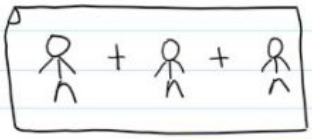
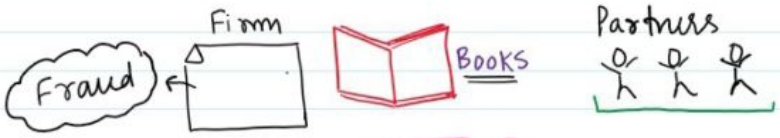
CH : Accounting for Partnership Firms
(FUNDAMENTALS)



→ According to "Section 4" of Indian Partnership Act, 1932,
" Partnership is the relation between persons who have agreed to share the profits of business carried on by all or any of them acting for all."

→ The persons who have entered into a partnership with one another individually are called PARTNERS and collectively FIRM. The name under which business is carried is called FIRM NAME

(*) →



अलग - 2

* Partnership is separate legal entity - NO

* Partnership is separate Accounting entity - YES
(Refer Accounting entity principle - class 11)

→ Essential Features of Partnership (Characteristics)

• Two or more persons.

पहले MAX 100

Minimum - 2
Maximum - 50

Sec 464 of Companies Act, 2013

Companies (Miscellaneous) Rules, 2014

• Agreement
- → oral agreement : Valid
- → written agreement : Valid

→ written agreement : valid
(Partnership Deed)

- ✓ Partnership must carry a lawful business

* 

Gain 2000

Mobile phone purchased for ₹10,000 → Mobile phone sold for ₹12,000

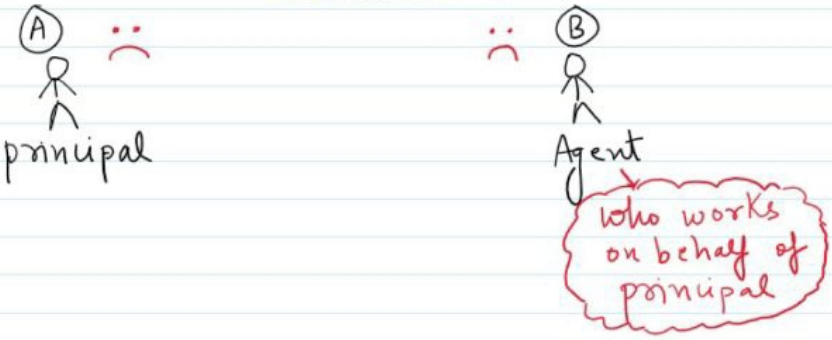
Is this Partnership ?
NO, they are not doing business

- ✓ Profit sharing must be there.

* Sharing of Loss is not mandatory
(i.e there can be a partner in profits only)

मैं Loss नहीं लूँगा

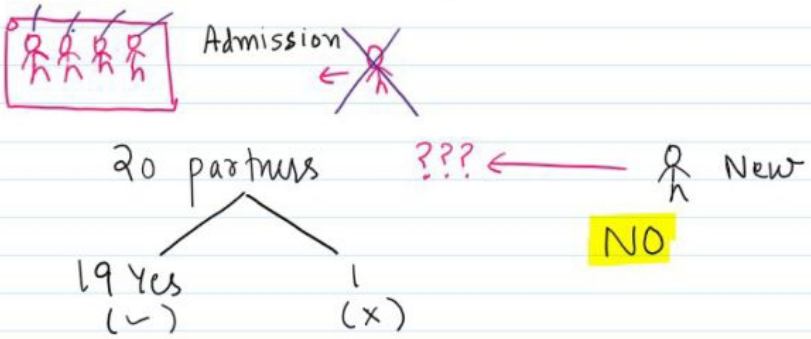
- Mutual Agency - A partner can be principal or agent of other partners.
  → It is the true test of partnership



→ Rights of Partners (अधिकार)

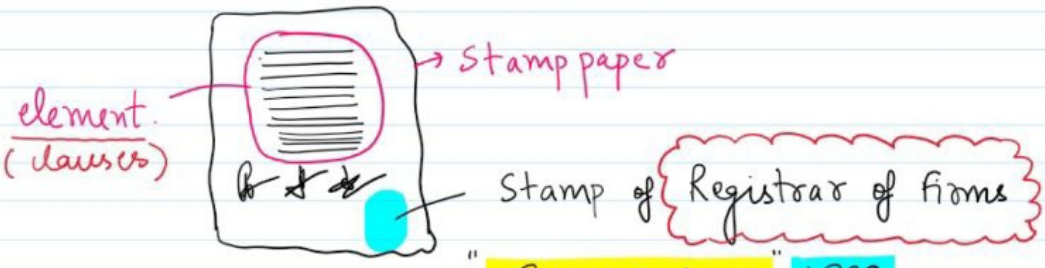
- Every partner has the right to participate in management of business.
- Every partner has the right to be consulted about business matters

- Every partner has the right to be consulted about business matters.
- Every partner has the right to inspect the books of Account
- Every partner has the right to share profit or loss
- Every partner has the right to disallow admission of new partner.
- Every partner has the right to retire (leave) from the firm (after giving proper notice)
- Every partner who has advanced loan to the firm receive interest on it (6% p.a if nothing specified)



→ Partnership Deed

- Partnership deed is a written document containing details of partnership i.e terms and conditions



INDIAN "STAMP ACT", 1899

** Q - Why is it important to prepare partnership deed ?

Ans ⇒ (i) It regulates the rights, duties of each partner and avoid any misunderstanding amongst the partners

amongst the partners

(ii) Any dispute amongst the partners may be settled easily with the help of partnership deed.

(iii) Partnership deed is considered as evidence in court.

Q - What are the elements of Partnership deed ??

Ans:- (i) Description of the partners
- Name, address etc

(ii) Description of firm

(iii) Principal place of business

(iv) Nature of business

(v) Commencement of Partnership

(vi) Profit sharing Ratio

(vii) Interest on Capital

(viii) Interest on drawings

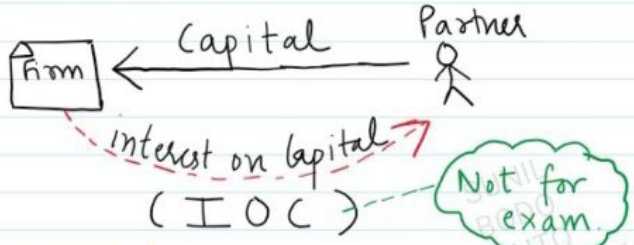
(ix) Interest on loan

(x) Partner's Salary

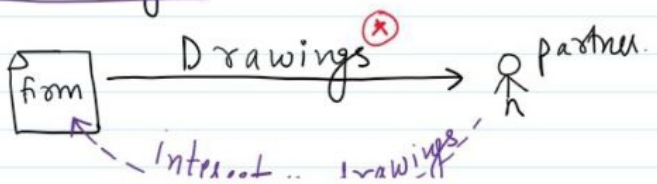
(xi) Partner's Commission etc etc

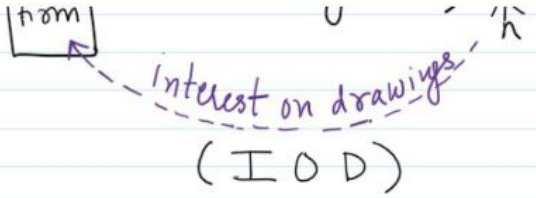
* BASIC CONCEPTS *

① Interest on Capital



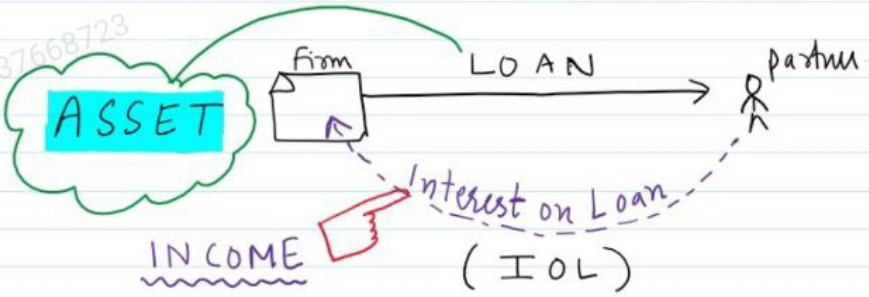
② Interest on drawings



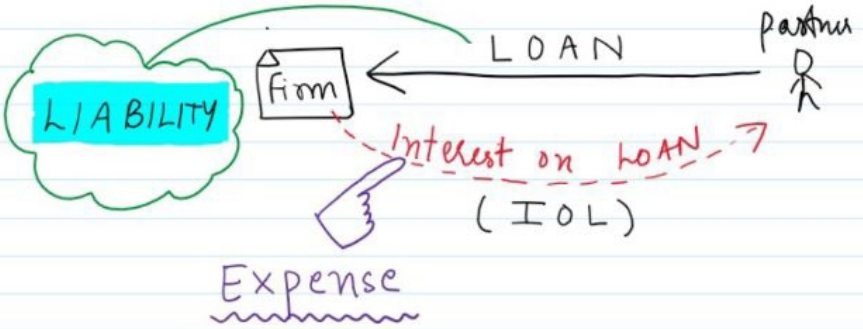


* Drawings are of TEMPORARY nature
* Amount withdrawn permanently is known as WITHDRAWL OF CAPITAL

③ INTEREST on Loan by Firm (to Partner)



④ Interest on Loan to Firm (by Partner)



* Important provisions of Indian Partnership Act, 1932 *

→ If all partners agree, a minor (< 18yrs.) can be admitted into the partnership for the benefit of partnership (Section 30)

→ Registration of firm under Partnership Act, 1932 is OPTIONAL and not compulsory (Section 69)

→ Unless otherwise agreed by the partners, a firm is dissolved on the death of a partner. (Section 35)

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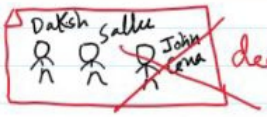
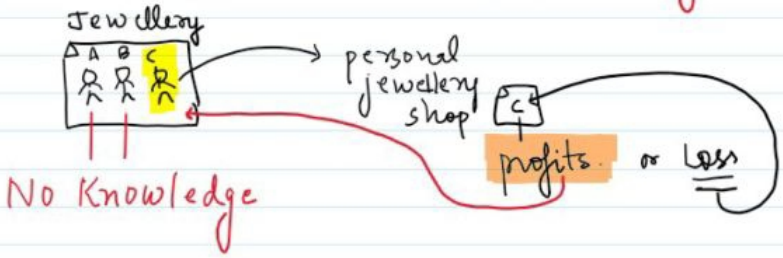


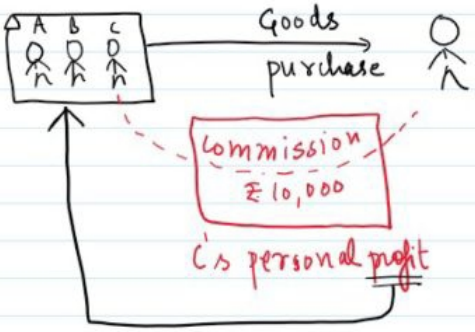
Business is over
(firm बंद हो गई)

* LIABILITIES of Partners

① If a partner carries on business in competition with the firm without the consent of other partners and earns profit from such business, the profit shall be paid to the firm.
(however losses are to be borne by him only)



② If a partner earns profit for himself from any transaction of firm or use of firm's property or business connection, profit so earned shall be paid to the firm.



IMP. * In the absence of Partnership deed or where it doesnot have a clause in respect of the following, then provisions of Indian Partnership Act, 1932 will apply :-

(i) Interest on Capital — Nil (0%)
(Refer Basic Concept No. 1)

(ii) Interest on Drawing — Nil (0%)
(Refer Basic Concept No. 2)

(iii) Sharing of Profits — EQUAL
(Profit Sharing Ratio)

(iii) Sharing of Profits (Profit sharing Ratio) — EQUAL

(iv) Partner's Salary — Nil

(v) Partner's Commission — Nil (0%)

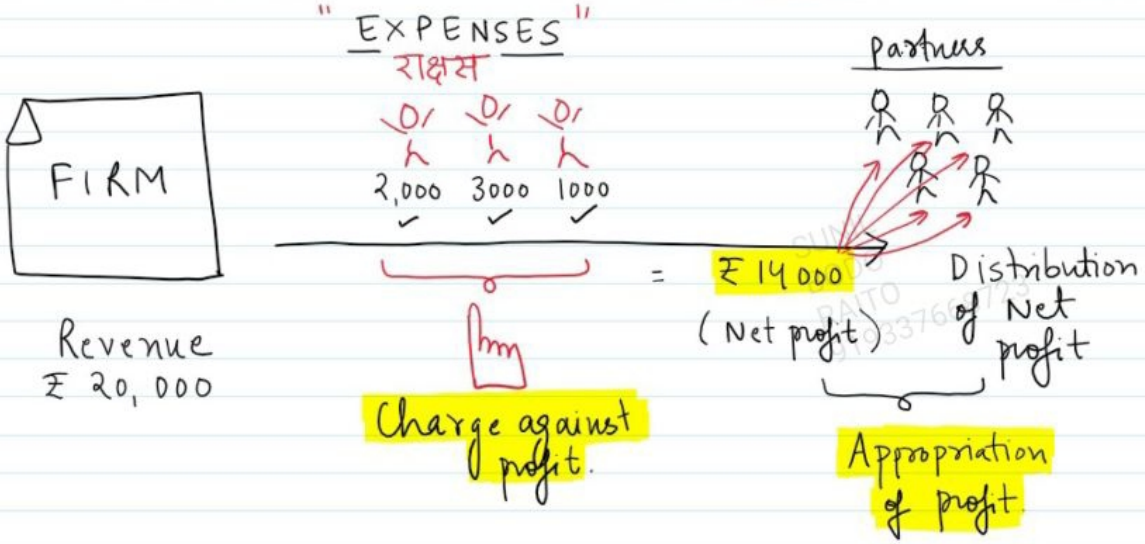
(vi) Interest on Loan to firm (By partner) — 6% p.a
- Refer Basic Concept No. (4)

Confusion wala point

(vii) Interest on Loan by Firm (To partner) — Nil (0%)
- Refer Basic Concept No. (3)

Imp. * Charge against profit VS Appropriation of profits.

Basis	Charge against profit	Appropriation of profits
Nature	It is an expense (i.e deducted from revenue to determine net profit or loss)	It means distribution of net profit among partners
Recording	It is debited in P&L A/C	It is debited in P&L Appropriation A/c
Examples	Rent paid, Interest on loan by partner, Manager's commission etc	Partner's Salary, Partner's commission, Interest on capital etc.



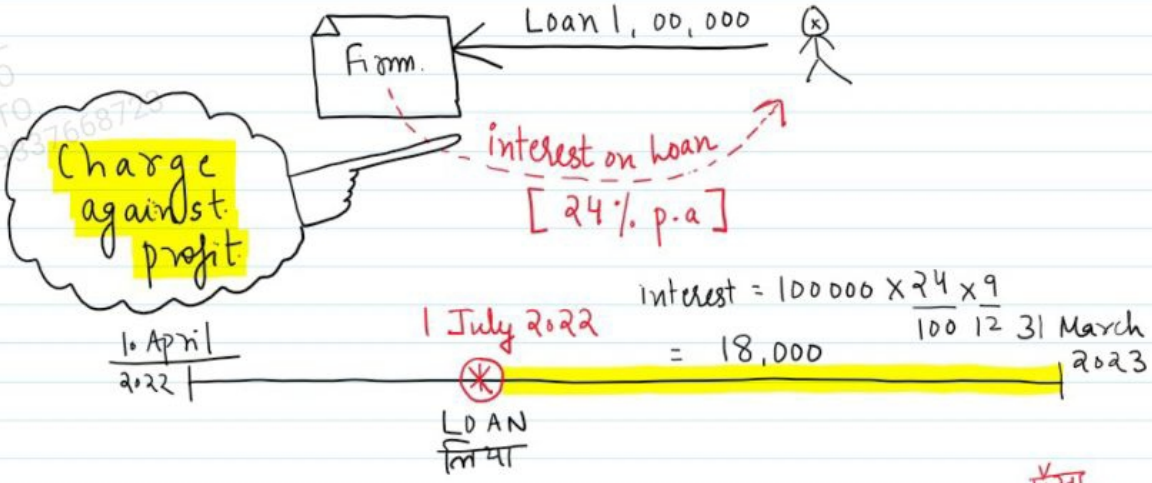
of profit.

* ACCOUNTING - Interest on Loan by Partner *

(Basic Concept No. 4)

eg ① X gives a loan of ₹ 100,000 to the firm on 1st July 2022. Partnership deed provides interest on above loan at the rate 24% p.a. Pass journal entries for the year 2022-23

1. April 2022 — 31 March 2023



1 July 2022 Bank A/c Dr. 100000 — पैसा आया (Asset ↑)

To Loan by X ——— 100,000 — Liability ↑

(being loan taken from X)

B/S

Loan by X	100000	Bank	100,000

31 March 2023 Interest on Loan A/c Dr. 18000 — expense

To Loan by X A/c ——— 18000 — Liability (↑)

(being interest allowed)

B/S

Loan by X	1,00,000		
(+) Interest	18,000	1,18,000	

own understanding

31 March 2023 P&L A/c Dr. 18000

To Interest on Loan A/c 18000

31 March 2023 P&L A/c Dr. 18000
To Interest on Loan A/c —— 18000
(being Interest transferred to P&L A/c)

Dr. P&L A/c Cr

Charge against profit

To Interest on loan	18000	

own understanding

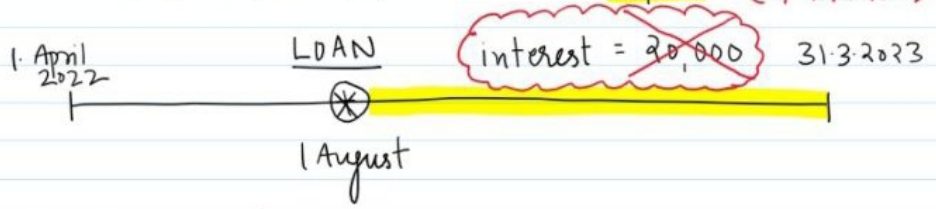
** Imp

Dr Loan by X A/c Cr

Date	Particulars	₹	Date	Particulars	₹
			1. July 22	By Bank A/c	1,00,000
31. March 2023	To Balance c/d	118,000	31. March 23	By Interest on loan A/c	18,000
		118,000			118,000

eg (2) A firm takes loan from partner (John Lena) ₹ 3,00,000 on 1st August 2022. Partnership deed provides interest on above loan @ 10%.
Pass journal entries and prepare Loan by John Lena A/c (2022 - 23)
30,000 (4 Marks)

Sol:-



1 August 2022 Bank A/c Dr. 300000
To Loan by J. C A/c —— 300,000

31 March 2023 Interest on Loan A/c Dr. 30,000
To Loan by J. C A/c —— 30,000

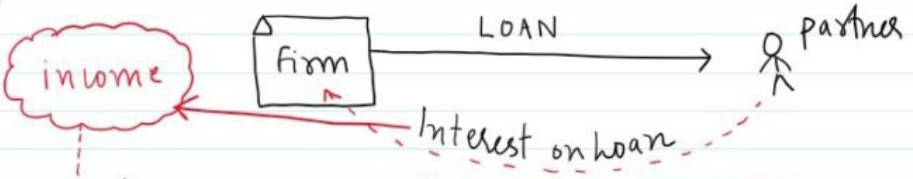
31 March 2023 P&L A/c Dr. 30000
To Interest on Loan A/c — 30,000

Dr | Loan by J.C | Cr

			1. Aug 22	By Bank A/c	300000
31 March 23	To Bal c/d	330000	31 Mar 23	By Int on loan A/c	30000
		330000			330000

* Accounting - **Interest on loan by the firm to Partner**

(Basic Concept No. 3)



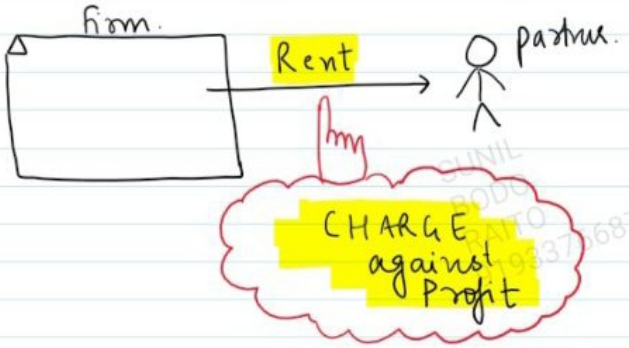
(i) Partner's Capital / Current A/c Dr. xx
To Interest on Loan A/c —— xx
(being Interest on loan charged)

(ii) Interest on Loan A/c Dr xx
To P&L A/c —— xx
(being Interest transferred to P&L A/c)

Dr. P&L A/c Cr

Expense	₹	Income	₹
		By Interest on Loan	xxx

* Accounting - Rent paid / payable to a Partner



expense (i) Rent A/c Dr. xx
To Cash / Bank A/c —— xx
(being Rent paid)

expense (i) Rent A/c Dr. xx
To Cash / Bank A/c ——— xx
(being Rent paid)

expense (ii) Rent A/c Dr. xx
To Outstanding Rent A/c ——— xx
(being Rent is payable) Liability

(iii) P&L A/c Dr. xxx
To Rent A/c ——— xxx
(being Rent transferred to P&L A/c)

Dr. P&L A/c Cr.

Expense	xx		
To Rent	xx		

eg - A & B are partners sharing profits equally. B has given his property on rent to the firm from 1st April 2022 at monthly rent of ₹ 8000. Rent is paid upto January 2023, but Rent for February and March was still payable. Pass journal entries

Sol:- 1 April 2022

8000 × 10 = 80,000 paid | 8000 × 2 = 16000 Rent O/S

(i) Rent A/c Dr. 80,000
To Cash A/c ——— 80000

(ii) Rent A/c Dr. 16,000
To O/S Rent A/c ——— 16,000

(iii) P&L A/c Dr. 96000
To Rent A/c ——— 96,000

Dr. P & L Appropriation A/c Cr.

Particulars	₹	Particulars	₹
To P&L A/c * (Net Loss)	xx	By P&L A/c	

Particulars	₹	Particulars	₹
To P&L A/c (Net Loss) *	XX	By P&L A/c (Net profit) *	XX
To Interest on Capital A – XX B – XX	XXX	By Interest on drawings A – XX B – XX	XXX
To Partner's salary	XXX		
To Partner's commission	XXX		
To Reserve	XXX		
To Profit transferred to Partner's Capital/Current A/c	XXXX	By Loss transferred to Partner's Capital/Current A/c	XXX
	XXXX		XXXX

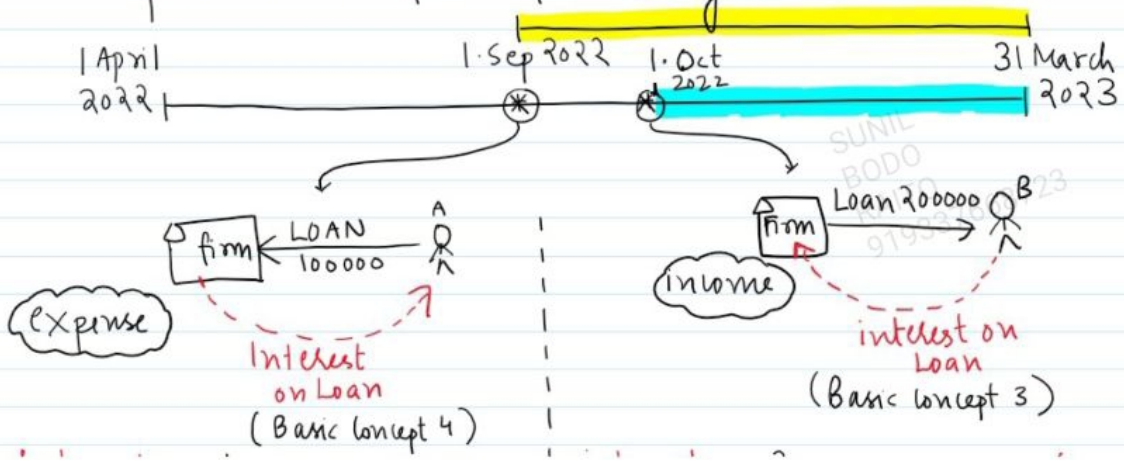
*

Dr.	P&L A/c		Cr
To Gross Loss	XX	By Gross profit	XX
To Rent paid to partner	XX	By Interest on loan (by firm)	XX
To Manager's commission	XX		
To Interest on Loan (to firm)	XX		
Basic Concept No. 4		Basic Concept No. 3	
To Net Profit (bal..)	XXX	By Net loss	XXX
	XXXX		XXXX

Charge against profit

eg ① A & B are (2 : 3) partners. A gives loan to the firm on 1st September 2022 of ₹ 100,000. B takes a loan from the firm on 1st October 2022 of ₹ 200,000. Interest on Loan was decided to be 10% p.a. Loss for the year before above interests was ₹ 60,000 (Gross Loss) Prepare P&L A/c for the year 2022-23.

Sol:



Interest on Loan (Basic Concept 4)

interest $= 1,00,000 \times \frac{10}{100} \times \frac{7}{12}$

$= 5833$

Loan (Basic Concept 3)

interest $= 200,000 \times \frac{10}{100} \times \frac{6}{12}$

$= 10,000$

P & L A/c

Dr		Cr	
To Gross Loss	60,000	By Int on loan	10,000
To Int on loan	5,833	By Net Loss	55,833
		A - 22,333	
	65,833	B - 33,500	65,833

* A $= 55,833 \times 2/5 = 22,333$

* B $= 55,833 \times 3/5 = 33,500$

---

* Transfer to Reserve

(iii)

P & L appropriation A/c

Dr	₹	Cr	₹
To Interest on Capital	15,000	By P & L A/c (Net profit)	80,000
To Partner's Salary	9,000		
To Reserve	???	By Interest on drawings	10,000
To "Net" divisible profit (bal.)			
	90,000		90,000

(i) Reserve = 10% of Net profit

$= \frac{10}{100} \times 80,000 = 8000$

(ii) Reserve = 10% of "Divisible" profit (Distributable profit)

$= \frac{10}{100} \times 66,000 = 6,600$

$= \frac{10}{100} \times 66,000 = 6,600$ profit)

(iii) Reserve = 10% of "Net" Divisible profit

$$= \boxed{\frac{\text{Rate}}{100 + \text{Rate}} \times (\text{Divisible Profit})}$$

$$= \frac{10}{100 + 10} \times (90000 - 15000 - 9000)$$

$$= \frac{10}{110} \times 66000$$

$$= 6,000$$

* Meaning of Before charging and after charging

pay करने से पहले — pay करने के बाद

Dr — P&L Appropriation A/c — Cr

	₹		₹
To Interest on Capital	10,000	By P&L A/c (Net profit)	80000
To Salaries	20,000	By Interest on drawings	15,000
To Partner's Commission	???		
	95,000		95,000

(i) Partner's Commission = 10% of profit after charging Interest on Capital

$= \frac{10}{100} \times (95000 - 10000) = 8500$

(ii) Partner's Commission = 10% of profit after charging Salaries

$= \frac{10}{100} \times (95000 - 20000) = 7,500$

(iii) Partner's Commission = 10% of profit after charging Interest on Capital + Salaries

$= 10 \quad (95000 - 10000 - 20000) = 6500$

Interest on Capital + Salaries

$= \frac{10}{100} \times (95000 - 10000 - 20000) = 6500$

(iv) Partner's comm = 10% of profit after charging interest on Capital but before charging Salaries

$= \frac{10}{100} \times (95000 - 10000) = 8,500$

(v) Partner's comm = 10% of Divisible profit

$= \frac{10}{100} \times (95000 - 10000 - 20000)$

$= 6500$

(vi) Partner's comm = 10% of profit after charging interest on Capital, Salaries and partner's Commission

x

$x = \frac{10}{100} (95000 - 10000 - 20000 - x)$

$x = \frac{10}{100} \times (65000 - x)$

$10x = 65000 - x$

$10x + x = 65000$

$11x = 65000$

$x = \frac{65000}{11} = 5,909$ (approx)

Case(vii) Partner's comm = 10% of "Net" Divisible profit

$= \frac{\text{Rate}}{100} \times$ Divisible profit

$$= \frac{\text{Rate}}{100 + \text{Rate}} \times \text{Divisible profit}$$

$$= \frac{10}{100+10} \times (95000 - 10000 - 20000)$$

$$= \frac{10}{110} \times 65000 = 5,909$$

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② HOTS examples (V. Imp).

eg① X & Y are equal partners with 500,000 capital each.
X & Y get annual salary of ₹ 120000 each.
Interest on Capital is ₹ 50,000 each
⊛ Interest on drawing is ₹ 3000 and ₹ 5000.
Net Loss is ₹ 200,000
Prepare P&L appropriation A/c

Sol:-

Dr — P&L appropriation A/c — Cr

To P&L A/c (Net Loss)	200,000	By Interest on drawings A - 3000 B - 5000	8,000
~~To Interest on Capital A - 50,000 B - 50,000~~	~~100,000~~		
~~To Salaries A - 120000 B - 120,000~~	~~240,000~~	By Loss transferred to Partner's Capital A/c A - 96,000 B - 96,000	192,000
	200000		200000

In this case, when Net loss is given then there will be no appropriation.

eg② If in eg ① Interest on drawings are :-
(A) - 1,80,000 & (B) - 120,000 then
prepare P&L appropriation A/c

(A) - 1,00,000 & (B) - 120,000 then

prepare P&L appropriation A/c

Sol:-

Dr — P&L appropriation A/c — Cr

		50K पापा	100000
बड़ा बेटा (interest) →	1,00,000 (माँगा)	50K	
छोटा बेटा (Salaries) →	240,000 (माँगा)	By LOSS A - 120,000 B - 120,000	240,000
	5,40,000		5,40,000

Appropr-ations

THIS IS BLUNDER !!!

Here only "₹ 100,000" is to be distributed in Ratio of Appropriation

interest on Capital	:	partner's Salaries
~~₹100,000~~	:	~~₹240,000~~
5	:	12

Interest on Capital = $100000 \times \frac{5}{17}$ = 29412

Partner's Salaries = $100,000 \times \frac{12}{17}$ = 70,588

Dr — P&L appropriation A/c — Cr

To Net Loss	200,000	By Interest on drawings A - 180,000 B - 120,000	300,000
To Interest on Capital (*) A - 14706 B - 14,706	29,412 (*)		
To Partner's Salaries (*) A - 35,294 B - 35,294	70,588 (*)		
	300,000		300,000

When appropriations are more than available profits

When appropriations are more than available profits

eg (3) Net profit = 48,000

X's Salary = 10,000

Y's Salary = 30,000

X's Interest on Capital = 18000

Y's Interest on Capital = 14000

Prepare P&L appropriation A/c.

Sol:-

P&L appropriation A/c

Dr	₹	Cr	₹
To Interest on Capital		By P&L A/c (Net profit)	48000
X - 12000			
Y - 9333	21,333		
To Partners Salaries			
X - 6,667			
Y - 20,000	26,667		
	48,000		48,000

Ratio of Appropriation

Interest on Capital	:	Partner's Salaries
32000	:	40000
4	:	5

Interest on Capital = 48000 × 4/9 = 21,333

Partner's Salaries = 48,000 × 5/9 = 26,667

Interest 18000 : 14000 = 9 : 7

X : 21,333 × 9/16 = 12,000

Y : 21,333 × 7 = 9,333 V.good

$$Y: 21,333 \times \frac{7}{16} = 9,333$$ V.good

Salaries 10000 : 30000 = 1 : 3

$$X \quad 26,667 \times \frac{1}{4} = 6,667$$

$$Y \quad 26,667 \times \frac{3}{4} = 20,000$$

x ——— x ——— x ——— x ——— x ——— x ——— x

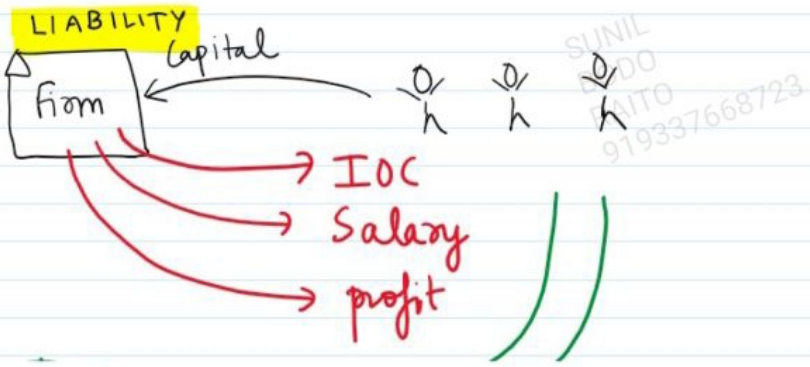
* Partner's Capital Accounts *

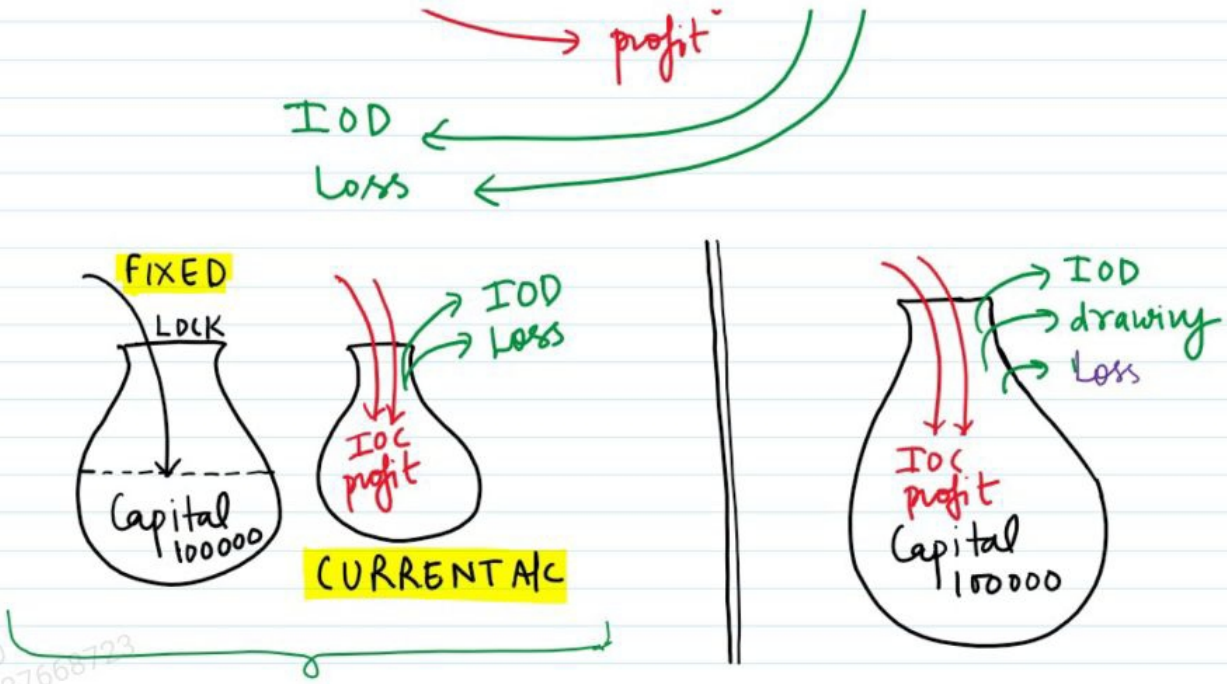
Fixed Capital Account Method
↓
Two Accounts are maintained

- **Capital Account (Fixed)**
  ↓
  In this A/c opening Capital, Additional Capital, Withdrawal of Capital and closing Capital comes. It has **always credit** Balance
- **Current A/c**
  ↓
  In this A/c all other transactions like IOC, IOD, Drawings, Profit share, Salary, Commission etc is recorded. It may have **debit or Credit balance**

Fluctuating Capital Account Method
↓
Only **One** Account is maintained
↓
Capital A/c
↓
In this A/c all transactions whether capital, drawings, IOC, IOD, Salary, Commission etc etc are recorded. It may have **debit or Credit Balance**

x ——— x ——— x ——— x ——— x ——— x ——— x ——— x





eg :- A & B are equal partners. Their Capitals are ₹ 500,000 each. Interest on Capital is allowed @ 5% p.a. Salaries is allowed to B @ ₹5000 per month. Net profit is ₹ 880,000 and General Reserve is 10% of net divisible profit. Prepare P&L appr A/c.

Sol:-

Dr — P&L appropriation A/c — Cr

To Int. on Capital		By P&L A/c (Net profit)	880000
A - 25000			
B - 25000	50,000		
To B's Salary	60,000		
To General Reserve	70,000*		
To Profit	700000		
A - 350000			
B - 350000	880000		880000

General Reserve $= \frac{10}{110} \times$ Divisible Profit $(880000 - 50000 - 60000)$

$$110\ (880000 - 50000 - 60000)$$

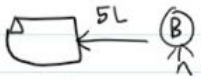
$$= \frac{10}{110} \times 770000 = 70,000$$

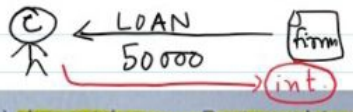
PRACTICE

3. Mahesh, Ramesh and Suresh are partners in a firm. They do not have a Partnership Deed. At the end of the first year of the business, they faced the following problems:
   (a) Mahesh wants that interest on capital should be allowed to the partners but Ramesh and Suresh do not agree. NO
   (b) Ramesh wants that the partners should be allowed to draw salary but Mahesh and Suresh do not agree. NO
   (c) Mahesh and Ramesh want that Suresh should pay interest on loan given to him by the firm but Suresh does not agree. Int pay करेगा → NO
   (d) Mahesh and Ramesh having contributed larger amounts of capital, desire that the profits should be distributed in the ratio of their capital contribution but Suresh does not agree. equal Ratio

   State how you will settle these disputes if the partners approach you for the purpose.

   [**Ans.:** *(a) Mahesh's claim is not accepted, (b) Ramesh's claim is not accepted, (c) Mahesh and Ramesh's claim is not accepted; Suresh will not pay interest in the absence of agreement, and (d) Profits or losses should be distributed among the partners equally. The claim made by Mahesh and Ramesh is not accepted.*]





4. Bose, Sarkar and Chatterjee are partners in a firm and do not have a Partnership Deed. Bose introduced further capital of ₹ 5,00,000 on 1st October, 2021. Whereas Chatterjee took a loan of ₹ 50,000 from the firm on 1st October, 2021. Disputes have arisen among them on the following issues:
   (a) Bose demands interest @ 10% p.a. on ₹ 5,00,000 being his extra capital. – NO
   (b) Sarkar desires that his son Deep should be admitted as partner and he will give him half of his share. Bose and Chatterjee do not agree. Consent of all required
   (c) Bose and Sarkar are of the view that Chatterjee should be charged interest on loan from the firm at the lending rate of the banks, which is 12% p.a. NO
   (d) Sarkar has withdrawn ₹ 50,000 from the firm for his personal use. Bose and Chatterjee are of the view that Sarkar should be charged interest @ 10% p.a. NO

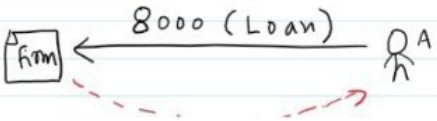
   You are required to give solution to each issue of dispute.

   [**Ans.:** *In the absence of Partnership Deed, the provisions of Indian Partnership Act, 1932 will apply: (a) No interest will be paid on extra capital introduced, (b) Deep cannot be admitted as Bose and Chatterjee don't agree, (c) No interest will be charged from Chatterjee as rate of interest was not agreed, (d) Interest on drawings will not be charged from Sarkar.*]

Extra Q

5. *A* and *B* are partners since 1st April, 2021, without a Partnership Deed and they introduced capitals of ₹ 35,000 and ₹ 20,000 respectively. On 1st October, 2021, A gave loan of ₹ 8,000 to the firm without any agreement as to interest. Profit & Loss Account for the year ended 31st March, 2022 shows a profit of ₹ 15,000 but the partners cannot agree on payment of interest and on the basis of division of profit. You are required to divide the profits between them giving reasons for your method. equal

   [**Ans.:** *A and B each gets ₹ 7,380 as profit and A gets ₹ 240 as interest on loan.*]



Firm ← 8000 (Loan) — A

interest @ 6% p.a (6 Months) = $8000 \times \frac{6}{100} \times \frac{6}{12}$ = 240

Sol:-

Dr — P&L A/C — Cr

To Interest on loan (Charge against profit)	240	By profit	15,000
To Net profit (bal.) A - 7380, B - 7380	14760		
	15,000		15,000

Firm ← Loan 100000 (On 1st Oct) — H Int = $100000 \times \frac{6}{100} \times \frac{6}{12}$ = 3,000

Q5. Harshad and Dhiman are in partnership since 1st April, 2021. No partnership agreement was made. They contributed ₹ 4,00,000 and ₹ 1,00,000 respectively as capitals. In addition, Harshad had given loan of ₹ 1,00,000 to the firm on 1st October, 2021. Due to long illness, Harshad could not participate in business activities from 1st August, 2021 to 30th September, 2021. Profit for the year ended 31st March, 2022 was ₹ 1,80,000. Dispute has arisen between Harshad and Dhiman.

Harshad Claims:

(i) He should be given interest @ 10% per annum on capital and loan; → IOC = Nil; Int on Loan = 6% p.a (Charge against profit)

(ii) Profit should be distributed in the ratio of capital. → No, equal

Dhiman Claims:

(i) Profits should be distributed equally;

(ii) He should be allowed ₹ 2,000 p.m. as remuneration for the period he managed the business in the absence of Harshad; → NO

(iii) Interest on Capital and loan should be allowed @ 6% p.a. → IOC = Nil

You are required to settle the dispute between Harshad and Dhiman. Also prepare Profit & Loss Appropriation Account.

(NCERT, Modified)

Sol:-

Dr — P&L appr A/C — Cr

To Int on lap	X	By Profit	180,000	177000
To Remuneration	X	(−) Int on Loan	(3,000)	
To profit transferred to Partner's Capital A/c: H - 88500, D - 88500	177000			Net profit
	177000			177000

X —LOAN 80,000→ Firm ←LOAN 40,000— Y

F. Int = 2400 Int = 1200

Q6. X and Y are partners sharing profits and losses in the ratio of 2 : 3 with capitals of ₹ 2,00,000 and ₹ 3,00,000 respectively. On 1st October, 2021 X and Y gave loans of ₹ 80,000 and ₹ 40,000 respectively to the firm. Show distribution of profits/losses for the year ended 31st March, 2022 in accordance with the

X and Y are partners sharing profits and losses in the ratio of 2 : 3 with capitals of ₹ 2,00,000 and ₹ 3,00,000 respectively. On 1st October, 2021 X and Y gave loans of ₹ 80,000 and ₹ 40,000 respectively to the firm. Show distribution of profits/losses for the year ended 31st March, 2022 in each of the following alternative cases:

Case 1. If the profit before interest for the year amounted to ₹ 21,000.
Case 2. If the profit before interest for the year amounted to ₹ 3,000.
Case 3. If the profit before interest for the year amounted to ₹ 5,000.
Case 4. If the loss before interest for the year amounted to ₹ 1,400.

Charge against profit = 3600

[**Ans.:** *Interest on Loan by X ₹ 2,400; Interest on Loan by Y ₹ 1,200; Case 1. Profit: X ₹ 6,960; Y ₹ 10,440; Case 2. Loss: X ₹ 240; Y ₹ 360; Case 3. Profit: X ₹ 560; Y ₹ 840; Case 4. Loss: X ₹ 2,000; Y ₹ 3,000.*]

[**Hint:** Interest on Loan by partner is a charge against profit.]

Sol:-

Case (1)

Dr	P&L A/c		Cr
		Profit	21000
CAP Int on loan	3600		
Net profit	17400		
X - 6960			
Y - 10440	21000		21000

Case (2)

Dr	P&L A/c		Cr
		Profit	3000
CAP Int on loan	3600		
		Net Loss	600
		X - 240	
		Y - 360	
	3600		3600

Case (3)

Dr	P&L A/c		Cr
		Profit	5000
CAP Int on Loan	3600		
Net Profit	1400		
X - 560			
Y - 840	5000		5000

Case (4)

Dr	P&L A/c		Cr
Loss	1400		
CAP Int on loan	3600	Net Loss	5000
		X - 2000	
		Y - 3000	
	5000		5000

P&L appr A/c why ?? क्योंकि appr है ही नहीं

Interest on Loan (Bat) = $240000 \times \frac{6}{100} \times \frac{6}{12}$ = 7200 IOL (Ball) = 3600

Q8 Bat and Ball are partners sharing the profits in the ratio of 2 : 3 with capitals of ₹ 1,20,000 and ₹ 60,000 respectively. On 1st October, 2021, Bat and Ball gave loans of ₹ 2,40,000 and ₹ 1,20,000 respectively to the firm. Bat had allowed the firm to use his property for business for a monthly rent of ₹ 5,000. Loss for the year ended 31st March, 2022 before rent and interest amounted to ₹ 9,000. Show distribution of profit/loss.

[**Ans.:** *Share of Loss: Bat—₹ 31,920; Ball—₹ 47,880.*]

[**Hint:** Interest on Loan by partner and Rent are charges against profit.]

Rent to partner p.a = 5000 × 12 = 60,000

Rent to partner p.a = 5000 × 12 = 60,000

Charge against profit

Dr.	P&L A/c		Cr.
Loss (given)	9000		
Interest on loan (7200 + 3600)	10,800		
Rent to partner	60,000	By Net loss	79800
		Bat = 31920	
		Ball = 47880	
	79800		79800

Q- X & Y are 3:2 partners with capital of ₹ 600000 and ₹ 800000 respectively. Partner's salary was decided ₹ 6000 per quarter to X. Interest on capital was 10% p.a. Profit is ₹ 120,000 Prepare P&L appr A/c.

Sol:-

X's Salary = 6000 × 4 = 24000

Int on Cap (X) = 600000 × 10% = 60000

Int on Cap (Y) = 800000 × 10% = 80000

Appropriations 164000

P&L appr A/c

To X's Salary	17,561	By P&L A/c (Net profit)	120,000
To Int on Cap (X)	43,902	6 : 15 : 20	
To Int on Cap (Y)	58,537		
	120,000		120,000

Appropriations > Profit

Ratio of Appropriation.

X's Salary	:	IOC (X)	:	IOC (Y)
24000	:	60000	:	80000

6 : 15 : 20

CONCEPT

* FIXED CAPITAL ACCOUNT System *

Dr. Capital A/c (Fixed) Cr.

CON

Dr — Capital A/c (Fixed) — Cr

Particulars	A	B	Particulars	A	B
To Bank A/c (Withdrawl of Capital)*	XX	XX	By Balance B/d (opening Capital)	XX	XX
To Balance c/d (Closing Capital)	XX	XX	By Bank A/c (Additional Capital)	XX	XX
	XXX	XXX		XXX	XXX

Dr — Partner's Current A/c — Cr

Particulars	A	B	Particulars	A	B
To Balance B/d (Opening Current A/c - Debit balance)	XX	XX	By Balance B/d (Opening Current A/c Balance - Credit)	XX	XX
To drawings*	XX	XX	By Int. on Capital	XX	XX
To Interest on drawings	XX	XX	By Partner's Commission	XX	XX
To P&L appropriation A/c (share of Loss)	XX	XX	By Partner's Salaries	XX	XX
To Interest on Loan (partner से लिया)	XX	XX	By P&L appropriation A/c (share of profit)	XX	XX
To Balance c/d [Closing Current A/c Credit Balance]	XX	XX	By Balance c/d [Closing Current A/c Debit Balance]	XX	XX
	XXXX	XXXX		XXXX	XXXX

Basic Concept (3) (*) →

* FLUCTUATING CAPITAL A/C SYSTEM *

Dr — Partner's Capital A/c — Cr

Particulars	A	B	Particulars	A	B
To Balance B/d (Opening Capital A/c - Debit bal)	XX	XX	By Balance B/d [Opening Capital A/c Credit Balance]	XX	XX
To Bank A/c (Withdrawl of Capital)	XX	XX	By Interest on Capital	(-) XX	XX
To Drawings	XX	XX	By Partner's Salaries	(-) XX	XX
To Int on Drawings	XX	XX	By P. Commission	(-) XX	XX
To P&L appr A/c (share of Loss)	XX	XX	By Bank A/c [Additional Capital]	(-) XX	XX
To Int. on Loan (लिया)	XX	XX	By P&L appr A/c (share of profit)	(-) XX	XX
To Balance c/d [Closing Capital A/c Credit Balance]	XX	XX	By Balance c/d [Closing Capital A/c Debit Balance]	XX	XX
	10000	XXXX		XXXX	XXXX

[Closing Capital A/c Credit Balance]	10000	2222	[Closing Capital A/c Debit Balance]	2222	1111

* Liability (of firm) towards partner increases — CREDIT

* Liability (of firm) towards partner decreases — DEBIT

x ——— x ——— x ——— x ——— x ——— x

* Interest on Capital *

① Interest on Capital is calculated on TIME Basis

② Interest on Capital is directly calculated on Opening Capital (if Additional Capital & Withdrawal of Capital is not given)

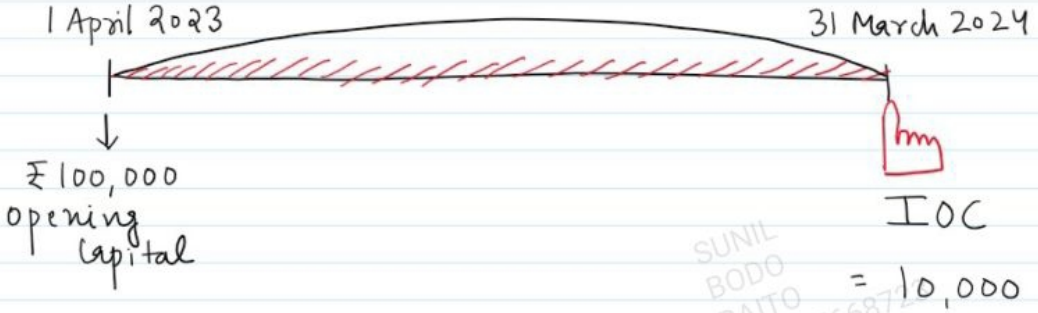
③ When Opening Capital is Missing then first we have to calculate opening capital and then calculate IOC in usual manner

[Use Capital A/c method to find it]

हम गलती करेंगे

eg ① On 1 April 2023 A's Capital is ₹ 100,000
Find IOC @ 10% p.a for the year ended 2023-24.

Sol:-



= 10,000 (✓)

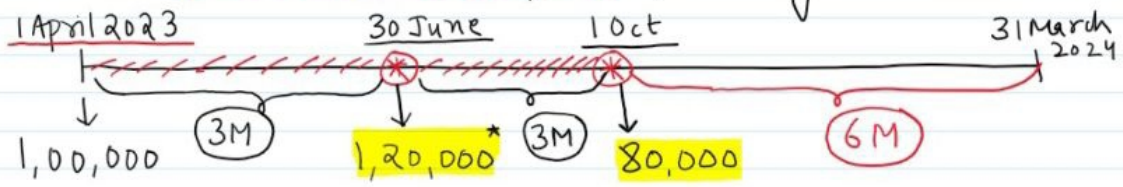
eg ② 1 April 2023 Capital ₹ 100,000
30th June 2023 Additional Capital "₹ 20,000"

30th June 2023 — Additional Capital "₹ 20,000"

1st October 2023 — Withdrawal of Capital "₹ 40,000"

Find IOC @ 12% p.a for the year 2023-24

Sol:-



$$IOC = \left(100,000 \times \frac{12}{100} \times \frac{3}{12}\right) + \left(120,000 \times \frac{12}{100} \times \frac{3}{12}\right) + \left(80000 \times \frac{12}{100} \times \frac{6}{12}\right)$$

$$= 3000 + 3600 + 4800$$

$$= 11,400$$

eg ③ 31 March 2024 Capital (fluctuating) = ₹ 90,000

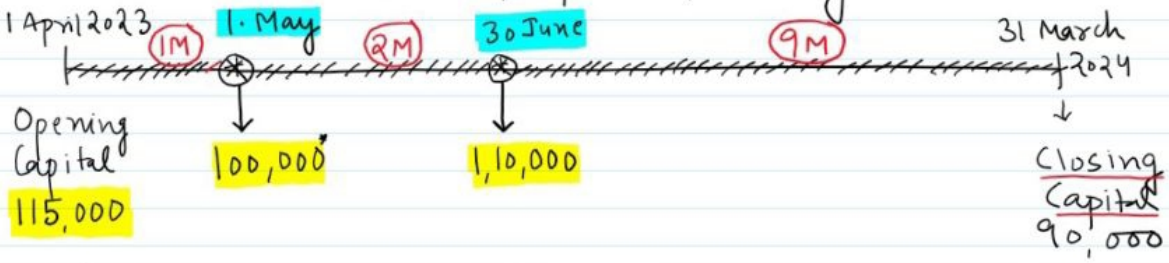
1. October 2023 Drawings = ₹ 20,000

30th June 2023 Additional Capital = ₹ 10,000

1st May 2023 Withdrawal of Capital = ₹ 15,000

Find IOC @ 12% p.a for the year 2023-24

Sol:-



Dr. Capital A/c Cr

To drawings	20,000	By Balance b/d (opening capital)	115,000 — "bal.."
To Withdrawal of capital	15,000	By Bank A/c (Additional capital)	10,000
To Balance c/d (closing capital)	90,000		
	125,000		125,000

$$IOC = \left(115000 \times \frac{12}{100} \times \frac{1}{12}\right) + \left(100000 \times \frac{12}{100} \times \frac{2}{12}\right) + \left(110000 \times \frac{12}{100} \times \frac{9}{12}\right)$$

$$= 1150 + 2000 + 9900$$

$$= 13,050$$

eg (4)

31 March 2024 Capital (Fixed) ₹ 110,000

30th Nov. 2023 Additional Capital ₹ 20,000 –

1st Oct 2023 Drawings ₹ 15,000

1st July 2023 Withdrawal of Capital ₹ 30,000 –

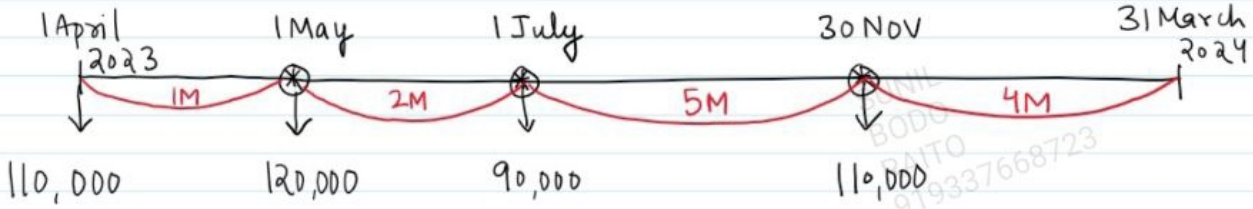
1st May 2023 Additional Capital ₹ 10,000 –

find IOC @ 12% p.a

Sol:- Use Capital A/c (Fixed) System

Capital A/c (Fixed)

Dr		Cr	
To Bank A/c (Withdrawal of Capital)	30,000	By Opening Capital (bal..)	110,000 bal..
To Balance c/d (closing Capital)	110,000	By Bank A/c (Additional Capital) (20000 + 10000)	30,000
	140,000		140,000



$$IOC = \left(110{,}000 \times 12\% \times \frac{1}{12}\right) + \left(120000 \times 12\% \times \frac{2}{12}\right) + \left(90{,}000 \times 12\% \times \frac{5}{12}\right) + \left(110{,}000 \times 12\% \times \frac{4}{12}\right)$$

$$= 1100 + 2400 + 4500 + 4400 = 12400$$

CONCEPT

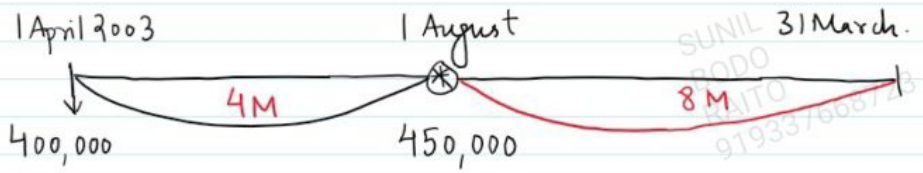
Interest on Capital – Accounting

- Partnership deed is silent about IOC → **NO IOC** will be given.
- P. deed is silent about treatment of IOC → IOC is treated as **Appropriation**
- Q'n says that IOC is a **charge** → IOC is an **expense** now and will be paid to the partners irrespective of profit or loss.

Practice — Interest on Capital (Worksheet)

Q1 :- A and B are partners in a firm. Their capital accounts showed (additional) the balance on April 1, 2003 (opening) as ` 4,00,000 and ` 3,00,000 respectively. On August 1, 2003 they introduced further capitals of ` 50,000 and ` 40,000 respectively. B withdrew ` 15,000 from his capital on March 1, 2004. Interest is allowed @ 6% p.a. on the capitals. Compute interest on capitals for the year ending March 31,2004.

Sol:- (A)

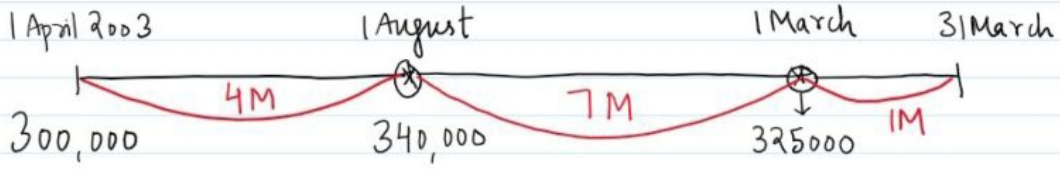


$$IOC = \left(400000 \times \frac{6}{100} \times \frac{4}{12}\right) + \left(450000 \times \frac{6}{100} \times \frac{8}{12}\right)$$

$$= 8000 + 18000 = 26{,}000$$

$= 8000 + 18000 = 26,000$

(B)



$$IOC = \left(300000 \times \frac{6}{100} \times \frac{4}{12}\right) + \left(340000 \times \frac{6}{100} \times \frac{7}{12}\right) + \left(325000 \times \frac{6}{100} \times \frac{1}{12}\right)$$

$$= 6000 + 11900 + 1625$$

$$= 19,525$$

(*) Fluctuating (~) if Q'n is silent

Opening Capital ???

closing

Q3 :- A and B are partners sharing profits and losses in the ratio 3:1. Their capitals at the end of the financial year 2013-14 were ` 6,00,000 and ` 3,00,000. During the year, A's drawings were ` 80,000 and the drawings of B were ` 40,000, which had been duly debited to the partner's capital accounts. Profit before charging interest on capital for the year was ` 80,000. The same had also been credited in their profit sharing ratio. Calculate interest on capital @ 12% p.a. for the year 2013-14.

दे दिया

	A	B
closing Capital	600,000	300000
(+) Drawings	80,000	40000
(−) Profits 80,000 in 3 : 1	(60,000)	(20,000)
Opening Capital	620,000	3,20,000

Interest on Capital

A ⇒ $620000 \times \frac{12}{100}$

⇒ 74,400

B ⇒ $320,000 \times \frac{12}{100}$

$$\Rightarrow 38,400$$

Opening Capital ???

closing

Q5 :- A and B are partners sharing profits and losses in the ratio 2:1. Their capitals at the end of the financial year 2013-14 were ` 10,00,000 and ` 5,00,000. During the year, A's drawings were ` 1,00,000, which had been duly debited to the partner's capital accounts. Profit before charging interest on capital for the year was ` 2,40,000. The same had also been credited in their profit sharing ratio. B had brought additional capital of ` 50,000 on October 31, 2013. Calculate interest on capital @ 12% p.a. for the year 2013-14.

	A	B
Closing Capital	10,00,000	5,00,000
(+) Drawings	1,00,000	0
(−) Profits 240,000 in 2 : 1	(160,000)	(80,000)
(−) Additional Capital (31 Oct)	(0)	(50,000)
Opening Capital (1 April 2013)	9,40,000	3,70,000

Interest on Capital

$$A : 940000 \times \frac{12}{100} = 1,12,800$$

$$B = \left(370,000 \times \frac{12}{100} \times \frac{7}{12}\right) + \left(420,000^{*} \times \frac{12}{100} \times \frac{5}{12}\right)$$

$$= 25900 + 21000 = 46,900$$

Q6 :- John and Roman are partners sharing profits in ratio 2:3. Their capitals are Rs. 4,00,000 and Rs. 2,00,000 respectively. Interest is allowed on capitals @6%p.a. Profit before allowing interest is Rs. 30,000. Prepare

Case 1: P&L Appropriation A/c — IOC = appropriation

Case 2: P&L A/c, if interest on capital is a charge. = expense

Sol:- Case (1)

Dr — P&L appropriation A/c — Cr

To Interest on Capital		By P&L A/c	30,000
J – 20,000			
R – 10,000	30,000		
	30,000		30,000

2:1

Appropriations > Available profit.

30,000 — 30,000

Appropriations > Available profit.
36 000 > 30,000

Now Ratio of Appropriations

J's IOC : R's IOC
24000 : 12000

2 : 1

Case (2) Dr P&L A/c Cr

Charge

To Interest on Capital		By profit	30,000
J - 24000			
R - 12000	36,000	By Net Loss	6000
		J - 2400	
		R - 3600	
	36,000		36,000

(*) Imp. → opening capital ???

Q7 :- From the following balance sheet of X, Y and Z, calculate interest on capital @ 5% p.a. for year ended 31.3.2015.

Balance Sheet (31 March 2015)

Liabilities	Amount	Assets	Amount
X's capital	2,10,000	Sundry assets	4,18,000
Y's capital	1,60,000	Drawings – X	60,000
Z's capital	1,10,000	Drawings – Z	50,000
Profit & Loss appropriation A/c (2014 -15) (profit)	48,000		
	5,28,000		**5,28,000**

During the year 2014 – 15; X's drawings were 60,000, Y's drawings were ` 50,000 and Z's drawings were ` 50,000. Profits during 2014 – 15 was ` 78,000.

	X	Y	Z
Closing Capitals	210000	160000	110000
(+) Drawings	~~60 000~~	50000	~~50000~~
(-) Profits 78000 (-) 48000 (30,000) in 1:1:1	(10,000)	(10 000)	(10 000)
Opening Capital	200,000	200,000	100,000
IOC @ 5%	10,000	10,000	5,000

* In this Q, profits and drawings given in the Balance Sheet "SHALL BE IGNORED"

the Balance Sheet SHALL BE IGNORED

Q2 :- A and B are partners in a firm. Their capital accounts showed the balance on April 1, 2003 as ` 8,00,000 and ` 5,00,000 respectively. On August 31, 2003 they introduced further capitals of ` 1,00,000 and ` 2,00,000 respectively. A withdrew ` 50,000 from his capital on February 1, 2004. Interest is allowed @ 12% p.a. on the capitals. Compute interest on capitals for the year ending March 31,2004

Sol:- IOC (A)

$$= \left(800000 \times \frac{12}{100} \times \frac{5}{12}\right) + \left(900000 \times \frac{12}{100} \times \frac{5}{12}\right) + \left(850000 \times \frac{12}{100} \times \frac{2}{12}\right)$$

$$= 40000 + 45000 + 17000 = 102000$$

IOC (B)

$$\left(500000 \times \frac{12}{100} \times \frac{5}{12}\right) + \left(700000 \times \frac{12}{100} \times \frac{7}{12}\right)$$

$$= 25000 + 49000 = 74000$$

Q4 :- A and B are partners sharing profits and losses in the ratio 3:1. Their capitals at the end of the financial year 2013-14 were ` 12,00,000 and ` 6,00,000. During the year, B's drawings were ` 80,000 and the drawings of A were ` 1,60,000, which had been duly debited to the partner's capital accounts. Profit before charging interest on capital for the year was ` 1,60,000. The same had also been credited in their profit sharing ratio. B had brought additional capital of ` 1,40,000 on October 1, 2013. Calculate interest on capital @ 12% p.a. for the year 2013-14.

	A	B
closing Capital	12,00,000	6,00,000
(+) Drawings	160,000	80,000
(−) Profits 160000 in 3:1	(120,000)	(40,000)
(−) Additional Capital (1st October)	0	(140 000)
Opening Capital	12,40,000	5,00,000

$$IOC\ (A) = 1240000 \times \frac{12}{100} = 148,800$$

$$IOC\ (B) = \left(500000 \times \frac{12}{100} \times \frac{6}{12}\right) + \left(640000 \times \frac{12}{100} \times \frac{6}{12}\right) = 68400$$

Q8 :- From the following balance sheet of X, Y and Z who share profits in the ratio 4:3:3, calculate interest on capital @ 18% p.a. for year ended 31.3.2015

Liabilities	Amount	Assets	Amount
X's capital	2,50,000	Sundry assets	5,05,000
Y's capital	1,80,000	Drawings – X	80,000
Z's capital	1,30,000		
Profit & Loss appropriation A/c (2014 -15)	25,000		
	5,85,000		**5,85,000**

profit → 25,000 — ignore; Drawings – X → 80,000 ignore

During the year 2014 – 15; X's drawings were ` 80,000 and Z's drawings were ` 60,000. Profits during 2014 – 15 was ` 45,000.

	X	Y	Z
Closing Capital	250 000	180 000	130 000
(+) Drawings	~~80 000~~	–	60,000
(–) Profits (45000 – 25000) in 4:3:3	(8000)	(6000)	(6000)
Opening Capital	242 000	174 000	184,000
IOC @ 18%	43,560	31,320	33,120

CONCEPT

Interest on Drawings

- Rate is given with p.a (eg 10% p.a)
  - Irregular drawings
    - (i) Simple method
    - (ii) Product method
  - Regular drawings → Average period method
- Rate is given without p.a (eg 10%) → In this case simply calculate the interest without considering time factor.

(*) In case, when total drawings are given but the frequency of drawing is not given then we have to assume the frequency as middle of every

eg 2 (case 4)

(case 4) to assume the frequency as middle of every month.

eg ① **Irregular drawings**

1 May 2022 — ₹ 5,000

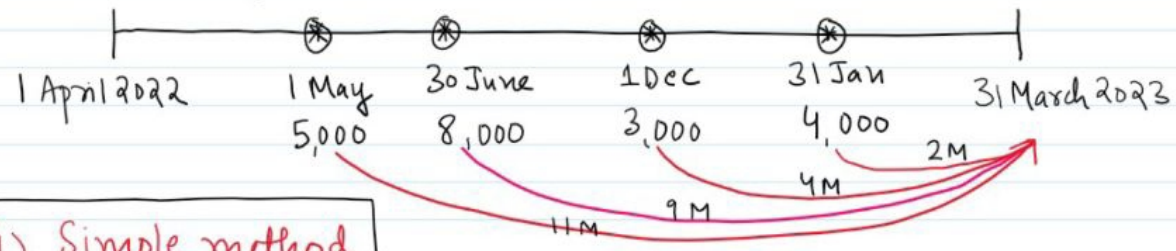
30th June 2022 — ₹ 8,000

1st Dec 2022 — ₹ 3000

31st Jan 2023 — ₹ 4000

Find Interest on drawings @ 12% p.a for the year ended 2022-23.

Sol:-



(i) Simple method

$$5,000 \times \frac{12}{100} \times \frac{11}{12} = 550$$

$$8,000 \times \frac{12}{100} \times \frac{9}{12} = 720$$

$$3,000 \times \frac{12}{100} \times \frac{4}{12} = 120$$

$$4,000 \times \frac{12}{100} \times \frac{2}{12} = 80$$

$$1470$$

(ii) PRODUCT METHOD

Date	Amount	Time period upto 31 March 2023	Product
1 May 2022	5000	11 months	55,000
30 June 2022	8000	9 months	72,000
1 Dec 2022	3000	4 months	12,000
31 Jan 2023	4000	2 months	8,000
			147,000

31 Jan 2023	4000	2 months	8,000
			147,000

$$\boxed{IOD = \text{Total Product} \times \frac{\text{Rate}}{100} \times \frac{1}{12}}$$ → or 365

$$= 147,000 \times \frac{12}{100} \times \frac{1}{12}$$

$$= 1,470$$

eg ② Regular drawings (Rate given with p.a)

$$IOD = \text{Total drawings} \times \frac{\text{Rate}}{100} \times \frac{\text{Average Period}}{12}$$

here, Average Period

$$= \frac{\text{Time left after 1st drawings} \; (+) \; \text{Time left after last drawings}}{2}$$

	BEGINNING (1st)	MIDDLE (15th)	END (30th/31st)
MONTH	6.5	6	5.5
QUARTER	7.5	6	4.5

Group of 3 months

Case (i) Mr. X withdraws ₹ 3,000 at the end of every month. Find IOD @ 12% p.a

Sol:- $IOD = \text{Total drawings} \times \frac{\text{Rate}}{100} \times \frac{\text{Avg Period}}{12}$

$$= [36,000] \times \frac{12}{100} \times \frac{5.5}{12}$$

$$= 360 \times 5.5$$

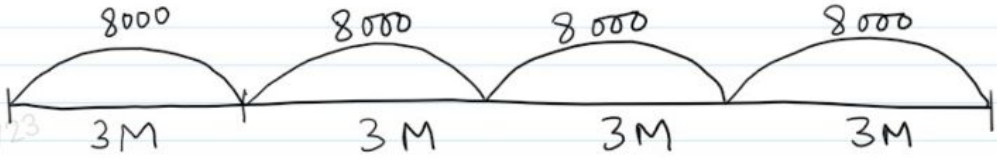
$$= 1980$$

$= 1980$

Case (ii) Mr. X withdraws ₹ 8,000 in the beginning of every quarter. Find IOD @ 24% p.a

Sol:- $IOD = \text{Total drawings} \times \frac{\text{Rate}}{100} \times \frac{\text{Avg Period}}{12}$

$= [32,000] \times \frac{24}{100} \times \frac{7.5}{12}$



$= 640 \times 7.5 = 4800$

Case (iii) Mr. X withdraws ₹ 7,000 at the middle of every quarter. Find IOD @ 36% p.a

Sol:- $IOD = \text{Total drawings} \times \frac{\text{Rate}}{100} \times \frac{\text{Avg Period}}{12}$

$= [28000] \times \frac{36}{100} \times \frac{6}{12}$

$= 5040$

(*) Case (iv) Mr. X withdraws ₹ 108,000 during the year. Find IOD @ 20% p.a

Sol:- $IOD = \text{Total drawings} \times \frac{\text{Rate}}{100} \times \frac{\text{Avg Period}}{12}$

$= 108,000 \times \frac{20}{100} \times \frac{6}{12}$

$= 10,800$

eg (3) Regular drawings (Rate given without p.a)

eg ③ (Regular drawings) (Rate given without p.a)

Case (i) Mr. X withdraws ₹ 6,000 at the begining of every month. Find IOD @ 10%.

Sol:- $IOD = \text{Total drawings} \times \frac{\text{Rate}}{100} \times \cancel{\frac{\text{Avg Period}}{12}}$

$= [72,000] \times \frac{10}{100}$

$= 7200$

Case (ii) Mr. X withdrawings ₹ 108,000 during the year. Find IOD @ 20%.

Sol:- $IOD = \text{Total drawings} \times \frac{\text{Rate}}{100}$

$= 108000 \times \frac{20}{100}$

$= 21,600$

x ——— x ——— x ——— x ——— x ——— x ——— x

PRACTICE

Q1 :- Tom & Cruise are partners in 2:1. On 1st April 2022 their Capitals are ₹ 500 000 and ₹ 600000 respectively. Other details

	Tom	Cruise
1st June 2022 Additional Capital →	60,000	–
30th Sep 2022 Withdrawal of Capital	–	40,000
31st Oct 2022 (5M → 31 March 2023, 3M) Drawings →	20,000	30,000
1st Jan 2023 Drawings →	80,000	40,000

0 1 1 1

(i) Interest on Capitals is 10 % p.a
(ii) Interest on drawings is 12 % p.a
(iii) Tom's salary is ₹ 4000 per quarter — 4000 × 4 = 16000
(iv) Cruise salary is ₹ 300 per week — 300 × 52 = 15600

Profits before the above appropriations were ₹ 18,60,000

Prepare P & L appropriation A/c & Partners' Capital A/c

Sol:-

Dr. P & L appropriation A/c Cr

		₹		₹
To Interest on Capital			By P & L A/c (Net profit)	18,60,000
T -	55,000			
C -	58,000	113,000	By Int on drawings	
To Partner Salary			T -	3400
T -	16,000		C -	2700
C -	15,600	31,600		6,100
To profit t/f to Partner Capital A/c		17,21,500		
T -	11,47,667			
C -	5,73,833	18,66,100		18,66,100

Dr Partner's Capital A/c Cr

	T	C		T	C
To Bank (withdrawal of Capital)	-	40,000	By Balance B/d (opening Capital)	500000	600000
To drawings	100,000	70,000	By Bank A/c (Additional Capital)	60000	-
To I O D	3,400	2,700	By I O C	55000	58000
			By Salary	16000	15600
To Balance c/d (closing Capital)	1675,267	11,34,733	By P & L appropriation A/c (share of profit)	1147667	573833
	1778667	1247433		17,78,667	1247433

10C (Tom) 1 April 2022 — 1st June 2022 — 31 March 2023

500,000 — 560000

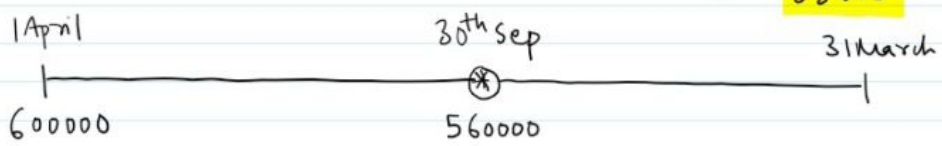
$10C = 500,000 \times \frac{10}{100} \times \frac{2}{12} \; (+) \; 560000 \times \frac{10}{100} \times \frac{10}{12} = 8333 + 46,667$

$= 55000$

Cruise 1 April — 30th Sep — 31 March

$= 55000$

Cruise



$$IOC = 600000 \times \frac{10}{100} \times \frac{6}{12} \ (+) \ 560000 \times \frac{10}{100} \times \frac{6}{12} = 30000 + 28000$$
$$= 58000$$

IOD (Tom) - Simple

irregular drawings

$$\left(20,000 \times \frac{12}{100} \times \frac{5}{12}\right) + \left(80000 \times \frac{12}{100} \times \frac{3}{12}\right)$$
$$= 1000 + 2400 = 3400$$

Cruise - Simple

$$\left(30000 \times \frac{12}{100} \times \frac{5}{12}\right) + \left(40000 \times \frac{12}{100} \times \frac{3}{12}\right)$$
$$= 1500 + 1200 = 2700$$

10. Akhil and Bimal are partners sharing profits in the ratio of 3 : 2. Akhil gave loan to the firm of ₹ 1,00,000 on 1st October, 2022. On the same date, the firm gave loan to Bimal of ₹ 1,00,000. They do not have an agreement as to interest.

Akhil had also given his personal property for firm's godown at a monthly rent of ₹ 5,000. ×12 = CAP 60000

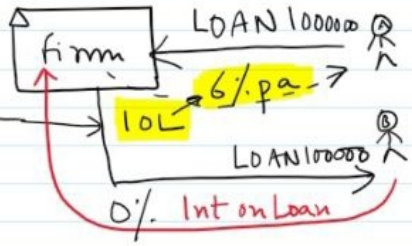
Firm earns profit of ₹ 1,03,000 (before above adjustments) for the year ended 31st March, 2023. Show the distribution of profit for the year.

[**Ans.:** ₹ 40,000 [(₹ 1,03,000 – ₹ 3,000) (interest on Loan by Akhil)—₹ 60,000 (rent)] will be distributed in the ratio of 3 : 2. Akhil—₹ 24,000; Bimal—₹ 16,000.]

[**Hint:** In the absence of agreement, Akhil will get interest @ 6% p.a. on loan given by him. Interest will not be charged on loan to Bimal by the firm. Also, rent will be paid to Akhil as per the agreement.]

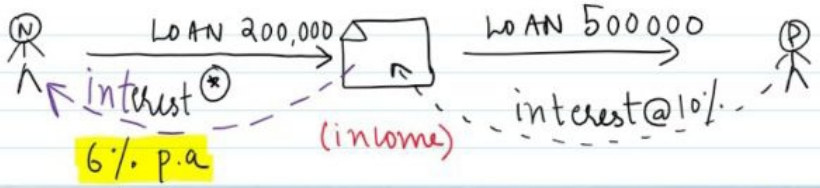
$$100,000 \times \frac{6}{100} \times \frac{6}{12} = \boxed{3000}$$

CAP (expense)



Sol:-

Dr	P&L A/C		Cr
To Interest on Loan (expense)	3,000	By Profit (given)	103,000
To Rent paid to A	60,000	By Interest on loan (income)	Nil
To Net profit (bal.) A - 24,000 B - 16,000	40,000		
	103000		103,000



11. Nirmal and Pawan are partners sharing profits in the ratio of 3 : 2. The firm had given loan to Pawan of ₹ 5,00,000 on 1st April, 2022. Interest was to be charged @ 10% p.a. The firm took loan of ₹ 2,00,000 from Nirmal on 1st October, 2022. Before giving effect to the above, the firm incurred a loss of ₹ 10,000 for the year ended 31st March, 2023. Determine the amount to be transferred to Profit & Loss Appropriation Account.

[**Ans.:** *Amount of Profit transferred to Profit & Loss Appropriation A/c—₹ 34,000.*]

Sol:-

Dr P&L A/c Cr

To Loss (given)	10,000	By Interest on Loan (income)	50,000
To Interest on Loan (expense)	6,000		
To Net profit (transferred to P&L appr A/c)	34,000		
	50,000		50,000

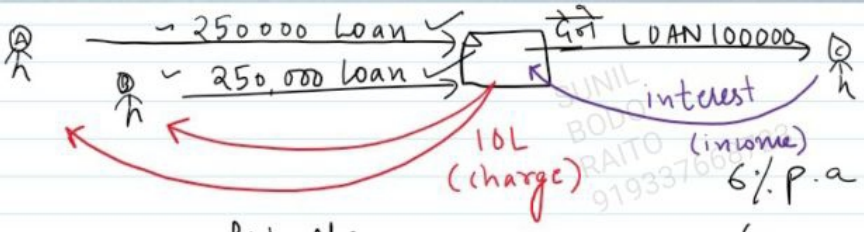
$$\left\{ 200000 \times \frac{6}{100} \times \frac{6}{12} = 6000 \right\}$$

12. Ankit, Bhanu and Charu are partners in a firm sharing profits and losses equally with capital of ₹ 2,50,000 each. On 1st October, 2022, Ankit and Bhanu gave loans of ₹ 2,50,000 each to the firm whereas Charu took a loan of ₹ 1,00,000 from the firm on the same date. It was agreed among the partners that Charu will be charged Interest @ 6% p.a. Interest on loan from partners was paid on 10th April, 2023. The firm closes its books on 31st March each year.

31 March 2023 10 days बाद (Next Financial year)

Pass the Journal entries in the books of the firm for the year ended 31st March, 2023.

[**Ans.:** *Interest credited to Loan Accounts of Ankit and Bhanu—₹ 7,500 each; Interest debited to Charu's Capital Account—₹ 3,000.*]



For own understanding

Dr P&L A/c Cr

To Interest on Loan A - 7500	15,000	By Interest on Loan (income)	3,000

To Interest on Loan A - 7500 B - 7500	15,000	By Interest on Loan (income)	3,000

10 Oct 2022 — Loan लेने की

Bank A/c — Dr. 500000
To A's Loan A/c — 250,000
To B's Loan A/c — 250,000

10 Oct 2022 — Loan देने की

Loan to C — Dr. 100000
To Bank A/c — 100,000

31 March 2023 — charge

Interest on Loan A/c — Dr. 15000
To A's loan A/c — 7500
To B's loan A/c — 7500

31 March 2023 — income

C's Capital A/c — Dr. 3000
To Interest on Loan A/c (c) — 3000

31 March

P&L A/c — Dr. 15000
To Interest on Loan A/c — 15000

31 March

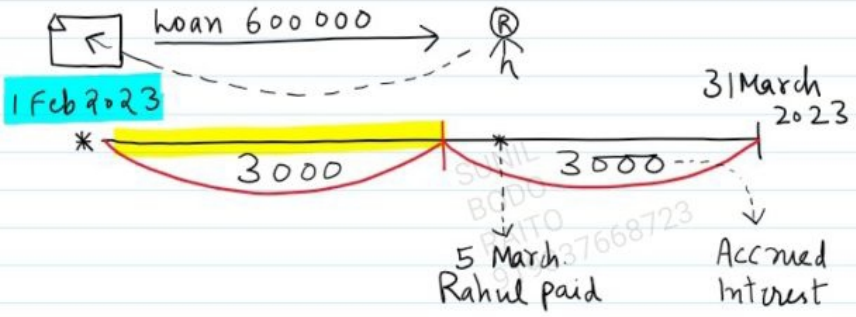
Interest on Loan A/c — Dr. 3000
To P&L A/c — 3000

14. Parul, Paresh and Rahul are partners in a firm. Firm gave loan to Rahul on 1st February, 2023 of ₹ 6,00,000. Interest was agreed to be charged @ 6% p.a. Interest was paid by cheque up to February, 2023 by Rahul on 5th March, 2023 and balance was yet to be paid by him.
Pass the Journal entries for interest on loan to partner.
[**Ans.:** *Interest on Loan to Rahul (for February, 2023)—₹ 3,000; Interest transferred to Profit & Loss A/c (up to 31st March, 2023)—₹ 6,000.*]

interest (income) =

$600,000 \times \frac{6}{100} \times \frac{2}{12}$

$= 6000$



28 Feb. — Rahul's Capital A/c — Dr. 3000
To Interest on Loan A/c — 3000 — income

5 March — Cash A/c — Dr. 3000

To Interest on Loan A/c ——— 3000

5 March Cash A/c Dr. 3000
To Rahul's Capital A/c ——— 3000

31 March Rahul's Capital A/c Dr. 3000
To Interest on Loan A/c ——— 3000 — Income

31 March Interest on Loan A/c Dr. 6000
To P&L A/c ——— 6000

16. *X, Y* and *Z* are partners in a firm sharing profits in the ratio of 2 : 2 : 1. Fixed capitals of the partners were: *X* ₹ 5,00,000; *Y* ₹ 5,00,000 and *Z* ₹ 2,50,000 respectively. The Partnership Deed provides that interest on capital is to be allowed @ 10% p.a. *Z* is to be allowed salary of ₹ 2,000 per month. Profit of the firm for the year ended 31st March, 2023 after debiting *Z*'s salary was ₹ 4,00,000. = 24000
Prepare Profit & Loss Appropriation Account. [**Ans.:** *Divisible Profit*—₹ 2,75,000.]

pay करने के बाद
(after charging)

(−) 24000 = 4,00,000

Z's Salary

Z की salary pay करने के बाद

pay करने से पहले

P&L appropriation A/c

Dr.			Cr
To Interest on Capital		By P&L A/c (Net profit) **	424 000
X - 50000		(Appropriations pay करने से पहले)	
Y - 50 000			
Z - 25000	125000		
To Z's Salary	24 000		
To profit (bal..)			
X - 1,10,000			
Y - 1,10,000	275000		
Z - 55,000			
	424000		424 000

17. *X* and *Y* are partners sharing profits in the ratio of 3 : 2 with capitals of ₹ 8,00,000 and ₹ 6,00,000 respectively. Interest on capital is agreed @ 5% p.a. *Y* is to be allowed an annual salary of ₹ 60,000 which has not been withdrawn. Profit for the year ended 31st March, 2023 before interest on capital but after charging *Y*'s salary was ₹ 2,40,000.

A provision of 5% of the [redacted] profit is to be made in respect of commission to the Manager. (Charge against against)

Prepare Profit & Loss Appropriation Account showing the allocation of profits.

[**Ans.:** *Provision for Manager's Commission—₹ 15,000 (i.e., 5% of ₹ 3,00,000), Share of Profit: X—₹ 93,000; Y—₹ 62,000.*]

Sol:- Profit before IOC but after Y's salary = 240,000

(profit IOC pay करने से पहले, Y's salary pay करने के बाद)

Profit before IOC and before Y's salary = 300,000

Now Manager's Commission [300000 × 5%] = (15,000)

Net profit 285,000

Dr P&L appr A/c

To Int on Capital		By P&L A/c (Net profit)	285,000
X - 40,000			
Y - 30,000	70,000		
To Y's Salary	60,000		
To profit (bal.)	155000		
X - 93,000			
Y - 62,000	285000		285000

18. Atul and Mithun are partners sharing profits in the ratio of 3 : 2.

Balances as on 1st April, 2022 were as follows:

Capital Accounts (Fixed): Atul—₹ 5,00,000 and Mithun—₹ 6,00,000.

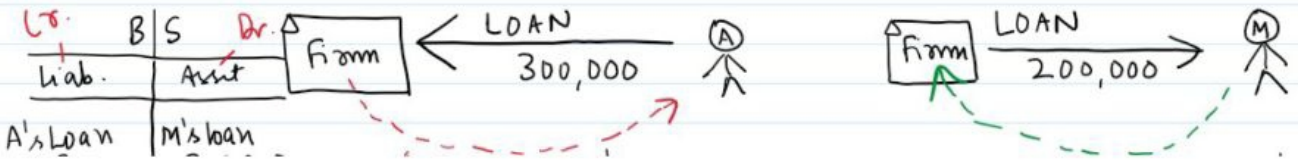
Loan Accounts: Atul—₹ 3,00,000 (Cr.) and Mithun—₹ 2,00,000 (Dr.)

It was agreed to allow (देना) and charge (लेना) interest @ 8% p.a. Partnership Deed provided to allow interest on capital (appropriation) @ 10% p.a. Interest on Drawings was charged ₹ 5,000 each

Profit before giving effect to above was ₹ 2,28,000 for the year ended 31st March, 2023.

Prepare Profit & Loss Appropriation Account.

[**Ans.:** *Share of Profit: Atul—₹ 72,000; and Mithun—₹ 48,000.*]



Liab.	Asst
A's Loan 300000	M's loan 200,000

300,000 — 200,000

interest @ 8%. = 24000 (Charge)

interest @ 8%. = 16000 (income)

P&L A/c

Dr.		Cr.	
To Interest on Loan	24,000	By profit (given)	228000
To Net profit	220,000	By Interest on Loan	16000
	244000		244000

P&L appropriation A/c

Dr		Cr	
To Int on capital		By P&L A/c (Net profit)	220000
A - 50,000		By Int on drawings	
M - 60,000	110,000	A - 5000	
		M - 5000	10,000
To Profit (bal.)			
A - 72,000	120,000		
M - 48,000	230,000		230,000

R's Salary p.a = 180000
S's Salary p.a = 180000 } = 360,000

19. Reema and Seema are partners sharing profits equally. The Partnership Deed provides that both Reema and Seema will get monthly salary of ₹ 15,000 each, Interest on Capital will be allowed @ 5% p.a. and Interest on Drawings will be charged @ 10% p.a. Their capitals were ₹ 5,00,000 each and drawings during the year were ₹ 60,000 each.

The firm incurred net loss of ₹ 1,00,000 during the year ended 31st March, 2023.

Prepare Profit & Loss Appropriation Account for the year ended 31st March, 2023.

[**Ans.:** *Loss—₹ 94,000; Reema's Share—₹ 47,000; Seema's Share—₹ 47,000.*]

R's 10C = 25,000 } = 50,000

R's IOC = 25,000
S's IOC = 25,000 } = 50,000

R's IOD = $60,000 \times \frac{10}{100} \times \frac{6}{12}$ = 3000
S's IOD = $60,000 \times \frac{10}{100} \times \frac{6}{12}$ = 3000

Sol:-

Dr — P&L appropriation A/c — Cr

To Net Loss	100,000	By Int on drawings	
~~To IOC~~		R - 3000	
~~To Salary~~		S - 3000	6,000
		By LOSS	94,000
		R - 47000	
	100,000	S - 47000	100,000

20. Bhanu and Partap are partners sharing profits equally. Their fixed capitals as on 1st April, 2022 were ₹ 8,00,000 and ₹ 10,00,000 respectively. Their drawings during the year were ₹ 50,000 and ₹ 1,00,000 respectively. Interest on Capital is a charge and is to be allowed @ 10% p.a. and interest on drawings is to be charged @ 15% p.a. Net Profit for the year ended 31st March, 2023 before giving effect to the above) was ₹ 1,20,000.

Dr. in P&L A/c

Prepare Profit & Loss Appropriation Account.

[**Ans.:** *Loss—₹ 48,750; Dr. Bhanu's Current A/c and Partap's Current Account by ₹ 24,375 each.*]

Sol:-

Dr — P&L A/c — Cr

To Int. on capital		By profit	120000
B - 80,000	180000	By Net Loss	60,000
P - 100,000			
	180000		180000

Dr — P&L appr A/c

To Net Loss	60,000	By Int on drawings	
~~To appr~~		B - 3750	
		P - 7500	11250
		By LOSS (bal.)	48750
	60 000	B - 24375	
		P - 24375	60000

* B = $50,000 \times \frac{15}{100} \times \frac{6}{12}$ = 3750

* $P = 100,000 \times \frac{15}{100} \times \frac{6}{12} = 7500$

Fixed Capital System. — Capital A/c, Current A/c

23. Simran and Reema are partners sharing profits in the ratio of 3 : 2. Their capitals as on 1st April, 2022 were ₹ 2,00,000 each whereas Current Accounts had balances of ₹ 50,000 and ₹ 25,000 respectively. Interest on capital is to be allowed @ 5% p.a. Net profit of the firm for the year ended 31st March, 2023 was ₹ 3,00,000.

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

[**Ans.:** (i) *Dr. Profit & Loss Appropriation A/c by ₹ 20,000;*
Cr. Simran's Current A/c by ₹ 10,000 and Reema's Current A/c by ₹ 10,000;
(ii) *Dr. Profit & Loss Appropriation A/c by ₹ 2,80,000;*
Cr. Simran's Current A/c by ₹ 1,68,000 and Reema's Current A/c by ₹ 1,12,000.]

[**Hint:** Interest will not be allowed on Current Account balances.]

Sol:-

"P&L appr A/c"

Dr		Cr
To Int. on capital		By P&L A/c (Net profit) 300 000
S – 10,000		
R – 10,000	20,000	
To Profit (bal)	280000	
S – 168000		
R – 112000	300000	300000

Journal

Journal

P&L appropriation A/c Dr. 20,000
To S's Current A/c ——— 10000
To R's Current A/c ——— 10000

P&L appropriation A/c Dr. 280,000
To S's Current A/c ——— 168000
To R's Current A/c ——— 112000

P/S/R Not given => 1 : 1

Permanent

Closing

26. Naresh and Sukesh are partners with capitals of ₹ 3,00,000 each as on 31st March, 2023. Naresh had withdrawn ₹ 50,000 against capital on 1st October, 2022 and ₹ 1,00,000 drawings against profit. Sukesh also had drawings of ₹ 1,00,000.

"Temporary"

Interest on capital is to be allowed @ 10% p.a.

Net profit for the year was ₹ 2,00,000, which is yet to be distributed.

Pass the Journal entries for interest on capital and distribution of profit.

[**Ans.:** *For Interest on Capital: Dr. Profit & Loss Appropriation A/c by ₹ 82,500; Cr. Naresh's Capital A/c by ₹ 42,500 & Sukesh's Capital A/c by ₹ 40,000; For Profit distribution: Dr. Profit & Loss Appropriation A/c by ₹ 1,17,500; Cr. Naresh's Capital A/c by ₹ 58,750 and Sukesh's Capital A/c by ₹ 58,750.*]

P&L appr

Dr.			
IOC	82500	NP	200000
profit	117500		

Sol:- IOC

	N	S
Closing Capital	300,000	300,000
(+) Withdrawl of Capital	50,000	0
(+) Drawings	100,000	100,000
Opening Capital (1 April 2022)	450,000	400,000

Naresh

1 April 2022 — Withdrawl — 31 March 2023

450,000 — 1 Oct 2022 — 400,000

$$IOC = \left(450,000 \times \frac{10}{100} \times \frac{6}{12}\right) + \left(400000 \times \frac{10}{100} \times \frac{6}{12}\right)$$

$$= 22500 + 20000 = 42500$$

Sukesh

$$IOC = 400000 \times \frac{10}{100} = 40,000$$

(i) P&L appropriation A/c Dr 82500
To N's Capital A/c ——— 42500
To S's Capital A/c ——— 40000

(ii) P&L appropriation A/c Dr. 117,500
To N's Capital A/c ——— 58750
To S's Capital A/c ——— 58750

30. From the following Balance Sheet of Long and Short, calculate interest on capital @ 8% p.a. for the year ended 31st March, 2023:

25000 25000

BALANCE SHEET *as at 31st March, 2023*

Liabilities	₹	Assets	₹
Long's Capital A/c — closing	1,20,000	Fixed Assets	3,00,000
Short's Capital A/c — closing	1,40,000	Other Assets	60,000
General Reserve	1,00,000		
	3,60,000		3,60,000

During the year, Long "withdrew" ₹ 40,000 and Short "withdrew" ₹ 50,000. Profit for the year was ₹ 1,50,000 out of which ₹ 1,00,000 was transferred to General Reserve.

जो बचा था 50000

[**Ans.:** *Interest on Long's Capital—₹ 10,800; Interest on Short's Capital—₹ 13,200.*]

Sol:-

	L	S
Closing Capital	120,000	140,000
(+) Drawings	40,000	50,000
(−) Profits *** 50,000	(25,000)	(25,000)
Opening Capital	135 000	165,000

∴ IOC

$L = 135000 \times \frac{8}{100} = 10,800$

$S = 165,000 \times \frac{8}{100} = 13,200$

Q28, Q29, Q31, Q32, Q36. (Edition 2023)

H W

Practice

35. *A, B, C* and *D* are partners in a firm sharing profits in the ratio of 4 : 3 : 2 : 1. The firm earned net profit of ₹ 1,80,000 for the year ended 31st March, 2023. As per the Partnership Deed, partners will get commission @ 20% of the profit after charging such commission which they will share as 2 : 3 : 2 : 3.
You are required to show appropriation of profits among the partners.

₹ 1,80,000 for the year ended 31st March, 2023. As per the Partnership Deed, partners will get commission @ 20% of the profit after charging such commission which they will share as 2 : 3 : 2 : 3.
You are required to show appropriation of profits among the partners.

[**Ans.:** *Commission payable to the partners = 20/120 × ₹ 1,80,000 = ₹ 30,000 which will be shared as: A—₹ 6,000; B—₹ 9,000; C—₹ 6,000 and D—₹ 9,000. Share of Profits: A—₹ 60,000; B—₹ 45,000; C—₹ 30,000 and D—₹ 15,000.*]

Sol:- Dr P. L appr A/c Cr

To Partners Commission A - 6000 B - 9000 C - 6000 D - 9000	30,000	By P&L A/c (N.P)	180,000
To Profit (bal.) A - 60000 B - 45000 C - 30000 D - 15000	150000		
	180000		180,000

WN:- $180,000 \times \frac{20}{(100+20)} = \boxed{30,000}$ 2:3:2:3

A = 6000
B = 9000
C = 6000
D = 9000

39. Dev withdrew ₹ 10,000 on 15th day of every month (Middle of every month). Interest on drawings was to be charged @ 12% per annum. Calculate interest on Dev's Drawings. (CBSE 2019)

[**Ans.:** *Interest on Drawings—₹ 7,200.*]

40. One of the partners in a partnership firm has withdrawn ₹ 9,000 at the end of each quarter, throughout the year. Calculate interest on drawings at the rate of 6% per annum. (CBSE Sample Paper 2018)

[**Ans.:** *Interest on Drawings—₹ 810.*]

Sol: 39) $ID = \text{Total drawings} \times \frac{\text{Rate}}{100} \times \frac{\text{Avg Period}}{12}$

$= (120,000) \times \frac{12}{100} \times \frac{6}{12} = 7200$

Sol 40) $ID = \text{Total drawings} \times \frac{\text{Rate}}{100} \times \frac{\text{Avg Period}}{12}$

$= (36,000) \times \frac{6}{100} \times \frac{4.5}{12} = 810$

(*) Imp.

41. *A* and *B* are partners sharing profits equally. *A* drew regularly ₹ 4,000 in the beginning (1st Day) of every month for "six months ended 30th September, 2022." Calculate interest on drawings @ 5% p.a. for a period of six months.

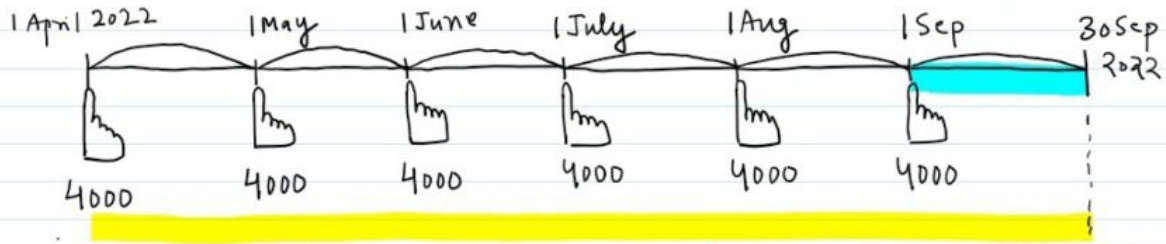
[**Ans.:** *Interest on Drawings—₹ 350.*]

[**Hint:** Interest on drawings will be charged for average period of 3.5 months on total drawings.]

six months. [**Ans.:** *Interest on Drawings—₹ 350.*]

[**Hint:** Interest on drawings will be charged for average period of 3.5 months on total drawings.]

Sol:-



$$\text{Average Period} = \frac{\text{Time left after 1st drawings (+) Time left after last drawings}}{2}$$

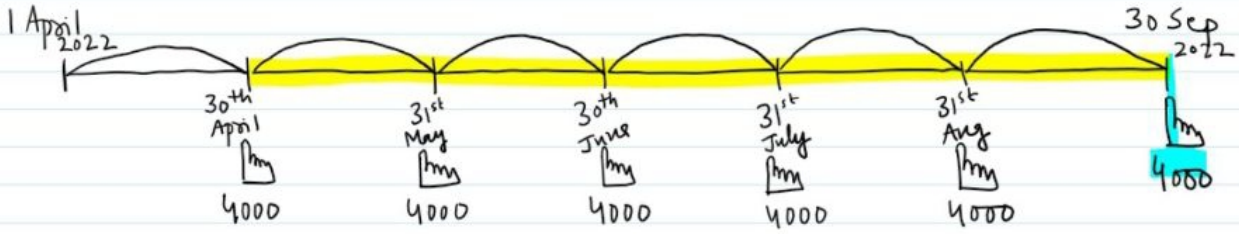
$$= \frac{6 \text{ months (+) } 1 \text{ month}}{2} = 3.5$$

$$\therefore \text{IOD} = \text{Total Drawings} \times \frac{\text{Rate}}{100} \times \frac{\text{Avg Period}}{12} \Rightarrow ₹\,24000 \times \frac{5}{100} \times \frac{3.5}{12}$$

$$= 350$$

42. *A* and *B* are partners sharing profits equally. *A* drew regularly ₹ 4,000 at the end (30th/31st) of every month for six months ended 30th September, 2022. Calculate interest on drawings @ 5% p.a. for a period of six months. [**Ans.:** *Interest on Drawings—₹ 250.*]

[**Hint:** Interest on drawings will be charged for average period of 2.5 months on total drawings.]



$$\text{A.P} = \frac{\text{Time left after 1st drawings} + \text{Time left after last drawings}}{2}$$

$$= \frac{5 + 0}{2} = 2.5$$

$$\text{IOD} = \text{Total drawings} \times \frac{\text{Rate}}{100} \times \frac{\text{AP}}{12}$$

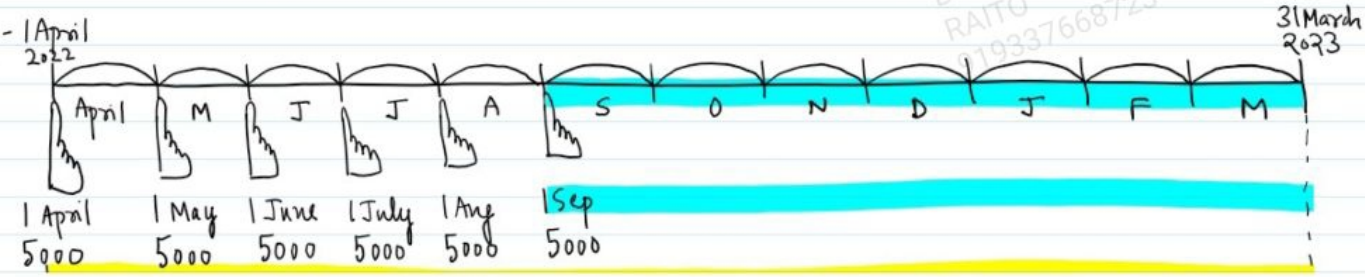
$$= 24000 \times \frac{5}{100} \times \frac{2.5}{12} = 250$$

43. *B* and *C* are partners sharing profits equally. *C* regularly withdrew ₹ 5,000 per month in the beginning (1st) of the month for six months ended 30th September, 2022. Calculate interest on drawings @ 12% p.a. for the year ended 31st March, 2023. [**Ans.:** *Interest on Drawings— ₹ 2,850.*]

[**Hint:** Interest on drawings will be charged for 9.5 months on total drawings.] CBSE 2024

OMG

Sol:-



1 April	1 May	1 June	1 July	1 Aug	1 Sep
5000	5000	5000	5000	5000	5000

A.P = $\frac{\text{Time left after 1st drawings (+) Time left after last drawings}}{2}$

$= \frac{12 (+) 7}{2} = 9.5$

IOD = Total drawings $\times \frac{\text{Rate}}{100} \times \frac{\text{AP}}{12} \Rightarrow 30000 \times \frac{12}{100} \times \frac{9.5}{12}$

$\Rightarrow 2850$

Closing Capital

45. The capital accounts of Tisha and Divya showed credit balances of ₹ 10,00,000 and ₹ 7,50,000 respectively after taking into account drawings and net profit of ₹ 5,00,000. The drawings of the partners during the year ended 31st March, 2024 were:

(i) Tisha withdrew ₹ 25,000 at the end of each quarter. → Regular T's drawings = 1,00,000

(ii) Divya's drawings were:

Irregular

31st May, 2023	—	₹ 20,000
1st November, 2023	—	₹ 17,500
1st February, 2024	—	₹ 12,500

D's drawings = 50,000

Calculate interest on partners' capitals @ 10% p.a. and interest on partners' drawings @ 6% p.a. for the year ended 31st March, 2024.

[**Ans.:**

	Tisha ₹	Divya ₹
Opening Capital	8,50,000	5,50,000
Interest on Capital	85,000	55,000
Interest on Drawings	2,250	1,563]

Sol:- (i)

	T	D
Closing Capital	10,00,000	750 000
(+) Drawings	1,00,000	50,000
(−) Profits (500000 in 1:1)	(250000)	(250000)
Opening Capital	850 000	550 000
∴ IOC @ 10% p.a	85,000	55,000

(ii) T's IOD = Total drawings $\times \frac{\text{Rate}}{100} \times \frac{\text{A.P}}{12}$

$= 1,00,000 \times \frac{6}{100} \times \frac{4.5}{12}$

$= 2,250$

(iii) D's IOD

(iii) D's IOD

Date	Amount	Time left upto 31 March 2024	Product
31 May 2023	20,000	10 months	200,000
1 Nov 2023	17,500	5 months	87,500
1 Feb 2024	12,500	2 months	25,000
			312,500

$\therefore$ IOD $= 312500 \times \frac{6}{100} \times \frac{1}{12} =$ **1,563**

46. A, B and C are partners. During the year ended 31st March, 2023, each of the partners withdrew ₹ 10,000 regularly. A withdrew in the beginning of the first 6 months of the year, B withdrew in the middle of the month for the first 6 months of the year and C withdrew at the end of the month for the first 6 months. Calculate interest on drawings @ 6% p.a. for the year ended 31st March, 2023.

[**Ans.:** *Interest on Drawings: A—₹ 2,850; B—₹ 2,700 and C—₹ 2,550.*]

(A) 1 April, 1 May, 1 June, 1 July, 1 Aug, 1 Sep — 31 March

10,000 | 10,000 | 10000 | 10,000 | 10,000 | 10,000

$AP = \frac{12+7}{2} = 9.5$

(B) 1 April — 31 March

15 April 10,000 | 15 May 10000 | 15 June 10000 | 15 July 10000 | 15 Aug 10000 | 15 Sep 10,000

$AP = \frac{11.5 (+) 6.5}{2} = 9$

(C) 1 April — 31 March

30 April 10000 | 31 May 10000 | 30 June 10000 | 31 July 10000 | 31 Aug 10000 | 30 Sep 10000

$AP = \frac{11+6}{2} = 8.5$

IOD (A) $=$ Total drawings $\times \frac{\text{Rate}}{100} \times \frac{AP}{12}$

$= 60,000 \times \frac{6}{100} \times \frac{9.5}{12} =$ **2850**

IOD (B) $= 60,000 \times \frac{6}{100} \times \frac{9}{12}$

$$100(b) = 60,000 \times \frac{6}{100} \times \frac{7}{12}$$

$$= 2700$$

$$100D(c) = 60,000 \times \frac{6}{100} \times \frac{8.5}{12}$$

$$= 2550$$

**

47. Calculate the amount of Manan's monthly drawings for the year ended 31st March, 2023, in the following alternative cases when Partnership Deed allows interest on drawings @ 10% p.a.:

CW (i) If interest on drawings is ₹ 1,950 and he withdrew a fixed amount in the beginning of each month.

HW (ii) If interest on drawings is ₹ 2,400 and he withdrew a fixed amount in the middle of each month.

HW (iii) If interest on drawings is ₹ 2,750 and he withdrew a fixed amount at the end of each month.

[**Ans.:** *Amount of Drawings: (i) ₹ 3,000; (ii) ₹ 4,000; (iii) ₹ 5,000.*]

(i) Int on drawings = Total drawings × $\frac{\text{Rate}}{100}$ × $\frac{AP}{12}$

$$1950 = \text{Total drawings} \times \frac{10}{100} \times \frac{6.5}{12}$$

$$1950 = \text{Total drawings} \times \frac{6.5}{120}$$

$$\text{Total drawings} = \frac{1950 \times 120}{6.5} = 36,000$$

Now Monthly drawings $= \frac{36,000}{12}$

$= 3,000$ per month.

50. Calculate the Rate of interest on Drawings of Mohan in the following cases:

(W) (a) If he withdrew ₹ 6,000 in the beginning of each quarter for the year ended 31st March, 2023 and interest on drawings is ₹ 1,500.

HW (b) If he withdrew ₹ 6,000 at the end of each quarter for the year ended 31st March, 2023 and interest on drawings is ₹ 900.

HW (c) It he withdrew ₹ 6,000 per quarter for the year ended 31st March, 2023 and interest on drawings is ₹ 1,200.

[**Ans.:** *(a) 10%; (b) 10% and (c) 10%.*]

Sol:-

$$I_{00} = \text{Total drawings} \times \frac{\text{Rate}}{100} \times \frac{\text{Avg Period}}{12}$$

$$1500 = (\cancel{24}^{2},000\cancel{00}) \times \frac{\text{Rate}}{\cancel{100}} \times \frac{7.5}{\cancel{12}}$$

$$1500 = \text{Rate} \times 150$$

$$\text{Rate} = \frac{1500}{150} = 10\%$$

illus 3 to 42

H W

52. *A* and *B* are partners sharing profits and losses in the ratio of 3 : 1. On 1st April, 2022, their capitals were: *A* ₹ 5,00,000 and *B* ₹ 3,00,000. During the year ended 31st March, 2023, the firm earned a net profit of ₹ 5,00,000. The terms of partnership are:

(a) Interest on capital is to be allowed @ 6% p.a. $30,00,000 \times \frac{2}{100} = 60,000$

(b) *A* will get a commission @ 2% on net sales

(c) *B* will get a salary of ₹ 5,000 per month. ⇒ 60,000 p.a

(d) *B* will get commission of 5% on profits after deduction of all expenses including such commission.

Partners' drawings for the year were: *A* ₹ 80,000 and *B* ₹ 60,000. Net Sales for the year was ₹ 30,00,000.

(d) B will get commission of 5% on profits after deduction of all expenses including such commission. Partners' drawings for the year were: A ₹ 80,000 and B ₹ 60,000. Net Sales for the year was ₹ 30,00,000. After considering the above facts, you are required to prepare Profit & Loss Appropriation Account and Partners' Capital Accounts.

(4-6 Marks)

[**Ans.:** *Commission of B—₹ 15,810; Share of Profit: A—₹ 2,37,140; B—₹ 79,050; Capital A/cs: A—₹ 7,47,140; B—₹ 4,12,860.*]

Sol:-

Dr — P & L appropriation A/c — Cr

To Int. on Capital		By P&L A/c (Net profit)	500 000
A - 30,000			
B - 18,000	48,000		
To A's Commission	60,000		
To B's Salary	60,000		
To B's Commission	15,810		
To Profit (bal..)	316190		
A - 237140			
B - 79050			
	500 000		500 000

Dr. — Partner's Capital A/c — Cr

	A	B		A	B
To Drawings	80000	60000	By Balance b/d (opening Capital)	500000	300000
To Interest on drawings	Nil	Nil	By Int on Capital	30000	18000
			By Salary	0	60000
			By Commission	60,000	15810
			By P&L appr A/c (share of profit)	237140	79050
To Balance c/d (closing Capital)	747140	412860			
	827140	472860		827140	472860

* WN B's Comm = 5% of Profit after deduction of all expenses including such commission

$= \frac{5}{100+5} \times [500000 (-) 60000 (-) 48000 (-) 60000]$

$= \frac{\cancel{5}^{1}}{\cancel{105}_{21}} \times 332000 = 15,810$

54. Amit, Binita and Charu are three partners. On 1st April, 2022, their Capitals stood as: Amit ₹ 1,00,000, Binita ₹ 2,00,000 and Charu ₹ 3,00,000. It was decided that:

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

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

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

$\frac{Rate}{100 + Rate}$

120,000 p.a

charging such

(b) Amit would get a salary of ₹ 10,000 per month, [illegible] 120,000 p.a. [illegible] charging such [illegible]

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

(d) 10% of the net profit would be transferred to the General Reserve.

Before the above items were taken into account, profit for the year ended 31st March, 2023 was ₹ 5,00,000. Prepare Profit & Loss Appropriation Account and the Capital Accounts of the Partners.

[**Ans.:** *Divisible Profit—₹ 2,76,190; Commission (Binita)—₹ 23,810; General Reserve—₹ 50,000; Share of Profit: Amit—₹ 92,063; Binita—₹ 92,063, Charu—₹ 92,064; Closing Balances of Capital A/cs: Amit—₹ 3,17,063; Binita—₹ 3,25,873; Charu—₹ 4,07,064.*]

Sol:-

P&L appr A/c

Dr		Cr	
To Int on Capital		By P&L A/c (Net profit)	500,000
A - 5000			
B - 10000			
C - 15000	30,000		
To A's Salary	120,000		
To B's Commission $\left\{\frac{5}{105} \times 5,00,000\right\}$	23,810		
To General Reserve	50,000		
To Profit (bal..)	276,190		
A - 92063			
B - 92063			
C - 92064			
	500 000		500,000

Partner's Capital A/c

Dr	A	B	C	Cr	A	B	C
				By Balance b/d (opening Capital)	100000	200000	300000
				By I O C	5000	10000	15000
				By Salary	120000	0	0
				By Commission	0	23810	0
To Balance c/d	317063	325873	407,064	By P&L appr A/c (share of profit)	92063	92063	92064
	317063	325873	407,064		317063	325873	407,064

56. Sajal and Kajal are partners sharing profits and losses in the ratio of 2 : 1. On 1st April, 2022, their Capitals were: Sajal—₹ 5,00,000 and Kajal—₹ 4,00,000.

Prepare Profit & Loss Appropriation Account and the Partners' Capital Accounts for the year ended 31st March, 2023 from the following information:

(a) Interest on Capital is to be allowed @ 5% p.a.

(b) Interest on the loan advanced by Kajal for the complete year, the amount of loan being ₹ 3,00,000.

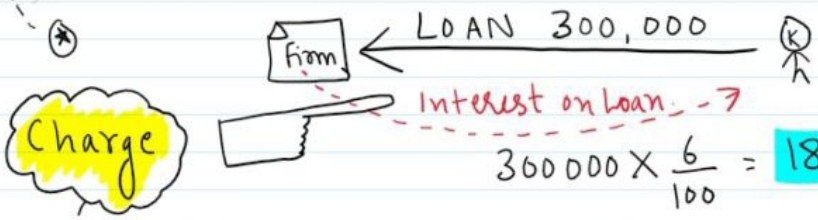
(c) Interest on partners' drawings @ 6% p.a. Drawings: Sajal ₹ 1,00,000 and Kajal ₹ 80,000.

(d) 10% of the divisible profit is to be transferred to General Reserve.

Profit, before giving effect to the above, for the year ended 31st March, 2023 is ₹ 7,02,600.

[**Ans.:** *Closing Balances of Capital A/cs: Sajal—₹ 8,09,000; Kajal—₹ 5,31,100; Share of Profit: Sajal—₹ 3,87,000; Kajal—₹ 1,93,500; General Reserve—₹ 64,500.*]

[**Hint:** Interest on loan by a partner is a charge.]



$300000 \times \frac{6}{100} = 18,000$

P&L A/c

Dr.			Cr.
To Interest on loan	18,000	By profit	702600
To Net profit	684,600		
	702600		702600

P&L appr A/c

Dr			Cr
To Int on Capital S - 25000 K - 20000	45 000	By P&L A/c (Net profit)	684,600
To General Reserve [6,45,000 × 10/100]	64,500	By Int on drawings S: 100000 × 6/100 × 6/12 = 3000 K: 80000 × 6/100 × 6/12 = 2400	5,400
To PROFIT (bal..) S - 3,87,000 K - 1,93,500	5,80,500		
	690,000		690,000

Partner's Capital A/c

Dr	S	K		S	K	Cr
To drawings	100000	80000	By Balance b/d	500000	400000	
To Int on drawings	3000	2400	By IOC	25000	20000	
			By P&L appr A/c	387000	193500	

To balance c/d	809,000	5,31,100			
	912000	613500		912000	613500

7 : 3

57. Ali and Bahadur are partners in a firm sharing profits and losses as Ali 70% and Bahadur 30%. Their respective capitals as at 1st April, 2022 stand as Ali ₹ 2,50,000 and Bahadur ₹ 2,00,000. The partners are allowed interest on capitals @ 5% p.a. Drawings of the partners during the year ended 31st March, 2023 were ₹ 35,000 and ₹ 25,000 respectively.

Profit for the year, before allowing interest on capital and yearly salary of Bahadur @ ₹ 30,000, was ₹ 4,00,000, 10% of divisible profit is to be transferred to Reserve. → Fixed Capital System

Prepare Partners' Current Accounts and Capital Accounts recording the above transactions.

[**Ans.:** *Current Accounts: Ali—₹ 1,96,420; Bahadur—₹ 1,08,830; Amount transferred to Reserve—₹ 34,750.*]

Sol:-

Partner's Capital A/c (FIXED)

	A	B		A	B
			By Balance b/d	250000	200000
To Balance c/d	250000	200000			
	250000	200000		250000	200000

Dr — Partner's Current A/c — Cr

	A	B		A	B
To drawings	35000	25000	By Int on Capital	12500	10000
			By Salary	0	30,000
To Balance c/d	196,425	108,825	By P&L appr A/c (share of profit)	218925	93,825
	231,425	133,825		231,425	133,825

WN :-

Dr — P&L appropriation A/c — Cr

To IOC		By P&L A/c (Net profit)	400000
A : 12500		By IOD	
B : 10000	22500	A : Nil	
To B's Salary	30,000		
To Reserve [3,47,500 × 10/100]	34,750	B : Nil	

400000
(−) 22500
(−) 30,000

To Reserve [3,47,500 × 10/100]	31,750	By Nil	
To Profit (bal.) A - 218925, B - 93825	312750		
	400,000		400,000

Q53, 55, 58, 59

H — W

Practice Register — Worksheet - 2

Q1 :- A,B and C are 5:3:2 partners with capitals of ` 2,00,000 (Cr.) ; ` 3,00,000 (Cr.) and ` 1,00,000 (Dr.) respectively. Interest on capital is to be provided to partners at 10% p.a. Also salary to C is provided at ` 500 per week. Profits of the firm before providing manager's commission @ 15% were ` 7,00,000. Prepare P&L appropriation A/c and partner's capital A/c.

(opening Balance) (opening balance) (charge) (4 Marks)

Sol:-

P&L A/c

Dr		Cr	
To Manager's commission	105,000	By Profit	700000
To Net profit	595,000		
	700000		700000

P&L appr A/c

Dr.		Cr	
To C's Salary (500 × 52)	26,000	By P&L A/c (Net profit)	595,000
To IOC			
A - 20,000			
B - 30,000	50,000		
~~C - 10,000~~ (c)			
To Profit (bal.)	519,000		
A - 259,500			
B - 155,700			
C - 103,800	595,000		595000

Partner's Capital A/c

Dr	A	B	C		A	B	C	Cr
To Balance b/d	-	-	100,000	By Balance b/d	200000	300000	-	
				By Salary	0	0	26000	
				By IOC	20000	30000	0	
To bal c/d (bal..)	479500	485700	29 800	By P&L appr A/c	259500	155700	103800	
	479500	485700	129 800		479500	485700	129 800	

Q2 :- Tom and Cruise are partners sharing profits and losses equally. On 1.4.2014, the capital of partners were ` 8,00,000 and ` 5,00,000 respectively. The profit and loss account showed a net profit of ` 8,06,000 (before interest on

Q2 :- Tom and Cruise are partners sharing profits and losses equally. On 1.4.2014, the capital of partners were ` 8,00,000 and ` 5,00,000 respectively. The profit and loss account showed a net profit of ` 8,06,000 (before interest on Tom's loan) for the year ended 31st March, 2015. Below are other details:-

(i) Interest on capital to be allowed @ 5% p.a.

charge — (ii) Interest on Tom's loan for 3 months (Loan being ` 1,00,000).

(iii) Interest on drawings of partners @ 6%.

Total drawings being 'Tom'- ` 40,000 and 'Cruise'- ` 35,000. → "Divisible profit"

(iv) Transfer 10% of distributable profits to the reserve fund.

Prepare P &L appropriation Account & Partners Capital A/c.

(6 Marks)

Sol:-

P&L A/c

Dr		Cr	
To Int on Loan [100000 × 6% × 3/12]	1500	By profit	806000
To Net profit	804,500		
	806,000		806000

P&L appr A/c

Dr		Cr	
To Int on Capital		By P&L A/c (N.P)	804500
T : 40000		By Int on drawings	
C : 25000	65,000	T : 2400	
To General Reserve [744,000 × 10%]	74,400	C : 2100	4,500
To Profit (bal..)	6,69,600		
T - 334,800			
C - 334,800	809,000		809,000

Partners Capital A/c

Dr	T	C		T	C
To Drawings	40,000	35,000	By Balance b/d	800000	500000
To IOD	2,400	2,100	By IOC	40,000	25000
			By P&L appr A/c	334800	334800
To Balance c/d	11,32,400	822,700			
	1174800	859,800		11,74800	859800

Q3 :- Given the following information, prepare (i) P&L appropriation A/c & (ii) Partner's Capital A/c

a) A's capital ` 1,00,000

b) B's capital ` 2,00,000

c) Interest on capital @ 5% p.a. A = 5000, B = 10000

d) Salary to "A" ` 45,000 p.a.

e) Profits of firm after charging A's salary → ` 3,000

Sol:-

P&L appr A/c

Dr		Cr	
To Int on Capital		By P&L A/c (Net profit)	48,000
A - 4000*			
B - 8000*	12,000*		
To A's Salary	36,000*		

B - 8000*	12,000		
To A's Salary	36,000*		
	48,000		48,000

Appropriations > Available Profits.

Ratio of Appropriation => IOC : Salary => 15K : 45K

1 : 3

Divide 48000 in 1 : 3 → IOC = 12000 ✓ Salary = 36000 ✓

Dr — Partner's Capital — Cr

	A	B		A	B
			By bal b/d	100000	200000
			By IOC	4000	8000
To bal c/d	140,000	208,000	By Salary	36000	0
	140,000	208,000		140000	208000

Calender Year follows (1 Jan – 31 Dec)

Q4 :- X,Y and Z are partners with fixed capitals (Cr.) of ` 1,50,000 ; ` 1,20,000 and ` 1,00,000 respectively. The balance of current accounts on 1st January, 2015 were X ` 8,000 (Cr.) ; Y ` 3,000 (Cr.) and Z ` 2,000 (Dr.). X advanced ` 20,000 on July 01, 2015. The deed provides for the following :

a) Interest on capital @ 5% p.a.

b) Interest on drawings at 6% p.a. Each partner drew ` 10,000 on July 01, 2015. (Irregular)

int $10,000 \times \frac{6}{100} \times \frac{6}{12} = 300$

LOAN

int on Loan @ 6% pa

c) ` 20,000 is to be transferred to reserve account.

d) Profits to be shared in proportion of 3:2:1 upto ` 60,000 and balance equally.

Net profit of the firm for the year ended 31st December, 2015 before above adjustments was ` 1,15,400.

Prepare P&L appropriation A/c , partners' capital and Current A/c.

(6 Marks)

Sol:-

Dr. — P&L A/c — Cr

To Int on Loan. (20,000 × 6% × 6/12)	600	By Profits	115400
To Net profit (bal..)	114800		
	115400		115400

Dr — P&L appr — Cr

To Int on Capital (X: 7500, Y: 6000, Z: 5000)	18500	By P&L A/c (Net profit)	114800
To Reserve	20,000	By Int on Drawings (X: 300, Y: 300, Z: 300)	900
To Profit (bal..)	77,200		
X 30000 (+) 5733 = 35733			
Y 20000 (+) 5733 = 25733			
Z 10000 (+) 5734 = 15734			
60,000 17,200			
	115,700		115,700

60,000	17,200	115,700		115,700

Dr — Partner's Capital (Fixed) A/c — Cr

	X	Y	Z		X	Y	Z
To Bal c/d	150000	120000	100,000	By Bal b/d	150000	120000	100000
	150000	120000	100000		150000	120000	100000

Dr — Partner's Current A/c — Cr

	X	Y	Z		X	Y	Z
To Balance b/d	-	-	2000	By Bal b/d	8000	3000	-
To drawings	10000	10000	10000	By IOC	7500	6000	5000
To IOD	300	300	300	By P&L appr.	35733	25733	15734
To Balance c/d	40,933	24,433	8,434				
	51,233	34,733	20,734		51,233	34,733	20,734

Q5 :- The capital accounts of X and Y showed balances of ` 40,000 and ` 20,000 on 1st April, 2015. They shared profits in ratio 3:2. They are allowed interest on capital @ 10% p.a. and are charged interest on drawings @ 12% p.a. X also advanced a loan of ` 10,000 to the firm on 1st August, 2015.

During the year X withdrew ` 1,000 per month in the beginning of every month and Y withdrew same amount at end of every month.

Profits of the year before above adjustments were ` 20,960. Show distribution of profits and prepare partner's capital accounts.

* Int on Loan = 10,000 × 6% × 8/12 = 400

Sol:- Dr. — P&L appr A/c — Cr

To IOC		By Profits 20,960	
X : 4,000		(-) Int on Loan (400)	20,560
Y : 2,000	6,000	By IOD	
		X : 12000 × 12/100 × 6.5/12	780
To Profit (bal..)	16,000	Y : 12000 × 12/100 × 5.5/12	660
X - 9600			
Y - 6400			
	22,000		22,000

Partner's Capital A/c

Partner's Capital A/c

	X	Y		X	Y
To drawings	12000	12000	By Bal b/d	40,000	20,000
To IOD	780	660	By IOC	4000	2000
			By P&L appr A/c	9600	6400
To Bal c/d	40,820	15,740			
	53,600	28,400		53,600	28,400

profit sharing Ratio 2 : 1
A : B

Q6. (*) A and B are 2:1 partners. As per the terms of agreement interest is allowed on capitals @ 8% p.a. and charged on drawings @ 10% p.a. A withdrew ` 10,000 per month at end of each month and B withdrew ` 30,000 at the end of each quarter. Fill in the blank(P&L appropriation A/c) and prepare partner's capital Accounts.

Particulars	`	Particulars	`
To A's salary →	90,000	By P&L account (bal fig ..)	362000
To interest on capital		By interest on drawings	
A → 40,000		A 5500	
B → 32000	72,000	B 4500	10,000
To profit transferred to capital A/c			
A — 140000			
B — 70,000	210,000		
	372,000		372,000

Sol:- IOD (A) = $120,000 \times \frac{10}{100} \times \frac{5.5}{12} = 5,500$

IOD (B) = $120,000 \times \frac{10}{100} \times \frac{4.5}{12} = 4,500$

Partner's Capital A/c

	A	B		A	B
To drawings	120000	120000	By Bal b/d (*)	500000*	400000*
To IOD	5500	4500	By IOC	40000	32000
To Balance c/d	644,500	377,500	By P&L appr.	140,000	70,000
			By Salary	90000	0
	770000	502000		770000	502000

WN IOC (A) = Opening Capital × $\frac{\text{Rate}}{100}$

40,000 = opening Capital × $\frac{8}{}$

$$40,000 = \text{opening capital} \times \frac{8}{100}$$

$$\therefore \text{Opening Capital} = 40000 \times \frac{100}{8}$$

$$= 5,00,000$$

$$\text{IOC (B)} = \text{opening capital} \times \frac{\text{Rate}}{100}$$

$$32000 = \text{opening capital} \times \frac{8}{100}$$

$$\therefore \text{opening Capital} = 32000 \times \frac{100}{8} = 400000$$

CONCEPT

Past Adjustment (4-6 Marks)

गलती

→ Sometimes errors and omissions take place while preparing the partnership accounts. We have to rectify these errors and pass journal entry.

→ There are two approaches :-

(a) Single Adjustment entry (among partners)

(b) Various entries for each point separately (P & L Adjustment A/c)

→ * There are different different types of questions and each question is different from other, therefore we cannot mug up the concept and we have to apply the brain in each & every question very diligently.

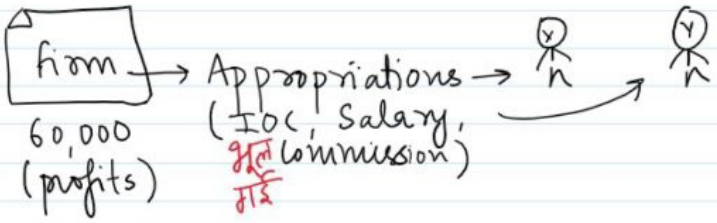
TYPE - 1 Errors relating to appropriations

* ① "Omission of Appropriation"

In this case we have to credit (देना) the appropriation to respective partners and then the total amount will be debited (लेना) to them in profit sharing ratio

eg ① X & Y are 2:1 partners. The profit for the year ₹ 60,000 was divided without providing

eg ① X & Y are [illegible] partners. The profit for the year ₹ 60,000 was divided **without providing IOC ₹ 3000 each**. Rectify



Sol:-

		X	Y
→ Int. on Capital	देना Cr	3,000	3,000
→ 6000 in 2:1	Dr. लेना	(4000)	(2,000)
Net effect		(1000) Dr.	1000 Cr.

Approach 1

X's Capital A/c Dr. 1,000
To Y's Capital A/c — 1,000
(being Adjustment entry passed)

In exams follow this only

Approach 2

(i) P&L adjustment A/c Dr. 6000
To X's Capital A/c — 3000
To Y's Capital A/c — 3000

(ii) X's Capital A/c Dr. 4000
Y's Capital A/c Dr 2000
To P&L Adjustment A/c — 6000

eg ② X & Y are **3:2** partners. Profits for the year ₹ 90,000 were divided **without providing** :- "omission"

(a) Salary to X ₹ 5000 and to Y ₹ 6,000

(b) Commission to X ₹ 9,000.

Rectify.

Sol:-

		X	Y
Salary	Cr.	5,000	6,000
Commission	Cr	9,000	0
20,000 in 3:2	Dr.	(12000)	(8000)
Net effect		2000 Cr	(2000) Dr.

Net effect	2000 Cr	(2000) Dr.

Y's Capital A/c Dr 2000
To X's Capital A/c ——— 2000
(being adjustment entry passed)

② * Omission of IOD

→ In this case we have to debit the IOD to respective partners and then the total amount will be credited to them in profit sharing Ratio

eg ① X & Y are 3:1 partners. They divided the profits ₹ 50,000 without providing IOD of ₹ 8000 each. Rectify.

omission

(IOD लेना भूल गए)

Sol:

		X	Y
Int on drawings	Dr	(8000)	(8000)
16000 in 3:1	Cr.	12000	4000
Net effect		4000 Cr.	(4000) Dr.

Y's Capital A/c Dr 4000
To X's Capital A/c ——— 4000

eg ② X, Y, Z are 3:2:1 partners. Their drawings during the year was :-

X - ₹ 80,000
Y - ₹ 160,000
Z - ₹ 240,000

$X(100) = 80000 \times \frac{10}{100} \times \frac{6}{12} = 4000$

IOD @ 10% p.a was omitted. Rectify.

Sol:-

		X	Y	Z
Int. on drawing	Dr.	(-) 4000	(-) 8000	(-) 12000
24000 in 3:2:1	Cr.	(+) 12000	(+) 8000	(+) 4000
		+ 8000	0	(-) 8000 Dr.

+8000 Cr.	0	(-) 8000 Dr.

Z's Capital A/c Dr 8,000
To X's Capital A/c ——— 8,000

③ * **Omission of Appropriation + IOD both.** (*' + *²)

→ In this case we follow the following steps :-

Step 1 : **Credit** the Appropriations to respective partners.

Step 2 :- **Debit** the IOD to respective partners

Step 3 :- **कमजोर का साथ** in Profit sharing Ratio.
(भगवान कृष्ण का Rule)

eg ① X, Y, Z are 3:2:1 partners. They **omitted** :-

भूल गए देना (i) IOC ₹ 4,000 each.
" " " (ii) Salary ₹ 30,000 to Y
" " लेना (iii) IOD ₹ 6,000 each. Rectify.

Sol:-

		X	Y	Z
Int on Capital ———	Cr.	4,000	4,000	4,000
Salary ———	Cr.	0	30,000	0
Int on drawings ———	Dr.	(6000)	(6000)	(6000)
24,000 (3:2:1) ———	Dr.	(12000)	(8000)	(4000)
Net effect		(14000) Dr	20000 Cr.	(6000) Dr.

Credit VS Debit

4000
4000
4000
30000
42000

6000
6000
6000
18000
?????

24000

X's Capital A/c Dr 14000

X's Capital A/c	Dr	14000
Z's Capital A/c	Dr	6000
To Y's Capital A/c	——	20,000

eg (2) X, Y, Z are 1:1:1 partners. They omit :-

(i) IOC to X – 3,000 ; Y – 6000 ; Z – 4000

(ii) Salary to Y – 7,000

(iii) IOD to X – 2,000 ; Y – 10,000 ; Z – 40,000

(iv) Commission to Z – 1,000. Rectify.

Sol:-

		X	Y	Z
IOC	Cr.	3000	6000	4000
Salary	Cr.	0	7000	0
Commission	Cr.	0	0	1000
IOD	Dr.	(2000)	(10000)	(40000)
31,000 in 1:1:1	Cr.	10,333	10,333	10,334
		11,333 Cr	13,333 Cr	(24,666) Dr.

Credit	Debit
3000	2000
6000	10000
4000	40000
7000	52,000
1000	
21,000	
31,000	

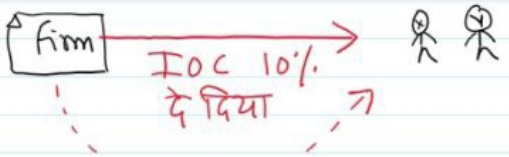
Z Dr. 24666
To X —— 11333
To Y —— 13333

* (4) Excess Appropriation

→ In this case we have to debit the excess appropriation to each partner and then the total amount will be credited in P/S/R.

eg (1) X, Y are 2:1 partners. Their Capitals are ₹ 5,00,000 and ₹ 10,00000 each. IOC @ 10% p.a was provided instead of 7% p.a. Rectify.

Sol:-



IOC 10% दे दिया

सही IOC @ 7%

∴ **Excess IOC @ 3%**

		X	Y
Int on capital @ 3%	Dr.	(-) 15,000	(-) 30,000
45,000 in 2:1	Cr	30,000	15,000
		15,000 Cr.	(-) 15000 Dr.

Y's Capital A/c Dr 15000
To X's Capital A/c —— 15,000

*5 Short Appropriation

→ In this case short appropriation will be credited to each partner and then total amount will be debited in P/S/R.

eg ① X + Y are 3:2 partners. Their capitals were ₹ 6,00,000 each. IOC was provided @ 10% p.a instead of 12% p.a. Rectify.

Sol:- **Short appropriation IOC @ 2% p.a**

		X	Y
Int on capital @ 2% p.a	Cr.	12,000	12,000
24,000 in 3:2	Dr.	(-) 14,400	(-) 9,600
Net effect		(-) 2400 Dr.	2400 Cr

X's Capital A/c Dr 2400
To Y's Capital A/c —— 2400

*6 Excess IOD (IOD ज्यादा ले लिया)

→ In this case excess IOD will be credited to each partner and then the total amount be debited in P/S/R.

eg ① X and Y are equal partners. Their drawings

debited in P/S/R.

eg ① X and Y are equal partners. Their drawings were ₹ 60,000 and ₹ 40,000 respectively. IOD was charged @ 12% instead of 10%. Rectify.

Sol:- Excess IOD charged @ 2%.

		X	Y
Int on drawing @ 2%	Cr.	1200	800
2000 in 1:1	Dr.	(-)1000	(-)1000
		200 Cr	(-)200 Dr

Y's Capital A/c	Dr	200
To X's Capital A/c		200

*7 Short IOD

→ In this case short IOD will be debited to each partner and then total amount will be credited in P/S/R

eg 1 X & Y are 3:2 partners. Their drawings are ₹ 50,000 each. IOD was charged @ 7.5% p.a instead of 9.5% p.a. Rectify.

Sol:-

		X	Y
Int on drawings @ 2% p.a	Dr	(-)500	(-)500
1000 in 3:2	Cr.	600	400
		100 Cr	(-)100 Dr.

Y's Capital A/c	Dr	100
To X's Capital A/c		100

Type ② : Errors relating to Profit sharing Ratio

In these cases we have to follow the given steps:-

In these cases we have to follow the given steps :-

Step 1 :- Wrong profits is to be debited (लेना) in wrong Ratio to each partner.

Step 2 :- Any appropriation omitted must be credited to respective partner.

Step 3 :- IOD omitted must be debited to respective partner.

Step 4 :- Correct profits is to be credited (देना) in correct Ratio to each partner.

सही मुनाफा → We have to find it [हम गलती करेंगे]

eg ① X, Y, Z are 3:2:1 partners. Their profits ₹60000 was divided equally. Rectify.

Sol :-

जो गलत दिया, उसे वापस ले लो

		X	Y	Z
60,000 in 1:1:1	Dr.	(-)20000	(-)20000	(-)20000
60,000 in 3:2:1	Cr	30000	20000	10000
		10000 Cr	0	(-)10000 Dr

Z's Capital A/c Dr 10,000
To X's Capital A/c — 10,000

eg ② X, Y, Z are 3:2:1 partners. They divided profits 60,000 equally without providing :-

→ omission → a) IOC ₹ 5,000 each देना भूल गए

→ omission → b) Salary to X ₹ 3,000. Rectify.

Sol :-

		X	Y	Z
60,000 in 1:1:1	Dr.	(-)20000	(-)20000	(-)20000
IOC	Cr.	5,000	5,000	5,000
Salary	Cr.	3,000	0	0
42000 in 3:2:1	Cr.	21,000	14,000	7,000
Net effect		9000 Cr	(-)1000 Dr	(-)8000 Dr.

WN :-

Dr P&L Appr Cr

WN :-

Dr	P&L appr		Cr
IOC	15,000	profits.	60,000
Salary	3,000		
Profits	42000		
	60,000		60000

Y's Capital A/c Dr 1000
Z's Capital A/c Dr. 8000
To X's Capital A/c — 9000

eg (3) X, Y, Z are equal partners. Their profits ₹ 180000 was divided in the Ratio 3:2:1 without providing :-

- (a) IOC :- X ₹ 6000, Y ₹ 10,000, Z ₹ 4000
- (b) Salary to Y ₹ 1000 per month.
- (c) Commission to Z ₹ 8000
- (d) IOD :- X ₹ 2000, Y ₹ 5000, Z ₹ 3000

Rectify.

Sol:-

		X	Y	Z
180,000 in 3:2:1	Dr.	(-)90000	(-)60000	(-)30000
IOC	Cr.	6000	10000	4000
Salary	Cr.	0	12000	0
Commission	Cr	0	0	8000
IOD	Dr.	(-)2000	(-)5000	(-)3000
150,000 * in 1:1:1	Cr.	50000	50000	50000
		(-)36000 Dr.	7000 Cr	29000 Cr

X Dr. 36000
To Y — 7000
To Z — 29000

P&L appr A/c			Cr
IOC	20,000	Profits	180000
Salary	12,000	IOD	10,000
Commission	8,000		
Profits	[illegible]		

Commission	8,000	I OD	10,000
Profits	150,000		
	190000		190000

eg (4) X, Y, Z are 3:2:1 partners. Their Capitals are
X - 700,000 Y - 800000 & Z 10,00,000.
Their drawings were X - 60,000 Y - 80000
Z - 100,000. Profits ₹ 240,000 was divided equally without providing :-
(a) I O C @ 8% p.a
(b) I O D @ 12% p.a
(c) Commission to Z ₹ 12,000. Rectify

Sol:-

		X	Y	Z
240,000 in 1:1:1	Dr.	(-) 80000	(-) 80000	(-) 80000
I O C	Cr	56,000	64,000	80,000
I O D	Dr.	(-) 3,600	(-) 4,800	(-) 6,000
Commission	Cr	0	0	12000
42,400 in 3:2:1	Cr	21,200	14,133	7,067
		(-) 6400 Dr.	(-) 6667 Dr.	13,067 Cr.

X	Dr.	6400
Y	Dr	6667
To Z		13,067

P&L appr

I O C	200,000	profits	240,000
Commission	12,000	I O D	14,400
Profit	42,400		
	254,400		254,400

254,400	254,400

Type (3) Special Errors - "Omission of Reserve", "Omission of Charge against profit" and some other Special Questions.

Step 1 :- Debit the profit in P/S/R

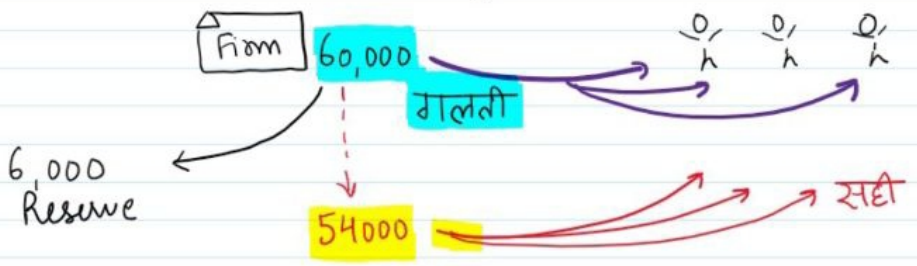
Step 2 :- Any appropriation (if omitted) is to be credited

Step 3 :- Calculate *Correct profit* and (credit) it in P/S/R.

NOTE - Reserve or Charge against profit will not be shown in the table because it does not belong to any particular partner.

eg (1) X, Y, Z are 3:2:1 partners. They divided the profits 60,000 without transfering ₹ 6,000 to Reserve. Rectify.

Sol:-



		X	Y	Z
60,000 in 3:2:1	Dr.	(-)30000	(-)20000	(-)10000
54,000 in 3:2:1	Cr	27000	18000	9000
		(-)3000 Dr	(-)2000 Dr	(-)1000 Dr.

X's Capital A/c Dr 3000
Y's Capital A/c Dr 2000
Z's Capital A/c Dr 1000
To Reserve A/c — 6000

eg ② X, Y, Z are 3:2:1 partners. They divided profits of ₹ 180,000 without providing :-

ommission of charge → (i) Manager's commission ₹ 25,000

Omission of Appropriation → (ii) Salary to Y ₹ 5,000 . Rectify.

Sol:-

		X	Y	Z
180,000 in 3:2:1	Dr.	(-) 90000	(-) 60000	(-) 30000
Salary to Y	Cr.	0	5,000	0
② ~~Manager's commission~~	Cr.	–	–	–
150,000 in 3:2:1	Cr.	75000	50000	25000
		(-) 15000 Dr.	(-) 5000 Dr.	(-) 5000 Dr.

WN:-

P & L appr.

Dr		Cr	
Salary to Y	5000	profit	180000
		(-) Mgr Comm	(25000)
Profit	150 000		155000
	155000		155 000

X's Capital A/c	Dr	15 000
Y's Capital A/c	Dr	5 000
Z's Capital A/c	Dr	5 000
To Manager's Commission O/S		25,000

eg ③ X, Y, Z are 3:2:1 partners. Profits of the firm ₹ 240,000 was divided equally (1 गलती) without providing :-

charge → (i) Interest on Y's Loan ₹ 15,000

appr. → (ii) IOC to X ₹ 40,000

appr → (iii) Commission to Z ₹ 35,000 Rectify.

Sol:-

		X	Y	Z
240,000 in 1:1:1	Dr.	(-) 80000	(-) 80000	(-) 80000
IOC to X	Cr.	40 000	0	0
Commission to Z	Cr.	0	0	35 000

IOC to X	Cr.	40000	0	0
Commission to Z	Cr.	0	0	35000
150,000 in 3:2:1	Cr	75000	50000	25000
		35000 Cr.	(-)30000 Dr.	(-)20000 Dr.

P&L appr

IOC	40000	profit (-) 10L	240000 (15000)	225000
comm.	35000			
profit	150,000			
	225000			225000

Y's Capital A/c Dr 30000
Z's Capital A/c Dr 20000
To X's Capital A/c —— 35,000
To Interest on Loan O/S —— 15,000

eg (4) X, Y, Z are 3:2:1 partners. They divided the profits ₹ 480,000 equally (1) without providing :-

charge -(a) Manager's Commission ₹ 20,000
charge -(b) Rent paid to X ₹ 10,000
Appr -(c) IOC to X and Y ₹ 5,000 each.
income -(d) IOD from Y and Z ₹ 15,000 each

charge -(e) Interest on Z's Loan ₹ 40,000
appr -(f) Salary to X ₹ 40,000
appr -(g) Commission to Y ₹ 10,000
(*) (h) Reserve ₹ 25,000

Rectify.

		X	Y	Z
480,000 in 1:1:1	Dr	(-)160000	(-)160000	(-)160000
IOC	Cr	5000	5000	0
IOD	Dr.	0	(-)15000	(-)15000
Salary	Cr.	40000	0	0
Commission	Cr	0	10000	0

Commission	Cr	0	10000	0
355,000 in 3:2:1	Cr.	177,500	118,333	59,167
		62500 Cr	(-)41667 Dr	(-)115833 Dr.

Excellent !!

Y's Capital A/c Dr. 41667
Z's Capital A/c Dr 115833
To X's Capital A/c — 62500
To Mangal's Comm O/S - 20,000
To Int on Loan O/S - 40,000
To Rent O/S — 10,000
To Reserve — 25,000

IOC	10000	profits 480,000	
Salary	40000	(-) Mgr Comm (20000)	
Commission	10000	(-) Rent paid (10000)	
Reserve	25000	(-) Int on loan (40000)	410000
Profit (bal.)	355000	IOD	30000
	440000		440000

Q60 (Pg 1.96) Practice Register

Reya, Mona and Nisha shared profits in the ratio of 3 : 2 : 1. Profits for the last three years were ₹ 1,40,000; ₹ 84,000 and ₹ 1,06,000 respectively. These profits were by mistake distributed equally. The error is now to be corrected. → Total profit = 330,000 → गलती → 1:1:1

Give the necessary rectification Journal entry.

[**Ans.:** *Debit Nisha's Capital A/c and Credit Reya's Capital A/c by ₹ 55,000.*]

Sol:-

Date	Particulars	L/F	Dr (₹)	Cr (₹)
(i)	Nisha's Capital A/c Dr.		55000	
	To Reya's Capital A/c			55000
	(being adjustment entry passed)			

Working Note :-

		R	M	N
330,000 in 1:1:1	Dr.	(-)110000	(-)110000	(-)110000
330,000 in 3:2:1	Cr	165,000	110,000	55,000

330,000 in 1:1:1	Dr.	[illegible]	[illegible]	[illegible]
330,000 in 3:2:1	Cr	165,000	110,000	55,000
		55000 Cr	0	(-) 55000 Dr

Exam Q

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

" OMISSION OF APPR"

Pass necessary adjustment entry to rectify the error. (Outside Delhi 2017)

[**Ans.:** *Debit P's Current A/c and Credit Q's Current A/c by ₹ 6,000.*]

Sol:- P's ~~Capital~~ Current A/c Dr. 6000
To Q's ~~Capital~~ Current A/c ——— 6000

WN:-

		P	Q
Interest on Capital @ 12%	Cr.	24,000	36,000
60,000 in 1:1	Dr.	(-) 30000	(-) 30000
		(-) 6000 Dr.	6000 Cr.

Q61 -

Azad and Benny are equal partners. Their capitals are ₹ 40,000 and ₹ 80,000 respectively. After the accounts for the year had been prepared, it was noticed that interest @ 5% p.a. as provided in the Partnership Deed was not credited to their Capital Accounts before distribution of profits. It is decided to pass an adjustment entry in the beginning of the next year. Record the necessary Journal entry.

OMISSION of IOC

[**Ans.:** *Debit Azad by ₹ 1,000 and Credit Benny by ₹ 1,000.*]

Sol:- A's Capital A/c Dr 1000
To B's Capital A/c ——— 1000

WN :-

		A	B
IOC @ 5% p.a	Cr.	2,000	4,000
6000 in 1:1	Dr.	(-) 3000	(-) 3000
		(-) 1000 Dr	1000 Cr.

Q62 -

Ram, Mohan and Sohan sharing profits and losses equally have capitals of ₹ 1,20,000, ₹ 90,000 and ₹ 60,000 respectively. For the year ended 31st March, 2022, interest was credited to them @ 6% p.a. instead of 5% p.a. Give adjustment Journal entry. दे दिया [**Ans.:** *Debit Ram and Credit Sohan by ₹ 300.*]

Excess Appropriation (IOC @ 1% p.a)

Sol:- R's Capital A/c Dr. 300
To S's Capital A/c ——— 300.

WN :-

		R	M	S
IOC @ 1%	Dr.	(-) 1200	(-) 900	(-) 600
2700 in 1:1:1	Cr	900	900	900
		(-) 300 Dr.	0	300 Cr

Q63 -

Ram, Shyam and Mohan were partners in a firm sharing profits and losses in the ratio of 2 : 1 : 2. Their capitals were fixed at ₹ 3,00,000, ₹ 1,00,000, ₹ 2,00,000. For the year ended 31st March, 2022, interest on capital was credited to them @ 9% instead of 10% p.a. The profit for the year before charging interest was ₹ 2,50,000. दे दिया

SHORT IOC @ 1% p.a

Show your working notes and pass necessary adjustment entry.

[**Ans.:** *Debit Shyam's Current A/c by ₹ 200 and Mohan's Current A/c by ₹ 400; Credit Ram's Current A/c by ₹ 600.*]

Sol:- S's Current A/c Dr. 200
M's Current A/c Dr 400
To R's Current A/c ——— 600

WN

		R	S	M
IOC @ 1% p.a	Cr.	3000	1000	2000
6000 in 2:1:2	Dr.	(-) 2400	(-) 1200	(-) 2400
		600 Cr.	(-) 200 Dr	(-) 400 Dr.

Q64-

Profit earned by a partnership firm for the year ended 31st March, 2022 were distributed equally between the partners—Pankaj and Anu—without charging interest on Drawings. Interest due on Drawings was Pankaj—₹ 3,000 and Anu—₹ 1,000. "OMISSION OF IOD"

Pass necessary adjustment entry. [**Ans.:** *Debit Pankaj's Capital A/c and Credit Anu's Capital A/c by ₹ 1,000.*]

3 Marks

Sol:- P's Capital A/c Dr 1000
To A's Capital A/c ——— 1000

WN

		P	A
IOD	Dr.	(-) 3000	(-) 1000
4000 in 1:1	Cr	2000	2000
		(-) 1000 Dr	1000 Cr

Q65-

Ram, Mohan and Sohan were partners sharing profits in the ratio of 2 : 1 : 1. Ram withdrew ₹ 3,000 every month and Mohan withdrew ₹ 4,000 every month. Interest on drawings @ 6% p.a. was charged, whereas the partnership deed was silent about interest on drawings.
ले लिया

Showing your working clearly, pass the necessary adjustment entry to rectify the error. (CBSE 2020)

[**Ans.:** *Dr. Ram's Capital A/c by ₹ 180 and Sohan's Capital A/c by ₹ 630; Cr. Mohan's Capital A/c by ₹ 810.*]

Excess 6% IOD p.a

Sol:- R's Capital A/c Dr 180
S's Capital A/c Dr 630
To M's Capital A/c ——— 810

WN

		R	S	M
IOD @ 6% p.a	Cr	1080	0	1440
2520 in 2:1:1	Dr	(-) 1260	(-) 630	(-) 630

2520 in 2:1:1 Dr

(-) 1260	(-) 630	(-) 630
(-) 180 Dr	(-) 630 Dr	810 Cr.

$IOD(R) = 36000 \times \frac{6}{100} \times \frac{6}{12} = 1080$

$IOD(M) = 48000 \times \frac{6}{100} \times \frac{6}{12} = 1440$

$IOD(S) = 0$

Q71 (*)

closing Balance (closing Cap)

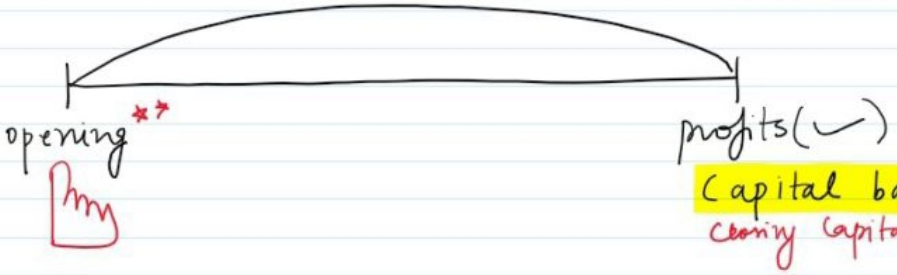
Mohan, Vijay and Anil are partners, the balances of their Capital Accounts being ₹ 30,000, ₹ 25,000 and ₹ 20,000 respectively. In arriving at these amounts profit for the year ended 31st March, 2022, ₹ 24,000 had been credited to partners in their profit-sharing ratio. Their drawings were ₹ 5,000 (Mohan), ₹ 4,000 (Vijay) and ₹ 3,000 (Anil) during the year. Subsequently, following omissions were noticed and it was decided to rectify the errors:

(a) Interest on capital @ 10% p.a. देना भूल गए (omission of IOC)

(b) Interest on drawings: Mohan ₹ 250, Vijay ₹ 200 and Anil ₹ 150. (omission of IOD) लेना भूल

Make necessary corrections through a Journal entry and show your workings clearly.

[**Ans.:** *Debit Anil by ₹ 550 and Credit Mohan by ₹ 550; Corrected Profit transferred to each partner ₹ 6,100.*]



Sol:-

A's Capital A/c Dr 550
To M's Capital A/c 550

WN

		M	V	A
IOC @ 10% p.a	Cr	~~3000~~ 2700	~~2500~~ 2100	~~2000~~ 1500
IOD	Dr.	(250)	(200)	(150)
5700 in 1:1:1	Dr.	(1900)	(1900)	(1900)
		550 Cr.	0	(-) 550 Dr.

	M	V	A
Closing Capital	30,000	25,000	20,000
(+) Drawings	5,000	4,000	3,000
(-) Profits 24000 in 1:1:1	(8000)	(8000)	(8000)

(−) Profits 24000 in 1:1:1	(8000)	(8000)	(8000)
Opening Capital	27000	21000	15000

Q66, Q67, Q68, 70 — Try.

H — W

Q- X, Y, Z are 3:2:1 partners. They divided ₹180000 profits equally without providing :-

a) IOC ₹ 3,000 each

b) Manager's Commission ₹ 6000 → charge

c) IOD ₹ 1000 each

d) Commission to Y 21,000. Rectify.

Sol.

		X	Y	Z
180,000 in 1:1:1	Dr	(−)60000	(−)60000	(−)60000
IOC	Cr	3000	3000	3000
IOD	Dr.	(−)1000	(−)1000	(−)1000
Commission	Cr.	0	21000	0
147000 in 3:2:1	Cr	73500	49000	24500
		15500 Cr.	12000 Cr	(−)33500 Dr

Z Dr 33500
To X — 15500
To Y — 12000
To M. Comm O/S — 6000

P&L appr

IOC	9000	NP	180000	
Comm to Y	21000	(−) M. Comm	(6000)	174000
Profit	147000	By IOD		3000
	177000			177000

PRACTICE

PRACTICE

69. Pranav, Karan and Rahim were partners sharing profits in the ratio of 3 : 2 : 1. Their capitals were ₹ 5,00,000, ₹ 3,00,000 and ₹ 2,00,000 respectively as on 1st April, 2022. According to the partnership deed, they were entitled to an interest on capital at 10% p.a. For the year ended 31st March, 2022, profit of ₹ 78,000 was distributed among the partners without providing for interest on capitals. OMISSION of IOC

Pass the necessary adjusting entry and show the working clearly.

[**Ans.:** *Dr. Karan's Capital A/c and Cr. Rahim's Capital A/c by ₹ 2,600.*]

[**Hint:** Profit will be distributed in the ratio of interest on capital due to insufficient amount.]

Sol:- **

Special error Type (3)

IOC P = 50,000
K = 30,000
R = 20,000

Ratio 5 : 3 : 2

Appropriation 100,000 > Available Profits 78000

		P	K	R
Profits 78,000 in 3:2:1	Dr.	(-)39000	(-)26000	(-)13000
IOC	Cr.	~~50,000~~	~~30,000~~	~~20,000~~
		39000	23400	15600
Correct Profit in 3:2:1	Cr.	0	0	0
		0	(-)2600 Dr.	2600 Cr.

K's Capital A/c Dr 2600
To R's Capital A/c — 2600

10,000 4000 3000

72. Mudit, Sudhir and Uday are partners in a firm sharing profits in the ratio of 3 : 1 : 1. Their fixed capital balances are ₹ 4,00,000, ₹ 1,60,000 and ₹ 1,20,000 respectively. Net profit for the year ended 31st March, 2018 distributed amongst the partners was ₹ 1,00,000, without taking into account the following adjustments:

(a) Interest on capitals @ 2.5% p.a.

6

distributed amongst the partners was ₹ 1,00,000, without taking into account the following adjustments:

(a) Interest on capitals @ 2.5% p.a.

(b) Salary to Mudit ₹ 18,000 p.a. and commission to Uday ₹ 12,000.

(c) Mudit was allowed a commission of 6% of divisible profit after charging such commission. $\frac{6}{106}$

Pass a rectifying Journal entry in the books of the firm. Show workings clearly. *(CBSE Sample Paper 2019)*

[**Ans.:** *Dr. Sudhir's Current A/c by ₹ 6,000; Cr. Mudit's Current A/c by ₹ 1,000 and Uday's Current A/c by ₹ 5,000.*]

Sol:- Type I : Omission of appropriations.

S's ~~Capital~~ Current A/c Dr. 6000

To M's Current A/c —— 1000

To U's Current A/c —— 5000

WN

		M	S	U
IOC	Cr.	10,000	4,000	3,000
Salary	Cr.	18,000	-	-
Commission	Cr.	3,000 *	-	12,000
50,000 in 3:1:1	Dr.	(-)30000	(-)10000	(-)10000
		1000 Cr	(-)6000 Dr.	5000 Cr.

$$\frac{6}{106} \times [100000 - 10000 - 4000 - 3000 - 18000 - 12000]$$

$$= \frac{\cancel{6}^{3}}{\cancel{106}_{\cancel{53}}} \times \cancel{53}^{1},000 \Rightarrow 3,000$$

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

Liabilities	₹	Assets	₹
Capital A/cs: closing		Sundry Assets	1,20,000

Liabilities		₹	Assets	₹
Capital A/cs: closing			Sundry Assets	1,20,000
Piya	80,000			
Bina	40,000	1,20,000		
		1,20,000		1,20,000

The profits ₹ 30,000 for the year ended 31st March, 2016 were divided between the partners without allowing interest on capital @ 12% p.a. (1) and salary to Piya @ ₹ 1,000 per month (2). During the year, Piya withdrew ₹ 8,000 and Bina withdrew ₹ 4,000. Showing your working notes clearly, pass the necessary rectifying entry. (Delhi 2017 C)

[**Ans.:** *Debit Bina's Capital A/c and Credit Piya's Capital A/c by ₹ 5,856.*]

Sol:- Type (1)

B's Capital A/c Dr 5856
To P's Capital A/c 5856

		P	B
Int on Capital	Cr.	8400	3840
Salary	Cr.	12000	0
$\boxed{24,240}$ in 3:2	Dr.	(-)14544	(-) 9696
		5856 Cr.	(-)5856 Dr.

	P	B
Closing Capital	80000	40000
(+) Drawings	8000	4000
(-) Profits [30000 in 3:2]	(18000)	(12000)
Opening Capital	70000	32000
IOC	8400	3840

15. Mannu and Shristhi are partners in a firm sharing profits in the ratio of 3 : 2. Following information is of the firm as on 31st March, 2023:

Liabilities		₹	Assets		₹
Mannu's Capital	3,00,000		Drawings (*)		
Shristhi's Capital	1,00,000	4,00,000	Mannu	40,000	

Liabilities			Assets		
Mannu's Capital	3,00,000		Drawings (*)		
Shristhi's Capital	1,00,000	4,00,000	Mannu	40,000	
			Shristhi	20,000	60,000
			Other Assets		3,40,000
		4,00,000	100(M) = 40000 × 6/100 × 6/12 = 1200 100(S) = 600		4,00,000

Profit for the year ended 31st March, 2023 was ₹ 50,000 which was divided in the agreed ratio, but interest @ 5% p.a. on capital and @ 6% p.a. on drawings was inadvertently omitted. Adjust interest on drawings on an average basis for 6 months. Give the adjustment entry. *(NCERT, Modified)*

[**Ans.:** *Debit Shristhi and Credit Mannu by ₹ 2,880.*]

Sol:- S's Capital A/c Dr 2880
To M's Capital A/c —— 2880

		M	S
IOC	Cr	13,500	4,000
IOD	Dr.	(-) 1,200	(-) 600
15,700 in 3:2	Dr.	(-) 9,420	(-) 6,280
		2880 Cr.	(-) 2880 Dr.

Cr. 13500 + 4000 = 17500 Dr. 1200 + 600 = 1800

drawings B/S में ले जाते

	M	S
Closing Capital	300,000	100,000
(+) Drawings	~~40,000~~	~~20,000~~
(-) Profits (50000 in 3:2)	(30000)	(20000)
Opening Capital	270000	80,000

CONCEPT

Guarantee of Profits

→ Guarantee means "MINIMUM" profit share to be given

→ It is of (3) types :-

a) Partner to firm —— Rank 1
b) firm to Partner — Rank 2
c) Partner to Partner — Rank 3

→ Guarantee is fulfilled by partners in :-

given in Q a) Agreed Ratio (*) (i.e Deficiency Ratio)

Guarantee is fulfilled by partners in :-

given in Q a) Agreed Ratio (i.e Deficiency Ratio)

b) Profit sharing Ratio (if nothing is given)

→ In case of multiple guarantees in a single Question we have to follow the order of guarantee as mentioned in point (2) above

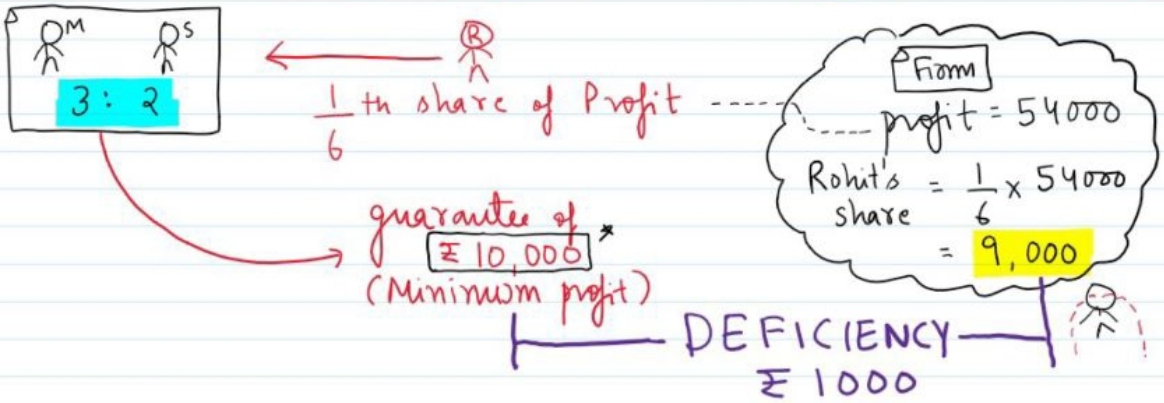
Q86 → In case of Loss, Guarantee still to be fulfilled.

x ——— x ——— x ——— x ——— x ——— x ——— x

Practice

79. Mohit and Sobhit are partners sharing profits in the ratio of 3 : 2. Rohit was admitted for 1/6th share of profit with a minimum guaranteed profit of ₹ 10,000. At the close of the first financial year, the firm earned profit of ₹ 54,000. Find the share of profit which Mohit, Sobhit and Rohit will get.

[**Ans.:** *Mohit's Share—₹ 26,400; Sobhit's Share—₹ 17,600; Rohit's Share—₹ 10,000.*]



Profit of the firm = 54,000 (Given)

Rohit's Minimum guaranteed profit = (10,000)

Remaining profit for M & S 44,000

M's share = 44000 × 3/5 = 26,400

S's share = 44000 × 2/5 = 17,600

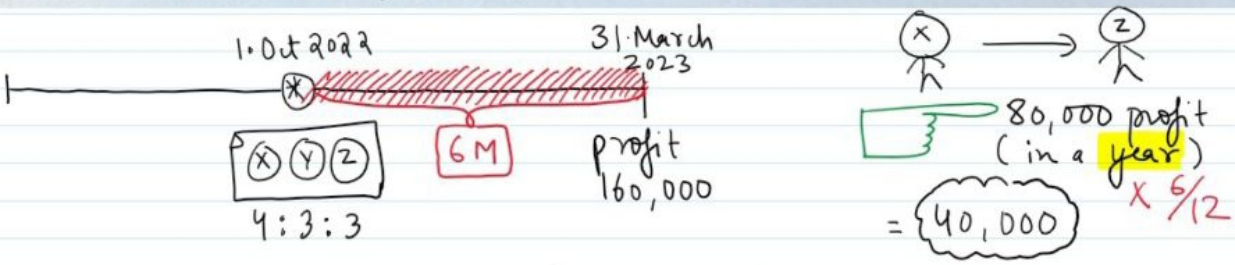
81. *X, Y* and *Z* entered into partnership on 1st October, 2022 to share profits in the ratio of 4 : 3 : 3. *X*, personally guaranteed that *Z*'s share of profit after allowing interest on capital @ 10% p.a. would not be less than ₹ 80,000 in a year. Capital contributions were: *X*—₹ 3,00,000, *Y*—₹ 2,00,000 and *Z*—₹ 1,50,000. Profit for the year ended 31st March, 2023 was ₹ 1,60,000. Prepare Profit & Loss Appropriation Account.

[**Ans.:** *Net Profit—₹ 1,27,500; Share of Profit: X—₹ 51,000 – ₹ 1,750 = ₹ 49,250; Y—₹ 1,27,500 × 3/10 = ₹ 38,250; Z—₹ 38,250 + ₹ 1,750 = ₹ 40,000.*]

[**Hint:** Guaranteed amount for half-year = ₹ 80,000 × 1/2 = ₹ 40,000.]

Y—₹ 1,27,500 × 3/10 = ₹ 38,250; Z—₹ 38,250 + ₹ 1,750 = ₹ 40,000.]

[**Hint:** Guaranteed amount for half-year = ₹ 80,000 × 1/2 = ₹ 40,000.]



Dr — P & L appropriation A/c — Cr

To Int on Capital		By Profit (given)	160,000
X: 15,000			
Y: 10,000			
Z: 7,500	32,500		
To Profit (bal..)	127,500		
X: 51,000 (-)1750 = 49250			
Y: 38,250			
Z: 38,250 (+)1750 = 40,000	160,000		160,000

82. *A, B* and *C* are partners sharing profits in the ratio of 5 : 4 : 1. *C* is given guarantee that his minimum share of profit in any year would be at least ₹ 50,000. Deficiency, if any, would be borne by *A* and *B* equally. Profit for the year ended 31st March, 2023 was ₹ 4,00,000.

Pass necessary Journal entries in the books of the firm.

"AGREED Ratio"

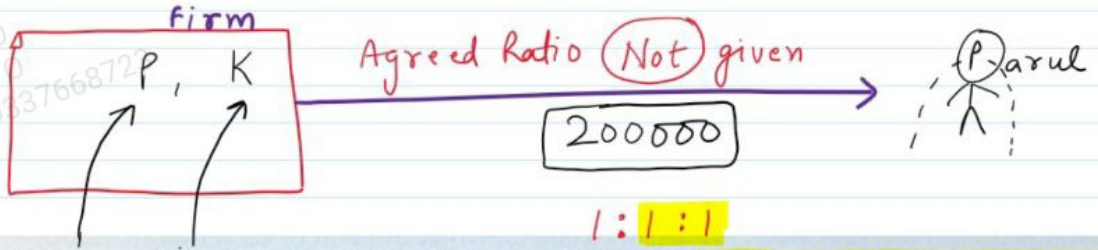
[**Ans.:** *Deficiency of C—₹ 10,000 borne by A and B equally, i.e., ₹ 5,000 each.*]

(i) 31 March 2023

P & L appropriation A/c Dr. 400,000
To A's Capital A/c — 200000
To B's Capital A/c — 160000
To C's Capital A/c — 40,000

(ii) 31 March 2023

A's Capital A/c Dr. 5,000
B's Capital A/c Dr. 5,000
To C's Capital A/c — 10,000 ☺



84. Parul, Prerna and Kaushal are partners sharing profits equally. Parul is guaranteed minimum annual profit of ₹ 2,00,000. Kaushal is to get Commission @ 5% of Net Sales and the commission is determined at ₹ 50,000. Net Profit for the year ended 31st March, 2023 is ₹ 2,50,000.

Prepare Profit & Loss Appropriation Account for the year.

[**Ans.:** *Share of Profit: Parul—₹ 2,00,000; Prerna—Nil and Kaushal—Nil.*]

Sol:-

P&L appr A/c

Dr			Cr
To K's commission	50,000	By P&L A/c (Net profit)	250,000
To Profit (bal..)	200,000		
P - 66,666 (+) 1,33,334 : 2L			
P - 66,667 (-) 66667 = 0			
K - 66,667 (-) 66667 = 0			
	250000		250000

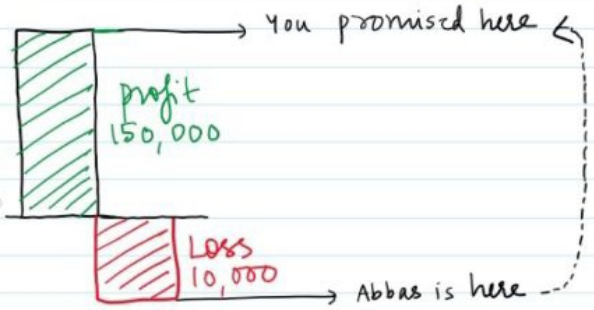
Agreed Ratio ⇒ NOT GIVEN
∴ P/S/R ⇒ 3 : 1

(c)*

86. Ashmit, Abbas and Karman are partners sharing profits in the ratio of 3 : 2 : 1. Abbas is guaranteed minimum profit of ₹ 1,50,000 per annum. The firm incurred loss for the year ended 31st March, 2023 of ₹ 30,000. Prepare Profit & Loss Appropriation Account for the year.

[**Ans.:** *Abbas will get guaranteed amount of ₹ 1,50,000; Total Loss of ₹ 1,80,000 will be shared by Ashmit and Karman in 3 : 1 ratio.*]

For own understanding



DEFICIENCY = 160,000

Sol:-

Dr. P&L appropriation A/c Cr

To Loss	30,000		
		By Loss (bal..)	30000
		→ Ashmit - 15000	
		Abbas - 10000	
		→ Karman - 5000	
	30,000		30,000

(c)

3 : 1

100% correct

Ashmit's Capital A/c Dr. 120,000
Karman's Capital A/c Dr. 40,000
To Abbas's Capital A/c — 160,000

Ashmit's Capital A/c Dr 15000
Karman's Capital A/c Dr 5000
To P&L appr A/c —

135,000 Ashmit ← 3 — 180,000 — 1 → 45000 Karman

Practice

*Imp.

91. The partners of a firm, Alia, Bhanu and Chand distributed the profits for the year ended 31st March, 2017,

Practice

*Imp.

91. The partners of a firm, Alia, Bhanu and Chand distributed the profits for the year ended 31st March, 2017, ₹ 80,000 in the ratio of 3 : 3 : 2 without providing for the following adjustments: omission

(a) Alia and Chand were entitled to a salary of ₹ 1,500 each per month.

(b) Bhanu was entitled for a commission of ₹ 4,000.

(c) Bhanu and Chand had guaranteed a minimum profit of ₹ 35,000 p.a. to Alia, any deficiency to be borne equally by Bhanu and Chand.

Pass the necessary Journal entry for the above adjustments in the books of the firm. Show workings clearly.

(CBSE Sample Paper 2018)

[**Ans.:** *Dr. Bhanu's Capital A/c by ₹ 21,000 and Chand's Capital A/c by ₹ 2,000; Cr. Alia's Capital A/c by ₹ 23,000.*]

Type III * Past Adjustment (+) Guarantee *

Sol:-

B Dr 21000
C Dr 2000
To A 23,000

WN

		A	B	C
80,000 in 3 : 3 : 2	Dr.	(-)30000	(-)30000	(-)20000
Salary	Cr	18000	0	18000
Commission	Cr	0	4000	0
Correct profit	Cr	35,000	5000	0
Net effect		23000 Cr	(-)21000 Dr	(-)2000 Dr

P & L appr

Dr.			Cr
To Salary (A+C)	36000	By profit	80000
To comm (B)	4000		
To Profit (bal.)	40,000		
A: 15000 + 20,000 = 35000			
B: 15000 (-) 10000 = 5000			
C: 10,000 (-) 10,000 = Nil			
	80000		80000

Partner to Firm (Guarantee - Rank 1)

94. Three Chartered Accountants Abhijit, Baljit and Charanjit form a partnership, profits being shared in the ratio of 3 : 2 : 1 subject to the following:

3 : 2 → A B Firm → to → C Partner

(a) Charanjit's share of profit guaranteed to be not less than ₹ 15,000 p.a.

(b) Baljit gives a guarantee to the effect that gross fee earned by him for the firm shall be equal to his average gross fee of the preceding five years when he was carrying on profession alone, which on an average works out at ₹ 25,000.

The profit for the first year of the partnership is ₹ 75,000. The gross fee earned by Baljit for the firm is ₹ 16,000.

:-C

average works out at ₹ 25,000.]

The profit for the first year of the partnership is ₹ 75,000. The gross fee earned by Baljit for the firm is ₹ 16,000. You are required to show Profit & Loss Appropriation Account after giving effect to the above.

(NCERT, Modified)

[**Ans.:** *Abhijit's Share—₹ 41,400; Baljit's Share—₹ 18,600; Charanjit's Share—₹ 15,000.*]

practice (B) (Partner) → 25000 guarantee → Firm

25,000

Deficiency 9000

B's Capital A/c से छीन लेगी 9000 — मिलेगी income

Dr. P&L appr A/c Cr.

To Profit (bal..)	84000	By Net profit (given)	75000
A - 42000 (-) 600 = 41400		(C) By B's Capital A/c	9,000
B - 28000 (-) 400 = 27600			
(C) - 14000 +1000 = 15000			
	84,000		84,000

90. Asgar, Chaman and Dholu are partners in a firm. Their Capital Accounts stood at ₹ 6,00,000; ₹ 5,00,000 and ₹ 4,00,000 respectively on 1st April, 2022. They shared Profits and Losses in the proportion of 4 : 2 : 3. Partners are entitled to interest on capital @ 8% per annum and salary to Chaman and Dholu @ ₹ 7,000 per month and ₹ 10,000 per quarter respectively as per the provision of the Partnership Deed. Dholu's share of profit (excluding interest on capital but including salary) is guaranteed at a minimum of ₹ 1,10,000 p.a. Any deficiency arising on that account shall be met by Asgar. The profit for the year ended 31st March, 2023 amounted to ₹ 4,24,000.

Partner to Partner

Prepare Profit & Loss Appropriation Account for the year ended 31st March, 2023. (Delhi 2013, Modified)

[**Ans.:** *Share of Profit: Asgar—₹ 70,000; Chaman—₹ 40,000 and Dholu—₹ 70,000.*]

D's share of profit

60,000 + 40,000 + ~~32000~~ = (इसमे D's IOC नहीं लेना)
(" D's Salary लेनी है)

Deficiency = 10,000

Dr. P&L appr A/c Cr.

To Int On Capital		By Net profit	424000
A - 48000			
C - 40000			
नहीं लेना — D - 32000	120,000		
To Salary			
C - 84000			
D - 40000	124,000		
To profit (bal..)	180,000		
A - 80000 (-) 10000 = 70K			
C - 40000			
	424000		424000

	To profit (bal..)	180,000		
	A - 80000(-)10000 = 70K			
	C - 40000			
	D - 60000 (+)10000 = 70K	424,000		424000

** 225000 (—) 45000 (as Manager) = 180,000

89. A and B are in partnership sharing profits and losses in the ratio of 3 : 2. They admit C, their Manager, as a partner with effect from 1st April, 2022, for 1/4th share of profits.

C, while a Manager, was in receipt of a salary of ₹ 27,000 p.a. and a commission of 10% of net profit after charging such salary and commission → $\frac{Rate}{100+Rate}$ → 11250 56250

In terms of the Partnership Deed, any excess amount (which C will be entitled to receive as a partner over the amount which would have been due to him if he continued to be the Manager) will be borne by A. Profit for the year ended 31st March, 2023 amounted to ₹ 2,25,000. 45,000 Partner to Partner

Prepare Profit & Loss Appropriation Account for the year ended 31st March, 2023.

[**Ans.:** *Share of Profit: A—₹ 96,750; B—₹ 72,000; C—₹ 56,250.*]

WN :-

Manager (C) — 1 April 2022 — Partner — 31 March 2023

Salary = 27000

Commission = $\frac{10}{100+10} \times [225,000 (-) 27000]$ = 18,000

Total = 27000 + 18000 = 45000

⇒ $\frac{1}{4}$ × profits = $\frac{1}{4} \times 225,000$ = 56,250

P&L appr A/c

Dr		Cr
To Profit (bal..)	225,000	By profit (given) 225,000
A - 108000(-)11250 = 96750		
B - 72000		
C - 45000 + 11250 = 56250		
	225000	225000

93. Ankur, Bhavna and Disha are partners in a firm. On 1st April, 2022, the balances in their Capital Accounts stood at ₹ 14,00,000, ₹ 6,00,000 and ₹ 4,00,000 respectively. They shared profits in the proportion of 7 : 3 : 2 respectively. Partners are entitled to interest on capital @ 6% per annum and salary to Bhavna @₹ 50,000 p.a. and a commission of ₹ 3,000 per month to Disha as per the provisions of the Partnership Deed. (1) Bhavna's share of profit (excluding interest on capital) is guaranteed at not less than ₹ 1,70,000 p.a. (2) Disha's share of profit (including interest on capital but excluding commission) is guaranteed at not less than ₹ 1,50,000 p.a. Any deficiency arising on that account shall be met by Ankur. The profit of the firm for the year ended 31st March, 2023 amounted to ₹ 9,50,000. (A → D)

Prepare 'Profit & Loss Appropriation Account' for the year ended 31st March, 2023. (AI 2013, Modified)

[**Ans.:** *Share of Profit: Ankur—₹ 4,14,000; Bhavna—₹ 1,80,000 and Disha—₹ 1,26,000.*]

P&L appr A/c

Dr		Cr
To Int on Capital		By Net profit (given) 950,000
A - 84000		
B - 36000	144000	
D - 24000		
To Salary (B)	50,000	
To Commission (D)	36,000	

Guarantee adjustment

Guarantee already fulfilled	To Salary (B)	30,000	
	To Commission (D)	36,000	
	To Profit (bal.)	720000	
	A - 420000(-)6000=414000		
	B - 180000		
	D - 120000+6000=126000		
		950000	950 000

illus 43 - 68

(H) (W)

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

(i) Salary of ₹ 2,000 per quarter to Ajay and Binay.
(ii) Chetan was entitled to a commission of ₹ 8,000.
(iii) Binay was guaranteed a profit of ₹ 50,000 p.a.

OMISSION (A) (C)

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

[**Ans.:** *Dr. Ajay's Capital A/c by ₹ 6,400 and Binay's Capital A/c by ₹ 2,000; Cr. Chetan's Capital A/c by ₹ 8,400.*]

Type III → Wrong Ratio + Guarantee (Special Error)

Sol:-

A	Dr	6400
B	Dr	2000
To C		8400

		A	B	C
150,000 in 2:2:1	Dr.	(-)60000	(-)60000	(-)30000
Salary	Cr	8000	8000	0
Commission	Cr	0	0	8000
Correct profit	Cr.	45600	50,000	30,400
Net effect		(-)6400 Dr	(-)2000 Dr	8400 Cr

P&L appr A/c

To Salary	16 000	by profit	150,000
To Comm	8000		

A : C

A : C

3 : 3 : 2

To Comm	8000		
To Profit (bal..)	126000		
A - 47250(-)1650			
B - 47250+2750	150000		150000
C - 31500(-)1100			

95. Xen, Sam and Tim are partners in a firm. For the year ended 31st March, 2022, the profit of the firm ~~₹ 1,200,000~~ ₹120,000 was distributed equally among them, without giving effect to the following terms of the partnership Deed:

Wrong Ratio

(i) Sam's guarantee to the firm that the firm would earn a profit of at least ₹ 1,35,000. Any shortfall in these profits would met by him. Partnr to Firm 15,000

(ii) Profits to be shared in the ratio of 2 : 2 : 1. correct ratio ✓

You are required to pass the necessary Journal entries to rectify the error in accounting.

Approach (2)

[**Ans.:** *(i) Profit wrongly distributed now reversed: Dr. Xen's Capital A/c by ₹ 40,000; Sam's Capital A/c by ₹ 40,000 and Tim's Capital A/c by ₹ 40,000 Cr. Profit & Loss Adjustment A/c by ₹ 1,20,000.*
(ii) For Shortfall in Profit: Dr. Sam's Capital A/c and Cr. Profit & Loss Adjustment A/c by ₹ 15,000.
(iii) For Rectified Profit Distributed (2 : 2 : 1): Dr. Profit & Loss Adjustment A/c by ₹ 1,35,000. Cr. Xen's Capital by ₹ 54,000, Sam's Capital A/c by ₹ 54,000 and Tim's Capital A/c by ₹ 27,000.]

For own understanding (Approach 1)

Wrong Profit	Dr.			
--- omission	✓			
Correct profit in 2:2:1	Cr			

Sol:- (i) Wrong Profit वापस लेगें

wrong profit taken back

X Dr 40000
S Dr 40000
T Dr 40000
To P&L adjustment A/c —— 120,000

(ii) Sam से 15,000 दीजो

guarantee fulfilled by S

S Dr. 15,000
To P&L adjustment A/c —— 15000

(iii) Correct profit 135000 दे दो

Narration: Correct profit distributed

P&L adjustment A/c Dr 135000
To X —— 54000
To S —— 54000
To T —— 27000

× —— × —— × —— × —— × —— ×