Past Adjustments & Guarantee of profits to a partner

3 Marks Questions

1. Mukesh and Ramesh are partners sharing profits and losses in the ratio of 2: 1 respectively. They admit Rupesh as a partner with 1/4 share in profits with a guarantee that his share of profit shall be at least Rs 55,000. The net profit of the firm for the year ending 31st March, 2013 was Rs. 1,60,000. Prepare profit and loss appropriation account. (Compartment 2014)

Ans. **Profit and Loss Appropriation Account**
for the year ending 31st March, 2013

Particulars		Amt (₹)	Particulars	Amt (₹)
To Profit Transferred to			By Net Profit as per Profit and Loss A/c	1,60,000
Mukesh's Capital A/c	80,000			
(–) to Rupesh	(10,000)	70,000		
Ramesh's Capital A/c	40,000			
(–) to Rupesh	(5,000)	35,000		
Rupesh's Capital A/c	40,000			
(+) from Mukesh	10,000			
(+) from Ramesh	5,000	55,000		
		1,60,000		1,60,000

Working Note

Calculation of New Profit Sharing Ratio

Rupesh's share $= \frac{1}{4}$

Remaining share $= 1 - \frac{1}{4} = \frac{3}{4}$

Mukesh's share $= \frac{3}{4} \times \frac{2}{3} = \frac{2}{4}$

Ramesh's share $= \frac{3}{4} \times \frac{1}{3} = \frac{1}{4}$

$\therefore$ New ratio $= 2:1:1$

Distributable profits $= 1,60,000$ to be distributed between Mukesh, Ramesh and Rupesh in $2:1:1$ ratio Mukesh's share $= 1,60,000 \times \frac{2}{4} = 80,000$, Ramesh's share $= 1,60,000 \times \frac{1}{4} = 40,000$. Rupesh's share $= 1,60,000 \times \frac{1}{4} = 40,000$, which is less than the guaranteed amount of ₹ 55,000, therefore difference ₹ 15,000 (55,000 – 40,000) shall be borne by Mukesh and Ramesh in $2:1$ ratio.

2. Mona, Nisha and Priyanka are partners in a firm. They contributed Rs. 50,000 each as capital three years ago. At that time, Priyanka agreed to look after the business as Mona and Nisha were busy. The profits for the past three years were Rs. 15,000, Rs. 15,000 and Rs. 50,000 respectively. While going through the books of accounts, Mona noticed that the profit had been distributed in the ratio of 1: 1: 2. When she enquired from Priyanka about this, Priyanka answered that since she looked after the business she should get more profit. Mona disagreed and it was decided to distribute profit equally retrospectively for the last three years.
(i) You are required to make necessary correction in the books of accounts of Mona, Nisha and Priyanka by passing an adjustment entry.
(ii) Identify the value which was not practised by Priyanka while distributing profits

Ans. (*i*)

JOURNAL

Date	Particulars		LF	Amt (Dr)	Amt (Cr)
	Priyanka's Capital A/c	Dr		15,000	
	To Mona's Capital A/c				7,500
	To Nisha's Capital A/c				7,500
	(Being profits of last three years distributed wrongly now rectified)				

Working Note

Statement Showing Adjustments

Particulars	Mona (₹)	Nisha (₹)	Priyanka (₹)
Profits wrongly distributed now to be debited (15,000 + 25,000 + 50,000) in the ratio 1 : 1 : 2	22,500 (Dr)	22,500 (Dr)	45,000 (Dr)
Profits to be distributed equally, now to be credited	30,000 (Cr)	30,000 (Cr)	30,000 (Cr)
Net Effect	7,500 (Cr)	7,500 (Cr)	15,000 (Dr)

(ii) Value not practised by Priyanka while distributing profits is (Any one)
(a) **Honesty Priyanka has not shown honesty towards co-partners by not distributing profits as per the provision of Partnership Act.**
(b) **Transparency Priyanka has not shown transparency while distributing profits as per her wish and not communicating the same to other partners.**
(c) **Equity Priyanka has not shown equity in profit distribution.**
(d) **Team work Priyanka has not shown team work by hiding profit sharing ratio from other partners.**

3. Mohan, Neeraj and Peeyush are partners in a firm. They contributed Rs. 75,000 each as capital three years ago. At that time, Peeyush agreed to look after the business as Mohan and Neeraj were busy. The profits for the past three years were Rs. 45,000, Rs. 30,000 and Rs. 60,000 respectively. While going through the books of accounts, Mohan noticed that profit had been distributed in 1 : 1 : 2 ratio. When he enquired from Peeyush about this, Peeyush answered that since he looked after the business he should get more profit. Mohan disagreed and it

was decided to distributed profits equally with respectively effect for the last three years.

(i) You are required to make necessary corrections in the books of accounts of Mohan, Neeraj and Peeyush by passing an adjustment entry.
(ii) Identify the value which is being ignored by Peeyush.
(All India 2013; VBQ)

Ans. (*i*) JOURNAL

Date	Particulars		LF	Amt (Dr)	Amt (Cr)
	Peeyush's Capital A/c	Dr		22,500	
	To Mohan's Capital A/c				11,250
	To Neeraj's Capital A/c				11,250
	(Being profits of last three years distributed wrongly, now rectified)				

Working Note

Statement Showing Adjustments

Particulars	Mohan (₹)	Neeraj (₹)	Peeyush (₹)
Profits wrongly distributed now to be debited (45,000 + 30,000 + 60,000) in the ratio 1 : 1 : 2	33,750 (Dr)	33,750 (Dr)	67,500 (Dr)
Profits to be distributed equally, to be credited	45,000 (Cr)	45,000 (Cr)	45,000 (Cr)
Net Effect	11,250 (Cr)	11,250 (Cr)	22,500 (Dr)

(ii) Value not followed by Peeyush while distributing profits is (Any one)
(a) **Honesty** Peeyush has not shown honesty towards co-partners by not distributing profits as per Partnership Act.
(b) **Transparency** Peeyush has not shown transparency while distributing profits as per his wish and not communicating the same to other partners.
(c) **Equity** Peeyush has not shown equity in profits distribution.
(d) **Team work** Peeyush has not shown team work by hiding profit sharing ratio from other partners.

4 Marks Questions

4. P,Q and R are partners sharing profits in the ratio of 3 : 2 : 1. However, R is guaranteed Rs. 20,000 as his share of profits every year. Deficiency if any would be borne by the other partners. The profits for the two years ending 31st March, 2008 and 31st March, 2009 had been Rs. 75,000 and Rs. 80,000 respectively. Show the profit and loss appropriation account for the two years.

Ans.

Profit and Loss Appropriation Account

Dr **for the year ended 31st March, 2008** Cr

Particulars		Amt (₹)	Particulars	Amt (₹)
To Profit Transferred to (WN (i))			By Net Profit as per Profit and Loss A/c	75,000
P's Capital A/c	33,000			
Q's Capital A/c	22,000			
R's Capital A/c	20,000	75,000		
		75,000		75,000

Profit and Loss Appropriation Account

Dr **for the year ended 31st March, 2009** Cr

Particulars		Amt (₹)	Particulars	Amt (₹)
To Profit Transferred to (WN (ii))			By Net Profit as per Profit and Loss A/c	80,000
P's Capital A/c	36,000			
Q's Capital A/c	24,000			
R's Capital A/c	20,000	80,000		
		80,000		80,000

Working Note

(*i*) Distribution of profit of ₹ 75,000 in the ratio 3 : 2 : 1.

P ₹ 37,500, Q ₹ 25,000, R ₹ 12,500

But R is guaranteed ₹ 20,000 as his share of profit every year.

Therefore, the deficiency of ₹ 7,500 (i.e. ₹ 20,000 – ₹ 12,500) will be borne by P and Q in their profit sharing ratio of 3 : 2.

P will pay $7{,}500 \times \frac{3}{5} =$ ₹ 4,500 ; Q will pay $7{,}500 \times \frac{2}{5} =$ ₹ 3,000

Finally,

P will get 37,500 – 4,500 = ₹ 33,000 ; Q will get 25,000 – 3,000 = ₹ 22,000

R will get 12,500 + 4,500 + 3,000 = ₹ 20,000

(*ii*) Distribution of profit of ₹ 80,000 in the ratio 3 : 2 : 1.

P ₹ 40,000, Q ₹ 26,667, R ₹ 13,333

But R is guaranteed ₹ 20,000 as his share of profit every year. Therefore, the deficiency of ₹ 6,667 (i.e. ₹ 20,000 – ₹ 13,333) will be borne by P and Q in their profit sharing ratio of 3 : 2.

P will pay $6{,}667 \times \frac{3}{5} =$ ₹ 4,000; Q will pay $6{,}667 \times \frac{2}{5} =$ ₹ 2,667

Finally, P will get 40,000 – 4,000 = ₹ 36,000

Q will get 26,667 – 2,667 = ₹ 24,000

R will get 13,333 + 4,000 + 2,667 = ₹ 20,000

5. A and B are partners in a firm sharing profit and losses in the ratio of 3 : 2. The following was the balance sheet of the firm as at 31st March, 2010.

Balance Sheet
as at 31st March, 2010

Liabilities		Amt (₹)	Assets	Amt (₹)
Capital A/cs			Sundry Assets	80,000
A	60,000			
B	20,000	80,000		
		80,000		80,000

The profits Rs. 30,000 for the year ended 31st March, 2010 were divided between the partners without allowing interest on capital @ 12% per annum and salary to A @ Rs. 1,000 per month. During the year, A withdrew Rs. 10,000 and B Rs. 20,000. Pass the necessary adjustment journal entry and show your working clearly. (Delhi 2011)

Ans. **JOURNAL**

Date	Particulars		LF	Amt (Dr)	Amt (Cr)
	B's Capital A/c	Dr		5,280	
	To A's Capital A/c				5,280
	(Being interest on capital and salary to A not charged previously, now adjusted)				

Working Note

(*i*) **Calculation of Opening Capital**

Particulars	A	B
Closing Capital	60,000	20,000
(+) Drawings	10,000	20,000
	70,000	40,000
(−) Profit (3 : 2)	(18,000)	(12,000)
Capital in the beginning	52,000	28,000

Calculation of interest on capital

$$A = 52{,}000 \times \frac{12}{100} = ₹\ 6{,}240$$

$$B = 28{,}000 \times \frac{12}{100} = ₹\ 3{,}360$$

(*ii*) **Calculation of Amount to be Adjusted**

Particulars	A	B	Total
(A) **Amount to be Credited**			
Interest on Capital	6,240	3,360	9,600
Salary to A	12,000	—	12,000
	18,240	3,360	21,600
(B) **Amount to be Debited**			
Profit wrongly distributed (21,600 in 3 : 2)	12,960	8,640	21,600
Net Effect	5,280 (Cr)	5,280 (Dr)	NIL

6. A, B, C and D are partners sharing profits and losses in the ratio of 4 : 3 : 3 : 2. Their respective fixed capitals on 31st March, 2010 were Rs. 60,000, Rs. 90,000, Rs. 1,20,000 and Rs. 90,000 respectively. After preparing the final accounts for the year ended 31st March, 2010, it was discovered that interest on capital @ 12% per annum was not allowed and interest on drawings amounting to Rs. 2,000, Rs. 2,500, Rs. 1,500 and Rs. 1,000 respectively was also not charged.
Pass the necessary adjustment journal entry showing your working clearly. (All India 2011)

Ans. **JOURNAL**

Date	Particulars		LF	Amt (Dr)	Amt (Cr)
	A's Current A/c	Dr		6,867	
	B's Current A/c	Dr		750	
	To C's Current A/c				3,850
	To D's Current A/c				3,767
	(Being interest on capital and drawings previously not recorded, now adjusted)				

Working Note

Calculation of Amount to be Adjusted

Particulars	A	B	C	D	Total
Amount to be Credited					
Interest on Capital	7,200	10,800	14,400	10,800	43,200
Amount to be Debited					
Interest on Drawings	2,000	2,500	1,500	1,000	7,000
Loss (4 : 3 : 3 : 2)	12,067	9,050	9,050	6,033	36,200
Net Effect	14,067	11,550	10,550	7,033	43,200
	6,867 (Dr)	750 (Dr)	3,850 (Cr)	3,767 (Cr)	Nil

7. A, B and C were partners in a firm. On 1st April, 2008, their fixed capitals stood at Rs. 50,000, Rs. 25,000 and Rs. 25,000 respectively.
As per the provisions of the partnership deed
(i) B was entitled for a salary of Rs. 5,000 per annum.
(ii) All the partners were entitled to interest on capital at 5% per annum.
(iii) Profits were to be shared in the ratio of capitals.
The net profit for the year ending 31st March, 2009 of Rs. 33,000 and 31st March, 2010 of Rs. 45,000 was divided equally without providing for the above terms.
Pass an adjustment journal entry to rectify the above error. (All India 2011)

Ans.

JOURNAL

Date	Particulars	LF	Amt (Dr)	Amt (Cr)
	C's Current A/c Dr		9,000	
	To A's Current A/c			8,000
	To B's Current A/c			1,000
	(Being interest on capital and salary not provided previously and profit distributed wrongly, now adjusted)			

Working Note

(*i*) **Calculation of Amount to be Adjusted**

Particulars		A	B	C	Total
Amount to be Credited					
Salary	31st March, 2009	—	5,000	—	5,000
	31st March, 2010	—	5,000	—	5,000
Interest on Capital	31st March, 2009	2,500	1,250	1,250	5,000
	31st March, 2010	2,500	1,250	1,250	5,000
Profits	31st March, 2009	11,500	5,750	5,750	23,000
(Capital ratio i.e. 2 : 1 : 1)	31st March, 2010	17,500	8,750	8,750	35,000
	(A)	34,000	27,000	17,000	78,000
Amount to be Debited					
Profit (1 : 1 : 1)	31st March, 2009	11,000	11,000	11,000	33,000
	31st March, 2010	15,000	15,000	15,000	45,000
	(B)	26,000	26,000	26,000	78,000
Net Effect (A – B)		8,000 (Cr)	1,000 (Cr)	9,000 (Dr)	Nil

(*ii*) **Calculation of Adjusted Profit**

31st March, 2009 ⇒ 33,000 – 5,000 (salary) – 5,000 (interest on capital)
⇒ ₹ 23,000

31st March, 2010 ⇒ 45,000 – 5,000 (salary) – 5,000 (interest on capital)
⇒ ₹ 35,000

8. A, B and C were partners. Their capitals were Rs. 30,000, Rs. 20,000 and Rs. 10,000 respectively. According to the partnership deed, they were entitled to interest on capital @ 5% per annum. In addition, B was also entitled to draw a salary of Rs. 500 per month. C was entitled to a commission of 5% on the profits after charging the interest on capitals but before charging the salary payable to B. The net profits for the year were Rs. 30,000 distributed in the ratio of their capitals without providing for any of the above adjustments. The profits were to be shared in the ratio of 2 : 2 :1. Pass the necessary adjustment entry showing the working clearly. (Delhi 2010)

Ans. JOURNAL

Date	Particulars		LF	Amt (Dr)	Amt (Cr)
	A's Capital A/c	Dr		5,640	
	To B's Capital A/c				4,860
	To C's Capital A/c				780
	(Being profit distributed wrongly, now adjusted)				

Working Note

(*i*) **Calculation of Amount to be Adjusted**

Particulars		A	B	C	Total
Amount to be Credited					
Interest on Capital @ 5% per annum		1,500	1,000	500	3,000
Salary (500 × 12)		—	6,000	—	6,000
Commission (30,000 – 3,000) × 5%		—	—	1,350	1,350
Profit (2 : 2 : 1)		7,860	7,860	3,930	19,650
	(A)	9,360	14,860	5,780	30,000
Amount to be Debited					
Profit (Capital ratio i.e. 3 : 2 : 1)	(B)	15,000	10,000	5,000	30,000
Net Effect (A – B)		5,640 (Dr)	4,860 (Cr)	780 (Cr)	Nil

(*ii*) Calculation of adjusted profit = 30,000 – 3,000 (IOC) – 6,000 (Salary) – 1,350 (Commission) = 19,650

9. Ravi and Mohan were partners in a firm sharing profits in the ratio of 7: 5. Their respective fixed capitals were Ravi Rs. 10,00,000 and Mohan Rs. 7,00,000.
The partnership deed provided for the following
(i) Interest on capital @ 12% per annum.
(ii) Ravi's salary Rs. 6,000 per month and Mohan's salary Rs. 60,000 per year.
The profit for the year ended 31st March, 2007 was Rs. 5,04,000 which was distributed equally, without providing for the above. Pass an adjustment entry. (Delhi 2008)

Ans. **JOURNAL**

Date	Particulars		LF	Amt (Dr)	Amt (Cr)
	Mohan's Current A/c	Dr		38,000	
	To Ravi's Current A/c				38,000
	(Being interest on capital and salary not provided previously and profit distributed wrongly, now adjusted)				

Working Note

(*i*) **Calculation of Amount to be Adjusted**

Particulars		Ravi	Mohan	Total
Amount to be Credited				
Interest on Capital @ 12% per annum		1,20,000	84,000	2,04,000
Salary to Partners		72,000	60,000	1,32,000
Profit (7 : 5)		98,000	70,000	1,68,000
	(A)	2,90,000	2,14,000	5,04,000
Amount to be Debited				
Profit (1 : 1)	(B)	2,52,000	2,52,000	5,04,000
Net Effect (A – B)		38,000 (Cr)	38,000 (Dr)	Nil

(*ii*) Calculation of adjusted profit = 5,04,000 – 2,04,000 (IOC) – 1,32,000 (Salary) = 1,68,000

10. R and S were partners in a firm sharing profits in the ratio of 3: 2. Their respective fixed capitals were R Rs. 10,00,000 and S Rs. 15,00,000. The partnership deed provided the following
(i) Interest on capital @ 10% per annum.
(ii) Interest on drawings @ 12% per annum.

During the year ended 31st March, 2007, R's drawings were Rs. 1,000 per month drawn at the end of every month and S's drawings were Rs. 2,000 per month drawn in the beginning of the every month. After the preparation of final accounts for the year ended 31st March, 2007, it was discovered that interest on R's drawings were not taken into consideration.
Calculate interest on R's drawings and give necessary adjustment entry for the The profit for the year ended 31st March, 2007 was Rs. 2,78,000. Which was

distributed equally without treating the above adjustments.

Ans. JOURNAL

Date	Particulars		LF	Amt (Dr)	Amt (Cr)
	R's Current A/c	Dr		264	
	To S's Current A/c				264
	(Being adjustment entry passed)				

Working Note

(*i*) Interest on R's drawings $= 1{,}000 \times 12 \times \frac{12}{100} \times \frac{5\frac{1}{2}}{12} =$ ₹ 660

(*ii*) **Calculation of Amount to be Adjusted**

Particulars		R	S	Total
Amount to be Debited				
Interest on Drawings	(A)	660	—	660
Amount to be Credited				
Profit (660 in 3 : 2)	(B)	396	264	660
Net Effect (A – B)		264 (Dr)	264 (Cr)	Nil

NOTE When uniform amount is withdrawn on the last day of each month then interest on drawings will be calculated for a period of 5 ½ months.

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

(i) Interest on capital @ 9% per annum.

(ii) Kumar's salary Rs. 50,000 per year and Raja's salary Rs. 3,000 per month.

Pass the adjustment entry. (All India 2008)

Ans.

JOURNAL

Date	Particulars		LF	Amt (Dr)	Amt (Cr)
	Kumar's Current A/c	Dr		11,100	
	To Raja's Current A/c				11,100
	(Being interest on capital and salary not provided previously and profit distributed wrongly, now adjusted)				

Working Note

Calculation of Amount to be Adjusted

Particulars		Kumar	Raja	Total
Amount to be Credited				
Interest on Capital @ 9% per annum		81,000	36,000	1,17,000
Salary		50,000	36,000	86,000
Profit (75,000 in 7 : 3)		52,500	22,500	75,000
	(A)	1,83,500	94,500	2,78,000
Amount to be Debited				
Profit (7 : 3)	(B)	1,94,600	83,400	2,78,000
Net Effect (A – B)		11,100 (Dr)	11,100 (Cr)	Nil

12. A, B and C were partners in a firm. They had no partnership deed. They had been in business for 4 years and their profit and loss for this period was, year ended March 2004 Rs. 39,000, March 2005 Rs. 54,000, March 2006 Rs. 18,000 (loss) and March 2007 Rs. 75,000. During the year 2007-08, they agreed to share profits and losses in the ratio of 2 : 2 : 1 with retrospective effect from the year 2003-04. It was also decided that an interest (charge) of 5% per annum was to be provided on capitals (fixed). Their capitals were Rs. 80,000, Rs. 60,000 and Rs. 60,000 respectively. Pass a single adjustment entry to adjust the capital accounts of the partners. (All India 2008)

Ans.

JOURNAL

Date	Particulars		LF	Amt (Dr)	Amt (Cr)
	C's Current A/c	Dr		16,000	
	To A's Current A/c				10,000
	To B's Current A/c				6,000
	(Being adjustment entry passed)				

Working Note

(*i*) Total profit from 2003-04 to 2006-07

$$= 39{,}000 + 54{,}000 - 18{,}000 + 75{,}000 = ₹\ 1{,}50{,}000$$

(*ii*) **Calculation of Amount to be Adjusted**

Particulars	A	B	C	Total
Amount to be Credited				
Interest on Capital @ 5% per annum for 4 years	16,000	12,000	12,000	40,000
Profit (1,10,000 in 2 : 2 : 1)	44,000	44,000	22,000	1,10,000
(A)	60,000	56,000	34,000	1,50,000
Amount to be Debited				
Profit Distributed Previously (1 : 1 : 1) (B)	50,000	50,000	50,000	1,50,000
Net Effect (A – B)	10,000 (Cr)	6,000 (Cr)	16,000 (Dr)	Nil

(*iii*) Interest on capital is calculated for the year ending March, 2006, also because it is to be treated as a charge against profits.

6 Marks Questions

13. Seema, Tanuja and Tripti were partners in a firm trading in garments. They were sharing profits in the ratio of 5 : 3 : 2. Their capitals on 1st April, 2012 were Rs. 3,00,000, Rs. 4,00,000 and Rs. 8,00,000 respectively. After the flood in Uttarakhand, all partners decided to help the flood victims personally.
For this, Seema withdrew Rs. 20,000 from the firm on 15th September, 2012. On the same date, Tanuja instead of withdrawing cash from the firm, took garments amounting to Rs. 24,000 from the firm and distributed those to the flood victims. On the other hand, Tripti withdrew Rs. 2,00,000 from her capital on 1st January, 2013 and provided a mobile medical van in the flood affected area.
The partnership deed provides for charging interest on drawings @ 6% per annum. After the final accounts were prepared, it was discovered that interest on drawings had not been charged. Give the necessary adjusting journal entry and show the working notes clearly. Also, state any two values which the partners wanted to communicate to the society. (Modified; All India 2014)

Ans. **Adjusting Journal Entry**

Date	Particulars		LF	Amt (Dr)	Amt (Cr)
	Tripti's Capital A/c	Dr		2,114	
	To Seema's Capital A/c				1,565
	To Tanuja's Capital A/c				549
	(Being the adjustment entry passed)				

Statement for Adjustment

Particulars	Seema	Tanuja	Tripti	Total
Amount to be Debited				
Interest on Drawings	650	780	3,000	4,430
Amount to be Credited				
Profit of ₹ 4,430 Shared in Ratio 5 : 3 : 2	2,215	1,329	886	4,430
Net Effect	1,565 (Cr)	549 (Cr)	2,114 (Dr)	Nil

Working Note

Calculation of Interest on Drawings

$$\text{Seema} = 20{,}000 \times \frac{6}{100} \times \frac{6.5}{12} = ₹\ 650$$

$$\text{Tanuja} = 24{,}000 \times \frac{6}{100} \times \frac{6.5}{12} = ₹\ 780$$

$$\text{Tripti} = 2{,}00{,}000 \times \frac{6}{100} \times \frac{3}{12} = ₹\ 3{,}000$$

The values which partners wanted to communicate to the society are

(i) **Concern and care towards flood victims** By donating garments and providing medical facilities to the flood victims partners have shown care and concern towards them.

(ii) **Doing your best and compassion** Partners have done their best and have shown compassionate behaviour by helping the flood victims.

NOTE It has been assumed that Tanuja has made drawings on the same date as of Seema.

14. A, B and C were partners. They started business in one of the remote tribal areas of Odisha. They were interested in the development of the tribal community by providing good education and health.
On 31st March, 2013, after making adjustments for profits and drawings their capitals were A – Rs. 4,00,000, B – Rs. 3,00,000 and C Rs. 2,00,000. The drawings of the partners were A – Rs. 4,000 per month, B – Rs. 3,000 per month and C – Rs. 2,000 per month.
The profit of the firm for the year ended 31st March, 2013 was ? 6,00,000.
Subsequently it was found that the interest on capital @ 6% per annum due, had been omitted.
Showing your working notes clearly, pass necessary adjustment entry for the above. Also, identify any two values highlighted in the above question.
(Compartment 2014)

Ans. **Adjustment Entry**

Date	Particulars	LF	Amt (Dr)	Amt (Cr)
	C's Capital A/c Dr		6,720	
	To A's Capital A/c			6,720
	(Being the necessary adjustment entry passed)			

Working Note

Adjustment Table

Particulars	A	B	C	Total
A. Amount to be Credited as Interest on Capital	14,880	8,160	1,440	24,480
B. Amount to be Debited of ₹ 24,480 in Profit Sharing Ratio	8,160	8,160	8,160	24,480
Net Effect (A – B)	6,720 (Cr)	—	6,720 (Dr)	—

Calculation of Opening Capitals and Interest

$$\text{Opening Capital} = \text{Closing Capital} + \text{Drawings} - \text{Share of Profits}$$

Accordingly, opening capital of:

$$A = 4,00,000 + (4,000 \times 12) - \left(6,00,000 \times \frac{1}{3}\right) = ₹\ 2,48,000$$

$$B = 3,00,000 + (3,000 \times 12) - \left(6,00,000 \times \frac{1}{3}\right) = ₹\ 1,36,000$$

$$C = 2,00,000 + (2,000 \times 12) - \left(6,00,000 \times \frac{1}{3}\right) = ₹\ 24,000$$

Interest on Capital

$$A = 2,48,000 \times \frac{6}{100} = ₹\ 14,880\ ;$$

$$B = 1,36,000 \times \frac{6}{100} = ₹\ 8,160\ ;$$

$$C = 24,000 \times \frac{6}{100} = ₹\ 1,440$$

Values highlighted in the above question are

(i) Development of remote tribal area, by providing employment opportunities.

(ii) Equity, even though capital contributions are unequal, still the partners are sharing profits equally, thereby promoting harmony and brotherhood.

15. A, B and C were partners in a firm. On 1st April, 2012 their capitals stood as Rs. 5,00,000; Rs. 2,50,000 and Rs. 2,50,000 respectively.
As per provisions of the partnership deed
(i) C was entitled for a salary of Rs. 5,000 per month.
(ii) A was entitled for a commission of Rs. 80,000 per annum.
(iii) Partners were entitled to interest on capital @ 6% per annum.

(iv) Partners will share profits in the ratio of capitals.
Net profit for the year ended 31st March, 2013 was Rs. 3,00,000 which was distributed equally, without taking into consideration the above provisions. Showing your working clearly, pass necessary adjustment entry for the above. (Compartment 2014)

Ans. **Adjustment Entry**

Date	Particulars		LF	Amt (Dr)	Amt (Cr)
	B's Capital A/c	Dr		60,000	
	To A's Capital A/c				60,000
	(Being necessary adjustment entry passed)				

Working Note

Adjustment Table

Particulars	A	B	C	Total
A. **Amount to be Credited**				
Salary to C	—	—	60,000	60,000
Commission to A	80,000	—	—	80,000
Interest on Capital	30,000	15,000	15,000	60,000
Share of Profits in Capital Ratio	50,000	25,000	25,000	1,00,000
	1,60,000	40,000	1,00,000	3,00,000
B. **Amount to be Debited**				
Profits of ₹ 3,00,000 Distributed Equally	1,00,000	1,00,000	1,00,000	3,00,000
Net Effect (A – B)	60,000 (Cr)	60,000 (Dr)	—	—

Interest on Capital

$$A = 5,00,000 \times \frac{6}{100} = 30,000\ ;$$

$$B = 2,50,000 \times \frac{6}{100} = 15,000\ ;$$

$$C = 2,50,000 \times \frac{6}{100} = 15,000$$

Share in profits in capital ratio of 2 : 1 : 1

$$A = 1,00,000 \times \frac{2}{4} = 50,000\ ;$$

$$B = 1,00,000 \times \frac{1}{4} = 25,000\ ;$$

$$C = 1,00,000 \times \frac{1}{4} = 25,000$$

(1,00,000 is the remaining profit, after adjustments relating to salary, commission and interest on capital).

16. Ali, Bimal and Deepak are partners in a firm. On 1st April, 2011 their capital accounts stood at Rs. 4,00,000, Rs. 3,00,000 and Rs. 2,00,000 respectively. They shared profits and losses in the ratio of 5 :3 : 2 respectively. Partners are entitled to interest on capital @ 10% per annum and salary to Bimal and Deepak @ 12,000 per month and Rs. 3,000 per quarter respectively as per the provisions of the partnership deed.
Bimal's share of profit (excluding interest on capital but including salary) is guaranteed at a minimum of Rs. 50,000 per annum. Any deficiency arising on that account shall be met by Deepak. The profits of the firm for the year ended 31st March, 2012 amount to Rs. 2,00,000. Prepare profit and loss appropriation account for the year ended on 31st March, 2012. (Delhi 2013)

Ans. **Profit and Loss Appropriation Account**
for the year ending 31st March, 2012

Dr Cr

Particulars		Amt (₹)	Particulars	Amt (₹)
To Interest on Capital			By Net Profit as per Profit and Loss A/c	2,00,000
Ali's Capital A/c	40,000			
Bimal's Capital A/c	30,000			
Deepak's Capital A/c	20,000	90,000		
To Salary				
Bimal's Capital A/c (2,000×12)	24,000			
Deepak's Capital A/c (3,000×4)	12,000	36,000		
To Profit Distributed to				
Ali's Capital A/c		37,000		
Bimal's Capital A/c	22,200			
(+) from Deepak	3,800	26,000		
Deepak's Capital A/c	14,800			
(–) to Bimal	3,800	11,000		
		2,00,000		2,00,000

Working Note

Distributable profits = 2,00,000 – 90,000 – 36,000 = ₹ 74,000 to be distributed in 5 : 3 : 2

Bimal's share (excluding interest on capital and salary) = $74,000 \times \frac{3}{10}$ = ₹ 22,200

Bimal's share (excluding interest on capital and including salary) = 22,200 + 24,000 (salary) = ₹ 46,200

Guarantee by Deepak = 50,000

Deficiency to be borne by Deepak = 50,000 – 46,200 = ₹ 3,800

17. Anwar, Biswas and Divya are partners in a firm. Their capital accounts stood at Rs. 8,00,000, Rs. 6,00,000 and Rs. 4,00,000 respectively on 1st April, 2011. They shared profits and losses in the ratio of 3 : 2 :1 respectively. Partners are entitled

to interest on capital @ 6% per annum and salary to Biswas and Divya @ Rs. 4,000 per month and Rs. 6,000 per quarter respectively as per the provisions of partnership deed.

Biswas's share of profit (including interest on capital but excluding salary) is guaranteed at a minimum of ?82,000 per annum. Any deficiency arising on that account shall be met by Divya. The profits for the year ended 31st March, 2012 amounted to Rs. 3,12,000. Prepare profit and loss appropriation account for the year ended 31st March,2012. (Deihi 2013)

Ans.

Profit and Loss Appropriation Account

Dr for the year ending 31st March, 2012 Cr

Particulars		Amt (₹)	Particulars	Amt (₹)
To Interest on Capitals			By Net Profit as per Profit and Loss A/c	3,12,000
Anwar's Capital A/c	48,000			
Biswas's Capital A/c	36,000			
Divya's Capital A/c	24,000	1,08,000		
To Salary				
Biswas's Capital A/c (4,000 × 12)	48,000			
Divya's Capital A/c (6,000 × 4)	24,000	72,000		
To Profit Transferred to				
Anwar's Capital A/c		66,000		
Biswas's Capital A/c	44,000			
(+) from Divya	2,000	46,000		
Divya's Capital A/c	22,000			
(−) to Biswas	(2,000)	20,000		
		3,12,000		3,12,000

Working Note

Distributable profits = 3,12,000 − 1,08,000 − 72,000

= ₹ 1,32,000 to be distributed in 3 : 2 : 1

Biswas share of profit = $1,32,000 \times \frac{2}{6}$ = ₹ 44,000

Biswas' share of profit after including interest on capital should be a minimum of ₹ 82,000 but it comes to ₹ 80,000 (44,000 + 36,000), therefore deficiency of ₹ 2,000 (82,000 − 80,000) should be contributed by Divya.

18. Anand, Bhaskar and Dinkar are partners in a firm. On 1st April, 2011, the balance in their capital accounts stood at Rs. 10,00,000, Rs. 8,00,000 and Rs. 6,00,000 respectively. They shared profits in the proportion of 5 : 4 : 3 respectively. Partners are entitled to interest on capital @10% per annum and

salary to Bhaskar @ Rs. 4,000 per month and a commission of Rs. 16,000 per quarter to Dinkar as per the provisions of the partnership deed.
Anand's share of profit (excluding interest on capital) is guaranteed at not less than Rs. 1,90,000 per annum. Bhaskar's share of profit (including interest on capital but excluding salary) is guaranteed at not less than Rs. 2,45,000 per annum. Any deficiency arising on that account shall be met by Dinkar. The profits of the firm for the year ended 31st March, 2012 amounted to Rs 8,32,000. Prepare 'profit and loss appropriation account' for the year ended 31st March, 2012. (All India 2013)

Ans.

Profit and Loss Appropriation Account
for the year ending 31st March, 2012

Dr Particulars		Amt (₹)	Particulars	Amt (₹) Cr
To Interest on Capital			By Net Profit as per Profit and Loss A/c	8,32,000
Anand's Capital A/c	1,00,000			
Bhaskar's Capital A/c	80,000			
Dinkar's Capital A/c	60,000	2,40,000		
To Salary A/c (Bhaskar) (4,000×12)		48,000		
To Commission A/c (Dinkar) (16,000×4)		64,000		
To Profit Transferred to Anand's Capital A/c		2,00,000		
Bhaskar's Capital A/c	1,60,000			
(+) from Dinkar	5,000	1,65,000		
Dinkar's Capital A/c	1,20,000			
(−) to Bhaskar	(5,000)	1,15,000		
		8,32,000		8,32,000

Working Note

Distributable profits $= 8,32,000 - 2,40,000 - 48,000 - 64,000 =$ ₹ 4,80,000 to be distributed in 5 : 4 : 3.

Anand's share of profit $= 4,80,000 \times \frac{5}{12} =$ ₹ 2,00,000

Anand's share of profit is already above the guaranteed amount, therefore no adjustment is required.

Bhaskar's share of profit $= 4,80,000 \times \frac{4}{12} =$ ₹ 1,60,000

Bhaskar's share of profit including interest on capital should be ₹ 2,45,000 but it comes to ₹ 2,40,000 (₹ 1,60,000 + 80,000), therefore difference of ₹ 5,000 (2,45,000 − 2,40,000) should be contributed by Dinkar.