

CHAPTER 1 ACCOUNTING FOR PARTNERSHIP FIRMS— FUNDAMENTALS

EXERCISE

Partnership Deed

1. In the absence of Partnership Deed, state the provisions of the Partnership Act, 1932 relating to:

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|-------------------------------------|---|
| (a) Salaries of partners, | (b) Interest on partners' capitals, |
| (c) Interest on loan by partner, | (d) Division of profit, |
| (e) Interest on partners' drawings, | (f) Interest on Loan given to partners? |

[Arts.: (a) Not allowed; (b) Not allowed; (c) 6% p.a.; (d) Equal; (e) Not charged; (f) Not charged.]

2. 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.
- (b) Ramesh wants that the partners should be allowed to draw salary but Mahesh and Suresh do not agree.
- (c) Mahesh and Ramesh want that Suresh should pay interest on loan given to him by the firm but Suresh does not agree.
- (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.

State how will these disputes be settled.

[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 would be distributed among the partners equally.]

The claim made by Mahesh and Ramesh is not accepted.]

3. Following differences have arisen among P, Q and R. State who is correct in each case:

- (a) P used ₹ 50,000 belonging to the firm and earned a profit of ₹ 5,000. Q and R want the amount to be given to the firm.
- (b) Q used ₹ 10,000 belonging to the firm and incurred a loss of ₹ 1,000. He wants the firm to bear the loss.
- (c) P and Q want to purchase goods from Star Ltd., R does not agree.
- (d) Q and R want to admit W as partner, P does not agree.
- (e) R had given loan of ₹ 2,00,000 to the firm and demands interest @ 10% p.a. P and Q do not want to pay the interest.

[Ans.: (a) P must pay—₹ 55,000; (b) Q must pay— ₹ 10,000; (c) Goods may be bought from Star Ltd.; (d) W cannot be admitted; (e) R will get interest @ 6% p.a.]

4. Barun, Tarun and Shivam are partners in a firm and do not have a Partnership Deed. Barun introduced further capital of ₹ 5,00,000 on 1st October, 2022. Whereas Shivam took loan of ₹ 50,000 from the firm on 1st October, 2022. Disputes have arisen among them on the following:

- (a) Barun demands interest @ 10% p.a. on ₹ 5,00,000 being his extra capital.

(b) Tarun desires that his son Deep should be admitted as partner and he will give him half of his share. Barun and Shivam do not agree.

(c) Barun and Tarun are of the view that Shivam should be charged interest on loan from the firm at the lending rate of the banks, which is 12% p.a.

(d) Tarun has withdrawn ₹ 50,000 from the firm for his personal use. Barun and Shivam are of the view that Tarun should be charged interest @ 10% p.a.

Give solution to each issue of dispute.

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

5. Harshad and Dhiman are in partnership since 1 st April, 2022. 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, 2022. Due to long illness, Harshad could not participate in business activities from 1st August, 2022 to 30th September, 2022. Profit for the year ended 31st March, 2023 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;
- (ii) Profit should be distributed in the ratio of capital.

Dhiman Claims:

- (i) Profits should be distributed equally;
- (ii) He should be allowed ₹ 2,000 p.m. as remuneration for the period he managed the business in the absence of Harshad;
- (iii) Interest on Capital and loan should be allowed @ 6% p.a.

You are required to settle the dispute between Harshad and Dhiman. Also prepare Profit & Loss Appropriation Account. (NCERT, Modified)

[Ans.: Harshad and Dhiman each gets ₹ 88,500 as profit and Harshad gets ₹ 3,000 as Interest on Loan.]

[Hints: Harshad's Claim: (a) Harshad is not entitled to any interest on capital, but he is entitled to interest on his loan @ 6% p.a.;

(b) Profits will be distributed equally as per Partnership Act, 1932.

Dhiman's Claim: (a) His claim is right that profits should be shared equally;

(b) No remuneration will be allowed to Dhiman;

(c) Interest on capital will not be allowed.]

Interest on Loan by Partner to the Firm

6. 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 1 st October, 2022, 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, 2023 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.

[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.]

7. Sita and Geeta are partners in a firm sharing profits in the ratio of 3 : 2. They had given loan to the firm of ₹ 30,000 in their profit-sharing ratio on 1 st October, 2022. The Partnership Deed is silent on interest on loans from partners. Compute interest payable by the firm to the partners, assuming the firm closes its books every year on 31st March.

[Ans.: Interest payable to Sita—₹ 30,000 x 3/5 x 6/100 x 6/12 = ₹ 540;

Interest payable to Geeta—₹ 30,000 x 2/5 x 6/100 x 6/12 = ₹ 360.]

[Hint: According to the Indian Partnership Act, 1932, interest @6% p.a. is payable on the amount of loan given by partners. In the present case, interest will be payable for 6 months, i.e., from 1 st October, 2022 to 31st March, 2023.]

8. 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, 2022, 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, 2023 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.]

9. Akhil, Sunil and Parvesh are partners sharing profits in the ratio of 3 : 2 : 1. Sunil had given loan to firm on 1st November, 2022 of ₹ 4,00,000. Interest payable was agreed @ 12% p.a. Interest was paid by cheque up to February, 2023 on 1 st March, 2023 and balance was yet to be paid.

Pass the Journal entries for interest on loan by partner.

[Ans.: Interest on Loan by Sunil up to February, 2023—₹ 76,000;

Interest transferred to Profit & Loss A/c—₹ 20,000.]

Interest on Loan to the Firm by Partner and Loan by the Firm to Partner

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.

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—₹ 76,000.]

[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.]

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 1 st 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 31 st 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.]

12. Ankit, Bhanu and Charu are partners in a firm sharing profits and losses equally with capital of ₹ 2,50,000 each. On 1 st 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.

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.]

13. Atul, Jetha and Tarak are partners sharing profits equally. Jetha was given loan by the firm on 1st July, 2022 of ₹ 6,00,000. Books are closed on 31st March. What Journal entries will be passed if

(a) Rate of interest is not agreed; and

(b) Rate of interest to be charged is agreed @ 10% p.a ?

[Ans.: (a) Interest will not be charged. Hence, no Journal entry will be passed;

(b) Interest on Loan to Jetha (up to 31st March, 2023)—₹ 45,000.]

14. Parul, Paresh and Rahul are partners in a firm. Firm gave loan to Rahul on 1st February, 2022 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.]

Profit & Loss Appropriation Account

15. Vinod and Mohan are partners. Vinod's Capital is ₹ 1,00,000 and Mohan's Capital is ₹ 60,000. Interest on

capital is payable @ 6% p.a. Vinod is to get salary of ₹ 3,000 per month. Net Profit for the year is ₹ 80,000. Prepare Profit & Loss Appropriation Account.

[Ans.: Share of Profit: Vinod—₹ 17,200; Mohan—₹ 17,200.]

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.

Prepare Profit & Loss Appropriation Account.

[Ans.: Divisible Profit—₹ 2,75,000.]

17. X and Tare 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 net profit is to be made in respect of commission to the Manager.

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.]

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

Balances as on 1 st 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 and charge interest @ 8% p.a. Partnership Deed provided to allow interest on capital @ 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 31 st March, 2023.

Prepare Profit & Loss Appropriation Account.

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

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.]

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.

Prepare Profit & Loss Appropriation Account.

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

PARTNERS' CAPITAL ACCOUNTS

Fixed Capital

21. Amit and Sumit entered into partnership on 1st April, 2022 and invested ₹ 1,50,000 and ₹ 2,50,000 respectively as capitals. The Partnership Deed provided for interest on capitals @ 10% p.a. It also provided that Capital Accounts shall be maintained following Fixed Capital Accounts Method. The firm earned net profit of ₹ 1,00,000 for the year ended 31st March, 2023.

Pass the Journal entry for interest on capital.

[Ans.: Dr. Profit & Loss Appropriation A/c by ₹ 40,000; Cr. Amit's Current A/c by ₹ 15,000 and Sumit's Current A/c by ₹ 25,000.]

22. Kamal and Kapil are partners having fixed capitals of ₹ 5,00,000 each as on 31st March, 2022. Kamal introduced further capital of ₹ 1,00,000 on 1st October, 2022 whereas Kapil withdrew ₹ 1,00,000 on 1 st October, 2022 out of capital.

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

The firm earned net profit of ₹ 6,00,000 for the year ended 31st March, 2023.

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

[Ans.: Dr. Profit & Loss Appropriation A/c by ₹ 1,00,000;
Cr. Kamal's Current A/c by ₹ 55,000 and Kapil's Current A/c by ₹ 45,000;

Share of Profit: Kamal—₹ 2,50,000 and Kapil—₹ 2,50,000.]

[Hint: Profit-sharing ratio between Kamal and Kapil is not given. Hence, they will share profit equally.]

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.]

Fluctuating Capital

24. Anita and Ankita are partners sharing profits equally. Their capitals, maintained following Fluctuating Capital Accounts Method, as on 1st April, 2022 were ₹ 5,00,000 and ₹ 4,00,000 respectively. Partnership Deed provided to allow interest on capital @ 10% p.a. The firm earned net profit of ₹ 2,00,000 for the year ended 31st March, 2023.

Pass the Journal entry for interest on capital.

[Ans.: Dr. Profit & Loss Appropriation A/c by ₹ 90,000;

Cr. Anita's Capital A/c by ₹ 50,000 and Ankita's Capital A/c by ₹ 40,000.]

25. Ashish and Aakash are partners sharing profits in the ratio of 3:2. Their Capital Accounts had credit balances of ₹ 5,00,000 and ₹ 6,00,000 respectively as on 31st March, 2023 after debit of drawings during the year of ₹ 1,50,000 and ₹ 1,00,000 respectively. Net profit for the year ended 31 st March, 2023 was ₹ 5,00,000. Interest on capital is to be allowed @ 10% p.a.

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

[Ans.: (i) Dr. Profit & Loss Appropriation A/c by ₹ 1,35,000;

Cr. Ashish's Capital A/c by ₹ 65,000 and Aakash's Capital A/c by ₹ 70,000;

(ii) Share of Profit: Ashish—₹ 2,19,000 and Aakash—₹ 1,46,000.]

[Hint: Interest on capital is allowed on opening balances of capital.]

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.

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]

27. On 1st April, 2013, Jay and Vijay entered into partnership for supplying laboratory equipments to government schools situated in remote and backward areas. They contributed capitals of ₹ 80,000 and ₹ 50,000 respectively and agreed to share the profits in the ratio of 3:2. The Partnership Deed provided that interest on capital shall be allowed at 9% per annum. During the year the firm earned a profit of ₹ 7,800.

Showing your calculations clearly, prepare 'Profit & Loss Appropriation Account' of Jay and Vijay for the year ended 31st March, 2014. (Delhi 2015)

[Ans.: Interest on Capital: Jay—₹ 4,800; Vijay—₹ 3,000.]

[Hint: Since the amount of net profit is less than the total amount of Interest on Capital, i.e., ₹ 7,200 (Jay) + ₹ 4,500 (Vijay) = ₹ 11,700, the net profit has been distributed in the ratio of interest claims of Jay and Vijay, i.e., ₹ 7,200 : ₹ 4,500 or 8 : 5.]

Calculation of Interest on Partners' Capitals

28. A and B are partners in the ratio of 3 : 2. The firm maintains Fluctuating Capital Accounts and the balance of the same as on 31st March, 2020 amounted to ₹ 1,60,000 and ₹ 1,40,000 for A and B respectively. Their drawings during the year were ₹ 30,000 each.

As per Partnership Deed, interest on capital @ 10% p.a. on opening capitals had been provided to them. Calculate opening capitals of partners given that their profit was ₹ 90,000. Show your workings clearly.

(CBSE Sample Paper 2020)

[Ans.: Opening Capital: A— ₹ 1,38,364; B— ₹ 1,31,636.]

29. Following is the extract of the Balance Sheet of Neelkant and Mahadev as on 31st March, 2023:

BALANCE SHEET as at 31st March, 2023

Liabilities	₹	Assets	₹
Neelkant's Capital	10,00,000	Sundry Assets	30,00,000
Mahadev's Capital	10,00,000		
Neelkant's Current A/c	1,00,000		
Mahadev's Current A/c	1,00,000		
Profit & Loss A/c (2022-23)	8,00,000		
	30,00,000		30,00,000

During the year, Mahadev's drawings were ₹ 30,000. Profit during the year ended 31st March, 2023 is ₹ 10,00,000. Calculate interest on capital @ 5% p.a. for the year ending 31st March, 2023. (NCERT, Modified)

[Ans.: Interest on Capital: Neelkant— ₹ 50,000; Mahadev— ₹ 50,000.]

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

BALANCE SHEET as at 31st March, 2023

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

During the year, Long 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.

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

31. Amit and Bra m it started business on 1st April, 2022 with capitals of ₹ 15,00,000 and ₹ 9,00,000 respectively. On 1st October, 2022, they decided that their capitals should be ₹ 12,00,000 each. The necessary adjustments in capitals were made by introducing or withdrawing by cheque. Interest on capital is allowed @ 8% p.a. Compute interest on capital for the year ended 31st March, 2023.

[Ans.: Interest on Capital: Amit — ₹ 1,08,000; Bramit— ₹ 84,000.]

32. Moli and Bholi contribute ₹ 20,000 and ₹ 10,000 respectively towards capital. They decide to allow interest on capital @ 6% p.a. Their respective share of profits is 2 : 3 and profit for the year is ₹ 1,500. Show distribution of profits:

(i) When there is no agreement except for interest on capitals; and

(ii) When there is an agreement that the interest on capital is a charge.

[Ans.: (i) Interest on Capital: Moli—₹ 1,000; Bholi—₹ 500; (ii) Loss: Moli—₹ 120; Bholi—₹ 180.]

Salary or Commission to Partners

33. Shiv, Mohan and Gopal are partners sharing profits and losses in the ratio of 2 : 2 : 1. Shiv is entitled to commission of 10% on the net profit. Net profit for the year is ₹ 1,10,000.

Determine the amount of commission payable to Shiv.

[Ans.: Commission payable to Shiv—₹ 11,000.]

34. Abha, Bobby and Vineet are partners sharing profits and losses equally. As per Partnership Deed, Vineet is entitled to commission of 10% on the net profit after charging such commission. Net profit before charging commission is ₹ 2,20,000.

Determine the amount of commission payable to Vineet.

[Ans.: Commission payable to Vineet—₹ 20,000.]

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.

[Ans.: Commission payable to the partners = $20/120 \times ₹ 1,80,000 = ₹ 30,000$
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.]

36. X and Y are partners in a firm. X is entitled to a salary of ₹ 10,000 per month and commission of 10% of the net profit after partners' salaries but before charging commission. Y is entitled to a salary of ₹ 25,000 p.a. and commission of 10% of the net profit after charging

all commission and partners' salaries. Net profit before providing for partners' salaries and commission for the year ended 31st March, 2023 was ₹ 4,20,000. Show distribution of profit.

[Ans.: X's Commission—₹ 27,500; Y's Commission—₹ 22,500; Net Profit—₹ 2,25,000; X and Y's Share—₹ 1,12,500 each.]

[Hint: Y's Commission = $\frac{10}{110}$ of ₹ 2,47,500 (i.e., ₹ 4,20,000 - ₹ 1,20,000 (X's Salary) - ₹ 25,000

(Y's Salary) - ₹ 27,500 (X's Commission)).]

Calculation of Interest on Partners' Drawings, Amount of Drawings and Rate of Interest on Drawings

37. Ram and Mohan, two partners, drew for their personal use ₹ 1,20,000 and ₹ 80,000. Interest is chargeable @ 6% p.a. on the drawings. What is the amount of interest chargeable from each partner?

[Ans.: Interest on Drawings: Ram—₹ 3,600 and Mohan—₹ 2,400.]

[Hint: When the dates of drawings are not given, interest on drawings is calculated on the total amount of drawings for average period of 6 months.]

38. Brij and Mohan are partners in a firm. They withdrew ₹ 48,000 and ₹ 36,000 respectively during the year evenly in the middle of every month. According to the Partnership Deed, interest on drawings is to be charged @ 10% p.a.

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

[Ans.: Interest on Brij's Drawings—₹ 2,400 and Interest on Mohan's Drawings—₹ 1,800.]

39. Dev withdrew ₹ 10,000 on 15th day of every month. Interest on drawings was to be charged @ 12% per annum.

Calculate interest on Dev's Drawings. (CBSE2019)

[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.]

41. A and B are partners sharing profits equally. A drew regularly ₹ 4,000 in the beginning 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.]

42. A and B are partners sharing profits equally. A drew regularly ₹ 4,000 at the end 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.]

43. B and C are partners sharing profits equally. C regularly withdrew ₹ 5,000 per month in the beginning 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.]

44. Calculate interest on drawings of Sanjay @ 10% p.a. for the year ended 31st March, 2023, in each of the following alternative cases:

Case 1. If he withdrew ₹ 7,500 in the beginning of each quarter.

Case 2. If he withdrew ₹ 7,500 at the end of each quarter.

Case 3. If he withdrew ₹ 7,500 during the middle of each quarter.

[Ans.: Interest on Drawings: Case 1—₹ 1,875; Case 2—₹ 1,125; Case 3—₹ 1,500.]

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.

(ii) Divya's drawings were:

31st May, 2023	₹ 20,000
1st November, 2023	₹ 7,500
1st February, 2024	₹ 12,500

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]

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.]

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.:

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

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

(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.]

48. Calculate the amount of Shiv's quarterly drawings for the year ended 31st March, 2023, in the following alternative cases when Partnership Deed allows interest on drawings @ 12%

p.a.:

- (i) If interest on drawings is ₹ 1,500 and he withdrew a fixed amount in the beginning of each quarter.
- (ii) If interest on drawings is ₹ 1,200 and he withdrew a fixed amount in the middle of each quarter.
- (iii) If interest on drawings is ₹ 900 and he withdrew a fixed amount at the end of each quarter.

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

49. Piyush, Harmesh and Atul are partners! Each partner regularly withdrew ₹ 20,000 per month as given below:

- (a) Piyush withdrew in the beginning of the month;
- (b) Harmesh withdrew in the middle of the month; and
- (c) Atul withdrew at the end of the month.

Interest on drawings charged for the year ended 31st March, 2023 was ₹ 15,600, ₹ 14,400 and ₹ 13,200 respectively.

Determine the rate of interest charged on drawings.

[Ans.: Rate of Interest on Drawings: Piyush—12%; Harmesh—12% and Atul— 12%.]

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

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

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

Profit & Loss Appropriation Account and Partners' Capital Accounts

51. Amit and Vijay started a partnership business on 1st April, 2022. Capital invested by them were ₹ 2,00,000 and ₹ 1,50,000 respectively. The Partnership Deed provided as follows:

- (a) Interest on capital be allowed @ 10% p.a.
- (b) Amit to get a salary of ₹ 2,000 per month and Vijay ₹ 3,000 per month.
- (c) Profits are to be shared in the ratio of 3 :2.

Net Profit for the year ended 31st March, 2023 was ₹ 2,16,000. Interest charged on drawings was ₹ 2,200 for Amit and ₹ 2,500 for Vijay.

Prepare Profit & Loss Appropriation Account.

[Ans.: Share of Profit: Amit- ₹ 75,420; Vijay—₹ 50,280.]

52. A and B are partners sharing profits and losses in the ratio of 3 : 1. On 1 st 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.
- (b) A will get a commission @ 2% on net sales.
- (c) B will get a salary of ₹ 5,000 per month.
- (d) B will get commission of 5% on profits after deduction of all expenses including such

commission.

Partners' drawings for the year were: A ₹ 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.

[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.]

53. A, B and C were partners in a firm having capitals of ₹ 50,000; ₹ 50,000 and ₹ 1,00,000 respectively. Their Current Account balances were A: ₹ 10,000; B: ₹ 5,000 and C: ₹ 2,000 (Dr.). According to the Partnership Deed the partners were entitled to an interest on Capital @ 10% p.a. C being the working partner was also entitled to a salary of ₹ 12,000 p.a. The profits were to be distributed as:

- The first ₹ 20,000 in proportion to their capitals.
- Next ₹ 30,000 in the ratio of 5 : 3 : 2.
- Remaining profits to be shared equally.

The firm earned net profit of ₹ 1,72,000 before charging any of the above items.

Prepare Profit & Loss Appropriation Account and pass necessary Journal entry for the appropriation of profits. (Foreign 2009)

[Ans.: Divisible Profit—₹ 1,40,000; A's share—₹ 50,000; B's share—₹ 44,000; C's share—₹ 46,000.]

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:

- they would receive interest on Capitals @ 5% p.a.,
- Amit would get a salary of ₹ 10,000 per month,
- Binita would receive commission @ 5% of net profit after deduction of commission, and
- 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.]

55. Yadu, Vidu and Radhu were partners in a firm sharing profits in the ratio of 4:3 : 3. Their fixed capitals on 1st April, 2018 were ₹ 9,00,000, ₹ 5,00,000 and ₹ 4,00,000 respectively. On 1st November, 2018, Yadu gave loan of ₹ 80,000 to the firm, as per the partnership agreement.

- The partners were entitled to an interest on capital @ 6% p.a.
- Interest on partners' drawings was to be charged @ 8% p.a.

The firm earned profit of ₹ 2,53,000 (after interest on Yadu's Loan) during the year 2018-19. Partners' drawings for the year amounted to:

Yadu—₹ 80,000, Vidu—₹ 70,000 and Radhu—₹ 50,000.

Prepare Profit & Loss Appropriation Account for the year ending 31 st March, 2019.

(CBSE2020)

[Ans.: Share of Profit: Yadu—₹ 61,200; Vidu—₹ 45,900; Radhu—₹ 45,900.]

[Hint: Interest on drawings is charged on total amount for an average period of 6 months.]

Transfer of Profit to Reserve

56. Sajal and Kajal are partners sharing profits and losses in the ratio of 2 :1. On 1 st 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.]

57. Ali and Bahadur are partners in a firm sharing profits and losses as Ali 70% and Bahadur 30%. Their respective capitals as at 1 st 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.

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.]

58. Kabir, Zoravar and Parul are partners sharing profits in the ratio of 5 : 3 : 2. Their capitals as on 1st April, 2022 were: Kabir—₹ 5,20,000, Zoravar—₹ 3,20,000 and Parul—₹ 2,00,000.

The Partnership Deed provided as follows:

(i) Kabir and Zoravar each will get salary of ₹ 24,000 p.a.

(ii) Parul will get commission of 2% of Net Sales.

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

(iv) Interest on Drawings is to be charged @ 5% p.a.

(v) 10% of Divisible Profit is to be transferred to General Reserve.

Net Sales for the year ended 31st March, 2023 were ₹ 50,00,000. Drawings by each of the partners during the year was ₹ 60,000. Net Profit for the year was ₹ 1,55,500.

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

[Ans.: Share of Profit: Kabir—₹ 40,000; Zoravar—₹ 32,000; Parul—₹ 88,000.]

[Hints: 1. Since, net profit is not adequate to meet the appropriations, it is distributed in the ratio of appropriation to be made, i.e., ₹ 50,000 : ₹ 40,000 : ₹ 1,10,000 or 5 :4 :11.

2. In the absence of divisible profit, amount will not be transferred to General Reserve.]

59. X and Y entered into partnership on 1 st April, 2018. Their capitals as on 1 st April, 2022 were ₹ 2,00,000 and ₹ 1,50,000 respectively. On 1 st October, 2022, X gave ₹ 50,000 as loan to the firm. As per the provisions of the Partnership Deed:

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

(ii) Interest on capital is to be allowed @ 12% p.a. and Interest on Drawings is to be charged @ 10% p.a.

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

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

(v) Profit to be shared in the ratio of their capitals up to ₹ 1,75,000 and balance equally.

Profit for the year ended 31 st March, 2023, before allowing or charging interest was ₹ 4,61,000. The drawings of X and Y were ₹ 1,00,000 and ₹ 1,25,000 respectively.

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

[Ans.: Interest on Capital: X—₹ 24,000; Y—₹ 18,000; Salary: X—₹ 60,000; Y—₹ 90,000;
Commission: X—₹ 17,500; Interest on Drawings: X—₹ 5,000; Y—₹ 6,250;
Share of Profit: X—₹ 1,18,125; Y—₹ 93,125; Capital Balance: X—₹ 3,14,625;
Y—₹ 2,19,875; Interest on Loan by X: ₹ 1,500; Transfer to General Reserve—₹ 50,000.]

Adjustments for Incorrect Appropriations in the Past (Past Adjustments)

60. 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.

Give the necessary rectification Journal entry.

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

61. 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.

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

62. 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 31 st March, 2023, interest was credited to them @ 6% p.a. instead of 5% p.a. Pass the adjustment Journal entry.

[Ans.: Debit Ram and Credit Sohan by ₹ 300.]

63. 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, 2023, 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. Show your working notes and pass the 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.]

64. Profit earned by a partnership firm for the year ended 31 st March, 2023 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.

Pass necessary adjustment entry.

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

65. 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.

Showing your working clearly, pass the necessary adjustment entry to rectify the error.

(CBSE2020)

[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.]

66. Simrat and Bir are partners in a firm sharing profits and losses in the ratio of 3 : 2. On 31st March, 2023 after closing the books of account, their Capital Accounts stood at ₹ 4,80,000 and ₹ 6,00,000 respectively. On 1st May, 2022, Simrat had introduced an additional capital of ₹ 1,20,000 and Bir withdrew ₹ 60,000 from his capital. On 1st October, 2022, Simrat withdrew ₹ 2,40,000 from her capital and Bir introduced ₹ 3,00,000. Interest on capital is allowed at 6% p.a. Subsequently, it was noticed that interest on capital @ 6% p.a. had been omitted. Profit for the year ended 31st March, 2023 amounted to ₹ 2,40,000 and the partners' drawings had been: Simrat—₹ 1,20,000 and Bir—₹ 60,000.

Compute the interest on capital if the capitals are (a) fixed, and (b) fluctuating.

[Ans.: Interest on Capital: (a) Simrat—₹ 35,400; Bir—₹ 27,300; (b) Simrat—₹ 33,960; Bir—₹ 25,140.]

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

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

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

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

Showing your working clearly, pass a rectifying entry in the books of the firm. (AI2017 C)

[Ans.: Debit Usha's Capital A/c and Credit Mita's Capital A/c by ₹ 6,816.]

68. A, B and C were partners. Their fixed capitals were ₹ 60,000, ₹ 40,000 and ₹ 20,000 respectively. Their profit-sharing ratio was 2:2:1. According to the Partnership Deed, they were entitled to interest on capital @ 5% p.a. In addition, B was also entitled to draw a salary of ₹ 1,500 per month. C was entitled to a commission of 5% on the profits after charging the interest on capital, but before charging the salary payable to B. The net profits for the year, ₹ 80,000, were distributed in the ratio of their capitals without providing for any of the above adjustments. Showing your workings clearly, pass the necessary adjustment entry. (CBSE2019)

[Ans.: Dr. A's Current A/c by ₹ 16,080; Cr. B's Current A/c by ₹ 14,253 and C's Current A/c by ₹ 1,827.]

[Hint: C's Commission = $\frac{5}{100} \times ₹ 74,000$ [i.e., ₹ 80,000 - ₹ 6,000 (Interest on Capital)] = ₹ 3,700.]

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.

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.]

70. On 31st March, 2023, after the closing of the accounts, Capital Accounts of P, Q and R stood in the books of the firm at ₹ 40,000; ₹ 30,000 and ₹ 20,000 respectively. Subsequently, it was noticed that interest on capital @ 5% had been omitted. Profit for the year ended 31st March, 2023 was ₹ 60,000 and the partners' drawings had been P—₹ 10,000, Q—₹ 7,500 and R—₹ 4,500. Profit-sharing ratio of P, Q and R is 3 : 2 : 1.

Pass necessary adjustment entry.

[Ans.: Debit P's Capital A/c by ₹ 300; Credit Q's Capital A/c by ₹ 8 and R's Capital A/c by ₹ 292.]

[Hint: Opening Capital: P—₹ 20,000; Q—₹ 17,500; R—₹ 14,500.]

71. 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, 2023, ₹ 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.
- (b) Interest on drawings: Mohan ₹ 250, Vijay ₹ 200 and Anil ₹ 150.

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.]

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.
- (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.

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.]

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:		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. and salary to Piya @ ₹ 1,000 per month. During the year, Piya withdrew ₹ 8,000 and Bina withdrew ₹ 4,000. Showing your working notes clearly, pass the necessary rectifying entry. (Delhi 2017 C)

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

74. Naveen, Qadir and Rajesh were partners doing an electronic goods business in Uttarakhand. After the accounts of partnership were drawn up and closed, it was discovered that interest on capital has been allowed to partners @6% p.a. for the years ending 31 st March, 2017 and 2018, although there is no provision for interest on capital in the Partnership Deed. On the other hand, Naveen and Qadir were entitled to a salary of ₹ 3,500 and ₹ 4,000 per quarter respectively, which has not been taken into consideration. Their fixed capitals were ₹ 4,00,000, ₹ 3,60,000 and ₹ 2,40,000 respectively. During the last two years they had shared the profits and losses as follows:

Year Ended	Ratio
31st March, 2017	3:2:1
31st March, 2018	5:3:2

Pass necessary adjusting entry for the above adjustments in the books of the firm on 1st April, 2018. Show your workings clearly. (CBSE2019)

[Ans.: Dr. Rajesh's Current A/c by ₹ 17,800; Cr. Naveen's Current A/c by ₹ 10,000 and Qadir's Current A/c by ₹ 7,800.]

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

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		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.]

76. On 31 st March, 2018, the balances in the Capital Accounts of Abhir, Bobby and Vineet, after making adjustments for profits and drawings were ₹ 8,00,000, ₹ 6,00,000 and ₹ 4,00,000 respectively.

Subsequently, it was discovered that interest on capital and interest on drawings had been omitted. The partners were entitled to interest on capital @ 10% p.a. and were to be charged

interest on drawings @ 6% p.a. The drawings during the year were: Abhir—₹ 20,000 drawn at the end of each month, Bobby—₹ 50,000 drawn at the beginning of every half year and Vineet—₹ 1,00,000 withdrawn on 31st October, 2017. The net profit for the year ended 31st March, 2018 was ₹ 1,50,000. The profit-sharing ratio was 2:2:1.

Pass necessary adjusting entry for the above adjustments in the books of the firm. Also, show your workings clearly. (CBSE2019)

[Ans.: Dr. Bobby's Capital A/c by ₹ 14,402; Cr. Abhir's Capital A/c by ₹ 10,112 and Vineet's Capital A/c by ₹ 4,290.]

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

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

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

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

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

Showing your workings clearly, pass the necessary rectifying entry. (Delhi2015 C)

[Ans.: Dr. Saroj's Capital A/c by ₹ 2,350 and Mahinder's Capital A/c by ₹ 1,300; Cr. Umar's Capital A/c by ₹ 3,650.]

78. Capitals of Kajal, Neerav and Alisha as on 31st March, 2023 were ₹ 90,000, ₹ 3,30,000 and ₹ 6,60,000 respectively. Profit of ₹ 1,80,000 for the year ended 31st March, 2023 was distributed in the ratio of 4:1:1 after allowing Interest on Capital @ 10% p.a. During the year, each partner withdrew ₹ 3,60,000. The Partnership Deed was silent as to profit-sharing ratio but provided for interest on capital @ 12% p.a.

Pass the necessary adjustment entry showing the working clearly.

[Ans.: Debit Kajal by ₹ 66,000 and Credit Neerav by ₹ 30,000 and Alisha by ₹ 36,000.]

Guarantee of Minimum Profit to a Partner

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.]

80. A, B and C were in partnership sharing profits and losses in the ratio of 4 : 2 : 1. It was provided that C's share in profit for a year would not be less than ₹ 75,000. Profit for the year ended 31st March, 2023 is ₹ 3,15,000. You are required to show the appropriation among the partners. Profit & Loss Appropriation Account is not required.

[Ans.: Share of Profit: A—₹ 1,60,000; B—₹ 80,000; C—₹ 75,000.]

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 + 7 1,750 = ₹ 40,000.]

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

82. A, Band 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 31 st March, 2023 was ₹ 4,00,000.

Pass necessary Journal entries in the books of the firm.

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

83. Atul, Bipul and Charu are partners sharing profits equally. Bipul is guaranteed minimum profit of ₹ 2,00,000 per annum. Salary is payable to Bipul of ₹ 10,000 per month. Net Profit for the year ended 31st March, 2023 is ₹ 6,60,000.

Prepare Profit & Loss Appropriation Account for the year.

[Ans.: Share of Profit: Atul—₹ 1,70,000; Bipul—₹ 2,00,000 and Charu—₹ 1,70,000.]

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.]

85. Nimrat, Maira and Kabir are partners sharing profits in the ratio of 2 : 2 :1. Nimrat is guaranteed minimum profit of ₹ 1,60,000 per annum. Net Profit for the year ended 31st March, 2023 is ₹ 1,00,000.

Prepare Profit & Loss Appropriation Account for the year.

[Ans.: Nimrat will get ₹ 1,60,000 (Guaranteed Profit); Loss of ₹ 60,000 will be shared by Maira and Kabir in 2:1 ratio.]

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.]

87. P, Q and R entered into partnership on 1 st April, 2018 to share profits and losses in the ratio of 12 : 8 : 5. It was provided that in no case ft's share in profit would be less than ₹ 30,000 p.a. The profits and losses for the year ended 31st March, were: 2021 Profit ₹ 1,20,000; 2022 Profit ₹ 1,80,000; 2023 Loss ₹ 1,20,000.

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

[Ans.: For Deficiency—year ended 31st March, 2021:

Dr. P's Capital A/c by ₹ 3,600 and Q's Capital A/c by ₹ 2,400; Cr. R's Capital A/c by ₹ 6,000.

For Deficiency—year ended 31st March, 2023:

Dr. P's Capital A/c by ₹ 32,400 and Q's Capital A/c by ₹ 21,600; Cr. R's Capital A/c by ₹ 54,000.]

88. P and Q were partners in a firm sharing profits in the ratio of 5 : 3. On 1 st April, 2022 they admitted ft as a new partner for 1 /8th share in the profits with a guaranteed profit of ₹ 75,000. The new profit-sharing ratio between P and Q will remain the same but they agreed to bear any deficiency on account of guarantee to ft in the ratio of 3 : 2. The profit of the firm for the

year ended 31st March, 2023 was ₹ 4,00,000.

Prepare Profit & Loss Appropriation Account of P, Q and R for the year ended 31st March, 2023.

(Delhi 2016, Modified)

[Ans.: Deficiency of Profit ₹ 25,000 will be borne by P and Q in the ratio of 3:2.

Share of Profit: P—₹ 2,03,750; Q—₹ 1,21,250; R—₹ 75,000.]

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 1 st 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.

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 31 st March, 2023 amounted to ₹ 2,25,000.

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.]

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.

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.]

[Hint: Deficiency of ₹ 10,000 in Dholu's share is recovered from Asgar.]

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:

(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.]

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

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

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

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

The profit of the firm for the year ended 31st March, 2015 was ₹ 1,50,000 which was distributed among Ajay, Binay and Chetan in the ratio of 2 : 2 : 1, without taking into consideration the provisions of Partnership Deed. Pass necessary rectifying entry for the above adjustments in the books of the firm. Show your workings clearly. (Delhi2016 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.]

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. Bhavna's share of profit (excluding interest on capital) is guaranteed at not less than ₹ 1,70,000 p.a. Disha's share of profit (including interest on capital but excluding commission) is guaranteed at not less 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.

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.]

[Hint: Deficiency of ₹ 6,000 is contributed by Ankur for Disha.]

Minimum Earnings Guaranteed by a Partner

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:

(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.

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.]

[Hint: The Gross fee of ₹ 16,000 earned by Baljit for the firm is less than the amount guaranteed by him. So the deficiency of ₹ 9,000 (i.e., ₹ 25,000 - ₹ 16,000) will be debited to Baljit's Capital Account and credited to Profit & Loss Appropriation Account.]

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 was distributed equally among them, without giving effect to the following terms of the partnership Deed:

(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 be met by him.

(ii) Profits to be shared in the ratio of 2 : 2 : 1.

You are required to pass the necessary Journal entries to rectify the error in accounting.

[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.]

6. Which of the following is transferred to Profit & Loss Appropriation Account?

- (a) Salary/Commission to a partner. (b) Salary/Commission to a manager.
(c) Interest on Capital of a partner. (d) Both (a) and (c).

7. Choose the correct sequence of the following transactions in context of Division of Profits:

- (i) Guarantee by Firm to Partners
(ii) Guarantee by Partners to Firm
(iii) Transfer of Profits to Profit & Loss Appropriation Account
(iv) Guarantee by Partner to Partner

- (a) (i); (iii); (iv); (ii) (b) (iii); (i); (ii); (iv)
(c) (iii); (ii); (i); (iv) (d) (ii); (iii); (iv); (i)

> Read the following hypothetical situation, Answer Question No. 8,9 and 10.

Shiv and Mohan are two partners sharing profits and losses in the ratio of 3 : 2. On 31st March, 2023, their Capital Accounts stood at ₹ 55,000 and ₹ 45,000 after distribution of net profit of ₹ 15,000 and due consideration of drawings of the partners for ₹ 6,000 and ₹ 4,000 respectively. After closing the books, the following discrepancies were noticed:

- (i) An item in the inventory was valued at ₹ 12,800 but had a realisable value of ₹ 8,300.
(ii) ₹ 2,400 paid for insurance premium for the year ending on 30th June, 2023 had been debited to Profit & Loss Account.
(iii) Interest on Capital at 5% on partners' capital as at the beginning of the year and interest on drawings of partners at 8% p.a. were left out of consideration.

8. Balance of opening capital on 1 st April, 2022:

- | Shiv | Mohan | Shiv | Mohan |
|--------------|-----------|--------------|-----------|
| (a) ₹ 40,000 | ₹ 35,000. | (b) ₹ 46,000 | ₹ 39,000. |
| (c) ₹ 52,000 | ₹ 43,000. | (d) ₹ 64,000 | ₹ 51,000. |

9. Correct profit is

- (a) ₹ 15,500. (b) ₹ 11,100.
(c) ₹ 10,500. (d) None of these.

10. Divisible profit is

- (a) ₹ 6,350. (b) ₹ 6,750.
(c) ₹ 7,100. (d) ₹ 1,15,000.

11. Lalan and Balan were partners in a firm sharing profits in the ratio of 3 : 2. Their fixed capitals on 1 st April, 2022 were: Lalan ₹ 10,00,000 and Balan ₹ 20,00,000. They agreed to allow interest on capital @ 12% per annum and to charge on drawings @ 15% per annum. The firm earned profit, before all above adjustments, of ₹ 3,00,000 for the year ended 31 st March, 2023. Drawings of Lalan and Balan during the year were ₹ 30,000 and ₹ 50,000 respectively. Showing your calculations, clearly prepare Profit & Loss Appropriation A/c of Lalan and Balan. The interest on capital will be allowed even if the firm incurs a loss.

12. Hari and Kunal were partners in a firm sharing profits in the ratio of 5 : 3. Their fixed capitals on 31 st March, 2022 were: Hari ₹ 60,000 and Kunal ₹ 80,000. They agreed to allow interest on capital @ 12% p.a. The profit of the firm for the year ended 31st March, 2023 before allowing interest on capital was ₹ 12,600. Pass necessary Journal entries for the above transactions in the books of Hari and Kunal. Also show your working clearly.

13. The partners of a firm distributed the profits for the year ended 31st March, 2023, ₹ 4,50,000 in the ratio of 3 : 2 : 1 without providing for the following adjustments:

(i) X and Y were entitled to a salary of ₹ 7,500 p.a.

(ii) Y was entitled to a commission of ₹ 22,500.

(iii) Y and Z had guaranteed a minimum profit of ₹ 1,75,000 p.a. to X.

(iv) Profit was to be shared in the ratio of 3 : 3 : 2.

Pass necessary Journal entry for the above adjustment in the books of the firm. Show your working clearly.