

Ans. :

Particular	Milin (₹)	Hemant (₹)	Rasik (₹)
Correct distribution of profit in the proportion of 1:2:4	+ 27,000	+ 54,000	+ 1,08,000
Incorrect distribution of profit in the proportion of 1:1:1	– 63,000	– 63,000	– 63,000
Amount of difference	– 36,000	– 9000	+ 45,000
	Debit	Debit	Credit

Rectification of Error : An excess credit to Milin's and Hemant's account is ₹ 36,000 and ₹ 9000 respectively, and ₹ 45,000 are less credited to Rasik's Account. So, Rasik's account will be credited and Milin's and Hemant's capital account will be debited.

Date	Particular	L.F.No.	Debit (₹)	Credit (₹)
	Milin's Capital/Current A/c Dr		36,000	
	Hemant's Capital/Current A/c Dr		9000	
	To Rasik's Capital/Current A/c			45,000
	[Being profit credited in wrong proportion is corrected.]			

Illustration 7 : Ram, Laxman and Sita are partners of a firm. On 1-4-2016 their capital was ₹ 40,000, ₹ 30,000 and ₹ 80,000 respectively. At the end of the year after distribution of profit it was realised that charging of interest on capital at 12 % is missed out. Write journal entry for rectification.

Ans. :

Particular	Ram (₹)	Laxman (₹)	Sita (₹)	Total (₹)
Interest on capital at 12 %	+ 4800	+ 3600	+ 9600	+ 18,000
Reduction in profit equal to amount of interest (₹ 18,000)				
In equal proportion (1:1:1)	– 6000	– 6000	– 6000	– 18,000
Accounting treatment of difference to Capital Account	– 1200	– 2400	+ 3600	–
	Debit	Debit	Credit	

Rectification of Error : ₹ 1200 and ₹ 2400 will be debited to Ram's and Laxman's capital account respectively and ₹ 3600 will be credited to Sita's capital account.

Date	Particular	L.F.No.	Debit (₹)	Credit (₹)
	Ram's Capital/Current A/c Dr		1200	
	Laxman's Capital/Current A/c Dr		2400	
	To Sita's Capital/Current A/c			3600
	[Being the computation of interest on capital at 12 % was missed out, is rectified.]			

Explanation : Total interest on capital is payable ₹ 18,000. So the same amount of ₹ 18,000 has to be reduced from the capital account of the partners, which will be debited in their profit-loss sharing ratio. Since profit-loss sharing is not given, amount will be debited in equal proportion.

Illustration 8 : Bhalchandra, Darshana and Ankit are partners sharing profit-loss in the ratio of 5:3:2. At the end of the year after the preparation of final account it is realised that, computation of interest on drawings is missed out. Interest on drawings were ₹ 1000, ₹ 800 and ₹ 600 respectively. Write journal entry for rectifications.

Ans. :

Particular	Bhalchandra (₹)	Darshana (₹)	Ankit (₹)	Total (₹)
Increase in profit equal to amount of interest on drawings (5:3:2)	+ 1200	+ 720	+ 480	+ 2400
Interest on drawings	– 1000	– 800	– 600	– 2400
Accounting treatment of difference to the Capital Account	+ 200 Credit	– 80 Debit	– 120 Debit	–

Rectification of Error :

Date	Particular	L.F.No.	Debit (₹)	Credit (₹)
	Darshana's Capital/current A/c Dr		80	
	Ankit's Capital/current A/c Dr		120	
	To Bhalchandra's Capital/Current A/c			200
	[Being computation of interest on drawings was missed out, is rectified.]			

Explanation : Total interest on drawings is ₹ 2400 (₹ 1000, ₹ 800 and ₹ 600), due to this profit would increase. This is to be credited to partners' capital account in their profit-loss sharing ratio. Thus in the proportion of 5:3:2 ₹ 1200, ₹ 720 and ₹ 480 will be credited respectively to the capital account of Bhalchandra, Darshana and Ankit. Interest on drawings will be debited to the capital account of respective partners.

Illustration 9 : Yusuf, Harun and Kodawala are partners sharing profit-loss in the proportion of 3:2:1.

Yusuf and Harun have given assurance to Kodawala to give minimum ₹ 36,000 from profit. If for the year ending on 31-3-16 total profit of the firm was ₹ 1,80,000, how profit will be distributed among the partners ?

Ans. : Distribution of profit :

$$\text{Yusuf : ₹ 1,80,000} \times \frac{3}{6} = \text{₹ 90,000} \quad \text{Harun: ₹ 1,80,000} \times \frac{2}{6} = \text{₹ 60,000}$$

$$\text{Kodawala : ₹ 1,80,000} \times \frac{1}{6} = \text{₹ 30,000}$$

It was assured by Yusuf and Harun to Kodawala that he will receive atleast ₹ 36,000 from profit. But deficit to Kodawala is ₹ 6000 (₹ 36,000 – ₹ 30,000) will be given to Kodawala by Yusuf and Harun in their profit-loss sharing ratio.

$$\text{Amount of profit to be given to Kodawala : Yusuf : ₹ 6000} \times \frac{3}{5} = \text{₹ 3600}$$

$$\text{Harun : ₹ 6000} \times \frac{2}{5} = \text{₹ 2400}$$

Amount of distributable profit amongst the partners :

Particular	Yusuf (₹)	Harun (₹)	Kodawala (₹)	Total (₹)
Distribution of profit in the profit-loss sharing ratio (3:2:1)	90,000	60,000	30,000	1,80,000
Payable and receivable amount	– 3600	– 2400	+ 6000	–
Actual distribution of profit	86,400	57,600	36,000	1,80,000

Illustration 10 : The closing capital of a partner Girish is ₹ 96,000 after giving effect of drawings of ₹ 6000 and divisible profit of ₹ 9000. Calculate 8 % p.a. interest on capital.

Ans. : Interest on capital is always calculated on the opening balance. Here, closing capital is provided. From that opening capital will be ascertained as follows :

$$\text{Opening capital} = \text{Closing capital} + \text{Drawings} - \text{Profit}$$

Closing capital	₹	96,000
+ Drawings	₹	6000
		<u>₹ 1,02,000</u>
– Profit	₹	9000
Opening capital	₹	<u><u>93,000</u></u>

$$\therefore \text{Interest on capital} = ₹ 93,000 \times \frac{8}{100} = ₹ 7440$$

or

Dr Cr
Girish's Capital Account

Particular	Amt. (₹)	Particular	Amt. (₹)
To Drawings A/c	6000	By Balance b/d (Opening capital)	93,000
To Balance c/d (Closing capital)	96,000	By Profit and Loss A/c (profit)	9000
	<u>1,02,000</u>		<u>1,02,000</u>

$$\therefore \text{Interest on capital} = ₹ 7440$$

Illustration 11 : Jennet, Akshra and Sapna are partners sharing profit-loss in equal proportion. Their total capital is of ₹ 3,00,000. The proportion of their capital is 2:3:5. Firm pays 6 % interest p.a. on the capital. Partner Akshra received ₹ 45,400 including interest on capital. Compute what amount inclusive of interest is received by Jennet and Sapna ?

Ans. :

Particular	Jennet (₹)	Akshra (₹)	Sapna (₹)
Capital in the proportion of 2:3:5	60,000	90,000	1,50,000
Interest on capital at 6 % p.a.	3600	5400	9000
Divisible profit (1:1:1)	+ 40,000	+ 40,000	+ 40,000
Profit including interest on capital	43,600	45,400	49,000

∴ Including interest on capital Jennet would receive total ₹ 43,600 and Sapna ₹ 49,000.

Explanation : Akshra received ₹ 45,400 with interest on capital.

∴ Akshra has received ₹ 40,000 (₹ 45,400 – ₹ 5400) towards share of profit.

All three partners are sharing profit-loss in equal proportion. Therefore Jennet and Sapna each of them has received ₹ 40,000 from profit.

Illustration 12 : Sharda and Jamna are partners of a firm. Their capital as on 1-4-2016 was ₹ 30,000 and ₹ 40,000 respectively. During the year Sharda has withdrawn ₹ 6000 on 1-4-2016 while Jamna ₹ 8000 on 1-1-2017. The provisions of partnership deed are as follows :

Explanation : (1) No clarification pertaining to capital account method is given in the problem, thus capital accounts are prepared on the basis of fluctuating capital account method. (2) No clarification is made in the partnership deed for interest on loan of Sharda, as per partnership act interest at 6 % p.a. is calculated for six month (from 1-10-2016 to 31-3-2017). It is debited to profit and loss account and will be shown at the liability side of balance sheet. (3) To determine interest on drawings, date of drawings is considered. (4) No clarification is made for profit-loss sharing ratio between the partners, profit is distributed amongst the partners in equal proportion.

Illustration 13 : Sudhanshu and Sarvesh are partners of a firm. Their profit-loss sharing ratio is 3:2. The capital of partners as on 1-4-2016 was ₹ 90,000. This is fixed capital. Capital of partners is in the proportion of 5:4. Drawings of the partners during the year was as follows :

Sudhanshu : ₹ 6000 on 1-7-2016

Sarvesh : ₹ 4000 on 1-10-2016

There is provision in partnership deed to pay interest on capital at 8 % p.a. and to charge interest on drawings at 12 % p.a. On 1-4-2016 balances in current accounts of partners ₹ 3000 credit balance and ₹ 2000 debit balance respectively for Sudhanshu and Sarvesh. Interest at 6 % p.a. on opening balance of current account is to be calculated. Sudhanshu is to be paid 5 % commission on profit after deduction of his commission from profit.

Before considering the above mentioned adjustments, profit of the firm for the year ending on 31-3-2017 is ₹ 37,770. From this information prepare a profit and loss appropriation account, partners' capital accounts and current accounts.

Ans. :

**Profit and Loss Appropriation Account for the Year Ending on 31-3-2017 of
Firm of Sudhanshu and Sarvesh**

Dr		Cr	
Particular	Amt. (₹)	Particular	Amt. (₹)
To Interest on capital A/c :		By Profit and loss A/c (Net profit)	37,770
Sudhanshu : 4000		By Interest on drawings A/c :	
Sarvesh : 3200	7200	Sudhanshu : 540	
To Interest on current A/c (Sudhanshu)	180	Sarvesh : 240	780
To Commission A/c (Sudhanshu)	1490	By Interest on current A/c (Sarvesh)	120
To Partners' current A/c :			
(Divisible profit)			
Sudhanshu 17,880			
Sarvesh 11,920	29,800		
	38,670		38,670

Partners' Capital Accounts

Dr				Cr			
Date	Particular	Sudhanshu (₹)	Sarvesh (₹)	Date	Particular	Sudhanshu (₹)	Sarvesh (₹)
31-3-17	To Balance c/d	50,000	40,000	1-4-16	By Balance b/d	50,000	40,000
		50,000	40,000			50,000	40,000

Partners' Current Accounts

Dr

Cr

Date	Particular	Sudhanshu (₹)	Sarvesh (₹)	Date	Particular	Sudhanshu (₹)	Sarvesh (₹)
1-4-16	To Balance b/d	—	2000	1-4-16	By Balance b/d	3000	—
1-7-16	To Drawings A/c	6000	—	31-3-17	By Interest on capital A/c	4000	3200
1-10-16	To Drawings A/c	—	4000	31-3-17	By Interest on current A/c	180	—
31-3-17	To Interest on drawings A/c	540	240	31-3-17	By Commission A/c	1490	—
31-3-17	To Balance c/d	20,010	8760	31-3-17	By Profit and loss appropriation A/c	17,880	11,920
		26,550	15,120			26,550	15,120

Explanation : (1) The opening total capital of partners is ₹ 90,000, it is in the proportion of 5:4, so capital of Sudhanshu is of ₹ 50,000 and ₹ 40,000 of Sarvesh. This capital is considered as fixed capital and interest on capital is calculated on these amounts. (2) Interest on drawings : Sudhanshu for 9 months from 1-7-2016 to 31-3-2017, Sarvesh for 6 months from 1-10-2016 to 31-3-2017. (3) 5 % commission on profit is payable to Sudhanshu, but after deduction of such commission from profit.

Assume, profit after commission is ₹ 100 where commission will be ₹ 5. Therefore profit before deduction of commission will be ₹ 105 (100 + 5), where ₹ 5 commission are included.

$$\therefore \text{Commission of Sudhanshu} = \frac{31,290 \times 5}{105} \quad \begin{array}{l} \text{(Total of credit side of profit and loss appropriation} \\ \text{account is ₹ 38,670 – (Interest on capital ₹ 7200 +} \\ \text{interest on current account ₹ 180) = ₹ 31,290)} \end{array}$$

$$= ₹ 1490$$

(4) Profit after commission (Divisible profit) = ₹ 29,800 (₹ 31,290 – ₹ 1490) will be distributed amongst the partners in the ratio of 3:2.

$$\begin{aligned} \text{Divisible profit of Sudhanshu} &= ₹ 29,800 \times \frac{3}{5} \\ &= ₹ 17,880 \end{aligned}$$

$$\begin{aligned} \text{Divisible profit of Sarvesh} &= ₹ 29,800 \times \frac{2}{5} \\ &= ₹ 11,920 \end{aligned}$$

Illustration 14 : Saksham, Samarth and Shrey are partners of firm. Their capital on 1-4-2016 was ₹ 1,00,000, ₹ 60,000 and ₹ 40,000 respectively. As per partnership deed : (1) Provide interest on capital at 8 % p.a. on capital of partners. (2) 10 % p.a. interest is chargeable to drawings. (3) Monthly salary of ₹ 600 is payable to Samarth. (4) Partners would share half profit in equal proportion and remaining half profit they will share in their opening capital proportion.

On 1-1-2017 Saksham and Shrey have withdrawn ₹ 5000 and ₹ 4000 respectively.

Partners have unanimously decided to transfer 10 % of divisible profit to general reserve. Before recording of above mentioned adjustments profit of the firm for the year ending on 31-3-2017 was ₹ 34,975.

From the above information prepare profit and loss appropriation account of the partnership firm for the year ending on 31-3-2017 and partners capital accounts.

Ans. :

**Profit and Loss Appropriation Account for the year ending on 31-3-2017 of
Partnership firm of Saksham, Samarth and Shrey**

Dr

Cr

Particular	Amt. (₹)	Particular	Amt. (₹)
To Interest on capital A/c :		By Profit and loss A/c (Net profit)	34,975
Saksham : 8000		By Interest on drawings A/c	
Samarth : 4800		Saksham : 125	
Shrey : 3200	16,000	Shrey : 100	225
To Salary (Samarth)	7200		
To General reserve A/c	1200		
(10 % of divisible profit)			
To Partners capital A/c (Divisible profit)			
Saksham : 4500			
Samarth : 3420			
Shrey : 2880	10,800		
	35,200		35,200

Partners' Capital Accounts

Dr

Cr

Date	Particular	Saksham (₹)	Samarth (₹)	Shrey (₹)	Date	Particular	Saksham (₹)	Samarth (₹)	Shrey (₹)
1-1-17	To Drawings A/c	5000	—	4000	1-4-16	By Balance b/d	1,00,000	60,000	40,000
31-3-17	To Interest on drawings A/c	125	—	100	31-3-17	By Interest on capital	8000	4800	3200
31-3-17	To Balance c/d	1,07,375	75,420	41,980	31-3-17	By Salary A/c	—	7200	—
					31-3-17	By P & L Appropriation A/c (Divisible profit)	4500	3420	2880
		1,12,500	75,420	46,080			1,12,500	75,420	46,080

Explanation :

- (1) Before distribution of divisible profit, amount is to be transferred to general reserve. Total of credit side of profit and loss appropriation account is ₹ 35,200 (₹ 34,975 + ₹ 225) and total of debit side is ₹ 23,200 (₹ 16,000 + ₹ 7200).

$$\therefore \text{Divisible profit} = ₹ 35,200 - ₹ 23,200 = ₹ 12,000$$

$$\therefore \text{General reserve} = 10 \% \text{ of divisible profit} = 12,000 \times \frac{10}{100} = ₹ 1200$$

- (2) Surplus of divisible profit after transfer of ₹ 1200 to general reserve is = ₹ 12,000 – ₹ 1200 = ₹ 10,800.

Divisible profit will be distributed as follows :

Particular	Saksham (₹)	Samarth (₹)	Shrey (₹)	Total (₹)
$\frac{1}{2}$ of ₹ 10,800 in equal proportion ₹ 5400 (1:1:1)	1800	1800	1800	5400
Remaining ₹ 5400 in the proportion of opening capital (5:3:2)	2700	1620	1080	5400
Share of each partner in total Divisible Profit	4500	3420	2880	10,800

Illustration 15 : Shruti, Kashvi and Mary are partners of a firm. Total balance of their fixed capital on 1-4-2016 was ₹ 2,50,000. It was in the proportion of 2:2:1. Balances of their current accounts were as follows. Shruti ₹ 24,000 (credit), Kashvi ₹ 18,000 (debit) and Mary ₹ 12,000 (credit).

Provisions of partnership deed were as follows :

- (1) $\frac{3}{5}$ of profit to be distributed in the proportion of 3:2:1 and remaining in the proportion of their opening capital.
- (2) Provide p.a. 10 % interest on capital.
- (3) Provide p.a. 8 % interest on opening balance of current account.
- (4) Monthly salary of ₹ 500 is payable to Kashvi.
- (5) 12 % p.a. interest is chargeable to drawings of partners.

Shruti has withdrawn ₹ 18,000 on 1-2-2017, Kashvi ₹ 12,000 on 30-11-2016 and Mary ₹ 20,000 on 1-10-2016.

Mary has introduced additional capital ₹ 24,000 on 1-1-2017. 5 % amount of net profit is to be transferred to the development fund (but not more than ₹ 6000). Then after 10 % commission on net profit is payable to Mary, but from profit after deduction of such her commission. Profit of the firm for the year ending on 31-3-2017, after credit of interest on drawings but before incorporation of other adjustments was ₹ 1,71,040. From the above information prepare profit and loss appropriation account for the year ending 31-3-2017 and partners' capital accounts and current accounts under fixed method.

Ans. : Profit and Loss Appropriation Account for the year ending on 31-3-2017 of Partnership firm of Shruti, Kashvi and Merry

Dr		Cr	
Particular	Amt. (₹)	Particular	Amt. (₹)
To Interest on capital A/c		By Profit and loss A/c (Net profit)	1,69,000
Shruti : 10,000		By Interest on drawings :	
Kashvi : 10,000		Shruti : 360	
Mary : 5600	25,600	Kashvi : 480	
To Interest on current A/c :		Mary : 1200	2040
Shruti : 1920		By Interest on current A/c (Kashvi)	1440
Mary : 960	2880		
To Salary A/c (Kashvi)	6000		
To Development fund A/c	6000		
To Commission A/c (Mary)	12,000		
To Partners' current A/c (Divisible profit)			
Shruti : 55,200			
Kashvi : 43,200			
Mary : 21,600	1,20,000		
	1,72,480		1,72,480

Partners' Capital Accounts

Dr

Cr

Date	Particular	Shruti (₹)	Kashvi (₹)	Mary (₹)	Date	Particular	Shruti (₹)	Kashvi (₹)	Mary (₹)
31-3-17	To Balance c/d	1,00,000	1,00,000	74,000	1-4-16	By Balance b/d	1,00,000	1,00,000	50,000
					1-1-17	By Cash A/c	—	—	24,000
		1,00,000	1,00,000	74,000			1,00,000	1,00,000	74,000

Partners' Current Accounts

Dr

Cr

Date	Particular	Shruti (₹)	Kashvi (₹)	Mary (₹)	Date	Particular	Shruti (₹)	Kashvi (₹)	Mary (₹)
1-4-16	To Balance c/d	—	18,000	—	1-4-16	By Balance b/d	24,000	—	12,000
1-10-16	To Drawings A/c	—	—	20,000	31-3-17	By Interest on capital A/c	10,000	10,000	5600
30-11-16	To Drawings A/c	—	12,000	—	31-3-17	By Interest on current A/c	1920	—	960
1-2-17	To Drawings A/c	18,000	—	—	31-3-17	By Salary A/c	—	6000	—
31-3-17	To Interest on drawings A/c	360	480	1200	31-3-17	By Commission A/c	—	—	12,000
31-3-17	To Interest on current A/c	—	1440	—	31-3-17	By P & L Appropriation A/c (Divisible profit)	55,200	43,200	21,600
31-3-17	To Balance c/d	72,760	27,280	30,960					
		91,120	59,200	52,160			91,120	59,200	52,160

Explanation :

- (1) Profit of the firm for the year ending on 31-3-17 (after credit of interest on drawings) ₹ 1,71,040. Total interest on drawings of all partners ₹ 2040 (₹ 360 + ₹ 480 + ₹ 1200) deduct it from ₹ 1,69,000 (₹ 1,71,040 – ₹ 2040) and so net profit will be ₹ 1,69,000. This is shown at credit side of profit and loss appropriation account.

- (2) Interest on capital of Mary : $I = \frac{PRN}{100}$

$$\text{Interest on opening capital on ₹ 50,000} = ₹ \frac{50,000 \times 10 \times 1}{100} = ₹ 5000$$

Interest on additional capital on ₹ 24,000. Interest for 3 months (1-1-17 to 31-3-17)

$$= 24,000 \times \frac{10}{100} \times \frac{3}{12} = ₹ 600$$

Total interest of capital = ₹ 5000 + ₹ 600 = ₹ 5600

- (3) Development Fund : Profit before development fund and commission of Mary is ₹ 1,38,000. Total of the credit side of the profit and loss appropriation A/c is ₹ 1,72,480 – Total of the debit side ₹ 34,480 (₹ 25,600 + ₹ 2880 + ₹ 6000).

$$\therefore \text{Development Fund} = 1,38,000 \times \frac{5}{100}$$

$$= ₹ 6900$$

But this amount can not exceed to ₹ 6000.

\therefore ₹ 6000 are transferred to the development fund.

- (4) Commission to Mary : A surplus of profit after transferring of ₹ 6000 to the development fund is ₹ 1,32,000 (1,38,000 – 6000).

Assume profit after commission is ₹ 100 + commission ₹ 10

\therefore Profit before commission ₹ 110

$$\therefore \text{Commission} = ₹ 1,32,000 \times \frac{10}{110}$$

$$= ₹ 12,000$$

- (5) Divisible profit = ₹ 1,32,000 – ₹ 12,000
= ₹ 1,20,000

Computation of divisible profit :

Particular	Shruti (₹)	Kashvi (₹)	Mary (₹)	Total (₹)
$\frac{3}{5}$ of ₹ 1,20,000 in equal proportion ₹ 72,000 (3:2:1)	36,000	24,000	12,000	72,000
Remaining ₹ 48,000 in the proportion of opening capital (2:2:1)	19,200	19,200	9600	48,000
Share of each partner in total Divisible Profit	55,200	43,200	21,600	1,20,000

Illustration 16 : On 1-4-2016 Ranjana, Sushma and Joseph introduced capital of ₹ 1,28,000, ₹ 96,000 and 80,000 respectively and commenced a business. Sushma has withdrawn ₹ 8000 on 1-10-2016. While Ranjana has withdrawn ₹ 1200 at the end of each month.

As per the partnership deed :

- (1) Provide 5 % p.a. interest on capital and charge 10 % p.a. interest on drawings.
- (2) Profit-loss sharing ratio among partner is 5:3:2.

After incorporation of the above mentioned adjustment 2 % bonus is to be paid to Ranjana from the surplus of profit. On 31-3-2017 partners have decided that total capital of the firm, after the incorporation of the above mentioned adjustments, will be of ₹ 3,00,000. Their credit balance of capital accounts will be in the ratio of 2:2:1. For this adjustment necessary amount will be introduced or withdrawn by the partners.

Net loss of the firm for the year ending on 31-3-2017 was of ₹ 45,860. From the above information prepare profit and loss appropriation account for the year ending on 31-3-2017 as well as partners' capital accounts and drawings accounts.

Ans. : Profit and Loss Appropriation Account for the year ending on 31-3-2017 of

Dr partnership firm of Ranjana, Sushma and Joseph

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Particular	Amt. (₹)	Particular	Amt. (₹)
To Profit and loss A/c (Net loss)	45,860	By Interest on drawings :	
To Interest on capital :		Ranjana :	660
Ranjana : 6400		Sushma :	400
Sushma : 4800			1060
Joseph : 4000	15,200	By Partners' capital A/c (divisible loss)	
		Ranjana :	30,000
		Sushma :	18,000
		Joseph :	12,000
			60,000
	61,060		61,060

Dr Partners' Capital Accounts

Cr

Date	Particular	Ranjana (₹)	Sushma (₹)	Joseph (₹)	Date	Particular	Ranjana (₹)	Sushma (₹)	Joseph (₹)
31-3-17	To Drawings A/c	15,060	8400	—	1-4-16	By Cash A/c	1,28,000	96,000	80,000
31-3-17	To P & L Appropriation A/c (Divisible loss)	30,000	18,000	12,000	31-3-17	By Interest on capital A/c	6400	4800	4000
31-3-17	To Cash A/c	—	—	12,000	31-3-17	By Cash A/c	30,660	45,600	—
31-3-17	To Balance c/d	1,20,000	1,20,000	60,000					
		1,65,060	1,46,400	84,000			1,65,060	1,46,400	84,000

Dr Partners' Drawings Accounts

Cr

Date	Particulars	Ranjana (₹)	Sushma (₹)	Date	Particulars	Ranjana (₹)	Sushma (₹)
30-4-16	To Cash A/c	1200	—	31-3-17	By Capital A/c	15,060	8400
31-5-16	To Cash A/c	1200	—				
30-6-16	To Cash A/c	1200	—				
31-7-16	To Cash A/c	1200	—				
31-8-16	To Cash A/c	1200	—				
30-9-16	To Cash A/c	1200	—				
1-10-16	To Cash A/c	—	8000				
31-10-16	To Cash A/c	1200	—				
30-11-16	To Cash A/c	1200	—				
31-12-16	To Cash A/c	1200	—				
31-1-17	To Cash A/c	1200	—				
28-2-17	To Cash A/c	1200	—				
31-3-17	To Cash A/c	1200	—				
31-3-17	To Interest on drawings	660	400				
		15,060	8400			15,060	8400

Explanation :

- (1) Interest on drawings of Ranjana = $1200 \times \frac{10}{100} \times \frac{66}{12}$
= ₹ 660
- (2) There is divisible loss at the end of the year, so Ranjana will not get bonus.
- (3) Total closing capital ₹ 3,00,000 is to be maintained in the ratio of 2:2:1 which is ₹ 1,20,000, ₹ 1,20,000 and ₹ 60,000 respectively. To maintain this capital Ranjana and Sushma will bring deficit of ₹ 30,660 and 45,600 in cash respectively. (It will be recorded in the credit side of capital account.) While Joseph will withdraw excess capital of ₹ 12,000. (It will be recorded in the debit side of the capital account.)

Limited Liability Partnership :

As per the Partnership Act 1932, the business liability of the partners of the firm is unlimited. The Limited Liability Partnership Act 2008, has been introduced as a new scheme to mobilize the small scale and medium scale industries of India; as well as to eliminate the limitation of unlimited liability of partners of a partnership firm. This form of business has the characteristics similar to partnership firms and companies. In this form of business the liability of partners is similar to the liabilities of the shareholders in the companies. In this form of business there should be minimum number of partners. Each partner of such business would be same as the agent of LLP (Limited Liability Partnership) but its scope will not be treated as the agent of other partner. The registration of LLP is mandatory.

This information is provided for better understanding of the students. It is not expected in the examination.

Exercise

1. Select appropriate option for each question :

- (1) What is the interest on partners' capital for a partner ?
(a) An expense (b) Liability
(c) Income (d) Loss
- (2) Under which method, the interest on capital keeps on changing during the year due to the changes in the capital ?
(a) Fluctuating capital accounts method (b) Fixed capital accounts method
(c) Current accounts method (d) None of the above
- (3) In which account and on which side the share of partners' share profit is recorded under the fluctuating capital account method ?
(a) Debit to capital account (b) Credit to capital account
(c) Debit to current account (d) Credit to current account
- (4) At the end of the year where will you transfer drawings account, in fixed capital account method ?
(a) To capital account (b) To current account
(c) To profit and loss account (d) To profit and loss appropriation account
- (5) How would you consider the interest on debit balance of partners' current account for firm ?
(a) An expense (b) Liability
(c) Income (d) Loss

- (6) What is the interest on drawings of partners for a partner ?
 - (a) An expense
 - (b) Liability
 - (c) Income
 - (d) Loss
- (7) Debit balance of profit and loss appropriation account means
 - (a) gross profit
 - (b) gross loss
 - (c) divisible profit
 - (d) divisible loss
- (8) What percentage of interest will be paid, when no provision is made pertaining to interest on capital in the partnership deed ?
 - (a) 6 %
 - (b) 9 %
 - (c) 12 %
 - (d) No interest
- (9) What percentage of interest will be paid on the loan lent by the partner to the firm, when no such provision is made in the partnership deed ?
 - (a) 6 %
 - (b) 9 %
 - (c) 12 %
 - (d) No interest
- (10) The capital proportion of A, B and C is 3:2:1 respectively. The divisible profit is ₹ 66,000. What will be the amount of profit of C ?
 - (a) ₹ 11,000
 - (b) ₹ 22,000
 - (c) ₹ 33,000
 - (d) ₹ 66,000

2. Answer the following questions in one sentence :

- (1) What is partnership ?
- (2) What is maximum and minimum limit of partners to constitute a partnership firm ?
- (3) What is a partnership deed for a firm ?
- (4) Describe the objectives to prepare a partnership deed.
- (5) How are the administrative problems solved, when no written agreement is signed between the partners ?
- (6) Describe partners' capital account methods of a partnership firm.
- (7) Profit of a partner is credited to which account under fixed capital account method ?
- (8) Additional capital introduced by partner on permanent basis is credited to which account in the fixed capital accounts method ?
- (9) The debit balance of current account of partners' is shown on which side of balance sheet ?
- (10) Write a journal entry to transfer drawings account to the capital account, at the end of the year.
- (11) Profit and loss appropriation account is a part of which account ?

3. Answer the following questions in brief :

- (1) A partner withdraws identical amount at the end of each month from the firm. At the end of the year total annual drawings is ₹ 12,000. 12 % p.a. interest is chargeable on drawings. Determine the amount of interest on drawings of the year.
- (2) Amruta and Divya are the partners of a firm. Their capital ratio is 3:2. Amruta is to be paid 8 % comission on net profit, after deduction of such commission. What amount will be received by Amruta if profit of the year is ₹ 96,876.

- (3) Vismay, Abhijit and Kunal are partners sharing profit-loss in the proportion of 3:2:4. Manager is to be paid 10 % commission on profit but after the deduction of his such share. The share of profit of Abhijit is ₹ 30,000. Determine the commission of manager.
- (4) The profit-loss sharing ratio of Rajkumar, Kaushik and Sharma is 15:10:9. The total profit of the year of the firm is ₹ 68,000. Determine the share in profit of each partner.
- (5) Mehta receives his share four times of Pandya. While Bajpai receives half of share of Mehta. Profit of firm at the end of the year is ₹ 87,500. Determine the share in profit of each partner.
- (6) Profit of the partnership firm of Sheela, Surbhi and Sanket is ₹ 1,35,000. They have shared profit in the ratio 2:1:3 instead of 3:2:3. What accounting treatment is to be given to the capital account to rectify this error ?
- (7) Ram, Rahim and Ishu are partners of a partnership firm. Their capital as on 1-4-2016 was ₹ 60,000, ₹ 40,000 and ₹ 50,000 respectively. After the distribution of the profit of the year, it was realised that charging of 6 % interest on partners' capital accounts was missed out. Write an entry for the rectification of error.
- (8) Lata, Geeta and Pravina are partners of a partnership firm. After distribution of the profit of the year it was realised that charging of interest on partners' drawings account respectively ₹ 2700, ₹ 1200 and ₹ 1500 was missed out. Write an entry for the rectification of error.
- (9) Mukesh, Dhaval and Vinod are the partners of a partnership firm. Their capital proportion is 4:2:3. Dhaval and Vinod has given assurance to Mukesh that he will get minimum ₹ 35,000 from the profit. The profit of the year is ₹ 90,000. How would you distribute the profit among the partners ?
- (10) The closing capital of Raghuvir is ₹ 80,000. In which ₹ 12,500 drawings of current year and profit of ₹ 17,800 are recorded. What will be the interest at 6 % p.a. on the opening capital ?
- (11) A, B and C are the partners sharing profit-loss in equal proportion. Their total capital is of ₹ 4,50,000. Their proportion of capital is 1:3:2. Firm pays interest on capital at 9 % p.a. Partner C has received ₹ 73,500 including interest on capital. Determine the amount payable including interest on the capital of A and B ?

4. Answer the following questions to the point :

- (1) Explain the meaning of partnership.
- (2) Describe the characteristics of partnership.
- (3) Describe the accounting provisions of partnership act 1932, in absense of a partnership deed.
- (4) What is profit-loss appropriation account ? Which items are disclosed in it ?

5. Write short-notes :

- (1) Partnership deed
- (2) Fluctuating capital accounts of partners
- (3) Fixed capital accounts of partners
- (4) Current accounts of partners
- (5) Drawing accounts of partners

6. Distinguish between :

- (1) Fixed capital accounts method and fluctuating capital accounts method
- (2) Profit and loss account and profit and loss appropriation account

7. X and Y are partners of a partnership firm. They have not prepared partnership deed. There is difference of opinion between the partners. Please give legal advice to the partners.
- (1) X demands 6 % p.a. interest on drawings of partners.
 - (2) Y is an active partner of the firm. He claims for remuneration and commission.
 - (3) X demands interest on capital of partners.
 - (4) X has lent loan of ₹ 20,000 to the firm. He demands interest on loan.
 - (5) Firm has lent loan of ₹ 25,000 to Y. X demands to charge interest on the loan.
 - (6) X demands to share profit between the partners in the proportion of capital.
8. Harpal and Chirag are the partners of a firm. On 1-4-2016 their capital is ₹ 60,000 and ₹ 1,00,000 respectively. During the year on 1-4-2016 Harpal has withdrawn ₹ 15,000 and Chirag has withdrawn ₹ 20,000 on 1-1-2017. Provisions of partnership deed are as follows :
- (1) Provide 12 % p.a. interest on capital.
 - (2) Charge 9 % p.a. interest on drawings.
 - (3) ₹ 1000 per month are payable to Harpal for his active role in the firm, while 5 % commission of divisible profit is payable to Chirag.
- On 1-12-2016 Harpal has given loan of ₹ 30,000 to the firm. There is no provision for interest on loan in the partnership deed. He claims 11 % interest on his loan. The profit to the firm on 31-3-2017 was ₹ 79,400, before above mentioned provisions but after charging interest on loan of Harpal.
- From the above information prepare profit and loss appropriation account and partners capital accounts.
9. Bhadresh and Hiral are the partners of a firm. Their profit-loss sharing ratio is 3:2. On 1-4-2016 total capital of partners was ₹ 4,20,000. The proportion of their fixed capital is 4:3. On this day, balances of their current accounts are as follows : Bhadresh ₹ 36,000 (credit), Hiral 24,000 (debit). As per partnership deed per annum 12 % interest is payable on the capital of the partners. Provide per annum 10 % interest on opening balances of the current accounts. Per annum 12 % interest is to be charged on drawings. ₹ 2400 per month as a salary are payable to Bhadresh for his active role in the firm.
- On 1-10-2016 Bhadresh has withdrawn ₹ 36,000 and on 1-1-2017 Hiral has withdrawn ₹ 48,000. 10 % commission on net profit is payable Hiral, from net profit, but after deduction of his such share from net profit.
- Before consideration of above mentioned adjustments the profit for the year ending on 31-3-2017 of the firm was ₹ 4,06,800.
- From the above information prepare profit and loss appropriation account and partners capital account and current accounts as per the fixed method.
10. Sharda, Jamna and Ganesh are the partners of a firm. On 1-4-2016 their capital was ₹ 72,000, ₹ 48,000 and ₹ 24,000 respectively.
- As per the partnership deed :
- (1) 5 % per annum interest is payable on opening capital of partners.
 - (2) 8 % per annum interest will be charged on drawings.
 - (3) Monthly salary of ₹ 700 is payable to Sharda.
 - (4) Half profit will be distributed amongst the partners in equal proportion and remaining half profit in the proportion of their opening capital.

On 31-12-2016 Ganesh has withdrawn ₹ 6000 from the firm for his personal use.

Profit of the firm for the year ending on 31-3-2017 after charging interest on drawings but before consideration of above mentioned adjustment was ₹ 81,600. Before the distribution of the profit to the partners but after consideration of above mentioned adjustments from surplus of profit 20 % (but not less than ₹ 18,000) are to be transferred to the general reserve.

From the above information for the year ending on 31-3-2017, prepare profit-loss appropriation account and partners' capital accounts.

11. Isha, Saraswati and Laxmi are the partners sharing profit-loss in the proportion of opening capital. On 1-4-2016 balances of their fixed capital accounts were ₹ 40,000, ₹ 40,000 and ₹ 20,000 respectively. On the same day balance of their current accounts were as under :

Isha ₹ 5000 (credit), Saraswati ₹ 4000 (credit), Laxmi ₹ 3000 (debit)

Total drawings of partners during the year is ₹ 20,000. It is in the proportion of 2:1:2. On 30-6-2016 Isha has lent ₹ 3000 and on 1-10-2016 ₹ 2000 to the firm in the form of loan. On 30-11-2016 Laxmi has introduced addition capital of ₹ 12,000.

As per the partnership deed :

- (1) Provide 10 % p.a. interest on capital.
- (2) Respectively ₹ 800, ₹ 500 and ₹ 700 are to be recovered as interest on drawings.
- (3) Provide 8 % p.a. interest on opening capital of current accounts.
- (4) From 1-11-2016 monthly salary of ₹ 800 is payable to Isha for her active role in the firm.
- (5) ₹ 3500 of divisible profit are to be transferred to building fund account.

Profit for the year ending on 31-3-2017 before incorporation of above mentioned adjustment but after incorporation of effect of interest on Isha's loan was ₹ 20,880.

Prepare profit and loss appropriation account, capital accounts and current accounts of partners.

12. Prerna, Paras and Jaishri are the partners of a firm. On 1-4-2016 their capital was ₹ 1,50,000, ₹ 90,000 and ₹ 60,000 respectively. Their drawings were as follows :

Prerna ₹ 15,000 on 1-7-2016 and Paras ₹ 24,000 on 30-10-2016.

They distribute half profit in the capital proportion and remaining in the ratio of 2:2:1. Jaishri has lent out loan of ₹ 30,000 on 1-10-2016 to the firm. As per partnership deed per annum 5 % interest on capital, per annum 12 % interest on drawings is to be calculated. Paras is to be paid annual salary of ₹ 18,000 for his active role in the firm. 10 % commission is to be given to Prerna from surplus of profit after providing for above mentioned provisions and after deduction of her such commission. For the year ending on 31-3-2017 profit of the firm before incorporation of the above mentioned adjustments but after charging interest on loan of Jaishri was ₹ 1,29,450.

It was decided that after the consideration of above mentioned adjustments and transfer of profit-loss to capital account, total capital of the firm would be identical to the opening capital, which should be in the proportion of 2:2:1. For this purpose required amount will be introduced by the partners and excess amount will be withdrawn by the partners.

Prepare profit and loss appropriation account, partners' capital accounts for the year ending on 31-3-2017.

Final Accounts (Financial Statements) of Partnership Firm

- | | |
|--|--|
| 1. Introduction | 4. Adjustments of Final Accounts of a Partnership Firm |
| 2. Objectives of the Final Accounts of Partnership | 5. Illustrations |
| 3. Final Accounts of Partnership Firm | – Exercise |

1. Introduction

Similar to the sole proprietor, the partnership firms also prepare its final accounts from the trial balance with the consideration of the adjustments at the end of the year to know the earned profit or incurred losses as well as the financial status of the business.

In the final accounts of a partnership firm, trading account, profit and loss account, profit and loss appropriation account, partners' capital accounts/current accounts and balance sheets are prepared.

2. Objectives of Final Accounts of Partnership

(1) **To ascertain gross profit or loss** : A partnership firm can ascertain gross profit or loss through the preparation of trading account.

(2) **To ascertain net profit or loss** : A partnership firm can ascertain net profit or loss through the preparation of profit and loss account. The profitability of the firm can be seen from the profit and loss account.

(3) **To ascertain divisible profit or loss** : All personal transactions and provisions of the partners with the firm can be ascertained through the preparation of profit and loss appropriation account.

(4) **To know financial status of the firm** : To know the financial status of the firm balance sheet is prepared. It provides information about assets, receivables, payables and capital of the firm.

(5) **For taxation purpose** : To know the taxable income of the firm final accounts are prepared.

3. Final Accounts of Partnership Firm :

Annual financial statements of the firm are prepared as follows with the consideration of balances recorded in the trial balance at the end of the accounting year and adjustments.

(1) **Trading Account** : Transactions pertaining to receipt and issue of goods, purchase of goods and production related expenses are recorded in the trading account. To ascertain gross profit or loss on the basis of these transactions account which is prepared is known as the trading account.

At the debit side of the trading account opening stock, purchase minus purchase return, as well as outward of goods due to other reason like withdrawal of goods, goods destroyed by fire, goods distributed as sample, goods given for donation are recorded. Purchase expenses like wages, carriage inward, octroi, freight and production expenses like factory expenses, rent, taxes, electricity, fuel, coal, gas, royalty, depreciation on plant etc are also disclosed.

At the credit side of trading account sales minus sales return, sale of scrap and closing stock of goods are disclosed.

When trading account is closed and if total of credit side of trading account is more than debit side, difference is shown at debit side which is considered as gross profit. This gross profit is transferred to the credit side of profit and loss account. If total of debit side is more than credit side, difference is shown at credit side which is considered as gross loss. This gross loss is transferred to debit side of profit and loss account.

Specimen of Trading Account

Trading for the period ending on of

Dr				Cr
Particular	Amt. (₹)	Particular	Amt. (₹)	
To Opening stock	✓	By Sales	✓	
To Purchase ✓		Less : Sales return ✓	✓	
Less : Purchase return ✓		By Sale of scrap A/c		✓
Less : Outward of goods ✓	✓	By Closing stock		✓
To Purchase expenses : ✓		By Profit and loss A/c (Gross loss)		✓
Wages	✓			
Carriage inward	✓			
Railway Freight	✓			
Octroi	✓			
Import duty	✓			
Transportation cartage	✓			
Port charge	✓			
Demurrage	✓			
Wharfage	✓			
To Production expenses :				
Production wages	✓			
Royalty	✓			
Factory expense (rent, taxes, electricity, fuel, coal, gas)	✓			
Consumable stores (oil, grease)	✓			
To Factory depreciation A/c	✓			
To Plant-machinery depreciation A/c	✓			
To Profit and loss (gross profit)	✓			
	✓			✓

(2) Profit and Loss Account : To ascertain net profit or loss, profit and loss account is prepared. At the debit of profit and loss account, gross loss transferred from trading account, administrative, expenses, sales-distribution expenses, financial expenses, depreciation on assets, sundry expenses and other losses of the firm are shown. While at the credit side, gross profit transferred from the trading account, incomes of business like interest received, rent received, commission received, dividend, brokerage, bad debts return, profit on sale of asset and other incomes are shown.

When profit and loss account is closed and if the total of credit side is more than the debit side, difference is shown at the debit side which is considered as the net profit. This net profit is transferred at the credit side of the profit and loss appropriation account. When the total of debit side is more than the credit side, difference is shown at the credit side, which is considered as the net loss. This net loss is transferred to the debit side of the profit and loss appropriation account.

Specimen of Profit and Loss Account

Profit and Loss Account for the Period Ending on of

Dr

Cr

Particular	Amt. (₹)	Particular	Amt. (₹)
To Trading A/c (Gross loss)	✓	By Trading A/c (Gross profit)	✓
To Administrative expenses :		By Incomes :	
Salary, allowances, bonus	✓	Discount received	✓
Rent	✓	Rent received	✓
Insurance Premium	✓	Commission received	✓
Taxes	✓	Brokerage received	✓
Postage	✓	Consignment commission received	✓
Printing and Stationery	✓	Interest on investment	✓
Legal charges	✓	Interest on loan lent	✓
Audit fees	✓	Bad debts return	✓
Electricity expense	✓	Profit on sale of asset	✓
Contribution to providend fund	✓	Sale of old newspapers	✓
To Sales-Distribution Expense :		Income from scrap	✓
Carriage outward	✓	Sundry income	✓
Salesman salary - commission	✓	By Profit and loss appropriation A/c	✓
Advertisement expenses	✓	(Net loss)	
Discount allowed	✓		
Discount reserve	✓		
Expenses of show-room	✓		
Godown expense	✓		
Packing expense	✓		
To Financial Expenses :			
Interest on partners' loan	✓		
Interest on bank overdraft	✓		
Interest on borrowed loan	✓		
Bank charges commission	✓		
Manager commission	✓		
To Other Expenses-Loss :			
Donation expense	✓		
Assets depreciation	✓		
Bad debts (TB)	✓		
+ Bad debts (Adj.)	✓		
+ Bad debts reserve (Adj.)	✓		
	✓		
Less : Bad debts reserve (TB)	✓		
Loss due to fire	✓		
Loss due to theft	✓		
Loss on sale of asset	✓		
Provision for expense/loss	✓		
To Profit and loss appropriation A/c	✓		
(Net profit)			
	✓		✓

(3) Profit and Loss Appropriation Account : To disclose the distribution of profit between the partners, profit and loss appropriation account is prepared in a partnership firm. Profit and loss appropriation account is a part of profit and loss account only. The separate preparation of it is not mandatory.

At the debit side of the profit and loss appropriation account, net loss transferred from profit and loss account, interest on partners' capital, interest on credit balance of current accounts, bonus, commission, salary and remuneration to partners' amount transferred to general reserve account are shown.

At the credit of profit and loss appropriation account, net profit transferred from profit and loss account, interest on drawings of partners, interest on debit balance of current accounts etc. are shown.

When profit and loss appropriation account is closed and if the total of credit side of it is more than the debit side, the difference is recorded at the debit side and it is considered as the divisible profit. This divisible profit is credited to partners' capital accounts or to partners current accounts when fixed capital account is maintained, in their profit-loss sharing ratio.

While total of debit side is more than difference is recorded at the credit side, which is considered as the divisible loss. This divisible loss is debited to partners' capital accounts or current account in their profit-loss sharing ratio.

Note : When separate profit and loss appropriation account is not prepared, to ascertain divisible profit or loss, all items of profit and loss appropriation account are shown in profit and loss account. This divisible profit or loss is transferred to partners' capital accounts. This is explained as a optional treatment. Not to be asked in examination.

Specimen of Profit and Loss Appropriation Account

Profit and Loss Appropriation Account for the year ending on of

Dr		Cr	
Particular	Amt. (₹)	Particular	Amt. (₹)
To Net loss (From profit and loss A/c)	✓	By Net profit(From profit and loss A/c)	✓
To Interest on partners' capital A/c		To Interest on partners' drawings A/c	
A	✓	X	✓
B	✓	Y	✓
To Interest on credit balance of current account of partner A/c	✓	By Interest on debit balance of current account of partner A/c	✓
To Salary, bonus, commission, remuneration to partner A/c	✓	By Partners' capital or current A/c (Divisible loss)	
To General reserve A/c	✓	X	✓
To Partners' capital or current A/c (Divisible profit)		Y	✓
X	✓		
Y	✓		
	✓		✓

(4) Partners' Capital Accounts : Partners of a partnership firm undertake personal transactions with the firm. To record such transactions capital account of each partner is prepared in the books of the firm. Transactions which increase the capital of partner are recorded at the credit side and transactions which reduce the capital of partner are recorded at the debit side of the capital account.

First of all the opening capital of a partner is written at the credit side of the capital account and subsequently if additional capital introduced it also credited.. At debit side, capital returned to the partner is recorded. When partners capital accounts are closed the total of credit side generally remains more, thus difference is written at the debit side. This is known as the closing balance. This balance is shown at the capital-liability side as a permanent capital.

Specimen of Partners' Capital Accounts :

Partners' Capital Accounts

Dr

Cr

Date	Particular	A Amt. (₹)	B Amt. (₹)	Date	Particular	A Amt. (₹)	B Amt. (₹)
–	To Cash/bank/other asset A/c (With- drawal of capital)	✓	✓	1-4	By Balance b/d (Opening capital)	✓	✓
31-3	To Balance c/d (Closing credit balance)	✓	✓	–	By Cash/bank/other asset A/c (Additional capital)	✓	✓
		✓	✓			✓	✓

(5) Partners' Current Accounts : There are personal transactions between partners and partnership firm other than the permanent capital. To record these transactions, accounts which are prepared are known as partners' current accounts.

At the credit side of partners' current accounts, opening credit balance of current account, interest on capital, interest on credit balance of current accounts, salary, bonus, commission and bonus to partners', share in divisible profit etc are recorded. On the debit side of the current account, opening debit balance of current account (if any), drawings, interest on drawings, interest on debit balance of current accounts, share in divisible loss etc are recorded.

When current account is closed and if the total of credit side is more than the debit side, difference is shown at the debit side. This is known as the closing balance. This balance is shown at the Capital-liability side of the balance sheet. If the total of debit side is more, difference is shown at credit side. This is also known as the closing balance. But this balance is shown at Asset side of the balance sheet.