LILHA EDUCATION CENTRE

CLASS XII

ACCOUNTING FOR PARTNERSHIP FIRMS

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Chapter-1

Accounting For Partnership Firms-fundamentals

1. **Definition Of Partnership-**Section 4 of the Indian Partnership Act,1932, defines partnership as follows:
   "Partnership is the relation between persons who have agreed to share the profits of a business carried on by all or any of them acting for all."

2. **Main features or Essential or Characteristics of Partnership**
   - Two or More Persons
   - Agreement
   - Existence of Business and Profit Motive
   - Sharing of Profits
   - Relationship of Principal and Agent
   - Business Carried on by all or any of them acting for all
   - No Separate Existence

3. **Rights of a Partner:**
   - Every Partner has the to share profits or losses with other partners in the agreed ratio.
   - Every Partner has the right to take part in the conduct of the business.
   - Every Partner has the right to be consulted in the matters related to partnership business.
   - Every Partner has the right to inspect and have a copy of the books of accounts.
   - Every Partner has the right to disallow the admission of a new partner.
   - Every Partner is the joint owner of the partnership property.
   - If a partner has given loan to the firm, he has a right to receive interest at agreed rate. If the rate of interest is not agreed, it is paid @6%p.a.
   - If a Partner incurs expenses or makes payment on behalf of the firm, he has a right to be indemnified by the firm.
   - Every partner has a right to retire from the firm after giving a proper notice.

4. **Limited Liability Partnership(LLP) –** The Limited Liability Partnerships (LLPs) in India came into existence with the enactment of 'Limited Liability Partnership Act, 2008' whi8ch lay down the law for the formation and regulation of Limited Liability Partnerships.

5. **Definition-**Limited Liability Partnership means a partnership formed and registered under this Act.

6. **Nature of limited Liability Partnership(LLP)**
    - A LLP is a Body corporate formed and incorporated under this Act.
    - It is legal entity separate from that of its partners.
    - A LLP shall have perpetual succession.
    - Any change in the partner of a LLP shall not affect the existence, right or liabilities of the LLP.

Indian Partnership Act, 1932 shall not apply to a LLP.

7. Distinction between an Ordinary Partnership Firm and an LLP

S.No	**Basis of Distinction**	**Partnerships**	**LLPs**
1.	Applicable Law	Indian Partnership Act,1932	The Limited Liability Partnership Act,2008.
2.	Registration	Optional	Compulsory with Registrar of Companies.
3.	Creation	Created by an Agreement	Created by Law
4.	Body Corporate	Body Corporate cannot become a Partner.	Body Corporate can become its partner.
5.	Separate Legal Entity	It is not a separate legal entity.	It is a separate legal entity.
6.	Perpetual Succession	Partnerships do not perpetual succession.	It has perpetual succession and individual partners may come and go.
7.	Number of Partners	Minimum 2 and Maximum 50.	Minimum 2 but no Maximum limit.
8.	Ownership of Assets	Firm can not own any assets. The partners own the assets of the firm.	The LLP as an independent entity can own assets.
9.	Liability	Unlimited	Limited to the extent of their contribution towards LLP.

8. **Partnership Deed Since partnership is the outcome of an** agreement, it is essential that there must be some terms and conditions agreed upon by all the partners. Such terms and conditions may be either oral or written. The law does not make it compulsory to have a written agreement. However, in order to avoid all misunderstandings and disputes, it is always the best course to have a written agreement duly signed and registered under the Act. Such a written document which contains the terms of agreement is called ‘Partnership Deed’. It is also called ‘Articles of Partnership’.
    - The name and address of the Firm.

- Name and Address of the Partners
- The type and nature of the business firm proposes to do.
- Amount of capital to be contributed by each partner
- Interest on Capitals
- Drawings
- Interest on Drawings
- Profit sharing ratio
- Salary
- Goodwill
- Accounting period of the firm
- Method of recording of firm's accounts.
- Auditing
- Date of Commencement of partnership.
- Duration of Partnership.
- Use of the decision of Garner vs. Murray
- Bank Accounts
- Rules to be followed in case of admission of a partner.
- Rules to be followed while setting the Accounts on Retirement
- Settlement of Disputes

9. Rules Applicable in the Absence of Partnership Deed

In the absence of a Partnership Deed or Verbal agreement, or if the Partnership deed is silent on a certain point, the following provisions of partnership Act, 1932 will be applicable:-

- Profit Sharing Ratio- Profit and Losses are to be shared equally irrespective of their capital contribution.
- Interest on Capital- No interest on Capitals shall be allowed to the partners. If there is a provision for the interest on capitals in the partnership deed, it will be allowed only when there is a profit.
- Interest on Drawings- No Interest is to be charged on drawings.
- Salary to a Partner No Partner is entitled to any salary or commission for taking part in running the firm's business.
- Interest on loan- Interest at the rate of 6% per annum is to be allowed on partner's loan to the firm. Such Interest shall be paid even if there are losses of the firm.
- Admission of a new partner-without the consent of all existing partners no new partner can be admitted to the firm.
- Each partner can participate in the conduct of the business.
- Each partner can inspect the books of firm and can take a copy of the same

10. Profit &Loss Appropriation Account

For the year ended……………..

Dr. Cr.

Particulars	Rs.	Particulars	Rs.
To Salaries of Partners		By Profit & Loss A/c (Net profit transferred from P&L A/c)	
To Commission to Partners		By Interest on Drawings: A B	
To Interest on Partner's Capital A B			
To Reserve A/c			
To Profit Transferred to: A's Capital A/c (or A's Current A/c) B's Capital A/c (or B,s Current A/c)			

The Journal entries that are passed for various items shown in the above Profit and Loss Appropriation Account are as follows:

i. Entry for transfer of Net Profit to Profit & Loss Appropriation Accounts:

Profit & Loss A/c	Dr.
To Profit & Loss Appropriation A/c	
(Net Profit transferred)	

ii. Entry for Interest on Capital

(a) On allowing Interest on Capital: Interest on Capital A/c Dr. To Partner's Capital A/c (Interest on Capital t …..% p.a.)	
(b) On closure of Interest on Capital A/c: Interest on capital is closed by transferring it to the debit side of Profit &Loss Appropriation A/c, as this is expenses for the firm. The Entry will be: Profit & Loss Appropriation A/c Dr. To Interest on Capital A/c	

iii. Entry for Interest on Drawings:-

(a) On Charging Interest on Drawings Partner's Capital A/c Dr. To Interest on Drawings A/c
(b) On closure of Interest on Drawings A/c: Interest on drawings is closed by transferring it to the credit side of Profit &Loss Appropriation A/c, as this is income for the firm. The Entry will be: Interest on Drawings A/c Dr. To Profit & Loss Appropriation A/c

iv. Entry for Salary or Commission Payable to a partner

(a) On allowing salary or Commission to a Partner: Partner's Salary / Commission A/c Dr. To Partner's Capital A/c
(b) On closure of salary or commission account: Salary or commission payable to a partner is closed by transferring it to the debit side of Profit & loss Appropriation Account, As these are expenses for the firm . The entry will be: Profit & Loss Appropriation A/c Dr. To Partner's Salary/ Commission A/c

v. Entry for transferring a part of profit to Reserve :

Profit & Loss Appropriation A/c Dr. To Reserve

vi. Entry for transfer of Credit balance of Profit & loss Appropriation A/c (Being Profit):-

Profit & Loss Appropriation A/c Dr. To Partner's Capital or Current A/cs

11. Distinction between Profit & Loss Account and Profit & Loss Appropriation Account

S.No	Basic of Distinction	Profit & Loss Account	Profit & Loss Appropriation Account
1.	Stage of Preparation	It is prepared after trading account and hence starts with the gross profit disclosed by Trading Account	It is prepared after Profit & loss account and hence starts with the net profit disclosed by Profit & loss Account.
2.	Objective	It is prepared to ascertain net	It is prepared to distribute

		profit or net loss.	the net profit of the year among the partners.
3.	Opening/Closing Balance	This account has neither opening balance nor closing balance	This account may have opening as well as closing balances.
4.	Charge or Appropriation	Expenses debited to his account are charge against profit.	Items debited to this account are appropriation of profits.
5.	Partnership Agreement	This account is not prepared on the basis of partnership agreement, except for interest on loan from partners.	This account is prepared on the basis of partnership agreement.
6.	Matching Principle	Matching Principle (i.e. matching of revenue against expenses) is followed while preparing this account.	Matching principle is not followed while preparing this account.

12.Distinction between charge Against Profit and Appropriation out of Profit

S.No	**Basic of Distinction**	**Charge Against Profit**	**Appropriation Out of Profit**
1.	**Nature**	It indicates expenses to be deducted from profits while calculating net Profit or loss.	It indicates distribution of net profit to various heads.
2.	**Recording**	It is debited to Profit and Loss Account.	It is debited to Profit & Loss Appropriation Account.
3.	**Necessary or Not**	It is necessary to make charges against profits even if there is loss	Appropriations are made only when there is profit.
4.	**Example**	Interest on Partner's loan and rent paid to a Partner.	Interest on capital Partner's Salary etc.

13. **Capital Accounts of Partners**

a. **Fixed Capital Accounts-**Under this System the original capitals invested by the partners remain constant, unless additional capital is introduced or drawings are made against capital by an agreement. When fixed capital method is adopted, all entries relating to drawings against profit, interest allowed on capitals, interest charged on drawings, salary to partner, share of profit or loss etc., are made in a newly-opened account for each partners. This Account is called Current Account or Drawings Account.

Performa of Capital Accounts(When the Capitals are fixed)

Dr. Cr.

Particulars	A	B	C	Particulars	A	B	C
To Cash/Book A/c (Drawings against Capital or Permanent with-drawal of capital				By Balance b/d (Opening Balance)			
Balance c/d(Closing Stock)				By Cash/ Bank A/c (Additional Capital)			

Current Account

Dr. Cr.

Particulars.	A	B	C	Particulars.	A	B	C
To Balance b/d (If there is op.debit bal.)	****	****	****	By Balance b/d. (Opening Cr. Balance)	****	****	****
To Drawings	****	****	****	By Interest on Capital	****	****	****
To P&L App. A/c. (Share of loss in case of Loss)	****	****	****	By Salary to Partner	****	****	****
To Interest on Drawings	****	****	****	By Commission to partner	****	****	****
				By P&L App. A/c (Share of profit in profit)	****	****	****
To Balance c/d (Closing Bal.) (Balancing Fig.)	****	****	****				
	****	****	****		****	****	****

b. **Fluctuating Capital Accounts-** When the capitals need not to be fixed, the balances of capital accounts go on changing from time to time. The reason is that no separate Current Account are maintained, but all the entries relating to drawings, interest on capital, interest on drawings, salary to partner, share of profit or loss etc., are recorded in the capital accounts itself. In the absence of any instruction, the Capital Accounts should be prepared by this method.

Dr		Partners' Capital Account			Cr
Particulars	X (₹)	Y (₹)	Particulars	X (₹)	Y (₹)
To Balance b/d (Opening debit balance)			By Balance b/d (Opening credit balance)		
To Cash/Bank A/c (Capital withdrawn)			By Cash/Bank A/c (Additional capital introduced)		
To Drawings A/c (Out of profits)			By Interest on Capital A/c		
To Profit and Loss A/c (Share in losses)			By Partners' Salary or Commission A/c		
			By Profit and Loss Appropriation A/c (Share in profits)		
To Balance c/d (Closing credit balance)			By Balance c/d (Closing debit balance)		

14. **Manager's Commission on Net Profits.**
    a. On profit before charging such commission
    b. On profit after charging such commission

15. **When Appropriations are more than Profits-**In case where appropriations such as interest on capital, salary of partners etc. are more than available profits, the profits will be distributed in the ratio of appropriation.

16. **Methods of calculating Interest on Drawings**

    I. Simple Method

Interest On Drawings =Amount of Drawings$\times\frac{Rate\ of\ Interest}{100}\times\frac{Months}{12}$

II. Product Method

Interest On Drawings =Total of Products$\times\frac{Rate\ of\ Interest}{100}\times\frac{1}{12}$

17. **Guarantee of profit to a Partner**- Sometimes a partner is guaranteed that he shall get a certain minimum amount of profits of the firm. Such a guarantee may be given either by (I) any one of the partners, or (II) by all other partners in a particular ratio. When the profits of the firm are not adequate then the 'excess' paid to the guaranteed partner should be charged to the partner who has given the guarantee.

Interest on monthly Drawings

Case (1) **When drawings are made in the beginning of every month:-**

6.5 months

This Interest for 6.5 month will be equal to the interest on drawings calculated on monthly basis.

(2) **When drawings are made at the end of every month:-**

5.5 months

(3) **When drawings are made in the middle or at any time during the month,** Interest on the whole amount will be calculated for 6 months.

(4) **When drawings of equal amount are made in the beginning of each quarter:**

7.5 months

(5) **When drawings of equal amount are made at the end of each quarter:**

4.5 months

(6) **When drawings of equal amount are made during the middle of each quarter**

6 months

(7) **When drawings of equal amount are made during period of 6 months.**

(i) In the beginning of each month:
Interest will be charged for 3.5 months.
(ii) At the end of each month:
Interest will be charged for 2.5 months.
(iii) In the middle of each month:
3 months

(8) **When drawings of equal amount are made during 9 months.**

(i) In the beginning of every month for 9 months ending - 5 months
(ii) At the end of every month for 9 months ending – 4 months
(iii) Every month for 9 months ending - 4.5 months

Chapter-2

Change in Profit Sharing Ratio

Among the Existing Partners

1. **Reconstitution of a Partnership Firm-**Partnership is the result of an agreement between persons for sharing the profits of a business. Any change in the partnership agreement brings to an end the existing agreement and a new agreement comes into force. The change in the agreement results in changes in the relationship among the partners.

   - Changes in the profit sharing ratio among the existing partners
   - Admission of a new partner
   - Retirement of an Existing partner
   - Death of a Partner
   - Amalgamation of two partnership firms

2. **Adjustment required at the time of change in the profit sharing ratio-**Various matters that need to be considered at the time of change in profit sharing ratio are:

   - Determination of Sacrificing Ratio and Gaining Ratio
   - Accounting For Goodwill
   - Accounting Treatment Of Reserve and Accumulated Profits
   - Accounting for Revaluation of Assts and Liability
   - Adjustment of Capitals

3. **Sacrificing Ratio-**Whenever there is a change in the profit sharing ratio, one or more of the existing partners have to surrender some of their old share in favor of one or more of other partners. The ratio surrender of profit sharing ratio is called Sacrificing Ratio.

   Sacrificing Ratio =Old Ratio – New Ratio

4. **Gaining Ratio-**As a result of change in profit sharing ratio,one or more of the existing partners gain some portion of other partners share of profit. The ratio of the gain of profit sharing ratio is called gaining ratio.

   Gaining Ratio = New Ratio – Old Ratio

5. **Goodwill-**Goodwill means the 'good-name' or the reputation earned by a firm through the hard work and honesty of its owners. Goodwill is the value of the reputation of a firm which enables it to earn higher profits in comparison to the normal profit earned by other firms in the same trade.
   "The term goodwill is generally used to denote the benefit arising from connections and reputation"--------*Lord Lindley*

I. Characteristics or Features of Goodwill

- It is an intangible Assets
- It is a valuable Assets
- It is helpful in earning excess profits
- Its value is liable to constant fluctuations
- It is valuable only when entire business is sold
- It is difficult to place an exact value on goodwill

Nature of Goodwill-Goodwill is an intangible asset since it has no physical existence and cannot be seen or touched. But it is not a fictitious asset because fictitious assets do not have a value whereas goodwill has a value in case of profit making concerns.

Origin of Goodwill or Factors Affecting the Value of Goodwill

(i) Favorable Location of the Business
(ii) Efficiency of Management
(iii) The Longevity of the Business
(iv) Nature of Goods
(v) Possession of License
(vi) Monopolistic and other Rights
(vii) Risk Involved
(viii) Trends of Profit
(ix) Future Competition
(x) Capital Required
(xi) Other factors

II. Classification of Goodwill:

Goodwill can be classified into two categories:

a. Purchased Goodwill- Purchased goodwill is the goodwill which is acquired by making a Payment.
The following are the important features of purchased goodwill:
(i) It arises on purchase of a business.
(ii) It is recorded in the books of accounts because consideration is paid for it.
(iii) It is shown in the Balance Sheet as an asset
(iv) It is amortized *(i.e.* depreciated) over its useful economic life.

b. Self– General Goodwill or Inherent Goodwill-It is internally generated goodwill which arises from a number of characteristics or attributes which an on-going business possesses.
The following are the important features of self-generated goodwill:
(i) It is internally generated over a long period of time.

(ii) A true cost cannot be placed on this type of goodwill .Its valuation depends on the subjective judgment of the valuer.

(iii)As per accounting standard 26 (Intangible Assets), It is not recorded in the books of account in the books of accounts because consideration in money's worth has not been paid for it.

6. **Methods of Valuation of Goodwill**

   i. **Average Profit Method-** This is a very simple and widely followed method of valuation of goodwill. In this method, goodwill is calculated on the basis of the number past year profits. Average of such profits is multiplied by the agreed number of the year(such as two or three) to find out the value of goodwill.

   Value of Goodwill = Average Profit × Number of years of purchase

a. **Weighted Average Profit Method-**This method is a modified version of average profit method. As per this method each year's profit is assigned a weight. The highest weight is attached to the profit of the most recent year.
   Thereafter, each year's profit is multiplied by the weight assigned to it in order to find out the products and the total of products is then divided by the total of weights in order to calculate the weight average profits. After this, the weighted average profit is multiplied by the agreed number of the year's purchase to find out the value of goodwill.
   Thus, the formula is:

   Weighted Average Profit $= \frac{Total\ of\ Products\ of\ Profits}{Total\ of\ \ Weight}$

   Goodwill = Weight average Profit × Number of the year's of Purchase

   ii. **Super Profit Method-**In this Method goodwill is calculated on the basis of the surplus (excess) profit earned by the firm in comparison to average profits earned by other firms. If a business has no anticipated excess earnings, it will have no goodwill. Such excess profits are called super profits and the goodwill is calculated on the basis of super profits.

   - **Normal Profit =** $\boldsymbol{\frac{Capital\ Invested \times Normal\ \ rate\ of\ return}{100}}$

   - **Super Profit = Actual or Average Profit – Normal Profit**

   - **Goodwill = Super Profit × No. of years purchase**

iii. **Capitalization Method**

A. By capitalizing the average profits, or

B. By capitalizing the super profits.

A. Capitalization of average profits method.-Under this method first of all we calculate the average profits and then we asses the capital needed for earning such average profits on the basis of normal rate of return. Such capital is also called capitalized value of average profits.

$$\textbf{Capital Value of Average Profits} = \textbf{Average Profit} \times \frac{100}{\textit{Normal Rate of Return}}$$

B. Capitalisation of Super Profit Method-Under this method first of all we calculate the super profits and then we assess the capital needed for earning such super profits on the basis of normal rate of return . Such capital is actually the amount of goodwill.

$$\textbf{Goodwill} = \textbf{Super Profit} \times \frac{100}{\textit{Normal Rate of Return}}$$

Super profits are calculated in the same manner as calculated in super profits method.

Chapter-3
Admission of a Partner

1. Admission of a Partner

Admission of a partner is one of the modes of reconstitution of a partnership firm, under which existing agreement comes to an end and a new one comes into existence.

A new partnership deed is prepared at the time of admission of a new partner, as the old partnership deed comes to an end.

1. Following Adjustment are needed at the time of the admission of a new partner:

(i) Calculation of new profit sharing ratio
(ii) Accounting treatment of Goodwill;
(iii) Accounting treatment for revaluation of assets and liabilities
(iv) Accounting treatment of reserve and accumulate4d profits
(v) Adjustment of Capitals on the basis of new profit sharing ratio.

(i) Calculation of New Profit Sharing Ratio-When a new partner is admitted, he acquires his share of profit from the old partners. This reduces the old partner's shares of profits; hence the calculation of new profit sharing ratio becomes necessary.
Following types of problems may arise for the calculation of new profit sharing ratios, at the time of admission of a new partner.

A. When only the ratio of the new partner is given in the question, then in the absence of any other agreement, it is presumed that the old partners will continue to share the remaining profits in the same ratio in which they were sharing before the admission of new partner.

B. Sometimes the new partner 'purchases' his share of profit from the old partners equally. In such cases the new profit sharing ratios of the old partners will be ascertained by deducting the sacrifice made by them from their existing share of profit.

C. Sometimes the new partner 'Purchases' his share from the old partners in a particular ratio. In such cases the new profit sharing ratio of the old partners will be calculated after deducting the sacrifice made by a partner from his existing share of profit.

D. Sometimes the old partners surrender a particular fraction of their share in favour of the new partners. In such cases the new partner's share is calculated by adding the surrendered portion of share by the old partners. Old partner's share are calculated by deducting the surrendered share from their old shares.

(i) Accounting treatment of Goodwill on the admission of a new partner-They may be three situation related to treatment of goodwill (premium) at the time of admission of a new partner:

A. When the amount of goodwill (premium) is paid privately- When the new partner pays the amount of goodwill in cash to the old partners privately outside the business , no entries are required to be passed.

B. When the new partner brings his share of goodwill (premium) in cash – According to this method there are two alternatives:

(i) When the amount of goodwill /premium brought in by the partner is retained in the business

Cash A/c Dr.
To Premium for goodwill A/c
(The amount of goodwill / premium brought in cash by new partner)

Premium for goodwill A/c Dr.
To Old Partner's capital A/cs
(The amount of goodwill / Premium transferred to old partner's capital Account in sacrificing ratio)

(ii) When Goodwill / Premium brought in by the new partner is withdrawn by old partners-

Old Partner's Capital A/cs Dr.
To Cash /Bank A/c
(The amount of goodwill/ Premium withdrawn by the old partners)

C. When the new partner does not bring his share of goodwill (premium) in cash Recommendation of accounting Standard 26- When the goodwill of the firm is evaluated and the new partner does not bring his share of goodwill in cash, goodwill should be adjusted through partner's capital accounts. For this purpose new partner's current account is debited from his share of goodwill and the old partner's capital accounts are credited in their sacrificing ratio.

(ii) When Goodwill Already Appears in the Books and new partner bring his share of goodwill/ premium in cash- If new partner brings, his share of goodwill in cash, and if the Goodwill Account already appears in the books of the firm, first of all the existing Goodwill Account will have to be written off.

Old Partner's Capital A/cs Dr.
To Goodwill A/c

(Goodwill written off in old ratio)

(iii) When Goodwill Already Appears in the Books and new partner does not bring his share of goodwill/ premium in cash-If goodwill account already exists in the books of the firm, and if the new partner does not bring in his share of goodwill in cash, even then, as already discusses, the amount of goodwill already existing is written off by debiting the capital accounts of old partners in their old ratio.

2. Revaluation of Assets and Liabilities-Whenever a New partner is admitted, it become necessary to revalue the assets and liabilities of the firm to their true and fair values. Thus, the entire profit or loss arising from revaluation is divided between the old partners in their old profit sharing ratio

Revaluation of assets and liabilities is done with the help of a new account called 'Revaluation Account'. Sometime this account is called as 'Profit & Loss Adjustment Account' This account is a nominal account in nature.

Following Entries are passed for the purpose of revaluation

(i) For the decrease in the value of assets:

Revaluation A/c or Profit & Loss Adjustment A/c Dr.
To Assets A/c
(Decrease in the value of assets)

(ii) For increase in the value of assets:

Assets A/c Dr.
To Revaluation A/c or Profit & Loss Adjustment A/c
(Increase in the value of assets)

(iii) For increase in the value of liabilities:

Revaluation A/c or Profit & Loss Adjustment A/c Dr.
To Liabilities A/c
(Increase in the value of liabilities)

(iv) For decrease in the value of liabilities:

Liabilities A/c Dr.
To Revaluation A/c or Profit & Loss Adjustment A/c
(Decrease in the value of liabilities)

a. When revaluation account shows profit:

Revaluation A/c Dr.
To old Partner's Capital A/cs
(Profit on revaluation credited to Old Partner's capital A/cs)

b. Above entry is reserved when revaluation account shows loss:

Old Partner's Capita A/cs Dr.
To Revaluation A/c
(Loss on revaluation debited to Old Partner's Capital A/cs)

Performa of Revaluation Account is given below

Dr. **Cr.**

Particular	**Rs.**	**Particular**	**Rs.**
To Decrease in the value of assets		By Increase in the value of assets	
To Increase in the value of Liabilities		By Decrease in the value of Liabilities	
To Unrecorded Liabilities		By Unrecorded Assets	
To Profit of Revaluation transferred to old partner's capital/ current accounts (in old ratio)		By loss on Revaluation transferred to old partner's capital/ current accounts (in old ratio)	

3. Accounting Treatment of reserve and Accumulated Profits or Losses

(i) For Distributing Reserve and Accumulated Profits

General Reserve A/c Dr.
Reserve Fund A/c Dr.
Profit &loss A/c (Credit Balance) Dr.
To Old Partner's capital A/cs or Current A/cs

(ii) For Distributing accumulated losses among old partners in old ratio.

Old Partner's Capital A/cs or Current A/cs Dr.
To Profit &loss A/c (Debit Balance)
To Advertisement Suspense A/c
To Deferred Revenue Expenditure A/c

(iii) For the distributing surplus of specific reserves

Workmen's Compensation Reserve A/c Dr.

Investment Fluctuation Reserve A/c Dr.

To Old Partner's Capital A/cs or Current A/cs

Employee's Provident fund or employee's Saving Account appearing on the liabilities side of the balance Sheet are not distributed among old partners as they are not reserves but are the outside liabilities payable by the firm.

4. **Hidden Goodwill**: - Sometimes, the value of goodwill is hidden in the question. In such cases , the amount of goodwill is calculated on the basis of total capital of the firm and the profit sharing ratio of the partners.
5. **When the new partners brings in proportionate capital-** Some time the capital of the new partner is not given in the question .He may be required to bring in proportionate capital. In such cases the new partner's capital will be calculated on the basis of the capitals of the old partners remaining after all adjustment and revaluation.
6. **Adjustment of old partner's Capital Accounts on the basis of new partner's capital-** Sometimes on the admission of a new partner it is decided that the capitals of the old partners will be adjusted on the basis of new partner's capital make them proportionate to their share of profits .In such questions , first of all the entire Capital of a new firm should be determined on the basis of new partner's capital Then the Capital of each partner is ascertained by dividing the total capital according to his profit sharing ratio. If the existing capital of any partner is in excess of his newly calculated capital, the excess amount is eit5her paid off immediately or credited to his current account.

Chapter-4

Retirement or Death of a Partner

1. **Retirement or Death of a Partner-**A Partner has the right to retire from the firm after giving due notice in advance. Old partnership comes to an end after the retirement of a partner, but the firm continues and a new partnership comes into existence between the remaining partners.

2. **A retiring partner is entitled to get the following**
   a. Share in Goodwill
   b. Share in Reserves
   c. Share in Revaluation of Assets and liabilities

3. **Accounting Problem-**Following accounting problems arise on the retirement of a partner:
   - Calculation of new profit sharing ratio and gaining ratio of the continuing partners.
   - Treatment of Goodwill
   - Accounting Treatment for Revaluation of Assets and Liabilities.
   - Accounting Treatment for Reserves, accumulated profits and losses.
   - Payment to retiring partner.
   - Adjustment of Capitals in proportion to profit sharing ratios.
4. **Calculation of New Profit Sharing Ratio**
   a. If the new profit sharing ratios of the remaining partners are not given in the question, it will be assumed that the remaining partners continue to share profits and losses in the old ratio.
   b. Sometimes the remaining partners purchase the share of retiring partner in some specified proportions. In such cases the fraction of share purchased by them is added to their old share and the new ratio is calculated

5. **Accounting Treatment of Goodwill-** The Retiring or deceased partner is entitled to his share of goodwill at the time of retirement or death because the goodwill earned by the firm is the result of the efforts of all the existing partners in the past. The adjustment for the goodwill will be made through partner's capital accounts

Continuing Partner's Capital A/cs Dr.(in the gaining ratio)

To Retiring/Deceased Partner's Capital A/c (with his share of goodwill)

(Retiring/deceased partner's share of goodwill adjusted to continuing partners in the gaining ratio)

6. **Revaluation of Assets and Liabilities-**As the time of retirement the assets and liabilities are revalued and a revaluation account is prepared in the same way as is done in case of admission of a new partner. The only difference is that in case of retirement any profit or loss due to revaluation is divided among all the partners, including the retiring partners.

7. **Adjustment of Accumulated Profits and Reserve.**

(i) For the distributing Reserves and Accumulated Profits

General Reserve A/c Dr.
Reserve Fund A/c Dr.
Profit &loss A/c (Credit Balance) Dr.
To All Partner's capital A/cs or Current A/cs (in old ratio)

(ii) For Distributing accumulated losses:

All Partner's Capital A/cs or Current A/cs Dr.(in old ratio)
To Profit &loss A/c (Debit Balance)

(iii) For distributing surplus of specific reserves

Workmen's Compensation Reserve A/c Dr.

Investment Fluctuation Reserve A/c Dr.

To All Partner's Capital A/cs or Current A/cs(in old ratio)

Death Of A Partner

On the death of a partner, the amount payable to him is to be paid to his legal representatives.

Calculation of the total amount due to representatives of the deceased partner: - Thus the legal representatives of the deceased partner are entitled to claim the following amounts, which are credited to his capital account:

1. The amount standing to the credit of his Capital A/c.
2. His share of the increase in the value of goodwill of the firm.
3. Interest on Capital, if provided in the partnership deed.
4. His share of profit on the revaluation of assets and liabilities.
5. His share of the undistributed profits or reserves.
6. His share of profit upto the date of his death.

The following amount will be debited to the account of the deceased partner for ascertaining the amount due to his legal representatives:

1. Drawings
2. Interest on drawings
3. His share of loss on the revaluation of assets and liabilities
4. His share of undistributed loss, such as debit balance of profit & loss Account.
5. His share of the reduction in the value of goodwill.

Calculation of profit – If the death of a partner occurs on any day during the year the executors of the deceased partner also be entitled to the share of profits earned by the firm from the beginning of the year till the date of his death.

a. **On Time Basis -** On Time Basis- In this method , we have take into consideration the profit of the last year and the time for which he remained a partner during the current year. On the basis of last year's profit we shall calculate the proportionate profit upto the date of death and then calculate the deceased partner's share.

b. **On Turnover or Sales Basis-** In this method, we have to take into consideration the profit and the total sales of the last year. Thereafter, the profit of the current year is estimated on the basis of the sales for the last year and the sales upto the date of the death.

Chapter-5

Dissolution of a Partnership Firm

1. **Dissolution of a partnership means** termination of the old partnership agreement and a reconstruction of the firm due to admission, retirement and death of a partner.
   Dissolution of a partnership 'firm' means that the firm closes down its business and comes to an end. On the dissolution of the firm, the assets of the firm are sold and liabilities are paid off and out of the remaining amount the accounts of partners are settled.
2. **Dissolution of Partnership-**The partnership is deemed to have been dissolved in any of the following cases:
   - In Case of change in profit-sharing ratio of the existing partners
   - In case of admission of a new partner
   - In case of a retirement of a partner
   - In case of expulsion of a partner
   - In case of death of a partner
   - In case of insolvency of a partner
   - In case of expiry of the period of partnership
3. **Dissolution of partnership firm**
   Modes of Dissolution of partnership Firm- A partnership firm can be dissolved in any of the following ways:
   (i) By Mutual Agreement (Sec.40)
   (ii) Compulsory Dissolution (Sec.40)
   (iii) On Happening of an event (Sec.42)
   (iv) By Notice (Sec.43)

4. **By Order of the Court (Sec.44)**

(i) When a Partner has become of unsound mind

(ii) When a Partner, other than the partner filling a suit, has become permanently incapable of performing his duties as a partner.

(iii) When a Partner, other than the partner filling a suit, is guilty of misconduct that may harm the partnership.

(iv) When a Partner, other than the partner filling a suit, willfully or persistently commits breach of partnership agreement

(v) When a Partner, other than the partner filling a suit, has transferred the whole of his interest in the firm to a third party.

(vi) When the court is satisfied that the firm cannot be carried on except at a loss

(vii) When the court is satisfied that the dissolution is just and equitable due to some other reasons.

5. **Distinction between Dissolution of Partnership and Dissolution of firm**

S.No.	Basis of Distinction	Dissolution of Partnership	Dissolution of Firm
1.	**Meaning**	It refers to a change in the existing agreement between the partners. The firm continues its business.	It refers to closure of the firm.
2.	**Continuation of the business**	The Firm continues its business.	Business of the firm comes to an end.
3.	**Economic Relationship**	Economic relation between the partners continues though in a changed form.	Economic relation between the partners comes to an end.
4.	**Closure of Books of Accounts**	Books of account need not be closed.	Books of account have to be closed.
5.	**Settlement of Assets & Liabilities**	Assets are revalued and liabilities reassessed and gain or loss on revaluation is distributed among the partners in their old profit sharing ratio.	Assets are sold and liabilities are paid off and balance if any, is distributed among all the partners.
6.	**Effect**	Dissolution of partnership does not necessarily means the dissolution of the firm.	Dissolution of firm necessarily means the dissolution of partnership also.
7.	**Court's Intervention**	There is no intervention by the court since the partnership is dissolved by mutual consent.	A firm can be dissolved without the intervention of the court or by order of the court.

Payment of firm's Debts and Private Debts (Sec.49)

Firm's Debt- Debts which the firm owes to outsiders are called 'firm's debts'.

Private Debts- Debts which a partner owes in his personal capacity are called 'Private Debts'

a. Amount realized from the sales of the assets of the firm is first used to pay off firm debts and if there is any surplus available, it is distributed.
b. Amount realized from the sales of private estate of partners will be used first to pay the private debts of the partners, and if there is any surplus available, it will be used in paying off the firm's debts.

Distinction between firm's Debts and Private Debts:

S.No.	Basis	Firm's Debts	Private Debts
1.	Meaning	Firm's debts refer to the debts payable by the firm to outsiders.	Private debts refer to the debts payable by a partner in his personal capacity.
2.	Who is Liable?	For firm's debts, all partners are liable jointly and severally.	For private debts, only the concerned partner is liable personally.
3.	Application of firm's Property	Firm's property is applied first towards payment of firm's debts.	Concerned partner's share in excess of firm's property over firm's debts can be applied towards payment of his private debts.
4.	Application of Private Property	Surplus of Partner's private property over his private debts can be applied towards payment of firm's debt.	Private property is applied first towards payment of private debts.

6. Accounting Procedure on Dissolution of firm

(i) Realisation Account- A 'Realisation Account' is opened for disposing of all the assets of the firm and making payment to all the creditors. Realisation account is a nominal account and the object of such an account is to find out of the profit or loss on realization of assets and payment of liabilities .

Format of Realisation Account

Dr. Cr.

Particular	Rs.	Particular	Rs.
To All Assets (excluding cash/bank balance, fictitious Assets ,Dr. balance of partner's capital/Current Accounts, loan to partner)		By All Liabilities (excluding Cr. balance of P& A/c, Reserve, Partner's Capital/ Current Account, Loan from partners)	
To Bank/Cash A/c (Amount paid for discharging liabilities)		By provision on any assets (such as provision for doubtful debts, provision for depreciation etc.)	
To bank/ Cash A/c (Amount paid for unrecorded liabilities)		By bank/ Cash A/c(Amount received on realisation of assets)	
To Bank/Cash A/c(Expenses on realisation)		By Bank/ Cash A/c(Amount received from unrecorded assets)	
To Partner's Capital A/c (Liabilities taken over by a partner or any expenses paid by		By Partner's Capital A/c (Asset taken over by a partner)	

him or remuneration/commission payable to him)			
To Partner's Capital A/cs (For transferring profit on realisation)		By partner's Capital A/cs(For transferring loss on realisation)	

(ii) Partner's Loan Accounts-If a partner has given any loan to the firm, his loan will be paid off after all the outside liabilities are paid in full Therefore, Partner's loan account is not transferred to the realisation account and his loan account is prepared separately and paid off by passing the following Entry

Partner's Loan A/c Dr.

To Cash/Bank A/c

(Payment of partner's loan)

(iii) Partner's Capital Account-After the transfer of profit or loss on realisation undistributed profits, reserve etc. to the capital account of the partners the balance of capital accounts are closed in the following manner.

a.When a partner is required to bring in cash to clear off his debit balance, the entry will be :

Cash/Bank a/c Dr.
To Partner's Capital A/c
(Required cash brought in by the partner)

b. When a Partner is a paid the credit balance of his account :

Partner's Capital A/c Dr.

To Cash/Bank A/c

(Excess cash paid to partner)

(iv) Cash or Bank Account-Opening balance of cash and bank and all the receipts are entered on the debit side of this account and all the payments are entered on the credit side of his account .This Account must be prepared and closed last of all and the total of both sides of his account must be equal. In this way this account also helps in the verification of the arithmetical accuracy of the accounts.

Partner's Loan to the firm- If any partner has given loan to the firm, 'Partner's Loan A/c' will be prepared separately. Partner's Loan Account is prepared before Capital Accounts because at the time of dissolution capital are paid off only if any balance is left after payment of partner's loans.

Treatment of Goodwill- Treatment of goodwill is very easy in case of dissolution of a firm. It may be summarized as under:

If goodwill is already appearing in the Balance Sheet, It is treated like any other asset, and is transferred to the to the Realisation Account at the value given in balance sheet.

PRACTICAL QUESTIONS

(Questions nos. 1 to 79 are strictly in the serial order of illustrations)

1. X and Y are partners sharing profits in the ratio of 2 : 1. The undermentioned trial balance was extracted from their books as at 31st March, 2019:

	Dr. balance	Cr. Balance
	₹	₹
X's capital		3,20,000
Y's capital		2,40,000
X's drawings	40,000	
Y's drawings	32,000	
Stock (1st April, 2016)	45,200	
Purchases and sales	8,68,000	12,45,000
Debtors and creditors	1,52,000	48,000
Buildings	6,00,000	
Cash in hand	5,900	
Bank overdraft		27,500
Salaries to staff	74,700	
Rent	26,400	
Advertising expenditure	5,000	
Travelling expenses	31,300	
	18,80,500	18,80,500

You are required to prepare the Profit and Loss Account and **Profit and Loss Appropriation Account** for the year ended 31st March, 2019 and a Balance Sheet as on that date. The following adjustments are to be made:

(i) The value of stock on March 31, 2019 was ₹ 64,000.
(ii) Change depreciation on Buildings at 10 %
(iii) Provide for outstanding rent ₹ 2,400.
(iv) Partners are entitled to interest on Capital @ 5 % and X is entitled to a salary of ₹ 48,000 p.a.

[**Ans.** Gross Profit ₹ 3,95,800; Net Profit as per Profit & Loss A/c ₹ 1,96,000; Profit transferred to Capital Accounts as per Profit & Loss Appropriation A/c ₹ 1,20,000; Capitals X ₹ 4,24,000 and 2,60,000; Total of Balance Sheet ₹ 7,61,900.]

2. Girish and Satish are partners in a firm. Their Capitals on April 1, 2018 were ₹ 5,60,000 and ₹ 4,75,000 respectively. On August 1, 2018 they decided that their Capitals should be ₹ 5,00,000 each. The necessary adjustment in the Capitals were made by introducing or withdrawing cash. Interest on Capital is allowed at 6 % p.a. You are required to compute interest on Capital for the year ending March 31, 2019

[**Ans.** Interest on Capitals : Girish ₹ 31,200 and Satish ₹ 29,500.

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

[**Ans.** Interest on Capitals: X₹ 46,000; Y ₹ 36,600 and Z ₹ 27,000.]

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

Calculate interest on capital.

[**Ans.** Interest on Capital: Mountain ₹ 37,000; Hill ₹ 26,500 and Rock ₹ 16,000.]

Fluctuating Capitals

5. (A) On 1st April, 2016 A and B commenced business with Capitals of ₹ 6,00,000 and ₹ 2,00,000 respectively. On 31st March, 2019 the trading profit (before taking into account the provisions of deed) was ₹ 2,40,000. Interest on capitals is to be allowed at 6 % p.a. B was entitled to a salary of ₹ 60.000 p.a. The drawings of the partners A and B ₹ 60,000 and ₹ 40,000 respectively. The interest on Drawings for A being ₹ 2,000 and B ₹ 1,000. Assuming that A and B are equal partners, prepare the Profit & Loss Appropriation A/c and Partner's Capital Accounts as at 31st March, 2019

[**Ans.** Divisible Profits ₹ 1,35,000, Capitals A ₹ 6,41,500 and B ₹ 12.98,500.]

Note: In the absence of information, Capitals will be treated fluctuating.

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

[**Ans.** Divisible Profit ₹ 23,476; Capital Account balance: Anubha ₹ 1,09,838 and Kajal ₹ 70, 162. Interest on Drawings: Anubha ₹ 213 and Kajal ₹ 163.]

Hint: Interest on Drawings will be charged for six months.

6. A and B started a partnership business on 1st April, 2018. They contributed ₹ 6,00,000 and ₹ 4,00,000 respectively, as their capitals. The terms of the partnership agreement are as under:
   (i) Interest on capital and drawings @ 6 % per annum.
   (ii) B is to get a monthly salary of ₹ 2,500.

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

The profit for the year ended 31st March, 2019, before making above appropriations was ₹ 2,07,400. The drawings of A and B were ₹ 48,000 and ₹ 40,000 respectively. Interest on drawings amounted to ₹ 1,500 for A and ₹ 1,100 for B.

Prepare profit and loss appropriation account and partner's capital accounts assuming that their capitals are fluctuating

[**Ans**. Divisible Profits ₹ 1,20,000: A's Capital Balance ₹ 6,58,500 and B's Capital Balance ₹ 4,60,900.]

7. X and Y are partners with capitals of ₹ 1,00.000 and ₹ 80,000 respectively on 1st April, 2016 and their profit sharing ratio is 2: 1. Interest on capital is agreed @ 12 % p.a. Y is to be allowed an annual salary of ₹ 6,000. The profit for the year ended 31st March, 2017 amounted to ₹ 50,000. Manager is entitled to a commission of 10 % of the profits.
   Prepare Profit and Loss Appropriation Account and Capital Accounts.

   [**Ans.** Divisible Profit ₹ 17.400; Commission to manager is 10 % of ₹ 50,000, i.e., ₹ 5,000. Balances of Capital Accounts: X ₹ 1,23,600 and Y ₹ 1,01,400.]

8. Asha and Lata are partners sharing profits in the ratio of 1: 2. Asha is entitled to a salary of ₹ 2,00,000 p.a. and a commission of 8 % of net profit before charging any commission. Lata is entitled to a commission of 8 % of net profit after charging her commission. Net Profit for the year ended 31st March, 2018 amounted to ₹ 5,40,000.
   Prepare Profit & Loss Appropriation Account.

   [**Ans.** Share of Profit: Asha ₹ 85,600 and Lata ₹ 1,71,200.]
9. A and B are partners in a firm sharing profits or losses in the ratio of 2: 3 with capitals of ₹ 4,00,000 and ₹ 8,00,000 respectively on 1st April, 2016. Each partner is entitled to 10 % p.a. interest on his capital B is entitled a commission of 10 % on net profit remaining after deducting interest on capital but before charging any commission . A is entitled a commission of 8 % of net profit remaining after deducting interest on capital and after charging all commissions. The profit for the year ended 31st March, 2017 prior to calculation of interest on capital was ₹ 6,00,000.
   Prepare Profit and Loss Appropriation Account.

   [**Ans.** Share of Profit A ₹ 1,60,000 and B ₹ 2,40,000; Commission to B ₹ 48,000 and to A ₹ 32,000.]

Fixed Capitals

10. Y and Z are partners with capitals of ₹ 25,000 and ₹ 15,000 respectively on 1st April, 2016. Each partner is entitled to 9 % p.a. interest on his capital. Z is entitled to a salary of ₹ 6,000 p.a.

together with a commission of 6 % of Net Profit remaining after deducting interest on capitals and salary and after charging his commission. The profits for the year ended 31st March, 2017 before making any of the above mentioned adjustments amount to ₹ 30,800. Prepare Partner's Capital Accounts : (i) when capitals are fixed, and (ii) when capitals are fluctuating.

[**Ans.** Divisible Profits ₹ 20,000.

(i) When capitals are fixed:
Current A/c balances: Y ₹ 12,250 (Cr.); Z ₹ 18,550 (Cr.)
Capital A/c balances: Y ₹ 25,000 (Cr.): Z ₹ 15,000 (Cr.)

(ii) When capitals are fluctuating:
Capital A/c balances: Y₹ 37,250 (Cr.), Z ₹ 33,550 (Cr.)]

Hint: When the profit sharing ratio of the partners is not given in the question, the profits will be shared equally.

11. (A). (Fixed Capital). L, M and N are partners in a firm sharing profits & losses in the ratio of 2: 3: 5

On April 1, 2016 their fixed capitals were ₹ 2,00,000, ₹ 3,00,000 and ₹ 4,00,000 respectively. Their partnership deed provided for the following:

(i) Interest on capital @ 9 % per annum .
(ii) Interest on Drawings @ 12 % per annum.
(iii) Interest on partner 's loan @ 12 % per annum.

On July 1, 2016, L brought ₹ 1,00,000 as additional capital and N withdrew ₹ 1,00,000 from his capital. During the year L, M and N withdrew ₹ 12,000, ₹ 18,000 and ₹ 24,000 respectively for their personal use. On January 1, 2017 the firm obtained a Loan of ₹ 1,50,000 from M. The Net profit of the firm for the year ended March 31. 2017 after charging interest on M's Loan was ₹ 85,000.

Prepare Profit & Loss Appropriation Account and Partner's Capital Accounts.

[**Ans.** Net Profit transferred to Current Accounts: L ₹ 1,448; M ₹ 2,172 and N ₹ 3,620.]

Hints:

(i) Interest on drawings will be charged for an average period of six months.
(ii) There will be no entry of interest on M’s Loan because net profit given in question is after charging interest on M's Loan.

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

[**Ans.** Interest on Capitals: A ₹ 24,400; B ₹ 11,600.]

Hint: Total capital of A and B = 2,10,000 + 90,000 = 3,00,000

Therefore, A's adjusted capital should be 3,00,000 × $\frac{2}{3}$ = 2,00,000

B's adjusted capital should be 3,00,000 × $\frac{1}{3}$ 1,00,000 will withdraw 10,000

A will withdraw ₹ 10,000 whereas B will bring in cash amounting to ₹ 10,000.

12. A, B and C were partners in a firm having capitals of ₹ 2,00,000; ₹ 2,00,000 and ₹ 80,000 respectively on 1st April, 2015. Their Current Account balances were A ₹ 20,000; B ₹ 10,000 and C ₹ 5,000 (Dr.). According to the partnership deed the partners were entitled to interest on capital @ 10 % p.a. B being the working partner was also entitled to a salary of ₹ 6,000 per quarter. The profits were to be divided as follows:
    (a) The first ₹ 60,000 in proportion to their capitals.
    (b) Next ₹ 1,00,000 in the ratio of 4: 3: 1.
    (c) Remaining profits to be shared equally.

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

    [**Ans.** Share of Profit: A ₹ 91,000; B ₹ 78,500 and C ₹ 38,500.]

13. A, B and C are partners with Fixed Capitals of ₹ 1,00,000; ₹ 2,00,000 and ₹ 3,00,000 respectively. Their partnership deed provides that
    (a) A is to be allowed a monthly salary of ₹ 600 and B is to be allowed a monthly salary of ₹ 400.
    (b) C will be allowed a commission of 5 % of the net profit after allowing salaries of A and B
    (c) Interest is to be allowed on Capitals @ 6 %.
    (d) Interest will be charged on partner 's annual drawings at 4 %.
    (e) The annual drawings were : B ₹ 10,000 and C ₹ 15,000.

    The net profit for the year ending 31st March, 2016 amounted to ₹ 1,72,000.

    Prepare Profit and Loss Appropriation Account.

    [**Ans.** Share of Profit ₹ 39,000 to each partner.]

14. A, B and C entered into partnership on 1st April 2016 with capital ₹ 10,00,000, ₹ 8,00,000 and ₹ 5,00,000 respectively. On 1st July 2016, B advanced ₹ 2,00,000 and on 1st December 2016 C advanced ₹ 1,00,000 by way of loans to the firm.
    The Profit and Loss Account for the year ended 31.3.2017 disclosed a profit of ₹ 7,70,000 but the partners could not agree upon the rate of interest on loans an profit sharing ratio. Prepare partner's Capital A/cs and Loan A/cs.

    [**Ans.** Balance of Capital A/cs A ₹ 12,53,000, B ₹ 10,53,000 and C ₹ 7,53,000]

Hint: In the absence of agreement , Interest on loan is to be paid @ 6 % p.a. and profit will be shared equally.

15. Lata and Mamta are partners with capitals of ₹ 3,00,000 and ₹2,00,000 respectively sharing profits as Lata 70 % and Manta 30 % During the year ended 31 March 2016 they earned a profit of 2,26,440 before allowing interest on partner's loan. The terms of partnership are as follows:
    (i) Interest on Capital is to be allowed @ 7 % p.a.
    (ii) Lata to get a salary of ₹ 2,500 per month.
    (iii) Interest on Mamta's Loan account of ₹ 80,000 for the whole year
    (iv) Interest on drawings of partners at 8% per annum. Drawings being Lata ₹ 36,000 and Mamta ₹ 48,000.
    (v) 1/10th of the distributable profit should be transferred to General Reserve.

    Prepare the Profit and Loss Apprupriation Account.

    [**Ans.** Share of Profit: Lata ₹ 1,00,800 and Mamta ₹ 43,200.]

    Hints:

    (i) Interest on loan will be calculated at 6 % p.a.
    (ii) Interest on Drawings will be calculated for an average period of 6 months
    (iii) Transfer to General Reserve will be 10 % of net profit , i.e. 10 % of 1,60,000 = ₹ 16.000

16. A. B and C are partners sharing the profits and losses in the ratio o 2: 3: 5. On 1st July, 2018, A and B granted loans of ₹ 2,00,000 and ₹ 1,00,000 respectively to the firm. Show the distribution of profits/losses for the year ended 31s March, 2019, in the following cases:

Case (a) If the profits before interest for the year amounted to ₹ 7,500. (b) If the loss before interest for the year amounted to ₹ 7,500.

[**Ans.** Case (a) Share of Loss A ₹ 1,200; B ₹ 1,800 and C ₹ 3,000;

Case (b) Share of Loss A ₹ 4,200; B ₹ 6,300 and C ₹ 10,500]

17. A, B and C are partners in a firm sharing profits and losses equally. On 1st April, 2018 their fixed capitals were ₹ 8,00,000, ₹ 6,00,000 and ₹ 6,00,000 respectively. On 1st October 2018, A advanced ₹ 1,00,000 to the firm whereas C took a loan of ₹ 1,50,000 from the firm on the same date. It was agreed among the partners that C will pay interest @ 10 % p.a.
    Profit for the year ended 31st March, 2019 amounted to ₹ 4,20,000 before a allowing or charging interest on loans. Pass journal entries for interest on loans and prepare Current Accounts of the partners.

    [**Ans.** Divisible Profit ₹ 4,24,500; Current Account Balances : A ₹ 1,41,500 (Cr); B ₹ 1,41,500 (Cr.) and C ₹ 1,34,000 (Cr.)]
    Hint. Interest on A's Loan will not he credited to his Current Account. It will be credited to his Loan A/c.

18. Radha and Rukmani are partners in a firm with fixed capitals of ₹ 2,00,000 and ₹ 3,00,000 respectively .

    They share profits in the ratio of 1: 2. Both partners are entitled to interest capitals @ 8 % per annum. In addition, Rukmani is entitled to a salary or ₹ 20.000 per month. Business is being carried from the property owned by Radha on a yearly rent of ₹ 1,20,000. Net Profit for the year ended 31st March 2018 before providing for rent was ₹ 5,50,000.

    You are required to draw Profit & Loss Appropriation Account for the year ended 31st March, 2018.

    [**Ans.** Share of Profit transferred to Radha's Current A/c 50,000 and Rukmani's Current A/c ₹ 1,00,000.]

19. P and Q are partners sharing profits and losses in the ratio of 60: 40. On 1st April, 2014, their capitals were: P - ₹ 5,00,000 and Q - 3,00,000. During the year ended 31st March, 2015, they earned a profit of ₹ 7,60,000. The terms of partnership are

    (i) Interest on the capital is to be charged @ 8 % p.a.
    (ii) P will get commission @ 3 % on turnover
    (iii) Q will get a salary of ₹ 5,000 per month.
    (iv) Q will get commission of 5 % on profits after deduction of interest, salary and commission (including his own commission)
    (v) P is entitled to a rent of ₹ 20,000 per month for the use of his premises by the firm.

    Partner's drawings for the year were: P- ₹ 40,000 and Q - ₹ 30,000. Turnover for the year was ₹ 20,00,000. After considering the above factors, you are required to prepare the Profit and loss Appropriation Account and the Capital Accounts of the Partners.

    [**Ans.** Share of Profit P ₹ 1,92,000 and Q ₹ 1,28,000. Balance of Capital A/cs P ₹ 7,52,000 and Q ₹ 4,98,000.]

    Hints:

    (i) Net Profit Credited to P & L Appropriation A/c : ₹ 7,60,000- Rent ₹ 2,40,000- ₹ 5,20,000
    (ii) Q's Commission $\frac{5}{105}$ of ₹ 3,36,000
    (iii) Rent will be credited to Rent Payable Account.

20. A and B are partners sharing profits and loss in the ratio of their capitals which were ₹ 6,00,000 and ₹ 4,00,000 respectively on 1st April 2018. The partnership deed provides that:

    (i) Both partners will get monthly salary of ₹ 20,000 each;
    (ii) Interest on capital will be allowed @ 8 % p.a.;
    (iii) A will get a quarterly rent of ₹ 24,000 for the use of his property by the firm.

    On 1st July, 2018 A and B granted loans of ₹ 1,00,000 and ₹ 50,000 respectively to the firm. During the year ended 31st March 2019, the firm incurred a loss of ₹ 17,250 before any adjustment is made as per partnership deed.

    Prepare an account showing the distribution of profit/loss.

[**Ans.** Share of Loss: A ₹ 72,000 and B ₹ 48,000.]

Hint: Salary to Partners and interest on capitals will not be provided and P & L App. A/c will not be prepared since the firm has sufferred loss.

21. A and B are partners in a firm sharing profits in the ratio of 1: 2. Their capitals on 1st April 2018 were ₹ 4,00,000 and ₹ 6,00,000 respectively. As per partnership deed, A is to get a monthly salary of ₹ 15,000 and interest on capitals is to be provided @ 10 % p.a. and charged on drawings @ 12 % p a . During the year A withdrew ₹ 30,000 and B withdrew ₹ 50,000.
The firm incurred a loss of ₹ 60,000 during the year ended 31st March, 2019 fore above adjustments. You are required to prepare an account showing the distribution of profit/loss.

[**Ans.** Share of Loss A ₹ 18,400 and B ₹ 36,800.]

Note: Although Profit & Loss Appropriation A/c is not prepared in case of loss, it will be prepared in this question because interest on drawings is to be credited to this account.

22. X and Y are partners in a firm sharing profits and losses in the ratio of 3: 2 with capitals of ₹ 10,00,000 and ₹ 5,00,000 respectively. As per the partnership deed they are to be allowed interest on capital @ 8 % p.a. The net profit for the year ended 3 1st March, 2016 before providing for interest on capital amounted to ₹ 45,000. Show the distribution of profit.

[**Ans.** Interest on capital allowed to X ₹ 30,000 and Y ₹ 15,000.]

23. Pooja and Archna are partners in a firm sharing profits and losses in the ratio of 2: 1. Their capital accounts as on 1st April, 2017 stand at ₹ 70,000 and ₹ 30,000 respectively . The partners are allowed interest on capital @ 10 %p.a. The drawings o the partners during the year ended 31st March, 2018 amounted to ₹ 4,800 and ₹ 3,600 respectively. Interest is charged on drawings at the rate of 10 % p.a.
Pooja has given a loan to firm as on 1st November, 2017 of ₹ 20,000.
The profit of the firm for the year ended 31st March, 2018 before above adjustments was ₹ 80,000. 10 % of this profit is to be kept in a Reserve Account.
Current A/c balance on 1st April, 2017 were Pooja ₹ 5,000 (Cr.); Archana ₹ 23,000 (Dr.).
Prepare Profit and Loss Appropriation Account and Partner's Current Account

[**Ans.** Divisible Profit : ₹ 61,920; Current Accounts Balances : Pooja: ₹ 48,240 (Cr.) and Archna: 3,140 (Dr.)]

[**Hints**:

(1) Interest on Pooja 's Loan will be allowed at 6 % p.a.
(2) The amount of Loan and the interest on loan is not recorded on Capital Accounts or Current Accounts.
(3) 10 % of ₹ 80,000, i.e., ₹ 8,000 will be shown on the debit side of P & L Appropriation A/c as Reserve
(4) Interest on drawings will be calculated for six months, as the date of drawings are not given.]

Interest on Drawings

24. (A). Mr. Ashok Gupta is a partner in a firm. He withdrew the following amounts during the year ended 31st March, 2018:-

	₹
April 30	8,000
June 30	6,000
Sept. 30	5,000
Dec. 31	12,000
Jan. 31	10,000

Calculate interest on drawings @ 9 % p.a. for the year ended on 31st March, 2018.

[**Ans.** Interest on Drawings ₹ 1,710.]

24. (B). A is a partner in a firm. During the year ended 31st March, 2018, A's drawings were:

	₹
1st June	1,000
1st August	750
1st October	1,250
1st December	500
1st February	500

Interest on drawings is charged @ 10 % per annum. Calculate interest on drawings of A for the year ended 31st March, 2018.

[**Ans.** Interest on Drawings ₹ 221.]

25. (A). Gopal is a partner in a firm. He withdrew ₹ 1,000 p.m. regularly on the first day of every month during the year ended 31st March, 2018 for personal expenses. If interest on drawings is charged @ 15 % p.a. Calculate the interest on the drawings of Gopal.

[**Ans.** Interest on Drawings ₹ 975.]

25. (B). X, Y and Z are partners in a firm. You are informed that (i) X draws ₹ 4,000 from the firm at the beginning of every month, (ii) Y draws ₹ 4,000 from the firm at the end of every month, and (iii) Z draws ₹ 4,000 from the firm in the middle of every month. Interest on drawings is to be charged @ 9 % p.a. Calculate interest on partner's drawings.

[**Ans.** Interest on Drawings X ₹ 2,340; Y ₹ 1,980 and Z ₹ 2,160.]

26. Calculate the interest on drawings of Mr. Aditya @ 8 % p.a. for the year ended 31st March, 2016, in each of the following alternative cases:

Case

(i) If he withdrew ₹ 5,000 in the beginning of each quarter

(ii) If he withdrew ₹ 6,000 at the end of each quarter

(iii) If he withdrew ₹ 10,000 during the middle of each quarter.

[**Ans.** Case (i) ₹ 1,000; Case (ii) ₹ 720; Case (iii) ₹ 1,600.]

27. Calculate the interest on drawings of sh. Ganesh @ 9 % p.a. for the year ended 31st March, 2016, in each of the following alternative cases:

Case

(i) If he withdrew ₹ 4,000 p.m. in the beginning of every month;

(ii) If he withdrew ₹ 5,000 p.m. at the end of every month.

(iii) If he withdrew ₹ 6,000 p.m;

(iv) If he withdrew ₹ 72000 during the year;

(v) If he withdrew as follows

	₹
30th April, 2015	10,000
1st July, 2015	15,000
1st Oct., 2015	18,000
30th Nov., 2015	12,000
31st March, 2016	20,000

(vi) If he withdrew ₹ 12,000 in the beginning of each quarter;

(vii) If he withdrew ₹ 18,000 at the end of each quarter;

(viii) If he withdrew ₹ 18,000 during the middle of each quarter.

[**Ans**. Case (i) ₹ 2,340; Case (ii) ₹ 2,475; Case (iii) ₹ 3,240; Case (iv) ₹ 3,240; Case (v) ₹ 3,008 Case (vi) ₹ 2,700, Case (vii) ₹ 2,430; Case (viii) ₹ 3,240.]

28. (A). Gupta is a partner in a firm. He drew regularly ₹ 800 at the beginning of every month for the six months ending 31st March, 2018. Calculate interest on drawings at 15 % p.a.

[**Ans**. Interest on Drawings ₹ 210.]

28. (B). Gupta is a partner in a firm. He drew regularly ₹ 800 at the end of every month for the six months ending 31st March, 2018. Calculate interest on drawings at 15 % p.a.

[**Ans**. Interest on Drawings 150.]

28. (C). A, B and C are partners in a firm. For six months ending 31st March, 2018:
A drew regularly ₹ 15,000 in the beginning of every month. B drew regularly ₹ 20,000 at the end of every month and C drew regularly ₹ 25,000 in the middle of every month.
Calculate interest on drawings @ 10 % p.a. for six months ending 31st March, 2018

[**Ans**. Interest on Drawings: A ₹ 2,625; B ₹ 2,500 and C ₹ 3,750.]

29. (A). A. B and C started business on 1st July, 2015. Calculate interest on drawings of Mr. A @ 9 % p.a. for nine months ending 31st March, 2016 , if he withdrew ₹ 10,000 p.m. in the beginning of every month.

[**Ans**. ₹ 3,375.]

29. (B). A. B and C started business on 1st July 2015. Calculate interest on drawings of Mr. B @ 9 % p.a. for nine months ending 31st March, 2016 if he withdrew ₹ 10,000 p.m. at the end of every month

[**Ans**. 2,700.]

29. (C). A, B and C started business on 1st July, 2015. Calculate interest on drawings of Mr. C @ 9 % p.a. for nine months ending 31st March, 2016, if he withdrew ₹ 10,000 p.m.

[**Ans**. ₹ 3,038)

30. Calculate interest on A's drawings:
(i) If he has withdrawn ₹ 60,000 on 1st October, 2015 and rate of interest or drawings is 8 % per annum.
(ii) If he has withdrawn ₹ 60,000 on 1st October, 2015 and rate of interest on drawings is 8 %. Books are closed on 31st March, 2016.

[**Ans**. Case (i) ₹ 2,400; Case (ii) ₹ 4,800]

31. Current Account's Balances as on 1st April, 2017 were as: - Amit: ₹ 5,000 (Cr.), Namit: ₹ 2,000 (Cr.) and Ruchi: ₹ 1,000 (Dr.). Profit sharing ratio was 3: 2: 1. Amit gets a monthly salary of ₹ 1,500.
Amit draws ₹ 2,000 on the first day of each month and Namit draws ₹ 2,000 on the last date of each month while Ruchi draws ₹ 26,000 at the end of each quarter. Interest on drawings is to be charged @ 12 % p.a. Profits for the year ended 31st March. 2018 before adjustments of interest on drawings and of salary were ₹ 74,040. Show Current Accounts.
[**Ans**. Divisible Profits ₹ 60,000; Current A/c Amit ₹ 27,440 (Cr); Namit ₹ 3,320 (Dr.); Ruchi ₹ 16,080 (Dr.)]
32. P, Q and R were partners and the balance of their capital accounts on 1st April 2015 were ₹ 8,00,000 (Credit), ₹ 5,00,000 (Credit) and ₹ 20,000 (Debit) on capitals is to be respectively. As per the terms of partnership agreement interest allowed @ 10 % p.a. and is to be charged on drawings @ 12 % p.a.
Partners withdrew as follows:
(i) P withdrew ₹ 10,000 p.m. at the end of each month;
(ii) Q withdrew ₹ 1,20,000 out of capital on ₹ 1st January 2016;
(iii) R withdrew ₹ 1,20,000 during the year.

The profit for the year ended 31st March, 2016 amounted to ₹ 4,30,000.

You are required to prepare journal entries and partner's capital accounts.

[**Ans**. Share of Profit ₹ 1,05,600 each. Balance of Capital Accounts P ₹ 8,59,000 (Cr); Q ₹ 5,32,600 (Cr); and R ₹ 41,600 (Dr).]

Hint: Interest on Drawings P ₹ 6,600 and R ₹ 7,200.

33. Active, Blunt and Circle started a business on 1st April, 2017 with capitals of ₹ 4,50,000, ₹ 6,00,000 and ₹ 3,50,000 respectively. According to partnership agreement

(i) Profit earned in any year will be distributed as under:
Upto ₹ 2,70,000 – equally
Excess over ₹ 2,70,000 - one-half to Active, one-sixth to Blunt and one-third o Circle.

(ii) Provide interest on capital and drawing @ 6 % p.a.

(iii) Circle is entitled to get a monthly salary of ₹ 4,000 and Blunt is entitled to get a monthly salary of ₹ 6,000. In addition to above, Circle and Blunt are entitled to get a commission of 5 % each on net profit after taking into consideration salary, interest and all commissions.

Drawings of the partners during the year were:

- Active withdrew regularly ₹ 5,000 at the beginning of every month.
- Blunt withdrew regularly ₹ 7,000 at the end of every month.
- Circle withdrew ₹ 80,000 during the year.

The profit of the firm for the year ending 31st March, 2018 before charging all of the above adjustments was ₹ 5,93,120.

Distribute the profit among the partners and prepare partners' Current A/cs.

[**Ans**. Divisible Profit ₹ 3,59,800; Commission to Blunt and Circle ₹ 17,990 each; Current Accounts: Active ₹ 99,950; Blunt ₹ 1,44,647 and Circle ₹ 1,24,523.]

Hint : Commission to Blunt and Circle: ₹ 3,95,780 × $\frac{5}{110}$ = ₹ 17,990 each.

34. A and B are partners sharing profits and losses equally with capitals of ₹ 3,00,000 and ₹ 2,00,000 respectively. Their drawings during the year ending on 31 March, 2018 are as follows:

A's drawings on

	₹
30-06-2017	20,000
31-07-2017	10,000
01-10-2017	10,000
01-03-2018	16,000

B drew ₹ 6,000 at the end of each month. The deed provides interest on capitals and drawings at 10 % p.a. Calculate interest on capitals and drawings.

[**Ans**. Interest on Capitals A ₹ 30,000: B ₹ 20,000, Interest on Drawings A ₹ 2,800; B ₹ 3,300.]

Interest on Capital

35. X and Yare partners sharing the profits and losses in the ratio of 2: 1 with capitals of ₹ 50,000 and ₹ 30,000 respectively. Show the distribution of profits in each of the following alternative cases

(i) If the partnership deed is silent as to the Interest on Capital and the profits for the year are ₹ 9,000.

(ii) If the partnership deed provides for Interest on Capital @ 6 % p.a. and the losses for the year are ₹ 6,000.

(iii) If the partnership deed provides for Interest on Capital @ 6 % p.a. and the profits for the year are ₹ 9,000.

(iv) If the partnership deed provides for Interest on Capital @ 6 % p.a. and the profits for the year are ₹ 3,000.

(v) If the partnership deed provides for Interest on Capital @ 6 % p.a. even if it involves the firm in loss and the profits for the year are ₹ 3,000

[**Ans**. Case (i) Profit X ₹ 6,000, Y ₹ 3,000; Case (ii) Loss X ₹ 4,000, Y ₹ 2,000; Case (iii) Profit X ₹ 2,800, Y ₹ 1,400; Case (iv) Interest on Capital X ₹ 1,875, Y ₹ 1,125; Case (v) Loss X ₹ 1,200, Y ₹ 600.]

36. A and B contribute ₹ 4,00,000 and ₹ 3,00,000 respectively as their capitals. They decide to allow interest on capital @ 8 % p.a. Their respective share of profit is 3: 2 and the profit for the year is ₹ 42,000 before allowing for interest on capitals. Show the distribution of profits (I) Where there is no agreement except for interest on capitals, and (II) Where there is a clear agreement that the interest on capitals will be allowed even if it involves the firm in loss.

[**Ans**. In first case, Interest on Capital A ₹ 24,000 and B ₹ 18,000. In second case, Loss A ₹ 8,400 and B ₹ 5,600.]

37. On 1-4-2013, Brij and Nandan entered into partnership to construct toilets in government girls schools in the remote areas of Uttarakhand. They contributed capitals of ₹ 10,00,000 and ₹ 15,00,000 respectively. Their profit sharing ratio was 2: 3 and interest allowed on capital as provided in the Partnership Deed was 12 % per annum. During the year ended 31.3.2014, the firm earned a profit of ₹ 2,00,000.

Prepare Profit and Loss Appropriation Account of Brij and Nandan for the year ended 31.3.2014

[**Ans**. Interest on Capital : Brij ₹ 80,000 and Nandan ₹ 1.20,000.]

38. Kavita and Leela are partners with capitals of ₹ 6,00,000 and ₹ 4,00,000 and sharing profits & losses in the ratio of 2 : 1. Their partnership deed that interest on capitals shall be provided @ 8 % p.a. and it is to be treated as a charge against profits. Prepare relevant account to allocate the profit in the following alternative cases:

(i) If profit for the year is ₹ 1,10,000

(ii) If profit for the year is ₹ 35,000

(iii) If loss for the year is 10,000

[Ans. Case

(i) Share of Profit: Kavita ₹ 20,000; Leela ₹ 10,000

(ii) Share of Loss: Kavita ₹ 30,000; Leela ₹ 15,000
(iii) Share of Loss: Kavita ₹ 60,000; Leela ₹ 30,000]

Hint: Interest on Capital will be recorded in Profit & Loss Account since it is a charge against profits.

39. Lalan and Balan were partners in a firm sharing profits in the ratio of 3: 2. Their fixed capitals on 1st April, 2017 were : Lalan ₹ 1,00,000 and Balan ₹ 2,00,000. They agreed to allow interest on capital @ 12 % per annum and to charge on drawing @ 15 % per annum. The firm earned a profit, before all above adjustments, or 30,000 for the year ended 31st March, 2018. The drawings of Lalan and Balan during the year were ₹ 3,000 and ₹ 5,000 respectively. Showing you calculations clearly, prepare Profit and Loss Appropriation Account of Lalan and Balan. The interest on capital will be allowed even if the firm incurs a loss.

[**Ans**. Net Loss transferred to Lalan's Current Account ₹ 3,240 and Balan's Current Account ₹ 2,160.]

40. On 1st April, 2018 X, Y and Z started a business in partnership. X contributes ₹ 90,000 at first but withdraws ₹ 30,000 at the end of six months. Y introduces ₹ 75,000 at first and increases it to ₹ 90,000 at the end of four months, but withdraws ₹ 30,000 at the end of eight months. Z brings in ₹ 75,000 at first but increases it by ₹ 60,000 at the end of seven months.

During the year ended 31st March, 2019, they make a net profit of ₹ 42,000. Show how the partners should divide this amount on the basis of effective capital employed by each partner

[**Ans**. Profit sharing ratio of X, Y and Z = 3: 3: 4.]

Adjustments in the Closed Accounts

41. (A). After the accounts of the partnership have been drawn up and the books closed off, it is discovered that interest on capitals @ 8 % p.a. as provided in the partnership agreement has been omitted to be recorded. Their capital accounts at the beginning of the year stood as follows: A ₹ 8,00,000; B ₹ 4,00,000: C ₹ 3,00,000. Their profit sharing ratio was 2: 1: 1. Instead of altering the Balance Sheet it is decided to pass necessary adjusting entry at the beginning of the next year.
You are required to give the necessary journal entry.
[**Ans**. C"s Capital A/c Dr. 6,000
To A's Capital A/c 4,000
To B's Capital A/c 2,000]

41. (B). Roshan, Mahesh, Gopi and Jai are partners sharing profits and losses in the ratio of 3: 3: 2: 2. The balances of capital accounts on 1st April, 2015 were: Roshan ₹ 8,00,000, Mahesh ₹ 5,00,000, Gopi ₹ 6,00,000 and Jai ₹ 6,00,000.
After the accounts for the year ended 31st March, 2016 were prepared, it was discovered that interest on capital @ 10 % per annum as provided in the partnership deed had not been credited to the partners' capital accounts before the distribution of profits.
You are required to rectify the error by passing a single adjusting journal entry
[**Ans**. Mahesh's Capital A/c Dr. 25,000
To Roshan's Capital A/c 5,000

To Gopi's Capital A/c 10,000

To Jai's Capital A/c 10,000

42. A, B and C are partners sharing profits and losses in the ratio of 1: 2: 3. They have omitted interest on capital @ 8 % p.a. for two years ended 31st March, 2016. Their fixed capitals were ₹ 4,00,000, ₹ 6,00,000 and ₹ 8,00,000 respectively. Pass the necessary adjusting entry

[**Ans**. C's Current A/c Dr. 16,000

To A's Current A/c 16,000]

43. A, B and C are partners sharing profits and losses in the ratio of 5: 3: 1. After the final accounts have been prepared, it was discovered that interest on drawings had not been taken into consideration. The interest on drawing of partners amounted to A ₹ 8,000, B ₹ 6,000 and C ₹ 4,000. Give the necessary adjusting journal entry.

[**Ans**. C's Capital A/c Dr 2,000

To A's Capital A/c 2,000]

44. A, B, C and D are partners sharing profits and losses in 2: 2: 3: 3 respectively. After the accounts of the year had been closed, it was found that interest on drawings @ 6 % p.a. has not been taken into consideration. The drawings of the partners were: A ₹ 20,000, B ₹ 24,000; C ₹ 32,000 and D ₹ 44,000. Give the necessary adjusting entry.

[**Ans**. D's Capital A/c Dr 240

To A's Capital A/c 120

To C"s Capital A/c 120]

45. A and B were partners sharing profits in 2: 1 ratio. During the year ended 31st March. 2016, A's drawings were ₹ 50,000 per month drawn in the beginning of every month and B's drawings were ₹ 25,000 per month drawn at the end of every month. After the preparation of final accounts, it was discovered that interest on A's drawings @ 12 % p.a. was not taken into consideration. Give the necessary adjusting entry on 1st April, 2016

[**Ans**. A's Capital A/c 13,000

To B's Capital A/c 13,000]

46. Anil, Sunil and Sanjay have omitted interest on Capitals for two years ended on 31st March, 2016. Their fixed capitals in two years were Anil ₹ 8,00,000, Sunil ₹ 7,00,000 and Sanjay ₹ 3,00,000. Rate of interest on Capital is 10 % p.a. Their profit Sharing ratios were in first year 4: 3: 2 and in second year 3: 2: 1.
Give necessary adjusting entry at the beginning of next year.

[**Ans**. Current A/cs of Anil & Sanjay will be debited by ₹ 10,000 each and Current A/c of Sunil will be Credited by ₹ 20,000.]

47. P Q and R are partners sharing profits in the ratio of 2: 1: 1. Their capitals as on 1st April, 2017 were ₹ 50,000, ₹ 30,000 and ₹ 20,000 respectively. At the end of the year ending 31st March. 2018 it was found out that interest on capitals @ 12 % p.a. salaries to P, ₹ 500 per month and R ₹ 1,000 per month were not adjusted from the profits. Show adjusting entry to be made in the next year for above adjustments

[**Ans**. Capital A/cs of P and Q will be debited by ₹ 3,000 and ₹ 3,900 respectively: and Capital A/c of R will be credited by ₹ 6,900.]

48. (A). On 1st April, 2015 the Capitals of A and B were ₹ 4,00,000 and ₹ 2,00,000 respectively. They divided profits in their capital ratio. Profits for the year ended 31st March, 2016 were ₹ 3,00,000 which have been duly distributed among the partners, but the following transactions were not passed through the books:-

(a) Interest on Capitals @ 12 % p.a.
(b) Interest on Drawings A ₹ 12,000; B ₹ 10,000.
(c) Commission due to B ₹ 20,000 on a special transaction.
(d) A is to be paid a salary of ₹ 50,000.

You are required to pass a journal entry on 10th April, 2016 which will not affect the P & L A/c of the firm and at the same time will rectify the errors.

[**Ans**. B's Capital A/c Dr. 6,000

To A's Capital A/c 6,000]

48. (B). Kumar and Raja were partners in a firm sharing profits in the ratio of 7: 3. Their fixed capitals were Kumar ₹ 9,00,000 and Raja ₹ 4,00,000. The partnership deed provided for the following but the profit for the year was distributed without providing for:

(i) Interest on capital @ 9 % per annum.
(ii) Kumar's salary ₹ 50,000 per year and Raja's salary ₹ 3,000 per month.

The profit for the year ended 31.3.2018 was ₹ 2,78.000.

Pass the adjustment entry

[**Ans**. Kumar's Current A/c Dr. 11,100

To Raja's Current A/c 11,100]

49. A, B and C are partners sharing profits in the ratio of 2: 2: 1. Their fixed capitals were ₹ 4,00,000, ₹ 2,50,000 and ₹ 1,00,000 respectively. Net profit for the year ending 31st March, 2017 amounted to ₹ 2,20,000 which was distributed without providing for the following

(i) Salary to B ₹ 5,000 p.m. and to C ₹ 10,000 per quarter.
(ii) Interest on capital @ 6 % p.a.
(iii) Commission to Manager @ 10 % after charging such commission.

Pass necessary rectifying entry.

[**Ans**. A's Current A/c 42.000

To B's Current A/c 9,000

To C"s Current A/c 13,000

To Manager's Commission Outstanding A/c 20,000]

50. Suresh and Ramesh were partners in a firm sharing profits in the ratio of 3: 2. Their fixed capitals were: Suresh ₹ 9,00,000 and Ramesh ₹ 6,00,000. The partnership deed provided for the following

(i) Interest on capital @ 5 % per annum.

(ii) ₹ 60,000 per annum salary to Suresh and salary ₹ 2,000 per month to Ramesh. The profit earned by the firm for the year ended 31-3-2018 was ₹ 2,34,000.

The profits were divided equally without providing for the above.

Pass adjustment entry

[**Ans**. Ramesh's Current A/c Dr. 33,000

To Suresh's Current A/c 33.000]

51. A,B and C were partners in a firm. On 1-4-2015 their capitals stood at ₹ 5,00,000, ₹ 2,50,000 and ₹ 2,50,000 respectively. As per the provisions of the partnership deed:
    (a) C was entitled for a salary of ₹ 10,000 p.m.
    (b) Partners were entitled to interest on capital at 5 % p.a.
    (c) Profits were to be shared in the ratios of capitals.

    The net profit for the year ended 31.3.2016 of ₹ 3,30,000 was divided equally without providing for the above terms.

    Pass an adjustment entry to rectify the above error.

    [**Ans**. ₹

    A's Capital A/c 5,000

    B's Capital Ac 57,500

    To C's Capital A/c 62,500]

52. A, B and C were partners in a firm. Their capitals were d ₹ 1,00,000, B ₹ 2,00,000 and C ₹ 3,00,000 respectively on 1st April, 2017. According to the partnership deed they were entitled to an interest on capital @ 5 % p.a. In addition A was also entitled to draw a salary of ₹ 5,000 per month. C was entitled to a commission of 5 % on the profits after charging the interest on capital but before charging the salary payable to A. The net profits for the year ending 31st March, 2018 were ₹ 3,60,000 distributed in the ratio of their capitals without providing for any

of the above adjustments. The profits were to be shared in the ratio 2: 3: 5. Pass the necessary adjustment entry showing the workings clearly

[**Ans**. B's Capital A/c Dr. 33,950

C's Capital A/c Dr.21,750

To A's Capital A/c 55,700]

53. The partners of a firm distributed the profits for the year ended 31st March 2016, ₹ 1,50,000 in the ratio of 2: 2: 1 without providing for the following adjustments:
(i) A and B were entitled to a salary of ₹ 1,500 per quarter.
(ii) C was entitled to a commission of ₹ 18,000.
(iii) A and C had guaranteed a minimum profit of ₹ 50,000 p.a. to B
(iv) Profits were to be shared in the ratio of 3: 3: 2.

Pass necessary journal entry for the above adjustments in the books of the firm.

[**Ans**. A's Capital A/c Dr. 12,000

B's Capital A/c Dr. 4,000

To C"s Capital A/c 16,000]

54. A. B and C were partners in a firm. Their partnership deed provided that the profits shall be divided as follows:
First ₹ 60,000 in the ratio of 3: 2: 1;
Remaining profits will be shared equally
The profits for the year ended 31st March, 2019 were ₹ 1,50,000 which had been distributed among the partners. On 1st April, 2018 their Capitals were A ₹ 4,00,000, B ₹ 3,00,000 and C ₹ 2,00,000. Interest on Capital was to be provided @ 8 % p.a. which was omitted to be provided before distribution of profits.
Pass necessary rectifying entry for the same.
[**Ans**. C's Capital A/c Dr. 8,000
To A's Capital A/c 8,000]
55. X Y and Z are partners in a firm sharing profits and losses in the ratio 5: 3: 2. Their capitals (fixed) are ₹ 2,00,000; ₹ 1,50,000; ₹ 1,25,000 respectively. For the year ended 31st March. 2018 interest on capital was credited to them @ 8 % instead of 10 %.
Give adjusting journal entry
[**Ans**. X's Current A/c will be debited by ₹ 750; Y and Z's Current A/cs will be credited by ₹ 150 and ₹ 600 respectively.]
56. A, B and C are partners in a firm sharing profits and losses in the ratio of 4: 3: 3. Their fixed capitals were ₹ 1,00,000, ₹ 2,00,000 and ₹ 3,00,000 respectively. For the year ended 31st March. 2018 interest on capital was credited to them @ 10 % instead of 9 % p.a. Pass the necessary adjusting journal entry.

[**Ans**. B's Current A/c Dr. 1,200

C's Current A/c Dr. 200

To A's Current A/c 1,400]

Note: Since the capitals are fixed, Current Accounts will be debited or credited.

57. After the accounts of a partnership have been drawn up and the books closed off, it is discovered that for the years ended 31st March, 2016 and 2017, interest has been credited to the partners upon their capitals at 5 % per annum although , no provision for interest is made in the partnership agreement.

The amounts involved are:

Year	- Interest Credited		
	A	B	C
	₹	₹	₹
2016	4,200	2,400	1,320
2017	4,320	2,520	1,320

You are required to put through adjusting entry as on 1st April, 2017, if the profits were shared as follows in 2016, 2: 2: 1 and in 2017, 3: 4: 3

[**Ans**. A's Capital A/c Dr. 2,904

To B's Capital A/c 1,512

To C's Capital A/c 1,392]

58. Sachin, Kapil and Rashmi have been sharing profits in the ratio of 3: 2: 1 respectively. Rashmi wants that she should share profits equally along with Sachin and Kapil and she further wants that change in profit sharing ratio should be applicable retrospectively for the last three years. Other partners have no objection to this. The profits for the last three years were ₹ 60,000, ₹ 47,000 and ₹ 55,000. Record the adjustment by means of a journal entry.

[**Ans**. Sachin's Capital A/c Dr. 27,000

To Rashmi's Capital A/c 27,000]

59. (A). Mohan, Vijay and Anil are partners, their capitals being ₹ 30,000 ₹ 25,000 and ₹ 20,000 respectively. In arriving at these figures, the profits for the year ended, 31st March, 2018 ₹ 24,000 has already been credited to the partners in the proportion in which they share profits. Their drawings were ₹ 5,000 (Mohan); ₹ 4,0000 (Vijay) and ₹ 3,000 (Anil) for the year ending 31st March, 2018. Subsequently the following omissions were noticed and it was decided to bring them into Account.
    (i) Interest on Capital at 10 % p.a.
    (ii) Interest on Drawings Mohan ₹ 250, Vijay ₹ 200 and Anil ₹ 150.

    Make the necessary journal entry and prepare Capital Accounts of Partner's.

[**Ans**. Opening Capitals - Mohan ₹ 27,000, Vijay ₹ 21,000, Anil ₹ 15,000; Dr. Anil's Capital by ₹ 550 and Cr. Mohan's Capital by ₹ 550. Adjusted Capital accounts balances Mohan ₹ 30,550; Vijay ₹ 25,000; Anil ₹ 19,450.]

59. (B). The capitals of A, B and C stood at ₹ 20,000, ₹ 15,000 and ₹ 10,000 respectively after the necessary adjustment in respect of drawings and net profits Subsequently , it was discovered that interest on capital at 10 % p.a. and interest on drawings ₹ 130, ₹ 90 and ₹ 50 respectively have been ignored. Profit of the year already adjusted was ₹ 10,000. Drawings of the partners were ₹ 1,000, ₹ 800 and ₹ 500 respectively. They share profits and losses in the ratio of 2: 1: 1. Give necessary journal entry to rectify the accounts.

[**Ans**. Opening Capitals: A ₹ 16,000; B ₹ 13.300 and C ₹ 8,000; Debit A's Capital A/c by ₹ 260 and C's Capital A/c by ₹ 115 and Credit B's Capital A/c by ₹ 375.]

59. (C). A and B are partners in a business sharing profits and losses in the ratio of 3: 2. Their capitals on 31st March, 2018, after the adjustment of net profits and drawings amounted to ₹ 2,00,000 and ₹ 1,50,000 respectively. Later on, it was discovered that interest on Capital at 8 % per annum, as provided for in the partnership deed, had not been credited to the partner's capital accounts before the distribution of profits. The year's net profit amounted to ₹ 75,000 and the partners had withdrawn ₹ 24,000 each. Instead of altering the signed balance sheet, it was decided to make an adjustment entry at the beginning of the new year crediting or debiting the Partner's Accounts. Give the necessary journal entry as also a statement of details arriving at the amount of adjusting entry

[**Ans**. Opening Capitals A ₹ 1,79,000 and B ₹ 1,44,000; Debit A's Capital A/c by ₹ 1,184 and Credit B's Capital A/c by ₹ 1,184.]

60. Assuming the capitals are fixed in Question 59 (A), (B) and (C), give the necessary adjusting journal entry

[**Ans**.		₹	₹
(A)	Anil's Current A/c	Dr. 450	
	To Mohan's Current A/c		450
(B)	A's Current A/c	Dr. 245	
	C's Current A/c	Dr. 107.50	
	To B's Current A/c		352.50
(C)	A's Current A/c	Dr. 800	
	To B's Current A/c		800]

61. On 31st March, 2014, the balances in the capital accounts of Esha, Manav and Daman after making adjustments for profits and drawings were ₹ 3,20,000, ₹ 2,40,000 and ₹ 1,60,000 respectively. Subsequently, it was discovered that the interest on capital and drawings had been omitted.
    - The profit for the year ended on 31st March, 2014 was ₹ 90,000.
    - During the year, Esha and Manav each withdrew a sum of ₹ 48,000 in equal instalments in the middle of every month and Daman withdrew ₹ 60,000.

- The interest on drawings was to be charged @ 5 % per annum and interest on capital was to be allowed @ 10 % per annum.
- The profit-sharing ratio of the partners was 3: 2: 1.

Showing your workings clearly, pass the necessary rectifying entry.

[**Ans**. Opening Capitals: Esha ₹ 3,23,000; Manav ₹ 2,58,000 and Daman ₹ 2,05,000, Debit Esha's Capital A/c by ₹ 6,250 and Manav's Capital A/c by ₹ 300 and Credit Daman's Capital A/c by ₹ 6,550.]

62. A and B are partners in a firm sharing profits and losses in the ratio of2: 1. The following was the Balance Sheet of the firm as at 31.3.2016.

Liabilities	₹	Assets	₹
Capitals: A	6,00,000	Sundry Assets	10,00,000
B	4,00,000		
	10,00,000		10,00,000

The profits ₹ 4,50,000 for the year ended 31.3.2016 were divided between the partners without allowing interest on capital @ 9 % p.a. and without charging interest on drawings @ 12 % p.a. During the year A withdrew ₹ 1,00,000 and B ₹ 50,000.
Pass the necessary adjustment journal entry and show your working clearly

[**Ans**. A's Capital A/c 6,000
To B's Capital A/c 6,000]

Hint: Interest on drawings will be charged for 6 months.

63. A and B are partners in a firm sharing profits and losses in the ratio of2: 3. The following was the Balance Sheet of the firm as at 31.3.2016.

Liabilities		₹	Assets	₹
Capitals: A	4,90,000		Sundry Assets	7,90,000
B	3,00,000	7,90,000		
		7,90,000		7,90,000

Profits ₹ 2,00,000 for the year ended 31.3.2016 were divided between the partners without allowing interest on capital @ 6 % p.a., interest on drawings @ 10 % p.a. and salary to B @ ₹ 5,000 per month. During the year A withdrew ₹ 40,000 and B withdrew ₹ 20,000.
Showing your working notes clearly, pass the necessary rectifying entry.

[**Ans**. A's Capital A/c Dr. 13,400
To B's Capital A/c 13,400]

64. A and B are partners sharing profits and losses in the ratio of 3: 1. Following is the Balance Sheet of the firm as at 31st March, 2015.

Liabilities	₹	Assets		₹
A's Capital	90,000	Drawings:		
B's Capital	30,000	A	12,000	

		B 6,000 Sundry Assets	18,000 1,02,000
	1,20,000		1,20,000

Profit for the year ended 31st March, 2015 ₹ 24,000 was divided between the partners in their profit sharing ratio, but interest on capital at 5 % p.a. and on drawings at 6 % p.a. was inadvertently ignored Give the necessary adjustment entry for the adjustment of interest. Interest on drawings may be calculated on an average basis for 6 months.

[**Ans**. B's Capital A/c Dr. 45
To A's Capital A/c 45]

65. From the following Balance Sheet of A and B, calculate interest on capital at 5 % p.a. for the year ending 31st March, 2015:

BALANCE SHEET
as at 31st March, 2015

Liabilities	₹	Assets	₹
A's Capital B's Capital P and I. Appropriation A/c 2014-15	1,00,000 80,000 40,000	Fixed Assets Current Assets Drawings -B	1,40,000 60,000 20,000
	1,20,000		1,20,000

Profit during the year ended 31st March, 2015 was ₹ 70,000. A and B share profits in the ratio of 2: 1. Drawings during the year ended 31st March, 2015 were A ₹ 16,000 and B ₹ 20,000.

[**Ans**. Interest on Capitals: A ₹ 4,800, B ₹ 23,500]

Adjustment Entries in place of a Single Journal Entry

66. The Capital Accounts of P. Q and R stood at ₹ 2,00,000; ₹ 1,50,000 and ₹ 1,00,000 respectively after the necessary adjustments in respect of drawings and net profit for the year ended 31st March, 2019. It was subsequently ascertained that interest on capital @ 10 % p.a. was not taken into account while arriving at the divisible profits for the year.
Drawings during the year 2018-19 had been: P ₹ 5,000 per month; Q ₹ 15,000 quarterly and R ₹ 30,000.
The net profit for the year amounted to ₹ 1,80,000 and partners shared profits and losses in the ratio of 2: 2: 1. You are required to pass the necessary journal entries to rectify the lapse in accounting.
[**Ans**. Opening Capitals: P ₹ 1,88,000; Q ₹ 1,38,000 and R ₹ 94,000; Corrected Net Profit ₹ 1,38,000.]
Hints:
(i) Entry will be passed for withdrawing the profit of ₹ 1,80,000 already distributed among the partners.
(ii) Entries will be passed for interest on capital ₹ 42,000.

(iii) Entry will be passed for distributing the corrected Net Profit of ₹ 1,38,000 among the partners.

In the Absence of Partnership Deed

67. A and B were in partnership. They do not have any partnership deed. A presented the following Profit and Loss Appropriation Account:-

PROFIT AND LOSS APPROPRIATION ACCOUNT

Dr. for the year ended 3ist March, 2019 Cr.

Particulars		₹	Particulars		₹
To Interest on Capital @ 10 % p.a.			By Profit & Loss A/c		
A on ₹ 2,00,000	20,000		(Profit for the year)		1,08,300
B on ₹ 1,00,000	10,000	30,000	By Interest on Drawings		
To Salary to A		12,000	@ 10 % p.a.		
To Interest on A's Loan @ 15 % p.a.		3,000	A on ₹ 15,000	1,500	
To Profit:			B on ₹ 12,000	1,200	2,700
A's Capital A/c 2/3	44,000				
B's Capital Ale 1/3	22,000	66,000			
		1,11,000			1,11,000

Should B accept it? In case you don't advise him to accept it then, redraw it.

[**Ans**. Interest on Loan ₹ 1,200. Profit ₹ 53,550 each.]

[**Hint**: Interest on Capital, Interest on Drawings and Salary to A will not be taken to the P & L. Appropriation Ac.]

Guarantee of Minimum Share of Profit

68. (A). A, B and C were in Partnership sharing profits four-seventh, two-seventh and one-seventh respectively. It being provided that in no year C"s share be less than ₹ 1,80,000.
The Profit for the year ending 31st March, 2016 amounted to ₹ 10,50,000. You are required to show the appropriation of profit between the partners.
[**Ans**. Share of Profit A ₹ 5,80,000; B ₹ 2,90,000 and ₹ 1,80,000.]

68. (B). A, B and C are partners with capitals of ₹ 8,00,000, ₹ 6,00,000 and ₹ 5,00,000 respectively. After providing interest on capital at 8 % p.a. they divide profits in the ratio of $\frac{1}{2}$: $\frac{1}{3}$: $\frac{1}{6}$. A and B have guaranteed that C's share shall not be less than ₹ 1,00,000.
During the year A and B have each withdrawn ₹ 2,00,000 and C ₹ 1,00,000. The net profit for the year, before providing interest on partner's capitals was ₹ 5,12,000 You are required to show the Current Accounts of the partners.
[**Ans**. Balances of Current Accounts A ₹ 20,000 (Cr); B ₹ 48,000 (Dr.) and C ₹ 40,000 (Cr.]

69. (A).A, B and C are partners in a firm. Their profit sharing ratio is 3: 2: 1 However, C is guaranteed a minimum amount of ₹ 10,000 as share of profits every year. Any deficiency arising on that account shall be met by A. The profits for the two years ending 31st March, 2015 and 2016 were ₹ 30,000 and ₹ 90,000 respectively.
Prepare Profit and Loss Appropriation Account for the two years.
[**Ans**. 1st year ₹ 10,000 each. 2nd year A ₹ 45,000; B ₹ 30,000 and C ₹ 15,000]

69. (B). X, Y and Z are partners with capitals of ₹ 4,00,000; ₹ 3,00,000 and ₹ 2,00,000 respectively. They charge 8 % p.a. interest on their capitals and divide profits in the ratio of 3: 2: 1. X has guaranteed that Z's share shall not amount to less than ₹ 50,000 in any one year.
Their Drawings during the year were ₹ 50,000; ₹ 40,000 and ₹ 35,000 respectively. Net profits for the year before providing interest on capitals was ₹ 2,52,000. Prepare P & L. Appropriation A/c and capital accounts.
[**Ans**. Profits X ₹ 70,000; Y ₹ 60,000; Z ₹ 50,000.]
70. S, T, W and X are partners sharing profits in the ratio of 4: 3: 2: 1. X is given a guarantee that his share of profits in any given year would be ₹ 80,000. Deficiency if any, would be borne by other partners equally. The profits for the year ended 31st March, 2016 amounted to ₹ 6,50,000. Pass necessary entries in the books of the firm
[**Ans**. Final share in profits: S ₹ 2,55,000; T ₹ 1,90,000; W ₹ 1,25,000 and X 80,000.
71. Vikas and Vivek were partners in a firm sharing profits in the ratio of 3: 2. On 1-4-2014 they admit Vandana as a new partner for 1/8th share in the profits with a guaranteed profit of ₹ 1,50,000. The new profit sharing ratio between Vikas and Vivek will remain the same but they decided to bear any deficiency on account of guarantee to Vandana in the ratio 2: 3. The profit of the firm for the year ended 31-3-2015 was ₹ 9,00,000. Prepare Profit and Loss Appropriation Account of Vikas, Vivek and Vandana for the year ended 31-3-2015.
[**Ans**. Share of Profit Vikas ₹ 4,57,500; Vivek ₹ 2,92,500 and Vandana ₹ 1,50,000.]
72. A, B and C were partners sharing profits and losses in the ratio of 3: 2: 1. Their capitals on 1st April, 2017 were:
A ₹ 5,00,000; B ₹ 3,00,000 and C ₹ 2,00,000
A had personally guaranteed that in any year C's share of profit after allowing interest on capital to all partners @ 8 % p.a. and charging interest on drawings @ 10 p.a. will not be less than ₹ 1,00,000.
The net profit for the year ended 31st March, 2018, before allowing or charging any interest amounted to ₹ 4,32,000.
A has withdrawn ₹ 5,000 at the end of every month.
B has withdrawn ₹ 15,000 at the end of every quarter.
C has withdrawn 360,000 during the year.
Prepare Profit and Loss Appropriation Account for the year 2017-18.
[**Ans**. Share of Profit A ₹ 1,40,000; B ₹ 1,20,000 and C ₹ 1,00,000.]
73. A, B and C were in partnership sharing profits in the ratio of 1: 2: 3. Their fixed capitals on 1st April, 2018 were: A ₹ 3,00,000; B ₹ 4,50,000 and C ₹ 10,00,000. Their partnership deed provided for the following:
    (i) A provides his personal office to the firm for business use charging yearly rent of ₹ 1,50,000.
    (ii) Interest on capital @ 8 % p.a. and interest on drawings @ 10 % p.a.
    (iii) A was allowed salary @ ₹ 10,000 per month
    (iv) B was allowed a commission of 10 % of net profit as shown by Profit & Loss Account, after charging such commission.
    (v) C was guaranteed a profit of ₹ 3,00,000 after making all the adjustments.

The net profit of the firm for the year ended 31st March, 2019 was ₹ 10,30,000 before making above adjustments.

You are informed that A has withdrawn ₹ 5,000 at the beginning of each month, B has withdrawn ₹ 5,000 at the end of each month and C' has withdrawn ₹ 24,000 at the beginning of each quarter.

Prepare Profit and Loss Appropriation Account and Partner's Current Accounts.

[**Ans**. Divisible Profit ₹ 5,52,000; Share of Profit A ₹ 84,000; B ₹ 1,68,000 and C ₹ 3,00,000. Balances of Current Accounts: A ₹ 1.64,750; B ₹ 2,21,250 and C ₹ 2,78,000.]

Hints: (i) Commission to B ₹ 80,000; (ii) Total Interest on Drawings ₹ 12,000.

74. Ram, Mohan and Sohan were partners. They admit Rakesh as a partner and guaranteed that his share of profit shall not be less than ₹ 70,000. Profits are to be shared in the ratio of 4: 3: 2: 1 but excess claimed by Rakesh over his normal share has been guaranteed by Ram and Mohan in the ratio of 2: 1. If total profits were ₹ 4,00,000, prepare a statement showing distribution.
[**Ans**. Final share in profit is as follows: Ram ₹ 1,40,000; Mohan ₹ 1,10,000; Sohan ₹ 80,000; Rakesh ₹ 70,000.]
75. X and Y were sharing profits in the ratio of 2: 1. On 1st April, 2014 they admitted Z for 1/4th share in the profits. Z is guaranteed a minimum profit of ₹ 1,00,000 for the year. Any deficiency in Z's share is to be borne by X and Y in the ratio of 3:2 losses for the year ending 31st March, 2015 amounted to ₹ 1,20,000. Record necessary entries.
[**Ans**.
(i) First of all, loss of ₹ 1,20,000 will be debited to X, Y and Z in their new profit sharing ratio of 2: 1: 1.
(ii) Thereafter, Z's deficiency of ₹ 1,30,000 will be borne by X and Y in 3: 2.]
76. A, B and C are partners sharing profits in the ratio of 4: 3: 2. It was provided that B's share of profit will not be less than ₹ 1,50,000 per annum. The losses for the year ended 3 1st March, 2015 were ₹ 85,000, before allowing interest on Loan of ₹ 1,00,000 taken from A on 1st June, 2014.
You are required to show necessary account for division of loss and pass necessary journal entries.
[**Ans.**
(i) First of all, loss of ₹ 90,000 (₹ 85,000 + Interest ₹ 5,000) will be debited to A, B and C in 4: 3: 2.
(ii) Thereafter, B's deficiency of ₹ 1,80,000 will be borne by A and C in 4:2.
77. **(HOTS)** Ali, Bimal and Deepak are partners in a firm. On 1st April, 2011 their capital accounts stood at ₹ 4,00,000, ₹ 3,00,000 and ₹ 2,00,000 respectively. They shared profits and losses in the proportion of 5: 3: 2. Partners are entitled to interest on capital @ 10 % per annum and salary to Bimal and Deepak @ ₹ 2,000 per month and ₹ 3,000 per quarter respectively as per the provisions of the partnership deed.

Bimal's share of profit (excluding interest on capital but including salary) is guaranteed at a minimum of ₹ 50,000 p.a. Any deficiency arising on that account shall be met by Deepak. The profits of the firm for the year ended 31st March, 2012 amounted to ₹ 2,00,000. Prepare Profit & Loss Appropriation Account for the year ended on 31st March, 2012.

[**Ans.** Final Share of Profit Ali ₹ 37,000; Bimal ₹ 26,000 and Deepak ₹ 11,000. Deficiency of Bimal borne by Deepak ₹ 3,800.]

78. **(HOTS)** Ajoo and Bajoo were in partnership sharing profits and losses in the proportion of 4/5 and 1/5 respectively. In appreciation of the services of their employee Sajoo who was in receipt of salary of ₹ 2,400 p.a. and a commission of 5 % on the net profits after charging such salary and commission, they took him into partnership as from 1-4-2018 giving him 1/8th share of the profit.

    The agreement provided that any excess over his former remuneration to which Sajoo becomes entitled will be paid out of Ajoo's share of profits.

    The profits for the year ended 31st March, 2019 amounted to ₹ 57,000. Divide this between the partners.

    [**Ans**. Profit Ajoo ₹ 39,475; Bajoo ₹ 10,400; Sajoo ₹ 7,125]

79. **(HOTS)** P, Q and R are in partnership. P and Q sharing profits in the ratio of 4: 3 and R receiving a salary of ₹ 20,000 p.a. plus a commission of 10 % of the profits after charging his salary and commission, or 1/6th of the profit of the firm whichever is more. Any excess of the latter over the former received by R is partnership deed, to be borne by P and Q in the ratio of 3: 2. The profit for the year ending 31st March, 2019 came to ₹ 3,85,000 after charging R's salary.

    Divide the profits among partners.

    [**Ans.** Profit P ₹ 1,92,500; Q ₹ 1,45,000 and R ₹ 67,500.]