appropriation A/c as on 31st March 2018			
Dr.			Cr.
Particulars	₹	Particulars	₹
Interest on Capital:		Profit and Loss A/c (After Z's salary net Profit)	4,00,000
X	50,000		
Y	50,000		
Z	25,000	1,25,000	
Profit transferred to:			
X's Capital A/c	1,10,000		
Y's Capital A/c	1,10,000		
Z's Capital A/c	55,000	2,75,000	
	4,00,000		4,00,000

Working Notes 1: Z's salary will not be debited to the Profit and Loss Appropriation A/c because ₹ 4,00,000 Profit is given after adjusting Z's salary.

Working Note 2: Capital Interest Evaluation

X's Capital Interest = ₹5,00,000 X 10/100 = ₹50,000

Y's Capital Interest = ₹5,00,000 X 10/100 = ₹50,000

Z's Capital Interest = ₹2,50,000 X 10/100 = ₹25,000

Working Note 3: Partner's profit sharing Evaluation

Profit sharing ratio = 2 : 2 : 1

X's Profit Share = ₹2,75,000 X 2/5 = ₹ 1,10,000

Y's Profit Share = ₹2,75,000 X 2/5 = ₹ 1,10,000

Z's Profit Share = ₹2,75,000 X 1/5 = ₹ 55,000

Question 12

X and Y are partners sharing profits in the ratio of 3 : 2 with capitals of ₹ 8,00,000 and ₹ 6,00,000 respectively. Interest on capital is agreed @ 5% p.a. Y is to be allowed an annual salary of ₹

60,000 which has not been withdrawn. Profit for the year ended 31st March, 2019 before interest on capital but after charging Y's salary amounted to ₹ 2,40,000.

A provision of 5% of the profit is to be made in respect commission to the manager. Prepare an account showing the allocation profits.

Solution:

Profit and Loss Adjustment Account as on 31st March 2019			
Dr.			Cr.
Particulars	₹	Particulars	₹
Commission for Manager (3,00,000×5%)	15,000	Profit and Loss A/c (Net Profit after Y's salary)	2,40,000
		Y's Salary	60,000
Transferred profit to Profit and Loss A/cAppropriation A/c	2,85,000		
	3,00,000		3,00,000

Profit and Loss Appropriation A/c as on 31st March 2019			
Dr.			Cr.
Particulars	₹	Particulars	₹
Salary to Y	60,000	Profit and Loss Adjustment A/c (After manager's commission)	2,85,000
Interest on Capital:			
X	40,000		
Y	30,000	70,000	
Profit transferred to:			
X's Capital A/c	93,000		
Y's Capital A/c	62,000	1,55,000	
	2,85,000		2,85,000

Working Notes 1: Manager's Commission Evaluation

Profit for making Managers' Commission = 2,40,000 + 60,000 (Y's Salary) = ₹3,00,000

Manager's Commission=₹(3,00,000 X 5/100) = 415,000

Working Notes 2: Capital Interest Evaluation

X's Capital Interest =(₹ 8,00,000 X 5/100) = ₹40,000

Y's Capital Interest =(₹ 6,00,000 X 5/100) = ₹30,000

Working Notes 3: Partner's capital share Evaluation

Distribution of profit = ₹ 2,85,000 – ₹ 60,000 – ₹ 70,000 = ₹1,55,000

X's Share of Profit=₹(1,55,000 X 3/5 = ₹ 93,000

Y's Share of Profit = ₹(1,55,000 X 2/5 = ₹ 62,000

Question 13

Prem and Manoj are partners in a firm sharing profits in the ratio of 3 : 2. The Partnership Deed provided that Prem was to be paid a salary of ₹ 2,500 per month and Manoj was to get a commission of ₹ 10,000 per year. Interest on capital was to be allowed @ 5% p.a. and interest on drawings was to be charged @ 6% p.a. Interest on Prem's drawings was ₹ 1,250 and on Manoj's drawings was ₹ 425. Interest on Capitals of the partners were ₹ 10,000 and ₹ 7,500 respectively. The firm earned a profit of ₹ 90,575 for the year ended 31st March, 2018.

Prepare Profit and Loss Appropriation Account of the firm.

Solution:

Profit and Loss Appropriation Account as on 31st March 2018				
Dr.			Cr.	
Particulars	₹	Particulars	₹	
Prem Salary (₹ 2,500 × 12)	30,000	Profit and Loss A/c (Net Profit)	90,575	
Manoj Commission	10,000	Interest on Drawings A/c:		
Capital Interest:		Prem	1,250	
Prem	10,000	Manoj	425	1,675
Manoj	7,500			
	17,500			
Profit transferred to:				
Prem's Current A/c	20,850			
Manoj's Current A/c	13,900			
	34,750			
	92,250			92,250

Working Notes 1: Capital Interest Evaluation

Prem's Capital Interest = 2,00,000 X 5/100 = ₹ 10,000

Manoj's Capital Interest = 1,50,000 X 5/100 = ₹ 7,500

Working Notes 2: Partner Profit Share Evaluation

Profit sharing ratio = 3 : 2

Profit sharing for Prem = 34,750 X 3/5 = ₹ 20,850

Profit sharing for Manoj = 34,750 X 2/5 = ₹ 13,900

Question 14

Reema and Seema are partners sharing profits equally. The Partnership Deed provides that both Reema and Seema will get monthly salary of Rs 15,000 each, Interest on Capital will be allowed @ 5% p.a. and Interest on Drawings will be charged @ 10% p.a. Their capitals were Rs 5,00,000 each and drawings during the year were Rs 60,000 each.

The firm incurred a loss of Rs 1,00,000 during the year ended 31st March, 2018.

Prepare Profit and Loss Appropriation Account for the year ended 31st March, 2018.

Solution:

Profit and Loss Appropriation A/c as on 31st March, 2018
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Dr.		Cr.	
Particulars	₹	Particulars	₹
Profit and Loss A/c	1,00,000	Interest on Drawings A/c:	
		Reema	3,000
		Seema	3,000
			6,000
		Loss transferred to	
		Reema	47,000
		Seema	47,000
			94,000
	1,00,000		1,00,000

Note: There will be no capital and salary share to the partners as the company has incurred loss.

Working Notes 1: Partner Drawing Evaluation

Reema's Share = $60,000 \times 10\% \times 6/12 = ₹3,000$

Seema's Share = $60,000 \times 10\% \times 6/12 = ₹3,000$

Question 15

Bhanu and Partab are partners sharing profits equally. Their fixed capitals as on 1st April, 2018 are ₹ 8,00,000 and ₹ 10,00,000 respectively. Their drawings during the year were ₹ 50,000 and ₹ 1,00,000 respectively. Interest on Capital is a charge and is to be allowed @ 10% p.a. and interest on drawings is to be charged @ 15% p.a. Net Profit for the year ended 31st March, 2019 was ₹ 1,20,000.

Prepare Profit and Loss Appropriation Account.

Solution:

Profit and Loss Appropriation Account as on March 31, 2019					
Dr.				Cr.	
Particulars	₹	Particulars	₹		
Capital Interest A/c:		Profit and Loss A/c		1,20,000	
Bhanu's Current A/c	80,000	Interest on Drawings A/c:			
Partap's Current A/c	1,00,000	Bhanu's Current A/c	3,750		
		Partap's Current A/c	7,500	11,250	
		Loss transferred to			
		Bhanu's Current A/c	24,375		
		Partap's Current A/c	24,375	48,750	
	1,80,000				1,80,000

Working Note 1: Partner Drawing Interest Evaluation

Bhanu's Drawing Interest – $50,000 \times 15\% \times 6/12 = ₹3,750$

Pratap's Drawing Interest – $1,00,000 \times 15\% \times 6/12 = ₹7,500$

Working Note 2: Partner Capital Interest Evaluation

Bhanu's Capital Interest – $50,000 \times 10\% = ₹80,000$

Pratap's Capital Interest – $1,00,000 \times 10\% = ₹1,00,000$

Question 16

Amar and Bimal entered into partnership on 1st April, 2018 contributing ₹ 1,50,000 and ₹ 2,50,000 respectively towards capital. The Partnership Deed provided for interest on capital @ 10% p.a. It also provided that Capital Accounts shall be maintained following the Fixed Capital Accounts method. The firm earned net profit of ₹ 1,00,000 for the year ended 31st March 2019.

Pass the Journal entry for interest on capital.

Solution:

Journal					
Date	Particulars		L.F.	Debit ₹	Credit ₹
March 31	Profit & Loss Appropriation A/c	Dr.		40,000	
	To Amar's Current A/c				15,000
	To Bimal's Current A/c				25,000
	(Capital interest transferred to Profit & Loss Appropriation A/c)				

Working Notes 1: Capital Interest Evaluation

Amar's Capital Interest = $1,50,000 \times 10/100 = ₹15,000$

Amar's Capital Interest = $2,50,000 \times 10/100 = ₹25,000$

Question 17

Kamal and Kapil are partners having fixed capitals of ₹ 5,00,000 each as on 31st March, 2018. Kamal introduced further capital of ₹ 1,00,000 on 1st October, 2018 whereas Kapil withdrew ₹ 1,00,000 on 1st October, 2018 out of capital.

Interest on capital is to be allowed @ 10% p.a.

The firm earned net profit of ₹ 6,00,000 for the year ended 31st March 2019.

Pass the Journal entry for interest on capital and prepare Profit and Loss Appropriation Account.

Solution:

Journal					
Date	Particulars		L.F.	Debit ₹	Credit ₹
March 31	Profit & Loss Appropriation A/c	Dr.		1,00,000	
	To Kamal's Current A/c				55,000
	To Kapil's Current A/c				45,000

(Capital interest transferred to Profit & Loss Appropriation A/c)					
Profit and Loss Appropriation A/c as on 31st March 2019					
Dr.					Cr.
Particulars		₹	Particulars	₹	
Capital Interest A/c:			Profit and Loss A/c	6,00,000	
Kamal	55,000				
Kapil	45,000	1,00,000			
Profit transferred to:					
Kamal's Current A/c	2,50,000				
Kapil's Current A/c	2,50,000	5,00,000			
		6,00,000		6,00,000	

Working Notes 1: Capital Interest Evaluation

$$\text{Kamal's Capital Interest} = \left(\frac{5,00,000 \times 10 \times 6}{100 \times 12} \right) + \left(\frac{6,00,000 \times 10 \times 6}{100 \times 12} \right) = ₹ 55,000$$

$$\text{Kapil's Capital Interest} = \left(\frac{5,00,000 \times 10 \times 6}{100 \times 12} \right) + \left(\frac{4,00,000 \times 10 \times 6}{100 \times 12} \right) = ₹ 45,000$$

Question 18

Simran and Reema are partners sharing profits in the ratio of 3 : 2. Their capitals as on 31st March, 2018 were ₹ 2,00,000 each whereas Current Accounts had balances of ₹ 50,000 and ₹ 25,000 respectively interest is to be allowed @ 5% p.a. on balances in Capital Accounts. The firm earned net profit of ₹ 3,00,000 for the year ended 31st March 2019.

Pass the Journal entries for interest on capital and distribution of profit. Also prepare Profit and Loss Appropriation Account for the year.

Solution:

Journal					
Date	Particulars	L.F.	Debit ₹	Credit ₹	
	Profit & Loss Appropriation A/c	Dr.	20,000		
	To Simran's Current A/c				10,000
	To Reema's Current A/c				10,000
	(Interest on capital transferred to Profit & Loss Appropriation A/c)				
	Profit & Loss Appropriation A/c		2,80,000		
	To Simran's Current A/c				1,68,000
	To Reema's Current A/c				1,12,000
	(Profit transferred to Partners' Current A/c)				
Dr.					Cr.

Particulars		₹	Particulars	₹
Interest on Capital A/c:			Profit and Loss A/c	3,00,000
Simran	10,000			
Reema	10,000	20,000		
Profit transferred to:				
Simran's Current A/c	1,68,000			
Reema's Current A/c	1,12,000	2,80,000		
		3,00,000		3,00,000

Working Notes 1: Capital Interest Evaluation

Capital Interest Simran's = $2,00,000 \times 5/100 = ₹ 10,000$

Capital Interest Reema's = $2,00,000 \times 5/100 = ₹ 10,000$

Question 19

Anita and Ankita are partners sharing profits equally. Their capitals, maintained following the Fluctuating Capital Accounts Method, as on 31st March, 2018 were ₹ 5,00,000 and ₹ 4,00,000 respectively. Partnership Deed provided to allow interest on capital @ 10% p.a. The firm earned net profit of ₹ 2,00,000 for the year ended 31st March, 2019.

Pass the Journal entry for interest on capital.

Solution:

Journal					
Date	Particulars	L.F.	Debit ₹	Credit ₹	
2019					
March 31	Profit & Loss Appropriation A/c	Dr.	90,000		
	To Anita's Capital A/c				50,000
	To Ankita's Capital A/c				40,000
	(Capital Interest transferred to Profit & Loss Appropriation A/c)				

Working Notes 1: Capital Interest Evaluation

Capital Interest Anita's = $5,00,000 \times 10/100 = ₹ 50,000$

Capital Interest Ankita's = $4,00,000 \times 10/100 = ₹ 40,000$

Question 20

Ashish and Aakash are partners sharing profit in the ratio of 3 : 2. Their Capital Accounts showed a credit balance of ₹ 5,00,000 and ₹ 6,00,000 respectively as on 31st March, 2019 after debit of drawings during the year of ₹ 1,50,000 and ₹ 1,00,000 respectively. Net profit for the year ended 31st March, 2019 was ₹ 5,00,000. Interest on capital is to be allowed @ 10% p.a.

Pass the Journal entry for interest on capital and prepare Profit and Loss Appropriation Account.

Solution:

Journal					
Date	Particulars		L.F.	Debit ₹	Credit ₹
March 31	Profit & Loss Appropriation A/c	Dr.		1,35,000	
	To Ashish's Capital A/c				65,000
	To Aakash's Capital A/c				70,000
	(Capital Interest transferred to Profit & Loss Appropriation A/c)				
				3,65,000	
	Profit & Loss Appropriation A/c				2,19,000
	To Ashish's Capital A/c				1,46,000
	To Akash's Capital A/c				
	(Profit transferred to Partners' Capital A/c)				

Profit and Loss Appropriation Account as on 31st March 2019			
Dr.			Cr.
Particulars	₹	Particulars	₹
Interest on Capital A/c:		Profit and Loss A/c	5,00,000
Ashish	65,000		
Aakash	70,000		
	1,35,000		
Profit transferred to:			
Ashish's Capital A/c	2,19,000		
Aakash's Capital A/c	1,46,000		
	3,65,000		
	5,00,000		5,00,000

Working Notes 1: Opening Capital Evaluation

Particulars	Ashish	Aakash
Capital at the end	5,00,000	6,00,000
Add: Drawings made	1,50,000	1,00,000
Capital at the beginning	6,50,000	7,00,000

Working Notes 2: Capital Interest Evaluation

Ashish's Capital Interest = $6,50,000 \times 10/100 = ₹65,000$

Askash's Capital Interest = $7,00,000 \times 10/100 = ₹70,000$

Question 21

Naresh and Sukesh are partners with capital of ₹ 3,00,000 each as on 31st March, 2019. Naresh had withdrawn ₹ 50,000 against capital on 1st October, 2018 and also ₹ 1,00,000 besides the drawings against capital. Sukesh also had drawings of ₹ 1,00,000.

Interest on capital is to be allowed @ 10% p.a.

Net profit for the year was ₹ 2,00,000, which is yet to be distributed.

Pass the Journal entries for interest on capital and distribution of profit.

Solution:

Journal					
Date	Particulars		L.F.	Debit ₹	Credit ₹
March 31	Profit & Loss Appropriation A/c	Dr.		82,500	
	To Naresh's Capital A/c				42,500
	To Sukesh's Capital A/c				40,000
	(Capital interest transferred to Profit & Loss Appropriation A/c)				
	Profit & Loss Appropriation A/c	Dr.		1,17,500	
	To Naresh's Capital A/c				58,750
	To Sukesh's Capital A/c				58,750
	(Profit transferred to Partners' Capital A/c)				

Working Notes 1 : Opening Capital Evaluation

Particulars	Naresh	Sukesh
Capital at the end	3,00,000	3,00,000
Add: Capital drawings out	50,000	–
Add: Profit drawings against	1,00,000	1,00,000
Capital at the beginning	4,50,000	4,00,000

Working Notes 1 : Capital Interest Evaluation

$$\text{Naresh} = \frac{4,50,000 \times 10 \times 6}{100 \times 12} + \frac{4,00,000 \times 10 \times 6}{100 \times 12} = ₹ 42,500$$

$$\text{Sukesh} = \frac{4,00,000 \times 10}{100} + \frac{4,00,000 \times 10 \times 6}{100 \times 12} = ₹ 40,000$$

Question 22

On 1st April, 2013, Jay and Vijay entered into partnership for supplying laboratory equipment to government schools situated in remote and backward areas. They contributed capital of ₹ 80,000 and ₹ 50,000 respectively and agreed to share the profits in the ratio of 3 : 2. The partnership Deed provided that interest on capital shall be allowed at 9% per annum. During the year the firm earned a profit of ₹ 7,800. Showing your calculations clearly, prepare 'Profit and Loss Appropriation Account' of Jay and Vijay for the year ended 31st March, 2014.

Solution:

Profit and Loss Appropriation A/c as on March 2014			
Dr.			Cr.
Particulars	₹	Particulars	₹

Interest on Capital A/c:			Profit and Loss A/c	7,800
Jay	4,800			
Vijay	3,000	7,800		
		7,800		7,800

Working Notes 1: Capital interest Evaluation

Jay's Capital = 80,000 X 9/100 = ₹7,200

Vijay's Capital = 50,000 X 9/100 = ₹4,500

Total Interest = 7,200 + 4,500 = ₹ 11,700

Working Notes 2: Proportionate Interest on Capital Evaluation

Jay Proportionate Interest = 7,200/11,700 x 7,800 = ₹4,800

Vijay Proportionate Interest = 4,500/11,700 x 7,800 = ₹3,000

Question 23

Amar, Bhanu, and Charu are partners in a firm. Amar and Bhanu are to get an annual salary of ₹ 1,20,000 p.a. each as they are fully involved in the business. Net profit for the year is ₹ 4,80,000. Determine the share of profit to be credited to each partner.

Solution:

Profit and Loss Appropriation A/c				
Dr.				Cr.
Particulars		₹	Particulars	₹
Salary:			Profit and Loss A/c	4,80,000
Amar	1,20,000			
Bhanu	1,20,000	2,40,000		
Profit transferred to:				
Amar's Capital A/c	80,000			
Bhanu's Capital A/c	80,000			
Charu's Capital A/c	80,000	2,40,000		
		4,80,000		4,80,000

Question 24

A, B and C are partners sharing profits and losses in the ratio of 2 : 2 : 1 respectively. A is entitled to a commission of 10% on the net profit. Net profit for the year is ₹ 1,10,000.

Determine the amount of commission payable to A.

Solution:

Net Profit before commission = ₹ 1,10,000

Commission to A = 10% of Net Profit before commission was charged

Commission to A = Net Profit X Rate/100

= 1,10,000 X 10/100 = ₹ 11,000

Question 25

X, Y and

Z are partners sharing profits and losses equally. As per Partnership Deed,

Z is entitled to a commission of 10% on the net profit after charging such commission. The net profit before charging commission is ₹ 2,20,000.

Determine the amount of commission payable to Z.

Solution:

Net Profit before Commission = ₹ 2,20,000

Commission to Z = Net Profit 10% after charging commission

Commission to A = Net Profit X Rate/100+Rate

= 2,20,000 X 10/100 = ₹ 20,000

Question 26

A, B, C, and D are partners in a firm sharing profits as 4 : 3 : 2 : 1 respectively. It earned a profit of ₹ 1,80,000 for the year ended 31st March, 2018. As per the Partnership Deed, they are to charge a commission @ 20% of the profit after charging such commission which they will share as 2 : 3 : 2 : 3. You are required to show appropriation of profits among the partners.

Solution:

Profit and Loss Appropriation A/c as on 31st March, 2018				
Dr.			Cr.	
Particulars		₹	Particulars	₹
Partners' Commission:			Profit and Loss A/c (Net Profit)	1,80,000
A	6,000			
B	9,000			
C	6,000			
D	9,000	30,000		
Profit transferred to:				
A's Capital A/c	60,000			
B's Capital A/c	45,000			
C's Capital A/c	30,000			
D's Capital A/c	15,000	1,50,000		
		1,80,000		1,80,000

Working Notes 1 : Partners' Commission Evaluation

Partners' Commission = Net Profit 20% after commission charged

Partner's Commission = Net Profit X $\frac{\text{Rate}}{100}$

+ Rate}\)

$$=1,80,000 \times 20/100+20$$

$$=1,80,000 \times 20/120 = ₹30,000$$

Partners commission in the ratio 2 : 3 : 2 : 3

$$A's \text{ Commission} = 30,000 \times 2/10 = ₹ 6,000$$

$$B's \text{ Commission} = 30,000 \times 3/10 = ₹ 9,000$$

$$C's \text{ Commission} = 30,000 \times 2/10 = ₹ 6,000$$

$$D's \text{ Commission} = 30,000 \times 3/10 = ₹ 9,000$$

Working Notes 2 : Partners' Profit Share Evaluation

$$\text{Distribution of Profit} = ₹ 1,80,000 - ₹ 30,000 = ₹ 1,50,000$$

$$\text{Profit sharing ratio} = 4 : 3 : 2 : 1$$

$$A's \text{ Commission} = 1,50,000 \times 4/10 = ₹ 60,000$$

$$B's \text{ Commission} = 1,50,000 \times 3/10 = ₹ 45,000$$

$$C's \text{ Commission} = 1,50,000 \times 2/10 = ₹ 30,000$$

$$D's \text{ Commission} = 1,50,000 \times 1/10 = ₹ 15,000$$

Question 27

X and

Y are partners in a firm.

X is entitled to a salary of ₹ 10,000 per month and commission of 10% of the net profit after partners' salaries but before charging commission.

Y is entitled to a salary of ₹ 25,000 p.a. and commission of 10% of the net profit after charging all commission and partners' salaries. Net profit before providing for partners' salaries and commission for the year ended 31st March, 2019 was ₹ 4,20,000. Show distribution of profit.

Solution:

Profit and Loss Appropriation A/c as on 31st March, 2019				
Dr.			Cr.	
Particulars		₹	Particulars	₹
Partners' Salary:			Profit and Loss A/c (Net Profit)	4,20,000
X (10,000 × 12)	1,20,000			
Y	25,000	1,45,000		
Partners' Commission:				
X	27,500			
Y	22,500	50,000		
Profit transferred to:				
X's Capital A/c	1,12,500			
Y's Capital A/c	1,12,500	2,25,000		
		4,20,000		4,20,000

Working Note 1: Commission Evaluation

X's Commission = Net Profit @ 10% after partners' salaries.

Profit after Partner's Salaries = 4,20,000 – 1,45,000 = ₹ 2,75,000

X's Commission = Profit after salaries X 10/100

= 2,75,000 X 10/100 = ₹27,500

Commission to Y = Net Profit @ 10% after partners' salaries and Commission

Profit after partners' salaries and commission = 4,20,000 – 1,45,000 – 27,500 = ₹ 2,47,500

Y's Commission = Profit after partners' salaries and commission X 10/100+Rate

= 2,47,500 X 10/110 = ₹22,500

Working Note 1: Partner's Profit Sharing Evaluation

Profit's for distribution = 4,20,000 – 1,45,000 – 50,000 = ₹ 2,25,000

Profit sharing ratio = 1 : 1

Profit sharing of X and Y each = 2,25,000 X 1/2 = ₹1,12,500

Question 28

Ram and Mohan, two partners, drew for their personal use ₹ 1,20,000 and ₹ 80,000. Interest is chargeable @ 6% p.a. on the drawings. What is the amount of interest chargeable from each partner?

Solution:

Since, the drawing's date made by the partners is not mentioned, the interest drawing is evaluated on average basis for six months.

Ram's Drawing Interest = 1,20,000 X 6/100 X 6/12 = ₹3,600

Mohan's Drawing Interest = 80,000 X 6/100 X 6/12 = ₹2,400

Question 29

Brij and Mohan are partners in a firm. They withdrew ₹ 48,000 and ₹ 36,000 respectively during the year evenly in the middle of every month. According to the partnership agreement, interest on drawings is to be charged @ 10% p.a.

Calculate interest on drawings of the partners using the appropriate formula.

Solution:

Every month in the middle, drawings are made even, so, drawings interest is evaluated for six months.

Brij's Drawings Interest=₹ 48,000 X 10/100 X 6/12 = ₹2,400

Mohan's Drawings Interest=₹ 36,000 X 10/100 X 6/12 = ₹1,800

Question 30

A and B are partners sharing profits equally. A drew regularly ₹ 4,000 in the beginning of every month for six months ended 30th September, 2019. Calculate interest on drawings @ 5% p.a. for a period of six months.

Solution:

Drawing amount = 4,000

Number of Drawing = 6

Total Drawings = 4,000 X 6 = ₹ 24,000

Rate of Interest = 5% p.a

$$\text{Time} = \frac{\text{Time left after 1st Drawing} + \text{Time left after last drawing}}{2}$$

$$= 6 + 1/2$$

$$= 3.5 \text{ months}$$

Drawing Interest = Total Drawings X Rate/100 X Time/12

$$= 24,000 \times 5/100 \times 3.5/12$$

$$= 350$$

Question 31

One of the partners in a partnership firm has withdrawn ₹ 9,000 at the end of each quarter, throughout the year. Calculate interest on drawings at the rate of 6% per annum.

Solution:

Drawings Amount = ₹ 9,000 per quarter

Annual Drawings = ₹ (9,000 × 4) = ₹ 36,000

Interest Rate on Drawings = 6% p.a.

Average Period	=	$\frac{\text{After 1st drawing the remaining month} + \text{After last drawing remaining month}}{2}$
	=	$\frac{9+0}{2} = 4.5 \text{ months}$
Interest on Drawings	=	Drawing Interest = Total Drawings X $\frac{\text{Rate}}{100}$ X $\frac{\text{Time}}{12}$
	=	$(36,000 \times \frac{6}{100} \times \frac{4.5}{12}) = ₹ 810$

Question 32

A and B are partners sharing profits equally. A drew regularly ₹ 4,000 at the end of every month for six months ended 30th September, 2019. Calculate interest on drawings @ 5% p.a. for a period of six months.

Solution:

Drawing amount = 4,000

Number of Drawing = 6

Total Drawings = 4,000 X 6 = ₹ 24,000

Rate of Interest = 5% p.a

$$\text{Time} = \frac{\text{Time left after 1st Drawing} + \text{Time left after last drawing}}{2}$$

$$= 5+0/2$$

$$= 2.5 \text{ months}$$

$$\text{Drawing Interest} = \text{Total Drawings} \times \text{Rate}/100 \times \text{Time}/12$$

$$= 24,000 \times 5/100 \times 2.5/12$$

$$= 250$$

Question 33

Calculate interest on drawings of Ashok @ 10% p.a. for the year ended 31st March, 2019, in each of the following alternative cases:

Case 1. If he withdrew ₹ 7,500 at the beginning of each quarter.

Case 2. If he withdrew ₹ 7,500 at the end of each quarter.

Case 3. If he withdrew ₹ 7,500 during the middle of each quarter.

Solution:

$$\text{Drawings Total} = 7,500 \times 4 = ₹ 30,000$$

$$\text{Interest Rate} = 10\% \text{ p.a.}$$

Case (1)

In the beginning of each quarter when equal amount is withdrawn, the drawing interest would be evaluated for 7.5 months as an average period.

$$\text{Drawing Interest} = \text{Total Drawings} \times \text{Rate}/100 \times \text{Time}/12$$

$$\text{So, Ashok's interest on drawing} = 30,000 \times 10/100 \times 7.5/12 = ₹ 1,875$$

Case (2)

At the end of each quarter when equal amount is withdrawn, the drawing interest would be evaluated for 4.5 months as an average period.

$$\text{Drawing Interest} = \text{Total Drawings} \times \text{Rate}/100 \times \text{Time}/12$$

$$\text{So, Ashok's interest on drawing} = 30,000 \times 10/100 \times 4.5/12 = ₹ 1,125$$

Case (3)

At the middle of each quarter when equal amount is withdrawn, the drawing interest would be evaluated for 6 months as an average period.

$$\text{Drawing Interest} = \text{Total Drawings} \times \text{Rate}/100 \times \text{Time}/12$$

$$\text{So, Ashok's interest on drawing} = 30,000 \times 10/100 \times 6/12 = ₹ 1,500$$

Question 34

Kanika and Gautam are partners doing a dry cleaning business in Lucknow, sharing profits in the ratio 2 : 1 with capitals ₹ 5,00,000 and ₹ 4,00,000 respectively. Kanika withdrew the following amounts during the year to pay the hostel expenses of her son:

1st April	₹ 10,000
1st June	₹ 9,000

1st November	₹ 14,000
1st December	₹ 5,000

Gautam withdrew ₹ 15,000 on the first day of April, July, October and January to pay rent for the accommodation of his family. He also paid ₹ 20,000 per month as rent for the office of partnership which was in a nearby shopping complex.

Calculate interest on drawings @ 6% p.a.

Solution:

Kanika's Drawings interest = ₹ 1,500

Gautam's Drawings interest = ₹ 2,250

Working Notes 1: Kanika's Drawings interest Evaluation

By Product Method			
Date	Amount (I)	Months (II)	Product (I × II)
April 1	10,000	12	1,20,000
June 1	9,000	10	90,000
November 1	14,000	5	70,000
December 1	5,000	4	20,000
Product Sum			3,00,000

Drawing Interest = Total product sum X Rate/100 X Time/12

= 3,00,000 X 6/100 X 1/12 = ₹1,500

Working Notes 2: Gautam's Drawings Interest Evaluation

At the beginning of the quarter, Gautam withdrew ₹ 15,000.

Drawing Interest = Drawings Total X Rate/100 X Time/12

= (15,000 × 4) X 6/100 X 7.5/12 = ₹2,250

Question 35

A and B are partners sharing Profit and Loss in the ratio 3 : 2 having Capital Account balances of ₹ 50,000 and ₹ 40,000 on 1st April, 2018. On 1st July, 2018, A introduced ₹ 10,000 as his additional capital whereas B introduced only ₹ 1,000. Interest on capital is allowed to partners @ 10% p.a.

Calculate interest on capital for the financial year ended 31st March, 2019.

Solution:

A's Capital Interest Evaluation

Date	Capital	×	Period	=	Product
1st April, 2018 to 30th June, 2018	50,000	×	3	=	1,50,000
1st July, 2018 to 31st March, 2019	60,000	×	9	=	5,40,000

Product Total	6,90,000
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A's Capital Interest = Total product sum X Rate/100 X Time/12

$$= 6,90,000 \times 10/100 \times 1/12 = ₹5,750$$

B's Capital Interest Evaluation

Date	Capital	×	Period	=	Product
1st April, 2018 to 30th June, 2018	40,000	×	3	=	1,20,000
1st July, 2018 to 31st March, 2019	41,000	×	9	=	3,69,000
Product Total					4,89,000

B's Capital Interest = Total product sum X Rate/100 X Time/12

$$= 4,89,000 \times 10/100 \times 1/12 = ₹4,075$$

Question 36

Ram and Mohan are partners in a business. Their capitals at the end of the year were ₹ 24,000 and ₹ 18,000 respectively. During the year, Ram's drawings and Mohan's drawings were ₹ 4,000 and ₹ 6,000 respectively. Profit (before charging interest on capital) during the year was ₹ 16,000. Calculate interest on capital @ 5% p.a. for the year ended 31st March, 2019.

Solution:

Capital Interest is evaluated on the partner's capital opening balance.

Particulars	Ram ₹	Mohan ₹
Capital at the end	24,000	18,000
Less: Profit credited (1:1)	(8,000)	(8,000)
Add: Debited Drawings	4,000	6,000
Capital at the beginning	20,000	16,000

Ram's Capital Interest = ₹ 20,000 X 5/100 = ₹ 1,000

Mohan's Capital Interest = ₹ 16,000 X 5/100 = ₹ 800

Question 37

Following is the extract of the Balance Sheet of Neelkant and Mahadev as on 31st March, 2019.

Liabilities	₹	Assets	₹
Neelkant's Capital	10,00,000	Sundry Assets	30,00,000
Mahadev's Capital	10,00,000		
Neelkant's Current A/c	1,00,000		
Mahadev's Current A/c	1,00,000		
Profit and Loss Appropriation A/c (2018-19)	8,00,000		
	30,00,000		30,00,000

During the year, Mahadev's drawings were ₹ 30,000. Profits during the year ended 31st March, 2019 is ₹ 10,00,000. Calculate interest on capital @ 5% p.a. for the year ending 31st March,

2019.

Solution:

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

Note: Since, both the partners capital and current accounts are mentioned, we can assume that both the partners capital is fixed. Therefore, when there is a fixed capital and drawing the capital balance does not get affected, but the current account does.

So, in this particular case the beginning and the closing capital remains the same and the capital interest is evaluated on the fixed capital balances.

Question 38

From the following Balance Sheet of Long and Short, calculate interest on capital @ 8% p.a. for the year ended 31st March, 2019.

Balance Sheet as on 31st March, 2019			
Liabilities	₹	Assets	₹
Long's Capital A/c	1,20,000	Fixed Assets	3,00,000
Short's Capital A/c	1,40,000	Other Assets	60,000
General Reserve	1,00,000		
	3,60,000		3,60,000

During the year, Long withdrew ₹ 40,000 and Short withdrew ₹ 50,000. Profit for the year was ₹ 1,50,000 out of which ₹ 1,00,000 was transferred to General Reserve.

Solution:

Capital at the beginning Evaluation as on 1st, 2018

Particulars	Long	Short
	₹	₹
Capital at the end	1,60,000	1,40,000
Less: Profit Adjusted (1,50,000 – 1,00,000) in 1:1 ratio	(25,000)	(25,000)
Add: Drawings Adjusted	–	50,000
Capital in the beginning	1,35,000	1,65,000

Long's Capital Interest = $1,35,000 \times 8/100 = ₹10,800$

Short's Capital Interest = $1,65,000 \times 8/100 = ₹13,200$

Question 39

Moli and Bholi contribute ₹ 20,000 and ₹ 10,000 respectively towards capital. They decide to allow interest on capital @ 6% p.a. Their respective share of profits is 2 : 3 and the net profit for the year is ₹ 1,500. Show distribution of profits:

(i) when there is no agreement except for interest on capitals; and

(ii) when there is an agreement that the interest on capital as a charge.

Solution:

Capital Interest Evaluation

Moli's Capital Interest = ₹(20,000 × 6/100) = ₹ 1,200

Bholi's Capital Interest = ₹(10,000 × 6/100) = ₹ 600

Total Capital Interest = (1,200+600) = ₹1,800

Case (1)

When there is no agreement except for interest on capitals

Profit at the year end= ₹ 1,500

Total Interest = ₹ 1,800

In this scenario, the total capital interest is more than the profit available for distribution. So, ₹ 1,500 profit will be distributed between Moli and Bholi. The distribution will be according to their capital interest ratio.

Particulars	Moli : Bholi
Interest on Capital	1,200 : 600
or, Ratio of interest on Capital	2 : 1

Moli's Capital Interest = (1,500 × 2/3) = ₹1,000

Bholi's Capital Interest = (1,500 × 1/3) = ₹500

Case (2)

Moli's Capital Interest = ₹(20,000 × 6/100) = ₹ 1,200

Bholi's Capital Interest = ₹(10,000 × 6/100) = ₹ 600

Total Interest (1,200+600) = ₹ 1,800

Firm's total profit = ₹ 1,500

So, the firm encountered the loss of ₹ 300 and shared between Moli and Bholi as per their profit sharing ratio of 2 : 3.

Moli Loss = (300 × 2/5) = ₹ 120

Bholi Loss = (300 × 3/5) = ₹ 180

Question 40

Amit and Bramit started business on 1st April, 2018 with capitals of ₹ 15,00,000 and ₹ 9,00,000 respectively. On 1st October, 2018, they decided that their capitals should be ₹ 12,00,000 each. The necessary adjustments in capitals were made by introducing or withdrawing by cheque. Interest on capital is allowed @ 8% p.a. Compute interest on capital for the year ended 31st March, 2019.

Solution:

Amit's Capital Interest Evaluation

Date	Capital	×	Period	=	Product
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1st April, 2018 to 30th Sept, 2018	15,00,000	×	6	=	90,00,000
1st Oct. 01, 2018 to 31st March, 2019	12,00,000	×	6	=	72,00,000
Product Sum					1,62,00,000

Amit's Capital Interest = Product Sum X Rate/100 $\frac{1}{12}$

= 1,62,00,000 X 8/100 X $\frac{1}{12}$

= ₹ 1,08,000

Bramit's Capital Interest Evaluation

Date	Capital	×	Period	=	Product
1st April, 2018 to 30th Sept, 2018	9,00,000	×	6	=	54,00,000
1st Oct. 01, 2018 to 31st March, 2019	12,00,000	×	6	=	72,00,000
Product Sum					1,26,00,000

Bramit's Capital Interest = Product Sum X Rate/100 $\frac{1}{12}$

= 1,26,00,000 X 8/100 X $\frac{1}{12}$

= ₹ 84,000

Question 41

Simrat and Bir are partners in a firm sharing profits and losses in the ratio of 3 : 2. On 31st March, 2019 after closing the books of account, their Capital Accounts stood at ₹ 4,80,000 and ₹ 6,00,000 respectively. On 1st May, 2018, Simrat introduced an additional capital of ₹ 1,20,000 and Bir withdrew ₹ 60,000 from his capital. On 1st October, 2018, Simrat withdrew ₹ 2,40,000 from her capital and Bir introduced ₹ 3,00,000. Interest on capital is allowed at 6% p.a. Subsequently, it was noticed that interest on capital @ 6% p.a. had been omitted. Profit for the year ended 31st March, 2019 amounted to ₹ 2,40,000 and the partners' drawings had been: Simrat – ₹ 1,20,000 and Bir – ₹ 60,000. Compute the interest on capital if the capitals are (a) fixed, and (b) fluctuating.

Solution:

Case (1): When Capital is fixed:

$$\text{Simrat's Capital Interest} = \left(\frac{6,00,000 \times 6 \times 1}{100 \times 12} \right) + \left(\frac{7,20,000 \times 6 \times 5}{100 \times 12} \right) + \left(\frac{4,80,000 \times 6 \times 6}{100 \times 12} \right) = ₹ 35,400$$

$$\text{Bir's Capital Interest} = \left(\frac{3,60,000 \times 6 \times 1}{100 \times 12} \right) + \left(\frac{3,00,000 \times 6 \times 5}{100 \times 12} \right) + \left(\frac{6,00,000 \times 6 \times 6}{100 \times 12} \right) = ₹ 27,300$$

Working Notes: Opening Capital Evaluation

Particulars	Simrat	Bir
Capital at the end	4,80,000	6,00,000
Add: Drawings out of capital	2,40,000	60,000
Less: New capital introduced	1,20,000	3,00,000
Opening Capital	6,00,000	3,60,000

Case 2: When capitals are fluctuating:

$$\text{Simrat's Capital Interest} = \left(\frac{5,76,000 \times 6 \times 1}{100 \times 12} \right) + \left(\frac{6,96,000 \times 6 \times 5}{100 \times 12} \right) + \left(\frac{4,56,000 \times 6 \times 6}{100 \times 12} \right) = ₹ 33,960$$

$$\text{Bir's Capital Interest} = \left(\frac{3,24,000 \times 6 \times 1}{100 \times 12} \right) + \left(\frac{2,64,000 \times 6 \times 5}{100 \times 12} \right) + \left(\frac{5,64,000 \times 6 \times 6}{100 \times 12} \right) = ₹ 25,140$$

Working Notes: Opening Capital Evaluation

Particulars	Simrat	Bir
Capital at the end	4,80,000	6,00,000
Add: Drawings out of capital	2,40,000	60,000
Add: Drawings out of profit	1,20,000	60,000
Less: New capital introduced	1,20,000	3,00,000
Less: Profit credited	1,44,000	96,000
Operating Capital	5,76,000	3,24,000

Question 42

C and D are partners in a firm; C has contributed ₹ 1,00,000 and D ₹ 60,000 as capital. Interest is payable @ 6% p.a. and D is entitled to a salary of ₹ 3,000 per month. In the year ended 31st March, 2019, the profit was ₹ 80,000 before interest and salary. Divide the amount between C and D.

Solution:

Profit and Loss Appropriation A/c as on 31st March, 2019			
Dr.		Cr.	
Particulars	₹	Particulars	₹
Capital Interest:		Profit and Loss A/c (Net Profit)	80,000
C	6,000		
D	3,600		
D salary (3000 × 12)	36,000		
Profit transferred to :			
C's Capital A/c	17,200		
D's Capital A/c	17,200		
	80,000		80,000

Working Notes 1: Capital Interest Evaluation

$$\text{C's Capital Interest} = 1,00,000 \times 6/100 = ₹ 6,000$$

$$\text{D's Capital Interest} = 60,000 \times 6/100 = ₹ 3,600$$

Working Notes 2: Partner's profit share Evaluation

$$\text{Available profit for distribution} = 80,000 - 9,600 - 36,000 = ₹ 34,400$$

$$\text{Profit sharing between C and D} = ₹ 34,400 \times 1/2 = ₹ 17,200 \text{ each}$$

$$\text{So, Total amount C received} = \text{Capital Interest} + \text{Profit Share} = ₹ 6,000 + ₹ 17,200 = ₹ 23,200$$

Total amount D received = Interest on Capital + Salary + Profit Share = ₹ 3,600 + ₹ 36,000 + ₹ 17,200 = ₹ 56,800

Question 43

Amit and Vijay started a partnership business on 1st April, 2018. Their capital contributions were ₹ 2,00,000 and ₹ 1,50,000 respectively. The Partnership Deed provided as follows:

- (a) Interest on capital be allowed @ 10% p.a.
- (b) Amit to get a salary of ₹ 2,000 per month and Vijay ₹ 3,000 per month.
- (c) Profits are to be shared in the ratio of 3 : 2.

Net profit for the year ended 31st March, 2019 was ₹ 2,16,000. Interest on drawings amounted to ₹ 2,200 for Amit and ₹ 2,500 for Vijay.

Prepare Profit and Loss Appropriation Account.

Solution:

Profit and Loss Appropriation Account as on 31st March, 2019					
Dr.			Cr.		
Particulars		₹	Particulars		₹
Capital Interest:			Profit and Loss A/c (Net Profit)		2,16,000
Amit	20,000		Drawings Interest A/c:		
Vijay	15,000	35,000	Amit	2,200	
Salary to:			Vijay	2,500	4,700
Amit (2,000 × 12)	24,000				
Vijay (3,000 × 12)	36,000	60,000			
Profit transferred to:					
Amit's Capital A/c	75,420				
Vijay's Capital A/c	50,280	1,25,700			
		2,20,700			2,20,700

Working Notes 1: Capital Interest Evaluation

Amit's Capital Interest = 2,00,000 × 10/100 = ₹ 20,000

Vijay's Capital Interest = 1,50,000 × 10/100 = ₹ 15,000

Working Notes 1: Each Partner's profit sharing evaluation

Divisible Profit = ₹ 2,16,000 + ₹ 4,700 – ₹ 35,000 – ₹ 60,000 = ₹ 1,25,700

Profit sharing ratio = 3 : 2

Amit's Profit Share = 1,25,700 × 3/5 = ₹ 75,420

Vijay's Profit Share = 1,25,700 × 2/5 = ₹ 50,280

Question 44

Show how the following will be recorded in the Capital Accounts of the Partners Sohan and Mohan when their capitals are fluctuating:

--	--	--	--

	Sohan (₹)	Mohan (₹)
Capital on 1st April, 2018	4,00,000	3,00,000
Drawings during the year ended 31st march, 2019	50,000	30,000
Interest on Capital	5%	5%
Interest on Drawings	1,250	750
Share of Profit for the year ended 31st march, 2019	60,000	50,000
Partner's Salary	36,000
Commission	5,000	3,000

Solution:

Partners' Capital Accounts					
Dr.			Cr.		
Particulars	Sohan ₹	Mohan ₹	Particulars	Sohan ₹	Mohan ₹
Drawings A/c	50,000	30,000	Balance b/d	4,00,000	3,00,000
Drawings Interest A/c	1,250	750	Interest on Capital A/c	20,000	15,000
			P&L Appropriation A/c	60,000	50,000
Balance c/d	4,69,750	3,37,250	Partners' Salary	36,000	–
			Commission	5,000	3,000
	5,21,000	3,68,000		5,21,000	3,68,000

Working Note: Capital Interest Evaluation

Sohan's Capital Interest = $4,00,000 \times 5/100 = ₹ 20,000$

Mohan's Capital Interest = $3,00,000 \times 5/100 = ₹ 15,000$

Question 45

Sajal and Kajal are partners sharing profits and losses in the ratio of 2 : 1. On 1st April, 2018 their Capitals were: Sajal – ₹ 50,000 and Kajal – ₹ 40,000.

Prepare Profit and Loss Appropriation Account and the Partners' Capital Accounts at the end of the year after considering the following items:

- Interest on Capital is to be allowed @ 5% p.a.
- Interest on the loan advanced by Kajal for the whole year, the amount of loan being ₹ 30,000.
- Interest on partners' drawings @ 6% p.a. Drawings: Sajal ₹ 10,000 and Kajal ₹ 8,000.
- 10% of the divisible profit is to be transferred to Reserve.

Net profit for the year ended 31st March, 2019 is ₹ 68,460.

Note: Net profit means net profit after debit of interest on loan by the partner.

Solution:

Profit and Loss A/c as on 31st March, 2019			
Dr.		Cr.	
Particulars	₹	Particulars	₹

Kajal's loan Interest @ 6% p.a.	1,800	Profit	70,260
Profit transferred to P/L Appropriation A/c	68,460		
	70,260		70,260

Profit and Loss Appropriation A/c as on 31st March, 2019

Dr.			Cr.	
Particulars		₹	Particulars	
Capital Interest A/c:			Profit and Loss A/c	
Sajal	2,500			68,460
Kajal	2,000	4,500	Drawings Interest A/c:	
			Sajal	300
Reserve		6,450	Kajal	240
Profit transferred to:				540
Sajal's Capital A/c	38,700			
Kajal's Capital A/c	19,350	58,050		
		69,000		69,000

Partners' Capital Accounts

Dr.			Cr.		
Particulars	Sajal ₹	Kajal ₹	Particulars	Sajal ₹	Kajal ₹
Drawings A/c	10,000	8,000	Balance b/d	50,000	40,000
Interest on Drawings A/c	300	240	Interest on Capital A/c	2,500	2,000
			P&L Appropriation A/c	38,700	19,350
Balance c/d	80,900	53,110			
	91,200	61,350		91,200	61,350

Working Notes 1: Capital Interest Evaluation

Sajal's Capital Interest = $50,000 \times \frac{5}{100} = ₹ 2,500$

Kajal's Capital Interest = $20,000 \times \frac{5}{100} = ₹ 2,000$

Working Notes 2: Drawings Interest Evaluation

Sajal's Drawings Interest = $10,000 \times \frac{6}{100} \times \frac{6}{12} = ₹ 300$

Kajal's Drawings Interest = $20,000 \times \frac{6}{100} \times \frac{6}{12} = ₹ 240$

Working Notes 3: Amount to be transferred to Reserve Evaluation

Reserve Amount = 10% of Divisible Profit

Divisible Profit = Profit + Interest on Drawings – Interest on Capital

= $68,460 + 540 - 4,500 = ₹ 64,500$

So, Reserve Amount = $64,500 \times \frac{10}{100} = ₹ 6,450$

Working Notes 4: Each Partner's Profit Sharing Evaluation

Available Profit for Distribution = $68,460 + 540 - 4,500 - 6,450 = ₹ 58,050$

Profit sharing ratio = 2 : 1

Sajal's Profit Share = $58,050 \times \frac{2}{3} = ₹ 38,700$

Kajal's Profit Share = $58,050 \times \frac{1}{3} = ₹ 19,7350$

Question 46

A and B are partners sharing profits and losses in the ratio of 3 : 1. On 1st April, 2018, their capitals were: A ₹ 50,000 and B ₹ 30,000. During the year ended 31st March, 2019 they earned a net profit of ₹ 50,000. The terms of partnership are:

(a) Interest on capital is to allowed @ 6% p.a.

(b) A will get a commission @ 2% on turnover.

(c) B will get a salary of ₹ 500 per month.

(d) B will get commission of 5% on profits after deduction of all expenses including such commission.

Partners' drawings for the year were: A ₹ 8,000 and B ₹ 6,000. Turnover for the year was ₹ 3,00,000.

After considering the above facts, you are required to prepare Profit and Loss Appropriation Account and Partners' Capital Accounts.

Solution:

Profit and Loss Appropriation Account as on 31st March, 2019					
Dr.			Cr.		
Particulars		₹	Particulars		₹
Interest on Capital:			Profit and Loss A/c (Net Profit)		50,000
A	3,000				
B	1,800	4,800			
B's Salary (500 × 12)		6,000			
Partner's Commission					
A	6,000				
B	1,581	7,581			
Profit transferred to:					
A's Capital A/c	23,714				
B's Capital A/c	7,905	31,619			
		50,000			50,000
Partners' Capital A/c					
Dr.			Cr.		
Particulars	A ₹	B ₹	Particulars	A ₹	B ₹
Drawings A/c	8,000	6,000	Balance b/d	50,000	30,000
			Capital Interest A/c	3,000	1,800
			Commission A/c	6,000	1,581
			Salary A/c		6,000

Balance c/d	74,714	41,286	P/L Appropriation A/c	23,714	7,905
	82,714	47,286		82,714	47,286

Working Notes 1: Capital Interest Evaluation

A's Capital Interest = $50,000 \times 6/100 = ₹ 3,000$

B's Capital Interest = $30,000 \times 6/100 = ₹ 1,800$

Working Notes 2: Partner's Commission Evaluation

A's Commission = 2% on turnover

= $2/100 \times 3,00,000 = ₹6,000$

B's Commission = 5% on profit after all expenses along with commission

Profits after all expense = $₹ 50,000 - ₹ 4,800 - ₹ 6,000 - ₹ 6,000 = ₹ 33,200$

So, Commission to B = Profits after all expense $\times \text{Rate}/100 + \text{Rate}$

= $33,200 \times 5/105 = ₹1,581$ (Approx)

Working Notes 3: Partners' Profit Share Evaluation

Available Profit for Distribution = $₹ 50,000 - ₹ 4,800 - ₹ 6,000 - ₹ 7,581 = ₹ 31,619$

Profit sharing ratio = 3 : 1

Profit Share of A = $31,619 \times 3/4 = ₹ 23,714$

Profit Share of b = $31,619 \times 1/4 = ₹ 7,905$

Question 47

A, B and C were partners in a firm having capital of ₹ 50,000 ; ₹ 50,000 and ₹ 1,00,000 respectively. Their Current Account balances were A: ₹ 10,000; B: ₹ 5,000 and C: ₹ 2,000 (Dr.). According to the Partnership Deed the partners were entitled to an interest on Capital @ 10% p.a. C being the working partner was also entitled to a salary of ₹ 12,000 p.a. The profits were to be divided as:

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

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

(c) Remaining profits to be shared equally.

The firm earned net profit of ₹ 1,72,000 before charging any of the above items.

Prepare Profit and Loss Appropriation Account and pass necessary Journal entry for the appropriation of profits.

Solution:

Profit and Loss Appropriation A/c			
Dr.		Cr.	
Particulars	₹	Particulars	₹
Interest on Capital:		Profit and Loss A/c (Net Profit)	1,72,000
A	5,000		
B	5,000		

C	10,000	20,000		
Salary to C		12,000		
Profit transferred to:				
A's Current A/c	50,000			
B's Current A/c	44,000			
C's Current A/c	46,000	1,40,000		
		1,72,000		1,72,000

Journal Entry

Date	Particulars		L.F.	Debit ₹	Credit ₹
	Capital Interest A/c	Dr.		20,000	
	To A's Current A/c				5,000
	To B's Current A/c				5,000
	To C's Current A/c				10,000
	(Partners' capital interest allowed to partners)				
	Salary A/c	Dr.		12,000	
	To C's Current A/c				12,000
	(C's Salary)				
	Profit and Loss Appropriation A/c	Dr.		1,40,000	
	To A's Current A/c				50,000
	To B's Current A/c				44,000
	To C's Current A/c				46,000
	(Available Profit for distribution transferred to partners' current A/c)				

Working Notes 1: Capital Interest Evaluation

A's Capital Interest = $50,000 \times 10/100 = ₹ 5,000$

B's Capital Interest = $50,000 \times 10/100 = ₹ 5,000$

C's Capital Interest = $1,00,000 \times 10/100 = ₹ 10,000$

Working Notes 2: Partners' Profit Share Evaluation

Available Profits for Distribution = ₹ 1,72,000 – ₹ 20,000 – ₹ 12,000

= ₹ 1,40,000

(a) Distribution of first ₹ 20,000 in 1:1:2 as the Capital Ratio.

Profit Share of A = $20,000 \times 1/4 = ₹ 5,000$

Profit Share of B = $20,000 \times 1/4 = ₹ 5,000$

Profit Share of C = $20,000 \times \frac{2}{4} = ₹ 10,000$

(b) Distribution of ₹ 30,000 in 5:3:2 ratio

Profit Share of A = $30,000 \times \frac{5}{10} = ₹ 15,000$

Profit Share of B = $30,000 \times \frac{3}{10} = ₹ 9,000$

Profit Share of C = $30,000 \times \frac{2}{10} = ₹ 6,000$

(c). Remaining Profit for distribution = ₹ 1,40,000 – ₹ 20,000 – ₹ 30,000 = ₹ 90,000

The remaining ₹ 90,000 profit will be shared between the partners.

A, B, and C each will receive = $90,000 \times \frac{1}{3} = ₹ 30,000$

S, the total profit share of each partner's will be:

A's total profit share = 5,000 + 15,000 + 30,000 = ₹ 50,000

B's total profit share = 5,000 + 9,000 + 30,000 = ₹ 44,000

C's total profit share = 10,000 + 6,000 + 30,000 = ₹ 46,000

Question 48

A and B are partners sharing profits in the ratio of 3 : 2 with capitals of ₹ 50,000 and ₹ 30,000 respectively. Interest on capital is agreed @ 6% p.a. B is to be allowed an annual salary of ₹ 2,500. During the year profit prior to interest on capital but after charging B's salary amounted to ₹ 12,500. A provision of 5% of the profits is to be made in respect of the Manager's Commission.

Solution:

Profit and Loss A/c				
Dr.				Cr.
Particulars		₹	Particulars	₹
Manager's Commission		750	Profit before B's Salary	15,000
(5% of Rs 15,000)			(12,500 + 2,500)	
Transferred Profit to Profit and Loss Appropriation A/c		14,250		
		15,000		15,000
Profit and Loss Appropriation A/c				
Dr.				Cr.
Particulars		₹	Particulars	₹
Capital Interest A/c:			Profit and Loss A/c	14,250
A	3,000			
B	1,800	4,800		
B's Salary		2,500		
Profit transferred to:				
A's Capital A/c	4,170			
B's Capital A/c	2,780	6,950		
		14,250		14,250
Partners' Capital Accounts				

Dr.			Cr.		
Particulars	A	B	Particulars	A	B
Balance c/d	57,170	37,080	Balance b/d	50,000	30,000
			Interest on Capital A/c	3,000	1,800
			Salary A/c		2,500
			P/L Appropriation A/c	4,170	2,780
	57,170	37,080		57,170	37,080

Working Notes 1 : Manager's Commission Evaluation

Managers' Commission = 5% on Net Profit (before Salary)

Profit before Salary = Profit after Salary + Salary = 12,500 + 2500 = ₹ 15,000

So, Managers' Commission = 15,000 X 5/100 = ₹750

Working Notes 2 : Capital Interest Evaluation

A's Capital Interest = 50,000 X 6/100 = ₹ 3,000

B's Capital Interest = 50,000 X 6/100 = ₹ 1,800

Working Notes 3 : Partners' Profit Sharing Evaluation

Profit available for distribution = ₹ 12,500 – ₹ 750 – ₹ 3,000 – ₹ 1,800 = ₹ 6,950

Profit Sharing Ratio = 3:2

Profit Share of A = 6,950 x 3/5 = ₹ 4,170

Profit Share of B = 6,950 x 2/5 = ₹ 2,750

Question 49

P, Q and R are in a partnership and as of 1st April, 2018 their respective capitals were: ₹ 40,000, ₹ 30,000 and ₹ 30,000. Q is entitled to a salary of ₹ 6,000 and R ₹ 4,000 p.a. payable before division of profits. Interest is allowed on capital @ 5% p.a. and is not charged on drawings. Of the divisible profits, P is entitled to 50% of the first ₹ 10,000, Q to 30% and R to 20%, rest of the profit are shared equally. Profits for the year ended 31st March, 2019, after debiting partners' salaries but before charging interest on capital was ₹ 21,000 and the partners had drawn ₹ 10,000 each on account of salaries, interest and profit.

Prepare Profit and Loss Appropriation Account for the year ended 31st March, 2019 showing the distribution of profit and the Capital Accounts of the partners.

Solution:

Profit and Loss Appropriation A/c as on 31st March, 2019				
Dr.			Cr.	
Particulars		₹	Particulars	₹
Interest on Capital:			Profit (after Salary)	21,000
P	2,000			
Q	1,500			
R	1,500	5,000		
Profit transferred to:				

P's Capital A/c	7,000			
Q's Capital A/c	5,000			
R's Capital A/c	4,000	16,000		
		21,000		21,000

Partners' Capital A/c							
Dr.							Cr.
Particulars	P	Q	R	Particulars	P	Q	R
Drawings A/c	10,000	10,000	10,000	Balance b/d	40,000	30,000	30,000
				Salaries A/c	–	6,000	4,000
				Capital Interest A/c	2,000	1,500	1,500
Balance c/d	39,000	32,500	29,500	P/L Appropriation A/c	7,000	5,000	4,000
	49,000	32,500	29,500		49,000	32,500	29,500

Working Notes 1: Capital Interest Evaluation

P's Capital Interest = $40,000 \times 5/100 = ₹ 2,000$

Q's Capital Interest = $30,000 \times 5/100 = ₹ 1,500$

R's Capital Interest = $30,000 \times 5/100 = ₹ 1,500$

Working Notes 2: Partners' Profit Share Evaluation

Available Profit for distribution = $₹ 21,000 - ₹ 5,000 = ₹ 16,000$

a. Distribution of first ₹ 10,000 into P 50%, Q 30%, and R 20%

Profit Share of P = $10,000 \times 50/100 = ₹ 5,000$

Profit Share of Q = $10,000 \times 30/100 = ₹ 3,000$

Profit Share of R = $10,000 \times 20/100 = ₹ 2,000$

b. Distribution of remaining Profit ₹ 6,000 ($16,000 - 10,000$) equally

P, Q, and R Profit Share = $6,000 \times 1/3 = ₹ 2,000$ each

So, the total profit share of P, Q, and R will be

P's Total Profit Share = $5,000 + 2,000 = ₹ 7,000$

Q's Total Profit Share = $3,000 + 2,000 = ₹ 5,000$

R's Total Profit Share = $2,000 + 2,000 = ₹ 4,000$

Question 50

A, B and C are partners sharing profits and losses in the ratio of A $1/2$, B $3/10$, C $1/5$ after providing for interest @ 5% on their respective capitals, viz., A ₹ 50,000; B ₹ 30,000 and C ₹ 20,000 and allowing B and C a salary of ₹ 5,000 each per annum. During the year ended 31st March, 2019, A has drawn ₹ 10,000 and B and C in addition to their salaries have drawn ₹ 2,500 and ₹ 1,000 respectively. Profit and Loss Account for the year ended 31st March, 2019 showed a net profit of ₹ 45,000. On 1st April, 2018, the balances in the Current Accounts of the partners were A (Cr.) ₹ 4,500; B (Cr.) ₹ 1,500 and C (Cr.) ₹ 1,000. Interest is not charged on Drawings or Current Account balances. Show Partners' Capital and Current Accounts as at 31st March, 2019 after division of profits in accordance with the partnership agreement.

Solution:

Profit and Loss Appropriation A/c as on 31st March, 2019							
Dr.				Cr.			
Particulars		₹		Particulars			₹
Capital Interest :				Profit and Loss A/c			45,000
A	2,500						
B	1,500						
C	1,000	5,000					
Salary to:							
B	5,000						
C	5,000	10,000					
Profit transferred to:							
A's Current A/c	15,000						
B's Current A/c	9,000						
C's Current A/c	6,000	30,000					
		45,000					45,000

Partners' Capital Accounts							
Dr.				Cr.			
Particulars	A	B	C	Particulars	A	B	C
				Balance b/d	50,000	30,000	20,000
Balance c/d	50,000	30,000	20,000				
	50,000	30,000	20,000		50,000	30,000	20,000

Partners' Current Accounts							
Dr.				Cr.			
Particulars	A	B	C	Particulars	A	B	C
Drawings A/c	10,000	7,500	6,000	Balance b/d	4,500	1,500	1,000
				Interest on Capital A/c	2,500	1,500	1,000
				Salaries A/c		5,000	5,000
Balance c/d	12,000	9,500	7,000	P/L Appropriation A/c	15,000	9,000	6,000
	22,000	17,000	13,000		22,000	17,000	13,000

Working Notes 1: Capital Interest Evaluation

A's Capital Interest = $50,000 \times 5/100 = ₹ 2,500$

B's Capital Interest = $30,000 \times 5/100 = ₹ 1,500$

C's Capital Interest = $20,000 \times 5/100 = ₹ 1,000$

Working Notes 2: Partners' Profit Share Evaluation

Available Profit for Distribution = $₹ 45,000 - ₹ 15,000 = ₹ 30,000$

A's Capital Interest = $5 \text{ } 30,000 \times 1/2 = ₹ 15,000$

B's Capital Interest = $30,000 \times \frac{3}{10} = ₹ 9,000$

C's Capital Interest = $30,000 \times \frac{1}{15} = ₹ 6,000$

Question 51

Ali the Bahadur are partners in a firm sharing profits and losses as Ali 70% and Bahadur 30%. Their respective capitals as at 1st April, 2018 stand as Ali ₹ 25,000 and Bahadur ₹ 20,000. The partners are allowed interest on capitals @ 5% p.a. Drawings of the partners during the year ended 31st March, 2019 amounted to ₹ 3,500 and ₹ 2,500 respectively.

Profit for the year, before charging interest on capital and annual salary of Bahadur @ ₹ 3,000, amounted to ₹ 40,000, 10% of divisible profit is to be transferred to Reserve.

You are asked to show Partners' Current Account and Capital Accounts recording the above transactions.

Solution:

Partners' Capital Accounts					
Dr.			Cr.		
Particulars	Ali	Bahadur	Particulars	Ali	Bahadur
			Balance b/d	25,000	20,000
Balance c/d	25,000	20,000			
	25,000	20,000		25,000	20,000

Partners' Current Accounts					
Dr.			Cr.		
Particulars	Ali	Bahadur	Particulars	Ali	Bahadur
Drawings A/c	3,500	2,500	Interest on Capital A/c	1,250	1,000
			Bahadur's Salary A/c		3,000
Balance c/d	19,642	10,883	P/L Appropriation A/c	21,892	9,383
	23,142	13,383		23,142	13,383

Working Notes 1:

Profit and Loss Appropriation A/c as on 31st March, 2019				
Dr.				Cr.
Particulars		₹	Particulars	₹
Interest on Capital:			Profit and Loss A/c	40,000
Ali	1,250			
Bahadur	1,000	2,250		
Reserve		3,475		
Bahadur's Salary		3,000		
Profit transferred to:				
Ali's Capital A/c	21,892			
Bahadur's Capital A/c	9,383	31,275		
		40,000		40,000

Working Notes 2 : Capital Interest Evaluation

Ali's Capital Interest = $25,000 \times 5/100 = ₹ 1,250$

Bahadur's Capital Interest = $20,000 \times 5/100 = 1,000$

Working Notes 3 : Amount to be Transferred to Reserve Evaluation

Amount transferred to Reserve = 10% of Divisible Profits

= $10\% \times (₹ 40,000 - ₹ 2,250 - ₹ 3,000) = ₹ 3,475$

Working Notes 4 : Partners' Profit Sharing Evaluation

Profit available for distribution = $₹ 40,000 - ₹ 2,250 - ₹ 3,000 - ₹ 3,475 = ₹ 31,275$

Ali's Profit Share = $31,275 \times 70/100 = ₹ 1,892$

Bahadur's Profit Share = $31,275 \times 30/100 = ₹ 9,383$

Question 52

Amal, Bimal and Kamal are three partners. On 1st April, 2018, their Capitals stood as: Amal ₹ 40,000, Bimal ₹ 30,000 and Kamal ₹ 25,000. It was decided that:

- (a) they would receive interest on Capital @ 5% p.a.,
- (b) Amal would get a salary of ₹ 250 per month,
- (c) Bimal would receive commission @ 4% on net profit after deducting commission, interest on capital and salary, and
- (d) After deducting all of these 10% of the profit should be transferred to the General Reserve.

Before the above items were taken into account, net profit for the year ended 31st March, 2019 was ₹ 33,360. Prepare Profit and Loss Appropriation Account and the Capital Accounts of the Partners.

Solution:

Profit and Loss Appropriation A/c as on 31st March, 2019			
Dr.			Cr.
Particulars	₹	Particulars	₹
Capital Interest:		Profit and Loss A/c	33,360
Amal	2,000	(Net Profit)	
Bimal	1,500		
Kamal	1,250		
	4,750		
Amal Salary (250×12)	3,000		
Commission to Bimal	985		
General Reserve	2,462		
Profit transferred to:			
Amal's Capital A/c	7,388		
Bimal's Capital A/c	7,388		
Kamal's Capital A/c	7,387		
	22,163		
	33,360		33,360

Partners' Capital Accounts							
Dr.				Cr.			
Particulars	Amal	Bimal	Kamal	Particulars	Amal	Bimal	Kamal
				Balance b/d	40,000	30,000	25,000
				Capital Interest A/c	2,000	1,500	1,250
				Salary A/c	3,000	–	–
				Commission	–	985	–
Balance c/d	52,388	39,873	33,637	P/L Appropriation A/c	7,388	7,388	7,387
	52,388	39,873	33,637		52,388	39,873	33,637

Working Notes 1: Capital Interest Evaluation

Amal's Capital Interest = $40,000 \times 5/100 = ₹ 2,000$

Bimal's Capital Interest = $30,000 \times 5/100 = ₹ 1,500$

Kamal's Capital Interest = $25,000 \times 5/100 = ₹ 1,250$

Working Notes 2 : Bimal Commission Evaluation

Bimal Commission = 4% on Net Profits after Commission

Profit after expenses = $₹ 33,360 - ₹ 4,750 - ₹ 3,000 = ₹ 25,610$

Bimal Commission = Profit after Expenses $\times \text{Rate}/100 + \text{Rate}$

Therefore, $= 25,610 \times 4/104 = ₹ 985$

Working Notes 3 : Amount to be transferred to General Reserve Evaluation

General Reserve Amount = 10% of Profit

$= (33,360 - 4,750 - 3,000 - 985) \times 10/100$

$= 24,625 \times 10/100 = ₹ 2,462$

Working Notes 3 : Partners' Profit Share Evaluation

Available Profit for Distribution = $₹ 33,360 - ₹ 4,750 - ₹ 3,000 - ₹ 985 - ₹ 2,462$

$= ₹ 22,163$

Profit Share for each Partners' Amal, Bimal, and Kamal = $22,163 \times 1/3 = ₹ 7,388$

Question 53

Amit, Binita and Charu are three partners. On 1st April, 2018, their Capitals stood as: Amit ₹ 1,00,000, Binita ₹ 2,00,000 and Charu ₹ 3,00,000. It was decided that:

- they would receive interest on Capital @ 5% p.a.,
- Amit would get a salary of ₹ 10,000 per month,
- Binita would receive commission @ 5% of net profit after deduction of commission, and
- 10% of the net profit would be transferred to the General Reserve.

Before the above items were taken into account, the profit for the year ended 31st March, 2019 was ₹ 5,00,000.

Prepare Profit and Loss Appropriation Account and the Capital Accounts of the partners.

Solution:

Profit and Loss Appropriation A/c as on 31st March, 2019							
Dr.				Cr.			
Particulars		₹		Particulars		₹	
Interest on Capital:				Profit and Loss A/c (Net Profit)		5,00,000	
Amit	5,000						
Binita	10,000						
Charu	15,000	30,000					
Salary to Amit (10,000 × 12)		1,20,000					
Commission to Binita		23,810					
General Reserve		50,000					
Profit transferred to:							
Amit's Capital A/c	92,063						
Binita's Capital A/c	92,063						
Charu's Capital A/c	92,064	2,76,190					
		33,360				33,360	

Partners' Capital Accounts							
Dr.				Cr.			
Particulars	Amit	Binita	Charu	Particulars	Amit	Binita	Charu
				Balance b/d	1,00,000	2,00,000	3,00,000
				Interest on Capital A/c	5,000	10,000	15,000
				Salary A/c	1,20,000	–	–
				Commission	–	23,810	–
Balance c/d	3,17,063	3,25,873	4,07,064	P/L Appropriation A/c	92,063	92,063	92,064
	3,17,063	3,25,873	4,07,064		3,17,063	3,25,873	4,07,064

Working Notes 1 : Capital Interest Evaluation

Amit Interest = 1,00,000 × 5/100 = ₹ 5,000

Binita Interest = 2,00,000 × 5/100 = ₹ 10,000

Charu Interest = 3,00,000 × 5/100 = ₹ 15,000

Working Notes 2 : Binita Commission Evaluation

Binita Commission = Net Profit × Rate/100+Rate

= 5,00,000 × 5/105 = ₹ 23,810

Working Notes 3 : Amount to be transferred to General Reserve Evaluation

Amount for General Reserve = 10% of Profit

$$= 5,00,000 \times 10100 = ₹ 50,000$$

Working Notes 4 : Partners' Profit Share Evaluation

$$\begin{aligned} \text{Available Profit for Distribution} &= ₹ 5,00,000 - ₹ 30,000 - ₹ 1,20,000 - ₹ 23,810 - ₹ 50,000 \\ &= ₹ 2,76,190 \end{aligned}$$

$$\text{Profit share of each of the partners} = 2,76,190 \times 1/3 = ₹ 92, 063$$

Question 54

Anita, Bimla and Cherry are three partners. On 1st April, 2018, their Capitals stood as: Anita ₹ 1,00,000, Bimla ₹ 2,00,000 and Cherry ₹ 3,00,000. It was decided that:

- they would receive interest on Capital @ 5% p.a.,
- Anita would get a salary of ₹ 5,000 per month,
- Bimla would receive commission @ 5% of net profit after deduction of commission, and
- 10% of the net divisible profit would be transferred to the General Reserve.

Before the above items were taken into account, the profit for the year ended 31st March, 2019 was ₹ 5,00,000. Prepare Profit and Loss Appropriation Account and the Capital Accounts of the partners.

Solution:

Profit and Loss Appropriation A/c as on March 31, 2019							
Dr.				Cr.			
Particulars		₹		Particulars		₹	
Capital Interest:				Profit and Loss A/c (Net Profit)		5,00,000	
Anita	5,000						
Bimla	10,000						
Cherry	15,000	30,000					
Anita Salary (5,000 × 12)		60,000					
Commission to Bimla		23,810					
General Reserve		38,619					
Profit transferred to:							
Anita's Capital A/c	1,15,857						
Bimla's Capital A/c	1,15,857						
Cherry's Capital A/c	1,15,857	3,47,571					
		5,00,000				5,00,000	

Partners' Capital Accounts							
Dr.				Cr.			
Particulars	Anita	Bimla	Cherry	Particulars	Anita	Bimla	Cherry
				Balance b/d	1,00,000	2,00,000	3,00,000
				Interest on Capital A/c	5,000	10,000	15,000
				Salary A/c	60,000	–	–
				Commission	–	23,810	–

Balance c/d	2,80,857	3,49,667	4,30,857	P/L Appropriation A/c	1,15,857	1,15,857	1,15,857
	2,80,857	3,49,667	4,30,857		2,80,857	3,49,667	4,30,857

Working Notes 1: Capital Interest Evaluation

Anita's Interest = $1,00,000 \times 5/100 = ₹ 5,000$

Bimal's Interest = $2,00,000 \times 5/100 = ₹ 10,000$

Cherry's Interest = $3,00,000 \times 5/100 = ₹ 15,000$

Working Notes 2 : Bimal Commission Evaluation

Bimla Commission = Net Profit \times Rate/100+Rate

= $5,00,000 \times 5/100 = ₹ 23,810$

Working Notes 3 : Amount to be transferred to General Reserve Evaluation

Amount for General Reserve = 10% of Divisible Profit

= $3,86,190 \times 10/100 = ₹ 38,619$

Divisible Profit = $₹ 5,00,000 - ₹ 30,000 - ₹ 23,810 - ₹ 60,000 = ₹ 3,86,190$

Working Notes 4 : Partners' Profit Share Evaluation

Profit available for Distribution = $₹ 5,00,000 - ₹ 30,000 - ₹ 60,000 - ₹ 23,810 - ₹ 38,619$

= $₹ 3,47,571$

Profit share of each partner's = $3,47,571 \times 1/3 = ₹ 1,15,857$