Chapter 1 - Accounting For Partnership Firms - Fundamentals

Q. 1. *X* and *Y* are partners sharing profits in the ratio of 2 : 1. The under mentioned trial balance was extracted from their books on 31st March, 2017 :

Particulars	Dr. Balances	Cr. Balances
	₹	₹
Xs Capital .		3,20,000
Ts Capital		2,40,000
Xs Drawings	40,000	
Ts Drawings	32,000	
Stock (1st April, 2016)	45,200	
Purchases and Sales	8,68,000	12,45,000
Debtors and Creditors	1,52,000	48,000
Buildings	6,00,000	
Cash in hand	5,900	
Bank Overdraft		27,500
Salaries to Staff	74,700	
Rent	26,400	
Advertising Expenditure	5,000	
Travelling Expenses	31,300	
	18,80,500	**18,80,500**

You are required to prepare the Profit and Loss Account and Profit and Loss Appropriation Account for the year ended 31st March, 2017 and a Balance Sheet as on that date. The following adjustments are to be made:

(i) The value of stock on March 31,2017 was ₹64,000.

(ii) Charge depreciation on Buildings at 10%.

(iii) Provide for outstanding rent ₹2,400.

(iv) Partners are entitled to interest on Capital @ 5% and X is entitled to a salary of ₹48,000 p.a.

SOLUTION:

PROFIT & LOSS ACCOUNT OF THE FIRM

Dr. *for the year ended 31st March, 2017* *Cr.*

Particulars	**₹**	**Particulars**	**₹**
To Opening Stock	45,200	By Sales	12,45,000
To Purchases	8,68,000	By Closing Stock	64,000
To Gross Profit c/d	3,95,800		
	13,09,000		13,09,000

To Salaries to Staff	74,700	By Gross Profit b/d	3,95,800
To Rent 26,400			
Add: Outstanding 2,400	28,800		
To Advertising Expenditure	5,000		
To Travelling Expenses	31,300		
To Depreciation on Buildings	60,000		
To Net Profit transferred to Profit & Loss Appropriation A/c	1,96,000		
	3,95,800		**3,95,800**

PROFIT & LOSS APPROPRIATION ACCOUNT

Dr. *for the year ended 31st March, 2017* Cr.

Particulars		**₹**	***Particulars***	**₹**
To *Xs* Salary A/c		48,000	By Net Profit as per Profit & Loss A/c	1,96,000
To Interest on Capital:				
X	16,000			
Y	12,000	28,000		
To Profit transferred to				
Capital Accounts:				
X	80,000			
Y	40,000	1,20,000		
		1,96,000		**1,96,000**

BALANCE SHEET OF THE FIRM

as at 31st March, 2017

Liabilities		**₹**	**Assets**		**₹**
Bank Overdraft		27,500	Cash in Hand		5,900
Outstanding Rent		2,400	Debtors		1,52,000
Creditors		48,000	Closing Stock		64,000
Xs Capital	3,20,000		Buildings	6,00,000	
Less: Drawings	40,000		**Less:** Depreciation	60,000	5,40,000
	2,80,000				
Add: Interest on Capital	16,000				
Add: Salary	48,000				
Add: Net Profit	80,000	4,24,000			
Y's Capital	2,40,000				
Less: Drawings	32,000				
	2,08,000				

Add: Interest on Capital 12,000 **Add:** Net Profit 40,000	2,60,000			
	7,61,900			**7,61,900**

Q. 2. Girish and Satish are partners in a firm. Their Capitals on April 1, 2016 were ₹5,60,000 and ₹4,75,000 respectively. On August 1, 2016 they decided that their Capitals should be ₹5,00,000 each. The necessary adjustment in the Capitals were made by introducing or withdrawing cash. Interest on Capital is allowed at 6% p.a. You are required to compute interest on Capital for the year ending March 31, 2017.

SOLUTION :

Calculation of Interest on Capitals :

Girish : On ₹5,60,000 for 4 months On ₹5,00,000 for 8 months	= 5,60,000 × 6/100 × 4/12 = 5,00,000 × 6/100 × 8/12	= 11,200 = 20,000
		= 31,200
Satish : On ₹4,75,000 for 4 months On ₹5,00,000 for 8 months	= 4,75,000 × 6/100 × 4/12 = 5,00,000 × 6/100 × 8/12	= 9,500 = 20,000
		29,500

Q. 3. *X, Y* and Z are partners in a firm. Their Capitals as on April 1, 2016 were ₹5,00,000; ₹4,00,000 and ?3,00,000 respectively. On July 1,2016 they introduced further Capitals of ₹1,00,000; ₹80,000 and ₹50,000 respectively. On February 1, 2017 *Y* withdrew ₹15,000 from his Capital. Interest is to be allowed @ 8% p.a. on the Capitals. Compute interest on Capitals for the year ending March 31, 2017.

SOLUTION:

Calculation of Interest on Capitals :

X : On ₹5,00,000 for 3 months (*i.e.,* from April 1, 2016 to 30th June, 2016) On ₹6,00,000 for 9 months (*i.e.,* from 1st July, 2016 to 31st March, 2017)	= 5,00,000 × 8/100 × 3/12 = 6,00,000 × 8/100 × 9/12	= 10,000 = 36,000
		= 46,000
Y :		

On ₹3,00,000 for 3 months *(i.e.,* from April 1, 2016 to 30th June, 2016) On ₹3,50,000 for 9 months *(i.e.,* from 1st July, 2016 to 31st March, 2017)	= 3,00,000 × 8/100 × 3/12 = 3,50,000 × 8/100 × 9/12	= 6,000 = 21,000
		27,000

Q. 4. On March 31,2016 after the close of accounts, the capitals of Mountain, Hill and Rock stood in the books of the firm at ₹4,00,000; ₹3,00,000 and ₹2,00,000 respectively. Subsequently, it was discovered that the interest on capital @ 10% p.a. had been omitted. The profit for the year amounted to ₹1,50,000 and the partner's drawings had been Mountain : ₹20,000; Hill ₹15,000 and Rock ₹10,000.

Calculate interest on capital.

SOLUTION:

Since interest on capitals is always calculated on capitals in the beginning and the same have not been given, it is necessary to calculate the capitals in the beginning:

Statement showing the calculation of capitals in the beginning :

Particulars	**Mountain**	**Hill**	**Rock**
	₹	₹	₹
Capitals at the end i.e. on March 31, 2016	4,00,000	3,00,000	2,00,000
Add: Drawings (which were previously deducted)	20,000	15,000	10,000
Less : Share of Profit (which has already been added) ₹ 1,50,000 credited in the profit sharing ratio i.e. equally	4,20,000 50,000	3,15,000 50,000	2,10,000 50,000
Capitals in the beginning i.e. on April 1, 2015	3,70,000	2,65,000	1,60,000

Interest on Capital @10%		₹
Mountain:	10% on ₹3,70,000	= 37,000
Hill:	10% on ₹2,65,000	= 26,500
Rock:	10% on ₹1,60,000	= 16,000

FLUCTUATING CAPITALS

Q. 5 (A). On 1st April, 2016 *A* and *B* commenced business with Capitals of ₹60,000 and ₹20,000 respectively. On 31st March, 2017 the trading profit (before taking into account the provisions of deed) was ₹24,000. Interest on capitals is to be allowed at 6% p.a. *B* was entitled to a salary of ₹6,000 p.a. The drawings of the partners *A* and *B* were ₹6,000 and ₹4,000 respectively. The interest on Drawings for *A* being ₹200 and *B* ₹100. Assuming that *A* and *B* are equal partners, prepare the Profit & Loss Appropriation A/c and Partner's Capital Accounts as at 31st March, 2017.

SOLUTION :

PROFIT AND LOSS APPROPRIATION ACCOUNT

Dr. ***for the year ended 31st March. 2017*** ***Cr.***

Particulars		**₹**	***Particulars***		**₹**
To Interest on Capitals :			By Profit & Loss A/c		
A 60,000 x 6%	3,600		— being profit		24,000
B 20,000 x 6%	1,200	4,800	By Interest on Drawings :		
To Salary to *B*		6,000	*A*	200	
To Profit transferred to :			*B*	100	300
A's Capital A/c	6,750				
B's Capital A/c	6,750	13,500			
		24,300			24,300

Dr. **PARTNERS' CAPITAL ACCOUNTS** ***Cr.***

Particulars	***A***	***B***	***Particulars***	***A***	***B***
31.3.2017	₹	₹	1.4.2016	₹	₹
To Drawings	6,000	4,000	By Bank	60,000	20,000
To Interest on Drawings	200		31.3.2017		
To Balance c/d	64,150	100	By Interest on Capitals	3,600	1,200
		29,850	By Salary	—	6,000

			By Profit & Loss Appropriation A/c	6,750	6,750
	70,350	33,950		70,350	33,950

Note: *Capitals will be treated fluctuating in the absence of information.*

Q. 5 (B). Anubha and Kajal entered into partnership sharing profits and losses in the ratio of 2 : 1. Their capitals were ₹90,000 and ₹60,000. The profit during the year were ₹45,000. According to partnership deed, both partners are allowed salary, ₹700 per month to Anubha and ₹500 per month to Kajal. Interest is allowed on capital @ 5% p.a. The drawings at the end of the period were ₹8,500 for Anubha and ₹6,500 for Kajal. Interest is to be charged @ *5%* p.a. on drawings. Prepare partners capital accounts, assuming that the capital accounts are fluctuating.

SOLUTION:

PROFIT AND LOSS APPROPRIATION ACCOUNT

Dr. *for the year ended* *Cr.*

Particulars	₹	Particulars	₹
To Salary :		By Profit & Loss A/c	
Anubha(₹700 x 12)	8,400	(Profit for the year)	45,000
Kajal (₹500 x 12)	6,000	By Interest on Drawings :	
To Interest on Capital: Anubha 4,500 Kajal 3,000	7,500	Anubha: 8,500 × 5/100 × 8/12 Kajal:	213
To Profit transferred to Capital A/cs : Anubha (2/3 of 23,476) 15,651 Kajal (1/3 of 23,476) 7,825	23,476	6,500 × 5/100 × 8/12	163
	45,376		**45,376**

Dr. PARTNER'S CAPITAL ACCOUNTS *Cr.*

Particulars	Anubha	Kajal	Particulars	Anubha	Kajal
	₹	₹		₹	₹

To Drawings	8,500	6,500	By Bank	90,000	60,000
To Interest on Drawings	213	163	By Salary	8,400	6,000
To Balance c/d	1,09,838	70,162	By Interest on Capital	4,500	3,000
			By P & L Appropriation		
			A/c (Share of Profit)	15,651	7,825
	1,18,551	76,825		1,18,551	76,825

Q. 6. *A* and *B* started a partnership business on 1st April, 2015. They contributed ₹6,00,000 and ₹4,00,000 respectively, as their capitals. The terms of the partnership agreement are as under :

(i) Interest on capital and drawings @ 6% per annum.

(ii) *B* is to get a monthly salary of ₹2,500.

(iii) Sharing of profit or loss will be in the ratio of their capital contribution.

The profit for the year ended 31st March, 2016, before making above appropriations was ₹2,07,400. The drawings of *A* and *B* were ₹48,000 and ₹40,000 respectively. Interest on drawings amounted to ₹1,500 for A and ₹1,100 for *B.*

Prepare profit and loss appropriation account and partners' capital accounts assuming that their capitals are fluctuating.

SOLUTION:

PROFIT AND LOSS APPROPRIATION ACCOUNT

Dr. *for the year ended 31st March, 2016* *Cr.*

Particulars	₹	Particulars	₹
To Salary to B (2,500 x 12)	30,000	By Profit & Loss A/c	
To Interest on Capital:		(Net Profit as per Profit & Loss A/c)	
A 36,000			2,07,400

B	24,000	60,000	By Interest on Drawings :		
To Profit transferred to Capital A/cs:			A	1,500	
			B	1,100	2,600
A 3/5	72,000				
B 2/5	48,000	1,20,000			
		2,10,000			**2,10,000**

Dr. **PARTNER'S CAPITAL ACCOUNTS** **Cr.**

Particulars	A	B	Particulars	A	B
31.3.2016	₹	₹	1.4.2015	₹	₹
To Drawings	48,000	40,000	By Bank	6,00,000	4,00,000
To Interest on Drawings	1,500	1,100	31.3.2016		
To Balance c/d	6,58,500	4,60,900	By Salary		30,000
			By Interest on Capital	36,000	24,000
			By Profit & Loss Appropriation A/c (Share of Profit)	72,000	48,000
	7,08,000	**5,02,000**		**7,08,000**	**5,02,000**

Q. 7. *X* and *Y* are partners with capitals of ₹1,00,000 and ₹80,000 respectively on 1st April, 2016 and their profit sharing ratio is 2 : 1. Interest on capital is agreed @ 12% p.a. *Y* is to be allowed an annual salary of ₹6,000. The profit for the year ended 31st March, 2017 amounted to ₹50,000. Manager is entitled to a commission of 10% of the profits.

Prepare Profit and Loss Appropriation Account and Capital Accounts.

SOLUTION:

PROFIT AND LOSS ACCOUNT

Dr. *for the year ended 31st March, 2017* *Cr.*

Particulars	**₹**	**Particulars**	**₹**
To Manager's Commission 10% of ₹ 50,000	5,000	By Profit for the year	50,000
To Net Profit transferred to Profit & Loss Appropriation A/c	45,000		
	50,000		**50,000**

PROFIT AND LOSS APPROPRIATION ACCOUNT

Dr. ***for the year ended 31st March, 2017*** ***Cr.***

Particulars		**₹**	**Particulars**	**₹**
To Interest on Capitals :			By Profit & Loss A/c	45,000
x	12,000			
Y	9,600	21,600		
To Salary to Y		6,000		
To Profit transferred to Capital				
Accounts X	11,600			
Y	5,800	17,400		
		45,000		**45,000**

PARTNER'S CAPITAL ACCOUNTS

Dr. **Cr.**

Particulars	**X**	**Y**	**Particulars**	**X**	**Y**
31.3.2017	₹	₹	1.4.2016	₹	₹
To Balance c/d	1,23,600	1,01,400	By Balance b/d 31.3.2017	1,00,000	80,000

			By Interest on Capital	12,000	9,600
			By Salary	—	6,000
			By P & L Appropriation A/c	11,600	5,800
	1,23,600	**1,01,400**		**1,23,600**	**1,01,400**

Fixed Capitals

Q. 8. *Y* and Z are partners with capitals of ₹25,000 and ₹15,000 respectively on 1st April, 2016. Each partner is entitled to 9% p.a. interest on his capital. Z is entitled to a salary of ₹6,000 p.a. together with a commission of 6% of Net Profit remaining after deducting interest on capitals and salary and after charging his commission. The profits for the year ended 31st March, 2017 before making any of the above mentioned adjustments amount to ₹30,800. Prepare Partner's Capital Accounts : (i) when capitals are fixed, and (ii) when capitals are fluctuating.

SOLUTION:

PROFIT AND LOSS APPROPRIATION ACCOUNT

Dr. ***for the year ended 31st March, 2017*** ***Cr.***

Particulars		₹	Particulars	₹
To Interest on Capitals : Y	2,250		By Profit and Loss A/c	30,800
Z	1,350	3,600		
To Salary (Z)		6,000		
To Commission (Z) (See Note 1)		1,200		
To Profits:				
Y	10,000			
Z	10,000	20,000		
		30,800		**30,800**

Note (1) Calculation of Z's Commission :

Profit: ₹30,800 - ₹3,600 - ₹6,000 = ₹21,200

21,200 × 6/106 = ₹1,200.

(i) When Capitals are fixed :

Dr. **CAPITAL ACCOUNTS** ***Cr.***

Particulars	Y	Z	Particulars	Y	Z
31.3.2017	₹	₹	1.4.2016	₹	₹
To Balance c/d	25,000	15,000	By Balance b/d	25,000	15,000
	25,000	**15,000**		**25,000**	**15,000**

CURRENT ACCOUNTS

Dr. **Cr.**

Particulars	Y	Z	Particulars	Y	Z
31.3.2017	₹	₹	31.3.2017	₹	₹
To Balance c/d	12,250	18,550	By Interest on Capitals	2,250	1,350
			By Salary	—	6,000
			By Commission By Profit & Loss	—	1,200
			Appropriation A/c	10,000	10,000
	12,250	**18,550**		**12,250**	**18,550**

(ii) When Capitals are fluctuating:

Dr. **CAPITAL ACCOUNTS** ***Cr.***

Particulars	Y	Z	Particulars	Y	Z
31.3.2017	₹	₹	**1.4.2016**	₹	₹

To Balance c/d	37,250	33,550	By Balance b/d	25,000	15,000
			31.3.2017		
			By Interest on Capitals	2,250	1,350
			By Salary	—	6,000
			By Commission	—	1,200
			By Profit and Loss		
			Appropriation A/c	10,000	10,000
	37,250	**33,550**		**37,250**	**33,550**

Q. 9. *A* and *B* are partners in a firm sharing profits or losses in the ratio of 2 : 3 with capitals of ₹4,00,000 and ₹8,00,000 respectively on 1st April, 2016. Each partner is entitled to 10% p.a. interest on his capital. *B* is entitled a commission of 10% on net profit remaining after deducting interest on capital but before charging any commission. *A* is entitled a commission of 8% of net profit remaining after deducting interest on capital and after charging all commissions. The profit for the year ended 31st March, 2017 prior to calculation of interest on capital was ₹6,00,000. Prepare Profit and Loss Appropriation Account.

SOLUTION:

PROFIT AND LOSS APPROPRIATION ACCOUNT

Dr. ***for the year ended 31st March, 2017*** ***Cr.***

Particulars	₹	Particulars	₹
To Interest on Capital		By Profit & Loss A/c — being profit	6,00,000
A 40,000			
B 80,000	1,20,000		
To Commission (See Note 1)			
A 32,000			
B 48,000	80,000		
To Profit transferred to :			
A's Capital A/c 1,60,000			
B's Capital A/c 2,40,000	4,00,000		
	6,00,000		**6,00,000**

Note 1.: Calculation of Partner's Commission :

Profit: ₹6,00,000 - ₹1,20,000 = ₹4,80,000

B's Commission (before charging such commission) = ₹4,80,000 x 10/100 = ₹48,000

A's Commission (after charging such commission) =

A's Commission will be calculated after charging B's Commission and his own Commission:

Hence, *A's* Commission = (4,80,000 - 48,000) x 8/108 = ₹32,000

Q. 10. *A* and *B* are partners in a firm. Their capitals as on 1st April, 2016 were ₹2,10,000 and ₹90,000 respectively. They share profits in the ratio of 2:1. On 1st August, 2016, they decided that their capitals should be readjusted according to their profit sharing ratio. The necessary adjustments in the capitals were made by withdrawing or introducing cash. Interest on capital is allowed at 12% p.a. Compute interest on capitals for the year ending on 31st March, 2017.

SOLUTION:

Total capital *of A* and *B* = 2,10,000 + 90,000 = ₹3,00,000

Therefore, *A*'s adjusted capital should be 3,00,000 x 2/3 = 2,00,000

B's adjusted capital should be 3,00,000 x 1/3 = 1,00,000

On 1st August *A* will withdraw ₹10,000 whereas *B* will bring in cash amounting to ₹10,000.

Interest on Capitals:	**A** (₹)	**B** (₹)
From 1st April, 2016 to 31st July, 2016:		
₹2,10,000 × 4/12 × 12/100	8,400	
₹90,000 × 4/12 × 12/100		3,600
From 1st August, 2016 to 31st March, 2017:		
₹2,00,000 × 8/12 × 12/100	16,000	
₹1,00,000 × 8/12 × 12/100		8,000
	24,400	**11,600**

Q. 11. *A, B* and C were partners in a firm having capitals of ₹2,00,000; ₹2,00,000 and ₹80,000 respectively on 1st April, 2015. Their Current Account balances were *A* : ₹20,000; *B* : ₹ 10,000 and C : ₹5,000 (Dr.). According to the partnership deed the partners were entitled to interest on capital @ 10% p.a. *B* being the working partner was also entitled to a salary of ₹6,000 per quarter. The profits were to be divided as follows:

a) The first ₹60,000 in proportion to their capitals.
b) Next ₹1,00,000 in the ratio of 4:3 : 1.
c) Remaining profits to be shared equally.

The firm made a profit of ₹2,80,000 for the year ended 31st March, 2016 before charging any of the above items. Prepare the Profit & Loss Appropriation Account and pass necessary journal entry for apportionment of profits.

SOLUTION:

PROFIT AND LOSS APPROPRIATION ACCOUNT

Dr. *for the year ended 31st March, 2016* *Cr.*

Particulars		**₹**	**Particulars**	**₹**
To Interest on Capital (at 10% p.a.)			By Profit & Loss A/c	2,80,000
A : on ₹2,00,000	20,000		(Net Profit as per P & L A/c)	
B: on ₹2,00,000	20,000			
C : on ₹ 80,000	8,000	48,000		
To Salary (B) (₹6,000 x4)		24,000		
To Profit transferred to :				
A's Current A/c	91,000			
B's Current A/c	78,500			
C's Current A/c	38,500	2,08,000		
		2,80,000		2,80,000

JOURNAL ENTRY (For Appropriation of Profit)

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
31.3.2016	Profit & Loss Appropriation A/c Dr.		2,08,000	
	To/I's Current A/c			91,000
	To B's Current A/c			78,500
	To C's Current A/c			38,500
	(Profit transferred to current accounts)			

Working Note:

Profit after interest on capital and Salary:

₹2,80,000 – ₹48,000 – ₹24,000 = ₹2,08,000

	A(₹)	B(₹)	C(₹)
First ₹60,000 in Capital Ratio i.e. 5:5:2	25,000	25,000	10,000
Next ₹1,00,000 in 4 : 3 : 1	50,000	37,500	12,500
Remaining ₹48,000 equally	16,000	16,000	16,000
	91,000	**78,500**	**38,500**

SOLUTION : 12.

PROFIT AND LOSS APPROPRIATION ACCOUNT

Dr. for the year ended 31st March, 2016 Cr.

Particulars			₹	Particulars	₹
To Salary				By Profit & Loss A/c	
A	600 x 12	7,200		(Profit for the year)	1,72,000
B	400 x 12	4,800	12,000	By Interest on Drawings	
To Commission to C				(4% on annual drawings)	
(5% on 1,60,000)			8,000	B 400	
To Interest on Capital:				C 600	1,000
	A	6,000			
	B	12,000			
	C	18,000	36,000		
To Profit transferred to :					
A's Current A/c		39,000			
B's Current A/c		39,000			
C's Current A/c		39,000	1,17,000		
			1,73,000		**1,73,000**

Note: Since 4% interest is to be charged on annual drawings, it will be charged for full year instead of six months.

SOLUTION: 13.

Dr. PARTNER'S CAPITAL ACCOUNTS Cr.

Date	Particulars	A	B	C	Date	Particulars	A	B	C
		₹	₹	₹	2016		₹	₹	₹
2017 Mar. 31	To Balance c/d	12,53,000	10,53,000	7,53,000	April 1	By Bank A/c	10,00,000	8,00,000	5,00,000
					2017 Mar. 31	By P&L Appr. A/c	2,53,000	2,53,000	2,53,000
		12,53,000	**10,53,000**	**7,53,000**			**12,53,000**	**10,53,000**	**7,53,000**

Dr. B's LOAN ACCOUNT Cr.

Date	Particulars	₹	Date	Particulars	₹
2017 March 31	To Balance c/d	2,09,000	2016 July 1	By Bank A/c	2,00,000
			2017 March 31	By Interest on Loan A/c	9,000
		2,09,000			**2,09,000**

Dr. **C's LOAN ACCOUNT** Cr.

Date	Particulars	₹	Date	Particulars	₹
2017 March 31	To Balance c/d	1,02,000	2016 Dec. 1	By Bank A/c	1,00,000
			2017 March 31	By Interest on Loan A/c	2,000
		1,02,000			**1,02,000**

Working Notes:

(1) In the absence of agreement, Interest on Loan is to be paid @6% p.a. and profits will be shared equally.

		₹
(2) Interest on B's Loan	= 2,00,000 x 6/100 x 9/12	= 9,000
Interest on C's Loan	= 1,00,000 x 6/100 x 4/12	= 2,000
	Total	**11,000**

(3) Net Profit after interest on Loan = ₹7,70,000 – ₹11,000 = ₹7,59,000

(4) Each partner's share of profit = ₹7,59,000 ÷ 3 = ₹2,53,000

SOLUTION : 14.

PROFIT AND LOSS ACCOUNT

Dr. for the year ended 31st March, 2016 Cr.

Particulars	₹	Particulars	₹
To Interest on Mamta's Loan	4,800	By Profit before interest	2,26,440
To Profit transferred to Profit & Loss Appropriation A/c	2,21,640		
	2,26,440		**2,26,440**

PROFIT AND LOSS APPROPRIATION ACCOUNT Dr.

for the year ended 31st March, 2016 Cr.

Particulars		₹	Particulars		₹
To Interest on Capital:			By Profit & Loss A/c —		
Lata	21,000		Net Profit		2,21,640
Mamta	14,000	35,000	By Interest on Drawings :		
To Salary (Lata)		30,000	Lata	1,440	
To General Reserve A/c		16,000	Mamta	1,920	3,360
To Profit transferred to :					
Lata's Capital A/c	1,00,800				
Mamta's Capital A/c	43,200	1,44,000			
		2,25,000			**2,25,000**

Notes: (1) Interest on Mamta's Loan has been calculated at 6% p.a.

(2) Interest on Drawings has been calculated for an average period of

6 months.

(3) Distributable Profit =

Total of Credit side	2,25,000
(-) Total of Debit side (35,000 + 30,000)	65,000
	1,60,000

General Reserve is 10% of 1,60,000 = **16,000**

SOLUTION : 15.

Case (a) PROFIT AND LOSS ACCOUNT

Dr. for the year ending on 31st March, 2016 Cr.

Particulars		₹	Particulars		₹
To Interest on Loan :			By Profit before interest		7,500
A	9,000		By Net Loss transferred to :		
B	4,500	13,500	A's Capital A/c	1,200	
			B's Capital A/c	1,800	
			C's Capital A/c	3,000	6,000
		13,500			**13,500**

Case (b) PROFIT AND LOSS ACCOUNT

Dr. for the year ending on 31st March, 2016 Cr.

Particulars		₹	Particulars		₹
To Loss before interest		7,500	By Net Loss transferred to :		
To Interest on Loan:			A's Capital A/c	4,200	
A	9,000		B's Capital A/c	6,300	
B	4,500	13,500	C's Capital A/c	10,500	21,000
		21,000			**21,000**

Notes: (i) Interest on A's Loan = ₹2,00,000 x 6/100 x 9/12 = ₹9,000

Interest on B's Loan = ₹1,00,000 x 6/100 x 9/12 = ₹4,500

SOLUTION : 16.

PROFIT AND LOSS APPROPRIATION ACCOUNT

Dr. for the year ended 31st March, 2015 Cr.

Particulars		₹	Particulars	₹
To Interest on Capitals :			By Profit & Loss A/c	
P	40,000		Net Profit (₹7,60,000	
Q	24,000	64,000	—Rent ₹2,40,000)	5,20,000
To Q's Salary		60,000		
To Commission: P	60,000			

Q	16,000	76,000		
To Profit transferred to				
P's Capital A/c	1,92,000			
Q's Capital A/c	1,28,000	3,20,000		
		5,20,000		**5,20,000**

Dr. **PARTNER'S CAPITAL ACCOUNTS** **Cr.**

Date	Particulars	P	Q	Date	Particulars	P	Q
2015		₹	₹	2014		₹	₹
Mar. 31	To Drawings	40,000	30,000	Apr. 1	By Bal. b/d	5,00,000	3,00,000
Mar. 31	To Bal. c/d	7,52,000	4,98,000	2015			
				Mar. 31	By Interest on Capital	40,000	24,000
				Mar. 31	By Salary		60,000
				Mar. 31	By Commi-ssion	60,000	16,000
				Mar. 31	By P & L App. A/c (Profit)	1,92,000	1,28,000
		7,92,000	**5,28,000**			**7,92,000**	**5,28,000**

Working Notes:

(1) Net Profit transferred from P & L A/c to P & L App. A/c

= ₹7,60,000 – Rent ₹2,40,000 = ₹5,20,000

(2) Net Profit after deducting interest on capitals, salary and P's commission:

₹5,20,000 – ₹64,000 – ₹60,000 – ₹60,000 = 3,36,000

Q's Commission = 3,36,000 x 5/105 = 16,000

(3) Rent will be credited to Rent Payable Account.

SOLUTION : 17.

PROFIT AND LOSS APPROPRIATION ACCOUNT

Dr. **for the year ending on 31st March, 2016** **Cr.**

Particulars	₹	Particulars	₹
To Interest on Capital: X 2/3 of45,000 30,000 Y 1/3 of 45,000 15,000	45,000	By Net Profit as per Profit & Loss A/c	45,000
	45,000		**45,000**

Working Note:

	₹
Interest on X's Capital = 8% on ₹10,00,000	80,000
Interest on Y's Capital = 8% on ₹5,00,000	40,000
	1,20,000

Since available profit is only ₹45,000 which is less than appropriations of ₹1,20,000, profit will be distributed in the ratio of appropriations as follows :

Interest on Capital 80,000 : 40,000
or 2 : 1

SOLUTION : 18.

PROFIT AND LOSS APPROPRIATION ACCOUNT

Dr. for the year ended 31st March, 2014 Cr.

Particulars		₹	Particulars		₹
To Transfer to Reserves		8,000	By Profit and Loss A/c	80,000	
To Interest on Capitals :			**Less :** Interest on Puja's		
Pooja	7,000		Loan (20,000 x 6/100		
Archna	3,000	10,000	x 5/12)	500	79,500
To Profit transferred to :			By Interest on drawings		
Pooja's Current A/c	41,280		Pooja	240	
Archna's Current A/c	20,640	61,920	Archna	180	420
		79,920			**79,920**

Dr. CURRENT ACCOUNTS Cr.

Particulars	Pooja	Archna	Particulars	Pooja	Archna
1.4.2013	₹	₹	1.4.2013	₹	₹
To Balance b/d	—	23,000	By Balance b/d	5,000	—
31.3.2014			31.3.2014		
To Drawings	4,800	3,600	By Interest on Capital	7,000	3,000
To Interest on Drawings	240	180	By Profit and Loss		
To Balance c/d	48,240	—	Appropriation A/c	41,280	20,640
			By Balance c/d	—	3,140
	53,280	**26,780**		**53,280**	**26,780**

Note: Interest on Loan is not recorded in the Current Account.

Interest on Drawings

SOLUTION : 19 (A).

(i) SIMPLE METHOD

Date		Amount ₹	Period (Months upto March 31)	Interest @ 9% ₹
April	30	8,000	11	660
June	30	6,000	9	405
September	30	5,000	6	225
December	31	12,000	3	270
January	31	10,000	2	150
		41,000		**1,710**

(ii)	PRODUCT METHOD			
Date		**Amount ₹**	**Period (Months upto March 31)**	**Products**
April	30	8,000	11	88,000
June	30	6,000	9	54,000
September	30	5,000	6	30,000
December	31	12,000	3	36,000
January	31	10,000	2	20,000
		41,000		**2,28,000**

Interest = Total of Products x 9/100 x 1/12
= 2,28,000 x 9/100 x 1/12 = ₹1,710

SOLUTION : 19 (B).

(i) SIMPLE METHOD

Date	Amount ₹	Period (Months upto March 31)	Interest @ 10% ₹
1st June	1,000	10	83
1st August	750	8	50
1st October	1,250	6	63
1st December	500	4	17
1st February	500	2	8
	4,000		**221**

(ii)	PRODUCT METHOD		
Date	**Amount ₹**	**Period (Months upto March 31)**	**Products**
1st June	1,000	10	10,000
1st August	750	8	6,000
1st October	1,250	6	7,500
1st December	500	4	2,000
1st February	500	2	1,000
	4,000		**26,500**

Interest = Total of Products x 10/100 x 1/12
= 26,500 x 10/100 x 1/12 = ₹221

SOLUTION: 20 (A).

Gopal withdrew ₹1,000 p.m. regularly on the first day of every month during the year ended 31st March, 2014 for personal expenses. His interest on drawings will be calculated as follows:
12,000 x 15/100 x 6.5/12 = ₹975

SOLUTION: 20 (B).

(i) The interest on drawings of X who draws at the beginning of every month is:
48,000 x 9/100 x 6.5/12 = ₹2,340

(ii) The interest on drawings of Y who draws at the end of every month is:
48,000 x 9/100 x 5.5/12 = ₹1,980

(iii) The interest on drawings of Z who draws in the middle of every month is:
48,000 x 9/100 x 6/12 = ₹2,160

SOLUTION : 21.

Case (i)	Total Drawings for the year = ₹5,000 x 4	= ₹20,000
	Average Period = (12 months + 3 months) ÷ 2	= 7.5 months
	Interest on Drawings = ₹20,000 x 8/100 x 7.5/12	= ₹1,000
Case (ii)	Total Drawings for the year = ₹6,000 x 4	= ₹24,000
	Average Period = (9 months + 0 month) ÷ 2	= 4.5 months
	Interest on Drawings = ₹24,000 x 8/100 x 4.5/12	= ₹720
Case (iii)	Total Drawings for the year = ₹10,000 x 4	= ₹40,000
	Average Period = (10.5 months + 1.5 months) ÷ 2	= 6 months
	Interest on Drawings = ₹40,000 x 8/100 x 6/12	= ₹ 1,600

SOLUTION: 22.

Case (i) Average Period = (12 months +1 months)/2 = 6 ½ months
Interest on Drawings = ₹48,000 x 9/100 x 6.5/12 = ₹2,340

Case (ii) Average Period = (11 months + 0 months)/2 = 5 ½ months
Interest on Drawings = ₹60,000 x 9/100 x 5.5/12 = ₹2,475

Case (iii) Assuming that the drawings were made in the middle of every month:
Average Period = (11.5 months+ 0.5 month)/2 = 6 months
Interest on Drawings = ₹72,000 x 9/100 x 6/12 = ₹3,240

Case (iv) As the date of drawing is not given, interest will be calculated for an average period of 6 months.
Interest on Drawings = ₹72,000 x 9/100 x 6/12 = ₹3,240

Case (v)

Date	Amount of Drawings ₹	Period (Months upto 31st March, 2007)	Products ₹
30th April, 2015	10,000	11	1,10,000
1st July, 2015	15,000	9	1,35,000
1st Oct., 2015	18,000	6	1,08,000

30th Nov., 2015	12,000	4	48,000
31st March, 2016	20,000	0	—
			4,01,000

Interest on Drawings = ₹4,01,000 x 9/100 x 1/12 = ₹3,008

Case (vi) Average Period = (12 months+ 3 months)/2 = 7 ½ months

Total Drawings for the year = ₹12,000 x 4 = ₹48,000

Interest on Drawings = ₹48,000 x 9/100 x 7.5/12 = ₹2,700

Case (vii) Average Period = (9 months + 0 month)/2 = 4 ½ months

Total Drawings for the year = ₹18,000 x 4 = ₹72,000

Interest on Drawings = ₹72,000 x 9/100 x 4.5/12 = ₹2,430

Case (viii) Average Period = (10.5 months + 1.5 months)/2 = 6 months

Total Drawings for the year = ₹18,000 x 4 = ₹72,000

Interest on Drawings = ₹72,000 x 9/100 x 6/12 = ₹3,240

SOLUTION : 23 (A).

Gupta withdraws ₹800 at the beginning of every month for the six months ending 30th September, 2013. Hence, his drawings for the period of six months would be:
Total drawings = 6 x ₹800 = ₹4,800.
(Time left after first drawing + Time left after last drawing)/2
= (6 + 1)/2 = 3.5 months.
4,800 x 15/100 x 3.5/12 = ₹210

SOLUTION : 23 (B).

Gupta withdraws ₹800 at the end of every month for the six months ending 30th September, 2013.
Total drawings = 6 x ₹800 = ₹4,800
(Time left after first drawing + Time left after last drawing)/2
= (5 + 0)/2 = 2.5 months.
4,800 x 15/100 x 2.5/12 = ₹150

SOLUTION : 23 (C).

Total Drawings of A = ₹15,000 x 6 = ₹ 90,000
Total Drawings of B = ₹20,000 x 6 = ₹1,20,000
Total Drawings of C = ₹25,000 x 6 = ₹1,50,000

	A	B	C
Average Period	(6+1)/2 = 3.5 months	(5 + 0)/2 = 2.5 months	(5.5 + 0.5)/2 = 3 months

Interest on Drawings	₹90,000 x 10/100 x 3.5/12 = ₹2,625	₹1,20,000 x 10/100 x 2.5/12 = ₹2,500	₹1,50,000 x 10/100 x 3/12 = ₹3,750

SOLUTION : 24 (A).

Total Drawings = ₹10,000 x 9 months = ₹90,000
Average Period = (9 months + 1 month)/2 = 5 months
Interest on Drawings = ₹90,000 x 9/100 x 5/12 = ₹3,375

SOLUTION : 24 (B).

Total Drawings = ₹10,000 x 9 months = ₹90,000
Average Period = (8 months + 0 month)/2 = 4 months
Interest on Drawings = ₹90,000 x 9/100 x 4/12 = ₹2,700

SOLUTION : 24 (C).

Total Drawings = ₹10,000 x 9 months = ₹90,000
Average Period = (8.5 months + 0.5 month)/2 = 4.5 months
Interest on Drawings = ₹90,000 x 9/100 x 4.5/2 = ₹3,038

SOLUTION : 25.

Case (i) Interest on Drawings = ₹60,000 x 8/100 x 6/12= ₹2,400
Case (ii) Since rate of interest is 8% and not 8% p.a. interest will be calculated for 12 months:
Interest on Drawings = ₹60,000 x 8/100 = ₹4,800

SOLUTION : 26.

PROFIT AND LOSS APPROPRIATION ACCOUNT

Dr. For the year ended 31st March. 2014 Cr.

Particulars		₹	Particulars		₹
To Salary to Amit		18,000	By Profit & Loss A/c		74,040
To Profits transferred to :			By Interest on Drawings :		
Amit's Current A/c	30,000		Amit	1,560	
Nami's Current A/c	20,000		Namit	1,320	
Ruchi's Current A/c	10,000	60,000	Ruchi	1,080	3,960
		78,000			**78,000**

Dr. CURRENT ACCOUNTS Cr.

Date	Particulars	Amit	Namit	Ruchi	Date	Particulars	Amit	Namit	Ruchi
2013		₹	₹	₹	2013		₹	₹	₹
April 1	To Balance b/d	—	—	1,000	April 1	By Balance b/d	5,000	2,000	—
2014					2014				
March	To Dra-				March	By Salary	18,000	—	—

31	wings	24,000	24,000	24,000	31				
	To Interest on Dra-Wings**(1)**	1,560	1,320	1,080		By P & L Appro-priation A/c	30,000	20,000	10,000
	To Balance c/d	27,440	—	—		By Balance c/d	—	3,320	16,080
		53,000	**25,320**	**26,080**			**53,000**	**25,320**	**26,080**

(1) Calculation of Interest on Drawings:
Amit withdraws on the First day of each month
24,000 x 12/100 x 6.5/12 = ₹1,560
Namit withdraws on the last date of each month
24,000 x 12/100 x 5.5/12 = ₹1,320
Ruchi withdraws at the end of each quarter:
Average Period = (9 months + 0 month)/2 = 4.5 months
Interest on Drawings = 24,000 x 12/100 = ₹1,080

SOLUTION : 27.

JOURNAL

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
2016 Jan. 1	Q's Capital A/c To Bank A/c Dr. (Withdrawal by 0 out of Capital)		1,20,000	 1,20,000
March 31	Profit and Loss A/c Dr. To Profit and Loss Appropriation A/c (The transfer of profit to Profit and Loss Appropriation A/c)		4,30,000	 4,30,000
March 31	Interest on Capital A/c Dr. To P's Capital A/c To Q's Capital A/c (Interest on partner's capitals)		1,27,000	 80,000 47,000
	Profit and Loss Appropriation A/c Dr. To Interest on Capital A/c (Transfer of interest on Capital to Profit and Loss App. A/c)		1,27,000	 1,27,000
March 31	P's Capital A/c Dr. R's Capital A/c Dr. To Interest on Drawings A/c (Interest on partner's drawings)		6,600 7,200	 13,800
	Interest on Drawings A/c Dr. To Profit and Loss Appropriation A/c (Transfer of interest on drawings to Profit and Loss App. A/c)		13,800	 13,800

March 31	Profit and Loss Appropriation A/c To P's Capital A/c To Q's Capital A/c To R's Capital A/c (Transfer of profit to capital accounts)	Dr.	3,16,800	 1.05.600 1.05.600 1.05.600

Dr. PARTNER'S CAPITAL ACCOUNTS Cr.

Date	Particulars	P	Q	R	Date	Particulars	P	Q	R
2015		₹	₹	₹	2015		₹	₹	₹
Apr. 1	To Bal. b/d			20,000	Apr. 1	By Bal. b/d	8,00,000	5,00,000	
2016					2016				
Jan. 1	To Bank A/c		1,20,000		Mar. 31	By Int. on Capital A/c	80,000	47,000	
Mar. 31	To Drawings A/c	1,20,000		1,20,000	Mar. 31	By P&L App. A/c	1,05,600	1,05,600	1,05,600
Mar. 31	To Int. on Drawings A/c	6,600		7,200	Mar. 31	By Bal. c/d			41,600
Mar. 31	To Bal. c/d	8,59,000	5,32,600						
		9,85,600	**6,52,600**	**1,47,200**			**9,85,600**	**6,52,600**	**1,47,200**

Working Notes:

(1) Interest on Q's Capital: ₹

On ₹5,00,000 for 9 months : 5,00,000 x 10/100 x 9/12 37,500

On ₹3,80,000 for 3 months : 3,80,000 x 10/100 x 3/12 9,500

47,000

(2) Interest on drawings:

P's Drawings : ₹10,000 x 12 = ₹1,20,000 x 12/100 x 5.5/12 = 6,600

R's Drawings : ₹1,20,000 x 12/100 x 6/12 = **7,200**

Note : In the absence of actual dates of drawings of/?, interest thereon has been calculated for the average period i.e. 6 months.

(3) Divisible Profit =

₹4,30,000 – Interest on Capital ₹1,27,000 + Interest on Drawings ₹13,800 = ₹3,16,800

Each Partner's share = ₹3,16,800 ÷ 3 = ₹1,05,600

SOLUTION : 28.

Books of Active, Blunt and Circle
Profit & loss Appropriation A/c
for the year ended 31st March, 2015

Dr. | **Cr.**

Particulars		₹	Particulars		₹
To Interest on Capital :			By Profit & Loss A/c		
Active	27,000		(Net Profit for the year)		5,93,120
Blunt	36,000		By Interest on Drawings :		
Circle	21,000	84,000	Active 60,000 x 6/100 x 6.5/12	= 1,950	
To Salary' :			Blunt 84,000 x 6/100 x 5.5/12	= 2,310	
Blunt	72,000		Circle 80,000 x 6/100 x 6/12	= 2,400	6,660
Circle	48,000	1,20,000			
To Commission **(Note 1)**					
Blunt	17,990				
Circle	17,990	35,980			
To Profit Transferred to : **(Note 2)**					
Active's Current A/c	1,34,900				
Blunt's Current A/c	1,04,967				
Circle's Current A/c	1,19,933	3,59,800			
		5,99,780			**5,99,780**

Dr. **PARTNERS CURRENT ACCOUNTS** **Cr.**

Particulars	Active	Blunt	Circle	Particulars	Active	Blunt	Circle
	₹	₹	₹		₹	₹	₹
To Drawings	60,000	84,000	80,000	By Int. on Capital	27,000	36,000	21,000
To Int. on Drawings	1,950	2,310	2,400	By Salary		72,000	48,000
To Bal. c/d	99,950	1,44,647	1,24,523	By Commission		17,990	17,990
				By P & L App. A/c	1,34,900	1,04,967	1,19,933
	1,61,900	**2,30,957**	**2,06,923**		**1,61,900**	**2,30,957**	**2,06,923**

Working Note:

(1) Balance of Profit: ₹5,93,120 + 6,660 – 84,000 – 1,20,000 = ₹3,95,780

Commission to Blunt and Circle is 5% to each partner after charging such commission. Hence, the commission will be 5/110 to each partner.

Commission to Blunt = 3,95,780 x 5/110 = ₹17,990

Commission to Circle = 3,95,780 x 5/110 = ₹17,990

Divisible Profit: ₹3,95,780 – 17,990 – 17,990 = ₹3,59,800

	Active	Blunt	Circle
	₹	₹	₹
Upto ₹2,70,000	90,000	90,000	90,000
Equally ₹3,59,800 – 2,70,000 = ₹89,800			
in 1/2 : 1/6 : 1/3	44,900	14,967	29,933
	1,34,900	**1,04,967**	**1,19,933**

SOLUTION : 29.

Interest on Capitals:

A = ₹3,00,000 x 10% = ₹30,000

B = ₹2,00,000 x 10% = ₹20,000

A

Date	Amount	Period	Products
	₹		₹
30. 6.2012	20,000	9 months	1,80,000
31. 7.2012	10,000	8 months	80,000
1.10.2012	10,000	6 months	60,000
1. 3.2013	16,000	1 month	16,000
		Total	**3,36,000**

A's Interest on Drawing = Total of Products/12 x Rate of Interest/100

A = 3,36,000/12 x 10/100 = ₹2,800

B's Interest on Drawings = B withdraws ₹6,000 at the end of each month thus interest on his drawings would be :

72,000 x 10/100 x 5.5/12 = ₹3,300

Interest on Capital

SOLUTION : 30.

Case (i)

Dr. PROFIT AND LOSS APPROPRIATION A/C Cr.

Particulars	₹	Particulars	₹
To Profit transferred to :		By Profit & Loss A/c (Profit for the year)	9,000
X 2/3 6,000			
Y 1/3 3,000	9,000		
	9,000		**9,000**

Case (ii)

Dr. **PROFIT AND LOSS APPROPRIATION A/C** **Cr.**

Particulars	₹	Particulars		₹
		By Loss transferred to :		
To Profit & Loss A/c (Loss for the year)	6,000	X 2/3	4,000	
		Y 1/3	2,000	6,000
	6,000			**6,000**

Case (iii)

Dr. **PROFIT AND LOSS APPROPRIATION A/C** **Cr.**

Particulars		₹	Particulars	₹
To Interest on Capital :			By Profit & Loss A/c (Profit for the year)	9,000
X	3,000			
Y	1,800	4,800		
To Profit transferred to :				
X 2/3	2,800			
Y 1/3	1,400	4,200		
		9,000		**9,000**

Case (iv)

Dr. **PROFIT AND LOSS APPROPRIATION A/C** **Cr.**

Particulars	₹	Particulars	₹
To Interest on Capital:		By Profit & Loss A/c (Profit for the year)	3,000
X 3,000 x 5/8	1,875		
Y 3,000 x 3/8	1,125		
	3,000		**3,000**

Note : The available profit is ₹3,000 whereas the interest due on capitals is ₹4,800 {i.e., ₹3,000 + ₹1,800). Since the profit is less than the interest, the available profit will be distributed in the ratio of interest i.e., 3,000 : 1,800 or 5 : 3.

Case (v)

Dr. **PROFIT AND LOSS A/C*** **Cr.**

Particulars		₹	Particulars		₹
To Interest on Capital :			By Profit & Loss A/c (Profit for the year)		3,000
X	3,000				
Y	1,800	4,800	By Loss transferred to :		
			X 2/3	1,200	
			Y 1/3	600	1,800

	4,800		**4,800**

*Since Interest on Capital is to be allowed even if firm incurs loss, it is debited to P&L A/c and not to P&L Appropriation A/c.

SOLUTION : 31.

(Case I)

Dr. PROFIT AND LOSS APPROPRIATION A/C Cr.

Particulars	₹	Particulars	₹
To Interest on Capital		By Profit & Loss Account	42,000
A 42,000 x 4/7	24,000		
B 42,000 x 3/7	18,000		
	42,000		**42,000**

Note: The available profit is ₹42,000 whereas the interest due on capitals is ₹56,000 (i.e., ₹32,000 + ₹24,000). Since the profit is less than the interest, the available profit will be distributed in the ratio of interest i.e., 32,000 : 24,000 or 4 : 3.

(Case II)

Dr. PROFIT AND LOSS A/C Cr.

Particulars		**Particulars**	
To Interest on Capital		By Profit & Loss Account By Loss Transferred to :	42,000
A 32,000			
B 24,000	56,000	A 3/5 8,400	14,000
	56,000	B 2/5 5,600	**56,000**

SOLUTION : 32.

In the Books of Brij and Nandan
PROFIT AND LOSS APPROPRIATION ACCOUNT
Dr. for the year ended 31st March, 2014 Cr.

Particulars	₹	Particulars	₹
To Interest on Capital		By Profit & Loss A/c (Net Profit)	2,00,000
Brij's Capital A/c			
2,00,000 x 2/5 = 80,000			
Nandan's Capital A/c			
2,00,000 x 3/5 = 1,20,000	2,00,000		
	2,00,000		**2,00,000**

Working Notes:

Interest on capital of Brij = ₹1,20,000
Interest on capital of Nandan = ₹1,80,000

3,00,000

The available profit is ₹2,00,000, whereas interest due on capitals is ₹3,00,000. Since the profit is less than interest, the available profit will be distributed amongst the partners in the ratio of their interest on capital i.e., 1,20,000 : 1,80,000 or 12 : 18 or 2 : 3.

SOLUTION : 33.

Case (i)

Dr. PROFIT AND LOSS ACCOUNT Cr.

Particulars		₹	Particulars	₹
To Interest on Capital :			By Profit before interest	1,10,000
Kavita	48,000			
Leela	32,000	80,000		
To Profit transferred				
to Profit & Loss App. A/c		30,000		
		1,10,000		**1,10,000**

Dr. PROFIT AND LOSS APPROPRIATION ACCOUNT Cr.

Particulars		₹	Particulars	₹
To Profit transferred to :			By Profit & Loss A/c	30,000
Kavita's Capital A/c				
(2/3)	20,000			
Leela's Capital A/c				
(1/3)	10,000	30,000		
		30,000		**30,000**

Case (ii)

Dr. PROFIT AND LOSS ACCOUNT Cr.

Particulars		₹	Particulars		₹
To Interest on Capital:			By Profit before interest		35,000
Kavita	48,000		By Loss transferred to :		
Leela	32,000	80,000	Kavita's Capital A/c		
			(2/3)	30,000	
			Leela's Capital A/c		
			(1/3)	15,000	45,000
		80,000			**80,000**

Case (iii)

Dr. PROFIT AND LOSS ACCOUNT Cr.

Particulars		₹	Particulars		₹
To Loss before interest		10,000	By Loss transferred to :		
To Interest on Capital:			Kavita's Capital A/c		
Kavita	48,000		(2/3)	60,000	

Leela	32,000	80,000	Leela's Capital A/c (1/3)	30,000	90,000
		90,000			**90,000**

SOLUTION : 34.

In the books of Lalan & Balan
PROFIT AND LOSS ACCOUNT
Dr. for the year ended 31st March. 2011 Cr.

Particulars		₹	Particulars	₹
To Interest on Capital*			By Profit before Interest	30,000
Lalan's Current A/c	12,000		By Profit and Loss Appropriation	
Balan's Current A/c	24,000	36,000	A/c (Loss transferred)	6,000
		36,000		**36,000**

PROFIT AND LOSS APPROPRIATION ACCOUNT
Dr. for the year ended 31st March. 2011 Cr.

Particulars	₹	Particulars		₹
To Profit & Loss A/c		By Interest on Drawings :		
(Loss transferred)	6,000	Lalan's Current A/c	225	
		Balan's Current A/c	375	600
		By Net Loss transferred to :		
		Lalan's Current A/c	3,240	
		Balan's Current A/c	2,160	5,400
	6,000			**6,000**

Note: As the time period of drawings is not given, the interest will be charged for 6 months
Lalan : 3,000 x 15/100 x 6/12 = ₹225
Balan : 5,000 x 15/100 x 6/12 = ₹375
*Since Interest on Capital is to be allowed even if firm incurs loss, it is debited to P&L A/c and not to P&L Appropriation A/c.

SOLUTION 35

Ratio of effective capital will be calculated as under:—

	Products
X: ₹90,000 for 6 months	5,40,000
₹60,000 for 6 months	3,60,000
	9,00,000
Y: ₹75,000 for 4 months	3,00,000
₹90,000 for 4 months	3,60,000
₹60,000 for 4 months	2,40,000
	9,00,000
Z : ₹75,000 for 7 months	5,25,000

₹1,35,000 for 5 months 6,75,000

12,00,000

Thus the profit sharing ratio would be:
9,00.000 : 9,00.000 : 12.00,000 or 3 : 3 : 4

Dr. PROFIT AND I.OSS APPROPRIATION ACCOUNT Cr.

Particulars		₹	Particulars	₹
To Profits transferred to :			By Profit & Loss A/c	42,000
X	12,600			
Y	12,600			
Z	16,800	42,000		
		42,000		**42,000**

Adjustment in the Closed Accounts

SOLUTION : 36 (A).

	₹
Interest on A's Capital of ₹8,00,000 @ 8%	64,000
Interest on B's Capital of ₹4,00,000 @ 8%	32,000
Interest on C's Capital of ₹3,00,000 @ 8%	24,000
Total Interest to be allowed	₹ 1,20,000

This amount of ₹1,20,000 is an item of expense for the firm but this has not been recorded on the debit side of P & L Appropriation A/c of the previous year. As such the profit of the previous year will be reduced by this amount. Hence, this loss of ₹1,20,000 will be shared by the partners in their profit sharing ratio, i.e.. 2:1:1

A = ₹1,20,000 x 2/4 = ₹60,000

B = ₹1,20,000 x 1/4 = ₹30,000

C = ₹1,20,000 x 1/4 = ₹30,000

TABLE SHOWING ADJUSTMENT

Partner	Adjustment		Difference	
	Dr.	**Cr.**	**Dr.**	**Cr.**
A	60,000	64,000		4,000
B	30.000	32,000		2,000
C	30,000	24,000	6,000	

JOURNAL ENTRY

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
	C's Capital A/c Dr. To A's Capital A/c To B's Capital A/c **(Adjustment in respect of interest on capital omitted in previous year's accounts)**		6,000	 4,000 2,000

SOLUTION: 36 (B).

A's Interest on Capital = ₹1,20,000 x 5/100 = ₹6,000

B's Interest on Capital = ₹70,000 x 5/100= ₹3,500

C's Interest on Capital = ₹50,000 x 5/100 = ₹2,500

TABLE SHOWING ADJUSTMENT

Partner	Adjustment		Difference	
	Dr.	Cr.	Dr.	Cr.
A	5,000	6,000		1,000
B	4,000	3,500	500	
C	3,000	2,500	500	

JOURNAL ENTRY

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
2016 March, 31	B's Capital A/c C's Capital A/c Dr. To A's Capital A/c Dr. **(Adjustment in respect of interest on capital omitted in previous year's accounts)**		500 500	 1,000

SOLUTION : 37.

		₹
A	8% on ₹4,00,000 for 2 years	= 64,000
B	8% on ₹6,00,000 for 2 years	= 96,000
C	8% on ₹8,00,000 for 2 years	= 1,28,000
		2,88,000

TABLE SHOWING ADJUSTMENT

	A	B	C	Total
Interest on Capital (Cr.)	₹ 64,000	₹ 96,000	₹ 1,28,000	2,88,000
Division of ₹2,88,000 in profit sharing ratio i.e. 1 : 2 : 3 (Dr.)	48,000	96,000	1,44,000	2,88,000
Difference	(Cr.) 16,000	—	(Dr.) 16,000	—

JOURNAL ENTRY

Date	Particulars	L.F.	Dr.(₹)	Cr.(₹)
2016 March 31	C's Current A/c Dr. To A's Current A/c **(Omission of interest on Capital for 2 years rectified)**		16,000	16,000

SOLUTION: 38.

Interest charged on A's drawings = ₹8,000
Interest charged on B's drawings = ₹6,000
Interest charged on C's drawings = ₹4,000
₹ 18,000

This amount of ₹18,000 is an item of income for the firm but this has not been recorded on the credit side of P & L Appropriation A/c of the previous year. As such the profit of the previous year will now be increased by this amount. Hence, this profit of ₹18,000 will be shared by the partners in their profit sharing ratio of 5 : 3 : 1 which amounts to A ₹10,000, B ₹6,000 and C ₹2,000.

TABLE SHOWING ADJUSTMENTS

Partner	Adjustment		Difference	
	Dr.	Cr.	Dr.	Cr.
A	8,000	10,000		2,000
B	6,000	6,000		
C	4,000	2,000	2,000	

JOURNAL ENTRY

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
	C's Capital A/c Dr. To A's Capital A/c **(Adjustment for omission of interest on drawings)**		2,000	2,000

SOLUTION: 39.

Calculation of Interest on Drawings :

	₹
A : 6% on ₹20,000 for 6 months	600
B : 6% on ₹24,000 for 6 months	720
C : 6% on ₹32,000 for 6 months	960
D : 6% on ₹44,000 for 6 months	1,320
	3,600

TABLE SHOWING ADJUSTMENT

	A	B	C	D	Total
	₹	₹	₹	₹	
Interest on Drawings (Dr.)	600	720	960	1,320	3,600
Division of 3,600 in 2 : 2 : 3 : 3 (Cr.)	720	720	1,080	1,080	3,600
Difference	Cr. 120	—	Cr. 120	Dr. 240	—

JOURNAL ENTRY

Date	**Particulars**	**LF.**	**Dr.(₹)**	**Cr.(₹)**
	D's Capital A/c Dr.		240	
	To A's Capital A/c			120
	To C's Capital A/c			120
	(Omission of interest on drawings, now rectified)			

SOLUTION : 40.

A's Drawings = ₹50,000 x 12 = ₹6,00,000

Interest on A's Drawings will be charged for 6.5 months

6,00,000 x 12/100 x 6.5/12 = ₹39,000

TABLE SHOWING ADJUSTMENT

		A	B	Total
Interest on Drawings	(Dr.)	₹	₹	
		39,000		39,000
Division of ₹39,000 in 2 : 1	(Cr.)	26,000	13,000	
Difference		Dr. 13,000	Cr. 13,000	39,000

ADJUSTMENT ENTRY

Date	**Particulars**	**L.F.**	**Dr. (₹)**	**Cr. (₹)**
2016	A's Capital A/c Dr.		13,000	
April 1	To B's Capital A/c			13,000
	(Adjustment of Omission of interest on A's			

	drawings)			

SOLUTION : 41.

TABLE SHOWING ADJUSTMENT

	Anil	Sunil	Sanjay	Total
	Cr. (₹)	**Cr. (₹)**	**Cr. (₹)**	**(₹)**
Interest on Capitals @ 10% p.a.				
I) for the year ended 31st March 2015	80,000	70,000	30,000	1,80,000
II) for the year ended 31st March 2016	80,000	70,000	30,000	1,80,000
Total Amount Payable (Cr.)	**1,60,000**	**1,40,000**	**60,000**	**3,60,000**
Division of Firm's loss will be as under :	Dr. (₹)	Dr.(₹)	Dr.(₹)	(₹)
I) for the year ended 31st March 2015				
in the ratio of 4 : 3 : 2	80,000	60,000	40,000	1,80,000
II) for the year ended 31st March 2016				
in the ratio of 3 : 2 : 1	90,000	60,000	30,000	1,80,000
Total Loss (Dr)	**1,70,000**	**1,20,000**	**70,000**	**3,60,000**

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
2016 April 1	Anil's Current A/c Dr.		10,000	
	Sanjay's Current A/c Dr.		10,000	
	To Sunil's Current A/c			20,000
	(Adjustment for the omission of two years' interest on capitals)			

SOLUTION : 42.

TABLE SHOWING ADJUSTMENTS

	P	Q	R	Total
	₹	₹	₹	₹
Interest on Capitals @ 12% p.a.	6,000	3,600	2,400	12,000
Salary to Partners	6,000	—	12,000	18,000
Total Amount Payable (Cr.)	**12,000**	**3,600**	**14,400**	**30,000**
Division of firm's loss of ₹30,000 in 2 : 1 : 1 (Dr.)	15,000	7,500	7,500	30,000
Net Effect	**(Dr.) 3,000**	**(Dr.) 3,900**	**(Cr.) 6,900**	

JOURNAL ENTRY

Date	Particulars	L.F.	Dr.(₹)	Cr.(₹)
2011	P's Capital A/c Dr.		3,000	
April 1	Q's Capital A/c Dr.		3,900	
	To R's Capital A/c			6,900
	(Adjustment for the omission of interest on capitals and salary)			

SOLUTION : 43 (A)

TABLE SHOWING ADJUSTMENTS

	A	B	Total
	₹	₹	₹
Interest on Capital (Cr.)	48,000	24,000	72,000
Commission due to B	—	20,000	20,000
Salary to A	50,000	—	50,000
	98,000	44,000	1,42,000
Less : Interest on Drawings (Dr.)	12,000	10,000	22,000
(Cr.)	86,000	34,000	1,20,000
Division of Firm's loss of ₹1,20,000 in 2 : 1 (Dr.)	80,000	40,000	
	(Cr.) 6,000	**(Dr.) 6,000**	—

Adjustment Entry:—

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
10th April, 2016	B's Capital A/c Dr.		6,000	
	To A's Capital A/c			6,000
	(Adjustment for omissions)			

SOLUTION : 43 (B)

TABLE SHOWING ADJUSTMENTS

	Kumar	Raja	Total
	₹	₹	₹
Interest on Capital (Cr.)	81,000	36,000	1,17,000
Salary (Cr.)	50,000	36,000	86,000
	1,31,000	72,000	2,03,000
Division of firm's loss of ₹2,03,000 in 7 : 3(Dr.)	1,42,100	60,900	2,78,000
Net Effect	**(Dr.) 11,100**	**(Cr.) 11,100**	—

ADJUSTMENT ENTRY

Date	Particulars	L.F.	Dr.(₹)	Cr.(₹)
2007 March 31	Kumar's Current A/c Dr. To Raja's Current A/c **(Adjustment for omission of interest on capital and salary)**		11,100	 11,100

SOLUTION : 44.

TABLE SHOWING ADJUSTMENT

	A	B	C	Total
	₹	₹	₹	₹
Salary		60,000	40,000	1,00,000
Interest on Capital	24,000	15,000	6,000	45,000
Total amount payable (Cr.)	**24,000**	**75,000**	**46,000**	**1,45,000**
Division of firm's loss of ₹ 1,45,000 in 2 : 2 : 1 (Dr.)	58,000	58,000	29,000	1,45,000
	(Dr.) 34,000	(Cr.) 17,000	(Cr.) 17,000	
Adjustment for Manager's Commission : 10/110 of ₹2,20,000 = ₹20,000 in 2:2:1	(Dr.) 8,000	(Dr.) 8,000	(Dr.) 4,000	20,000
Net Effect	**(Dr.) 42,000**	**(Cr.) 9,000**	**(Cr.) 13,000**	**(Cr.) 20,000**

RECTIFYING ENTRY

Date	Particulars	L.F.	Dr.(₹)	Cr.(₹)
	A's Current A/c Dr. To B's Current A/c To C's Current A/c To Manager's Commission Outstanding A/c **(Adjustment for omissions of salary, interest on capitals and manager's commission)**		42,000	 9,000 13,000 20,000

SOLUTION : 45.

TABLE SHOWING ADJUSTMENTS

	Suresh	Ramesh	Total
	₹	₹	₹
Interest on Capital (Cr.)	45,000	30,000	75,000
Salary (Cr.)	60,000	24,000	84,000
Profit remaining after allowing interest on capital and salary' will be ₹2,34,000 – ₹75,000 – ₹84,000 = ₹75,000. It will be divided in their profit sharing ratio, i.e. 3 : 2	45,000	30,000	75,000
Net amount which should have been received (Cr.)	**1.50,000**	**84,000**	**2,34,000**

Less : Profit already distributed equally (Dr.)	1,17,000	1.17,000	2,34,000
Net Effect	**(Cr.) 33,000**	**(Dr.) 33,000**	

ADJUSTMENT ENTRY

Date	Particulars	L.F.	Dr.(₹)	Cr.(₹)
2007 March 31	Ramesh's Current A/c Dr. To Suresh's Current A/c **(Adjustment for interest on Capital, salary and wrong distribution of profit)**		33,000	33,000

SOLUTION : 46.

STATEMENT OF ADJUSTMENT

	A	B	C	Total
	₹	₹	₹	₹
Salary to C	—	—	1,20,000	1,20,000
Interest on Capitals @ 5% p.a.	25,000	12,500	12,500	50,000
Balance profit i.e. ₹3,30,000 – ₹1,20,000 – ₹50,000 = ₹1,60,000 distributed among partners in the ratio of 2 : 1 : 1	80,000	40,000	40,000	1,60,000
Net amount which should have been received (Cr.)	**1,05,000**	**52,500**	**1,72,500**	**3,30,000**
Less : Profit already distributed (Dr.)	1,10,000	1,10,000	1,10,000	3,30,000
Net Effect	**(Dr.) 5,000**	**(Dr.) 57,500**	**(Cr.) 62,500**	

ADJUSTMENT ENTRY

Date	Particulars	L.F.	Dr.(₹)	Cr.(₹)
2016 March 31	A’s Capital A/c Dr. B's Capital A/e Dr. To C’s Capital A/c (Adjustment for the omission of Salary and interest on Capital)		5,000 57,500	62,500