

Introduction to Partnership

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1. Introduction

The partnership firm is emerged from capital and managerial limitations of sole proprietor firm. Following are the reasons for the emergence of partnership firm.

(i) An individual has sufficient funds but does not have required skill. (ii) An individual has required skill but does not have sufficient funds. (iii) To distribute business risk.

More than one person, additional capital, skill and managerial ability are required to run a business at a large level and for the expansion of any business. In these circumstances, more than one person gather and become the supplement to each other and commence a business; this form of business organisation means a partnership firm.

2. Meaning and Definition of Partnership

Section 4 of the Indian Partnership Act 1932, defines partnership as, "Partnership is the relation between the persons who have agreed to share the profit of a business carried on by all or any one of them acting for all."

The person who enter into such relationship are individually called 'partners' and collectively a 'firm'.

From the above definition it can be said that two or more persons who are competent to undertake a contract to earn profit from a legal business, the business is termed as partnership.

The business run collectively in partnership by two or more persons is known as partnership firm.

3. Characteristics of Partnership

(1) **Creation by Contract** : Partnership emerge through agreement. Partnership agreement can be in written or oral form. But written form is desirable and advisable.

(2) **Profit Objective** : Partnership firm forms to earn and distribute profit. The distribution of profit or loss is done amongst partners in their predetermined proportion. As per partnership act profit or loss is distributed in equal proportion if no provision is made in the contract.

(3) **Legal Business** : Partnership firm is formed to do a legal business.

(4) **Agent of Each other** : The business of partnership firm is run by all the partners or any one of them for all or more than one partner. Thus each partner is an agent of each other.

(5) **Number of Partners** : The section 464 of the companies Act, 2013 empowers the government to prescribe maximum number of partners in a firm subject to maximum of 100. The government has prescribed maximum number of partners in a firm to be 50 vide Rule 10 of the companies (miscellaneous) Rules, 2014.

(6) **Unlimited Liabilities** : As per partnership Act partners are responsible to pay business obligation from their personal property when the firm does not have sufficient assets to pay liabilities of the business. Every partner individually and collectively is responsible to the partnership firm. Therefore the liability of each partner is unlimited.

(7) **Ownership and Management of Firm** : Partners are owners of business and they do the management of business. The management of business is done either by all the partners or by one partner or by more than one partner.

4. Partnership Deed

The emergence of partnership is from the agreement. Partners undertake agreement within the provisions of partnership act. Partnership deed acceptable to all the partners is prepared at the time of the commencement of a partnership firm. The partnership agreement can be written or oral. A written agreement of partnership is known as a partnership deed. A written partnership deed is desirable and advisable, so that the solution of any misunderstanding or dispute in future can be obtained on the basis of the provisions of the partnership deed. The partnership deed is a administrative constitution of partnership firm, where all provisions pertaining to firms' administration are included. Generally, the following content is included in the partnership deed.

(1) **Details of Partners** : The information about name, address and other details of partners is included.

(2) **Details of Firm** : The details like name and address of the firm are included.

(3) **Type of Business** : The information about the type of business is also included here.

(4) **Commencement of Partnership** : The information about the commencement date of the partnership firm is also covered in the deed.

(5) **Capital** : The amount of capital introduced by each partner is mentioned in the deed. It is not mandatory to bring a capital by each partner.

(6) **Interest on Capital** : Whether interest on capital is to be paid or not ? If yes, than what percentage ? These points are mentioned in the partnership deed. If no provision is made in partnership deed, no interest on capital is paid to the partners.

(7) **Drawings** : What maximum amount can be withdrawn by each partner is also mentioned in the partnership deed.

(8) **Interest on Drawings** : At what rate interest is to be charged on drawings made by the partner during the year is also mentioned in the partnership deed. There is no provision in the partnership act for the interest on drawings. But if necessary such provision can be included in the partnership deed.

(9) **Distribution of Profit and Loss** : In which proportion profit or loss of business will be distributed among the partners is provided in the partnership deed. If no provision is made in partnership deed, as per the partnership act profit or loss is distributed in equal proportion.

(10) **Salary, Bonus, Commission and Remuneration to the Partners** : There is no provision in partnership act for the payment of salary, bonus, commission and remuneration to the partners. If any partner takes active participation in the management of the partnership firm, a provision is made in the partnership deed for the payment of salary, bonus, commission and remuneration to the partners.

(11) **Interest on Loan Provided by Partner to Firm** : The rate of interest is to be mentioned in the partnership deed, when any partner has lended a loan to the firm. If no provision is made in the partnership deed, as per the partnership act, 6 % p.a. interest will be paid on the loan given by the partner to the firm. Interest on partners' loan is treated as an expense of business. Thus, it is debited to the profit and loss account.

(12) **Goodwill** : The computation to determine the value of goodwill at the time of the admission of a new partner and at the time of retirement or death of a partner is also mentioned in the partnership deed.

(13) **Admission - Retirement** : The provisions pertaining to admission of a new partner and the retirement or death of a partner is also mentioned in the partnership deed.

(14) **Dissolution of Firm** : In what circumstances firm will be dissolved ? What procedure will be adopted ? etc. These points are mentioned in the partnership deed.

The payment of salary, bonus, commission, remuneration or any other payment only to active partners of a partnership firm is available as deduction as per section 40(b) of Income Tax Act, 1961.

As stated in section 40(b) of Income Tax, any interest payable to partners will be disallowed, if no provision is made in the partnership deed. Therefore it is desirable to mention it in the partnership deed. As per section 40(b)(iv) of Income Tax Act, interest payment more than 12 % to the partners will not be given as deduction. As per partnership deed interest more than 12 % can be paid but deduction will be allowed, upto 12 %.

***Note** : Sections of Income Tax Act are given for the better understanding of students. It is not for examination purpose.

5. Provisions of Indian Partnership Act 1932, Pertaining to Accounting Treatments in the Absence of Partnership Deed

The following provisions of partnership Act 1932, will be applicable if no partnership deed is prepared or no clarification is made in the partnership deed.

(1) Each partner contributes capital in the firm by mutual agreement. There is no restriction in the act in this regard. It is not mandatory to bring a capital for each partner.

(2) Interest on the capital of partner cannot be paid.

(3) The distribution of profit and loss would remain in equal proportion.

(4) Interest on drawings of the partner can not be charged.

(5) Salary, bonus, commission or remuneration can not be paid to the partners.

(6) 6 % p.a. interest is payable for the loan given by any partner to the firm.

(7) In case of any reasonable expense incurred by the partner for the firm the partner has the right to reimburse it.

6. Capital Accounts of Partners

A capital account of each partner is prepared in the books of partnership firm to record the individual transactions done by the partner with the partnership firm.

An initial capital introduced by the partner and addition in capital in any means are recorded at the credit side of the capital account and transactions which reduce the capital are recorded at the debit side of the capital account.

There are two methods to maintain capital accounts in the books of partnership firm.

(1) Fluctuating Capital Account Method (2) Fixed Capital Account Method

(1) Fluctuating Capital Account Method : A method in which the opening balance of the capital account and the closing balance of the capital account of any partner is reported fluctuated (flexible) is known as fluctuating or temporary capital account method. Under this method to record all the transactions related to the partners, only one capital account is prepared in the books of firm.

Opening capital, additional capital introduced during the year, interest on capital, salary, bonus, commission, remuneration, interest on loan given by the partner, share of partner in divisible profit are credited at the credit side of the capital account. Drawings, interest on drawings, share of partner in divisible loss are debited at the debit side of the capital account. To record these transactions partners' capital account are debited or credited keeping in mind the nature of transaction. Consequently, during the year there is either increase or decrease in the opening balance of the capital account. So the balance of capital account of any partner keeps on changing every year. Thus, this method is known as fluctuating or temporary capital account.

All transactions between the partners and the partnership firm are recorded in the partners capital account. Under this method balance of partners' capital is either credit or debit. If there is credit balance in capital account it would appear at the liability side of the balance sheet and the debit balance would appear at the asset side of the balance sheet. A specimen of partners' capital accounts under fluctuating account method is as under :

Partners' Capital Accounts

Dr				Cr			
Date	Particular	A Amt. (₹)	B Amt. (₹)	Date	Particular	A Amt. (₹)	B Amt. (₹)
*	To Balance b/d (Opening debit balance of capital A/c)	.....	.....	*	By Balance b/d (Opening credit balance of capital A/c)	.....	.....
	To Drawings A/c (Cash/bank/any other asset A/c)	.....	.....		By Cash/bank/any other assets A/c	.....	.....
	To Interest on drawings A/c	.....	.....		By Interest on capital A/c	.....	.....
**	To Profit and loss appropriation A/c (Divisible loss)	.....	.....		By Salary A/c	.....	.....
					By Bonus A/c	.....	.....
					By Commission A/c	.....	.....
***	To Balance c/d (Closing credit balance of capital account)	.....	.....	**	By Profit and loss appropriation A/c (Divisible profit)	.....	.....
				***	By Balance c/d (Closing debit balance of capital A/c)	.....	.....
	

* Balance b/d can be either debit balance or credit balance.

** There can be either divisible loss or divisible profit.

*** Balance c/d can be either debit balance or credit balance.

(2) Fixed Capital Account Method : A method of partners' capital under which no change is reported in opening balance and closing balance in the partners' capital account is known as fixed capital account method. Under this method to record all the transactions of the partners with the partnership firm, two accounts are maintained in the books.

(A) Partners' Capital Account

(B) Partners' Current Account

(A) Partners' Capital Account : Generally, under this method opening balance and closing balance of partners' capital account remains identical. There can be change in opening balance and closing balance of partners' capital account, if either additional capital is introduced or capital is withdrawn by the partners on the permanent basis. Under this method balance of partners' capital account remains credit balance. The credit balance of capital account is shown at the Capital-liability side of the balance sheet. Transactions other than permanent capital are recorded in the current account. A specimen of partners' capital accounts under fixed capital account method is as under.

Partners' Capital Account

Dr

Cr

Date	Particular	A Amt. (₹)	B Amt. (₹)	Date	Particular	A Amt. (₹)	B Amt. (₹)
.....	To Cash/bank/any other asset (with- drawal of capital)	.....	.....	.....	By Balance b/d (Opening credit balance)	.....	.....
.....	To Balance c/d (Closing credit balance)	.....	.....	.....	By Cash/bank/any other assets' A/c (Additional capital)	.....	.....
	

(B) Partners' Current Account : Under fixed capital account method the account prepared to record the transactions of the partner with the partnership firm, other than permanent capital is known as current account. At the credit side of the current account, opening credit balance of current account, interest on capital, interest on credit balance of current account, salary, bonus, commission, remuneration and shares in divisible profit are recorded. At the debit side of current account, opening debit balance of current account, drawings, interest on drawings, interest on debit balance of current account and share in divisible loss are recorded. The closing balance of current account can be either debit or credit balance. If closing balance of current account is credit balance it is shown at the capital and the liability side of the balance sheet and debit balance is shown at the asset side. The specimen partners' current accounts is as shown on page no. 6.

Partners' Current Account

Dr

Cr

Date	Particular	A Amt. (₹)	B Amt. (₹)	Date	Particular	A Amt. (₹)	B Amt. (₹)
.....	To Balance b/d (Opening debit balance of current account)	.....	.....	.....	By Balance b/d (Opening credit balance of current account)	.....	.....
	To Drawings A/c (cash/bank/any other asset A/c)	.....	.....		By Interest on capital A/c	.....	.....
	To Interest on drawings A/c	.....	.....		By Interest on credit balance of current account	.....	.....
	To Interest on debit balance of current A/c	.....	.....		By Salary A/c	.....	.....
	To Profit-loss Appropriation A/c (Divisible loss A/c)	.....	.....		By Bonus A/c	.....	.....
	To Balance c/d (Closing credit balance of current account)	.....	.....		By Commission A/c	.....	.....
					By Remuneration A/c	.....	.....
					By Profit-loss appropriation A/c (By Divisible profit)	.....	.....
					By Balance c/d (Closing debit balance of current A/c)	.....	.....
	

Note : When current accounts of partners are not given in the question and no specification is given pertaining to the capital account, in this case capital accounts are maintained under fluctuating capital account method :

7. Difference Between Fixed Capital Account Method and Fluctuating Capital Account Method

Points of Difference	Fixed Capital Account Method	Fluctuating Capital Account Method
(1) Meaning	Where the opening balance and the closing balance of the partners' capital accounts is reported unchanged is known as fixed capital account method.	Where the opening balance and the closing balance of the partners' capital account is reported flexible is known as fluctuating capital account method.
(2) Accounts	To record all the transactions of the partners with the firm, two accounts are opened in the books of the firm : (i) capital account and (ii) current account.	To record all the transactions of the partners with the firm only capital account is opened in the books of the firm.

Points of Difference	Fixed Capital Account Method	Fluctuating Capital Account Method
(3) Treatments of transactions	In 'capital account', capital and changes in capital are recorded. Transactions other than permanent capital are recorded in the current account.	All transactions of capital and other than capital are recorded in the 'capital account'.
(4) Interest on capital	Generally, the amount of capital remains unchanged, therefore interest on capital remains constant.	The amount of capital keeps on changing, consequently interest on capital also keeps on changing.
(5) Balance of account	Balance of fixed capital account is always a credit balance. While current account can have a debit or credit balance.	Generally, balance of capital account is a credit balance. But under this method, there can be debit balance of capital account.
(6) Treatment in balance-sheet	Since fixed capital account has credit balance, it will be shown at the capital liability side of balance sheet. If current account has credit balance, it will be shown at the capital-liability side of balance sheet and debit balance at the asset side.	If capital account has a credit balance, it will be shown at the capital-liability side of the balance sheet and the debit balance at the asset side.

8. Drawing Accounts of Partners

When partners withdraw cash, goods or assets from the partnership firm for his personal use, this amount is known as drawings of partners. Withdrawn done by the partner from the partnership firm is debited to the drawing account. If provision is made, then interest on drawings is also debited to the drawing account. At the end of the year, in fluctuating capital account method drawing account is closed and the balance is transferred to the partners' capital account. In the fixed capital method it is debited to the partners' current account. Journal entry is passed as follows in this regard.

	Partners' Capital/Current A/c To Partners' drawings A/c [Being partners' drawings account is closed and transfer it to partners' capital / current account.]	Dr
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The specimen of drawings account is as follows :

Partners' Drawings Account

Dr			Cr		
Date	Particular	Amt. (₹)	Date	Particular	Amt. (₹)
	To Cash A/c	.....		By Capital/Current A/c	
	To Bank A/c	.....		(Closing balance is transferred to Capital/Current account)	.....
	To Goods/assets A/c (Drawings done during the year)	.....		
*	To Interest on drawings A/c	.....		
	

Note : *When interest on drawing is debited to drawings account, it will not be debited to the capital/current account.

9. Profit-Loss Appropriation Account

To distribute profit and loss amongst the partners profit-loss appropriation account is prepared after the preparation of the profit-loss account in final accounts of the partnership firm. Profit-loss appropriation is a part of the profit-loss account. A separate preparation of this account is not mandatory.

Credit side of profit-loss appropriation account : At the credit side of the profit-loss appropriation account, net profit transferred from the profit-loss account, interest on drawings done by the partners, interest on debit balance of current accounts of partners are credited.

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

Allocation of profit-loss : After deduction of the total of the debit side of the profit-loss appropriation from the total of the credit side of profit-loss appropriation, difference (profit) is credited to partners' capital/current account in their profit-loss sharing ratio. After the deduction of the total of the credit side of profit-loss appropriation from the total of the debit side of the profit-loss appropriation, difference (loss) is debited to the partners' capital/current account in their profit-loss sharing ratio.

Profit-Loss Appropriation Account for the year ending of Partnership firm of A, B and C

Dr			Cr
Particular	Amt. (₹)	Particular	Amt. (₹)
To Profit & Loss A/c (Net loss)	By Profit & Loss A/c (Net profit)	.....
To Interest on partners' capital A/c		By Interest on partners' drawings A/c	
A		A	
B		B	
C	C .....	.....
To Interest on credit balance of current accounts of partner	By Interest on debit balance of current accounts of partner	.....
To Partners' salary A/c	By Partners' capital A/c	
To Partners' bonus, commission, remuneration A/c	(Divisible loss)	
To General reserve A/c	A	
To Partners' capital A/c		B	
(Divisible profit)		C .....	.....
A			
B			
C		

Note : Commission to manager and interest on loan given by the partner are treated as the expense of the firm. Thus both are recorded at the debit side of the profit-loss account. The principle of matching concept is applicable to both of these, hence are debited to profit and loss account. A detailed information for interest on drawings, interest on capital and interest on loan of partners is given subsequently.

The interest on partners' loan is not mentioned in the partners' capital/current account. It's accounting effect is given separately. The partner's loan is the liability of a business. Outstanding interest on the loan also will be shown as liability in the balance sheet.

10. Difference Between Profit-Loss Account and Profit-Loss Appropriation Account

Points of difference	Profit-Loss Account	Profit-Loss Appropriation Account
(1) Meaning	After the preparation of the trading account, the account which is prepared to know the net profit or loss of the business is known as profit and loss account.	After the preparation of the profit and loss account, account which is prepared to distribute profit or loss amongst the partners, is known as profit and loss appropriation account.
(2) Prepared by	All business entities prepare profit and loss account.	Generally, partnership firm prepares profit and loss appropriation account.
(3) Opening entry of account	Gross profit or gross loss determined under trading account is shown as the opening entry of the profit and loss account.	Net profit or net loss determined under profit and loss account is shown as the opening entry of the profit and loss appropriation account.
(4) Debit side	At the debit side of this account, expenses other than purchase are recorded for e.g. administrative expenses, sales expenses, financial expenses, depreciation, interest on loan of partner, commission of manager, provision and other expenses and loss.	At the debit side of this account interest on capital, interest on credit balance of current account, salary, bonus, commission and remuneration to the partners are recorded.
(5) Credit side	At the credit side of this account different revenues of business are recorded.	At the credit side of this account interest on drawings, interest on debit balance of current account are recorded.
(6) Result of Account	From this account net profit or net loss of the firm is ascertained.	From this account divisible profit or divisible loss of the firm is ascertained.
(7) Balance of Account	The balance of this account is transferred to the profit and loss appropriation account.	The ascertained divisible profit/loss is distributed among the partners.

Explanation and Journal Entries for Special Issues :

Particular	Journal Entry
(1) Interest on Capital	<p>(i) When interest on capital is payable Interest on capital A/c ...Dr To partners' capital/current A/c</p> <p>(ii) To close interest on capital account and transfer it to profit and loss appropriation A/c Profit and loss appropriation A/c ...Dr To interest on capital A/c</p>

Particular	Journal Entry
(2) Salary, Bonus, Commission, Remuneration to the Partners	<p>(i) When salary, bonus, commission, remuneration are payable to partners Partners' salary, bonus, commission, remuneration A/c ...Dr To partners' capital/current A/c</p> <p>(ii) To close salary, bonus, commission, remuneration and transfer them to profit and loss appropriation A/c Profit and loss appropriation A/c ...Dr To partners' salary, bonus, commission, remuneration A/c</p>
(3) Interest on Drawings	<p>(i) When interest on drawings is charged Partners' capital/current A/c ...Dr To interest on drawings A/c</p> <p>(ii) To close interest on drawings A/c, Interest on drawings A/c ...Dr To profit and loss appropriation A/c</p>
(4) Profit Transferred to General Reserve	<p>(i) When profit is transferred to general reserve A/c Profit and loss appropriation A/c ...Dr To general reserve A/c</p>
(5) Profit or Loss of Profit-Loss Appropriation A/c	<p>When profit or loss of profit and loss appropriation is distributed among partners in their profit sharing ratio :</p> <p>(i) In case of profit Profit and loss appropriation A/c ...Dr To partners' capital/current A/c</p> <p>(ii) In case of loss Partners' capital/current A/c ...Dr To profit and loss appropriation A/c</p>
(6) Interest on Loan of Partners	<p>(i) When interest on loan is paid Interest on loan A/c ...Dr To cash A/c</p> <p>(ii) When interest on loan is outstanding Interest on loan A/c ...Dr To outstanding interest on loan A/c</p> <p>(iii) To close interest on loan A/c Profit and loss A/c ...Dr To interest on loan</p>

Note : There can be combined journal entry for the above stated transactions no. 1 to 3.

Interest on Partners' Capital Account :

There can be different provisions for the interest on capital in the partnership deed. Interest on capital can be paid to the partners as per the following provisions of the partnership deed.

Provisions in Partnership Deed	Interest on Capital
(1) When there is no provision for interest on capital in the partnership deed.	Interest on capital cannot be paid.
(2) When the provision for interest on capital is made in the partnership deed but no clarification is provided to consider interest on capital as a charge or appropriation of profit.	(i) In case of loss, interest on capital cannot be paid. (ii) If profit is equal to interest of amount or more than that, in this case interest on capital can be paid as per the prescribed rate. (iii) If profit is less than interest on capital, amount equal to profit can be paid as interest on capital to the partners' in their capital proportion.
(3) When interest on capital is considered as a charge as per the partnership deed. (In case of either profit or loss interest will be paid.)	Whether profit is unsufficient or there is loss, interest on capital can be paid as per the prescribed rate. (In this circumstances profit and loss appropriation account would show the divisible loss.)

A and B are partners sharing profit-loss in the proportion of 4:1. Their capital as on 1-4-2016 is ₹ 4,00,000 and ₹ 2,00,000 respectively. Prepare profit and loss appropriation account or profit and loss account whichever is necessary for the year ending on 31-3-2017 under the following provisions pertaining to interest on capital if prescribed in the partnership deed.

- (1) If a firm has a profit for the year ₹ 40,000 and no provision is made for interest on capital in partnership deed.
- (2) If a firm has a profit for the year ₹ 80,000 and 10 % p.a. interest on capital is payable as per the provision of partnership deed.
- (3) If a firm has a profit for the year ₹ 30,000 and 10 % p.a. interest on capital is payable as per the provision of partnership deed.
- (4) If a firm has a profit for the year ₹ 30,000 and 10 % p.a. interest on capital is payable and interest on capital is considered as charge as per the provision of the partnership deed.
- (5) If a firm has a loss for the year ₹ 10,000 and 10 % p.a. interest on capital is payable and interest on capital is considered as charge as per the provision of the partnership deed.

Ans.

- (1) If no provision is made for interest on capital in partnership deed.

Profit and Loss Appropriation Account for the year ending on 31-3-2017

Cr

Particular	Amt. (₹)	Particular	Amt. (₹)
To Partners' capital A/c		By Profit and loss A/c (Net profit)	40,000
A : 32,000			
B : 8000	40,000		
	40,000		40,000

(2) If provision in partnership deed is made to pay 10 % interest on capital.

Profit and Loss Appropriation Account for the year ending on 31-3-2017

Cr

Particular	Amt. (₹)	Particular	Amt. (₹)
To Interest on partners' capital A/c		By Profit and loss A/c (Net profit)	80,000
A : 40,000			
B : <u>20,000</u>	60,000		
To Partners' capital A/c			
A : 16,000			
B : <u>4000</u>	20,000		
	80,000		80,000

(3) If provision in partnership deed is made to pay 10 % interest on capital.

Profit and Loss Appropriation Account for the year ending on 31-3-2017

Cr

Particular	Amt. (₹)	Particular	Amt. (₹)
To Interest on partners' capital A/c		By Profit and loss A/c (Net profit)	30,000
A : 20,000			
B : <u>10,000</u>	30,000		
	30,000		30,000

Note : Payable interest at 10 % to A ₹ 40,000 and to B ₹ 20,000 : total ₹ 60,000. While net profit is ₹ 30,000. Thus, interest on capital will be paid to the extent of net profit available. Interest on capital, equal to net profit ₹ 30,000 will be paid to the partners in their ratio of capital 2:1 (₹ 20,000 : ₹ 10,000).

- (4) If provision in partnership deed is made to pay 10 % interest on capital and treated interest as charge.

Dr **Profit and Loss Appropriation Account for the year ending on 31-3-2017** Cr

Particular	Amt. (₹)	Particular	Amt. (₹)
To Interest on partners' capital A/c		By Profit and loss A/c (Net profit)	30,000
A : 40,000		By Partners' capital A/c	
B : 20,000	60,000	(Net divisible loss (4:1)) :	
		A : 24,000	
		B : 6,000	30,000
	60,000		60,000

- (5) If provision in partnership deed is made to pay 10 % interest on capital and treated interest as a charge - when firm has net loss.

Dr **Profit and Loss Appropriation Account for the year ending on 31-3-2017** Cr

Particular	Amt. (₹)	Particular	Amt. (₹)
To Profit and loss A/c (Net loss)	10,000	By Partners' capital A/c	
To Interest on partners' capital A/c		(Net divisible loss (4:1)) :	
A : 40,000		A : 56,000	
B : 20,000	60,000	B : 14,000	70,000
	70,000		70,000

Difference Between Charge Against Profit and Appropriation of Profit and Loss :

Points of Difference	Charge Against Profit	Appropriation of Profit and Loss
(1) Principle of Matching Concept	The principle of matching concept is applicable.	The principle of matching concept is not applicable.
(2) Entry	Charge against profit is recorded at the debit side of profit and loss account.	Appropriation of profit is recorded at debit side of profit and loss appropriation account.
(3) When to record	In all circumstances irrespective of profit or loss full amount is recorded.	Only in circumstances of profit, appropriation is recorded, no recording in case of loss.
(4) Priority	Expenses are recorded before appropriation of profit.	Appropriation is done after recording of all expenses.
(5) Illustration	Interest on partners' loan, rent payable to partner, commission to manager.	Interest on capital, commission to partner, transfer profit to general reserve.

Note : Above mentioned different provisions and illustrations for interest on capital of partners as well as the difference between charge against profit and appropriation of profit are explained for a better understanding of students in this regard. Questions and problems pertaining to these are not expected for examination.

11. Exclusive Illustrations :

Illustration 1 : Hiral, withdraws ₹ 500 in the beginning of every month. If 10 % p.a. interest is chargeable on drawings, determine annual drawings and interest on drawings.

Ans. : Total annual drawings = $500 \times 12 = ₹ 6000$

$$\begin{aligned}\text{Interest on drawings} = I &= \frac{PRN}{100} \\ &= 500 \times \frac{10}{100} \times \frac{78}{12} \\ &= ₹ 325\end{aligned}$$

where, I = Interest

P = Principal amount

R = Rate of interest

N = Number of years

Explanation :

Table Showing Computation of Interest of Monthly Drawings

Month	Drawings in the beginning of every month	Drawings at the end of every month
1	12	11
2	11	10
3	10	9
4	9	8
5	8	7
6	7	6
7	6	5
8	5	4
9	4	3
10	3	2
11	2	1
12	1	0
Interest of total months	78	66

From the above table it can be ascertained that :

(i) If drawings is done in the beginning of every month, interest will be calculated for 78 months.

$$\therefore N = \frac{78}{12}$$

(ii) If drawings is done at the end of every month, interest will be calculated for 66 months.

$$\therefore N = \frac{66}{12}$$

Above stated interest on drawings under product method will be calculated as under :

The computation of above mentioned illustration can be done as follows :

Date of Drawing	Amount × Months = Principal Under Method
01-04-2016	500 × 12 = 6000
01-05-2016	500 × 11 = 5500
01-06-2016	500 × 10 = 5000
01-07-2016	500 × 9 = 4500
01-08-2016	500 × 8 = 4000
01-09-2016	500 × 7 = 3500
01-10-2016	500 × 6 = 3000
01-11-2016	500 × 5 = 2500
01-12-2016	500 × 4 = 2000
01-01-2017	500 × 3 = 1500
01-02-2017	500 × 2 = 1000
01-03-2017	500 × 1 = 500
Total	= 39,000

$$\begin{aligned}\text{Interest on drawings} &= 39,000 \times \frac{10}{100} \times \frac{1}{12} \\ &= ₹ 325\end{aligned}$$

Note : Problem pertaining to drawings in the beginning or at the end of the month are expected, no other computations are expected.

Illustration 2 : Hansa, Hitesh and Vijay are partners of a firm. Their capital proportion is 3:2:1. Hitesh is entitled to receive commission 10 % of net profit after deduction of his such share. What amount will be received by Hitesh, When profit of the firm is ₹ 1,65,000 at the end of the year.

Ans. : Assume profit after commission is ₹ 100, where commission is ₹ 10. Thus, profit before commission will be ₹ 110 (100 + 10), where commission is ₹ 10.

$$\text{Commission} = \text{Profit} \times \frac{\% \text{ of commission}}{100 + \% \text{ of commission}}$$

$$\begin{aligned}\therefore \text{Commission} &= \frac{1,65,000 \times 10}{110} \\ &= ₹ 15,000\end{aligned}$$

$$\begin{aligned}\therefore \text{Profit after commission (Divisible profit)} &= \text{Total profit} - \text{Commission} \\ &= 1,65,000 - 15,000 \\ &= 1,50,000\end{aligned}$$

This will be distributed between partners in equal proportion. The share of Hitesh in profit ₹ 50,000.

$$\begin{aligned}\therefore \text{Total amount received by Hitesh} &= ₹ 50,000 \text{ Profit} + ₹ 15,000 \text{ Commission} \\ &= ₹ 65,000\end{aligned}$$

Explanation : (1) In the question proportion of partners' capital is given. Profit loss sharing ratio is not given. Thus, profit-loss will be distributed between partners in equal proportion.

(2) Commission can be paid in two forms :

- (i) Certain percentage of commission on profit before deduction of such commission.
- (ii) Certain percentage of commission on profit after deduction of such commission.

(i) If commission is to be paid on profit before deduction of such commission, the computation of commission will be done as follows :

$$\text{Commission} = \text{Net profit} \times \frac{\% \text{ of commission}}{100}$$

e.g., X and Y are partners sharing profit-loss in the proportion of 3:2. The profit of the firm for the year is ₹ 1,65,000. If 10 % commission on profit is payable to X, compute the amount of commission.

$$\begin{aligned}\text{Commission} &= ₹ 1,65,000 \times \frac{10}{100} \\ &= ₹ 16,500\end{aligned}$$

Here, commission is to be calculated on the net profit. No specification is given whether commission is to be paid either before deduction of such commission or after that. Thus, commission will be computed from profit before deduction of such commission (on net profit).

(ii) If commission is payable from profit after deduction of such commission, the computation of commission will be done as follows :

In the above illustration X is entitled to get 10 % commission on profit after deducting such commission. It is computed as follows :

$$\begin{aligned}\text{Commission} &= \text{Net profit} \times \frac{\% \text{ of commission}}{100 + \% \text{ of commission}} \\ &= ₹ 1,65,000 \times \frac{10}{110} \\ &= ₹ 15,000\end{aligned}$$

Illustration 3 : The profit-loss sharing ratio of Jayesh, Suresh and Pankaj is 6:2:3. A manager has received his commission of ₹ 6600, at 10 % after deduction of such commission from profit. Ascertain distribution of profit amongst the partners.

Ans. : Profit and loss distribution proportion of Jayesh, Suresh and Pankaj = 6:2:3

Manager receives commission at 10 % from profit after deduction of his commission.

∴ ₹ 10 commission = ₹ 100 Divisible profit

∴ ₹ 6600 " (?) "

$$= \frac{6600 \times 100}{10}$$

= ₹ 66,000 Divisible profit

The profit-loss sharing ratio of partners is 6:2:3, distribution of profit will be as follows :

Jayesh : ₹ 66,000 × $\frac{6}{11}$ =	₹ 36,000
Suresh : ₹ 66,000 × $\frac{2}{11}$ =	₹ 12,000
Pankaj : ₹ 66,000 × $\frac{3}{11}$ =	₹ 18,000

Illustration 4 : Sheela, Surbhi and Seema are partners sharing profit-loss in the ratio of 5:7:9. Manager Sanket is entitled to receive 10 % commission from profit after deduction of his such commission. Surbhi receives share in profit ₹ 7000. Determine the amount of commission of Sanket. Also determine amount of profit before the commission of manager.

Ans. : (i) Manager is entitled to get commission from the profit after the deduction of his own commission. It means commission will be calculated on divisible profit.

Surbhi receives ₹ 7000 of divisible profit for her share of $\frac{7}{21}$. Assume total profit of the firm is 1.

Thus, $\frac{7}{21}$ share of Surbhi = Total profit of firm = ₹ 1

∴ ₹ 7000 share of Surbhi = Total profit (?)

$$= \frac{1}{7} \times \frac{7000 \times 21}{7}$$

= ₹ 21,000 divisible profit

(ii) Manager Sanket is entitled to get 10 % commission from the divisible profit

$$= ₹ 21,000 \times \frac{10}{100}$$

= ₹ 2100

(iii) Profit before commission of manager = Divisible profit + Commission of manager

$$= ₹ 21,000 + ₹ 2100$$

= ₹ 23,100

Illustration 5 : Riya, Dilip and Kirtan are partners of a partnership firm. The share of Kirtan is $\frac{1}{5}$ th of share of Dilip and share of Riya is double of share of Kirtan. Determine the amount of profit of each partner, if the profit of the firm at the end of the year was ₹ 1,92,000.

Ans. : Assume : Dilip's share of profit ₹ 1.

Share of Kirtan is $\frac{1}{5}$ of Dilip means $\frac{1}{5}$ of 1 = $\frac{1}{5}$. While share of Riya is double of the share of Kirtan, double of $\frac{1}{5}$ i.e. $\frac{1}{5} \times \frac{2}{1} = \frac{2}{5}$.

∴ Share of Riya $\frac{2}{5}$, Dilip $\frac{1}{1}$ and Kirtan $\frac{1}{5}$.

Thus, proportion of distribution of profit between partners :

Riya : Dilip : Kirtan

2 : 5 : 1

The distribution of profit will be as follows :

Profit of Riya	$= 1,92,000 \times \frac{2}{8} =$	₹ 48,000
Profit of Dilip	$= 1,92,000 \times \frac{5}{8} =$	₹ 1,20,000
Profit of Kirtan	$= 1,92,000 \times \frac{1}{8} =$	₹ 24,000

Illustration 6 : Milin, Hemant and Rasik have distributed profit of the firm of ₹ 1,89,000 in equal proportion, instead of distributing it in 1:2:4 proportion. To rectify this mistake what treatment will be given to the capital account ?

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 Debit	– 9000 Debit	+ 45,000 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 Debit	– 2400 Debit	+ 3600 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 :

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

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

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.

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

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

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 :

Opening capital = Closing capital + Drawings – Profit

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

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

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
	1,02,000		1,02,000

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

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 :

- (1) Provide interest on capital at 10 % p.a.
- (2) Provide interest on drawings 12 % p.a.
- (3) Monthly salary of ₹ 500 is payable to Sharda for her active participation in business. An annual commission of ₹ 3000 is payable to Jamna.

On 1-10-2016 Sharda has given loan of ₹ 6000 to the firm. There is no provision in partnership deed for interest on loan. Sharda demands interest at 10 % p.a. on loan.

Profit for the year ending on 31-3-2017 before consideration of above provision and interest on loan of Sharda of the firm is ₹ 39,820.

From the above information prepare profit and loss appropriation account and partners' capital accounts of the firm.

Ans. :

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

Dr		Cr	
Particular	Amt. (₹)	Particular	Amt. (₹)
To Interest on capital A/c		By Profit and loss A/c (Net profit)	39,820
Sharda : 3000		By Interest on capital A/c	
Jamna : 4000	7000	Sharda : 720	
To Salary (Sharda)	6000	Jamna : 240	960
To Commission (Jamna)	3000		
To Partners' capital A/c (Divisible profit) :			
Sharda : 12,390			
Jamna : 12,390	24,780		
	40,780		40,780

Partners' Capital Accounts

Dr				Cr			
Date	Particular	Sharda (₹)	Jamna (₹)	Date	Particular	Sharda (₹)	Jamna (₹)
1-4-16	To Drawings A/c	6000	—	1-4-16	By Balance b/d	30,000	40,000
1-1-17	To Drawings A/c	—	8000	31-3-17	By Interest on capital A/c	3000	4000
31-3-17	To Interest on drawings A/c	720	240	31-3-17	By Salary A/c	6000	—
31-3-17	To Balance c/d	44,670	51,150	31-3-17	By Commission A/c	—	3000
				31-3-17	By Profit and loss appropriation A/c (Divisible profit)	12,390	12,390
		51,390	59,390			51,390	59,390

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	4000	3200
1-10-16	To Drawings A/c	—	4000		capital A/c		
31-3-17	To Interest on	—	120	31-3-17	By Interest on	180	—
	current A/c				current A/c		
31-3-17	To Interest on	540	240	31-3-17	By Commission A/c	1490	—
	drawings A/c			31-3-17	By Profit and loss	17,880	11,920
31-3-17	To Balance c/d	20,010	8760		appropriation A/c		
		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.

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

$$= ₹ 1490$$

(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 (10 % of divisible profit)	1200		
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 :

- 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 Divisible profit = ₹ 35,200 – ₹ 23,200 = ₹ 12,000
 \therefore General reserve = 10 % of divisible profit = $12,000 \times \frac{10}{100}$ = ₹ 1200
- 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)

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

$$\text{Total interest of capital} = ₹ 5000 + ₹ 600 = ₹ 5600$$

- (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 partnership firm of Ranjana, Sushma and Joseph

Dr		Cr	
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	1060
Sushma : 4800		By Partners' capital A/c (divisible loss)	
Joseph : 4000	15,200	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				Cr			
Partners' Drawings Accounts							
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 % commission 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.

