CLASS - 12th
TS Grewal's
DOUBLE ENRTY
BOOK KEEPING SOLUTION
PART - 1
ACCOUNTANCY

Chapter - 1
Accounting for Partnership FIRMS - Fundamentals

SOLVED PRACTICAL PROBLEMS

Q. 1. In the absence of Partnership Deed, what are the rules relating 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 ?

Ans. (a) Not allowed, (b) Not allowed, (c) 6% per annum, (d) Equal, (e) Not allowed

Q. 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 ₹ 1,000. 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 partner, P does not agree?

Ans. (a) P must pay ₹ 25,000; (b) Q must pay ₹ 5,000; (c) Goods may be bought from A Ltd; (d) C cannot be admitted;

Q. 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 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 the purpose.

Ans. (a) A's claim is not accepted,

(b) B's claim is not accepted,

(c) C's claim is not accepted only 6% p.a. should be allowed by way of interest on loan,

(d) Profits or losses should be distributed among the partners equally. The claim, made by A and B is not accepted.

Q. 4. Jaspal and Rosy were partners with 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.

Sol. In the absence of partnership deed, According to Indian partnership Act, 1932, Profit should be shared equally.

Q. 5. Harshad and Dhiman are in partnership since 1st April, 2017. 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, 2017. Due to long illness, Harshad could not participate in business activities from 1st August to 30th September, 2017. The profit for the year ended 31st March, 2018 amounted to ₹ 1,80,000. 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 proportion of capital;

Dhiman Claims

(i) Profits 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.

Sol. Woking Note—In the absence of partnership agreement

(i) Interest on partner's Loan will be allowed at 6% p.a.

(ii) Profit should be shared equally.

Profit and Loss Appropriation A/c

Dr. ***as on March 31, 2018*** ***Cr.***

Particulars		₹	*Particulars*		₹
To Appropriation of Net			By Profit & Loss A/c		
Profit : [in 1 : 1]			(Net Profit for the Year)		
Harshad	88,500			1,80,000	
Dhiman	88,500	1,77,000	*Less* : Int. on Harish Loan	3,000	1,77,000
			[1,00,000 × 6% (6/12)]		
Total		1,77,000	Total		1,77,000

Q. 6. A and B are partners from 1st April, 2017, without a Partnership Deed and they introduced capitals of ₹ 35,000 and ₹ 20,000 respectively. On 1st October, 2017, A advances a loan of ₹ 8,000 to the firm without any agreement as to interest. The Profit and Loss Account for the year ended 31st March, 2018 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.

Sol.

Dr. **Profit & Loss Appropriation Account** Cr.

Particulars	₹	*Particulars*	₹
To Interest on A's Loan 8000 × 6% × 6/12	240	By Profit for the year	15,000
To Net Profits trans. to Cap. A/c A = 14,760/2 = 7380 B = 14,760/2 = 7380	14,760		
	15,000		**15,000**

Q. 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 of 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 on 31st March.

Sol. According to the provision of the Indian Partnership Act, 1932 interest @ 6% p.a. is payable on the amount of loan given by partners. In the present case interest shall be payable for 6 months, i.e., from 1st Oct to 31st March next

Interest payable to A = 30,000 × 3/5 × 6/100 × 6/12 = ₹ 540

Interest payable to B = 30,000 × 2/5 × 6/100 × 6/12 = ₹ 360

Q. 8. A and B are partners in a firm sharing profits equally. 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 the question of interest on the loan from partners. Compute the interest payable by the firm to the partners, assuming the firm closes its books on 31st March each year.

Sol. Interest to Each Partner's Loan = 30,000 × (1/2) × 6% × (6/12)

= ₹ 450

Q. 9. X and Y are partners sharing profits and losses in the ratio of 2 : 3 with capitals of ₹ 2,00,000 and ₹ 3,00,000 respectively. On 1st October, 2016, X and Y granted loans of ₹ 80,000 and ₹ 40,000 respectively to the firm. Show distribution of profits/losses for the year ended 31st March, 2018 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

Sol. Case 1 :

Dr. **Profit & Loss Appropriation Account** Cr.

Particulars	₹	*Particulars*	₹
To Interest on Partners' Loans X = 80,000 × 6% × 6/12 = 2,400 Y = 40,000 × 6% × 6/12 = 1,200	3,600	By Profit for the year	21,000
To Capitals A/c – Net Profit X = 17,400 × 2/5 = 6,960 Y = 17,400 × 3/5 = 10,440	17,400		
	21,000		**21,000**

Case 2 :

Dr. **Profit & Loss Appropriation Account** Cr.

Particulars	₹	*Particulars*	₹
To Interest on Partners Loans		By Profit for the year	3,000
X = 80,000 × 6% × 6/12 = 2,400		By Capitals A/c – Net Loss	
Y = 40,000 × 6% × 6/12 = 1,200	3,600	X = 600 × 2/5 = 240	
		Y = 600 × 3/5 = 360	600
	3,600		3,600

Case 3 :

Dr. **Profit & Loss Appropriation Account** Cr.

Particulars	₹	*Particulars*	₹
To Interest on Partners' Loans		By Profit for the year	5,000
X = 80,000 × 6% × 6/12 = 2,400			
Y = 40,000 × 6% × 6/12 = 1,200	3,600		
To Capitals A/c – Net Profit			
X = 1,400 × 2/5 = 560			
Y = 1,400 × 3/5 = 840	1,400		
	5,000		5,000

Case 4 :

Dr. **Profit &Loss A/c** Cr.

Particulars	₹	*Particulars*	₹
To Balance b/d	1,400	By Net Loss c/d	
To Interest on Partners Lons		*x* (5,000 × 2/5)	2,000
x 2400		*y* (5,000 × 3/5)	3,000
y 1200	3,600		
Total	5,000	Total	5,000

Q. 10. Bat and Ball are Partners sharing profits in the ratio of 2 : 3 with capitals of ₹ 1,20,000 and ₹ 60,000 respectively. On 1st October, 2017, Bat and Ball granted 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 losses for the year ended 31 March 2017, before any interest amounted to ₹ 9,000. Show distribution of profit/loss.

Sol.

Dr. **Profit & Loss Appropriation Account** Cr.

Particulars	₹	*Particulars*	₹
To Loss during the year	9,000	By Capital A/c – Net loss	
To Rent Paid (5,000 × 12)	6,000	Bat = 79,800 × 2/5 = 31,920	
To Interest on Loan		Ball = 79,800 × 3/5 = 47,880	19,800
Bat = 2,40,000 × 6% × 6/12	7,200		
Ball = 1,20,000 × 6% × 6/12	3,600		
	79,800		79,800

Q. 11. 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.

Sol.

Dr. **Profit & Loss Appropriation Account** *Cr.*

Particulars	₹	*Particulars*	₹
To Interest on Capital:		By Net Profit b/d	80,000
A = 1,00,000 × 6% = 6,000			
B = 60,000 × 6% = 3,600	9,600		
To B's Salary = 3,000 × 12	36,000		
To Capital A/c – Net Profit:			
A = 34,400 × ½ = 17,200			
B = 34,400 × ½ = 17,200	34,400		
	80,000		80,000

Q. 12. X, Y and Z are partners in a firm sharing profits in 2 : 2 : 1 ratio. The The Partnership Deed provides that interest on capital is to be allowed @ 10% p.a. Accordingly, interest on capitals is ₹ 50,000, ₹ 50,000 and ₹ 25,000 respectively. 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.

Sol.

Dr. **Profit & Loss Appropriation Account** *Cr.*

Particulars	₹	*Particulars*	₹
To Interest on Capital		By Profit for the year	4,00,000
X = 5,00,000 × 10% = 50,000			
Y = 5,00,000 × 10% = 50,000			
Z = 2,50,000 × 10% = 25,000	1,25,000		
To Net Profits trans. to Cap. A/c			
X = 2,75,000 × 2/5 = 1,10,000			
Y = 2,75,000 × 2/5 = 1,10,000			
Z = 2,75,000 × 1/5 = 55,000	2,75,000		
	4,00,000		4,00,000

Q. 13. X and Y are partners sharing profits in the ratio 3 : 2 with capitals of ₹ 80,000 and ₹ 60,000 respectively. Interest on capital is agreed @ 5% p.a. Y is to be allowed an annual salary of ₹ 6,000 which has not been withdrawn. Profit for the year ended 31st March, 2018 before interest on capital but after charging Y's salary amounted to ₹ 24,000.

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

Sol.

Dr. Profit & Loss Appropriation Account Cr.

Particulars	₹	Particulars	₹
To Interest on Capital		By Profit for the year	24,000
X = 80,000 × 5% = 4,000		(After Y's Salary)	
Y = 60,000 × 5% = 3,000	7,000		
To Manager's commission			
(24,000 + 6,000) × 5%	1,500		
To Net Profits trans. to Cap. A/c			
A = 15,500 × 3/5 = 9,300			
B = 15,500 × 2/5 = 6,200	15,500		
	24,000		24,000

Q. 14. 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 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 the Profit and Loss Appropriation Account of the firm.

Sol. **Profit & Loss Appropriation Account**

Dr. ***for the year ended 31st March, 2018*** **Cr.**

Particulars	₹	Particulars		₹
To Interest on Capital		By Profit for the year		90,575
Prem (2,00,000 × 5%) 10,000		By Interest on Drawing		
Manoj (1,50,000 × 5%) 7,500	17,500	Prem	1,250	
To Prem's salary (2,500×12)	30,000	Manoj	425	1,675
To Manoj's commission	10,000			
To Net Profit trans. to Cap. A/c				
Prem (34,750 × 3/5) 20,850				
Manoj (34,750 × 2/5) 13,900	34,750			
	92,250			92,250

Q. 15. Reema and Seema are partners sharing profits equally. The Partership Deed provides that both Reema and Seema will get monthly salary of ₹ 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 ₹ 5,00,000 each and drawings during the year were ₹ 60,000 each.

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

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

Sol. **Profit and Loss Appropriation A/c**

Dr. *for the ended March 31, 2018* Cr.

Particulars	₹	*Particulars*		₹
To Profit & Loss A/c (Net Loss for the year)	1,00,000	By Int. on Drawings :		
		Reema	3,000	
		[60,000 × 10% (6/12)]		
		Seema	3,000	6,000
		[60,000 × (10%) × (6/12)]		
		By Net Loss trans. to Partners [1 : 1]		
		Reema	47,000	
		Seema	47,000	94,000
Total	**1,00,000**	**Total**		**1,00,000**

Q. 16. Bhanu and Partap are partners sharings profits equally. Their fixed capitals as on 1st April, 2017 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 allowed @ 10% p.a. and interest on drawing is to be charged @ 15% p.a. Profit for the year ended 31st march, 2018 was ₹ 1,20,000.

Prepare Profit and Loss Appropriation Account.

Sol. **Profit and Loss Appropriation A/c**

Dr. *for the year ended March 31, 2018* Cr.

Particulars		₹	*Particulars*		₹
To Interest on Capital			By Profit & Loss A/c (Net Profit for the year)		1,20,000
Bhanu	80,000		By Interest on Drawings :		
[8,00,000 × (10%)]					
Pratap	1,00,000	1,80,000	Bhanu	3,750	
[10,00,000 × (10%)]			[50,000 × (15%) × (6/12)]		
			Pratap	7,500	11,250
			[1,00,000 × (15%) × 6/12]		
			By Net Loss transferred on in 1 : 1		
			Bhanu	24,375	
			Pratap	24,375	48,750
Total		1,80,000	Total		1,80,000

Q. 17. Amar and Bimal entered into partnership on 1st April, 2017 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 Fixed Capital Accounts method. The firm earned net profit of ₹ 1,00,000 for the year ended 31st March, 2018.

Pass the Journal entry for interest on capital.

Sol. Calculation of interest on capital—

Amar = 1,50,000 × (10/100) = ₹ 15,000

Bimal = 2,50,000 × (10/100) = ₹ 25,000

Journal

Date	Particulars	LF	Dr. (₹)	Cr. (₹)
	Profit & Loss Appropriation A/c Dr.		40,000	
	To Amar's Current A/c			15,000
	To Bimal's Current A/c			25,000
	(Being I.O. capital at 10% p.a. charged on capital)			

Q. 18. Kamal and Kapil are partners having fixed capitals of ₹ 5,00,000 each as on 31st March, 2017. Kamal introduced further capital of ₹ 1,00,000 on 1st October, 2017 whereas Kapil withdrew ₹ 1,00,000 on 1st October, 2017 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, 2018.

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

Sol. Calculation of Interest on Capital—

For Kamal = (5,00,000 × 10%) + (1,00,000 × 10% × 6/12)

= 50,000 + 5,000 = ₹ 55,000

For Kapil = (5,00,000 × 10%) – [1,00,000 × 10% × (6/12)]

= 50,000 – 5,000 = ₹ 45,000

Journal

Date	Particulars	LF	Dr. (₹)	Cr. (₹)
(i)	Profit & Loss App. A/c Dr.		1,00,000	
	To Kamal's Current A/c			55,000
	To Kapil's Current A/c			45,000
	(Being Interest on capital at 10% p.a. given to partners)			

Profit & Loss Appropriation A/c
as on March 31, 2018

Particulars		₹	Particulars	₹
To Interest on Capital			By Profit & Loss A/c	6,00,000
Kamal	55,000			
Kapil	45,000	1,00,000		
To Net Profit : (1 : 1)				
Kamal	2,50,000			
Kapil	2,50,000	5,00,000		
Total		**6,00,000**	**Total**	**6,00,000**

Q. 19. Simran and Reema are partners sharing profits in the ratio of 3 : 2. Their capitals as on 31st March, 2017 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, 2018.

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

Sol. Journal

Date	*Particulars*	*LF*	*Dr. (₹)*	*Cr. (₹)*
(*i*)	Profit & Loss App. A/c Dr.		20,000	
	To Simran's Current A/c [2,000,000 × 5%]			10,000
	To Reema's Current A/c [2,00,000 × 5%]			10,000
	(Being Interest on Capital given to Partners)			
(*ii*)	Profit & Loss App. A/c Dr.		2,80,000	
	To Simran's Current A/c [2,80,000 × (3/5)]			1,68,000
	To Reema's Current A/c [2,80,000 × (2/5)]			1,12,000
	(Being dist. of profit b/w partners in 3 : 2)			

Profit & Loss Appropriation A/c
as on March 31, 2018

Particulars		₹	*Particulars*	₹
To Interest on Capital			By Profit & Loss A/c	3,00,000
Simran	10,000			
Reema	10,000	20,000		
To Net Profit : (3 : 2)				
Simran	1,68,000			
Reema	1,20,000	2,80,000		
Total		3,00,000	Total	3,00,000

Q. 20. Anita and Ankita are partners sharing profits equally. Their capitals, maintained following Fluctuating Capital Accounts Method, as on 31st March, 2017 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, 2018.

Pass the Journal entry for interest on capital.

Sol. Journal

Date	*Particulars*	*LF*	*Dr. (₹)*	*Cr. (₹)*
(*i*)	Profit & Loss App. A/c Dr.		90,000	
	To Anita's Capital A/c [5,00,000 × 10%]			50,000
	To Ankita's Capital A/c [4,00,000 × 10%]			40,000
	(Being Interest on capital at 10% p.a. given to partners)			

Q. 21. Ashish and Aakash are partners sharing profit in the ratio of 3 : 2. Their Capital Account showed a credit balance of ₹ 5,00,000 and ₹ 6,00,000 respectively as on 31st March, 2018 after debit of drawings during the year of ₹ 1,50,000 and ₹ 1,00,000 respectively. Net profit for the year ended 31st March 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.

Sol. Calculation of opening capital

Particulars	*Ashish*	*Aakash*
Closing Balance	5,00,000	6,00,000
Add : Drawings	1,50,000	1,00,000
Opening Balance	6,50,000	7,00,000

Journal

Date	*Particulars*	*LF*	*Dr.* (₹)	*Cr.* (₹)
(*i*)	Profit & Loss App. A/c Dr.		1,35,000	
	To Ashish's Capital A/c [6,50,000 × 10%]			65,000
	To Aakash's Capital A/c [7,00,000 × 10%]			70,000
	(Being Interest on capital at 10% p.a. given to partners)			

Profit & Loss Appropriation A/c

Particulars		₹	*Particulars*	₹
To Interest on Capital			By Profit & Loss A/c	5,00,000
Ashish	65,000			
Aakash	70,000	1,35,000		
To Net Profit c/d				
Ashish [3,65,000 × (3/5)]		2,19,000		
Aakash [3,65,000 × (2/5)]		1,46,000		
Total		5,00,000	Total	5,00,000

Q. 22. Naresh and Sukesh are partners with capitals of ₹ 3,00,000 each as on 31st March, 2018. Naresh had withdrawn ₹ 50,000 against capital on 1st October, 2017 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.

Sol. Calculation of opening capital

Particulars	*Naresh*	*Sukesh*
Closing Balance	3,00,000	3,00,000
Add : Drawings Naresh [50,000 + 1,00,000]	1,50,000	—
Sukesh	—	1,00,000
	4,50,000	4,00,000

Journal

Date	Particulars		LF	Dr. (₹)	Cr. (₹)
(i)	Profit & Loss App. A/c	Dr.		82,500	
	To Naresh's Capital A/c				42,500
	To Suresh's Capital A/c				40,000
	(Being Interest on Capital at 10% p.a. given to partners)				
(ii)	Profit & Loss App. A/c	Dr.		1,17,500	
	To Naresh's Capital A/c [1,17,500 × (1/2)]				58,750
	To Sukesh's Capital A/c				58,750
	(Being Net Profit distribute b/w the partners)				

Working Note—Interest on Capital

(i) Naresh = [4,50,000 × 10% × (6/12)] + [4,00,000 × 10% × (6/12)]
= 22,500 + 20,000 = ₹ 42,500

(ii) Sukesh = 4,00,000 × 10% = ₹ 40,000

Q. 23. On 1st April, 2013, Jay and Vijay entered into partnership for supplying laboratory equipments to government schools situated in remote and backward areas. They contributed capitals 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.

Sol. **Profit & Loss Appropriation A/c**
as on March 31, 2014

Particulars	₹	Particulars	₹
To Interest on Capital		By P & L A/c	7,800
Jay (7,800 × 8/13)	4,800		
Vijay (7,800 × 5/13)	3,000		
Total	**7,800**	**Total**	**7,800**

Working Note—(i) Int. on Capital to

Jay = 80,000 × 9% = ₹ 7,200

Vijay = 50,000 × 9% = ₹ 4,500

Total Int. on Capital =₹ (7,200 + 4,500) = 11,700 is more than the available profit ₹ 7,800. So, Amount of profit will distribute in actual Interest Ratio i.e. = 7,200 : 4,500 = 8 : 5

Q. 24. A, B and C are partners in a firm. A and B are to get 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.

Sol. Calculation of share of profit

Particulars		₹
Net Profit for the year		4,80,000
Less : Salary to Partners		
A	1,20,000	
B	1,20,000	2,40,000
Net Profit for distribution		2,40,000

So, share of each partner = 2,40,000/3

= ₹ 80,000

Q. 25. 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.

Sol. Commission payable to A = ₹ 1,10,000 × 10%

= ₹ 11,000

Q. 26. 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.

Sol. Commission payable to Z = ₹ 2,20,000 × (10/110)

= ₹ 20,000

Q. 27. 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.

Sol. **Profit & Loss Appropriation Account**

Dr. *for the year ended 31st march, 2018* *Cr.*

Particulars		₹	*Particulars*	₹
To Commission = 1,80,000 × 20/120			By Profit for the year	1,80,000
A = 30,000 × 2/10 =	6,000			
B = 30,000 × 3/10 =	9,000			
C = 30,000 × 2/10 =	6,000			
D = 30,000 × 3/10 =	9,000	30,000		
To Capitals A/c – Net Profit				
A = 1,50,000× 4/10 =	60,000			
B = 1,50,000 × 3/10 =	45,000			
C = 1,50,000 × 2/10 =	30,000			
D = 1,50,000 × 1/10 =	15,000	1,50,000		
		1,80,000		1,80,000

Q. 28. 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, 2018 was ₹ 4,20,000.

Show distribution of profit.

Sol. **Profit & Loss Appropriation Account**

Dr. ***for the year ended 31st march, 2018*** ***Cr.***

Particulars	₹	*Particulars*	₹
To Salary A/c		By Profit for the year	4,20,000
X = (10,000 × 12) = 1,20,000			
Y = (25,000 × 1) = 25,000	1,45,000		
To X's Commission			
(4,20,000–1,45,000) × 10%	27,500		
To Y's Commission			
(4,20,000 –1,45,000–27,500) × 10/110	22,500		
To Capitals A/c – Net Profit			
X = 2,25,000 × ½ = 1,12,500			
Y = 2,25,000 × ½ = 1,12,500	2,25,000		
	4,20,000		4,20,000

Q. 29. Ram and Mohan, two partners, drew for private use ₹ 1,20,000 and ₹ 80,000. Interest is chargeable @ 6% per annum on the drawings. What is the amount of interest chargeable from each partner ?

Sol. Calculation of interest on Drawings

Ram = ₹ 1,20,000 × 6% × ½ = ₹ 3,600

Mohan = ₹ 80,000 × 6% × ½ = ₹ 2,400

Note: Assumed that drawings are made in the middle of the year.

Q. 30. B and M are partners in a firm. They withdrew ₹ 48,000 and ₹ 36,000 respectively during the year evenly at the middle of every month. According to the partnership agreement, interest on drawings is to be charged @ 10% per annum.

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

Sol. Interest on B's drawings =48,000 × 10% × 6/12 = ₹ 2,400

Interest on M's drawings = 36,000 × 10% × 6/12 = ₹ 1,800

Q. 31. A and B are partners sharing profits equally. A drew regularly ₹ 4000 in the beginning of every month for six months ended 30th September, 2018. Calculate interest on drawings at 5% per annum for a period of six months.

Sol. Interest on A's Drawings

= ₹ 4000 × 6 × 5% × 3½/12 = A 350

Calculation of period for Drawing = (6 +1)/2 = 3.5 months

Q. 32. A and B are partners sharing profits equally. A drew regularly ₹ 4000 at the end of every month for six months ended 30th September, 2018. Calculate interest on drawings at 5% per annum for a period of six months.

Sol. Interest on A's Drawings

= ₹ 4000 × 6 × 5% × 2½ /12 = ₹ 250

(Calculation of period for Drawing $\frac{(5+0)}{2} = 2.5$ months)

Q. 33. Calculate interest on drawings of Mr. Ashok @ 10% p.a. for the year ended 31st March 2018, in each of the following alternative cases—

Case 1 If he withdrew ₹ 7,500 in 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.

Sol. Interest on drawings = Total Drawings × Rate × Average Period

Average Period = (Time left after first drawing + Time left after last drawing)/2

Total drawing = ₹ 7,500 × 4 = 30,000

Case 1 : if he withdrew in the beginning of each quarter

Average Period = (12 + 3) /2 = 7.5 months

Interest on drawings = ₹ 30,000 × 10% × 7.5/12 = ₹ 1,875

Case 2 : if he withdrew at the end of each quarter

Average Period = (9 + 0) /2 = 4.5 months

Interest on drawings = ₹ 30,000 × 10% × 4.5/12 = ₹ 1,125

Case 3 : if he withdrew during the middle of each quarter

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

Interest on drawings = ₹ 30,000 × 10% × 6/12 = ₹ 1,500

Q. 34. Kanika and Gautam are partners doing a dry cleaning business in Lucknow, sharing profit 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.

Sol. Calculation of "Interest on Drawings"

(*a*) Fof Kanika Base date 31/3

Date	₹	*Period*	*Product*
1/4	10,000	12 months	1,20,000
1/6	9,000	10 months	90,000
1/11	14,000	5 months	70,000
1/12	5,000	4 months	20,000
			3,00,000

$$\text{Interest} = 3,00,000 \times \frac{6}{100} \times \frac{1}{12} = ₹\ 1500$$

(*b*) For Gautam—As amount withdrawn in the beginning of each Quarter, So

$$\text{Interest} = (15,000 \times 4) \times \frac{6}{100} \times \frac{7.5}{12} = ₹\ 2,250$$

Q. 35. A and B are partners sharing profit and Loss in the ratio of 3 : 2 having Capital Account balances of ₹ 50,000 and ₹ 40,000 on 1st April 2017. On 1st July, 2017 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, 2018.

Sol.

Interest on A's capital

On beginning capital = ₹ 50,000 × 10%	= ₹ 5,000
On additional capital = ₹ 10,000 × 10% × 9/12	= ₹ 750
Total interest	= ₹ 5,750

Interest on B's capital

On beginning capital = ₹ 40,000 × 10%	= ₹ 4,000
On additional capital = ₹ 1,000 × 10% × 9/12	= ₹ 75
Total interest	= ₹ 4,075

Q. 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, 2018.

Sol. Since, Interest on Capital is given at opening Balance of Capitals.

Therefore, let us calculate opening capitals first and then interest.

Particulars	***Ram***	***Mohan***
Closing Capitals	24,000	18,000
Add : Drawings	4,000	6,000
Total	28,000	24,000
Less : Profits	8,000	8,000
Opening Capitals	20,000	16,000

Interest on Capitals :

Ram = ₹ 20,000 × 5% = ₹ 1,000

Mohan = ₹16,000 × 5% = ₹ 800

Q. 37. Following is the extract of the Balance Sheet of Neelkant and Mahadev as on 31st March, 2018 :

Balance Sheet
as at 31st March, 2018

Particulars	₹	*Particulars*	₹
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' Current A/c	1,00,000		
Profit and Loss Appropriation A/c (March 2018)	8,00,000		
Total	30,00,000	Total	30,00,000

During the year, Mahadev's drawings were ₹ 30,000. Profits during the year ended 31st March, 2018 is ₹ 10,00,000. Calculate interest on capital @ 5% p.a. for the year ending 31st March, 2018.

Sol. Note—Balance of Partners' current A/c is given in the Question. So, the balance of Partners' Capital A/c be taken as fixed capital.

Now, Interest on capital

(*i*) To Neelkant's Capital = ₹ [10,00,000 × 5%] = ₹ 50,000

(*ii*) To Mahadev's Capital = ₹ [10,00,000 × 5%] = ₹ 50,000

Q. 38. From the following Balance Sheet of Long and Short, calculate interest on capital @ 8% p.a. for the year ended 31st March, 2016 :

Balance Sheet
as at 31st march, 2016

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's drawings were ₹ 40,000 and Short's drawings were ₹ 50,000. Profit for the year was ₹ 1,50,000 out of which ₹ 1,00,000 transferred to General Reserve.

Sol. Calculation of Interest on Long's Capital :

Long's Capital as on 31st March 2018	₹ 1,20,000
Add : Drawing during the year	40,000
Less : Profit added [½ (₹ 1,50,000 – ₹1,00,000]	₹ 25,000
	₹ 1,35,000

$$\text{Interest on Capital : 8\% p.a.} = \frac{8}{100} \times 1,35,000 = ₹\ 10,800$$

Calculation of Interest on Short's capital :

Short's Capital as on 31st March 2018	₹ 1,40,000
Add : Drawings during the year	₹ 50,000
	1,90,000
Less : Profit added [½ (₹ 1,50,000 – ₹ 1,00,000)]	(25,000)
	1,65,000

Interest on Capital 8% p.a. = $\frac{8}{100}$ × 1,65,000 = ₹13,200

Q. 39. X and Y contribute ₹ 20,000 and ₹ 10,000 respectively. 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

(a) where there is no agreement except for interest on capitals and

(b) where there is an clear agreement that the interest on capital as a charge.

Sol. (a) Where there is no agreement except for interest on capital:

Dr. **Profit & Loss Appropriation Account** *Cr.*

Particulars	₹	*Particulars*	₹
To Interest on Capital X = 1000 Y = 500	1,500	By Profit for the year	1,500
	1,500		**1,500**

Working Note— *Interest on Capitals*

X = ₹ 20,000 × 6% = ₹ 1,200

Y = ₹10,000 × 6% = ₹ 600

Total = ₹ 1,800

The amount due to partners will be as follows :

X = ₹1,500 × 1,200 / 1,800 = ₹ 1,000

Y = ₹ 1,500 × 600 /1,800 = ₹ 500

(b) Where there is an agreement that the interest on capital will be allowed even if it involves firm in loss.

Sol.

Dr. **Profit & Loss Appropriation Account** *Cr.*

Particulars	₹	*Particulars*	₹
To Interest on Capital X = 1,200 Y = 600	1,800	By Profit for the year By Capitals A/c – Net Loss X = 2/5th × 300 = 120 Y = 3/5th × 300 = 180	1,500 300
	1,800		**1,800**

Q. 40. A and B started business on 1 April, 2017 with capital of ₹ 15,00,000 and ₹ 9,00,000 respectively. On 1 Oct, 2017 they decided that their capital 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% per annum, compute the interest on capital for the year ended 31 March, 2018.

Sol. **Calculation of Interest on Capitals**

Periods	*A* (₹)	*B* (₹)
1.4.2017 to 30.9.2017	15,00,000 × 8% × 6/12 = 60,000	9,00,000 × 8% × 6/12 = 36,000
1.10.2017 to 31.3.2018	12,00,000 × 8% × 6/12 = 48,000	12,00,000 × 8% × 6/12 = 48,000
	1,08,000	84,000

Q. 41. X and Y are partners in a firm sharing profits and losses in the ratio of 3 : 2. On 31st March, 2018 after closing the books of account, their Capital Accounts stood at ₹ 4,80,000 and ₹ 6,00,000 respectively. On 1st May, 2017, X introduced an additional capital of ₹ 1,20,000 and Y withdrew ₹ 60,000 from his capital. On 1st October, 2017, X withdrew ₹ 2,40,000 from his capital and Y introduced ₹ 3,00,000. Interest on capital is allowed at 6% p.a. Subsequently, it was discovered that interest on capital @ 6% p.a. had been omitted. The profit for the year ended 31st March, 2018 amounted to ₹ 2,40,000 and the partners' drawings had been—X ₹ 1,20,000 and Y—₹ 60,000. Compute the interest on capital if the capitals are (*a*) fixed, and (*b*) fluctuating.

Sol. When Capital are Fixed—

Calculation of Opening Capital

Particulars	X	Y
Closing Capitals	4,80,000	6,00,000
Add : Withdrawal of Capital	2,40,000	60,000
	7,20,000	6,60,000
Less : Addi. Capital	1,20,000	3,00,000
Opening Capital	6,00,000	3,60,000

Calculation of Interest on Capital

Particulars	X	Y
Interest on Opening Capital	36,000	21,600
x (6,00,000 × 6%)		
y (3,60,000 × 6%)		
Add : Interest on Additional Capital	6,600	9,000
x [1,20,000 × 6% × (11/12)]		
y [3,00,000 × 6% × (6/12)]		
	42,600	30,600
Less : Interest on withdrawal	(7,200)	(3,300)
x [2,40,000 × 6% × (6/12)]		
y [60,000 × 6% × (11/12)]		
Interest on Capital	35,400	27,300

(*b*) When Capital are fluctuating—

Calculation of Opening Capital

Particulars	X	Y
Closing Capital	4,80,000	6,00,000
Add : Withdrawal of Capital	2,40,000	60,000
Drawings	1,20,000	60,000
	8,40,000	7,20,000
Less : Additional Capital	1,20,000	3,00,000
Share of Profit	1,44,000	96,000
Opening Capital	5,76,000	3,24,000

Calculation of Interest on Capital

Particulars	*X*	*Y*
Interest on Opening Capital	34,560	19,440
x [5,76,000 × 6%]		
y [3,24,000 × 6%]		
Add : Interest on Additional Capital	6,600	9,000
x [1,20,000 × 6% × (11/12)]		
y [3,00,000 × 6% × (6/12)]		
	41,160	28,440
Less : Interest on Withdrawal	7,200	3,300
x [2,40,000 × 6% × (6/12)]		
y [60,000 × 6% × (11/12)]		
Interest on Capital	33,960	25,140

Q. 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 2017-18, the profits was ₹ 80,000 before interest and salary. Divide the amount between C and D.

Sol.

Dr. **Profit & Loss Appropriation Account** *Cr.*

Particulars	₹	*Particulars*	₹
To Interest on Capital		By Profit for the year	80,000
C = 1,00,000 × 6% = 6,000			
D = 60,000 × 6% = 3,600	9,600		
To D's Salary (3,000 × 12)	36,000		
To Net Profits trans. to Cap. A/c			
C = 34,400/2 = 17,200			
D = 34,400/2 = 17,200	34,400		
	80,000		80,000

Therefore, "C" will get ₹ (6,000 + 17,200) = ₹ 23,200 and "D" will get ₹ [3,600 + 36,000 + 17,200] = ₹ 56,800

Q. 43. Amit and Vijay started a partnership business on 1st April, 2017. Their capital contributions were ₹ 2,00,000 and ₹ 1,50,000 respectively. The partnership deed provided that—

(*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*) Profit are to be shared in the ratio of 3 : 2.

Profit for the year ended 31st March 2018 before above appropriations was ₹ 2,16,000. Interest on drawings amounted to ₹ 2,200 for Amit and ₹ 2,500 for Vijay.

Prepare Profit and Loss Appropriation Account.

Sol.

Profit & Loss Appropriation Account

Dr. Particulars	₹	Particulars		Cr. ₹
To Interest on Capital		By Profit for the year		2,16,000
Amit = 2,00,000 × 10% = 20,000		By Interest on Drawings		
Vijay = 1,50,000 × 10% = 15,000	35,000	Amit =	2200	
To Salary		Vijay =	2500	4,700
Amit = 12 × 2,000 = 24,000				
Vijay = 12 × 3,000 = 36,000	60,000			
To Net Profit trans. to Cap. A/c				
Amit = 1,25,700 × 3/5 = 75,420				
Vijay = 1,25,700 × 2/5 = 50,280	1,25,700			
	2,20,700			2,20,700

Q. 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 (₹)*
Capitals on 1st April, 2017	4,00,000	3,00,000
Drawings during 2017-18	50,000	30,000
Interest on Capital	5%	5%
Interest on Drawings	1,250	750
Share of profit for 2017-18	60,000	50,000
Partner's Salary	36,000	—
Commission	5,000	3,000

Sol.

Partner's Capital Account

Dr. Particulars	Sohan (₹)	Mohan (₹)	Particulars	Sohan (₹)	Cr. Mohan (₹)
To Drawings	50,000	30,000	By Balance b/d	4,00,000	3,00,000
To Interest on Drawings	1,250	750	By Int. on Capital	20,000	15,000
To Balance c/d	4,69,750	3,37,250	By Partner's Salary	36,000	—
			By Commission	5,000	3,000
			By Net Profit	60,000	50,000
	5,21,000	3,68,000		5,21,000	3,68,000

Q. 45. Sajal and Kajal are partners sharing profits and losses in the ratio of 2 : 1. On 1st April 2017 their Capitals were; Sajal – ₹ 50,000, Kajal – ₹ 40,000.

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

(*a*) Interest on Capital is to be allowed @ 5% per annum.

(*b*) Interest on the Loan advanced by Kajal for the whole year, the amount of Loan being ₹ 30,000

(*c*) Interest on partners' drawing @ 6% per annum. Drawings Sajal ₹ 10,000; Kajal ₹ 8,000.

(d) 10% of the divisible profit is to be transferred to Reserve.
The net profit for the year ended 31st March 2018, ₹ 68,460.
Sol.

Dr. **Profit & Loss Appropriation Account** Cr.

Particulars	₹	*Particulars*	₹
To Interest on Capital		By Profit for the year	
Sajal = 50,000 × 5% = 2,500		[70,260 × 1,800]	70,260
Kajal = 40,000 × 5% = 2,000	4,500	By Interest on Drawings	
		Sajal = 10,000 × 6% × 6/12 = 300	
To Reserve (70,800–4,500–1800) × 10%	6,450	Kajal = 8,000 × 6% × 6/12 = 240	540
To Net Profits trans. to Capital A/c			
Sajal = 58,050 × 2/3 = 38,700			
Kajal = 58,050 × 1/3 = 19,350	58,050		
	69,000		69,000

Dr. **Partner's Capital Account** Cr.

Particulars	*Sajal (₹)*	*Kajal (₹)*	*Particulars*	*Sajal (₹)*	*Kajal (₹)*
To Drawings	10,000	8,000	By Balance b/d	50,000	40,000
To Interest on Drawings	300	240	By Int. on Capital	2,500	2,000
To Balance c/d	80,900	53,110	By Net Profit	38,700	19,350
	91,200	61,350		91,200	61,350

Q. 46. On 1st April 2017, A and B entered into partnership contributing ₹ 60,000 and ₹ 45,000 respectively. They agreed to share profits and losses in the ratio of 3 : 2. B is allowed a salary of ₹ 12,000 per year. Interest on capital is to be allowed @ 10% p.a. During the year, A withdrew ₹ 9,000 and B ₹ 18,000 as drawings. The interest on drawings paid by A and B was ₹ 150 and 210, respectively. Profits for the year ended 31st March 2018 before the above adjustments was ₹ 35,000. Show distribution of profits by preparing Profit and Loss Appropriation Account of the firm. Prepare Partner's Capital Account also.
Sol.

Dr. **Profit & Loss Appropriation Account** Cr.

Particulars	₹	*Particulars*		₹
To Interest on Capital		By Profit for the year		35,000
A = 60,000 × 10% = 6000		By Interest on Drawing		
B = 45,000 × 10% = 4500	10,500	A	150	
To B's salary	12,000	B	210	360
To Net Profits trans. to Capital A/c				
A = 12,860 × 3/5 = 7,716				
B = 12,860 × 2/5 = 5,144	12,860			
	35,360			35,360

Dr. **Partner's Capital Account** Cr.

Particulars	A (₹)	B (₹)	Particulars	A (₹)	B (₹)
To Drawings	9,000	18,000	By Balance b/d	60,000	45,000
To Interest on Drawings	150	210	By Int on Capital	6,000	4,500
To Balance c/d	64,566	48,434	By Partner's Salary	—	12,000
			By Net Profit	7,716	5,144
	73,716	66,644		73,716	66,644

Q. 47. A and B are partners sharing profits and losses in the ratio of 3 : 1. On 1st April 2017, their capitals were: A ₹ 50,000 and B ₹ 30,000. During the year ended 31st March 2018 they earned a net profit of ₹ 50,000. The terms of partnership are :

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

(*b*) A will get a commission at 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 the Profit and Loss Appropriation Account and Partner's Capital Accounts.

Sol.

Profit and Loss Appropriation Account

Particulars		₹	Particulars	₹
To Interest on Capital			By Profit b/d	50,000
A = 50,000 × 6% =	3,000			
B = 30,000 × 6% =	1,800	4,800		
To A's Commission A/c (3,00,000 × 2%)		6,000		
To B's A/c				
Salary = 12 × 500	= 6,000			
Comm = (50,000 – 4,800 – 6,000 – 6,000) × 5/105 =	1,581	7,581		
To Capital A/c – Net Profit c/d				
A = 31,619 × ¾ = 23,714				
B = 31,619 × ¼ = 7,905		31,619		
		50,000		50,000

Partner's Capital Account

Particulars	A (₹)	B (₹)	Particulars	A (₹)	B (₹)
To Drawings A/c	8,000	6,000	By Bal. b/d	50,000	30,000
To Bal. c/d	74,714	41,286	By Interest A/c	3,000	1,800
			By Commission A/c	6,000	1,581
			By Net Profit	23,714	7,905
			By Salary A/c	—	6,000
	82,714	47,286		82,714	47,286

Q. 48. A, B and C were partners in a firm having capitals of ₹ 50,000, ₹ 50,000 and ₹ 1,00,000 respectively. Their Current Account balance 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 profit 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 the Profit and Loss Appropriation Account and Pass the necessary Journal entry for the appropriation of profits.

Sol. **Profit & Loss Appropriation Account**

Particulars		₹	*Particulars*	₹
To Interest on Capital			By Profit for the year	1,72,000
A = 50,000 × 10% =	5,000			
B = 50,000 × 10% =	5,000			
C = 1,00,000 × 10% =	10,000	20,000		
To C's Salary		12,000		
To Net Profits trans. to Cap. A/c				
A =	50,000			
B =	44,000			
C =	46,000	140,000		
		1,72,000		1,72,000

Distribution of Profits

Particulars	*A* (₹)	*B* (₹)	*C* (₹)
The first ₹ 20,000 in proportion to their capitals	5,000	5,000	10,000
Next ₹ 30,000 in the ratio of 5:3:2	15,000	9,000	6,000
Remaining profits (₹ 90,000) to be shared equally	30,000	30,000	30,000
	50,000	44,000	46,000

Date	*Particulars*	*LF*	*Dr.* (₹)	*Cr.* (₹)
	P & L App. 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
	(Being Balance of P&L App. A/c distribute in agreed ratio)			

Q. 49. 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 Manager's Commission.

Prepare an account showing the allocation of profits and Partners' Capital Accounts.

Sol.

Dr. **Profit & Loss Appropriation Account** *Cr.*

Particulars		₹	*Particulars*	₹
To Interest on Capital			By Profit for the year	
A = 50,000 × 6% =	3,000		12,500 + 2,500	15,000
B = 30,000 × 6% =	1,800	4,800		
To B's Salary		2,500		
To Manager's com.= (15,000×5%)		750		
To Net Profits trans. to Cap. A/c				
A = 6,950 × 3 / 5 =	4,170			
B = 6,950 × 2 / 5 =	2,780	6,950		
		15,000		**15,000**

Dr. **Partner's Capital Account** *Cr.*

Particulars	*A* (₹)	*B* (₹)	*Particulars*	*A* (₹)	*B* (₹)
To Balance c/d	57,170	37,080	By Balance b/d	50,000	30,000
			By Interest	3,000	1,800
			By Salary		2,500
			By Net Profit	4,170	2,780
	57,170	37,080		57,170	37,080

Q. 50 . P, Q and R are in partnership and as at 1st April, 2015 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 profit. 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. The profits for the year ended 31st March, 2018, after debiting partner's salaries but before charging interest on capital were ₹ 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, 2018 showing the distribution of profit and the Capital Accounts of Partners.

Sol.

Dr. **Profit and Loss Appropriation Account** *Cr.*

Particulars		₹	*Particulars*	₹
To Interst on Capital			By Profit b/d	21,000
P = 40,000 × 5% =	2,000			
Q = 30,000 × 5% =	1,500			
R = 30,000 × 5% =	1,500	5,000		
To Capital A/c - Net Profit c/d				
P =	7,000			
Q =	5,000			
R =	4,000	16,000		
		21,000		**21,000**

Division of Net Profits

Particulars	P (₹)	Q (₹)	R(₹)
Out of ₹ 10,000 in ratio 5 : 3 : 2	5,000.	3,000	2,000
Out of ₹ 6,000 equally	2,000	2,000	2,000
	7,000	5,000	4,000

Dr. **Partner's Capital Account** **Cr.**

Particulars	P (₹)	Q (₹)	R (₹)	Particulars	P (₹)	Q (₹)	R (₹)
To Drawings A/c	10,000	10,000	10,000	By Bal. b/d	40,000	30,000	30,000
To Bal. c/d	39,000	32,500	29,500	By Interest A/c	2,000	1,500	1,500
				By Salary A/c	—	6,000.	4,000
				By Net Profit	7,000	5,000	4,000
	49,000	42,500	39,500		49,000	42,500	39,500

Q. 51. 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, 2018. A has drawn ₹ 10,000 and B and C in addition to their salaries have drawn ₹ 2,500 and ₹ 1,000 respectively. The Profit and Loss Account for the year ended 31st March 2018 showed a net profit of ₹ 45,000 before charging (*a*) interest on capital, and (*b*) partners' salaries. On 1st April 2017, the balances in the Current Account 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 the Partner's Capital and Current Accounts at 31st March 2018 after division of profits in accordance with the partnership agreement.

Sol.

Dr. **Profit and Loss Appropriation Account** **Cr.**

Particulars		₹	Particulars	₹
To Interest on Capital			By Profit for the year	45,000
A = 50,000 × 5% =	2,500			
B = 30,000 × 5% =	1,500			
C = 20,000 × 5% =	1,000	5,000		
To Salaries A/c				
B	5,000			
C	5,000	10,000		
To Net Profit trans. to Cap. A/c–				
A 30,000 × ½ =	15,000			
B 30,000 × 3/10 =	9,000			
C 30,000 × 1/5 =	6,000	30,000		
		45,000		45,000

Dr. **Partner's Current Account** Cr.

Particulars	A (₹)	B (₹)	C (₹)	Particulars	A (₹)	B (₹)	C (₹)
To Drawings	10,000	7,500	6,000	By Balance b/d	4,500	1,500	1,000
To Balance c/d	12,000	9,500	7,000	By Interest on Capital	2,500	1,500	1,000
				By Salary	–	5,000	5,000
				By Net Profit	15,000	9,000	6,000
	22,000	17,000	13,000		22,000	17,000	13,000

Dr. **Partner's Capital Account** Cr.

Particulars	A (₹)	B (₹)	C (₹)	Particulars	A (₹)	B (₹)	C (₹)
To Balance c/d	50,000	30,000	20,000	By Balance b/d	50,000	30,000	20,000

Q. 52. Ali and Bahadur are partners in a firm sharing profits and losses as Ali 70% and Bahadur 30%. Their respective capitals as at 1st April, 2017 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, 2018 amounted to ₹ 3,500 and ₹ 2,500 respectively.

Profit for the year, before charging interest on capital and annual salary of Bahadur @ ₹ 3,0000 amounted to ₹ 40,000, 10% of divisible profit is to be transferred to Reserve.

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

Sol. **Profit and Loss Appropriation A/c**

Dr. ***for the year ended March 31, 2018*** Cr.

Particulars		₹	Particulars	₹
To Interest on Capital :			By Profit & Loss A/c [Profit for the year]	40,000
Ali [25,000 × 5%]	1,250			
Bhadur [20,000 × 5%]	1,000	2,250		
To Salary (Bahadur)		3,000		
To Reserve [(40,000 – 5,250) × 10%]		3,475		
To Net Profit trans. to [7 : 3]				
Ali [31275 × (7/10)]	21,892			
Bahadur [31,275 × (3/10)]	9,383	31,275		
Total		40,000	Total	40,000

Partners' Cureent A/c

Particulars	Ali	Bahadun	Particulars	Ali	Bahadur
To Drawings	3,500	2,500	By Interest on Cap.	1,250	1,000
To Balance c/d	19,642	10,883	By P & L App. A/c	21,892	9,383
			By Salary	–	3,000
Total	23,142	13,383	Total	23,142	13,383

Partners' Capital A/c

Particulars	Ali	Bahadur	Particulars	Ali	Bahadur
To Balance c/d	25,000	20,000	By Balance b/d	25,000	20,000
Total	25,000	20,000	Total	25,000	20,000

Q. 53. Amal, Bimal and Kamal are three partners. On 1st April, 2017, 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 at 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, the profit for the year ended 31st March 2018 was ₹ 33,360. Prepare the Profit and Loss Appropriation Account and the Capital Accounts of the Partners.

Sol.

Dr. **Profit and Loss Appropriation Account** Cr.

Particulars		₹	Particulars	₹
To Interest on Capital			By Profit b/d	33,360
Amal = 40,000 × 5% =	2,000			
Bimal = 30,000 × 5% =	1,500			
Kamal = 25,000 × 5% =	1,250	4,750		
To Amal's Salary = 12 × 250		3,000		
To Bimal's Commission = 25,610 × 4/104		985		
To General Reserve = 24,625 × 10%		2,462		
To Capital A/c – Profit				
Amal = 7,388				
Bimal = 7,388				
Kamal = 7,387		22,163		
		33,360		33,360

Dr. **Partner's Capital Account** Cr.

Particulars	Amal (₹)	Bimal (₹)	Kamal (₹)	Particulars	Amal (₹)	Bimal (₹)	Kamal (₹)
To Bal. c/d	52,388	39,873	33,637	By Bal. b/d	40,000	30,000	25,000
				By Interest A/c	2,000	1,500	1,250
				By Salary A/c	3,000	—	—
				By Comm. A/c	—	985	—
				By Net Profit	7,388	7,388	7,387
	52,388	39,873	33,637		52,388	39,873	33,637

Q. 54. Amit, Binita and Charu are three partners. On 1st April, 2017, their Capital stood as; Amal ₹ 1,00,000, Bimal ₹ 2,00,000 and Charu ₹ [illegible]0,000. It was decided that—

(a) they would receive interest on Capital @ 5% p.a.

(b) Amit would get a salary of ₹ 10,000 per month,

(c) Binita would receive commission @ 5% of net profit after deduction of commission, and

(d) 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, 2018 was ₹ 5,00,000. Prepare Profit and Loss Appropriation Account and the Capital Accounts of the Partners.

Sol. **Profit & Loss Appropriation A/c**
as at March, 31, 2018

Particulars		₹	*Particulars*	₹
To Interest on Capital			By Profit & Loss A/c	5,00,000
Amit	5,000			
Binita	10,000			
Charu	15,000	30,000		
To Salary (Amit)		1,20,000		
To Comm. (Binita)	23,810			
[5,00,000 × 5/(105)]				
To General Reserve	50,000			
[5,00,000 × 10%]				
To Net divisible Profit (1 : 1 : 1)				
Amit	92,063			
Binita	92,063			
Charu	92,064	2,76,190		
Total		5,00,000	Total	**5,00,000**

Dr. **Partners Capital A/c** *Cr.*

Particulars	*Amit* (₹)	*Binita* (₹)	*Charu* (₹)	*Particulars*	*Amit* (₹)	*Binita* (₹)	*Charu* (₹)
To Bal. c/d	3,17,063	3,25,873	4,07,064	By Bal. b/d	1,00,000	2,00,000	3,00,000
				By Int. on cap.	5,000	10,000	15,000
				By Salary	1,20,000	—	—
				By Comm.	—	23,810	—
				By P & L App. 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

Q. 55. Anita, Bimla and Cherry are three partners. On 1st April, 2017, their Capital stood as : Anita ₹ 1,00,000, Bimla ₹ 2,00,000 and Cherry ₹ 3,00,000. It was decided that—

(a) they would receive interest on Capital @ 5% p.a.,

(b) Anita would get a salary of ₹ 5,000 per month,

(c) Bimla would receive commission @ 5% of net profit after deduction of commission, and (*d*) 10% of the 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, 2018 was ₹ 5,00,000. Prepare Profit and Loss Appropriation Account and the Capital Accounts of the Partners.

Sol. **Profit and Loss Approprition A/c**

as at March 31, 2018

Particulars		₹	*Particulars*	₹
To Interest on Capital			By Profit & Loss A/c	5,00,000
Anita	5,000			
Bimla	10,000			
Cherry	15,000	30,000		
To Salary (Anita)		60,000		
To Comm. [5,00,000 × 5/105]		23,810		
To General Reseve				
[(5,00,000 – 1,13,810) × 10%]		38,619		
To Net divisible Profit				
Anita	1,15,857			
Bimla	1,15,857			
Cherry	1,15,857	3,47,571		
Total		**5,00,000**	**Total**	**5,00,000**

Dr. **Partners Capital A/c** *Cr.*

Particulars	*Anita* (₹)	*Bimla* (₹)	*Cherry* (₹)	*Particulars*	*Anita* (₹)	*Bimla* (₹)	*Cherry* (₹)
To Bal. c/d	2,80,857	3,49,667	4,30,857	By Bal. b/d	1,00,000	2,00,000	3,00,000
				By Int. on Cap.	5,000	10,000	15,000
				By Salary	60,000	—	—
				By Comm.	—	23,810	—
				By P&L App. A/c	1,15,857	1,15,857	1,15,857
Total	2,80,857	3,49,667	4,30,857	Total	2,80,857	3,49,667	4,30,857

Q. 56. Anshul and Asha are partners sharing profits and losses in the ratio of 3 : 2. Anshul being a non-working partner contributed ₹ 8,00,000 as her capital. Asha being a working partner did not contribute capital. The partnership Deed provides for interest on capital @ 5% and salary to every working partner @ ₹ 2,000 per month. The net profit before providing for interest on capital and partner's salary for the year ended 31st March 2018 was ₹ 32,000.

Show distribution of capital profits.

Sol.

Dr. **Profit & Loss Appropriation Account** *Cr.*

Particulars	₹	*Particulars*	₹
To Interest on Anshul's Capital		By Profit b/d	32,000
32,000 × 5/8	20,000		
To Asha' Salary = 32,000 × 3/8	12,000		
	32,000		**32,000**

Working Note : Interest on Anshul's Capital = ₹ 8,00,000 × 5% = ₹ 40,000

Asha's Salary = 12 × ₹ 2,000 = ₹ 24,000

Since the available profit ₹ 32,000 is less than Interest on Anshul's capital and Asha's salary (40,000 + 24,000) = 64,000. Hence the available profit is to be distributed in the ratio of 40,000 : 24,000 = 5 : 3.

Q. 57. X and Y entered into partnership on 1st April, 2017 and contributed ₹ 2,00,000 and ₹ 1,50,000 respectively as their capitals. On 1st October, 2017, X provided ₹ 50,000 as loan to the firm. As per the provisions of the Partnership Deed

(i) 20% of Profits before charging Interest on Drawings but after making appropriations to be transferred to General Reserve.

(ii) Interest on capital at 12% p.a. and Interest on Drawings @ 10% p.a.

(iii) X to get monthly salary of ₹ 5,000 and Y to get salary of ₹ 22,500 per quarter.

(iv) X is entitled to a commission of 5%on sales. Sales for the year were ₹ 3,50,000.

(v) Profit and Loss to be shared in the ratio of their capital contribution up to₹ 1,75,000 and above ₹ 1,75,000 equally.

The profit for the year ended 31st March, 2018, before providing for any interest was ₹ 4,61,000. The drawings of X and Y were ₹ 1,00,000 and ₹ 1,25,000 respectively.

Pass the necessary Journal entries relating to appropriation out of profits. Prepare Profit and Loss Appropriation Account and the Partners' Capital Accounts.

Sol. Journal

Date	*Particulars*	*L/F*	₹	₹
(i)	Profit & Loss A/c Dr.		1,500	
	To Interest on Loan [50,000 × 6% × (6/12)]			1,500
	(Being Interest on Loan at 6% p.a. charged)			
(ii)	Profit &Loss A/c Dr.		4,59,500	
	To P&L App. A/c [4,61,000 – 1,500]			4,59,500
	(Being balance amount of profit transferred)			
(iii)	Profit & Loss App. A/c Dr.		42,000	
	To x's Capital A/c [2,00,000 × 12%]			24,000
	To y's Capital A/c [1,50,000 × 12%]			18,000
	(Being Interest on capital given to partner at 12% p.a.)			
(iv)	Profit & Loss App. A/c Dr.		1,50,000	
	To x's Capital A/c (5,000 × 12)			60,000
	To y's Capital A/c (22,500 × 4)			90,000
	(Being Salary given to partners)			
(v)	Profit & Loss App. A/c Dr.		17,500	
	To x's Capital A/c [3,50,000 × 5%]			17,500
	(Being comm. on sales given to "x")			

(vi)	Profit & Loss App. A/c Dr.		50,000	
	To General Reserve			
	[(4,59,500 – 2,09,500) × 20%]			50,000
	(Being 20% of remaining profit transfer to General Reserve)			
(vii)	x's Capital A/c [1,00,000 × 10% × (6/12)] Dr.		5,000	
	y's Capital A/c [1,25,000 × 10% × (6/12)] Dr.		6,250	
	To Profit & Loss App. A/c			11,250
	(Being Interest on Drawings at 10% p.a. charged)			
(viii)	Profit & Loss App. A/c Dr.		1,75,000	
	To x's Capital A/c [1,75,000 × (4/7)]			1,00,000
	To y's Capital A/c [1,75,000 × (3/7)]			75,000
	(Being divisible profit upto ₹ 1,75,000 given in 4 : 3)			
(ix)	Profit & Loss App. A/c Dr.		36,250	
	[(2,00,000 + 11,250) – 1,75,000]			
	To x's Capital A/c [36,250 × (1/2)]			18,125
	To y's Capital A/c [36,250 × (1/2)]			18,125
	(Being remaining divisible profit ₹ 36,250 given equally)			

Profit & Loss Apprapriation A/c
as at March, 31, 2018

Particulars		₹	*Particulars*		₹
To Interest on Capital			By Profit & Loss A/c		4,59,500
x	24,000		By Interest on Drawings		
y	18,000	42,000	x	5,000	
To Salary			y	6,250	11,250
x	60,000				
y	90,000	1,50,000			
To Comm. (x)		17,500			
To General Reserve		50,000			
To Net divisible Profit					
x [1,00,000 +18,125]		1,18,125			
y [75,000 + 18,125]		93,125			
Total		**4,70,750**	**Total**		**4,70,750**

Partners Capital A/c

Particulars	x	y	*Particulars*	x	y
To Drawings	1,00,000	1,25,000	By Bank A/c	2,00,000	1,50,000
To Int. on Draw.	5,000	6,250	By Int. on Cap.	24,000	18,000
To Balance c/d	3,14,625	2,19,875	By Salary	60,000	90,000
			By Commission	17,500	—
			By P& L App. A/c	1,18,125	93,125
Total	**4,19,625**	**3,51,125**	**Total**	**4,19,625**	**3,51,125**

Q. 58. P and Q were partners in a firm sharing profits and losses equally. Their fixed capitals were ₹ 2,00,000 and ₹ 3,00,000 respectively. The Partnership Deed provided for interest on capital @ 12% per annum. For the year ended 31st March, 2016, the profits of the firm were distributed without providing interest on capital.

Pass necessary adjustment entry to rectify the error.

Sol. Working Note—

Statement Showing Adjustments

Particulars	*P*		*Q*		*Firm*	
	Dr.	*Cr.*	*Dr.*	*Cr.*	*Dr.*	*Cr.*
Interest on Capital Now rectified at 12% p.a.	—	24,000	—	36,000	60,000	—
Amount of Interest adjusted in 1 : 1	30,000	—	30,000	—	—	60,000
Gross total	30,000	24,000	30,000	36,000	60,000	60,000
Difference will be (Dr.) to P and (cr.) to Q	—	6,000	6,000	—	—	—
	30,000	30,000	36,000	36,000	60,000	60,000

Adjusting Journal Entry

Date	*Particulars*		*LF*	*Dr.* (₹)	*Cr.* (₹)
(*i*)	P's Current A/c	Dr.		6,000	
	To Q's Current A/c				6,000
	(Being adjustment entry passed)				

Q. 59. Keya, Mona and Nisha shared profits in the ratio of 3 : 2 : 1. The profits for the last three years were ₹ 1,40,000, ₹ 84,000 and ₹ 1,06,000 respectively. These profits were by mistake shared equally for all the three years. It is now decided to correct the error. Give necessary Journal entry for the same.

Sol. **Statement Showing Adjustments**

Particulars	*Reya*		*Mona*		*Nisha*		*Firm*	
	Dr. (₹)	*Cr.* (₹)	*Dr.* (₹)	*Cr.* (₹)	*Dr.* (₹)	*Cr.* (₹)	*Dr.* (₹)	*Cr.* (₹)
Profit wrongly Credited	1,10,000		1,10,000		1,10,000			3,30,000
Profits to be Credited		1,65,000		1,10,000		55,000	3,30,000	
Adjustments	55,000					55,000		
Total	1,65,000	1,65,000	1,10,000	1,10,000	1,10,000	1,10,000	3,30,000	3,30,000

Adjusting Journal Entry

Date	*Particulars*		*LF*	*Dr.* (₹)	*Cr.* (₹)
	Nisha's Capital A/c	Dr.		55,000	
	To Reya's Capital A/c				55,000
	(Being adjustment made due to changes)				

Q. 60. Profits earned by a partnership firm for the year ended 31st March, 2017 distributed equally between the partners – Pankaj and Anu – without allowing interest on capital. Interest due on capital was Pankaj ₹ 3,000 and Anu ₹ 1,000. Pass the necessary adjustment entry/entries.

Sol. **Statement Showing Adjustments**

Particulars	*Pankaj*		*Anu*		*Firm*	
	Dr. (₹)	*Cr.* (₹)	*Dr.* (₹)	*Cr.* (₹)	*Dr.* (₹)	*Cr.* (₹)
Interest on Capital to be credited		3,000		1,000	4,000	
Balance to be debited in 1 : 1	2,000		2,000			4,000
Adjustments	1,000			1,000		
Total	**3,000**	**3,000**	**2,000**	**2,000**	**4,000**	**4,000**

Adjusting Journal Entry

Date	*Particulars*		*LF*	*Dr.* (₹)	*Cr.* (₹)
	Anu's Capital A/c	Dr.		1,000	
	To Pankaj's Capital A/c				1,000
	(Being interest on Capital credited on adjustment)				

Q. 61. Azad and Benny are equal partners. Their capitals are ₹ 40,000 and ₹ 80,000 respectively. After the accounts for the year have been prepared, it is discovered that interest @ 5% p.a. as provided in the partnership agreement has not been credited to the Capital Accounts before distribution of profits. It is decided to make an adjustment entry in the beginning of the next year. Record the necessary Journal entry.

Sol. **Statement Showing Adjustments**

Particulars	*Azad*		*Benny*		*Firm*	
	Dr.	*Cr.*	*Dr.*	*Cr.*	*Dr.*	*Cr.*
Interest on Capital Now Credited at (5%)	—	2,000	—	4,000	6,000	—
Amount of Interest adjust in 1 : 1	3,000	—	3,000	—	—	60000
Gross total	3,000	2,000	3,000	4,000	6,000	6,000
Difference will be adjusted to be	—	1,000 (Dr.)	1,000 (Cr.)	—	—	—
Total	3,000	3,000	4,000	4,000	6,000	6,000

Adjusting Journal Entry

Date	*Particulars*		*LF*	*Dr.* (₹)	*Cr.* (₹)
(*i*)	Azad's Capital/Current A/c	Dr.		1,000	
	To Benny's Capital/ Current A/c				1,000
	(Being adjustment entry will be passed)				

Q. 62. Ram and Mohan are equal partners. Their capitals are ₹ 4,000 and ₹ 8,000 respectively. After the accounts for the year are prepared, it is discovered that interest @ 5% p.a. on capital as provided in the partnership Deed has not been credited to the capital account before distribution of profits. It is decided to make an adjusting entry in the beginning of next year. Give the necessary adjustment entry.

Sol. **Statement Showing Adjustments**

Particulars	*Ram*		*Mohan*		*Firm*	
	Dr. (₹)	*Cr.* (₹)	*Dr.* (₹)	*Cr.* (₹)	*Dr.* (₹)	*Cr.* (₹)
Interest on Capital to be credited		200		400	600	
Balance to be debited in 1 : 1	300		300			600
Adjustments		100	100			
Total	**300**	**300**	**400**	**400**	**600**	**600**

Adjusting Journal Entry

Date	*Particulars*	*LF*	*Dr.* (₹)	*Cr.* (₹)
	Ram's Capital A/c Dr.		100	
	To Mohan's Capital A/c			100
	(Being interest on Capital credited on adjustment)			

Q. 63. Ram, Mohan and Sohan sharing profits and losses equally have capitals of ₹ 1,20,000, ₹ 90,000 and ₹ 60,000. For the year 31st March, 2018 interest was credited to them at 6% instead of 5%. Give adjustment journal entry.

Sol. **Statement Showing Adjustments**

Particulars	*Ram*		*Mohan*		*Sohan*		*Firm*	
	Dr. (₹)	*Cr.* (₹)	*Dr.* (₹)	*Cr.* (₹)	*Dr.* (₹)	*Cr.*(₹)	*Dr.* (₹)	*Cr.* (₹)
Interest on Capital Credited wrongly	7,200		5,400		3,600			16,200
To be credited		6,000		4,500		3,000	13,500	
Balance to be credited 1:1:1		900		900		900	2,700	
Adjustments		300			300			
Total	**7,200**	**7,200**	**5,400**	**5,400**	**3,900**	**3,900**	**16,200**	**16,200**

Adjusting Journal Entry

Date	*Particulars*	*LF*	*Dr.* (₹)	*Cr.* (₹)
	Ram's Capital A/c Dr.		300	
	To Sohan's Capital A/c			300
	(Being interest on capital adjusted)			

Note : It is assuming that given capital of partner's is fixed.

Q. 64. Ram, Shyam and Mohan were partners in a firm sharing profits and losses in the ratio of 2 : 1 : 2. Their capitals were fixed at ₹ 3,00,000, ₹ 1,00,000, ₹ 2,00,000. For the year 31st March, 2018 interest on capital was credited to them @ 9% instead of 10% p.a. The profits for the year before charging interest was ₹ 2,50,000. Show your working notes clearly and pass necessary adjustment entry.

Sol. **Adjustments Tables**

Particulars	*Ram*		*Shyam*		*Mohan*		*Firm*	
	Dr. (₹)	*Cr.*(₹)	*Dr.*(₹)	*Cr.*(₹)	*Dr.*(₹)	*Cr.*(₹)	*Dr.*(₹)	*Cr.*(₹)
Interest on Capital @ 1%		3,000	–	1,000	–	2,000	6,000	–
Debited in ratio 2 : 1 : 2	2,400	–	1,200	–	2,400	–	–	6,000
Adjustments	600	–	–	200	–	400	–	–
	3,000	3,000	1,200	1,200	2,400	2,400	6,000	6,000

Adjusting Journal Entry

Date	*Particulars*		*LF*	*Dr.*(₹)	*Cr.* (₹)
	Shyam's Current A/c	Dr.		200	
	Mohan's Current A/c	Dr.		400	
	To Ram's Current A/c				600
	(Being adjustment entry passed)				

Q. 65. Mita and Usha are partners in a firm sharing profits in the ratio of 2 : 3. Their Capital Account as on 1st April, 2015 showed balances of ₹ 1,40,000 and ₹ 1,20,000 respectively. The drawings of Mita and Usha during the year 2015-16 were ₹ 32,000 and ₹ 24,000 respectively. Both the amounts were withdrawn on 1st January 2016. It was subsequently found that the following items had been omitted while preparing the final accounts for the year ended 31st March, 2016 :

(*a*) Interest on Capital @ 6% p.a.

(*b*) Interest on Drawings @ 6% p.a.

(*b*) Mita was entitled to a commission of ₹ 8,000 for the whole year.

Showing your working clearly, pass a rectifying entry in the books of the firm.

Sol. **Statement Showing Past Adjustments**

Particulars	*Mitra*		*Usha*		*Firm*	
	Dr.	*Cr.*	*Dr.*	*Cr.*	*Dr.*	*Cr.*
(*i*) Interest on Capital Now Credited	–	8,400	–	7,200	15,600	–
(*ii*) Interest on Drawing now Debited	480	–	360	–	–	840
(*iii*) Commission to Mitra	–	8,000	–	–	8,000	–
Sub-total	480	16,400	360	7,200	23,600	840

(iv) Difference will be Adjust in 2 : 3	9,104	—	13,656	—	—	22,760
Total	9,584	16,400	14,016	7,200	23,600	23,600
(v) Different will be Adjusted to be	6,816 (Cr.)	—	—	6,816 (Dr.)		

Adjustment Entry

Date	*Particulars*	*LF*	*Dr.* (₹)	*Cr.* (₹)
(i)	Usha's Capital A/c Dr. To Mitra's Capital A/c (Being adjustment entry will be passed)		6,816	 6,816

Q. 66. Mohan, Vijay and Anil are partners, the balances of their capital accounts being ₹ 30,000, ₹ 25,000 and ₹ 20,000 respectively. In arriving at these figures, the profits for the year ended March 31, 2016, ₹ 24,000 had already been credited to partners in the proportion in which they shared profits. Their drawings were ₹ 5,000 (Mohan), ₹ 4,000 (Vijay) and ₹ 3,000 (Anil) during the year. Subsequently the following omissions were noticed and it was decided to bring them into account. (i) Interest on capital @ 10% p.a. (ii) Interest on drawings Mohan ₹ 250, Vijay ₹ 200 and Anil ₹ 150. Make necessary corrections through a journal entry and show your workings clearly.

Sol. **Statement Showing Adjustments**

Particulars	*Mohan*		*Vijay*		*Anil*		*Firm*	
	Dr. (₹)	*Cr.*(₹)	*Dr.*(₹)	*Cr.* (₹)	*Dr.*(₹)	*Cr.*(₹)	*Dr.*(₹)	*Cr.*(₹)
Interest on Capital		2,700		2,100		1,500	6,300	
Interest on Drawings	250		200		150			600
Balance to be debited	1,900		1,900		1,900			5,700
Adjustments	550					550		
Total	**2,700**	**2,700**	**2,100**	**2,100**	**2,050**	**2,050**	**6,300**	**6,300**

Adjusting Journal Entry

Date	*Particulars*	*L.F.*	*Dr.* (₹)	*Cr.* (₹)
	Anil's Capital A/c Dr. To Mohan's Capital A/c (Being interest on capital & Drawing adjusted)		550	 550

Working Notes:

Calculation of opening Capital and Interest thereon

Particulars	*Mohan*	*Vijay*	*Anil*
Closing Capitals	30,000	25,000	20,000
Add: Drawings	5,000	4,000	3,000
	35,000	**29,000**	**23,000**
Less: Profits	8,000	8,000	8,000
Opening Capitals	27,000	21,000	15,000
Interest @ 10%	2,700	2,100	1,500

Q. 67. Piya and Bina are partners in a firm sharing profits and losses in the ratio of 3 : 2. Following was the Balance Sheet of the firm as on 31 March, 2016 :

Balance Sheet

Liabilities		₹	*Assets*	₹
Capitals :			**Sundry Assets**	**1,20,000**
Piya	**80,000**			
Bina	**40,000**	**1,20,000**		
		1,20,000		**1,20,000**

Th profits ₹ 30,000 for the year ended 31st March, 2016 were divided between the partners without allowing interest on capital @ 12% p.a. and salary to Piya @ 1,000 per month. During the year Piya withdrew ₹ 8,000 and Bina withdrew ₹ 4,000 Showing your working notes clearly, pass the necessary rectifying entry.

Sol. Working Note—

(i) Calculation of opening Capital

Particulars	*Piya*	*Bina*
Closing Capital	80,000	40,000
Add : Drawings :	8,000	4,000
	88,000	44,000
Less : Net Profit in 3 : 2	18,000	12,000
Opening Capital	70,000	32,000

(ii) Statement Showing Past Adjustment

Particulars	*Piya*		*Bina*		*Firm*	
	Dr.	*Cr.*	*Dr.*	*Cr.*	*Dr.*	*Cr.*
(*i*) Interest on Capital at (12%) Credited	—	8,400	—	3,840	12,240	—
(*ii*) Salary to Piya Credited	—	12,000	—	—	12,000	—
(*iii*) Balance Profit Credited in (3 : 2)	—	3,456	—	2,304	5,760	—
(*iv*) Profit already distributed now (*Dr.*)	18,000	—	12,000	—	—	30,000
Sub-total	18,000	23,856	12,000	6,144	30,000	30,000
(*v*) Difference will be adjusted to be :	5,856 (*Cr.*)	—	—	5,856 (*Dr.*)	—	—
Total	23,856	23,856	12,000	12,000	30,000	30,000

Adjustment Entry

Date	*Particulars*	*LF*	*Dr.* (₹)	*Cr.* (₹)
(*i*)	Bina's Capital A/c Dr.		5,856	
	To Piya's Capital A/c			5,856
	(Being adjustment entry will be passed)			

Q. 68. The firm of Harry, Porter and Ali, who have been sharing profits in the ratio of 2 : 2 : 1, have existed for some years. Ali wants that he should get equal share in the profits with Harry and Porter and he further wishes that the change in the profit-sharing ratio should come into effect retrospectively were for the three years. Harry and Porter have agreement on this account. The profits for the last three years were—

Year	2015-16	2016-17	2017-18
Profit (₹)	2,20,000	2,40,000	2,90,000

Show adjustment of profits by means of a single adjustment Journal entry.

Sol. Working Notes—

(i) Total Profit for last three years
= ₹ [2,20,000 + 2,40,000 + 2,90,000] = ₹ 7,50,000

Particulars	*Harry*	*Portar*	*Ali*
Profit distribution Previously in [2 : 2 : 1]	3,00,000	3,00,000	1,50,000
Profit distribution in New Ratio of [1 : 1 : 1]	2,50,000	2,50,000	2,50,000
Difference in Profit adjust. will be	50,000 *Dr.*	50,000 *Dr.*	1,00,000 *Cr.*

Journal

Date	*Particulars*		*L.F.*	*Dr.* (₹)	*Cr.* (₹)
(i)	Harry's Capital a/c	Dr.		50,000	
	Portar's Capital A/c	Dr.		50,000	
	To Ali's Capital A/c				1,00,000
	(Being rectification entry will be Passed)				

Q. 69. On 31st March, 2018, after the closing of the accounts, the capital accounts of P, Q and R stood in the books of the firm at ₹ 40,000, ₹ 30,000 and ₹ 20,000 respectively. Subsequently, it was discovered that interest on capital @ 5% had been omitted. The profits for the year ended 31st March, 2018 amounted to ₹ 60,000 and the partners' drawings had been P—₹ 10,000, Q—₹ 7,500 and R—₹ 4,500. The profit-sharing ratio of P, Q and R is 3 : 2 : 1. Give necessary adjustment entry.

Sol. **Calculation of Opening Capital**

Particulars	*P* (₹)	*Q* (₹)	*R* (₹)
Closing capital	40,000	30,000	20,000
Add : Drawings	10,000	7,500	4,500
Total	50,000	37,500	24,500
Less : Share of profits	30,000	20,000	10,000
Opening capital	20,000	17,500	14,500

Adjustment Table

Particulars	*P*		*Q*		*R*		*Firm*	
	Dr. (₹)	*Cr.*(₹)	*Dr.*(₹)	*Cr.*(₹)	*Dr.*(₹)	*Cr.*(₹)	*Dr.*(₹)	*Cr.*(₹)
Profit wrongly credited	30,000	–	20,000	–	10,000	–	–	60,000
Interest to be credited	–	1,000	–	875	–	725	2,600	–
Profit to be distributed	–	28,700	–	19,133	–	9,567	57,400	–
Adjustment	–	300	8	–	292	–	–	–
Total	**30,000**	**30,000**	**20,008**	**20,008**	**10,292**	**10,292**	**60,000**	**60,000**

ADJUSTMENT ENTRY

Date	*Particulars*	*L.F.*	*Dr.*(₹)	*Cr.* (₹)
	P's Capital A/c Dr.		300	
	To Q's Capital A/c			8
	To R's Capital A/c			292
	(Being interest on capital and profit adjusted)			

Q. 70. A, B and C were partners. Their capitals were A–₹ 30,000; B–₹ 20,000 and C–₹ 10,000 respectively. According to the Partnership Deed, they were entitled to an interest on capital @ 5% p.a. In addition B was also entitled to draw a salary of ₹ 500 per month. C was entitled to a commission of 5% on the profits after charging the interest on capital, but before charging the salary payable to B. The net profits for the year were ₹ 30,000 distributed in the ratio of capitals without providing for any of the above adjustments. The profits were to be shared in the ratio of 5 : 3 : 2.

Pass necessary adjustment entry showing the working clearly.

Sol. **Statement Showing Adjustments to be made**

Particulars	*A's Current A/c*		*B's Current A/c*		*C's Current A/c*		*Firm*	
	Dr.(₹)	*Cr.*(₹)	*Dr.*(₹)	*Cr.*(₹)	*Dr.*(₹)	*Cr.*(₹)	*Dr.*(₹)	*Cr.*(₹)
1. Profit already distributed (3 : 2 : 1)	15,000	–	10,000	–	5,000	–	–	30,000
2. Profit should be distributed :								
Interest on Capital	–	1,500	–	1,000	–	500	3,000	–
Salary	–	–		6,000	–	–	6,000	–
Commission $\left(\frac{5}{100} \times 30{,}000 - 3{,}000\right)$	–	–	–	–	–	1,350	1,350	–
Net Profit distributed	–	9,825	–	5,895	–	3,930	19,650	–
(5 : 3 : 2)	15,000	11,325	10,000	12,895	5,000	5,780	30,000	30,000
Balance to be Adjusted (Net Effect)	3,675 (Dr.)		2,895 (Cr.)		780 (Cr.)		NIL	

Adjusting Journal Entry

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
	A's Current A/c	Dr.		3,675	
	To B's Current A/c				2,895
	To C's Current A/c				780
	(Being adjustment entry passed)				

Note : It is assumed that partners have fixed Capitals.

Q. 71. Mannu and Shristhi are partners in a firm sharing profit in the ratio 3 : 2. Following is the balance Sheet of the firm as on 31st March, 2018 :

Balance Sheet
as at 31st March, 2018

Liabilities		₹	*Assets*		₹
Mannu's Capital	**30,000**		**Drawings**		
Shristhi's Capital	**10,000**	**40,000**	**Mannu**	**4,000**	
			Shristhi	**2,000**	**6,000**
			Other Assets		**34,000**
		40,000			**40,000**

Profit for the year ended 31st March, 2018 was 5,000 which was divided in the agreed ratio, but interest @ 5% p.a. on capital and @ 6% p.a. on drawings was inadvertently enquired. Adjust interest on drawings on an average basis for 6 months. Give the adjustment entry.

(*i*) **Calculation of opening Capital**

Particulars	*Mannu*	*Shristhi*
Closing Capital	30,000	10,000
Less : Net Profit dist. in [3 : 2]	3,000	2,000
Opening Capital	27,000	8,000

(*ii*) **Statement Showing Past Adjustment**

Particulars	*Mannu*		*Shristhi*		*Firm*	
	Dr.	*Cr.*	*Dr.*	*Cr.*	*Dr.*	*Cr.*
(*i*) Profit already distributed now Debited	3,000	—	2,000	—	—	5,000
(*ii*) Interest on Capital as (5%) Credited	—	1,350	—	400	1,750	—
(*iii*) Interest on Drawing at (6%) Debited	120	—	60	—	—	180
(*iv*) Balance Profit (*Cr.*) in 3 : 2	—	2,058	—	1,372	3,430	—
Total	3,120	3,408	2,060	1,772	5,180	5,180
(*v*) Difference will be Adjusted to be	288 (*Cr.*)	—	—	288 (*Dr.*)		

Adjustment Entry

Date	Particulars		LF	Dr. (₹)	Cr. (₹)
(i)	Shristhi's Capital A/c	Dr.		288	
	To Mannu's Capital A/c				288
	(Being adjustment entry will be passed)				

Q. 72. A, B and C are partners in a firm. Net profit of the firm for the year ended 31st March, 2018 is ₹ 30,000, which has been duly distributed among the partners, in their agreed ratio of 3 : 1 : 1 respectively. It is discovered on 10th April, 2018 that the undermentioned transactions were not passed through the books of account of the firm for the year ended 31st March, 2018.

(a) Intrest on Capital @ 6% per annum, the capital of A, B and C being ₹ 50,000, ₹ 40,000 and ₹ 30,000 respectively.

(b) Interest on drawings: A ₹ 350; B ₹ 250; C ₹ 150.

(c) Partnership Salaries: A ₹ 5,000; B ₹ 7,500.

(d) Commission due to A (for some special transaction) ₹ 3,000.

You are required to pass a journal entry, which will not affect Profit and Loss Account of the firm and rectify the position of partners inter se.

Sol. **Statement Showing Adjustments**

Particulars	A		B		C		Firm	
	Dr. (₹)	Cr.(₹)	Dr.(₹)	Cr.(₹)	Dr.(₹)	Cr.(₹)	Dr.(₹)	Cr.(₹)
Profit cr. wrongly	18,000	—	6,000	—	6,000	—	—	30,000
Int. on Capital	—	3,000	—	2,400	—	1,800	7,200	—
Int. on draw	350	—	250	—	150	—	—	750
Salaries to A and B	—	5,000	—	7,500	—	—	12,500	—
Commission to A	—	3,000	—	—	—	—	3,000	—
Balance		4,830		1,610		1,610	8050	
Total	**18,350**	**15,830**	**6,250**	**11,510**	**6,150**	**3,410**	**30,750**	**30,750**
Adjustments	—	2,520	5,260	—	—	2,740		

Adjusting Journal Entry

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
	A's Capital A/c	Dr.		2,520	
	C's Capital A/c	Dr.		2,740	
	To B's Capital A/c				5,260
	(Being adjustment made due to changes.)				

Q. 73. On 31st March, 2014, the balances in the Capital Accounts of Saroj, Mahinder and Umar after making adjustments for profits and drawings, etc., were ₹ 80,000, ₹ 60,000 and ₹ 40,000 respectively. Subsequently, it was discovered that the interest on capital and drawings has been omitted.

(a) The profit for the year ended 31st March, 2014 was ₹ 80,000.

(b) During the year Saroj and Mahinder each withdrew a sum of ₹ 24,000 in equal instalements in the end of each month and Umar withdrew ₹ 36,000.

(c) The interest on drawings was to the charged @ 5% p.a. and interest on capital was to be allowed @ 10% p.a.

(d) The profit-sharing ratio among partners was 4 : 3 : 1.

Showing your workings clearly, pass the necessary rectifying entry.

Sol. Working Note—

(i) Calculation of opening capital

Particulars	*Saroj*	*Mahinder*	*Umar*
Closing Capital (₹)	80,000	60,000	40,000
Add : Drawings (₹)	24,000	24,000	36,000
	1,04,000	84,000	76,000
Less : Profit (in 4 : 3 : 1)	40,000	30,000	10,000
opening capital	64,000	54,000	66,000
Interest on capital (10% P.a) (₹)	6,400	5,400	6,600
Interest on Drawing (5% P.a.) (₹)	550	550	900

(ii) Statement Showing Adjustment of Interest on Capital & Drawings.

Particulars	*Saroj*		*Mahinder*		*Umar*		*Firm*	
	Dr.	*Cr.*	*Dr.*	*Cr.*	*Dr.*	*Cr.*	*Dr.*	*Cr.*
Int. on Capital	—	6,400	—	5,400	—	6,600	18,400	—
Int. on Draw.	550	—	550	—	900	—	—	2,000
Adjusted Amt.	8,200	—	6,150	—	2,050	—	—	16,400
Total	8,750	6,400	6,700	5,400	2,950	6,600	18,400	18,400
Rectification	—	2,350	—	1,300	3,650	—	—	—
	Dr.		Dr.		Cr.			

Journal

Date	*Particulars*		*L.F.*	*Dr. (₹)*	*Cr. (₹)*
	Saroj's Capital A/c	Dr.		2,350	
	Mahinder's Capital A/c	Dr.		1,300	
	To Umar's Capital A/c				3,650
	(Being rectification entry Passed)				

Q. 74. The Capitals of A, B and C as on 31st March, 2018 amounted to ₹ 90,000, ₹ 3,30,000 and ₹ 6,60,000 respectively. The profits amounting ₹ 1,80,000 for the year 2017-18 were distributed in the ratio of 4 : 1 : 1. after allowing interest on Capital @ 10% p.a. During the year, each partner withdrew ₹ 3,60,000.

The Partnership Deed was silent as to profit-sharing ratio but provided for interest on capital @ 12%.

Pass the necessary adjustment entry showing the working clearly.

Sol. (i) Calculation of opening Capital

	A	B	C
Let Opening Capital of	x	y	z
+ Interest on capital at (10%)	$0.1x$	$0.1y$	$0.1z$
+ Net Profit of (₹ 1,80,000) in 4 : 1 : 1	1,20,000	30,000	30,000
(–) Drawings	3,60,000	3,60,000	3,60,000
it is equal to Clossing Capital	90,000	3,30,000	6,60,000

So, opening capital of

$$A : x + 0.1x + 1,20,000 - 3,60,000 = 90,000$$
$$x = [90,000 + 3,60,000 - 1,20,000]/ 1.1$$
$$= ₹\ 3,00,000$$
$$B : y + 0.1y + 30,000 - 3,60,000 = 3,30,000$$
$$y = ₹\ [3,30,000 + 3,60,000 - 30,000]/ 1.1$$
$$= ₹\ 6,00,000$$
$$C : z + 0.1z + 30,000 - 3,60,000 = 6,60,000$$
$$z = ₹\ [6,60,000 - 3,60,000 - 30,000]/1.1$$
$$= ₹\ 9,00,000$$

Statement Showing Past Adjustment

Particulars	*A*		*B*		*C*		*Firm*	
	Dr.	*Cr.*	*Dr.*	*Cr.*	*Dr.*	*Cr.*	*Dr.*	*Cr.*
(i) Wrong Amount Interest at. (10%) (Dr.)	30,000	—	60,000	—	90,000	—	—	1,80,000
(ii) Wrong Amt. of Profit in (4 : 1 : 1)	1,20,000	—	30,000	—	30,000	—	—	1,80,000
(iii) Interest on Capital at (12%) (Cr.)		36,000	—	72,000	—	1,08000	216,000	—
(iv) Balance Net Profit in [1 : 1 : 1] (Cr.)	—	48,000	—	48,000	—	48,000	144,000	—
Sub-total	150,000	84,000	90,000	120,000	120,000	156,000	360,000	360,000
(v) Diff. will be Ajust to be	—	66,000 (Dr.)	30,000 (Cr.)	—	36,000 (Cr.)	—	—	—
Total	150,000	150,000	120,000	120,000	156,000	156,000	360,000	360,000

Adjustment Entry

Date	*Particulars*		*LF*	*Dr. (₹)*	*Cr. (₹)*
(i)	A's Capital A/c	Dr.		66,000	
	To B's Capital A/c				30,000
	To C's Capital A/c				36,000
	(Being adjustment entry will be passed)				

Q. 75. The Capital Accounts of A and B stood at ₹ 4,00,000 and ₹ 3,00,000 respectively after necessary adjustments in respect of the drawings and the net profits for the year ended 31st March 2018. It was subsequently discovered that 5% p.a. interest on capitals and also drawings were not taken into account in arriving at the distributable profit. The drawings of the partners had been A ₹ 12,000 drawn at the end of each quarter and B ₹ 18,000 drawn at the end of each half year.

The profits for the year as adjusted amounted to ₹ 2,00,000. The partners share profits in the ratio of 3 : 2. You are required to pass Journal entries and show adjusted Capital Accounts of the partners.

Sol. **Calculation of Opening Capital**

Particulars		*A*		*B*
Closing Capital		4,00,000		3,00,000
Add : Drawings	12, 000 × 4	48,000	18,000 × 2	36,000
Total		4,48,000		3,36,000
Less : Profit	2,00,000 × 3/5	1,20,000	2,00,000 × 2/5	80,000
Opening Capital		**3,28,000**		**2,56,000**

Interest on Capitals

A = 3,28,000 × 5% = ₹ 16,400

B = 2,56,000 × 5% = ₹ 12,800

Interest on Drawings

A = 48,000 × 5% × 4.5/12 = ₹ 900

B = 36,000 × 5% × 3/12 = ₹ 450

Journal Entries

Date	*Particulars*		*LF*	*Dr.* (₹)	*Cr.* (₹)
	Profit & Loss Adjustment A/c	Dr.		29,200	
	To A's Capital A/c				16,400
	To B's Capital A/c				12,800
	(Being interest on capitals credited to partners)				
	A's Capital A/c	Dr.		900	
	B's Capital A/c	Dr.		450	
	To Profit & Loss Adjustment A/c				1,350
	(Being interest on drawings debited to partners)				
	A's Capital A/c (27,850 × 3/5)	Dr.		16,710	
	B's Capital A/c (27,850 × 2/5)	Dr.		11,140	
	To P & L Adjustment A/c (29200 – 1350)				27,850
	(Being loss on adjustment debited to partners)				

Dr. **Partner's Capital Account** **Cr.**

Particulars	*A* (₹)	*B* (₹)	*Particulars*	*A* (₹)	*B* (₹)
To P/L Adjustment A/c			By Balance b/d	4,00,000	3,00,000
(Interest on drawings)	900	450	By P/L Adjust. A/c		
To P/L Adjustment A/c			interest on capitals	16,400	12,800
(Loss on adjustment)	16,710	11,140			
To Balance c/d	3,98,790	3,01,210			
	4,16,400	3,12,800		4,16,400	3,12,800

Q. 76. X and Y are partners sharing profits and losses in the ratio of 3 : 2. They employed Z as their Manager to whom they paid a salary of ₹ 7,500 per month. Z had deposited ₹ 2,00,000 on which interest was payable @ 9% p.a. At the end of the accounting year (*i.e.,* 31st March, 2018) 2017-18 (after division of the year's profits), it was decided that Z should be treated as a partner with effect from 1st April, 2014 with 1/6th share of profits, his deposit being considered as capital carrying interest @ 6% p.a. like capitals of other partners. The firm's profits and losses after allowing interest on capitals were 2014-2015 : Profit ₹ 5,90,000; 2015-16 : Profit ₹ 6,26,000; 2016-17 : Loss ₹ 40,000 and 2017-18: Profit ₹ 7,80,000.

Record necessary Journal entries to give effect to the above.

Note—Interest on capital is to be allowed as a charge.

Sol. Working Notes

(*i*) Amount Payable to 'Z' (As Manager) = Salary + Interest on Loan

= ₹ [(7,500 × 12 × 4) + (2,00,000 × 9% × 4)]

= ₹ (3,60,000 + 72,000) = ₹ 4,32,000

(*ii*) Amount Payable to 'Z' (As Partner) = Interest on Capital + Profit

= ₹ [(2,00,000 × 6% × 4)] + [(19,56,000 + 4,32,000 – 48,000) × 1/6]

= ₹ (48,000 + 3,90,000) = ₹ 4,38,000

(*iii*) Amount of Adjustment = ₹ (4,38,000 – 4,32,000)

= ₹ 6,000

(*iv*) Amount Debited to *x* — (6,000 × 3/5) = ₹ 3,600

y — (6,000 × 2/5) = ₹ 2,400

Journal

Date	*Particulars*		*L.F.*	*Dr.* (₹)	*Cr.* (₹)
(*i*)	Z's Loan A/c	Dr.		2,00,000	
	To Z's Capital A/c				2,00,000
	(Being amount of Loan Convert into Capital)				
(*ii*)	*x*'s Capital A/c	Dr.		3,600	
	y's Capital A/c	Dr.		2,400	
	To Z's Capital A/c				6,000
	(Being amount of Adjustment made)				

Q. 77. A and B are partners sharing profits in the ratio of 2 : 1. They decided to admit C, their manger, as a partners from 1st April, 2017, giving him 1/5th share of profit. C, while a manager, was getting a salary of ₹ 50,000 p.a. plus a commission of 10% of the net profit after charging such salary and commission. It was also agreed that any excess amount which C receives as a partner (over his salary and commission) will be borne by A. Profit for the year ended 31st March, 2018 amounted to ₹ 6,44,000, before payment of salary and commission. Prepare Profit and Loss Appropriation Account.

Sol. Working Note—

(*i*) "C" (As Manager) = ₹ 50,000 + [6,44,000 – 50,000 × (10/110)]
= ₹ 50,000 + 54,000 = ₹ 1,04,000

(*ii*) "C" (As Partner) = 6,44,000 × (1/5) = ₹ 1,28,800

(*iii*) Deficiency borne by "A" = ₹ 1,28,800 – 1,04,000
= ₹ 24,800

Profit and Loss Appropriation A/c
as at March, 31, 2018

Particulars		₹	*Particulars*	₹
To Divisible Profit c/d			By Profit & Loss A/c	6,44,000
A [(6,44,000 – 1,04,000) × (2/3)]				
	3,60,000			
Less : To 'C'	24,800	3,35,200		
B [(6,44,000 – 1,04,000) × (1/3)]		1,80,000		
C [50,000 + 54,000]	1,04,000			
Add : From "A"	24,800	1,28,800		
Total		6,44,000	Total	6,44,000

Q. 78. X and Y are partners in a firm sharing profits in the ratio of 3 : 2. They have a manager, Z, who gets ₹ 10,000 p.m. salary plus commission of 5% of the profit after charging his salary and commission. Now, they decide to admit Z as a partner, giving him 1/5th share in the profits of the firm. Any excess amount which Z receives as a partner (over his salary and commission) will borne by X. The profit for the ended 31st March, 2018 amounted to ₹ 8,40,000 after charging Z's salary. Prepare Profit and Loss Appropriation Account showing the division of profit for the year.

Sol. Working Note—

(*i*) "Z" (As Manager) = ₹ (10,000 × 12) + [8,40,000 × (5/105)]
= ₹ 1,20,000 + 40,000 = ₹ 1,60,000

(*ii*) "Z" (As Partner) = ₹ [(8,40,000 + 1,20,000) × (1/5)]
= ₹ 1,92,000

(*iii*) Deficiency = ₹ (1,92,000 – 1,60,000) = ₹ 32,000

Profit & Loss Apprapriation A/c
as at March 31, 2018

Particulars		₹	*Particulars*	₹
To Divisible Profit			By Profit & Loss A/c	9,60,000
x [(9,60,000 – 1,60,000) × (3/5)]			[8,40,000 + 1,20,000]	
	4,80,000			
Less : To "Z"	32,000	4,48,000		
y [(9,60,000 – 1,60,000) × (2/5)]		3,20,000		
Z	1,60,000			
Add : From "x"	32,000	1,92,000		
Total		9,60,000	Total	9,60,000

Q. 79. A, B and C were in partnership sharing profits and losses in the ratio of 4 : 2 : 1 respectively. It was provided that C's share in profit for a year would not be less than ₹ 7,500. The profit for the year ended 31st March, 2018 amounted to ₹ 31,500. You are required to show the appropriation among the partners. The Profit and Loss Appropriation Account is not required.

Sol.	**Appropriation of Profit**	₹
A	(31,500 – 7,500) × 4/6	16,000
B	(31,500 – 7,500) × 2/6	8,000
C	(Minimum Amount)	7,500
		31,500

Alternatively:	A = 31,500 × 4/7	= 18,000		
	Less to C = 3,000 × 2/3	= 2,000	16,000	
	B = 31,500 × 2/7	= 9,000		
	Less to C = 3,000 × 1/3	= 1,000	8,000	
	C = 31,500 × 1/7	= 4,500		
	Add from A = 2,000			
	Add from B = 1,000	3,000	7,500	
			31,500	

Q. 80. A and B are partners sharing profits in the ratio of 3 : 2. C was admitted for 1/6th share of profit with a minimum guaranteed amount of ₹ 10,000. At the close of first financial year the firm earned a profit of ₹ 54,000. Find out the share of profit which A, B and C will get.

Sol. **Profit and Loss Appropriation Account**

Dr. *Cr.*

Particulars		₹	*Particulars*	₹
To Net profit trans. to Cap. A/c			By Net profit b/d	54,000
A (54,000 × 3/6)	27,000			
Less : transfered to C	600	26,400		
B (54,000 × 2/6)	18,000			
Less : transfered to C	400	17,600		

C (54,000 × 1/6) 9,000				
Add : From A (1000 × 3/5) 600				
From B (1000 × 2/5) 400	10,000			
	54,000			54,000

Q. 81. X, Y and Z entered into partnership on 1st October, 2017 to share profits and losses in the ratio of 4 : 3 : 3. X, personally Guaranteed that Z's share of profit after charging interest on capital @ 10% p.a. would not be less than ₹ 80,000 in any year. The capital contributions were : X—₹ 3,00,000, Y—₹ 2,00,000 and Z—₹ 1,50,000.

The Profit for the year ended 31st March, 2018 amounted to ₹ 1,60,000. Prepare Profit and Loss Appropriation Account.

Sol. P & L Appropriation A/c

Particulars		₹	*Particulars*	₹
To Interest on Capital			By P & l A/c	1,60,000
x (3,00,000 × 10% × 6/12)		15,000		
y (2,00,000 × 10% × 6/12)		10,000		
z (1,50,000 × 10% × 6/12)		7,500		
To Net pt. trans. to cap. A/c				
x	51,000			
(1,27,500 × 4/10)				
Less : to z's	1,750	49,250		
y's (1,27,500 × 3/10)		38,250		
z's (1,27,500 × 3/10)	38,250			
Add : From 'x'	1,750	40,000		
[(80,000 × ½)– 38,250]				
Total		1,60,000	Total	1,60,000

Q. 82. A, B and C are partners in a firm. Their profit sharing ratio is 2 : 2 : 1. However, C is guaranteed a minimum amount of ₹ 10,000 as share of profit every year. Any deficiency arising on that amount shall be met by B. The profits for the two years ended 31st March 2017 and 2018 were ₹ 40,000 and ₹ 60,000 respectively.

Prepare P/L Appropriation A/c for the two years.

Sol. Profit and Loss Appropriation Account

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

Particulars		₹	*Particulars*	₹
To A = 40,000 × 2/5		16,000	By Profits for the year	40,000
To B = 40,000 × 2/5	= 16,000			
Less : to C	= 2,000	14,000		
To C = 40,000 × 1/5	= 8,000			
Add : from B	= 2,000	10,000		
		40,000		40,000

Profit and Loss Appropriation Account
for the year ended 31st march, 2016

Dr. Particulars	₹	Particulars	₹ *Cr.*
To A = 60,000 × 2/5	24,000	By Profits for the year	60,000
To B = 60,000 × 2/5	24,000		
To C = 60,000 × 1/5	12,000		
	60,000		60,000

Q. 83. A, B and C are partners sharing profits in the ratio of 5 : 4 : 1. C is given a guarantee that his minimum share of profits in any given year would be at least ₹ 5,000. Deficiency, if any, would be borne by A and B equally. The profits for the year 2017–18 amounted to ₹ 40,000. Pass necessary Journal entries in the books of the firm.

Adjusting Journal Entry

Date	*Particulars*		*L.F.*	*Dr.* (₹)	*Cr.* (₹)
	P & L App. A/c	Dr.		40,000	
	To A's Capital A/c				19,500
	To B's Capital A/c				15,500
	To C's Capital A/c				5,000
	(Being profit distributed among partners)				

Appropriation of Profit

			₹
A = 40,000 × 5/10	=	20,000	
Less to C = 1,000 × 1/2	=	500	19,500
B = 40,000 × 4/10	=	16,000	
Less to C = 1,000 × 1/2	=	500	15,500
C = 40,000 × 1/10	=	4,000	
Add: From A = 500			
Add: From B = 500		1,000	5,000
			40,000

Q. 84. Vikas and Vivek were partners in a firm sharing profits in the ratio of 3 : 2. On 1st April, 2017 they admitted Vandana as a new partner for 1/8th share in the profits with a guaranteed profit of ₹ 1,50,000. The new profit-sharing ratio between Vikas and Vivek will remain the same but they decided to bear any deficiency on account of guarantee to Vandana in the ratio 2 : 3. The profit of the firm for the year ended 31st March, 2018 was ₹ 9,00,000.

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

Sol. Working Note—

(*i*) Total Profit = ₹ 9,00,000
Share of Vandana = ₹ 9,00,000 × (1/8) = ₹ 1,12,500
of Vikas = ₹ (9,00,000 – 1,12,500) × 3/5 = ₹ 4,72,500
of Vivek = ₹ (9,00,000 – 1,12,500) × 2/5 = ₹ 3,15,000

(ii) Deficiency = ₹ 1,50,000 – 1,12,500 = ₹ 37,500
borne by Vikas = ₹ 37,500 × (2/5) = ₹ 15,000
by Vivek = 37,500 × (3/5) = ₹ 22,500

Profit and Loss Appropriation A/c

Dr. *as at March 31, 2018* *Cr.*

Particulars		₹	*Particulars*	₹
To Divisible Profit			By Profit & Loss A/c	9,00,000
Vikas	4,72,500			
Less : to Vandana	15,000	4,57,500		
Vivek	3,15,000			
Less : to Vandana	22,500	2,92,500		
Vandana	1,12,500			
Add : From Vikas	15,000			
From Vivek	22,500	1,50,000		
Total		9,00,000	Total	9,00,000

Q. 85. Pranshu and Himanshu are partners sharing profits and losses in the ratio of 3 : 2 respectively. They admit Anshu as partners with 1/6 share in the profit of the firm. Pranshu personally guaranteed that Anshu's share of profit would not be less than ₹ 30,000 in any year. The net profit of the firm for the year ending 31st March, 2013 was ₹ 90,000.

Prepare Profit and Loss Appropriation Account. *(AI 2014 C)*

Sol. **Profit and Loss Appropriation Account**

Particulars		₹	*Particulars*	₹
To Net Profit transferred			By Profit & Loss A/c	90,000
Pranshu (90,000 × 3/6)	45,000			
Less : to Anush	15,000	30,000		
Himanshu (90,000 × 2/6)		30,000		
Anshu (90,000 × 1/6)	15,000			
Add : From Pranshu	15,000	30,000		
Total		**90,000**	**Total**	**90,000**

Q. 86. A, B and C are partners in a firm sharing profits in the ratio 3 : 2 : 1. They earned a profit of ₹ 30,000 during 2017–18. Distribute the profit among A, B and C if :

(a) C's share of profit is guaranteed to be ₹ 6,000 minimum.

(b) Minimum profit payable to C amounting to ₹ 6,000 is guaranteed by A.

(c) Guaranteed minimum profit of ₹ 6,000 payable to C is guaranteed by B.

(d) Any deficiency after making payment of guaranteed ₹ 6,000 will be borne by A and B in the ratio of 3 : 1.

Sol.

Case a : Appropriation of Profit

A = 30,000 × 3/6	=	15,000	
Less : to C = 1,000 × 3/5	=	600	14,400
B = 30,000 × 2/6	=	10,000	
Less : C = 1,000 × 2/5		400	9,600
C = 30,000 × 1/6	=	5,000	
Add : From A		600	
Add : From B		400	6,000
			30,000

Case b : Appropriation of Profit

A = 30,000 × 3/6	=	15,000	
Less : to C	=	1,000	14,000
B = 30,000 × 2/6	=	10,000	10,000
C = 30,000 × 1/6	=	5,000	
Add : From A	=	1,000	6,000
			30,000

Case c : Appropriation of Profit

A = 30,000 × 3/6	=	15,000	15,000
B = 30,000 × 2/6	=	10,000	
Less : to C		1,000	9,000
C = 30,000 × 1/6	=	5,000	
Add : From B	=	1,000	6,000
			30,000

Case d : Appropriation of Profit

A = 30,000 × 3/6	=	15,000	
Less : to C (1,000 × 3/4)	=	750	14,250
B = 30,000 × 2/6	=	10,000	
Less : to C (1,000 × 1/4)		250	9,750
C = 30,000 × 1/6	=	5,000	
Add : From A (1,000 × 3/4)	=	750	
Add : From B (1,000 × 1/4)		250	6,000
			30,000

Q. 87. A and B are in partnership sharing profits and losses in the ratio of 3 : 2. They decided to admit C, their manager, as a partner with effect from 1st April 2017, giving him one-fourth share of profits. C, while a manager, was in receipt of salary of ₹ 27,000 per annum and a commission of 10% of the net profits after charging such salary and commission.

In terms of the partnership deed, any excess amount, which C will be entitled to receive as a partner over the amount which would have been due to him if he continued to be the manager, would have to be personally borne by A out of his

share of profit. Profit for the year ended 31st March, 2018 amounted to ₹ 2,25,000. You are required to show the Profit & Loss Appropriation Account for the year ended 31st March 2018.

Sol.

Dr. **Profit & Loss Appropriation Account** *Cr.*

Particulars	₹	*Particulars*	₹
To A = [1,80,000 × (3/5)]=1,08,000		By Profit for the year	2,25,000
Less: to C = 11,250	96,750		
To B = 1,80,000 × 2/5	72,000		
To C= Salary = 27,000			
Add: Commission			
(1,98,000 ×10/110) = 18,000			
Add: from A (Balance)= 11,250	56,250		
	2,25,000		2,25,000

Profit after Salary = ₹ 2,25,000 – 27,000 = ₹ 1,98,000

Profit after Salary & Commission = ₹ 1,98,000 – 18,000 = ₹ 1,80,000

Q. 88. Asgar, Chaman and Dholu are partners in a firm. Their capital accounts stood at ₹ 6,00,000, ₹ 5,00,000 and ₹ 4,00,000 respectively on 1st April 2017. They shared Profit and Losses in the proportion of 4 : 2 : 3. Partners are entitled to interest on capital @ 8% per annum and salary to Chaman and Dholu @ ₹ 7,000 per month and ₹ 10,000 per quater respectively as per the provision of the Partnership Deed.

Dholu's share of profit (excluding interest on capital but including salary) is guaranteed at a minimum of 1,10,000 p.a. Any deficiency arising on that account shall be met by Asgar. The profits for the year ended 31st March, 2018 amounted to ₹ 4,24,000.

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

Sol.

Dr. **Profit & Loss Appropriation Account** *Cr.*

as at March 31, 2018

Particulars		₹	*Particulars*	₹
To Int. on Capital :			By P & L A/c	4,24,000
Asgar	48,000			
Chaman	40,000			
Dholu	32,000	1,20,000		
To Salary :				
Chaman (7000 × 12)	84,000			
Dholu (10,000 × 4)	40,000	1,24,000		
To Net Profit :				
Asgar	80,000			

Less : to Dholu	10,000	70,000		
Chaman		40,000		
Dholu	60,000			
Add : Deficiency				
[₹ 1,10,000 – (40,000 + 60,000)				
borne by Asgar	10,000	70,000		
		4,24,000		4,24,000

Q. 89. Ankur, Bhavna and Disha are partners in a firm. On 1st April 2017, the balance in their capital account stood at ₹ 14,00,000, ₹ 6,00,000 and ₹ 4,00,000 respectively. They shared profits in the proportion of 7 : 3 : 2 respectively. Partners are entitled to interest on capital @ 6% per annum and salary to Bhavna @ ₹ 50,000 p.a. and a commission of ₹ 3,000 per month to Disha as per the provision of the Partnership Deed.

Bhavna's share of profit (excluding interest on capital) is guaranteed at not less than 1,70,000 p.a. Disha's share of profit (including interest on Capital but excluding commission is guaranteed at not less then ₹ 1,50,000 p.a. Any deficiency arising on that account shall be met by Ankur. The profits of the firm for the year ended 31st March, 2018 amounted to ₹ 9,50,000.

Prepare 'Profit and Loss Appropriation Account for the year ended 31st March 2016.

Sol.

Dr. **Profit & Loss Appropriation Account** *Cr.*

as at March 31, 2018

Particulars		₹	*Particulars*	₹
To Int. on Capital :			By P & L A/c	9,50,000
Ankur	84,000			
Bhavna	36,000			
Disha	24,000	1,44,000		
To Bhavna's Salary		50,000		
To Disha's Commission (3,000 × 12)		36,000		
To Net Profit :				
Ankur	4,20,000			
Less : to Disha's	6,000	4,14,000		
Bhavna		1,80,000		
Disha	1,20,000			
Add : Deficiency				
[₹ 1,50,000 – (1,20,000 + 24,000)				
borne by Ankur	6,000	1,26,000		
		9,50,000		9,50,000

Q. 90. Ankur and Bobby were into the business of providing software solutions in India. They were sharing profits and losses in the ratio 3 : 2. They admitted Rohit for a 1/5 share in the firm. Rohit, an alumni of IIT, Chennai would

help them to expand their business to various South African countries where he had been working earlier. Rohit is guaranteed a minimum profit of ₹ 2,00,000 for the year. Any deficiency in Rohit's share is to be borne by Ankur and Bobby in the ratio 4 : 1. Losses for the year were ₹ 10,00,000. Pass the necessary Journal entries.

Sol. Working Note—(*i*) Total amount of Loss transferred to Rohit—

= ₹ [2,00,000 + (10,00,000 × 1/5)] = ₹ (2,00,000 + 2,00, 000) = ₹ 4,00,000

(*ii*) Deficiency borne by—Ankur = ₹ (4,00,000 × 4/5) = ₹ 3,20,000

Bobby = ₹ (4,00,000 × 1/5) = ₹ 80,000

Adjusting Journal Entry

Date	*Particulars*		*L.F.*	*Dr.* (₹)	*Cr.* (₹)
(*i*)	Ankur's Capital A/c	Dr.		4,80,000	
	Bobby's Capital A/c	Dr.		3,20,000	
	Rohit's Capital A/c	Dr.		2,00,000	
	To Profit & Loss A/c				10,00,000
	(Being Loss for the year transferred)				
(*ii*)	Ankur's Capital A/c	Dr.		3,20,000	
	Bobby's Capital A/c	Dr.		80,000	
	To Rohit's Capital A/c				4,00,000
	(Being deficiency borne transferred)				

Q. 91. Ajay, Binay and Chetan were partners sharing profits in the ratio of 3 : 3 : 2. The Partnership Deed provided for the following—

(*i*) Salary of ₹ 2,000 per quarter to Ajay and Binay.

(*ii*) Chetan was entitled to a commission of ₹ 8,000.

(*iii*) Binay was guaranteed a profit of ₹ 50,000 p.a.

The profit of the firm for the year ended 31st March, 2015 was ₹ 1,50,000 which was distributed among Ajay. Binay and Chetan in the ratio of 2 : 2 :1, without taking into consideration the provisions of Partnership Deed. Pass necessary rectifying entry for the above adjustments in the books of the firm. Show your workings clearly. ***(Delhi 2016C)***

Sol. Statement Showing Past Errors and their Adjustments

Ajay		*Binay*		*Chetan*		*Firm*	
Dr.	*Cr.*	*Dr.*	*Cr.*	*Dr.*	*Cr.*	*Dr.*	*Cr.*
60,000	—	60,000	—	30,000	—	—	1,50,000
—	8,000	—	8,000	—	—	16,000	—
—	—	—	—	—	8,000	8,000	—
—	47,250	—	47,250	—	31,500	1,26,000	—
1,650	—	—	2,750	1,100	—	—	—
61,650	55,250	60,000	58,000	31,100	39,500	1,50,000	1,50,000
—	6,400	—	2,000	8,400	—	—	—
	Dr.		Dr.	Cr.	—	—	—

Journal

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
(i)	Ajay's Capital A/c	Dr.		6,400	
	Binay's Capital A/c	Dr.		2,000	
	To Chetan's Capital A/c				8,400
	(Being adjustment of errors & ommission made)				

Q. 92. P, Q and R entered into partnership on 1st April, 2015 to share profits and losses in the ratio of 12 : 8 : 5. It was provided that in no case R's share in profit be less than ₹ 30,000 p.a. The profits and losses for the period ended 31st March were—2015-16 Profit ₹ 1,20,000; 2016-17 Profit ₹ 1,80,000; 2017-18 Loss ₹ 1,20,000.

Pass the necessary Journal entries in the books of the firm.

Sol.

Journal

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
2014-15					
(i)	Profit & Loss App. A/c	Dr.		1,20,000	
	To P's Capital A/c [1,20,000 × (12/35)]				57,600
	To Q's Capital A/c [1,20,000 × (8/25)]				38,400
	To R's Capital A/c [1,20,000 × (5/25)]				24,000
	(Being Distribution of Profit made in 12 : 8 : 5)				
(ii)	P's Capital A/c [6,000 × (12/20)]	Dr.		3,600	
	Q's Capital A/c [6,000 × (8/20)]	Dr.		2,400	
	To R's Capital A/c [30,000 – 24,000]				6,000
	(Being deficiency of R's Share borne by P and Q)				

Journal

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
2015-16					
(i)	Profit & Loss App. A/c	Dr.		1,80,000	
	To P's Capital A/c [1,80,000 × (12/25)]				86,400
	To Q's Capital A/c [1,80,000 × (8/25)]				57,600
	To R's Capital A/c [1,80,000 × (5/25)]				36,000
	(Being distribution of Profit made in 12 : 8 : 5)				

Journal

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
2016-17					
(i)	P's Capital A/c [1,20,000 × (12/25)]	Dr.		57,600	
	Q's Capital A/c [1,20,000 × (8/25)]	Dr.		38,400	
	R's Capital A/c [1,20,000 × (5/25)]	Dr.		24,000	
	To Profit & Loss A/c				1,20,000
	(Being Loss of the year transfer to partners)				

(ii)	P's Capital A/c [54,000 × (12/20)] Dr.		32,400	
	Q's Capital A/c [54,000 × (8/20)] Dr.		21,600	
	To R's Capital A/c			54,000
	(Being deficiency of R's borne by P and Q in 12 : 8)			

Q. 93. Three Chartered Accountants A, B and C form a partnership, profits being shared in the ratio of 3 : 2 : 1 subject to the following: (*i*) C's share of profits guaranteed to be not less than ₹ 15,000 p.a., (*ii*) B gives guarantee to the effect that gross fee earned by him for the firm shall be equal to his average gross fee of the preceeding five years when he was carrying on profession alone (which on an average works out at ₹ 25,000). The profit for the first year of the partnership are ₹ 75,000. The gross fees earned by B for the firm ₹ 16,000. You are required to show Profit and Loss Appropriation A/c (after giving effect to the above.)

Sol.

Dr. **Profit & Loss Appropriation Account** *Cr.*

Particulars		₹	*Particulars*	₹
To A = 84,000 × 3/6 =	42,000		By Profit for the year	75,000
Less: to C = 1,000 × 3/5 =	600	41,400	By B (25,000 – 16,000)	9,000
To B = 84,000 × 2/6 =	28,000			
Less: to C = 1,000 × 2/5 =	400	27,600		
To C = 84,000 × 1/6 =	14,000			
Add: from A = 600				
Add: from B = 400	1,000	15,000		
		84,000		84,000

Thus, A's Share = ₹ 41,400

B's Share = ₹ 27,600 – 9,000 = ₹ 18,600

C's Share = ₹ 15,000

Chapter - 2
GOODWILL : NATURE & VALUATION

SOLVED PRACTICAL PROBLEMS

Q. 1. Goodwill is to be valued at three years' purchase of four years' average profits. Profits for last four years ending on 31st March of the firm were—

2015—₹ 12,000; 2016—₹ 18,000; 2017—₹ 16,000; 2018—₹ 14,000.

Calculate amount of Goodwill.

Sol. Average Profit = (12,000 + 18,000 + 16,000 + 14,000)/4
= 60,000 / 4 = ₹ 15,000

Goodwill = Average Profits × 3 years' purchase
= ₹ 15,000 × 3 = ₹ 45,000

Q. 2. The profit for the five years ending on 31st March, are as follows—

Year 2014—₹ 4,00,000; Year 2015—₹ 3,98,000; Year 2016—₹ 4,50,000; Year 2017—₹ 4,45,000 and Year 2018—₹ 5,00,000.

Calculate goodwill of the firm on the basis of 4 years' purchase of 5 years' average profit.

Sol. Total Profit of 5 Years = ₹ [4,00,000 + 3,98,000 + 4,50,000
(+ 4,45,000 +) 5,00,000]
= ₹ 21,93,600

(ii) Average Profit of 5 Years = ₹ [21,93,000/5]
= ₹ 4,38,000

(iii) Goodwill = Average Profit × No. of year Purchase
= ₹ (4,38,600 × 4)
= ₹ 17,54,400

Q. 3. Calculate value of goodwill on the basis of three years' purchase of average profit of the preceding five years which were as follows—

Year	2017-18	2016-17	2015-16	2014-15	2013-14
Profit (₹)	8,00,000	15,00,000	18,00,000	4,00,000 (Loss)	13,00,000

Sol. Average Profit = (8,00,000 + 15,00,000 + 18,00,000 – 4,00,000 + 13,00,000)/5
= ₹ 50,00,000 / 5 = ₹ 10,00,000

Goodwill = Average Profits × 3 years' purchase
= ₹ 10,00,000 × 3 = ₹ 30,00,000

Q. 4. Calcualate the value of firm's goodwill on the basis of one and half years' purchase of the average profit of the last three years. The profit for first year was ₹ 1,00,000, profit for the second year was twice the profit of the first year and for the third year profit was one and half times of the profit of the second year.

Sol. Profit of

I Year = ₹ 1,00,000

II Year = ₹ 1,00,000 × 2 = ₹ 2,00,000

III Year = ₹ 2,00,000 × 1.5 = ₹ 3,00,000

Now Average Profit = $\dfrac{₹[1,00,000+2,00,000+3,00,000]}{3}$

= ₹ 2,00,000

Goodwill = Average Profit × 1.5

= ₹ 2,00,000 × 1.5 = ₹ 3,00,000

Q. 5. A and B are partners sharing profits in the ratio of 3 : 2. They decided to admit C as a partner from 1st April, 2018 on the following terms—

(*i*) C will be given 2/5th share of the profit.

(*ii*) Goodwill of the firm will be valued at two years' purchase of three years' normal average profit of the firm.

Profit of the previous three years ended 31st March were—

2018—Profit ₹ 30,000 (after debiting loss of stock by fire ₹ 40,000).

2017—Loss ₹ 80,000 (includes voluntary retirement compensation paid ₹ 1,10,000).

2016—Profit ₹ 1,10,000 (including a gain (Profit) of ₹ 30,000 on the sale of fixed assets.

You are required to value the goodwill.

Sol. Adjusted Normal Profits

For the year ended 31.3.2018 = ₹ 30,000 + 40,000 = ₹ 70,000

For the year ended 31.3.2017 = ₹ (–80,000) + 1,10,000 = ₹ 30,000

For the year ended 31.3.2016 = ₹ 1,10,000 – 30,000 = ₹ 80,000

Average normal Profit = (70,000 + 30,000 + 80,000)/3

= 1,80,000 / 3 = ₹ 60,000

Goodwill = Average Normal Profits × 2 years' purchase

= ₹ 60,000 × 2 = ₹ 1,20,000

Q. 6. X and Y are partners sharing profits and losses in the ratio of 3 : 2. They admited Z into partnership for 1/4th share in goodwill. Z brings in his share of goodwill in cash. Goodwill for this purpose is to be calculated at two years' purchase of the average normal profit of past three years. Profits of the last three years ended 31st March, were—

2016 – Profit ₹ 50,000 (including profit on sale of assets ₹ 5,000).

2017 – Loss ₹ 20,000 (including loss by fire ₹ 30,000).

2018 – Profit ₹ 70,000 (including insurance claim received ₹ 18,000 and interest on investment and Dividend received ₹ 8,000).

Calculate value of goodwill. Also, calculate goodwill brought in by Z.

Sol. 2016 = ₹ 50,000 – 5,000 = ₹ 45,000

2017 = ₹ (–20,000) + (30,000) = ₹ 10,000

2018 = ₹ 70,000 – 18,000 – 8,000 = ₹ 44,000

Average Profit = (45,000 + 10,000 + 44,000) / 3

= 99,000 / 3 = ₹ 33,000

Goodwill = Average Profits × 2 years' purchase

= ₹ 33,000 × 2 = ₹ 66,000

Z shall bring as goodwill = ₹ 66,000 × ¼ = ₹ 16,500

Q. 7. A and B are partners in a firm sharing profits and losses in the ratio of 2 : 1. They decided to take C into partnership for 1/4th share on 1st April, 2016. For this purpose, goodwill is to be valued at four times the average annual profit

of the previous four or five years whichever is higher. The agreed profits for goodwill purpose of the past five years are :

Year	2013-14	2014-15	2015-16	2016-17	2017-18
Profit (₹)	14,000	15,500	10,000	16,000	15,000

Find the value of goodwill.

Sol. Previous 4 years' Average Profit $= \dfrac{15{,}000+16{,}000+10{,}000+15{,}500}{4}$

$= 56{,}500 / 4 =$ ₹ 14,125

Previous 5 years Avg. Profit $= \dfrac{15{,}000+16{,}000+10{,}000+15{,}500+14{,}000}{5}$

$= 70{,}500 / 5 = 14{,}100$

Higher is 14,125. So

Goodwill = Avg. Annual Profit × 4 year Purchase = ₹ 14,125 × 4 = ₹ 56,500

Q. 8. Sumit purchase Amit's business on 1st April, 2018. Goodwill was decided to be valued at two years' purchase of average normal profit of last four years. The profits for the past four years were—

Year Ended	31st March 2015	31st March 2016	31st March 2017	31st March 2018
Profit (₹)	80,000	1,45,000	1,60,000	2,00,000

Books of Accounts revealed that—

(*i*) Abnormal loss ₹ 20,000 was debited to Profit and Loss Account for the year ended 31st March, 2014.

(*ii*) A fixed asset was sold in the year ended 31st March, 2015 and gain (profit) of ₹ 25,000 was credited to Profit and Loss Account.

(*iii*) In the year ended 31st March, 2016 assets of the firm were not insured due to oversight. Insurance premium not paid was ₹ 15,000.

Calculate the value of goodwill.

Sol. Normal Profit of Year ended March 31

2015 = ₹ 80,000 + 20,000 = ₹ 1,00,000

2016 = ₹ (1,45,000 – 25,000) = ₹ 1,20,000

2017 = ₹ (1,60,000 – 15,000) = ₹ 1,45,000

2018 = ₹ 2,00,000

Total Normal Profit = ₹ (1,00,000 + 1,20,000 + 1,45,000 + 2,00,000)

= ₹ 5,65,000

Average Normal Profit = ₹ 5,65,000/4 = ₹ 1,41,250

Goodwill = ₹ 1,41,250 × 2 = ₹ 2,82,500

Q. 9. X and Y are partners in a firm. They admit Z into partnership for equal share. It was agreed that goodwill will be valued at three years' purchase of average profit of last five years. Profits for the last five years were—

Year Ended	31st March 2014	31st March 2015	31st March 2016	31st March 2017	31st March 2018
Profit (₹)	90,000 (loss)	1,60,000	1,50,000	65,000	1,77,000

Books of Account of the firm revealed that—

(i) The firm had gain (profit) of ₹ 50,000 from sale of machinery sold in the year ended 31st March, 2015. The gain (profit) was credited in Profit and Loss Account.

(ii) There was an abnormal loss of ₹ 20,000 incurred in the year ended 31st March, 2016 because of a machine becoming obsolete in accident.

(iii) Overhauling cost of second hand machinery purchased on 1st July, 2016 amounting to ₹ 1,00,000 was debited to Repairs Account. Depreciation is charged @ 20% p.a. on Written Down Value Method.

Calculate the value of goodwill.

Sol. **Statement Showing Normal Profits**

Particulars	31-3-14	31-3-15	31-3-16	31-3-17	31-3-18
Balance b/d	(90,000)	1,60,000	1,50,000	65,000	1,77,000
Less : Ab. Gain	—	(50,000)	—	—	—
	(90,000)	1,10,000	1,50,000	65,000	1,77,000
Add : Ab. Loss	—	—	20,000	—	—
	(90,000)	1,10,000	1,70,000	65,000	1,77,000
Add : Repairs	—	—	—	1,00,000	—
	(90,000)	1,10,000	1,70,000	1,65,000	1,77,000
Less : Depreciation	—	—	—	(15,000)	(17,000)
	(90,000)	1,10,000	1,70,000	1,50,000	1,60,000

Total Normal Profit = ₹ [(90,000) + 1,10,000 + 1,70,000 + 1, 50,000 + 1,60,000]
= ₹ 5,00,000

Average Profit = ₹ 5,00,000/5 = ₹ 1,00,000

Goodwill = ₹ 1,00,000 × 3 = ₹ 3,00,000

Q. 10. Profit of a firm for the year ended 31st March for the last five year were—

Year ended	31-3-2014	31-3-2015	31-3-2016	31-3-2017	31-3-2018
Profit (₹)	20,000	24,000	30,000	25,000	18,000

Calculate value of goodwill on the basis of three years' purchase of Weighted Average Profit after assigning weight 1, 2, 3, 4 and 5 respectively to the profits for years ended 31st March, 2014, 2015, 2016, 2017 and 2018.

Sol.

Calculations for Weighted Average Profits and Goodwill

Year	*Profits (₹)*	*Weights*	*Products (₹)*
2014	20,000	1	20,000
2015	24,000	2	48,000
2016	30,000	3	90,000
2017	25,000	4	1,00,000
2018	18,000	5	90,000
	Total	**15**	**3,48,000**

Weighted Average Profits = ₹ 3,48,000 /15 = ₹ 23,200

Goodwill = ₹ 23,200 × 3 = ₹ 69,600

Q. 11. A and B are partners sharing profits and losses in the ratio of 5 : 3. On 1st April, 2018, C is admitted to the partnership for 1/4th share of profits. For this purpose, goodwill is to be valued at two years' purchase of last three years' profit (after allowing partners' remuneration). Profits to be weighted 1 : 2 : 3, the greatest weight being given to last year. Net profit before partners' remuneration were 2015-16; ₹ 2,00,000; 2016-17 : ₹ 2,30,000; 2017-18 : ₹ 2,50,000. The remuneration of the partners is estimated to be ₹ 90,000 p.a. Calculate amount of goodwill.

Sol. Weighted Average Profit =(2,00,000 × 1 + 2,30,000 × 2 + 2,50,000 × 3) / (1 + 2 + 3) – 90,000

= 14,10,000 / 6 – 90,000 = ₹ 1,45,000

Goodwill = Weighted Average Profits × 2 years' purchase

= ₹ 1,45,000 × 2 = ₹ 2,90,000

Q. 12. Manbir and Nimrat are partners and they admit Anahat into partnership. It was agreed to value goodwill at three years' purchase on Weighted Average Profit Method taking profits of last five years. Weights assigned to each year as1, 2, 3, 4 and 5 respectively to profits for the year ended 31st March, 2014 to 2018. The profits for these years were— ₹ 70,000, ₹ 1,40,000, ₹ 1,00,000, ₹ 1,60,000 and ₹ 1,65,000 respectively.

The books of account revealed following informations.

(*i*) There was an abnormal loss of ₹ 20,000 in the year ended 31st March, 2014.

(*ii*) There was an abnormal gain (profit) of ₹ 30,000 in the year ended 31st March, 2015.

(*iii*) Closing Stock as on 31st March, 2017 was overvalued by ₹ 10,000.

Calculate the value of goodwill.

Sol. Weighted Normal Profit of 31st March,

2014 = ₹ (70,000 + 20,000) × 1 = ₹ 90,000

2015 = ₹ (1,40,000 – 30,000) × 2 = ₹ 2,20,000

2016 = ₹ 1,00,000 × 3 = 3,00,000

2017 = ₹ (1,60,000 – 10,000) × 4 = ₹ 6,00,000

2018 = ₹ (1,65,000 + 10,000) × 5 = ₹ 8,75,000

Total Weighted Normal Profit = ₹ 20,85,000

Average W. Normal Profit = ₹ 20,85,000/15

= ₹ 1,39,000

∴ Goodwill = ₹ 1,39,000 × 3 = ₹ 4,17,000

Q. 13. Calculate the goodwill of a firm on the basis of three years' purchase of the weighted average profit of the last four years. The appropriate weights to be used and profits are—

Year	2014-15	2015-16	2016-17	2017-18
Profit (₹)	1,01,000	1,24,000	1,00,000	1,40,000
Weight	1	2	3	4

On a scrutiny of the accounts, the following matters are revealed—

(i) On 1st December, 2016, a major repair was made in respect of the plant incurring ₹ 30,000 which was charged to revenue. The said sum is agreed to be capitalised for goodwill calculation subject to adjustment of depreciation of 10% p.a. on reducing balance method.

(ii) The closing stock for the year 2015-16 was overvalued by ₹ 12,000.

(iii) To cover management cost, an annual charge of ₹ 24,000 should be made for the purchase of goodwill valuation.

(iv) In 2015-16, a machine having a book value of ₹ 10,000 was sold for ₹ 11,000 but proceeds were wrongly credited to Profit and Loss Account. No effect has been given to rectify the same. Depreciation is charged on machine @ 10% p.a. on reducing balance method.

Sol. (i) Statement Showing Adjustment of Profit

	Particulars	*2014-15*	*2015-16*	*2016-17*	*2017-18*
Net Profit (Given)		1,01,000	1,24,000	1,00,000	1,40,000
Add :	Cost of Major Repair	—	—	30,000	—
Add :	Over Valuation of Op. Stock	—	—	12,000	—
Add :	Profit on Sale of Machine	—	2,000	—	—
		1,01,000	1,26,000	1,42,000	1,40,000
Less :	Annual Charge of Mat. Cost	(24,000)	(24,000)	(24,000)	(24,000)
	Over-Valuation of Clos. Stock	—	(12,000)	—	—
	Sale Proceeds of Machine	—	(11,000)	—	—
	Dep. on Plant at (10%)	—	—	(1,000)	(2,900)
Add :	Dep. on Machine at (10%)	—	1,000	900	810
	Adjusted Profit	77,000	78,000	1,17,900	1,13,910

(ii) Calculation of Weighted Profit

Year	*Profit*	*Weight*	*W. Profit*
2014-15	72,000	1	77,000
2015-16	78,000	2	1,56,000
2016-17	1,17,900	3	3,53,700
2017-18	1,13,910	4	4,55,640
		10	10,42,340

Weighted Average Profit = 10,42,340/10 = ₹ 104,234

Goodwill = ₹ 104,234 × 3 = ₹ 3,12,702

Q. 14. Gupta and Bose had a firm in which they had invested ₹ 50,000. On an average, the profits were ₹ 16,000. The normal rate of return in the industry is 15%. Goodwill is to be valued at four years' purchase of profits in excess of profits @ 15% on the money invested. Value the goodwill.

Sol. Average Profits = ₹ 16,000

Normal Profits = ₹ 50,000 × 15% = ₹ 7,500

Super Profits = Average Profits – Normal Profit

= ₹ 16,000 – 7,500 = ₹ 8,500

Goodwill = Super Profits × No. of Years Purchased
= ₹ 8,500 × 4 = ₹ 34,000

Q. 15. The total capital of the firm of Sakshi, Mehak and Megha is ₹ 1,00,000 and the market rate of interest is 15%. The net profits for the last 3 years were ₹ 30,000; ₹ 36,000 and ₹ 42,000. Goodwill is to be valued at 2 years' purchase of the last 3 years' super profits. Calculate the goodwill of the firm.

Sol. (*i*) Actual Average Profit = $\frac{₹ [30,000+36,000+42,000]}{3}$

= ₹ 36,000

(*ii*) Normal Profit = ₹ 1,00,000 × (15%)
= ₹ 15,000

(*iii*) Super Profit = ₹ [36,000 – 15,000]
= ₹ 21,000

(*iv*) Goodwill = ₹ 21,000 × 2 = ₹ 42,000

Q. 16. The average net profits expected in the future by XYZ firm are ₹ 36,000 per year. Average capital employed in the business by the firm is ₹ 2,00,000. The normal rate of return from capital invested in this class of business is 10%. Remuneration of the partners is estimated to be ₹ 6,000 p.a. Find out the value of goodwill on the basis of two years' purchase of super profits.

Sol. Actual Profit = ₹ 36,000 – ₹ 6,000 = ₹ 30,000
Expected/Normal Profit = ₹ 2,00,000 × 10% = ₹ 20,000
Super Profit = Average Profit – Normal Profit
= ₹ 30,000 – 20,000 = ₹ 10,000
Goodwill = Super profit × No. of Years Purchased
= ₹ 10,000 × 2 = ₹ 20,000

Q. 17. A partnership firm earned net profits during the last three years ended 31st March as follows—

2016—₹ 17,000; 2017—₹ 20,000; 2018—₹ 23,000

The capital investment in the firm throughout the above-mentioned period has been ₹ 80,000. Having regard to the risk involved, 15% is considered to be a fair return on the capital. Calculate the value of goodwill on the basis of two years' purchase of average super profit earned during the above-mentioned three years.

Sol. Average Profit = (17,000 + 20,000 + 23,000)/3
= 60,000/3 = ₹ 20,000
Normal Profit = ₹ 80,000 × 15%= ₹ 12,000
Super Profit = Average Profit – Normal Profit
= ₹ 20,000 – 12,000= ₹ 8,000
Goodwill = Super Profit × No. of Years Purchased
= ₹ 8,000 × 2 = ₹ 16,000

Q. 18. A partnership firm earned net profits during the past three years as follows—

Year ended	31st March, 2018	31st March, 2017	31st March, 2016
Net Profit (₹)	2,30,000	2,00,000	1,70,000

Capital investment in the firm throughout the above-mentioned period has been ₹ 4,00,000. Having regard to the risk involved, 15% is considered to be a fair return on the capital. The remuneration of the partner during this period is estimated to be ₹ 1,00,000 p.a.

Calculate value of goodwill on the basis of two years' purchase of average super profit earned during the above-mentioned three years.

Sol. Average profits = $\frac{(1,70,000+2,00,000+2,30,000)}{3} - 1,00,000$

$= 2,00,000 - 1,00,000 = ₹ 1,00,000$

Normal profits = Capital Employed × Normal rate

$= 4,00,000 \times 15\% = ₹ 60,000$

Super profits = Average profit – Normal profit

$= 1,00,000 - 60,000 = ₹ 40,000$

Goowill = Super profit × No. of year purchase

$= 40,000 \times 2 = ₹ 80,000$

Q. 19. A business earned an average profit of ₹ 8,00,000 during the last few years. The normal rate of profit in the similar type of business is 10%. The total value of assets and liabilities of the business were ₹ 22,00,000 and ₹ 5,60,000 respectively. Calculate the value of goodwill of the firm by super profit method if it is valued at 2½ years' purchase of super profits. ***(Delhi 2014 C)***

Sol. Av. Profit (Given) = ₹ 8,00,000

$$\text{Normal Profit} = \frac{₹\,(22,00,000-5,60,000)\times 10}{100}$$

$$= 16,40,000 \times \frac{10}{100} = 1,64,000$$

Super Profit = Av. Profit – Normal Profit

$= 8,00,000 - 1,64,000 = ₹ 6,36,000$

Goodwill = Super Profit × 2.5

$= 6,36,000 \times 2.5 = ₹ 15,90,000$

Q. 20. Capital of the firm of Sharma and Verma is ₹ 2,00,000 and the market rate of interest is 15%. Annual salary to partners is ₹ 12,000 each. The profits for the last three years were ₹ 60,000, ₹ 72,000 and ₹ 84,000. Goodwill is to valued at 2 years' purchase of last 3 years' average super profit. Calculate goodwill of the firm.

Sol. Calculation of Goodwill :

$$\text{Actual Av. profit} = \frac{60,000+72,000+84,000}{3}$$

$$= \frac{2,16,000}{3} = 72,000$$

$$\text{So, Av. profit} = 72{,}000 - (2 \times 12{,}000) \text{ Salary.}$$
$$= 48{,}000$$

$$\text{Normal profit} = \frac{\text{Capital Employed} \times \text{N. Rate}}{100}$$

$$= \frac{2{,}00{,}000 \times 15}{100} = 30{,}000$$

$$\text{Super profit} = 48{,}000 - 30{,}000 = ₹\ 18{,}000$$

So, Goodwill = S. Pt. × No. of years purchase
= 18,000 × 2
= ₹ 36,000

Q. 21. A and B are equal partners. They decided to admit C for 1/3rd share. For the purpose of admission of C, the goodwill of the firm is to be valued at four years' purchase of super profit. The average capital employed in the firm is ₹ 1,50,000. Normal rate of return may be taken as 15% p.a. Average profit of the firm is ₹ 40,000. Calculate the value of goodwill.

Sol. Normal Profit = Capital Employed × Rate/100 = ₹ 1,50,000 × 15/100
= ₹ 22,500

Super Profits = Average or Actual Profit – Normal Profits = 40,000 – 22,500
= ₹ 17,500

Goodwill = Super Profits × 4 years' purchase = ₹ 17,500 × 4 = 70,000

Q. 22. On 1st April, 2018, an existing firm had assets of ₹ 75,000 including cash of ₹ 5,000. Its creditors amounted to ₹ 5,000 on that date. The firm had a Reserve of ₹ 10,000 while partners' Capital Accounts showed a balance of ₹ 60,000. If the Normal Rate of Return is 20% and the goodwill of the firm is valued at ₹ 24,000 at four years' purchase of super profit, find average profit per year of the existing firm.

Sol. Goodwill = Super Profit × 4 years' purchase
24,000 = Super Profit × 4

$$\text{Super Profit} = \frac{24{,}000}{4} = 6{,}000$$

Normal Profit = Capital Employed × Normal Rate of Return

$$= 70{,}000 \times \frac{20}{100} = 14{,}000$$

Average Profit = Super Profit + Normal Profit
= 6,000 + 14,000

Average Profit = 20,000

(Capital Employed = Assets – Creditors)
= 75,000 – 5,000 = 70,000

Q. 23. The average profit earned by a firm is ₹ 1,00,000 which includes undervaluation of stock of ₹ 40,000 on an average basis. The capital invested in the business is ₹ 6,30,000 and the normal rate of return is 5%. Calculate goodwill of the firm on the basis of 5 times the super profit.

Sol. (*i*) Total Actual Profit of firm = ₹ (1,00,000 + 40,000) = ₹ 1,40,000

(*ii*) Normal Profit = ₹ (6,30,000 × 5%) = ₹ 31,500

(*iii*) Super Profit = ₹ (1,40,000 – 31,500) = ₹ 1,08,500

(*iv*) Goodwill = ₹ (1,08,500 × 5) = ₹ 5,42,500

Q. 24. The average profit earned by a firm is ₹ 7,50,000 which includes overvaluation of stock of ₹ 30,000 on an average basis. The capital invested in the business is ₹ 42,00,000 and the normal rate of return is 15%. Calculate goodwill of the firm on the basis of 3 times the super profit.

Sol. (*i*) Total Actual Average Profit of firm = Given Profit–Overvaluation

= ₹ (7,50,000 – 30,000) = ₹ 7,20,000

(*ii*) Normal Profit = ₹(42,00,000 × 15%) = ₹ 6,30,000

(*iii*) Super Profit = ₹ (7,20,000 – 6,30,000) = ₹ 90,000

(*iv*) Goodwill = ₹ (90,000 × 3) = ₹ 2,70,000

Q. 25. Ayub and Amit are partners in a firm and they admit Jaspal into partnership *w.e.f.* 1st April, 2018. The agreed to value goodwill at 3 years purchase of Super Profit Method for which they decided to average profit of last 5 years. The profits for the last 5 years were—

Year Ended	Net Profit (₹)	
31st March, 2014	1,50,000	
31st March, 2015	1,80,000	
31st March, 2016	1,00,000	(including abnormal loss of ₹ 1,00,000)
31st March, 2017	2,60,000	(including abnormal gain (profit) of ₹ 40,000)
31st March, 2018	2,40,000	

The firm has total assets of ₹ 20,00,000 and Outside Liabilities of ₹ 5,00,000 as on that date. Normal Rate of Return in similar business is 10%.

Calculate value of goodwill.

Sol. (*i*) Total Normal Profit of last 5 Year = ₹ [1,50,000 + 1,80,000 + (1,00,000 + 1,00,000) + (2,60,000 – 40,000) + 2,40,000]

= ₹ 9,90,000

(*ii*) Actual Average Profit = ₹ 9,90,000/5 = ₹ 1,98,000

(*iii*) Normal Profit = ₹ (20,00,000 – 5,00,000) × 10%

= ₹ 1,50,000

(*iv*) Super Profit = ₹ (1,98,000 – 1,50,000)

= ₹ 48,000

(*v*) Goodwill = ₹ 48,000 × 3

= ₹ 1,44,000

Q. 26. From the following information, calculate the value of goodwill of the firm by applying Capitalisation method. Total capital of the firm ₹ 16,00,000.

Normal rate of return 10%. Profit for the year ₹ 2,00,000.

Sol. Value of the firm = Profit × 100/Rate = ₹ 2,00,000 × 100/10 = ₹ 20,00,000

Value of Goodwill = ₹ 20,00,000 – 16,00,000 = ₹ 4,00,000

Q. 27. A business has earned average profit of ₹ 1,00,000 during the last few years. Find out the value of goodwill by capitalisation method, given that the

assets of the business are ₹ 10,00,000 and its external liabilities are ₹ 1,80,000. The normal rate of return is 10%.

Sol. (*i*) Capitalise Value = $\frac{₹\,1,00,000 \times 100}{10}$ = ₹ 10,00,000

(*ii*) Actual Capital = ₹ [10,00,000 – 1,80,000] = ₹ 8,20,000

(*iii*) Goodwill = ₹ [10,00,000 – 8,20,000] = ₹ 1,80,000

Q. 28. From the following particulars, calculate the value of goodwill of a firm by applying capitalisation of Average Profit Method—

(*i*) Profits of last five consecutive years ending 31st March are : 2018 – ₹ 54,000, 2017 – ₹ 42,000, 2016 – ₹ 39,000, 2015 – ₹ 67,000 and 2014 – ₹ 59,000.

(*ii*) Capitalisation rate 20%.

(*iii*) Net Assets of the firm ₹ 2,00,000.

Sol. Average profit = (54,000 + 42,000 + 39,000 + 67,000 + 59,000)/5 = ₹ 52,200

Value of the firm = Average Profit × 100/Rate = ₹ 52,200 × 100/20 = ₹ 2,61,000

Goodwill = Value of the firm – Net Assets = ₹ 2,61,000 – 2,00,000

= ₹ 61,000

Q. 29. A business has earned average profit of ₹ 4,00,000 during the last few years and the normal rate of return in similar business is 10%. Find value of goodwill by

(*i*) Capitalisation of Super Profit Method, and

(*ii*) Super Profit Method if the goodiwll is valued at 3 years' purchase of super profits.

Assets of the business were ₹ 40,00,000 and its external liabilities ₹ 7,20,000.

Sol. (*i*) Calculation of Goodwill :

By Capitalisation of Super profit

$$\text{Normal profit} = \frac{\text{Capital Employed} \times \text{N. Rate}}{100}$$

$$= \frac{(40,00,000 - 7,20,000) \times 10}{100}$$

$$= 32,80,000 \times \frac{10}{100} = 3,28,000$$

So, Super profit = Actual Av. Profit – Normal Profit

= 4,00,000 – 3,28,000

= ₹ 72,000

So, $$\text{Goodwill} = \frac{\text{S. profit} \times 100}{\text{Normal Rate}}$$

$$= \frac{72,000 \times 100}{10} = ₹\,7,20,000$$

(ii) By 3 years purchase of Super profit :

$$\text{Goodwill} = \text{Super profit} \times 3$$
$$= 72{,}000 \times 3$$
$$= ₹\ 2{,}16{,}000$$

Q. 30. A firm earns profit of ₹ 5,00,000. Normal Rate of Return in a similar type of business is 10%. The value of total assets (excluding goodwill) and total outsiders' liabilities as on the date of goodwill are ₹ 55.00,000 and ₹ 14,00,000 respectively. Calculate value of goodwill according to Capitalisation of Super Profit Method as well as Capitalisation of Average Profit Method.

Sol. Capitalization of Average Profit Method :

Value of Firm = Average Profit × 100/Rate = ₹ 5,00,000 × 100/10 = ₹ 50,00,000

Net Assets = Assets – Liabilities = ₹ 55,00,000 – 14,00,000 = ₹ 41,00,000

Goodwill = Value of Firm – Net Assets = ₹ 50,00,000 – 41,00,000

= ₹9,00,000

Capitalization of Super Profit Method :

Capital Employed = Assets – Liabilities = ₹ 55,00,000 – 14,00,000 = ₹ 41,00,000

Normal Profits = Capital Employed × Rate/100 = ₹ 41,00,000 × 10/100

= ₹ 4,10,000

Super Profits = Average/Actual Profit – Normal Profits = 5.00,000 – 4,10,000

= ₹ 90,000

Goodwill = Super Profits × 100/Rate = ₹ 90,000 × 100/10 = 9,00,000

Q. 31. Average profit of the firm is ₹ 2,00,000. Total assets of the firm are ₹ 15,00,000 whereas Partners' Capital is ₹ 12,00,000. If normal rate of return in a similar business is 10% of the capital employed, what is the value of goodwill by Capitalisation of Super Profit ?

Sol. (i) Normal Profit = ₹ (12,00,000 × 10%) = ₹ 1,20,000

(ii) Super Profit = Average Profit – Normal Profit

= ₹ 2,00,000 – 1,20,000 = ₹ 80,000

(iii) Goodwill = (Super Profit × 100)/ Normal Rate

= (80,000 × 100)/10 = ₹ 8,00,000

Q. 32. Rajan and Rajani are partners in a firm. Their capitals were Rajan ₹ 3,00,000; Rajani ₹ 2,00,000. During the year 2017-18, the firm earned a profit of ₹ 1,50,000. Calculate the value of goodwill of the firm by capitalisation of super profit assuming that the normal rate of return is 20%.

Sol. (i) Actual Average Profit = ₹ 1,50,000

(ii) Actual Capital = ₹ [3,00,000 + 2,00,000] = ₹ 5,00,000

(iii) Normal Profit = ₹ [5,00,000 × 20%] = ₹ 1,00,000

(iv) Super Profit = ₹ [1,50,000 – 1,00,000] = ₹ 50,000

(v) $$\text{Goodwill} = \frac{\text{Super Profit} \times 100}{\text{Normal Rate}}$$

$$= \frac{₹\ 50{,}000 \times 100}{20\%} = ₹\ 2{,}50{,}000$$

Q. 33. Average profit of GS & Co. is ₹ 50,000 per year. Average capital employed in the business is ₹ 3,00,000. If the normal rate of return on capital employed is 10%, calculate goodwill of the firm by—

(i) Super Profit Method at three years' purchase; and

(ii) Capitalisation of Super Profit Method.

Sol. (i) Average Profit = ₹ 50,000

(ii) Normal Profit = ₹ (3,00,000 × 10%) = ₹ 30,000

(iii) Super Profit = ₹ (50,000 – 30,000) = ₹ 20,000

Goodwill by Super Profit = ₹ 20,000 × 3

= ₹ 60,000

Goodwill by Capitalisation of Super Profit

= (₹ 20,000 × 100)/10 = ₹ 2,00,000

Q. 34. From the following information, calculate value of goodwill of the firm—

(i) At three years' purchase of Average Profit.

(ii) At three years' purchase of Super Prorfit.

(iii) On the basis of Capitalistation of Super Profit.

(iv) On the basis of Capitalisation of Average Profit.

Informations—

(a) Average Capital Employed is ₹ 6,00,000.

(b) Net Profit/Loss of the firm for the last three years ended are—

31st March, 2018—₹ 2,00,000, 31st March, 2017—₹ 1,80,000, and 31st March, 2016—₹ 1,60,000.

(c) Normal Rate of Return in similar business is 10%.

(d) Remuneration of ₹ 1,00,000 to partners is to be taken as charge against profit.

(e) Assets of the firm (excluding goodwill, fictitious assets and non-tıade investment) is ₹ 7,00,000 whereas Partners' Capital is ₹ 6,00,000 and Liabilies ₹ 1,00,000,

Sol. Actual Average Profit = $\frac{₹\,(2,00,000+1,80,000+1,60,000)}{3}$

= ₹ 1,80,000 – 1,00,000

= ₹ 80,000

Normal Profit = ₹ (6,00,000 × 10%) = ₹ 60,000

Goodwill by—

(i) Actual Average Profit = ₹ (80,000 × 3) = ₹ 2,40,000

(ii) Super Profit = ₹ (80,000 – 60,000) × 3

= ₹ 60,000

(iii) Capitalisation of Super Profit

Goodwill = ₹ (20,000 × 100)/10 = ₹ 2,00,000

(iv) Capitalisation of Actual Average Profit

Goodwill = ₹ [(80,000 × 100)/10] – ₹ 6,00,000

= ₹ 8,00,000 – 6,00,000

= ₹ 2,00,000

CHAPTER - 3
CHANGE IN PROOF-SHARING RATIO AMONG THE EXISTING PARTNERS

SOLVED PRACTICAL PROBLEMS

Q. 1. A and B are sharing profits and losses equally. With effect from 1st April, 2018, they agree to share profits in the ratio of 4 : 3. Calculate the individual partner's gain or sacrifice due to the change in ratio.

Sol. Existing or Old Ratio of A and B = 1:1 and their Future or New Ratio = 4 : 3

Sacrifice = Existing Ratio – Future Ratio

Gain = Future or New Ratio – Existing or Old Ratio

A = 1/2 – 4/7 = (7 – 8)/14 = –1 / 14 (Gain)

B = 1/2 – 3/7 = (7 – 6)/14 = 1 / 14 (Sacrifice)

Q. 2. X, Y and Z are sharing profits and losses 5 : 3 : 2. With effect from 1st April, 2018, they decide to share profits and losses in the ratio of 5 : 2 : 3. Calculate each partner's gain or sacrifice due to the change in ratio.

Sol. Existing or Old Ratio of X, Y and Z = 5 : 3 : 2 and their Future or New Ratio = 5 : 2 : 3

Sacrifice = Existing Ratio – Future Ratio

Gain = Future or New Ratio – Existing or Old Ratio

X = 5/10 – 5/10 = 0

Y = 3/10 – 2/10 = 1/10 (Sacrifice)

Z = 2/10 – 3/10 = – 1/10 (Gain)

Q. 3. X, Y and Z are sharing profits and losses 5 : 3 : 2. With effect from 1st April, 2018, they decide to share profits and losses equally. Calculate each partner gain or sacrifice due to the change in ratio.

Sol. Existing or Old Ratio of X, Y and Z = 5 : 3 : 2 and their Future Ratio = 1:1:1

Sacrifice = Existing Ratio – Future Ratio

Gain = Future or New Ratio – Existing or Old Ratio

X = 5/10 – 1/3 = (15 – 10)/30 = 5/30 (Sacrifice)

Y = 3/10 – 1/3 = (9 – 10)/30 = –1/30 (Gain)

Z = 2/10 – 1/3 = (6 – 10)/30 = – 4/30 (Gain)

Q. 4. A, B and C are partners sharing profits and losses in the ratio of 5 : 4 : 1. Calculate new profit-sharing ratio, sacrificing ratio and gaining ratio in each of the following cases.

Case 1. C acquires 1/5 share from A.

Case 2. C acquires 1/5th share equally from A and B.

Case 3. A, B and C will share future profits and losses equally.

Case 4. C acquires 1/10th share of A and 1/2 share of B.

Sol. Old Ratio of A : B : C = 5 : 4 : 1

Case-I : "C" acquires (1/5) share from A

A's New Share = (5/10) – (1/5)

= (5 – 2)/10 = 3/10

B's New Share = 4/10

C's New Share = (1/10) + (1/5) = 3/10

New Ratio = 3/10 : 4/10 : 3/10

= 3 : 4 : 3

Sacrifice of "A" = 1/5

Gain of "C" = 1/5

Case-II : C acquires 1/5 share equally from A and B

A's Sacrifice = 1/5 × 1/2 = 1/10

B's Sacrifice = 1/5 × 1/2 = 1/10

A's New Share = (5/10 – 1/10) = 4/10

B's New Share = (4/10 – 1/10) = 3/10

C's New Share = (1/10 + 1/10 + 1/10) = 3/10

New Ratio = 4/10 : 3/10 : 3/10 = 4 : 3 : 3

Sacrifice Ratio A : B = 1/10 : 1/10 = 1 : 1

Gain of "C" = 1/10 + 1/10 = 2/10

Case-III : A, B and C Share in Future = 1 : 1 : 1

A's Scrifice = (5/10) – (1/3) = (15 – 10)/30

= 5/30

B's Sacrifice = (4/10) – (1/3) = (12 – 10)/30 = 2/30

C's Gain = (1/3) – (1/10) = (10 – 3)/30 = 7/30

Sacrifice of A : B = 5/30 : 2/30 : 5 : 2

Case-IV : C acquires (1/10) Share of A and (1/2) Share of B

A's Sacrifice = (5/10) × (1/10) = 5/100

B's Sacrifice = (4/10) × (1/2) = 4/20

Sacrifice Ratio of A : B = 5/100 : 4/20 = 5 : 20

= 1 : 4

C's Gain = 5/100 + 4/20 = (5 + 20)/100

= 25/100

A's New Share = 5/10 – 5/100 = (50 – 5)/100 = 45/100

B's New Share = 4/10 – 4/20 = (8 – 4)/20 = 4/20

C's New Share = 1/10 + 25/100 = (10 + 25)/100 = 35/100

New Ratio of A : B : C = 45/100 : 4/20 : 35/100

45 : 20 : 35 = 9 : 4 : 7

Q. 5. A, B and C shared profits and losses in the ratio of 3 : 2 : 1 respectively. With effect from 1st April, 2018, they agreed to share profits equally. The goodwill of the firm was valued at ₹ 18,000. Pass necessary Journal entries when—(*a*) Goodwill Account is not opened; and (*b*) Goodwill Account is opened.

Sol. Old Ratio of : A : B : C = 3 : 2 : 1

New Ratio of : A : B :C = 1 : 1 : 1

Sac./Gain to A = (3/6) – (1/3) = [(3 – 2)/6] = 1/6 Sac.

B = (2/6) – (1/3) = [(2 – 2)/6] = Nil

C = (1/6) – (1/3) = [(1 – 2)/6] = – 1/6 Gain

Journal

Date	*Particulars*		*LF*	*Dr.*	*Cr.*
	Case (*a*)				
(*i*)	C's Capital A/c [18,000 × (1/6)]	Dr.		3,000	
	To A's Capital A/c [18,000 × (1/6)]				3,000
	(Being adjustment of G/w for change in P/s Ratio)				
	Case (*b*)				
(*i*)	Goodwill A/c	Dr.		18,000	
	To A's Capital A/c				9,000
	To B's Capital A/c				6,000
	To C's Capital A/c				3,000
	(Being amount of G/w dist. in old Ratio of 3 : 2 : 1)				
(*ii*)	A's Capital A/c	Dr.		6,000	
	B's Capital A/c	Dr.		6,000	
	C's Capital A/c	Dr.		6,000	
	To Goodwill A/c				18,000
	(Being goodwill A/c written on in new ratio of 1 : 1 : 1)				

Q. 6. X, Y and Z are partners sharing profits and losses in the ratio of 5 : 3 : 2. From 1st April, 2018, they decided to share profits and losses equally. The partnership deed provides that in the event of any change in profit-sharing ratio, the goodwill should be valued at two years' purchase of the average profit of the preceding five years. The profits and losses of the preceding years are :

Year	2013–14	2014–15	2015–16	2016–17	2017–18
Profit (₹)	70,000	85,000	45,000	35,000	10,000 (loss)

You are required to calculate goodwill and pass journal entry.

Sol. Average Profits = 70,000 + 85,000 + 45,000 + 35,000 – 10,000/5

= 2,25,000/5 = ₹ 45,000

G/W = ₹ 45,000 × 2 = ₹ 90,000

Adjustment Table	*Goodwill*		X		Y		Z	
Particulars	*Dr.*	*Cr.*	*Dr.*	*Cr.*	*Dr.*	*Cr.*	*Dr.*	*Cr.*
G/W raised in (5 : 3 : 2)	90,000			45,000		27,000		18,000
G/W w/o equally		90,000	30,000		30,000		30,000	
Adjustments			15,000			3,000		12,000
	90,000	**90,000**	**45,000**	**45,000**	**30,000**	**30,000**	**30,000**	**30,000**

Adjusting Journal Entry

Date	Particulars		LF	Dr.	Cr.
	Y's Capital A/c	Dr.		3,000	
	Z's Capital A/c	Dr.		12,000	
	To X's Capital Account				15,000
	(Being goodwill adjusted due to change in profit - sharing ratio)				

Q. 7. Mandeep, Vinod and Abbas are partners sharing profits and losses in the ratio of 3 : 2 : 1. From 1st April 2018 they decided to share profits equally. The Partnership Deed provides that in the event of any change in profit-sharing ratio, goodwill shall be valued at three years' purchase of average profit of last five years. The profits and losses of past five years are—

Profit—Year ended 31st March, 2014—₹ 1,00,000; 2015—₹ 1,50,000; 2017—₹ 2,00,000; 2018—₹ 2,00,000 Loss—Year ended 31st March, 2016—₹ 50,000.

Pass the Journal entry showing the working.

Sol. Working Note—

(*i*) Calculation of Sacrifice/(Gain) to Partner :

Mandeep = $3/6 - 1/3 = (3-2)/6 = 1/6$ Sacrifice

Vinod = $2/6 - 1/3 = (2-2)/6 = 0$

Abbas = $1/6 - 1/3 = (1-2)/6 = -1/6$ Gain

(*ii*) Average Profit of Firm = ₹ [1,00,000 + 1,50,000 + (50,000) + 2,00,000 + 2,00,000]/5
= ₹ 6,00,000/5 = ₹ 1,20,000

(*iii*) Goodwill = ₹ 1,20,000 × 3 = ₹ 3,60,000

Journal

Date	Particulars		L.F.	Dr.	Cr.
	Abbas's Capital A/c [3,60,000 × (1/6)]	Dr.		60,000	
	To Mandeep's Capital A/c				60,000
	(Being value of goodwill adjusted in sacrifice & gain ratio)				

Q. 8. X, Y and Z are partners sharing profits and losses in the ratio of 5 : 3 : 2, decided to share future profits and losses equally with effect from April 1st April, 2018. On that date, the goodwill appeared in the books at ₹ 12,000. But it was revalued at ₹ 30,000. Pass Journal entries assuming that goodwill will not appear in the books of accounts.

Sol. X = $5/10 - 1/3 = (15-10)/30 = 5/30$ (Sacrifice)

Y = $3/10 - 1/3 = (9-10)/30 = -1/30$ (Gain)

Z = $2/10 - 1/3 = (6-10)/30 = -4/30$ (Gain)

Adjusting Journal Entry

Date	Particulars		L.F.	Dr.	Cr.
	Y's Capital Account (5,000 × 1/5)	Dr.		1,000	
	Z's Capital Account (5,000 × 4/5)	Dr.		4,000	
	To X's Capital Account (30,000 × 5/30)				5,000
	(Being goodwill adjusted due to change in profit sharing ratio)				

	X's Capital Account (12,000 × 5/10) Dr.		6,000	
	Y's Capital Account (12,000 × 3/10) Dr.		3,600	
	Z's Capital Account (12,000 × 2/10) Dr.		2,400	
	To Goodwill Account			12,000
	(Being old goodwill A/c written off)			

Q. 9. A and B are partners in a firm sharing profits in the ratio of 2 : 1. They decided with effect from 1st April, 2017 that they would share profits in the ratio of 3 : 2. But, this decision was taken after the profit for the year 2017-18 amounting to ₹ 90,000 was distributed in the old ratio.

Value of firm's goodwill was estimated on the basis of aggregate of two years' profits preceeding the date decision became effective.

The profits for 2015-16 and 2016-17 were ₹ 60,000 and ₹ 75,000 respectively. It was decided that Goodwill Account will not be opened in the books of the firm and necessary adjustment be made through Capital Accounts which, on 31st March, 2018 stood, at ₹ 1,50,000 for A and ₹ 90,000 for B.

Pass nessary Journal entries and prepare Capital Accounts.

Sol. G/W = ₹ 60,000 + 75,000 = ₹ 1,35,000

A = 3 / 5 – 2 / 3 = – 1/15 (Sacrifice) and

B = 2 / 5 – 1 / 3 = 1 / 15 (Gain)

Adjusting Journal Entry

Date	*Particulars*	*L.F.*	*Dr.*	*Cr.*
	A's Capital Account (90,000 × 1/15) Dr.		6,000	
	To B's Capital Account (90,000 × 1/15)			6,000
	(Being profits adjusted)			
	B's Capital Account (135,000 × 1/15) Dr.		9,000	
	To A's Capital Account (135,000 × 1/15)			9,000
	(Being goodwill adjusted)			

Dr. **Capital Accounts** *Cr.*

Particulars	*A*	*B*	*Particulars*	*A*	*B*
To B's Capital A/c	6,000	–	By Balance b/d	1,50,000	90,000
To A's Capital A/c	–	9,000	By A's Capital A/c	–	6,000
To Balance c/d	1,53,000	87,000	By B's Capital A/c	9,000	–
	1,59,000	96,000		1,59,000	96,000

Q. 10. Jai and Raj are partners sharing profits in the ratio of 3 : 2. With effect from 1st April, 2018, they decided to share profits equally. Goodwill appeared in the books at ₹ 25,000. As on 1st April, 2018, it was valued at ₹ 1,00,000. They decided to carry goodwill in the books of the firm.

Pass the Journal entry giving effect to the above.

Sol. (*i*) Old Ratio of Jai : Raj = 3 : 2

New Ratio of Jai : Raj = 1 : 1

Sac. /Gain to Jai = (3/5) – (1/2) = [(6 – 5)/10] = 1/10 Sac.

to Raj = (2/5) – (1/2) = [(4 – 5)/10] = – 1/10 Gain

(*ii*) Value of New Goodwill = ₹ 1,00,000

Value of Old Goodwill = ₹ 25,000

Increase in Value ₹ 75,000

(iii) Share of Jai (Creadited) = ₹ [75,000 × (1/10)] = ₹ 7,500
Share of Raj (Debited) = ₹ [75,000 × (1/10)] = ₹ 7,500

Journal

Date	Particulars	L.F.	Dr.	Cr.
(i)	Raj's Capital A/c Dr.		7,500	
	To Jai's Capital A/c			7,500
	(Being adjustment of G/w for change in Ratio)			

Q. 11. X and Y are partners in a firm sharing profits and losses in the ratio of 3 : 2. With effect from 1st April, 2018, they decided to share future profits equally. On the date of change in the profits-sharing ratio, the Profits and Loss Account showed a credit balance of ₹ 1,50,000. Record the necessary Journal entry for the distribution of the balance in the Profit and Loss Account immediately before the change in the profit-sharing ratio.

Sol. Note—Profit should be shared in old ratio i.e. 3 : 2

Journal

Date	Particulars	L.F	Dr.	Cr.
(i)	Profit & Loss A/c Dr.		1,50,000	
	To x's Capital A/c			90,000
	To y's Capital A/c			60,000
	(Being Balance of Profit transferred)			

Q. 12. A and B are partners in a firm sharing profits in the ratio of 4 : 1. They decided to share future profits in the ratio of 3 : 2 w.e.f. 1st April, 2018. On that day, Profit and Loss Account showed a debit balance of ₹ 1,00,000. Pass Journal entry to give effect to the above.

Sol. Working Note—

(i) Calculation of Sacrifice/Gain to Partners

A's = (4/5) – (3/5) = (4 – 3)/5 = 1/5 Sacrifice
B's = (1/5) – (2/5) = (1 – 2)/5 = – 1/5 Gain

Journal

Date	Particulars	L.F	Dr.	Cr.
(i)	A's Capital A/c [1,00,000 × (4/5)] Dr.		80,000	
	B's Capital A/c [1,00,000 × (1/5)] Dr.		20,000	
	To Profit & Loss A/c			1,00,000
	(Being debit balance of P & L A/c transferred to partners)			

Q. 13. X, Y and Z are sharing profits and losses in the ratio of 5 : 3 : 2. They decide to share future profits and losses in the ratio of 2 : 3 : 5 with effect from 1st April 2018. They also decide to record the effect of the following accumulated profits, losses and reserves without affecting their book values by passing a single entry.

	Book Values (₹)
General Reserve	**6000**
Profit and Loss A/c (credit)	**24,000**
Advertisement Suspense A/c	**12,000.**

Pass an Adjustment Entry.

Sol. Old Ratio of X, Y and Z = 5:3:2, and their New Ratio = 2:3:5

X = 2/10 – 5/10 = – 3/10 (Sacrifice)

Y = 3/10 – 3/10 = 0

Z = 5/10 – 2/10 = 3/10 (gain)

General Reserve	₹ 6,000
Profit & Loss A/c	₹ 24,000
Less : Advertising expenses	₹ 12,000
Total	**₹ 18,000**

Adjusting Journal Entry

Date	*Particulars*	*L.F.*	*Dr.* (₹)	*Cr.* (₹)
	Z's Capital Account (18,000 × 3/10) Dr.		5,400	
	To X's Capital Account			5,400
	(Being reserve and profits adjusted)			

Q. 14. A, B and C who are presently sharing profits and losses in the ratio of 5 : 3 : 2 decide to share future profits and losses in the ratio of 2 : 3 : 5. Give the Journal entry to distribute 'Workmen Compensation Reserve' of ₹ 1,20,000 at the time of change in profit-sharing ratio, when—

(*i*) no information is given;

(*ii*) there is no claim against it

Sol. Note—Amount of (W.C.R.) will distribute in old Ratio i.e. 5 : 3 : 2

Journal

Date	*Particulars*	*L.F.*	*Dr.* (₹)	*Cr.* (₹)
(*i*)	Workmen Compensation Reserve A/c Dr.		1,20,000	
	To *x*'s Capital A/c (1,20,000 × 5/10)			60,000
	To *y*'s Capital A/c (1,20,000 × 3/10)			36,000
	To *z*'s Capital A/c (1,20,000 × 2/10)			24,000
	(Being balance of W/C/R distribute)			
(*ii*)	Same as (*i*) above			

Q. 15. X, Y and Z who are presently sharing and losses in the ratio of 5 : 3 : 2 decide to share future profits and losses in the ratio of 2 : 3 : 5. Give the Journal entry to distribute 'Workmen Compensation Reserve' of ₹ 1,20,000 at the time of change in profit-sharing ratio, when there is a claim of ₹ 80,000 against it.

Sol. Note—Amount of (W.C.R.) Will distribute in old Ratio i.e. 5 : 3 : 2 after making claim of ₹ 80,000

Journal

Date	*Particulars*	*L.F.*	*Dr.* (₹)	*Cr.* (₹)
(*i*)	Workmen Compensation Reserve A/c Dr.		1,20,000	
	To Workmen Compensation Claim A/c			80,000
	To *x*'s Capital A/c			20,000
	To *y*'s Capital A/c			12,000
	To *z*'s Capital A/c			8,000
	(Being balance of W/C/R distribute after making claim)			

Q. 16. X, Y and Z who are sharing profit in the ratio of 5 : 3 : 2, decide to share profits in the ratio of 2 : 3 : 5 with effect from 1st April, 2018. Workmen Compensation Reserve appears at ₹ 1,20,000 in the Balance Sheet as at 31st March, 2018 and Workmen Compensation Claim is estmated at ₹ 1,50,000. Pass Journal entries for the accounting treatment of Workmen Compensation Reserve.

Sol. Journal

Date	*Particulars*		*L.F.*	*Dr. (₹)*	*Cr. (₹)*
(*i*)	Revaluation A/c	Dr.		30,000	
	W. Comp. Reserve A/c	Dr.		1,20,000	
	To Provision for W. Comp. Claim A/c				1,50,000
	(Being adjust of W. comp. claim made)				
(*ii*)	*x*'s Capital A/c [30,000 × (5/10)]	Dr.		15,000	
	y's Capital A/c [30,000 × (3/10)]	Dr.		9,000	
	z's Capital A/c [30,000 × (2/10)]	Dr.		6,000	
	To Revaluation A/c				30,000
	(Being excess amount of w. comp. charged from Partners)				

Q. 17. A, B and C who are presently sharing profits and losses in the ratio of 5 : 3 : 2 decide to share future profits and losses in the ratio of 2 : 3 : 5. Give the Journal entry to distribute 'Investment Fluctuation Reserve' of ₹ 20,000 at the time of change in profit-sharing ratio, when investment (market value ₹ 95,000) appears in the books at ₹ 1,00,000

Sol. Note—Amount of (I.F.R) will distribute in old Ratio i.e. 5 : 3 : 2 after making adjustment of ₹ (1,00,000 – 95,000) = ₹ 5,000

Date	*Particulars*		*L.F.*	*Dr. (₹)*	*Cr. (₹)*
(*i*)	Investment Fluc. Reserve A/c	Dr.		20,000	
	To Investment A/c				5,000
	To A's Capital A/c				7,500
	To B's Capital A/c				4,500
	To C's Capital A/c				3,000
	(Being amount of (I.F.R) distribute after adjustment of fluct. in Price)				

Q. 18. Nitin, Tarun and Amar are partners sharing profits equally and decide to share profits in the ratio of 2 : 2 : 1. w.e.f. 1st April, 2018. The extract of their Balance Sheet as at 31st March, 2018 is as follows—

Liabilities	₹	*Assets*	₹
Investments Fluctuation Reserve	**60,000**	**Investments (At Cost)**	**4,00,000**

Pass the Journal entries in each of the following situations—

(*i*) When its Market Value is not given;

(*ii*) When its Market Value is given as ₹ 4,00,000;

(iii) **When its Market Value is given as ₹ 4,24,000;**

(iv) **When its Market Value is given as ₹ 3,70,000;**

(v) **When its Market Value is given as ₹ 3,10,000.**

Sol. **Journal**

Case-I

Date	*Particulars*		*L.F.*	*Dr. (₹)*	*Cr. (₹)*
(i)	Investment Fluc. Reserve A/c	Dr.		60,000	
	To Nitin's Capital A/c				20,000
	To Tarun's Capital A/c				20,000
	To Amar's Capital A/c				20,000
	(Being Balance of I.F.R. transfeered to Parners)				

Case-II

Date	*Particulars*		*L.F.*	*Dr. (₹)*	*Cr. (₹)*
(i)	Investment Fluc. Reserve A/c	Dr.		60,000	
	To Nitin's Capital A/c				20,000
	To Tarun's Capital A/c				20,000
	To Amar's Capital A/c				20,000
	(Being balance of I.F.R. is no longer necessary)				

Case-III

Date	*Particulars*		*L.F.*	*Dr. (₹)*	*Cr. (₹)*
(i)	Investment Fluc. Reserve A/c	Dr.		60,000	
	To Nitin's Capital A/c				20,000
	To Tarun's Capital A/c				20,000
	To Amar's Capital A/c				20,000
	(Being balance of I.F.R. is no longer necessary)				
(ii)	Investments A/c	Dr.		24,000	
	To Revaluation A/c				24,000
	(Being market value of investments increases)				
(iii)	Revaluation A/c	Dr.		24,000	
	To Nitin's Capital A/c				8,000
	To Tarun's Capital A/c				8,000
	To Amar's Capital A/c				8,000
	(Being revaluation profit transferred to partners)				

Case-IV

Date	*Particulars*		*L.F.*	*Dr. (₹)*	*Cr. (₹)*
(i)	Investment Fluc. Reserve A/c	Dr.		30,000	
	To Investment A/c [4,00,000 – 3,70,000]				30,000
	(Being market value of investments decreses)				

(ii)	Investment Fluc. Reserve A/c Dr.		30,000	
	To Nitin's Capital A/c			10,000
	To Tarun's Capital A/c			10,000
	To Amar's Capital A/c			10,000
	(Being balance of I.F.R. transferred to partners)			

Case-V

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
(i)	Investment Fluc. Reserve A/c Dr.		60,000	
	Revaluation A/c Dr.		30,000	
	To Investments A/c			90,000
	(Being market value of investment decreases)			
(ii)	Nitin's Capital A/c Dr.		10,000	
	Tarun's Capital A/c Dr.		10,000	
	Amar's Capital A/c Dr.		10,000	
	To Revaluation A/c			30,000
	(Being loss on revalution transferred to partners)			

Q. 19. X and Y are partners sharing profits in the ratio of 2 : 1. On 31st March, 2018 their Balance Sheet showed General Reserve of ₹ 60,000. It was decided that in future they will share profits and losses in the ratio of 3 : 2. Pass necessary Journal entry in each of the following alternative cases :

(i) If General Reserve is not to be shown in the new Balance Sheet.

(ii) If General Reserve is to be shown in the new Balance Sheet.

Sol. (i) When do not want to show-General Reserve in B/Sheet

Journal

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
(i)	General Reserve A/c Dr.		60,000	
	To x's Capital A/c			40,000
	To y's Capital A/c			20,000
	(Being Balance of G/R transferred)			

(ii) When they want to show General Reserve in B/Sheet

Working Notes—(i) Calculation of Sac./Gain to "x" and "y"

for "x" = 2/3 – 3/5 = (10 – 9)/15 = 1/15 Sac.

"y" = 1/3 – 2/5 = (5 – 6)/15 = –1/15 Gain.

Journal

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
(i)	y's Capital A/c [60,000 × (1/15)] Dr.		4,000	
	To x's Capital A/c [60,000 × 1/15]			4,000
	(Being adjustment of G/R recorded)			

Q. 20. X and Y are in partnership sharing profits in the ratio of 2 : 3. With effect from 1st April 2018, they agreed to share profits in the ratio of 1 : 2. For this

purpose the goodwill of the firm is to be valued at two year's purchase of the average profit of last three years, which were ₹ 1,50,000; ₹ 1,60,000 and ₹ 2,00,000 respectively. The reserves appear in the books at ₹ 1,10,000. Partners decide to continue showing Reserve in the books. You are required to give effect to the change by passing a single Journal entry.

Sol. **Journal Entries**

Date	*Particulars*		*L.F.*	*Dr. (₹)*	*Cr. (₹)*
	Y's Capital Account (4,50,000 × 1/15)	Dr.		30,000	
	To X's Capital Account				30,000
	(Being G/W and Reserve adjusted)				

X's Sacrifice = 2/5 – 1/3 = 1/15, Y's Gain = 2/3 – 3/5 = 1/15

Working Notes : Average Profits = (1,50,000 + 1,60,000 + 2,00,000)/3 = ₹ 1,70,000

Goodwill = ₹ 1,70,000 × 2 = ₹ 3,40,000

Reserve + Goodwill = ₹ 1,10,000 + 3,40,000 = ₹ 4,50,000

Q. 21. X,Y and Z share profits as 5 : 3 : 2. They decide to share their future profits as 4 : 3 : 3 with effect from April 1, 2018. On this date the following revaluations have taken place

	Book Value ₹	*Revised value ₹*
Investments	**22,000**	**25,000**
Plant and Machinery	**25,000**	**20,000**
Land and Building	**40,000**	**50,000**
Outstanding Expenses	**5,600**	**6,000**
Sundry Debtors	**60,000**	**50,000**
Trade Creditors	**70,000**	**60,000**

Pass necessary adjustment entry to be made because of the above changes in the values of assets and liabilities. However old values will continue in the books.

Sol. Old Ratio of X, Y and Z = 5:3:2, and their New Ratio = 4:3:3

X = 4/10 – 5/10 = – 1/10 (Sacrifice)

Y = 3/10 – 3/10 = 0

Z = 3/10 – 2/10 = 1/10 (Gain)

Calculations for Net Increase/Decrease

Items	*Book Value in ₹*	*Revised value in ₹*	*Increase/Decrease in ₹*
Investment	22,000	25,000	3,000
Plant and Machinery	25,000	20,000	– 5,000
Land and Building	40,000	50,000	10,000
O/s Expenses	5,600	6,000	–400
Sundry Debtors	60,000	50,000	–10,000
Trade Creditors	70,000	60,000	10,000
			Increase = 7,600

Adjusting Journal Entry

Date	Particulars	LF	Dr.	Cr.
	Z's Capital Account (7,600 × 1/10) Dr.		760	
	To X's Capital Account			760
	(Being revaluation of assets and liabilities adjusted)			

Q. 22. Ashish, Aakash and Amit are partners sharing profits and losses. The Balance Sheet as at 31st March, 2018 was as follows—

Liabilities		₹	*Assets*	₹
Sundry Creditors		**75,000**	**Cash in Hand**	**24,000**
General Reserve		**90,000**	**Cash at Bank**	**1,40,000**
Capital A/cs :			**Sundry Debtors**	**80,000**
Ashish	**3,00,000**		**Stock**	**1,40,000**
Aakash	**3,00,000**		**Land and Building**	**4,00,000**
Amit	**2,75,000**	**8,75,000**	**Machinery**	**2,50,000**
			Advertisement Suspense	**6,000**
		10,40,000		**10,40,000**

The partners decided to share profits in the ratio of 2 : 2 :1 w.e.f. 1st April, 2017. They also decided that—

(i) Value of stock to be reduced to ₹ 1,25,000.

(ii) Value of machinery to be decreased by 10 %

(iii) Land and Building to be appreciated by ₹ 62,000

(iv) Provision for Doubtful Debts to be made @ 5% on Sundry Debtors

(v) Aakash was to carry out reconstitution of the firm at a remuneration of ₹ 10,000.

Pass neccessary Journal entries to give effect to the above.

Sol. **Journal**

Date	Particulars	L.F.	₹	₹
(i)	General Reserve A/c Dr.		90,000	
	To Ashish's Capital A/c			30,000
	To Aakash's Capital A/c			30,000
	To Amit's Capital A/c			30,000
	(Being balance of General Reserve transferred to partners)			
(ii)	Ashish's Capital A/c Dr.		2,000	
	Aakash's Capital A/c Dr.		2,000	
	Amit's Capital A/c Dr.		2,000	
	To Adv. Suspence A/c			6,000
	(Being balance of adv. susp. transferred to partners)			
(iii)	Revaluation A/c Dr.		44,000	
	To Stock A/c [1,40,000 – 1,25,000]			15,000
	To Machinery A/c [2,50,000 × 10%]			25,000
	To P.B.D. A/c [80,000 × 5%]			4,000
	(Being value of assets decreased)			

(iv)	Land and Building A/c	Dr.	62,000	
	To Revaluation A/c			62,000
	(Being value of land and building appreciated)			
(v)	Revaluation A/c	Dr.	10,000	
	To Aakash's Capital A/c			10,000
	(Being remunaration to partner charged)			
(vi)	Revaluation A/c	Dr.	8,000	
	To Ashish's Capital A/c			2,667
	To Aakash's Capital A/c			2,667
	To Amit's Capital A/c			2,666
	(Being profit on revaluation transferred)			

Q. 23. A, B and C are partners sharing profits and losses in the ratio of 5 : 3 : 2. Their Balance Sheets as at 31st March, 2017 Stood as follows—

Liabilities		₹	*Assets*	₹
Capitals A/cs :			**Land and Building**	**3,50,000**
A	**2,50,000**		**Machinery**	**2,40,000**
B	**2,50,000**		**Computers**	**70,000**
C	**2,00,000**	**7,00,000**	**Investments**	**1,00,000**
			(Market Value ₹ 90,000)	
General Reserve		**60,000**	**Sundry Debtors**	**50,000**
Investment Fluctuation Reserve		**30,000**	**Cash in Hand**	**10,000**
Sundry Creditors		**90,000**	**Cash at Bank**	**55,000**
			Advertisement Suspense	**5,000**
		8,80,000		**8,80,000**

They decide to share profits equally w.e.f. 1st April, 2017. They also agreed that—

(i) Value of Land and Building be decreased by 5%.

(ii) Value of Machinery be increased by 5%.

(iii) A Provision for Doubtful Debts be created @ 5% on Sundry Debtors.

(iv) A Motor Cycle valued at ₹ 20,000 was unrecorded and is now to be recorded in the books.

(v) Out of Sundry Creditors, ₹ 10,000 is not payable.

(vi) Goodwill is to be valued at 2 years' purchase of last 3 years profits. Profits being for 2016—17—₹ 50,000 (Loss); 2015—16—₹ 2,50,000 and 2014—15—₹ 2,50,000.

(vii) C was to carry out the work for reconstituting the firm at a remuneration (including expenses) of ₹ 5,000. Expenses came to ₹ 3,000.

Pass Journal entries and prepare Revaluation Account.

Sol. **Journal**

Date	Particulars		L.F.	₹	₹
(i)	General Reserve A/c	Dr.		60,000	
	To A's Capital A/c				30,000
	To B's Capital A/c				18,000
	To C's Capital A/c				12,000
	(Being balance of General reserve transferred)				
(ii)	Invest. Fluc. Res. A/c	Dr.		30,000	
	To Investment A/c [1,00,000 – 90,000]				10,000
	To A's Capital A/c [20,000 × 5/10]				10,000
	To B's Capital A/c [20,000 × 3/10]				6,000
	To C's Capital A/c [20,000 × 2/10]				4,000
	(Being value of investment decreases)				
(iii)	A's Capital A/c	Dr.		2,500	
	B's Capital A/c	Dr.		1,500	
	C's Capital A/c	Dr.		1,000	
	To Advt. Suspence A/c				5,000
	(Being balance of Adv. suspence transferred)				
(iv)	Machinery A/c [2,40,000 × 5%]	Dr.		12,000	
	Mator Cycle A/c	Dr.		20,000	
	Creditors A/c	Dr.		10,000	
	To Revaluation A/c				42,000
	(Being value of assest increases and liab. decreases)				
(v)	Revaluation A/c	Dr.		25,000	
	To Land & Building A/c [3,50,000 × 5%]				17,500
	To P.B.D. A/c [50,000 × 5%]				2,500
	To C's Capital A/c				5,000
	(Being value of assets decreases and liabilities written off)				
(vi)	Revaluation A/c [42,000 – 25,000]	Dr.		17,000	
	To A's Capital A/c [17,000 × (5/10)]				8,500
	To B's Capital A/c [17,000 × (3/10)]				5,100
	To C's Capital A/c [17,000 × (2/10)]				3,400
	(Being revaluation profit transferred to partners)				
(vii)	B's Capital A/c [3,00,000 × (1/30)]	Dr.		10,000	
	C's Capital A/c [3,00,000 × (4/30)]	Dr.		40,000	
	To A's Capital A/c [3,00,000 × (5/30)]				50,000
	(Being amount of G/w adjusted in sac./Gain ratio)				

Revaluation A/c

Particulars		₹	*Particulars*	₹
To Land & Buildings A/c		17,500	By Machinery	12,000
To P.B.D. A/c		2,500	By Motor Cycle A/c	20,000
To C's Capital A/c		5,000	By Creditors A/c	10,000
To Revaluation Profit c/d				
A	8,500			
B	5,100			
C	3,400	17,000		
Total		**42,000**	**Total**	**42,000**

Working Note—

(*i*) Calculation of Sac./Gain to

A = (5/10) – (1/3) = (15 – 10)/30 = 5/30 Sac.

B = (3/10) – (1/3) = (9 – 10)/30 = – 1/30 Gain

C = (2/10) – (1/3) = (6 – 10)/30 = – 4/30 Gain

(*ii*) Goodwill = ₹ [(50,000) + 2,50,000 + 2,50,000] × (2/3)

= ₹ 3,00,000

Q. 24. A, B and C are sharing profits and losses in the ratio of 2 : 2 : 1. They decided to share profit w.e.f. 1st April, 2018 in the ratio of 5 : 3 : 2. They also decided not to change the values of assets and liabilities in the books of account. The book values and revised values of asset and liabilities as on the date of change were as follows—

	Book Value (₹)	*Revised Value (₹)*
Machinery	**2,50,000**	**3,00,000**
Computers	**2,00,000**	**1,75,000**
Sundry Creditors	**90,000**	**75,000**
Outstanding Expenses	**15,000**	**25,000**

Pass an adjustment entry.

Sol. Working Note—

A = (2/5) – (5/10) = (4 – 5)/10 = – 1/10 Gain

B = (2/5) – (3/10) = (4 – 3)/10 = 1/10 Sac.

C = (1/5) – (2/10) = (2 – 2)/10 = 0

Statement Showing Net effect of Revaluation

Particulars	*Book Value*	*Revised Value*	*Net Change*
Machinery	2,50,000	3,00,000	50,000
Computers	2,00,000	1,75,000	(25,000)
Sundry Creditors	90,000	75,000	15,000
O/s Expenses	15,000	25,000	(10,000)
Total Net Change			**30,000**

Journal

Date	Particulars		L.F.	₹	₹
(i)	A's Capital A/c [30,000 × (1/10)]	Dr.		3,000	
	To B's Capital A/c				3,000
	(Being amount of net change transfer in Sacrifice/Gain				

Q. 25. X, Y and Z are partners sharing profits and losses in the ratio of 7 : 5 : 4. Their Balance Sheet as at 31st March, 2018 stood as—

Liabilities		₹	*Assets*	₹
Capital A/cs :			**Sundry Assets**	7,00,000
X	2,10,000			
Y	1,50,000			
Z	1,20,000	4,80,000		
General Reserve		65,000		
Profit and Loss A/c		25,000		
Creditors		1,30,000		
		7,00,000		7,00,000

Partners decided that with effect from 1st April, 2018, they will share profits and losses in the ratio of 3 : 2 : 1. For this purchase, goodwill of the firm was valued at ₹ 1,50,000. The partners neither want to record the goodwill nor want to distribute the General Reserve and profits.

Pass a Journal entry to record the change and prepare revised Balance Sheet.

Sol. Working Note—(i) Old Ratio of $x : y : z = 7 : 5 : 4$

(ii) New Ratio of $x : y : z = 3 : 2 : 1$

(iii) Sac/ Gain to x = (7/16) – (3/6) = [(21 – 24)/48] = – 3/48 Gain

y = (5/16) – (2/6) = [(15 – 16)/48] = – 1/48 Gain

z = (4/16) – (1/6) = [(12 – 8)/48] = 4/48 Sac.

(iv) Total Amount of : G/w + G/R + P & L = ₹ [1,50,000 + 65,000 + 25,000]

= ₹ 2,40,000

(v) Share of x (*Dr.*) = ₹ 2,40,000 × (3/48) = ₹ 15,000

y (*Dr.*) = ₹ 2,40,000 × (1/48) = ₹ 5,000

z (*Cr.*) = ₹ 2,40,000 × (4/48) = ₹ 20,000

Journal Entry

Date	*Particulars*		L.F.	*Dr.*	*Cr.*
(i)	x's Capital A/c	Dr.		15,000	
	y's Capital A/c	Dr.		5,000	
	To Z's Capital A/c				20,000
	(Being amt. of adjust made for change in Ratio)				

Balance Sheet (Revised)

Liabilities		₹	*Assets*	₹
Capital A/cs :			Sundry Assets	7,00,000
x [2,10,000 – 15,000]	1,95,000			
y [1,50,000 – 5,000]	1,45,000			
z [1,20,000 + 20,000]	1,40,000	4,80,000		
General Reserve		65,000		
Profit & Loss A/c		25,000		
Creditors		1,30,000		
		7,00,000		7,00,000

Q. 26. A, B and C were partners in a firm sharing profits in the ratio of 3 : 2 : 1. Their Balance Sheet as on 31st March, 2015 was as follows—

Liabilities		₹	*Assets*	₹
Creditors		**50,000**	**Land**	**50,000**
Bills Payable		**20,000**	**Building**	**50,000**
General Reserve		**30,000**	**Plant**	**1,00,000**
Capital A/cs			**Stock**	**40,000**
A	**1,00,000**		**Debtors**	**30,000**
B	**50,000**		**Bank**	**5,000**
C	**25,000**	**1,75,000**		
		2,75,000		**2,75,000**

From 1st April, 2015, A, B and C decided to share profits equally. For this it was agreed that—

(*i*) Goodwill of the firm will be valued at ₹ 1,50,000.

(*ii*) Land will be revalued at ₹ 80,000 and building be depreciated by 6%.

(*iii*) Creditors of ₹ 6,000 were not likely to be claimed and hence should be written off.

Prepare Revaluation Account, Partners' Capital Accounts and Balance Sheet of the reconstituted firm. ***(Delhi 2016)***

Sol. **Revaluation A/c**

Particulars		₹	*Particulars*	₹
To Building		3,000	By Land A/c	30,000
To Rev. Profit c/d			By Creditors A/c	6,000
A	16,500			
B	11,000			
C	5,500	33,000		
Total		**36,000**	**Total**	**36,000**

Partners Capital A/c

Particulars	A	B	C	Particulars	A	B	C
To A's Cap. A/c	—	—	25,000	By Balanc b/d	1,00,000	50,000	25,000
To Balance c/d	1,56,500	71,000	10,500	By Gen. Res.	15,000	10,000	5,000
				By Rev. A/c	16,500	11,000	5,500
				By C's Cap. A/c	25,000	—	—
Total	1,56,500	71,000	35,500	Total	1,56,500	71,000	35,500

Reconstituted Balance Sheet
as on April, 1, 2015

Liabilities		₹	Assets	₹
Creditors		44,000	Land	80,000
Bills Payable		20,000	Building	47,000
Capital A/cs			Plant	1,00,000
A	1,56,500		Stock	40,000
B	71,000		Debtors	30,000
C	10,500	2,38,000	Bank	5,000
Total		3,02,000	Total	3,02,000

Working Note—

(i) Calculation of Sacrifice/Gain to

A = (3/6) – (1/3) = (3 – 2)/6 = 1/6 Sacrifice

B = (2/6) – (1/3) = (2 – 2)/6 = 0

C = (1/6) – (1/3) = (1 – 2)/6 = – 1/6 Gain

Q. 27. A and B are partners sharing profits in the ratio of 4 : 3. Their Balance Sheet as at 31st March 2018 stood as :

Balance sheet

Liabilities		₹	Assets	₹
Sundry Creditors		**28,000**	**Cash**	**20,000**
Reserve		**42,000**	**Sundry Debtors**	**1,20,000**
Capitals A/cs :				
A's Capital	**2,40,000**		**Stock**	**1,40,000**
B's Capital	**1,20,000**	**3,60,000**	**Fixed Assets**	**1,50,000**
		4,30,000		4,30,000

They decided that with effect from 1st April 2018, they will share profits and losses in the ratio of 2 : 1. For this purpose they decided that:

(i) Fixed assets are to be depreciated by 10%.

(ii) A Provision for Doubtful Debts of 6% be made on Sundry Debtors.

(iii) Stock be valued at ₹ 1,90,000.

(iv) An amount of ₹ 3,700 included in Creditors is not likely to be claimed.

Partners decided to record the revised values in the books. However, they do not want to disturb the Reserves. You are required to pass the Journal entries, prepare the Capital Accounts of Partners and the revised Balance Sheet.

Sol. A's Gain = $\frac{2}{3}-\frac{4}{7}=\frac{14-12}{21}=\frac{2}{21}$

B's sacrifice = $\frac{3}{7}-\frac{1}{3}=\frac{9-7}{21}=\frac{2}{21}$

Journal Entries

Date	Particulars		L.F.	Dr.	Cr.
	Revaluation Account	Dr.		22,200	
	To Fixed Assets A/c (1,50,000 × 10%)				15,000
	To Provision for doubtful debts (1,20,000 × 6%)				7,200
	(Being assets revalued)				
	Stock A/c (1,90,000 – 1,40,000)	Dr.		50,000	
	Creditors A/c	Dr.		3,700	
	To Revaluation Account				53,700
	(Being asset and liability revalued)				
	Revaluation Account (53,700 – 22,200)	Dr.		31,500	
	To A's Capital Account (31,500 × 4/7)				18,000
	To B's Capital Account (31,500 × 3/7)				13,500
	(Being revaluation profits adjusted)				
	A's Capital Account (42,000 × 2/21)	Dr.		4,000	
	To B's Capital Account				4,000
	(Being reserves adjusted)				

Dr. **Capital Accounts** **Cr.**

Particulars	A	B	Particulars	A	B
To B's Capital A/c	4,000	–	By Balance b/d	2,40,000	1,20,000
To Balance c/d	2,54,000	1,37,500	By A's Capital A/c	–	4,000
			By Revaluation Profit	18,000	13,500
	2,58,000	1,37,500		2,58,000	1,37,500

Revised Balance sheet

Liabilities		₹	Assets		₹
Sundry Creditors (28,000 – 3,700)		24,300	Cash		20,000
Reserve		42,000	Sundry Debtors	1,20,000	
Capital A/cs:			*Less:* Provision	7,200	1,12,800
A	2,54,000		Stock (1,40,000 + 50,000)		1,90,000
B	1,37,500	3,91,500	Fixed Assets (1,50,000 – 15,000)		1,35,000
		4,57,800			4,57,800

Q. 28. X, Y and Z are partners in a firm sharing profits and losses as 5:4:3. Their Balance Sheet as at 31st March 2018 was :

Liabilities	₹	Assets	₹
Sundry Creditors	40,000	Cash at Bank	40,000
Outstanding Expenses	15,000	Sundry Debtors	2,10,000
General Reserve	75,000	Stock	3,00,000

Capital A/cs:			Furniture	60,000
X	4,00,000		Plant and Machinery	4,20,000
Y	3,00,000			
Z	2,00,000	9,00,000		
		10,30,000		10,30,000

From 1st April 2018, they agree to alter their profit sharing ratio as 4:3:2. It is also decided that:

(a) Furniture be taken at 80% of its value.

(b) Stock be appreciated by 20%.

(c) Plant and Machinery be valued at ₹ 4,00,000.

(d) Outstanding Expenses be increased by ₹ 13,000.

Partners agreed that altered values are not to be recorded in the books and they also do not want to distribute the general reserve.

You are required to pass a single Journal Entry to give effect to the above. Also, prepare Balance Sheet of the new firm.

Sol.

Increase in Stock	= 3,00,000 × 20%	= 60,000
Less : Decrease in Furniture	= 60,000 × 20%	= 12,000
Decrease in Plant and Machinery	= 4,20,000 – 4,00,000	= 20,000
O/s Expenses		= 13,000
Revaluation Profit		= 15,000

Journal Entries

Date	*Particulars*	*LF*	*Dr.*	*Cr.*
	X's Capital Account (90,000 × 1/36) Dr.		2,500	
	To Z's Capital Account			2,500
	(Being reserves and Rev. profit adjusted)			

Dr. **Capital Accounts** *Cr.*

Particulars	*X*	*Y*	*Z*	*Particulars*	*X*	*Y*	*Z*
To Z's A/c	2,500	–	–	By Balance b/d	4,00,000	3,00,000	2,00,000
To Balance c/d	3,97,500	3,00,000	2,02,500	By X's A/c	–	–	2,500
	4,00,000	3,00,000	2,02,500		4,00,000	3,00,000	2,02,500

Revised Balance sheet

Liabilities		₹	*Assets*	₹
Sundry Creditors		40,000	Cash at Bank	40,000
Outstanding Expenses		15,000	Sundry Debtors	2,10,000
General Reserve		75,000	Stock	3,00,000
X's Capital	3,97,500		Furniture	60,000
Y's Capital	3,00,000		Plant and Machinery	4,20,000
Z's Capital	2,02,500	9,00,000		
		10,30,000		10,30,000

Q. 29. Balance Sheet of X and Y, who share profits and losses as 5 : 3, as at April 1, 2017, is:

Liabilities	₹	Assets	₹
X's Capital	52,000	Goodwill	8,000
Y's Capital	54,000	Machinery	38,000
General reserve	4,800	Furniture	15,000
Sundry creditors	5,000	Sundry debtors	33,000
Employees' provident fund	1,000	Stock	7,000
Workmen compensation		Bank	25,000
Reserve	10,000	Advertisement Suspense A/c	800
	1,26,800		1,26,800

On the above date, they decided to change their profit sharing to 3 : 5 and agreed upon the following.

(*a*) Goodwill be valued on the basis of 2 years' purchase of the average profit of the last three years. Profits for 2014–15 – ₹ 7,500, 2015–16 – ₹ 4,000 and 2016–17– ₹ 6,500.

(*b*) Machinery and stock be revalued at ₹ 45,000 and ₹ 8,000 respectively.

(*c*) Claim on account of workmen's compensation is ₹ 6,000.

Prepare Revaluation Account, Partners' Capital Accounts and the Balance Sheet of the new firm.

Sol. Revaluation Account

Liabilities		₹	Assets	₹
To Profit on revaluation			By Machinery (45,000 – 38,000)	7,000
X = 8,000 × 5/8 =	5,000		By Stock (8,000 – 7,000)	1,000
Y = 8,000 × 3/8 =	3,000	8,000		
		8,000		8,000

X = 5/8 – 3/8 = 2/8 (Sacrifice) and Y = 3/8 – 5/8 = –2/8 (Gain)

Average profits = (7,500 + 4,000 + 6,500)/3 = ₹ 6,000

Goodwill = ₹ 6,000 × 2 = ₹ 12,000

X's contribution = 12,000 × 2/8 = ₹ 3,000

Y's share = 12,000 × 2/8 = ₹ 3,000

Journal Entries

Date	Particulars	L.F.	Dr.	Cr.
	Y's Capital Account Dr.		3,000	
	To X's Capital Account			3,000
	(Being G/W adjusted)			

Dr. Capital Account Cr.

Particulars	X	Y	Particulars	X	Y
To Goodwill	5,000	3,000	By Balance b/d	52,000	54,000
To Adv. Suspense	500	300	By General reserve	3,000	1,800

To X's capital A/c		3,000	By Work. Comp. Res.	2,500	1,500
To Balance c/d	60,000	54,000	By Revaluation Profit	5,000	3,000
			By Y's capital a/c	3,000	
	65,500	60,300		65,500	60,300

Revised Balance sheet

Liabilities	₹	*Assets*	₹
X's Capital	60,000	Machinery	45,000
Y's Capital	54,000	Furniture	15,000
Sundry creditors	5,000	Sundry debtors	33,000
Employees provident fund	1,000	Stock	8,000
Workmen compensation reserve	6,000	Bank	25,000
	1,26,000		1,26,000

Q. 30. Ram, Mohan, Sohan and Hari were partners in a firm sharing profits in the ratio of 4 : 3 : 2 : 1. On 1st April, 2016, their Balance Sheet was as follows—

Balance Sheet of Ram, Mohan, Sohan and Hari

as on 1st April, 2016

Liabilities		₹	*Assets*	₹
Capital A/cs :			**Fixed Assets**	**9,00,000**
Ram	**4,00,000**		**Current Assets**	**5,20,000**
Mohan	**4,50,000**			
Sohan	**2,50,000**			
Hari	**2,00,000**	**13,00,000**		
Workmen Compensation Reserve		**1,20,000**		
		14,20,000		**14,20,000**

From the above date, the partners decided to share the fature profits in the ratio of 1 : 2 : 3 : 4. For this purchase the goodwill of the firm was valued at ₹ 1,80,000. The partners also agreed for the following—

(*a*) The claim for workmen compensation has been estimated at ₹ 1,50,000.

(*b*) Adjust the capitals of the partners according to new profit-sharing ratio by opening Partners' Current Accounts.

Prepare Revaluation Account, Partners' Capital Accounts and the Balance Sheet of the reconstituted firm.

Sol. **Revaluation A/c**

Particulars	₹	*Particulars*		₹
Work. Comp. Reserve	30,000	By Revaluation Loss : [4:3:2:1]		
		Ram	12,000	
		Mohan	9,000	
		Sohan	6,000	
		Hari	3,000	30,000
	30,000			30,000

Working Note—(*i*) Old Ratio of R : M : S : H = 4 : 3 : 2 : 1

(*ii*) New Ratio of R : M : S : H = 1 : 2 : 3 : 4

(*iii*) Sac./Gain to Ram = (4/10) – (1/10) = 3/10 (Sac.)
to Mohan = (3/10) – (2/10) = 1/10 (Sac.)
to Sohan = (2/10) – (3/10) = – 1/10 (Gain)
to Hari = (1/10) – (4/10) = 3/10 (Gain)

(*iv*) Share of Goodwill to Ram = ₹ [1,80,000 × (3/10)] = ₹ 54,000 (*Cr.*)
to Mohan = ₹ [1,80,000 × (1/10)] = ₹ 18,000 (*Cr.*)
to Sohan = ₹ [1,80,000 × (– 1/10)] = ₹ 18,000 (*Dr.*)
to Hari = ₹ [1,80,000 × (– 3/10)] = ₹ 54,000 (*Dr.*)

(*v*) Total New Capital = Old Capital – Reserve Loss
= ₹ [13,00,000 – 30,000] = ₹ 12,70,000

Share to Capital to Ram = [₹ 12,70,000 × (1/10)] = ₹ 1,27,000
to Mohan = [₹ 12,70,000 × (2/10)] = ₹ 2,54,000
to Sohan = [₹ 12,70,000 × (3/10)] = ₹ 3,81,000
to Hari = [₹ 12,70,000 × (4/10)] = ₹ 5,08,000

Partners' Capital A/c

Particulars	*Ram*	*Mohan*	*Sohan*	*Hari*	*Particulars*	*Ram*	*Mohan*	*Sohan*	*Hari*
To Reva. A/c	12,000	9,000	6,000	3,000	By Bal. b/d	400,000	450,000	250,000	200,000
To Current A/c (Bal. Fig.)	315,000	205,000	—	—	By Curr. A/c (Bal. Fig.)	—	—	155,000	365,000
To Balance c/d	127,000	254,000	381,000	508,000	By Sohan & Hari	54,000	18,000	—	—
To Ram & Mohan	—	—	18,000	54,000					
	454,000	468,000	405,000	565,000		454,000	468,000	405,000	565,000

Balance Sheet (Revised)

Liabilities		₹	*Assets*		₹
Capital A/cs :			Fixed Assets		9,00,000
Ram	1,27,000		Current Assets		5,20,000
Mohan	2,54,000		Current A/cs :		
Sohan	3,81,000				
Hari	5,08,000	12,70,000	Sohan	1,55,000	
Current A/cs :			Hari	1,65,000	5,20,000
Ram	3,15,000				
Mohan	2,05,000	5,20,000			
Workman Camp. Reserve		1,50,000			
		19,40,000			19,40,000

Q. 31. Suresh, Ramesh, Mahesh and Ganesh were partners in a firm sharing profits in the ratio of 2 : 2 : 3 : 3. On 1st April, 2016, their Balance Sheet was as follows—

Balance Sheet of Suresh, Ramesh, Mahesh and Ganesh
as on 1st April, 2016

Liabilities		₹	*Assets*	₹
Capital A/cs :			**Fixed Assets**	**6,00,000**
Suresh	**1,00,000**		**Current Assets**	**3,45,000**
Ramesh	**1,50,000**			
Mahesh	**2,00,000**			
Ganesh	**2,50,000**	**7,00,000**		
Sundry Creditors		**1,70,000**		
Workmen Compensation Reserve		**75,000**		
		9,45,000		**9,45,000**

From the above date, the partners decided to share the future profits equally. For this purpose the goodwill of the firm was valued at ₹ 90,000. It was also agreed that—

(*a*) Claim against Workmen Compensation Reserve will be estimated at ₹ 1,00,000 and fixed assets will be depreciated by 10%.

(*b*) The Capitals of the partners will be adjusted according to the new profit-sharing ratio. For this, necessary cash will be brought or paid by the partners as the case may be.

Prepare Revaluation Accounts, Partners' Capital Accounts and the Balance Sheet of the reconstituted firm.

Sol. **Revaluation A/c**

Particulars	₹	*Particulars*		₹
Work. Comp. Reserve	25,000	By Rev. Loss. (2 : 2 : 3 : 3)		
Fixed Assets	60,000	Suresh	17,000	
		Ramesh	17,000	
		Mahesh	25,500	
		Ganesh	25,500	85,000
	85,000			85,000

Working Note—(*i*) Old Ratio of S : R : M : G = 2 : 2 : 3 : 3

(*ii*) New Ratio of : S : R : M : G 1 : 1 : 1 : 1

(*iii*) Sac./Gain to Suresh = (2/10) – (1/4) = [(4 – 5)/20] = (– 1/20) (Gain)

to Ramesh = (2/10) – (1/4) = [(4 – 5)/20] = (– 1/20) (Gain)

to Mahesh = (3/10) – (1/4) = [(6 – 5)/20] = (1/20) (Sac.)

to Ganesh = (3/10) – (1/4) = [(6 – 5)/20] = (1/20) (Sac.)

(*iv*) Share of Goodwill to Suresh = ₹ [90,000 × (–1/20)] = ₹ 4,500 (*Dr.*)

to Ramesh = ₹ [90,000 × (– 1/20)] = ₹ 4,500 (*Dr.*)

to Mahesh = ₹ [90,000 × (1/20)] = ₹ 4,500 (*Cr.*)

to Ganesh = ₹ [90,000 × (1/20)] = ₹ 4,500 (*Cr.*)

(*v*) Total New Capital = Old Capital – Reserve Loss

= ₹ [(7,00,000 – 85,000)] = ₹ 6,15,000

(*vi*) Capital of each Partner in the firm = ₹ [6,15,000 × (1/4)]

= ₹ 1,53,750

Partners' Capital A/c

Particulars	*S*	*R*	*M*	*G*	*Particulars*	*S*	*R*	*M*	*G*
To Rev. Loss	17,000	17,000	25,600	25,500	By Bal. b/d	100,000	150,000	200,000	250,000
To Mahesh & Ganesh Cap. A/c	4,500	4,500	—	—	By Suresh & Ramesh Cap. A/c	—	—	4,500	4,500
To Cash A/c (Bal. Fig.)	—	—	25,250	75,250	By Cash A/c (Bal. Fig.)	75,250	25,250	—	—
To Balance c/d	153,750	153,750	153,750	153,750					
	175,250	175,250	204,500	254,500		175,250	175,250	204,500	254,500

Balance Sheet (Revised)

Liabilities		₹	*Assets*		₹
Capital A/cs :			Fixed Assets	6,00,000	
Suresh	1,53,750		*Less* : Dep.	60,000	5,40,000
Ramesh	1,53,750		Current Assets		3,45,000
Mahesh	1,53,750				
Ganesh	1,53,750	6,15,000			
Sundry Creditors		1,70,000			
Workmen Camp. Reserve		1,00,000			
		8,85,000			8,85,000

Q. 32. Following is the Balance Sheet of A and B, who shared Profits and Losses in the ratio of 2 : 1, as at 1st April, 2018—

Balance Sheet of a and B

as on 1st April, 2018

Liabilities		₹	*Assets*	₹
Capital A/cs :			**Land and Buildings**	**2,90,000**
A	**3,00,000**		**Furniture**	**80,000**
B	**2,00,000**	**5,00,000**	**Stock**	**2,40,000**
Reserve		**1,50,000**	**Debtors**	**1,50,000**
Creditors		**2,00,000**	**Bank**	**60,000**
			Cash	**30,000**
		8,50,000		**8,50,000**

On the above date, the partners changed their profit-sharing ratio to 3 : 2. For this purpose, the goodwill of the firm was valued at ₹ 3,00,000. The partners also agreed for the following—

(*a*) The value of Land and Building will be ₹ 5,00,000;

(*b*) Reserve is to be maintained at ₹ 3,00,000.

(*c*) The total capital of the partners in the new firm will be ₹ 6,00,000, which will be shared by the partners in their new profit-sharing ratio.

Prepare Revaluation Account, Partners' Capital Accounts and the Balance Sheet of the reconstitued firm.

Sol. (*i*) Old Ratio of A : B = 2 : 1

(*ii*) New Ratio of A : B = 3 : 2

(*iii*) Sac./Gain to A = (2/3) – (3/5) = [(10 – 9)/15] = (1/15) Sac.

to B = [1/3] – (2/5) [(5 – 6)/15] (– 1/15) Gain

(*iv*) Share of Goodwill to A = ₹ [3,00,000 × (1/15)] = ₹ 20,000 (*Cr*)

B = ₹ [3,00,000 × (– 1/15)] = ₹ 20,000 (*Dr.*)

(*v*) Total Capital of New firm = ₹ 6,00,000

New Capital of "A" = ₹ [6,00,000 × (3/5)] = ₹ 3,60,000

"B" = ₹ [6,00,000 × (2/5)] = ₹ 2,40,000

Revaluation A/c

Particulars		₹	*Particulars*	₹
To Rev. Profit : in [2 : 1]			By Land & Building	2,10,000
A	1,40,000			
B	70,000	2,10,000		
		2,10,000		2,10,000

Partners' Capital A/c

Particulars	*A*	*B*	*Particulars*	*A*	*B*
To A's Capital A/c	—	20,000	By Balance b/d	3,00,000	2,00,000
To Reserve A/c (in 3 : 2)	180,000	120,000	By Rev. Profit	140,000	70,000
To Bank A/c (Bal. fig.)	20,000		By B's Capital A/c	20,000	—
			By Reserve A/c [in 2 : 1]	100,000	50,000
To Balance c/d	360,000	240,000	By Bank A/c (Bal. fig.)		60,000
	560,000	380,000		560,000	380,000

Balance Sheet (Revised)

Particulars		₹	*Particulars*	₹
Capital A/cs :			Land & Building	5,00,000
A	360,000		Furniture	80,000
B	240,000	6,00,000	Stock	2,40,000
Reserves		3,00,000	Debtors	1,50,000
Creditors		2,00,000	Bank [60,000 + 60,000 + 20,000]	1,00,000
			Cash	30,000
		11,00,000		11,00,000

CHAPTER - 4
ADMISSION OF A PARTNER

SOLVED PRACTICAL PROBLEMS

Q. 1. X, Y and Z are partners sharing profits and losses in the ratio of 5 : 3 : 2. They admit A into partnership and give him 1/5th share of profits. Find out the new profit sharing ratio.

Sol. Let Total Profit = 1 and given A's share = 1/5

Therefore, Remaining share = 1 – 1/5 = 4/5

X's New Share = 4/5 × 5/10 = 20 / 50

Y's New Share = 4/5 × 3/10 = 12 / 50

Z's New Share = 4/5 × 2/10 = 8 / 50

A's New Share = 1/5 × 10/10 = 10 / 50

Hence, New ratio = 20 : 12 : 8 : 10 = 10 : 6 : 4 : 5

Q. 2. Ravi and Mukesh are sharing profits in the ratio of 7 : 3, They admit Ashok for 3/7th share in the firm, which he takes 2/7th from Ravi and 1/7th from Mukesh, calculate new Profit Sharing Ratio.

Sol. New Ratio = Old Ratio – Sacrificing Ratio

Ravi = 7/10 – 2/7 = (49 – 20) / 70 = 29/70

Mukesh = 3/10 – 1/7 = (21–10) / 70 = 11/70

Ashok = 2/7 + 1/7 = 3/7 × 10/10 = 30/70

Therefore, New Ratio = 29 : 11 : 30

Q. 3. A and B are partners sharing profits and losses in the proportion of 7 : 5. They agree to admit C, their manager, into partnership who is to get 1/6th share in the profits. He acquires this share as 1/24th from A and 1/8th from B. Calculate new profit-sharing ratio.

Sol. New Ratio = Old Ratio – Sacrificing Ratio

A = 7/12 – 1/24 = (14 – 1)/24 = 13/24

B = 5/12 – 1/8 = (10 – 3)/24 = 7/24

C = 1/24 + 1/8 = (1 + 3)/24 = 4/24

Therefore, New Ratio = 13 : 7 : 4

Q. 4. A, B and C were partners in a firm sharing profits in the ratio of 3 : 2 : 1. They admitted D as a new partner for 1/8th share in the profits, which he acquired 1/16th from B and 1/16th from C. Calculate the new profit-sharing ratio of A, B, C and D.

Sol. Old Profit Sharing Ratio of A : B : C = 3 : 2 : 1

D's admitted for = 1/8

B's Sacrifice = 1/16

C's Sacrifice = 1/16

So, A's New share = 3/6

B's New share = 2/6 – (1/16) = (16 – 3)/48

= 13/48

C's New share = 1/6 – (1/16) = (8 – 3)/48

= 5/48

D's New share = 1/8

New Ratio of A : B : C : D = $\frac{3}{6}:\frac{13}{48}:\frac{5}{48}:\frac{1}{8}$

= $\frac{24:13:5:6}{48}$

= 24 : 13 : 5 : 6

Q. 5. Bharti and Astha were partners sharing profits in the ratio of 3 : 2. They admitted Dinkar as a new partner for 1/5th share in the future profits of the firm which he got equally from Bharati and Astha. Calculate the new profit-sharing ratio of Bharati, Astha and Dinkar, ***(Delhi 2016 C)***

Sol. Old Profit Sharing Ratio of Bharti : Astha = 3 : 2

Dinkar admitted for = 1/5

Bharti Sacrifice = 1/5 × 1/2 = 1/10

Astha Sacrifice = 1/5 × 1/2 = 1/10

So, Bharti New Share = 3/5 – (1/10) = (6 – 1)/10

= 5/10

Astha New Share = 2/5 – (1/10) = (4 – 1)/10

= 3/10

So, New Ratio of B : A : D = $\frac{5}{10}\frac{3}{10}\frac{1}{5}$

= $\frac{5:3:2}{10}$

= 5 : 3 : 2

Q. 6. X and Y are partners in a firm sharing profits and losses in the ratio of 3 : 2, Z is admitted as partner with 1/4 share in profit. Z acquires his share from X and Y in the ratio of 2 : 1.

Calculate new profit sharing ratio.

Sol. Calculation of new P.S. ratio.

Old ratio of X : Y = 3 :2

Z's share = 1/4

Z's acquire this share from X : Y = 2:1

So, X's sacrifies $= \frac{2}{3} \times \frac{1}{4} = \frac{2}{12}$

Y's sacrifies $= \frac{1}{3} \times \frac{1}{4} = \frac{1}{12}$

$$\text{So, X's new share} = \frac{3}{5} - \frac{2}{12} = \frac{36-10}{60} = \frac{26}{60}$$

$$\text{Y's new share} = \frac{2}{5} - \frac{1}{12} = \frac{24-5}{60} = \frac{19}{60}$$

$$\text{Z's new share} = \frac{1}{4} \times \frac{15}{15} = \frac{15}{60}$$

So, new P.S. ratio of X : Y : Z = 26 : 19 : 15

Q. 7. R and S are partners sharing profits in the ratio of 5 : 3, T joins the firm as a new partner, R gives 1/4 of his share and S gives 1/5th of his share to the new partner. Find out new Profit-sharing ratio.

Sol. Given, R : S = 5 : 3 = 5/8 : 3/8

R's Sacrificing Ratio = 5/8 × ¼ = 5/32

S's Sacrificing Ratio = 3/8 × 1/5 = 3/40

New Ratio = Old Ratio – Sacrificing Ratio

R's New Ratio = 5/8 – 5/32 = (20 – 5)/32 = 15/32

S's New Ratio = 3/8 – 3/40 = (15 – 3)/40 = 12/40

T's New Ratio = 5/32 + 3/40 = (25 + 12)/160 = 37/160

Thus New Ratio = 15/32 : 12/40 : 37/160

= 75/160 : 48/160 : 37/160 = 75 : 48 : 37

Q. 8. Kabir and Farid are partners in a firm sharing profits and losses in the ratio of 7 : 3. Kabir surrenders 2/10th from his share and Farid surrenders 1/10th from his share in favour of Jyoti, the new partner Calculate new profit-sharing ratio and sacrificing ratio.

Sol. Old Ratio of K : F = 7 : 3

Jyoti Gets = 2/10 + 1/10 = 3/10

Kabir New Share = 7/10 – 2/10 = (7 – 2)/10 = 5/10

Farid New Share = 3/10 – 1/10 = (3 – 1)/10 = 2/10

So, New Ratio of K : F : J = 5/10 : 2/10 : 3/10 = 5 : 2 : 3

Sac. Ratio of K : F = 2/10 : 1/10 = 2 : 1

Q. 9. Find New Profit-Sharing Ratio :

(*i*) R and T are partners in a firm sharing profits in the ratio of 3 : 2. S joins the firm. R surrenders 1/4th of his share and T 1/5th of his share in favour of S.

(*ii*) A and B are partners. They admit C for 1/4th share. In future, the ratio between A and B would be 2 : 1.

(*iii*) A and B are partners sharing profits and losses in the ratio of 3 : 2. They admit C for 1/5th share in the profit. C acquires 1/5th of his share from A and 4/5th share from B.

(*iv*) X, Y and Z are partners in the ratio of 3 : 2 : 1. W joins the firm as a new partner for 1/6th share in profits. Z would retain his original share.

(*v*) A and B are equal partners. They admit C and D as partners with 1/5th and 1/6th share respectively.

(vi) A and B are partners sharing profits/losses in the ratio of 3 : 2. C is admitted for 1/4th share. A and B decide to share equally in future.

Sol. Case (i) : Old Ratio of R and T = 3 : 2

After S joining,

$$\text{R sacrifice for S} = \frac{3}{5}\times\frac{1}{4}=\frac{3}{20}$$

$$\text{T sacrifice for S} = \frac{2}{5}\times\frac{1}{5}=\frac{2}{25}$$

New Ratio = Old Ratio – Sacrificing Ratio

$$R = \frac{3}{5}-\frac{3}{20}=\frac{12-3}{20}=\frac{9}{20}$$

$$T = \frac{2}{5}-\frac{2}{25}=\frac{10-2}{25}=\frac{8}{25}$$

$$S = \frac{3}{20}+\frac{2}{25}=\frac{15+8}{100}=\frac{23}{100}$$

$$= \frac{9}{20}:\frac{8}{25}:\frac{23}{100}$$

$$= \frac{45:32:23}{100} = 45:32:23$$

Case (ii) : Let Total share of profit = 1

C's share = 1/4

Remaining share = 1 – 1/4 = 3/4

A's New share = 3/4 × 2/3 = 2/4

B's New share = 3/4 × 1/3 = 1/4

C's share = 1/4

New Ratio = 2 : 1 : 1

Case (iii) : Old Ratio = 3 : 2

C's share = 1/5

C acquires from A = 1/5 × 1/5 = 1/25

C acquires from B = 1/5 × 4/5 = 4/25

New Ratio = Old Ratio – Sacrificing Ratio

$$\text{A's New share} = 3/5 - 1/25 = \frac{15-1}{25}=\frac{14}{25}$$

B's New share = 2/5 – 4/25 = (10 – 4)/25 = 6/25

C's share = 1/5 × 5/5 = 5/25

New Ratio = 14 : 6 : 5