

Content

1.1 Meaning and Definition of Partnership

1.2 The Indian Partnership act 1932.

1.3 Methods of Capital Account

Competency Statements

- ❑ The students will be able to:
 - Understand meaning of Partnership
 - Know the important features of Partnership
 - Understand the meaning of "The Indian Partnership Act, 1932."
 - Know the importance of Partnership Deed.
 - Understand the provisions applicable in absence of Partnership Deed.
 - Know how to maintain Capital Accounts of Partner.

Introduction :

The sole proprietorship has its limitations such as limited capital, limited managerial ability, unlimited liability, no stability, absence of specialization etc. Hence when a business is to be set up on a scale which needs more capital and involves more risk, two or more persons come together to run it. They agree to share the capital, the management, the risk & profits of business, such mutual relationship based on an agreement amongst these persons is termed as "Partnership". The persons who have entered into the partnership are individually known as "Partners" and collectively as a "Firm".

1.1 Meaning and Definition of Partnership :

Partnership is an organization where there is an association of two or more persons coming together to carry on a business with a view to share Profit or Losses of a firm.

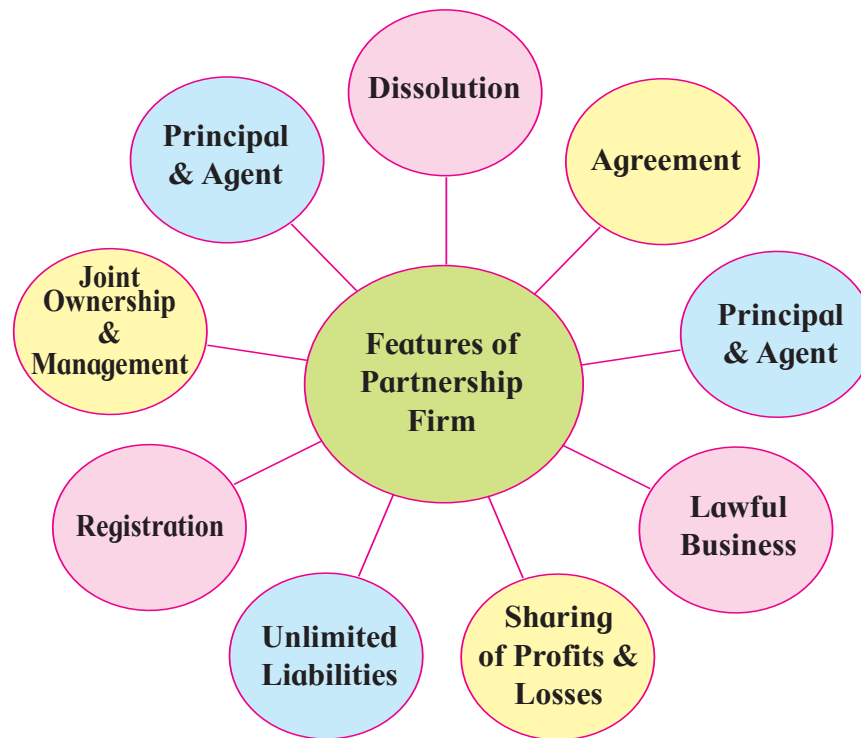
Definition :

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

According to **Prof. Handy**, "Partnership is the relation existing between persons competent to make contract, who agree to carry on a lawful business in common with a view to earn private gain.



Features of Partnership Firm



- 1) **Agreement :-** Partnership is a result of agreement between partners. It could be written or oral. A written agreement is preferred so that it can be used as a proof in the court of law & such written agreement is known as “Partnership Deed.”
- 2) **Number of Partners :-** Minimum two partners are needed to start partnership firm and the maximum number of partners are fifty according to companies Act 2013 (Amended in 2014)
- 3) **Lawful business :-** Business undertaken by partnership should be lawful. It cannot undertake business which is not allowed by state. The definition of Partnership also does not permit any illegal business.
- 4) **Sharing of Profit and losses :-** The purpose of partnership is to earn maximum profits. Partners have to share profits & losses according to the ratio given in the agreement. If the agreement is silent about the ratio then profit and loss sharing will be equal.
- 5) **Unlimited Liability :-** The liability of partners is unlimited joint and several that is, partners are liable till the last rupee in their pocket. If assets of business is not sufficient to pay liabilities, then personal property of partners can be used. If anyone of the partner is declared insolvent then his liability will be borne by the solvent partner.
- 6) **Registrations :-** Registration of partnership firm is compulsory only in the state of Maharashtra with effect from 1st April 2005. According to Indian Partnership Act, 1932, registration of partnership firm is optional it means a firm may or may not be registered. Registration of firm merely certifies its existence and it is a process of entering the name of Partnership Firm in the register of Registrar.
- 7) **Joint Ownership & Management :-** Each partner is joint owner of the property of the firm, so no partner can use property for personal use. All partners have equal rights in managing the firm. So all partners are jointly responsible for the management of firm.
- 8) **Principal and Agent :-** Each partner works in two fold capacities i.e. principal and Agent. A partner acts as a principal of the firm with outsiders and with other partners he acts as an agent.

- 9) **Dissolution :-** A partnership firm can be dissolved through agreement between the partner. If a partner wants to close the firm he can dissolve the firm by giving fourteen days notice. The firm can also be dissolved if a partner dies or retires, becomes insolvent or insane.

PARTNERSHIP DEED

The document containing the partnership agreement among partners is called **Partnership Deed**. It contains the terms and conditions which are agreed upon by all the partners. An agreement may be written or oral but when it's written, it's called a deed.

The Partnership Act doesn't make it compulsory to have a written agreement. However, in case of dispute among the partners, it is always in the best course to have a written agreement duly signed (by all the respective partners) and registered under the Act. Partnership Deed contains the rules and regulation framed for the internal Management of the firm. It is also an Article of Partnership.

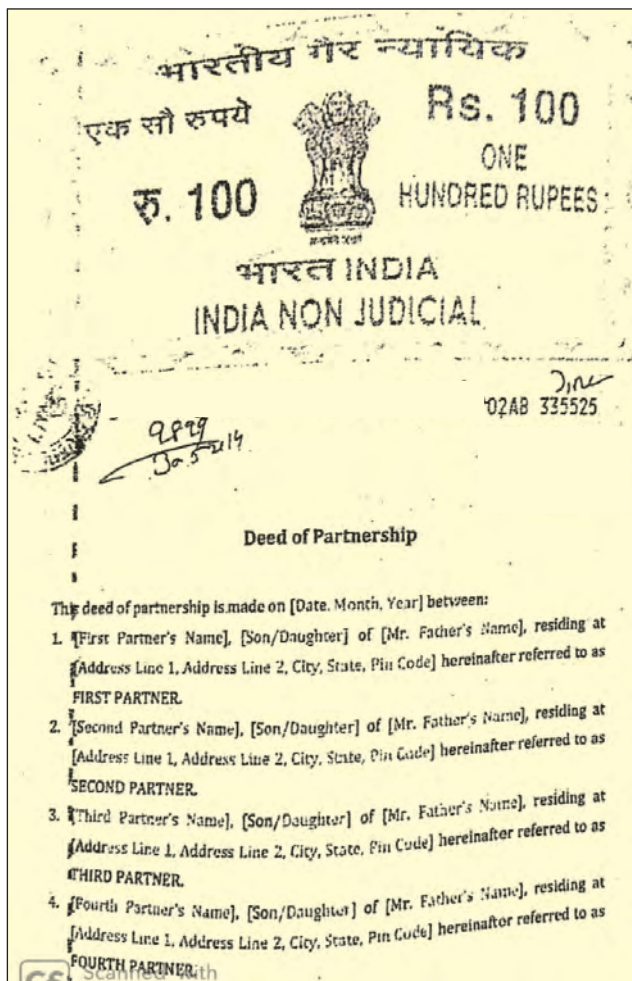
Contents of the Partnership Deed

- 1) Name and address of the firm and its main business.
- 2) Name and address of all partners and duration of the partnership.
- 3) Capital contribution of all the partners
- 4) Ratio in which profits (and losses) are to be shared.
- 5) Rights, duties and liabilities of the partners.
- 6) Provisions related to admission, retirement, death etc. of a partner.
- 7) Rate of interest on capital, loan, drawings etc.
- 8) Salaries, commission, etc. if payable to any partners.
- 9) Settlement of accounts on dissolution of the firm.
- 10) Method of settlement of disputes among the partners.
- 11) Any other matter relating to the conduct of business.

Importance of Partnership Deed

Partnership deed is a very important document because it is the written agreement which contains all the terms and conditions of the partnership business. It forms the basis of mutual relationship among the partner. Moreover, partnership deed regulates the rights, duties and liabilities of all the partners as well as of firm. So by having partnership deed partners disputes in future may be avoided.

Partnership Deed



Hence it is always in favour, to have a written agreement i.e. partnership deed duly signed by all the partners and registered under the Indian Partnership Act 1932.

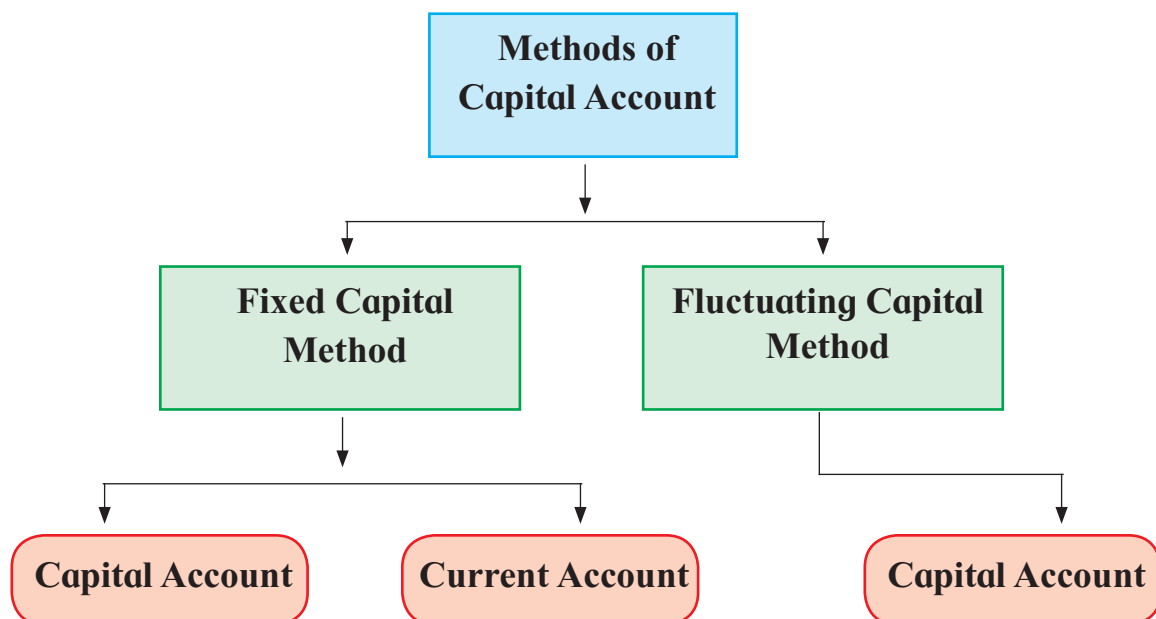
1.2 Provision of the Indian Partnership act 1932:

At the time of formation of partnership firm, a document is prepared called as partnership deed and all terms and conditions are mentioned into the deed, but if the partnership deed is silent about any point then this issue is solved as per the provisions in Partnership Act 1932 section no 12 and 17 are made applicable to determine the following issues.

- 1) **Distribution of profit :** If the partnership deed is silent about the profit sharing ratio, then the profit and losses are distributed among the partners in equal ratio.
- 2) **Interest on drawings :** As per the provision of Indian Partnership Act 1932, if the date of drawing is not given then average of six month's interest is charged on drawings.
- 3) **Interest on partner's loan :** If the partner provides additional amount to the business as loan, but rate of interest on loan is not given then 6% p.a. interest is allowed.
- 4) **Interest on capital :** If the partnership deed is silent about interest on capital then interest is not allowed.
- 5) **Salary or commission to Partners :** As per the provision made in the Indian Partnership Act 1932 no salary, commission, allowance or any remuneration is to be given to any of the partners for any extra work done for the firm, However, if any provision is made in partnership deed, then partners are entitled to get commission or salary as per the agreement.
- 6) **Admission of a new partner :** As per the provisions of the Indian Partnership Act 1932, no outside person can be admitted into the firm as a partner without the consent of other partners.

1.3 Methods of Capital Accounts

Amount in cash or kind brought in by the partner to manage business activities is termed as Capital. Partners maintain and operate some methods of the Capital Accounts. The two methods of Capital Accounts are discussed below.



Fixed Capital Method:

In this method amount of capital of a partner remains the same at the end of that financial year. There is no addition or subtraction from capital during the year. When this method is adopted partner's open a new account in name of partner's Current Account and all the related to capital adjustments are solved through Partner's Current Account. For example, Drawings, Interest on Drawings, Interest on Capital, Partner's Salary, Commission, Brokerage, Share of Profit and Losses are recorded in to Current Account.

Proforma of Fixed Capital Method Partner's Capital Account

| Dr. | | | Cr. | | |
|----------------|--------------------|--------------------|--|--------------------|--------------------|
| Particulars | X Amount (₹) | Y Amount (₹) | Particulars | X Amount (₹) | Y Amount (₹) |
| To Balance c/d | XXX | XXX | By Balance b/d | XXX | XXX |
| | | | By Cash/Bank A/c [Additional capital] | XXX | XXX |
| | | | By Assets A/c [Capital in kind] | XXX | XXX |
| Total | XXX | XXX | | XXX | XXX |
| | | | By Balance b/d | XXX | XXX |

Journal Entries

1) When additional capital is introduced by a partners

Cash / Bank A/c Dr.

To Partners Capital A/c

(Being additional capital introduced into the business)

2) When capital amount is brought in by a Partner in form of Assets

Assets A/c Dr.

To Partners Capital A/c

(Being additional capital brought in kind)

Partner's Current Accounts:

When fixed capital method is adopted by the partnership firm, a new separate account is opened i.e. 'Partner's Current Account'. In this account all adjustments related to capital are recorded. Partner's Current Account may show debit or credit balance.

- 1) Drawings made by the partner in the current accounting year
- 2) Goods or any assets taken over by the partner.
- 3) Interest on partners capital allowed by the firm.
- 4) Interest on partners drawings charged by the firm.
- 5) Salary, Commission etc. payable to the partner.
- 6) Distribution of Profit or Loss of the firm.



Partner's Current Account:

Dr.

Cr.

| Particulars | X Amount (₹) | Y Amount (₹) | Particulars | X Amount (₹) | Y Amount (₹) |
|---|--------------------|--------------------|---|--------------------|--------------------|
| To Balance b/d (Dr. Bal) | XXX | XXX | By Balance b/d (Cr. Bal) | XXX | XXX |
| To Drawing A/c | XXX | XXX | By Interest on Capital A/c | XXX | XXX |
| To Interest on Drawing | XXX | XXX | By Salaries A/c | XXX | XXX |
| To Profit and Loss A/c (Share in loss) | XXX | XXX | By Commission A/c | XXX | XXX |
| To Balance c/d | XXX | XXX | By Profit and Loss A/c (Share in Net profit) | XXX | XXX |
| | | | By Balance c/d | XXX | XXX |
| | XXX | XXX | | XXX | XXX |
| To Balance b/d | XXX | XXX | By Balance b/d | XXX | XXX |

1) Interest allowed on partner's capital

- a) Interest on Capital A/cDr. XXX
 To Partners Capital A/c/ Current Account XXX
 (Being interest due on capital)
- b) Profit and Loss A/CDr XXX
 To interest on Capital A/C XXX
 (Being interest on Capital transferred to profit and loss account)

2) Salary or Commission allowed to partners

- a) Salary or Commission in Partner A/cDr. XXX
 To Partners Current A/c / Capital Account XXX
 (Being Salary or Commission due for payment)
- b) Profit and Loss A/CDr XXX
 To Salaries/ Commission A/C /ZXXX
 (Being Salary/ Commission transferred to Profit and Loss A/C)

3) Cash or Goods taken over by the partners for their personal use.

- a) Drawing A/cDr. XXX
 To Cash or Goods A/C XXX
 (Being cash or goods withdrawn for personal use)
- b) Partners Current A/c / Capital A/cDr XXX
 To Drawing A/c XXX
 (Being balance on account transferred to current A/c)

4) Interest charged on drawing of the partners

- a) Partners Current A/c / Capital A/cDr. XXX
 To Interest on Drawing account XXX
 (Being interest charged on Drawing)
- b) Interest on Drawings A/C Dr XXX
 To Profit and Loss A/C XXX
 (Being interest on Drawings transferred to profit and loss account)



5) Transfer of Net Profit

Profit and loss A/cDr. XXX
 To Partners Current A/c / Capital A/c XXX
(Being profit transferred to Partner's Current / Capital Account)

6) Distribution of Net loss :

Partners Current A/c / Capital A/cDr. XXX
 To Profit and Loss A/c XXX
(Being loss adjusted to Partners Current / Capital Account)

Effects in Profit and Loss Account

Dr.

Cr.

| Particulars | Amount (₹) | Amount (₹) | Particulars | Amount (₹) | Amount (₹) |
|--------------------------|---------------|---------------|-------------------------|---------------|---------------|
| To Interest on Capital | | XXX | By Interest on Drawings | | XXX |
| To Salary to Partner | | XXX | | | |
| To Commission to Partner | | XXX | | | |
| | | XXX | | | XXX |

Fluctuating capital method :

In this method, amount of capital balance changes every year. It is called as fluctuating capital method. In this method the partner's current account is not opened. Hence all adjustments are solved through Capital Account. Following are the general adjustment related to capital.

- 1) Initial or Opening Balance of capital
- 2) Additional Capital brought in by the partners in Cash or in kind.
- 3) Salary / Commission payable to partner
- 4) Interest payable on capital balance to partner
- 5) Drawings made during the year and interest payable on drawings by the partner
- 6) Withdrawal of part of the capital by the partner
- 7) Division and transfer of net disposable profit or net adjustable loss of the firm.

Proforma of Fluctuating Capital Method.

Partners Capital Account

Dr.

Cr.

| Particulars | X Amount (₹) | X Amount (₹) | Particulars | X Amount (₹) | X Amount (₹) |
|--------------------------|--------------------|--------------------|----------------------------|--------------------|--------------------|
| To Balance b/d (Dr. Bal) | XXX | XXX | By Balance b/d (Cr. Bal) | XXX | XXX |
| To Drawing A/c | XXX | XXX | By Cash A/c | XXX | XXX |
| To Interest on Drawing | XXX | XXX | [Addition made] | | |
| To Profit and Loss A/c | XXX | XXX | By Interest on capital A/c | XXX | XXX |
| (Share in loss) | | | By Salaries A/c | XXX | XXX |
| To Balance c/d | XXX | XXX | By Profit and Loss | XXX | XXX |
| | XXX | XXX | (Net Profit) | | |
| | | | By Balance b/d | XXX | XXX |



Examples

- 1) Anand and Bharat are partners sharing profits and losses in the ratio 2 : 3. On 1.4.2019 the capital balance are Anand ₹ 60,000 and Bharat ₹ 30,000 their drawings are ₹ 12,000 and ₹ 10,000 respectively. As per the agreement partners are allowed 10% interest on capital and interest on Drawings is to be charged at 12% p.a. Anand gets salary of ₹ 2,500 per month and Bharat is entitled to get commission @ 3% on net sales which is ₹ 5,00,000. The firm's profit is ₹ 60,000. Prepare partners capital account for the year ended 31st March 2019 under :

1) Fixed Capital Method 2) Fluctuating Capital Method

Solution : 1) Fixed Capital Method

| Dr. Partner's Capital A/cs | | | Cr. | | |
|----------------------------|---------------|---------------|----------------|---------------|---------------|
| Particulars | Anand (₹) | Bharat (₹) | Particulars | Anand (₹) | Bharat (₹) |
| To Balance c/d | 60,000 | 30,000 | By Balance b/d | 60,000 | 30,000 |
| | 60,000 | 30,000 | | 60,000 | 30,000 |
| | | | By Balance b/d | 60,000 | 30,000 |

| Dr. Partner's Current A/cs | | | Cr. | | |
|----------------------------|---------------|---------------|----------------------------|---------------|---------------|
| Particulars | Anand (₹) | Bharat (₹) | Particulars | Anand (₹) | Bharat (₹) |
| To Drawing A/c | 12,000 | 10,000 | By Interest on capital A/c | 6,000 | 3,000 |
| To Interest in Drawing | 720 | 600 | By Salaries A/c | 30,000 | — |
| To Balance c/d | 47,280 | 43,400 | By Commission A/c | — | 15,000 |
| | | | By Profit and Loss A/c | 24,000 | 36,000 |
| | 60,000 | 54,000 | | 60,000 | 54,000 |

2) Fluctuating Capital Method

| Dr. Partner's Capital A/cs | | | Cr. | | |
|----------------------------|-----------------|---------------|----------------------------|-----------------|---------------|
| Particulars | Anand (₹) | Bharat (₹) | Particulars | Anand (₹) | Bharat (₹) |
| To Drawing A/c | 12,000 | 10,000 | By Balance b/d | 60,000 | 30,000 |
| To Interest in Drawing A/c | 720 | 600 | By Interest on capital A/c | 6,000 | 3,000 |
| To Balance c/d | 1,07,280 | 73,400 | By Salaries A/c | 30,000 | — |
| | | | By Commission A/c | — | 15,000 |
| | | | By Profit and Loss A/c | 24,000 | 36,000 |
| | 1,20,000 | 84,000 | | 1,20,000 | 84,000 |

1) Interest on Capital

$$\text{Anand } 60,000 \times \frac{10}{100} = ₹ 6,000$$

$$\text{Bharat } 30,000 \times \frac{10}{100} = ₹ 3,000$$

2) Interest on Drawings

$$\text{Anand } 12,000 \times \frac{12}{100} \times \frac{6}{12} = ₹ 720$$

$$\text{Bharat } 10,000 \times \frac{12}{100} \times \frac{6}{12} = ₹ 600$$

(Interest on Drawing always to be taken for 6 months In case date on Drawings in not mentioned)

3) Anand = 2500 x 12 = ₹ 30,000

4) Commission to Anand = 5,00,000 × $\frac{3}{100}$ = ₹15,000

5) Distribution of Profit ₹ 60,000 2:3

$$\text{Anand} = 60,000 \times \frac{2}{5} = ₹ 24,000$$

$$\text{Bharat} = 60,000 \times \frac{3}{5} = ₹ 36,000$$

- 2) Karan and Kiran are partners in M/s Mehta Enterprises. They have started business of ready made garments on 1st April 2019 on which date they contribute ₹ 5,00,000 each as their initial capitals. Karan has withdrawn ₹ 20,000 and Kiran has withdrawn ₹ 15,000 for their personal use. Interest on capital is allowed @ 12% and interest on drawing is charged @ 3% p.a. Karan is entitled to get salary, ₹ 1800 per month, Kiran is allowed to get commission @ 5% on net sales. During the year net sales is ₹ 2,50,000 and net profit earned during the year is ₹ 60,000. Prepare partners capital accounts under i) Fixed capital Method ii) Fluctuating Capital Method

Solution :

In the books of M/s Mehta Enterprises

1) Fixed Capital Method

Dr. Partner's Capital A/cs Cr.

| Particulars | Karan (₹) | Kiran (₹) | Particulars | Karan (₹) | Kiran (₹) |
|----------------|-----------------|-----------------|------------------|-----------------|-----------------|
| To Balance c/d | 5,00,000 | 5,00,000 | By Cash/Bank A/c | 5,00,000 | 5,00,000 |
| | 5,00,000 | 5,00,000 | | 5,00,000 | 5,00,000 |

Dr. Partner's Current Accounts Cr.

| Particulars | Karan (₹) | Kiran (₹) | Particulars | Karan (₹) | Kiran (₹) |
|------------------------|-----------------|-----------------|----------------------------|-----------------|-----------------|
| To Drawing A/c | 20,000 | 15,000 | By Interest on Capital A/c | 60,000 | 60,000 |
| To Interest on Drawing | 300 | 225 | By Salaries A/c | 21,600 | - |
| To Balance c/d | 91,300 | 87,275 | By Commission A/c | - | 12,500 |
| | | | By Profit and Loss A/c | 30,000 | 30,000 |
| | 1,11,600 | 1,02,500 | | 1,11,600 | 1,02,500 |

2) Fluctuating Capital Method

Dr.

Partner's Capital Accounts

Cr.

| Particulars | Karan (₹) | Kiran (₹) | Particulars | Karan (₹) | Kiran (₹) |
|------------------------|-----------------|-----------------|----------------------------|-----------------|-----------------|
| To Drawing A/c | 20,000 | 15,000 | By Cash/Bank A/c | 5,00,000 | 5,00,000 |
| To Interest on Drawing | 300 | 225 | By Interest on capital A/c | 60,000 | 60,000 |
| | | | By Salaries A/c | 21,600 | - |
| To Balance c/d | 5,91,300 | 5,87,275 | By Commission A/c | - | 12,500 |
| | | | By Profit and Loss A/c | 30,000 | 30,000 |
| | 6,11,600 | 6,02,500 | | 6,11,600 | 6,02,500 |
| | | | By Balance b/d | 5,91,300 | 5,87,275 |

1) Interest on capital is calculated as follows :

Karan : On Opening balance i.e. ₹ 5,00,000 for 1 year

$$12\% \text{ p.a. interest} = ₹ 5,00,000 \times 1 \text{ years} \times \frac{12}{100} = ₹ 60,000$$

Kiran : On Opening balance i.e. ₹ 5,00,000 for 1 year

$$12\% \text{ p.a. interest} = 5,00,000 \times 1 \text{ years} \times \frac{12}{100} = ₹ 60,000$$

2) Interest on Drawing is charged @3%

$$\text{Karan : } 20,000 \times \frac{2}{12} \times \frac{3}{100} = ₹ 300$$

$$\text{Kiran : } 15,000 \times \frac{2}{12} \times \frac{3}{100} = ₹ 225$$

3) Commission paid to Karan = $2,50,000 \times \frac{5}{100} = ₹ 12,500$

4) Profit of ₹ 60,000 is distributed equally between Karan and Kiran

$$\text{Karan} = 60,000 \times \frac{1}{2} = ₹ 30,000$$

$$\text{Kiran} = 60,000 \times \frac{1}{2} = ₹ 30,000$$

- 3) Mr. Amey and Mr. Ashish are partners in a partnership firm titled as M/s. Anand Enterprises sharing profit and losses in the ratio 3 : 2 respectively. On 1st April 2018 their capital balance were: Mr. Amey ₹ 1,00,000 and Mr. Ashish ₹ 50,000. Their drawing during the year were : Mr. Amey : ₹ 20,000 and Mr. Ashish ₹ 25,000. As per partnership deed 10% p.a. interest is allowed on capital and 12% p.a. interest is charged on drawing Mr. Amey gets salary ₹ 3000 p.m. and Mr. Ashish is entitled to get commission @ 5% on net sales which is ₹ 4,00,000. The divisible profit is ₹ 90,000. Prepare partners capital Accounts for the year ending 31st March 2019 under

1) Fixed capital method 2) Fluctuating Capital Method.



In the books of M/s. Anand Enterprises

1) Under Fixed Capital Method

| Dr. Partner's Capital Accounts | | | Cr. | | |
|--------------------------------|------------------|--------------------|----------------|------------------|--------------------|
| Particulars | Amey Amt. (₹) | Ashish Amt. (₹) | Particulars | Amey Amt. (₹) | Ashish Amt. (₹) |
| To Balance c/d | 1,00,000 | 50,000 | By Balance b/d | 1,00,000 | 50,000 |
| | 1,00,000 | 50,000 | | 1,00,000 | 50,000 |

| Dr. Partner's Current Accounts | | | Cr. | | |
|--------------------------------|------------------|------------------|----------------------------|------------------|--------------------|
| Particulars | Amey Amt. (₹) | Ravi Amt. (₹) | Particulars | Amey Amt. (₹) | Ashish Amt. (₹) |
| To Drawing A/c | 20,000 | 25,000 | By Interest on Capital A/c | 10,000 | 5,000 |
| To Interest on Drawing A/c | 1,200 | 1,500 | By Salaries A/c | 36,000 | - |
| To Balance c/d | 78,800 | 34,500 | By Commission A/c | - | 20,000 |
| | | | By Profit and Loss A/c | 54,000 | 36,000 |
| | 1,00,000 | 61,000 | | 1,00,000 | 61,000 |
| | | | By Balance b/d | 78,800 | 34,500 |

2) Under Fluctuating Capital Method

| Dr. Partner's Capital Accounts | | | Cr. | | |
|--------------------------------|------------------|--------------------|----------------------------|------------------|--------------------|
| Particulars | Amey Amt. (₹) | Ashish Amt. (₹) | Particulars | Amey Amt. (₹) | Ashish Amt. (₹) |
| To Drawing A/c | 20,000 | 25,000 | By Cash/Bank A/c | 1,00,000 | 50,000 |
| To Interest on Drawing A/c | 1,200 | 1,500 | By Interest on capital A/c | 10,000 | 5,000 |
| | | | By Salaries A/c | 36,000 | ----- |
| To Balance c/d | 1,78,800 | 84,500 | By Commission A/c | ----- | 20,000 |
| | | | By Profit and Loss A/c | 54,000 | 36,000 |
| | 2,00,000 | 1,11,000 | | 2,00,000 | 1,11,000 |
| | | | By Balance b/d | 1,78,800 | 84,500 |

1) Interest on capital :

$$\text{Mr. Amey} = 1,00,000 \times 1 \text{ Year} \times \frac{10}{100} = ₹ 10,000$$

$$\text{Mr. Ashish} = 50,000 \times 1 \text{ Year} \times \frac{10}{100} = ₹ 5,000$$

2) Interest on Drawings :

Interest on Drawing is calculated for the average. Period of 6 months as date of drawing is not given.

$$\text{Mr. Amey} = 20,000 \times \frac{6}{12} \times \frac{12}{100} = ₹ 1200$$

$$\text{Mr. Ashish} = 25,000 \times \frac{6}{12} \times \frac{12}{100} = ₹ 1500$$



3) Distribution of profit

$$\text{Mr. Amey} = \frac{3}{5} \times 90,000 = ₹ 54,000$$

$$\text{Mr. Ashish} = \frac{2}{5} \times 90,000 = ₹ 36,000$$

- 4) Sun and Moon were partners with capital of ₹ 10,00,000 and ₹ 5,00,000 respectively. They agree to share profits in the ratio 3 : 2. Show how the following transactions will be recorded in the capital accounts of the partners in both the cases when i) Capitals are fluctuating and ii) Capitals are fixed. They also introduced additional capital of ₹ 2,25,000 and ₹ 1,50,000

| Particulars | Sun (₹) | Moon (₹) |
|---------------------------------|------------|-------------|
| Interest on Capital | 5 % | 5 % |
| Drawing A/c (during 2016) | 22,500 | 15,000 |
| Interest on Drawings | 1,350 | 900 |
| Salaries | 15,000 | — |
| Commission | 7,500 | 5,250 |
| Share in Loss for the year 2016 | 45,000 | 30,000 |

Solution :

i) Fluctuating Capital method

| Partner's Capital Accounts | | | | | |
|----------------------------|------------------|-----------------|----------------------------|------------------|-----------------|
| Dr. | | | | | Cr. |
| Particulars | Sun (₹) | Moon (₹) | Particulars | Sun (₹) | Moon (₹) |
| To Drawing A/c | 22,500 | 15,000 | By Balance b/d | 10,00,000 | 5,00,000 |
| To Interest on Drawing | 1,350 | 900 | By Cash/Bank A/c | 2,25,000 | 1,50,000 |
| To Profit & Loss A/c | 45,000 | 30,000 | By Interest on Capital A/c | 55,625 | 28,750 |
| (Loss) | | | By Salaries A/c | 15,000 | — |
| To Balance c/d | 12,34,275 | 6,38,100 | By Commission A/c | 7,500 | 5,250 |
| | 13,03,125 | 6,84,050 | | 13,03,125 | 6,84,050 |

ii) Fixed Capital method

| Partner's Capital Accounts | | | | | |
|----------------------------|------------------|-----------------|---------------------------------|------------------|-----------------|
| Dr. | | | | | Cr. |
| Particulars | Sun (₹) | Moon (₹) | Particulars | Sun (₹) | Moon (₹) |
| To Balance c/d | 12,25,000 | 6,50,000 | By Balance b/d | 10,00,000 | 5,00,000 |
| | | | By Bank (Additional Capital) | 2,25,000 | 1,50,000 |
| | 12,25,000 | 6,50,000 | | 12,25,000 | 6,50,000 |

Partner's Current Accounts

Dr.

Cr.

| Particulars | Sun (₹) | Moon (₹) | Particulars | Sun (₹) | Moon (₹) |
|------------------------|---------------|---------------|---------------------------|---------------|---------------|
| To Drawing | 22,500 | 15,000 | By Interest on capital | 55,625 | 28,750 |
| To Interest on Drawing | 1350 | 900 | By Partner's Salaries A/c | 15,000 | — |
| To Profit & Loss A/c | 45,000 | 30,000 | By Commission A/c | 7,500 | 5,250 |
| To Balance c/d | 9,275 | — | By Balance b/d | — | 11,900 |
| | 78,125 | 45,900 | | 78,125 | 45,900 |

Calculation of Interest on Capitals

Sun: 5% on ₹ 10,00,000 for one year will be

$$= \frac{10,00,000 \times 5}{100} = ₹ 50,000$$

5% of ₹ 2,25,000 for 6 months will be

$$= \frac{2,25,000 \times 5 \times 6}{100 \times 12} = ₹ 5,625$$

Total will be 50,000 + 5,625 = 55,625

Moon: 5% on 5,00,000 for one year will be

$$\frac{5,00,000 \times 5}{100} = ₹ 25,000$$

5% of ₹ 1,50,000 for 6 months will be

$$= \frac{1,50,000 \times 5 \times 6}{100 \times 12} = ₹ 3,750$$

Total will be 25,000 + 3,750 = ₹ 28,750

Note :

1. Current Account balance may appear in either side i.e. Debit or Credit side
2. In the absence of any instruction the Capital Account should be prepared by Fluctuating capital methods
3. Interest on loan of partners is treated as liability so it is credited to partners current account. But when there is no current account and partners are maintaining Fluctuating capital method than interest on loan of partner is credited to Partners Capital A/c



Partnership Final Accounts

Contents -

2.1 Introduction and necessity of preparation of Final Accounts. 2.2 Preparation of Trading Account, Profit and Loss Account and Balance Sheet with following adjustments.

- a) Closing Stock
- b) Outstanding expenses
- c) Prepaid expenses
- d) Income received in advance
- e) Income receivable
- f) Bad debts
- g) Provision for doubtful debts
- h) Reserve for discount on Debtors and Creditors
- i) Depreciation
- j) Interest on capital, drawings and loan.
- k) Interest on Investments and loans given
- l) Goods destroyed by fire/accident (Insured & Uninsured)
- m) Goods stolen
- n) Goods distributed as free samples
- o) Goods withdrawn by partners
- p) Unrecorded purchases and sales
- q) Capital expenditure included in revenue expenses and vice versa
- r) Bills Receivable dishonoured
- s) Bills Payable dishonoured
- t) Deferred expenses
- u) Capital receipts included in revenue receipts and vice versa
- v) Commission to working partners on the basis of Gross Profit, Net Profit/Sales etc.

Competency Statements -

The students will be able to :

- Understand the meaning of Final Accounts.
- Know the need and importance of Final Accounts.
- Know the effects of adjustments in Final Accounts.
- Know the meaning of Trading Account, Profit and Loss Account and Balance Sheet.
- Know how to find out financial results of the business.

2.1 Introduction :

As per the sole proprietary concern we will also prepare the Final Account of partnership firm, the income statement and position statement. Final Account is the last stage of accounting procedure. Generally following steps are followed in the accounting.

Various Steps in Accounting :

Preparation of Journal/Subsidiary Books.

Preparation of Ledger.

Preparation of Trial Balance considering adjustments.

Preparation of Final Accounts which consist of



a) Trading A/c b) Profit and Loss A/c c) Balance Sheet

As per Income Tax Act, 1961 financial year starts on 1st April and ends on 31st March every year.

Necessity of Preparation of Final Accounts :

Final account is prepared for the following various purposes.

1. To find out the Gross Profit or Gross Loss incurred during the year.
2. To find out the Net Profit or Net Loss of the business.
3. To know the financial position of the business at the end of every year.
4. To find out the amount of debtors and creditors.
5. To prepare various accounts for future planning.
6. To find the sources and application of fund.
7. To find out the value of goodwill for the purpose of reconstruction of firm.
8. To calculate various taxes of firm like income tax, etc.

2.2 Preparation of Partnership Final Accounts:

Trial Balance and adjustments are important in preparation of Final Account. The list of debit and credit balances of all ledger account is called as "Trial Balance". The Final Account is prepared at the end of every financial year.

Trading Account shows the Gross Profit or Gross Loss and Profit and Loss Account shows the Net Profit or Net Loss of the firm. The Balance Sheet shows the financial position of the business in the form of assets and liabilities at the end of year.

Trading Account :

Trading Account is a Nominal Account. Trading Account is opened in the trading organization for the purpose to find out the Gross Profit or Gross Loss incurred during the year. In the debit side of this account all direct expenses are recorded and in the credit side of account all direct incomes of the firm's are recorded. If the trading account's credit side is more than debit side then account shows the Gross Profit and vice versa. The Gross Profit or Loss is transferred to Profit and Loss Account.

J. R. Batliboi :

“The Trading Account indicates the results of buying and selling of goods while preparing this account, the general establishment charges are ignored and only the transactions related to goods are included.”



Trading Account for the year ended...

Dr.

Cr.

| Particulars | Amt. (₹) | Amt. (₹) | Particulars | Amt. (₹) | Amt. (₹) |
|---|----------|----------|--------------------------------------|----------|----------|
| To Opening Stock | | xxx | By Sales | xxx | |
| To Purchases | xxx | | Less : Return Inward | xxx | xxx |
| Less : Return Outward | xxx | xxx | | | |
| To Carriage Inward | | xxx | By Goods lost by fire | | xxx |
| To Freight | | xxx | By Goods lost by theft | | xxx |
| To Dock Charges | | xxx | By Goods distributed as free samples | | xxx |
| To Custom Duty | | xxx | By Goods lost in Accident | | xxx |
| To Wages Productive | | xxx | By Goods withdrawn by Partners | | xxx |
| Manufacturing Wages | | xxx | By Closing Stock | | xxx |
| To Wages & Salaries | | xxx | By Gross Loss c/d | | xxx |
| To Import Duty | | xxx | | | |
| To Coal/Coke/Gas/ Motive Power/Oil/ Water /Grease | | xxx | | | |
| To Royalty on Purchase/Production | | xxx | | | |
| To Primary Packing Charges | | xxx | | | |
| To Factory Lighting & Heating | | xxx | | | |
| To Factory Rent & Rates | | xxx | | | |
| To Factory Insurance | | xxx | | | |
| To Works Manager's Salary | | xxx | | | |
| To Gross Profit c/d | | xxx | | | |
| | | xxx | | | xxx |

In the case of combined term of wages and salaries following treatment should be given :

- When the item Wages and Salaries is given in which Wages are appearing first, it should be transferred to Trading A/c debit side.
- When the item Salaries and Wages is given in which Salaries appear first, it should be transferred to Profit and Loss A/c – Debit side.

Profit and Loss Account :

Profit and Loss Account is the type of Nominal Account. Profit and Loss account is a main account of income statement. It is prepared to ascertain the Net Profit earned or Net Loss suffered by a business concern during the accounting year. All indirect expenses are to be recorded to the debit side where as all indirect incomes are to be recorded to the credit side of this account. The credit balance on this account shows Net Profit which is to be transferred to Capital Accounts credit side or added in capital. The debit balance of this account shows, Net Loss which is to be transferred to Capital Account debit side or deducted from Capital.

R.N. Carter, "A Profit and Loss Account is an Account into which all gains and losses are considered in order to ascertain the excess of gain over the losses or vice versa."

Pro-forma of Profit and Loss Account for year ended

Dr.

Cr.

| Particulars | Amt. ₹ | Amt. ₹ | Particulars | Amt. ₹ | Amt. ₹ |
|-------------------------------------|-----------|-----------|----------------------------------|-----------|-----------|
| To Salaries | | xxx | By Gross Profit b/d | | xxx |
| To Salaries & Wages | | xxx | By Commission Received | | xxx |
| To Rent & Rates | | xxx | By Discount Received/ Earned | | xxx |
| To Insurance | | xxx | By Interest Received | | xxx |
| To Electricity/Lighting | | xxx | By Dividend Received | | xxx |
| To Telephone, Postage | | xxx | By Rent Received | | xxx |
| To Printing & Stationery | | xxx | By Sundry/Miscellaneous Receipts | | xxx |
| To Travelling Expenses of Salesman | | xxx | By Profit on Sale of Asset | | xxx |
| To Depreciation on Assets | | xxx | By Net Loss transferred | | xxx |
| To Loading Charges | | xxx | to Partners' Capital A/c / | | |
| To Audit Fees | | xxx | Current A/c | | |
| To Entertainmen Exp. | | xxx | | | |
| To Repairs / Renewals / Maintenance | | xxx | | | |
| To Interest on Loan | | xxx | | | |
| To Sundry/Miscellaneous Expenses | | xxx | | | |
| To Conveyance | | xxx | | | |
| To Loss by Fire | | xxx | | | |
| To Loss by Theft | | xxx | | | |
| To Loss in Accident | | xxx | | | |
| To Goods distributed as free sample | | xxx | | | |
| To Commission Allowed/ Given | | xxx | | | |
| To Discount allowed | | xxx | | | |
| To Allowances | | xxx | | | |
| To Advertisement | | xxx | | | |
| To Carriage Outward | | xxx | | | |
| To Sale Charges | | xxx | | | |
| To Bad Debts | | xxx | | | |
| To Export Duty | | xxx | | | |
| To Taxes | | xxx | | | |
| To General Expenses | | xxx | | | |
| To Trade Expenses | | xxx | | | |
| To Legal Charges | | xxx | | | |
| To Professional Charges | | xxx | | | |
| To Bank Charges | | xxx | | | |
| To Solicitor's Fees | | xxx | | | |
| To Secondary Packing Charges | | xxx | | | |
| To Loss on sale of Fixed Assets | | xxx | | | |
| To Net Profit transferred to | | xxx | | | |
| Partners' Capital A/c/ Current A/c | | xxx | | | |
| | | xxx | | | xxx |



Balance Sheet :

Balance Sheet is a statement showing financial position of the firm on a particular day. All liabilities are recorded to its left hand side where as all Assets are recorded to its right hand side. The Balance Sheet is not an account but a statement showing the financial position of a firms, as on a given date in the form of Assets and liabilities.

A. Palmer defines Balance Sheet as :

"The Balance Sheet is, a statement on a particular date showing on one side the traders property and possessions and on the other side the liabilities".

Proforma of Balance Sheet is given below

Balance Sheet as on

| Liabilities | Amt. ₹ | Amt. ₹ | Assets | Amt. ₹ | Amt. ₹ |
|-----------------------|--------|--------|-------------------------------|--------|--------|
| Capital Accounts : | | | Goodwill | xxx | |
| A | xxx | | Land and Building | xxx | |
| B | xxx | | Less : Depreciation | xxx | xxx |
| C | xxx | xxx | Plant & Machinery | xxx | |
| Partners Current A/c | | | Less : Depreciation | xxx | xxx |
| (Credit Balance) | xxx | xxx | Furniture & Fixtures | xxx | |
| General Reserve | | xxx | Less : Depreciation | xxx | xxx |
| Profit & Loss A/c | | xxx | Equipment | xxx | |
| Loan on Mortgage | | xxx | Less : Depreciation | xxx | xxx |
| Bank Loan | | xxx | Delivery/Motor Van | xxx | |
| Loan from Partners | | xxx | Less : Depreciation | xxx | xxx |
| Bills Payable | | xxx | Leasehold / Freehold | xxx | |
| Bank Overdraft | | xxx | Premises | | |
| Sundry Creditors | xxx | | Less : Depreciation | xxx | xxx |
| Add/Less : Any other | | | Patents | xxx | |
| adjustment | | | Less : Depreciation | xxx | xxx |
| Less : Provision for | xxx | xxx | Loose Tools | xxx | |
| Discount on Creditors | | | Less : Depreciation | xxx | xxx |
| Outstanding Expenses | | xxx | Investments | xxx | |
| Income received in | | xxx | Stores & Spare Parts | xxx | |
| Advance | | xxx | Less : Depreciation | xxx | xxx |
| Provision for Taxes | | xxx | Prepaid Expenses | | xxx |
| | | | Outstanding Incomes | | xxx |
| | | | Loans and Advances | | xxx |
| | | | Closing Stock | | xxx |
| | | | Sundry Debtors | xxx | |
| | | | + Any adjustments | | |
| | | | Less : Bad Debts(New) | xxx | |
| | | | Less : Provision for Discount | xxx | xxx |
| | | | on Debtors | | |
| | | | Insurance Claim Receivable | | xxx |
| | | | Bills Receivable | | xxx |
| | | | Cash in Hand | | xxx |
| | | | Cash at Bank | | xxx |
| | | | Partners Current A/c | | |
| | | | (Debit Balance) | | xxx |
| | Total | xxx | | Total | xxx |



Notes :

- 1) Every item in the Trial Balance must be shown only one time and in just one part of the Final Accounts, excluding silent/ hidden adjustments.
- 2) Every adjustment must have two effects in Final Accounts i.e. debit and credit.
- 3) We have already studied this topic in XI standard as “Final Account of Proprietary Concern.” Most of the theory part, explanation of journal entries, and effects of journal entries are similar. To avoid repetition common explanation is not given in the XII standard. But explanation and Journal Entries of new adjustments are given. For common references / explanation teachers and students can refer textbook of standard XI. First topic in this book i.e Introduction to Partnership is also correlated with Partnership Final Account. Students can refer topic no.1.

Adjustments :

| | Adjustment | 1 st Effect | 2 nd Effect |
|-----|---|--|--|
| 1. | Closing Stock | Balance Sheet Asset side | Trading A/c credit side |
| 2. | Outstanding Expenses | Add to the particular Expenses on the debit side of Trading/Profit and Loss A/c | Balance Sheet Liability Side |
| 3. | Prepaid Expenses | Deduct from the particular expenses on the debit side of Trading/Profit and Loss A/c | Balance Sheet Asset Side |
| 4. | Income received in advance (Pre-received Income) | Deduct from the particular income on the credit side of Profit and Loss A/c | Balance Sheet Liability Side |
| 5. | Income receivable | Add to the particular income on the credit side of Profit and Loss A/c | Balance Sheet Asset Side |
| 6. | Bad debts (Additional or New Bad debts) | Show to the debit side of Profit and Loss A/c (add to old bad debts if any) | Deduct from Sundry Debtors in Balance Sheet Asset Side |
| 7. | Provision for Doubtful Debts (Reserve for Doubtful debts, new R.D.D.) | Show to the debit side of Profit and Loss A/c | Deduct from Sundry Debtors in Balance Sheet Asset Side |
| 8. | Reserve for discount on Debtors | Show to the debit side of Profit and Loss A/c (Add to discount allowed) | Deduct from Sundry Debtors Balance Sheet Asset Side |
| 9. | Depreciation | Show on the debit side of the Profit and Loss A/c | Less from the particular asset in Balance Sheet Asset Side |
| 10. | i) Interest on capital | Show to the Debit Side of Profit and Loss A/c | Partners Capital/Current A/c Credit Side or add to Capitals/ Current Account |



| | | | |
|-----|---|--|--|
| | ii) Interest on Drawings | Show to the Debit Side of partners Capital/Current A/c or less from Capital/ Current Account | Show to the Credit Side of Profit and Loss A/c |
| | iii) Interest on loan taken | Show to the Debit Side of Profit and Loss A/c | Add to loan taken in the Balance Sheet Liability Side |
| 11. | Interest on investment and on loan given | Show to the Credit Side of Profit and Loss A/c | Balance Sheet Asset Side |
| 12. | i) Insured goods destroyed by fire/accident | Trading A/c Credit Side (gross amount) | 1. Balance Sheet Asset Side (Claim amount) 2. Profit and Loss A/c Debit side (Amount of Loss) |
| | ii) Uninsured goods destroyed by fire/ accident | Profit and Loss A/c Debit Side | Show to the Credit Side of Trading A/c |
| 13. | Goods stolen | Profit and Loss A/c Debit Side | Show to the Credit Side of Trading A/c |
| 14. | Goods distributed as free samples | Profit and Loss A/c Debit Side (Add in Advertisement if any) | Show to the Credit Side of Trading A/c |
| 15. | Goods withdrawn by Partners for personal use | Show to the Credit Side of Trading A/c or deduct from Purchases A/c | Partners Capital/Current A/c Debit Side |
| 16. | i) Unrecorded Purchases | Add to Purchases on the Debit Side of Trading A/c | Add to Creditors on the Liability Side of Balance Sheet |
| | ii) Unrecorded Sales | Add to Debtors on the Asset Side of the Balance Sheet | Add to Sales on the credit Side of Trading A/c |
| 17. | i) Capital Expenditure included in Revenue Expenditure | Deduct from that particular Revenue Expenses on the Debit Side of Trading or Profit and Loss A/c | Add to that particular asset in Balance Sheet Asset Side |
| | ii) Revenue Expenditure included in Capital Expenditure | Add to that particular Revenue Expenditure | Deducted from that particular Asset in Balance Sheet |
| 18. | Bills Receivable dishonored | Add the amount of bill dishonored to Sundry Debtors in the Balance Sheet Asset Side | Deduct the amount of bill dishonored from Bills Receivable. |
| 19. | Bills Payable Dishonored | Add the amount of bill dishonored to Sundry Creditors in the Balance Sheet | Deduct the amount of bill dishonored from Bills Payable |
| 20. | Deferred Expenses of Advertisement paid for 5 years | Advertisement Expenses related to current year debited to Profit and Loss A/c | Remaining amount of Advertisement is shown on asset side of the Balance Sheet as prepaid Advertisement |



| | | | |
|-----|--|---|---|
| 21. | Revenue Receipts included in Capital Receipts e.g. sale of goods included in sale of Furniture | Add to sales on the credit side of Trading A/c. | Add to Furniture on the Asset Side of the Balance Sheet |
| 22. | Commission to partners as percentage of Gross Profit/sales. | Show to the Debit Side of Profit and Loss A/c | Show to the Credit Side of Partners Capital/Current A/c or Add to Partners Capital A/c. |

Hidden Adjustment Given in Trial Balance

| Sr. No. | Adjustment Given in Trial Balance | Trading and Profit and Loss A/c | Balance Sheet |
|---------|--|---|---|
| 1. | Salaries/Rent Paid (For 10 months) | Add the amount of Salaries/Rent for 2 months to Salaries/Rent respectively | Show separately the amount of Salaries/Rent for 2 months on the Liabilities Side of the Balance Sheet |
| 2. | Insurance premium paid for 1 year ending 30th June, 2019 (Accounting year ends on 31st March 2019) | Deduct the proportionate amount of Insurance Premium for 3 months from insurance on the Debit Side of Profit and Loss A/c | Show separately the amount of prepaid insurance on the Assets Side of the Balance Sheet |
| 3. | Advertisement expenses (for 4 years) | Show 1/4th amount of Advertisement expenses on the Debit Side of Profit and Loss A/c | Show the remaining i.e. 3/4th of Advertisement expenses (not written off) on the Assets Side of the Balance Sheet |
| 4. | Rent received (for 11 months) | Add the proportionate amount of Rent for one month to Rent received on Credit Side of Profit and Loss A/c | Show the same amount on the Assets Side of the Balance Sheet |
| 5. | 10% Loan (Borrowed on 1st Jan. 2018)(Accounting year ends on 31st March 2018) | Show the amount of Interest Payable on Loan for 3 months on the Debit Side of the Profit and Loss A/c | Add the amount of Interest Payable on Loan on the Liability Side of the Balance Sheet |
| 6. | 16% Investment (Purchased on 1st Jan. 2019) (Accounting year ends on 31st March 2019) | Show the amount of Interest Receivable on Investment for 3 months on the Credit Side of the Profit and Loss A/c | Add the amount of Interest Receivable on Investment on the Assets Side of the Balance Sheet |
| 7. | 10% Government Bonds | Show the amount of Interest Receivable on the Credit Side of Profit and Loss Account | Add the amount of Interest Receivable to Government Bonds on the Assets Side of the Balance Sheet or show separately in Balance sheet Asset Side. |



Important Points :

- 1) Each item from Trial Balance will be included only once in the Final Accounts i.e. either in Trading or in Profit & Loss A/c or in Balance Sheet or in working section.
- 2) Each adjustment has two effects for the similar amount.
- 3) Debit balances of Trial Balance will appear on the debit side of Trading Account or Profit & Loss A/c or on the asset side of the Balance Sheet.
- 4) Credit balances of Trial Balance will appear on the credit side of Trading Account or Profit & Loss A/c or Capital Account or on the Liabilities Side of the Balance Sheet.
- 5) If Salaries and Wages are given as separate items, Wages are shown on the debit side of Trading Account while salaries are shown on the debit side of Profit and Loss A/c. If the item is "Wages and Salaries", it is shown on the debit side of Trading A/c and if the items is "Salaries & Wages", it is shown on the debit side of Profit & Loss A/c.
- 6) If the Trial Balance contains only "Trade Expenses", the item will be shown on the debit side of Profit & Loss A/c. If the Trial Balance contains "Trade Expenses" and also other items like "Sundry Expenses" or "Office Expenses" or "General Expenses" or "Miscellaneous Expenses", the item "Trade Expenses" is shown on the debit side of Trading A/c while the other items of expenses are shown on the debit side of Profit & Loss A/c.
- 7) The adjustment for Bad Debts and Provision for Bad and Doubtful Debts should be effected after other adjustments for Debtors are given effect to. Such adjustments can be unrecorded sales, drawings included in Debtors, drawings treated as sales, etc.
- 8) Reserve for Discount on Debtors should be given effect after the adjustments for Bad Debts and Provision for Bad and Doubtful Debts.
- 9) Reserve for Discount on Creditors should be given effect after making all the other adjustments concerning Creditors.
- 10) Hidden / Self-explanatory adjustments are to be given effect even if there is no special instruction in the problem in this respect.
- 11) Closing Stock should be taken at "Cost or Market Price, whichever is less."
- 12) If a manager or a partner is allowed commission at a certain percentage on Net Profit, such commission should be calculated in the following manner depending upon how the commission is quoted :
 - a) If it is on Net Profit before charging such commission :

$$\text{Commission Amount} = \frac{\text{Rate of Commission} \times \text{Net Profit}}{100}$$

- b) If it is on Net Profit after charging such commission :

$$\text{Commission Amount} = \frac{\text{Rate of Commission} \times \text{Net Profit}}{100 + \text{Rate of Commission}}$$

- 13) When the date of drawings are not given Interest on drawings should be calculated on average basis or for six months

$$\text{Drawings} \times \frac{\text{Rate}}{100} \times \frac{6}{12}$$

- 14) If a partner introduces capital in the middle of the accounting year, then interest on capital should be calculated on proportionate time period only. (This complication is not expected at your Std. XII level).



Treatment of some important Items appearing in Trial Balance only :

| | | |
|-------|--|--|
| i) | Any outstanding expenses | Liability Side of Balance Sheet |
| ii) | Any Prepaid Expenses | Asset Side of Balance Sheet |
| iii) | Any outstanding income | Asset Side of Balance Sheet |
| iv) | Income Received in Advance | Liability Side of Balance Sheet |
| v) | Depreciation | Debit Side of Profit & Loss A/c |
| vi) | Loss on Sale of any Asset | Debit Side of Profit & Loss A/c |
| vii) | Goods withdrawn by partner | Debit Side of Capital/Current A/c |
| viii) | General Reserve / Reserve Fund | Liability Side of Balance Sheet |
| ix) | Deposit from Public | Liability Side of Balance Sheet |
| x) | Goods distributed as free samples | Debit side of Profit & Loss A/C |
| xi) | Suspense Account: a) If it is on Debit Side b) If it is on Credit Side | Show the same figure on Asset Side Show the same figure on Liability Side |
| xii) | Bank for Collection of Bills | Asset Side of Balance Sheet |

Steps for solving problem :

- 1) Prepare the necessary accounts, including the working notes.
- 2) Place some mark on Trial Balance items for external as well as internal adjustments.
- 3) Go through Trial Balance items and give only one accounting effect sequentially.
- 4) Go through Adjustments and give two accounting effects.
- 5) Close Ledgers in the working notes, except capital.
- 6) Find Gross Profit, Net Profit and transfer it to individual capital accounts.
- 7) Find the closing balance in capital and transfer it to Balance Sheet.
- 8) Tally the Balance Sheet.



Illustrations

1. Daya and Kshama are Partners sharing Profits and Losses in the ratio of 1:1 from the following Trial Balance and additional information prepare Trading and Profit and Loss account for the year ended 31st March 2019 and Balance Sheet as on that date.

Trial Balance as on 31st March, 2019

| Debit Balance | Amt. ₹ | Credit Balance | Amt. ₹ |
|----------------------------------|-----------------|-------------------|-----------------|
| Stock (1/4/2018) | 65,000 | General Reserve | 14,500 |
| Bills Receivable | 28,000 | Capital: | |
| Wages and salaries | 9,000 | Daya | 1,60,000 |
| Sundry Debtors | 1,32,500 | Kshama | 1,20,000 |
| Bad debts | 1,000 | Creditors | 98,000 |
| Purchases | 1,48,000 | R.D.D. | 1,800 |
| Motor car | 68,000 | Sales | 2,85,500 |
| Machinery | 1,14,800 | Outstanding Wages | 700 |
| Audit Fees | 1,200 | Purchases Returns | 4,000 |
| Sales Return | 2,000 | Discount | 1800 |
| Discount | 2,300 | | |
| Building | 75,000 | | |
| Cash at Bank | 12,000 | | |
| 10% Investment | 20,000 | | |
| Advertisement(Paid for 9 months) | 4,500 | | |
| Royalties | 3,000 | | |
| | 6,86,300 | | 6,86,300 |

Adjustment and Additional Information :

- (1) Closing Stock ₹ 40,000.
- (2) Depreciate Building and Machinery @ 5% and 3% respectively.
- (3) Bills Receivable included dishonoured bill of ₹ 3000.
- (4) Goods worth ₹ 1000 taken by Daya for personal use was not entered in the books of accounts.
- (5) Write off ₹ 1800 as Bad debts and maintain R.D.D. at 5% on Sundry Debtors.
- (6) Goods of ₹ 6000 were sold but no entry was made in the books of accounts.



IN THE BOOKS OF DAYA AND KSHAMA

Trading, Profit and Loss Account for the year Ended 31st March 2019

Dr.

Cr.

| Particulars | Amt ₹ | Amt ₹ | Particulars | Amt ₹ | Amt ₹ |
|---|----------|-----------------|--|----------|-----------------|
| To Opening Stock | | 65,000 | By Sales | 2,85,500 | |
| To Purchases | 1,48,000 | | Add :Unrecorded Sales | 6,000 | |
| Less - Purchases Return | 4,000 | 1,44,000 | | 2,91,500 | |
| To Royalties | | 3,000 | Less : Sales Return | 2,000 | 2,89,500 |
| To wages and Salaries | | 9,000 | By Goods take over by Daya for Personal Use | | 1,000 |
| To Gross Profit c/d | | 1,09,500 | By Closing Stock | | 40,000 |
| | | 3,30,500 | | | 3,30,500 |
| To Advertisement | 4,500 | | By Gross Profit b/d | | 1,09,500 |
| Add : o/s for 3 months | 1,500 | 6,000 | By Interest Accrued on Investment | | 2,000 |
| To Audit fees | | 1,200 | By Discount | | 1,800 |
| To Depreciation on : | | | | | |
| Building | 3,750 | | | | |
| Machinery | 3,444 | 7,194 | | | |
| To Bad debts (old) | 1,000 | | | | |
| Add : New Bad Debts | 1,800 | | | | |
| Add : New R.D.D. | 6,985 | | | | |
| | 9,785 | | | | |
| Less : R.D.D.(old) | 1,800 | 7,985 | | | |
| To Discount | | 2,300 | | | |
| To Net Profit (Transferred to Capital A/c's) | | | | | |
| Daya | 44,311 | | | | |
| Kshama | 44,310 | 88,621 | | | |
| | | 1,13,300 | | | 1,13,300 |



Balance Sheet as on 31st March, 2019

| Liabilities | Amt. ₹ | Amt. ₹ | Assets | Amt. ₹ | Amt. ₹ |
|----------------------------|-----------|-----------------|-------------------------|-----------|-----------------|
| Capital : Daya | 1,60,000 | | Building | 75,000 | |
| Add : Net Profit | 44,311 | | Less : Depreciation 5% | 3,750 | 71,250 |
| Less: (Goods taken over by | 1,000 | 2,03,311 | Machinery | 1,14,800 | |
| Daya for personal use) | | | Less : Depreciation 3% | 3,444 | 1,11,356 |
| Capital Kshama | 1,20,000 | | Bills Receivable | 28,000 | |
| Add : Net Profit | 44,310 | 1,64,310 | Less : Bills Receivable | 3,000 | 25,000 |
| General Reserve | | 14,500 | Dishonoured | | |
| O/s Advertisement Exp. | | 1,500 | Motor Car | | 68,000 |
| (3 months) | | | Cash at Bank | | 12,000 |
| Creditors | | 98,000 | Closing Stock | | 40,000 |
| Outstanding Wages | | 700 | Sundry Debtors | 1,32,500 | |
| | | | Add : Bills Receivable | 3,000 | |
| | | | Dishonoured | | |
| | | | | 1,35,500 | |
| | | | Add : Unrecorded Sales | 6,000 | |
| | | | | 1,41,500 | |
| | | | Less : Bad debts (New) | 1,800 | |
| | | | | 1,39,700 | |
| | | | Less : R.D.D. 5% (New) | 6,985 | 1,32,715 |
| | | | 10% Investment | 20,000 | |
| | | | Add : Interest Accrued | 2,000 | 22,000 |
| | | 4,82,321 | | | 4,82,321 |

Working Notes :

- (1) Adjustment No. 3, 5 and 6 are co-related with sundry Debtors. So, while calculating R.D.D. 5% on sundry Debtors, Amount of dishonour of Bills ₹ 3,000) and goods sold but not recorded (₹ 6000) will be added into the sundry Debtors, then new Bad Debts will be deducted and then Less R.D.D (New) 5% 6985 after 5% R.D.D should be calculated.

| | |
|---------------------------|------------------------|
| 1st effect Sundry Debtors | 1,32,500 |
| Add : Bills dishonoured | 3,000 |
| Add : Unrecorded sales | 6,000 |
| | <u>1,41,500</u> |
| Less Bad debts (New) | 1,800 |
| | <u>1,39,700</u> |
| Less R.D.D (New) 5% | 6,985 |
| | <u><u>1,32,715</u></u> |

₹ **1,32,715** (Shown on Assets side of Balance Sheet)



| | |
|-------------------------------|--|
| | ₹ |
| 2nd Effect To Bad debts (Old) | 1,000 |
| Add Bad debts (New) | 1,800 |
| Add New R.D.D | 6,985 |
| | <hr/> |
| | 9,785 |
| Less R.D.D. (Old) | 1,800 |
| | <hr/> |
| | ₹ 7,985 |
| | - (Shown on Debit side of Profit and Loss A/C) |

2. From the following Trial Balance and Adjustments given below you are required to prepare Trading and Profit and Loss Account for the year ended 31st March, 2019 and Balance Sheet as on that date in the books of Shilpa and Katrina.

Trial Balance as on 31st March, 2019

| Particulars | Debit ₹ | Particulars | Credit ₹ |
|----------------------------|-----------------|-------------------|-----------------|
| Land and Building | 37,800 | Capital | |
| Furniture | 17,250 | Shilpa | 45,000 |
| Sundry Debtors | 40,000 | Katrina | 45,000 |
| Stock (1/4/2018) | 65,000 | Bills payable | 17,500 |
| Bad Debts | 400 | Bank Over draft | 10,000 |
| Printing and Stationary | 4,000 | Purchases Return | 1,480 |
| Wages | 3,000 | Sundry Creditors | 22,000 |
| Salaries | 5,000 | Bank Loan | 15,000 |
| Carriage Inward | 4,000 | Interest received | 1,500 |
| Sales Return | 2,000 | R.D.D | 1,000 |
| Drawings : | | Sales | 1,20,000 |
| Shilpa | 2,000 | | |
| Katrina | 3,000 | | |
| Discount | 2,030 | | |
| Advance Given to Shaharukh | 10,000 | | |
| Cash in hand | 20,000 | | |
| Cash at Bank | 8,000 | | |
| Interest | 1,000 | | |
| Commision | 2,000 | | |
| Royalties | 2,000 | | |
| Purchases | 50,000 | | |
| | 2,78,480 | | 2,78,480 |

Adjustments

- (1) The Stock in Hand was valued at ₹ 58,000 on 31st March, 2019.
- (2) Outstanding Expenses : Royalties ₹ 1,500 and Wages ₹ 800.

- (3) Salaries paid in advance to staff ₹ 2,000.
- (4) Create a provision for Bad Debts ₹ 1,000 and Reserve for Doubtful Debts 3% on Sundry Debtors.
- (5) Depreciate Land and Building by 5% and Furniture by 10%.

IN THE BOOKS OF SHILPA AND KATRINA

Trading and Profit and Loss Account for the year ended 31st March 2019

Dr.

Cr.

| Particulars | Amount ₹ | Amount ₹ | Particulars | Amount ₹ | Amount ₹ |
|---|-------------|-----------------|----------------------|-------------|-----------------|
| To Opening Stock | | 65,000 | By Sales | 1,20,000 | |
| To Purchase | 50,000 | | Less : Sales Return | 2,000 | 1,18,000 |
| Less : Purchases Return | 1,480 | 48,520 | By Closing Stock | | 58,000 |
| To Wages | 3,000 | | | | |
| Add : O/s Wages | 800 | 3,800 | | | |
| To Royalties | 2,000 | | | | |
| Add : O/s Royalties | 1,500 | 3,500 | | | |
| To Carriage Inward | | 4,000 | | | |
| To Gross Profit c/d | | 51,180 | | | |
| | | 1,76,000 | | | 1,76,000 |
| To Salaries | 5,000 | | By Gross Profit b/d | | 51,180 |
| Less : Advance Salary | 2,000 | 3,000 | By Interest Received | | 1,500 |
| To Bad debts (Old) | 400 | | | | |
| Add : Bad Debts (New) | 1,000 | | | | |
| Add : R.D.D. (New) | 1,170 | | | | |
| | 2,570 | | | | |
| Less - R.D.D. (Old) | 1,000 | 1,570 | | | |
| To Depreciation : | | | | | |
| Land and Building | 1,890 | | | | |
| Furniture | 1,725 | 3,615 | | | |
| To Printing And Stationary | | 4,000 | | | |
| To Discount | | 2,030 | | | |
| To Interest | | 1,000 | | | |
| To Commission | | 2,000 | | | |
| To Net Profit (Transferred to Capital A/c) | | | | | |
| Shilpa | 17,732 | | | | |
| Katrina | 17,733 | 35,465 | | | |
| | | 52,680 | | | 52,680 |



Balance Sheet as on 31st March, 2019

| Liabilities | Amount ₹ | Amount ₹ | Assets | Amount ₹ | Amount ₹ |
|------------------------|-------------|-----------------|-------------------------|-------------|-----------------|
| Capital : | | | Land and Building | 37,800 | |
| Shilpa | 45,000 | | Less : 5% Depreciation | 1,890 | 35,910 |
| Add : Net Profit | 17,732 | | Furniture | 17,250 | |
| | 62,732 | | Less : 10% Depreciation | 1,725 | 15,525 |
| Less : Drawings | 2,000 | 60,732 | Sundry Debtors | 40,000 | |
| Katrina | 45,000 | | Less : Bad debts | 1,000 | |
| Add : Net Profit | 17,733 | | | 39,000 | |
| | 62,733 | | Less : R.D.D. 3% | 1,170 | 37,830 |
| Less : Drawings | 3,000 | 59,733 | Cash in Hand | | 20,000 |
| Bills Payable | | 17,500 | Cash at Bank | | 8,000 |
| Outstanding Expenses : | | | Closing Stock | | 58,000 |
| Wages | 800 | | Advance Salary | | 2,000 |
| Royalties | 1500 | 2,300 | Advance to Shaharukh | | 10,000 |
| Bank Overdraft | | 10,000 | | | |
| Sundry Creditors | | 22,000 | | | |
| Bank Loan | | 15,000 | | | |
| | | 1,87,265 | | | 1,87,265 |

3. Rucha and Juili are partners sharing Profits and Losses in their Capital Ratio. From the following Trial Balance and adjustments you are required to prepare Final Accounts.

Trial Balance as on 31st March, 2019

| Particulars | Debit ₹ | Particulars | Credit ₹ |
|-------------------------|-----------------|------------------|-----------------|
| Purchases | 48,000 | Capital A/c | |
| Trade Expenses | 3,000 | Rucha | 80,000 |
| Salaries | 4,500 | Juili | 40,000 |
| Wages and Salaries | 2,800 | Sundry Creditors | 22,000 |
| Advertisement (2 Years) | 4,000 | Sales | 1,48,000 |
| Sales Returns | 8,000 | R.D.D. | 1,200 |
| Freehold Property | 23,000 | Bills Payable | 12,000 |
| Office Rent | 5,000 | Purchases Return | 6,000 |
| Motor Van | 40,000 | | |
| Stock (1/4/2018) | 89,500 | | |
| General Expenses | 2,500 | | |
| Sundry Debtors | 62,000 | | |
| Coal, Gas, Fuel | 1,000 | | |
| Carriage Inward | 800 | | |
| Carriage Outward | 1,300 | | |
| Plant and Machinery | 13,800 | | |
| | 3,09,200 | | 3,09,200 |

Adjustments :

- (1) Closing Stock is valued at ₹ 88,000 (Cost Price) and ₹ 90,000 (Market Price)
- (2) Rucha and Juili withdrawn Goods from business ₹ 3000 and ₹ 2000 respectively for their personal use.
- (3) Depreciate Motor Van by 5% and Plant and Machinery by 7%.
- (4) Reserve for Doubtful Debts on Debtors @ 5% is to be created.
- (5) Outstanding Wages ₹ 800.
- (6) Goods of ₹ 6000 were purchased on credit and credit sales of ₹ 6000 but no entry was found in the Books of Account.

IN THE BOOKS OF RUCHA AND JUILI
Trading and Profit and Loss Account for the year ended 31st March 2019
Balance Sheet as on 31st March, 2019

Dr.

Cr.

| Particulars | Amount ₹ | Amount ₹ | Particulars | Amount ₹ | Amount ₹ |
|--|-------------|-----------------|----------------------------------|-------------|-----------------|
| To Opening Stock | | 89,500 | By Sales | 1,48,000 | |
| To Purchases | 48,000 | | Add : Unrecorded Sales | 6,000 | |
| Add : Unrecorded Purchases | 6,000 | | | 1,54,000 | |
| | 54,000 | | Less : Sales Return | 8,000 | 1,46,000 |
| Less : Purchases Return | 6,000 | 48,000 | By Closing Stock | | 88,000 |
| To Wages and Salaries | 2,800 | | By Goods withdrawn by Partners : | | |
| Add : Outstanding Wages | 800 | 3,600 | Rucha | 3,000 | |
| To Trade Expenses | | 3,000 | Juili | 2,000 | 5,000 |
| To Coal, Gas Fuel | | 1,000 | | | |
| To Carriage Inward | | 800 | | | |
| To Gross Profit c/d | | 93,100 | | | |
| | | 2,39,000 | | | 2,39,000 |
| To Salaries | | 4,500 | By Gross Profit b/d | | 93,100 |
| To Depreciation | | | | | |
| Motor Van | 2,000 | | | | |
| Plant and Machinery | 966 | 2,966 | | | |
| To R.D.D. (New) | 3,400 | | | | |
| Less : R.D.D. (Old) | 1,200 | 2,200 | | | |
| To Advertisement | 4,000 | | | | |
| Less : Prepaid Advt. | 2,000 | 2,000 | | | |
| To Office Rent | | 5,000 | | | |
| To General Expenses | | 2,500 | | | |
| To Carriage Outword | | 1,300 | | | |
| To Net Profit (Transferred to Capital A/c's) | | | | | |
| Rucha | 48,423 | | | | |
| Juili | 24,211 | 72,634 | | | |
| | | 93,100 | | | 93,100 |



Balance Sheet as on 31st March, 2019

| Liabilities | Amount ₹ | Amount ₹ | Assets | Amount ₹ | Amount ₹ |
|-------------------|-------------|-----------------|------------------------|-------------|-----------------|
| Capitals : | | | Motor Van | 40,000 | |
| Rucha | 1,25,423 | | Less : Depreciation 5% | 2,000 | 38,000 |
| Juili | 62,211 | 1,87,634 | Plant and Machinery | 13,800 | |
| Outstanding Wages | | 800 | Less : Depreciation 7% | 966 | 12,834 |
| Sundry Creditors | 22,000 | | Debtors | 62,000 | |
| Add : Unrecorded | 6,000 | 28,000 | Add: Unrecorded Sales | 6,000 | |
| Purchases | | | | 68,000 | |
| Bills Payable | | 12,000 | Less : R.D.D. 5% | 3,400 | 64,500 |
| | | | Closing Stock | | 88,000 |
| | | | Prepaid Advertisement | | 2,000 |
| | | | Freehold Property | | 23,000 |
| | | 2,28,434 | | | 2,28,434 |

Dr.

Partners Capital Account

Cr.

| Particulars | Rucha ₹ | Juili ₹ | Particulars | Rucha ₹ | Juili ₹ |
|----------------|-----------------|---------------|------------------------|-----------------|---------------|
| To Drawings | 3,000 | 2,000 | By Balance b/d | 80,000 | 40,000 |
| To Balance c/d | 1,25,423 | 62,211 | By Profit and Loss A/c | 48,423 | 24,211 |
| | 1,28,423 | 64,211 | | 1,28,423 | 64,211 |
| | | | By Balance b/d | 1,25,423 | 62,211 |

Working Notes :

- (2) Advertisement Expenses are paid for 2 Years , so expenses of one year ₹ 2000 are prepaid. Prepaid Expenses (Advertisement) is treated as an Asset. The amount of prepaid should be deducted from total amount of Advertisement in Profit and Loss Account.



4. From the following Trial Balance of Mr. Piyush and Mr. Arun. You are required to prepare Trading and Profit and Loss Account and Balance Sheet as on the date:

Trial Balance as on 31st March, 2019

| Particulars | Debit ₹ | Particulars | Credit ₹ |
|-----------------------------|-----------------|------------------------------------|-----------------|
| Stock (1/4/2018) | 30,800 | Capital Account | |
| Purchases | 80,000 | Piyush | 80,000 |
| Salaries | 5,000 | Arun | 80,000 |
| Wages | 7,500 | Sundry Creditors | 20,500 |
| Carriage | 3,000 | Interest received on Fixed Deposit | 1,000 |
| Royalties | 2,500 | Bank Overdraft | 10,000 |
| Freight | 700 | Sales | 1,20,000 |
| Printing and Stationery | 1,050 | | |
| Sundry Debtors | 43,000 | | |
| Furniture | 20,200 | | |
| Lease hold property | 25,000 | | |
| Investment | 15,000 | | |
| Travelling Expenses | 3,450 | | |
| Advertisement (For 3 years) | 30,000 | | |
| Bad Debts | 500 | | |
| Discount Allowed | 1,800 | | |
| Cash in Hand | 7,000 | | |
| Cash at Bank | 20,000 | | |
| Fixed Deposits | 15,000 | | |
| | 3,11,500 | | 3,11,500 |

Adjustments :

- (1) Stock on hand on 31st March, 2019 was Cost Price ₹ 40,000 and Market price ₹ 35,000.
- (2) Interest on Fixed Deposit ₹ 1200 is still receivable.
- (3) Provide R.D.D. at 2.5% on Sundry Debtors.
- (4) Depreciate Furniture by 5%.
- (5) Goods of ₹ 8000 destroyed by fire and insurance company admitted a claim of ₹ 6000 only.

IN THE BOOKS OF MR. PIYUSH AND MR. ARUN.
Trading and Profit and Loss Account for the year Ended 31st March 2019

Dr.

Cr.

| Particulars | Amount ₹ | Amount ₹ | Particulars | Amount ₹ | Amount ₹ |
|---|-------------|-----------------|------------------------------|-------------|-----------------|
| To Opening Stock | | 30,800 | By Sales | | 1,20,000 |
| To Purchases | | 80,000 | By Goods destroyed by Fire | | 8000 |
| To Wages | | 7,500 | | | |
| To Carriage | | 3,000 | By Closing Stock | | 35,000 |
| To Royalties | | 2,500 | | | |
| To Freight | | 700 | | | |
| To Gross Profit c/d | | 38,500 | | | |
| | | 1,63,000 | | | 1,63,000 |
| To Discount | | 1,800 | By Gross Profit b/d | | 38,500 |
| To Salaries | | 5,000 | By Interest on Fixed Deposit | 1,000 | |
| To Printing and Stationery | | 1,050 | | | |
| To Bad Debts | 500 | | Add : Interest Receivable | 1,200 | 2200 |
| Add : R.D.D. (New) | 1,075 | 1,575 | | | |
| To Loss by Fire | | 2,000 | | | |
| To Depreciation on Furniture | | 1,010 | | | |
| To Travelling Expenses | | 3,450 | | | |
| To Advertisement | 30,000 | | | | |
| Less : Prepaid Advt. | 20,000 | 10,000 | | | |
| To Net Profit (Transferred to Capital A/c's) | | | | | |
| Piyush | 7,408 | | | | |
| Arun | 7,407 | 14,815 | | | |
| | | 40,700 | | | 40,700 |



Balance Sheet as on 31st March, 2019

| Liabilities | Amount ₹ | Amount ₹ | Assets | Amount ₹ | Amount ₹ |
|------------------|----------|-----------------|---------------------------|----------|-----------------|
| Capital Account: | | | Leasehold Property | | 25,000 |
| Piyush | 80,000 | | Investment | | 15,000 |
| Add : Net profit | 7,408 | 87,408 | Fixed Deposit | 15,000 | |
| Arun | 80,000 | | Add : Interest Receivable | 1,200 | 16,200 |
| Add : Net Profit | 7407 | 87,407 | Furniture | 20,200 | |
| Sundry Creditors | | 20,500 | Less : Depreciation 5% | 1010 | 19,190 |
| Bank Overdraft | | 10,000 | Sundry Debtors | 43,000 | |
| | | | Less : R.D.D. 2.5% | 1075 | 41,925 |
| | | | Insurance Claim | | 6,000 |
| | | | Prepaid Advertisement | | 20,000 |
| | | | Cash in Hand | | 7,000 |
| | | | Cash at Bank | | 20,000 |
| | | | Closing Stock | | 35,000 |
| | | 2,05,315 | | | 2,05,315 |

5. M/s Sudarshan Traders is a Partnership Firm in which, Ram and Krushna are partners sharing Profits and Losses in the ratio 1:1. From the following Trial Balance prepare Final Account for the year 2018-19:

Trial Balance as on 31st March, 2019

| Particulars | Debit ₹ | Credit ₹ |
|---|-----------------|-----------------|
| Opening Stock | 36,000 | |
| Capital A/C : | | |
| Ram | | 1,60,000 |
| Krushna | | 80,000 |
| Current A/C : | | |
| Ram | | 8,000 |
| Krushna | 4,000 | |
| Purchases | 1,00,000 | |
| Sales | | 2,08,000 |
| Sundry Debtors | 1,73,500 | |
| Sundry Creditors | | 41,800 |
| Bills Receivable | 47,000 | |
| Bills Payable | | 21,000 |
| Commission | 2,800 | |
| Wages | 1,760 | |
| Salaries | 3,000 | |
| Furniture | 25,000 | |
| Plant and Machinery | 63,000 | |
| R.D.D. | | 1,000 |
| Investment | 10,500 | |
| Loans and Advances Given | 35,240 | |
| Insurance | 2,500 | |
| Bad debts | 500 | |
| 12% Govt. Bonds (Purchased on 1.1.2019) | 15,000 | |
| | 5,19,800 | 5,19,800 |



Adjustments :

- (1) Stock on hand on 31 March 2019 was valued at ₹ 38000.
- (2) Ram is allowed a Salary of ₹ 6000 and Krushna is allowed Commission at 3% on net sales.
- (3) Interest on Partner's Capital is to be provided @ 5% p.a.
- (4) Provide depreciation on Plant and Machinery 5%.
- (5) ₹ 3000 from our customer is not recoverable.
- (6) Prepaid Insurance ₹ 500.

Trading and Profit and Loss Account for the year ended 31st March 2019

Dr.

Cr.

| Particulars | Amount ₹ | Amount ₹ | Particulars | Amount ₹ | Amount ₹ |
|------------------------------|-------------|-----------------|---------------------|-------------|-----------------|
| To Opening Stock | | 36,000 | By Sales | | 2,08,000 |
| To Purchases | | 1,00,000 | By Closing Stock | | 38000 |
| To Wages | | 1760 | | | |
| To Gross Profit c/d | | 1,08,240 | | | |
| | | 2,46,000 | | | 2,46,000 |
| To Commission | | 2,800 | By Gross Profit b/d | | 1,08,240 |
| To Salaries | | 3,000 | By Interest on Govt | | 450 |
| To Insurance | 2,500 | | Bonds Receivable | | |
| Less : Prepaid | 500 | 2,000 | | | |
| To Ram's Salary | | 6,000 | | | |
| To Commission to Krushna | | 6,240 | | | |
| To Depreciation on : | | | | | |
| Plant and Machinery | | 3,150 | | | |
| To Bad debts (Old) | 500 | | | | |
| To Bad Debts (New) | 3,000 | | | | |
| | 3,500 | | | | |
| Less : R.D.D. (Old) | 1,000 | 2,500 | | | |
| To Interest on Capital | | | | | |
| (Partners Current A/C) | | | | | |
| Ram | 8,000 | | | | |
| Krushna | 4,000 | 12,000 | | | |
| Net Profit (Transferred | | | | | |
| Partners to Current Account) | | | | | |
| Ram | 35,500 | | | | |
| Krushna | 35,500 | 71,000 | | | |
| | | 1,08,690 | | | 1,08,690 |

Balance Sheet as on 31st March, 2019

| Liabilities | Amount ₹ | Amount ₹ | Assets | Amount ₹ | Amount ₹ |
|---------------|-------------|-----------------|---------------------------|-------------|-----------------|
| Capital : | | | Sundry Debtors | 1,73,500 | |
| Ram | 1,60,000 | | Less-Bad debts | 3,000 | 1,70,500 |
| Krushna | 80,000 | 2,40,000 | Bills Receivable | | 47,000 |
| Current A/c : | | | Plant and Machinery | 63,000 | |
| Ram | 57,500 | | Less : Depreciation | 3,150 | 59,850 |
| Krushna | 41,740 | 99,240 | Furniture | | 25,000 |
| Creditors | | 41,800 | Investment | | 10,500 |
| Bills Payable | | 21,000 | Loan and Advances | | 35,240 |
| | | | Closing Stock | | 38,000 |
| | | | Prepaid Insurance | | 500 |
| | | | 12% Govt. Bonds | 15,000 | |
| | | | Add : Interest Receivable | 450 | 15,450 |
| | | 4,02,040 | | | 4,02,040 |

| Dr. | | | Partners Current Account | | | Cr. | | |
|----------------|--|---------------|--------------------------|---|--|---------------|-------------------|--|
| Particulars | | Ram Amt. ₹ | Krushna Amt. ₹ | Particulars | | Ram Amt. ₹ | Krushna Amt. ₹ | |
| To Balance b/d | | | 4,000 | By Balance b/d | | 8,000 | - | |
| | | | | By Profit and Loss A/c (Ram's Salary) | | 6,000 | - | |
| | | | | By Profit and Loss A/c (Commision) | | - | 6,240 | |
| To Balance c/d | | 57,500 | 41,740 | By Profit and Loss A/c (Interest on capital) | | 8,000 | 4,000 | |
| | | | | By Profit and Loss A/c | | 35,500 | 35,000 | |
| | | 57,500 | 45,740 | | | 57,500 | 45,740 | |
| | | | | By Balance b/d | | 57,500 | 41,740 | |

Working Notes :

- (1) In this problem Current Account is given. So total Amount of fixed capital of Ram (₹1,60,000) and Krishna (₹ 80,000) = ₹ 2,40,000 should be directly shown on the liability side of Balance Sheet. Effect of adjustment related with capital. i.e. 5% interest on capital, 3% commission on net sales, partners should be reflected on current account which is separately prepared. Closing Balances of Current Account of partners will be shown on liability side of Balance sheet.
- (2) Amount of Debtor (3000) which is not recoverable is to be treated as Bad debts (New) and it should be deducted from debtors on Assets side of Balance Sheet.
- (3) 12% Govt. Bonds - are purchased on 1.1.2019, So Interest receivable is only for 3 months (i.e. 1.1.2019 To 31.3.2019) @ 12% p.a. on 15000. Which is treated as income.

$$\frac{15,000}{100} \times \frac{12}{100} \times \frac{3}{12} = ₹ 1,800$$

₹ 1,800 is for 12 months, we have to consider Interest for 3 months only.



$$\frac{1,800}{100} \times \frac{3}{12} = ₹ 450$$

Interest on Govt Bonds @ 12% for 3 months is ₹ 450

6. From the following Trial Balance of Shreyas and Mrunal and adjustments you are required to prepare Trading and Profit and Loss Account for the year ended 31st March, 2019 and Balance Sheet as on that date:

Trial Balance as on 31st March, 2019 Particulars

| Particulars | Debit ₹ | Credit ₹ |
|----------------------|-----------------|-----------------|
| Capital Accounts : | | |
| Shreyas | | 35,000 |
| Mrunal | | 20,000 |
| Purchases | 37,800 | |
| Sales | | 66,700 |
| Bills Receivable | 8,000 | |
| Bills Payable | | 6,500 |
| Commission | 2,400 | |
| Salaries | 6,000 | |
| Insurance (9 months) | 9,000 | |
| Prepaid Rent | 3,000 | |
| Sundry Creditors | | 48,900 |
| Sundry Debtors | 25,000 | |
| Postage | 1,700 | |
| Freehold Premises | 17,300 | |
| Furniture | 20,000 | |
| Bad debts | 500 | |
| Cash in Hand | 4,500 | |
| Cash at Bank | 16,000 | |
| Carriage Inward | 800 | |
| Carriage Outward | 1,700 | |
| Stock (1/4/2018) | 22,500 | |
| Returns | 1,200 | 1800 |
| Wages | 3,100 | |
| Outstanding Wages | | 1600 |
| Total | 1,80,500 | 1,80,500 |

Adjustments :

- (1) Closing Stock ₹ 30,000
- (2) Outstanding Expenses - Salary ₹ 1200 and Commission ₹ 400.
- (3) Depreciate Furniture @ 10%
- (4) Provide for further Bad debts ₹ 1200.
- (5) Goods of ₹ 5000 destroyed by fire and insurance company admitted a claim of ₹ 2000 only.
- (6) Shreyas and Mrunal are sharing profits and losses in the ratio 2:1



THE BOOKS OF SHREYAS AND MRUNAL.

Trading and Profit and Loss Account for the year ended 31st March 2019

Dr.

Cr.

| Particulars | Amount ₹ | Amount ₹ | Particulars | Amount ₹ | Amount ₹ |
|--|-------------|-----------------|-------------------------------|-------------|-----------------|
| To Opening Stock | | 22,500 | By Sales | 66,700 | |
| To Purchases | 37,800 | | Less : Returns | 1200 | 65,500 |
| Less : Returns | 1,800 | 36,000 | By Goods destroyed by Fire | | 5,000 |
| To Carriage Inward | | 800 | By Closing Stock | | 30,000 |
| To Wages | | 3,100 | | | |
| To Gross Profit c/d | | 38,100 | | | |
| | | 1,00,500 | | | 1,00,500 |
| To Insurance | 9,000 | | By Gross Profit b/d | | 38,100 |
| Add : Outstanding (3 months) | 3,000 | 12,000 | | | |
| To Salaries | 6,000 | | | | |
| Add : Outstanding | 1,200 | 7,200 | | | |
| To Commission | 2,400 | | | | |
| Add : Outstanding | 400 | 2,800 | | | |
| To Depreciation on Furniture | | 2,000 | | | |
| To Bad debts | 500 | | | | |
| Add : Bad Debts (New) | 1,200 | 1,700 | | | |
| To Loss by fire | | 3,000 | | | |
| To Postage | | 1,700 | | | |
| To Carriage Outward | | 1,700 | | | |
| To Net Profit (Transferred to Capital Accounts) | | | | | |
| Shreyas | 4,000 | | | | |
| Mrunal | 2,000 | 6,000 | | | |
| | | 38,100 | | | 38,100 |



Balance Sheet as on 31st March, 2019

| Liabilities | Amount ₹ | Amount ₹ | Assets | Amount ₹ | Amount ₹ |
|-----------------------|-------------|-----------------|-------------------------|-------------|-----------------|
| Capital Account : | | | Furniture | 20,000 | |
| Shreyas | 35,000 | | Less : Depreciation 10% | 2,000 | 18,000 |
| Add : Net Profit | 4,000 | 39,000 | Sundry Debtors | 25,000 | |
| Mrunal | 20,000 | | Less : Bad debts | 1,200 | 23,800 |
| Add : Net Profit | 2,000 | 22,000 | Bills Receivable | | 8,000 |
| Sundry Creditors | | 48,900 | Freehold Premises | | 17,300 |
| Bills Payable | | 6,500 | Cash in Hand | | 4,500 |
| Outstanding Expenses | | | Cash at Bank | | 16,000 |
| Salaries | 1,200 | | Closing Stock | | 30,000 |
| Commission | 400 | 1,600 | Insurance Claim | | 2,000 |
| Outstanding Insurance | | 3,000 | Prepaid Rent | | 3,000 |
| Outstanding Wages | | 1,600 | | | |
| | | 1,22,600 | | | 1,22,600 |

7. Sapre and Atre are partners sharing Profits and Losses equally. From the following Trial Balance and Adjustments, prepare Trading and Profit and Loss Account for the year ended 31st March, 2019 and Balance Sheet as on that date.

Trial Balance as on 31st March, 2019

| Debit Balance | Amount ₹ | Credit Balance | Amount ₹ |
|---|-----------------|-------------------------|-----------------|
| Sundry Debtors | 40,000 | Sales | 85,000 |
| Purchases | 65,000 | Sundry Creditors | 23,000 |
| Returns | 800 | Sundry Income | 2,000 |
| Opening Stock | 18,000 | Capital : | |
| Land and Building | 10,000 | Sapre | 35,000 |
| Carriage | 1,200 | Atre | 35,000 |
| Rent, Rates & Taxes | 1,000 | Provident Fund | 10,000 |
| Drawings : | | Returns | 1,500 |
| Sapre | 3,000 | Commission Pre Received | 800 |
| Atre | 2,000 | R.D.D | 400 |
| Salaries | 3,200 | | |
| Bad debts | 1,000 | | |
| Machinery | 25,000 | | |
| (Additions on 1 st Oct, 2018, ₹ 10,000) | | | |
| Advertisement | 4,000 | | |
| Provident Fund Investment | 18,500 | | |
| | 1,92,700 | | 1,92,700 |



Adjustments :

- 1) Closing Stock is valued at ₹ 23,000.
- 2) Depreciate Land and Building @ 5% and Machinery @10%.
- 3) Create Provision for Bad and Doubtful Debts at 5% on Sundry debtors and write off ₹ 1000 for Bad-debts.
- 4) Goods worth ₹ 3000 were sold, but no entry was found in the books of account.
- 5) Outstanding carriage ₹ 500.
- 6) Goods worth ₹ 8000 were purchased on 31st March, 2019 and included in the closing stock but not recorded in the Books of Account.

IN THE BOOKS OF SAPRE & ATRE
TRADING AND PROFIT & LOSS ACCOUNT
For the year ended 31st March, 2019

Dr.**Cr.**

| Particulars | Amt ₹ | Amt ₹ | Particulars | Amt ₹ | Amt ₹ |
|---------------------------|--------|-----------------|---------------------|--------|-----------------|
| To Opening Stock | | 18,000 | By Sales | 85,000 | |
| To Purchases | 65,000 | | Add : Unrecorded | 3,000 | |
| Add : Unrecorded | 8,000 | | Sales | | |
| Purchases | | | | 88,000 | |
| | 73,000 | | Less : Returns | 800 | 87,200 |
| Less : Returns | 1,500 | 71,500 | | | |
| To Carriage | 1,200 | | By Closing Stock | | 23,000 |
| Add : Outstanding | 500 | 1,700 | | | |
| To Gross Profit c/d | | 19,000 | | | |
| | | 1,10,200 | | | 1,10,200 |
| To Salaries | | 3,200 | By Gross Profit b/d | | 19,000 |
| To Rent, Rates & Taxes | | 1,000 | | | |
| To Depreciation | | | By Sundry Income | | 2,000 |
| Land & Building | 500 | | | | |
| Plant & Machinery | 2,000 | 2,500 | | | |
| To Bad debts (Old) | 1,000 | | | | |
| Add : Bad-debts(New) | 1,000 | | | | |
| Add : New R.D.D. | 2,100 | | | | |
| | 4,100 | | | | |
| Less - R.D.D (Old) | 400 | 3,700 | | | |
| To Advertisement | | 4,000 | | | |
| To Net Profit Transferred | | | | | |
| to Capital Accounts : | | | | | |
| Sapre | 3,300 | | | | |
| Atre | 3,300 | 6,600 | | | |
| | | 21,000 | | | 21,000 |

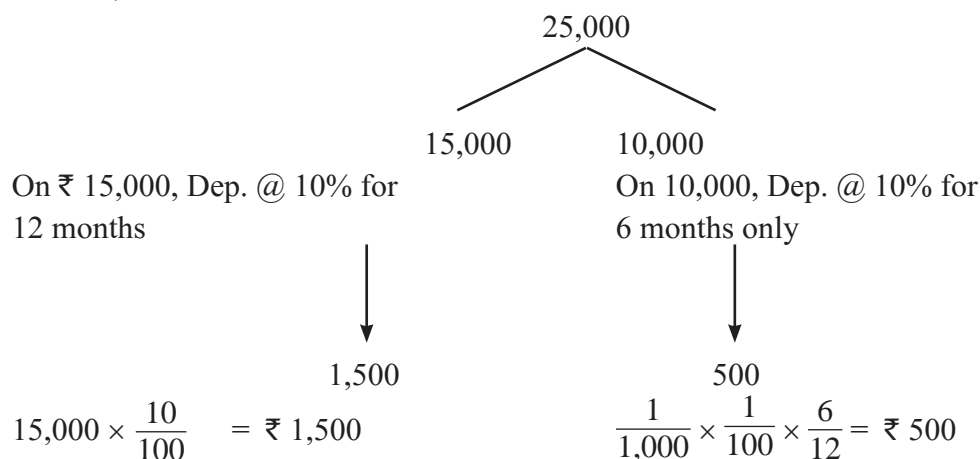


BALANCE SHEET
As on 31st March, 2019

| Liabilities | Amount ₹ | Amount ₹ | Assets | Amount ₹ | Amount ₹ |
|--------------------------------|-------------|-----------------|------------------------|-------------|-----------------|
| Capital : Sapre | 35,000 | | Land & Building | 10,000 | |
| Add : Net Profit | 3,300 | | Less : Depreciation 5% | 500 | 9,500 |
| | 38,300 | | Plant & Machinery | 25,000 | |
| Less : Drawings | 3,000 | 35,300 | Less: Depreciation 10% | 2,000 | 23,000 |
| Capital : Atre | 35,000 | | Sundry Debtors | 40,000 | |
| Add : Net Profit | 3,300 | | Add : Unrecorded | 3,000 | |
| | 38,300 | | Sales | 43,000 | |
| Less : Drawings | 2,000 | 36,300 | Less : Bad debts (Now) | 1,000 | |
| Providend Fund | | 10,000 | Less : R.D.D. 5% | 42,000 | |
| Outstanding Expenses : | | | | 2,100 | 39,900 |
| Carriage | | 500 | Closing Stock | | 23,000 |
| Creditors | 23,000 | | Providend Fund | | 18,500 |
| Add : Unrecorded | 8,000 | 31,000 | Investment | | |
| Purchases | | | | | |
| Commission Received in advance | | 800 | | | |
| | | 1,13,900 | | | 1,13,900 |

Working Notes :

- 1) While calculating Depreciation on Machinery, we have to consider the date of purchase of additional Machine, which is purchased on 1st Oct 2018. (Additional Machine Purchased ₹10,000) So -



So Depreciation is 1,500 + 500 = ₹ 2,000

- 2) Goods worth ₹ 3,000 is unrecorded sales. It will be added in to the Sundry Debtors and in to Sales also and after that Bad Debts (New) will be deducted and on that amount of Debtors 5% R.D.D. will be calculated.

| 1 st effect | | 2 nd effect | | | |
|------------------------|---------------|------------------------|---------------|------------------------|--------------|
| Debtors | 40,000 | (i) Trading | | (ii) Profit & Loss A/c | - |
| Add : Unrecorded | 3,000 | A/c Credit Side | | To Bad debts | 1,000 |
| Sales | 43,000 | By Sales | 85,000 | Add : Bad Debts | 1,000 |
| Less : Bad-debts(New) | 1,000 | +Unrecorded Sales | 3,000 | Add : New R.D.D. | 2,100 |
| | 42,000 | | 88,000 | | 4,100 |
| Less : R.D.D 5%(New) | 2,100 | Less : Returns | 800 | Less : R.D.D. (Old) | 400 |
| | | | | | |
| | 39,900 | | 87,200 | | 3,700 |

- 3) Unrecorded Purchases of ₹ 8,000, This will affects on Purchases and Creditors also - As it is unrecorded, So ₹ 8,000 will be added in to the Purchases (65,000 + 8,000) and also added into the Creditors (23,000 + 8,000)

8. Nene and Kane are Partners, sharing Profits and Losses in the ratio 6:4. From the following Trial Balance and adjustments given below, Prepare, Trading and Profit and Loss Account for the year ending and Balance Sheet as on that date.

Trial Balance as on 31st March, 2019

| Particulars | Debit Amount ₹ | Credit Amount ₹ |
|-----------------------------|------------------|------------------|
| Capital : | | |
| Nene | | 15,00,000 |
| Kane | | 10,00,000 |
| Sundry Debtors | 4,50,000 | |
| Sundry Creditors | | 3,00,000 |
| Rent (10 months) | 10,000 | |
| Stock (1/4/2018) | 5,35,500 | |
| Premises | 8,50,000 | |
| Salaries | 50,000 | |
| Discount | 800 | 950 |
| Motor Vehicle | 3,70,000 | |
| Sales | | 8,40,500 |
| Purchases | 6,40,500 | |
| Wages | 10,000 | |
| Office Expenses | 20,000 | |
| Bank Overdraft | | 1,50,000 |
| Returns | 5,500 | 3,500 |
| Providend Fund Investment | 8,00,000 | |
| Cash in Hand | 40,000 | |
| Providend Fund Contribution | 1,00,000 | |
| Providend Fund | | 2,80,000 |
| Cash at Bank | 2,00,000 | |
| Interest on P.F. Investment | | 42,000 |
| Drawings : | | |
| Nene | 20,000 | |
| Kane | 15,000 | |
| Bad-debts | 3,350 | |
| R.D.D. | | 3,700 |
| Total | 41,20,650 | 41,20,650 |

Adjustments :

- 1) Closing Stock ₹ 3,60,000.
- 2) Outstanding Wages ₹ 3,000 and Salaries ₹ 2000.
- 3) Depreciate Motor Vehicle @ 5% p.a.
- 4) Write of Bad-debts of ₹ 5,000 and provide for R.D.D at 5% Sundry Debtors.
- 5) Kane withdrew Goods of ₹ 6,000 for his personal use.

IN THE BOOKS OF NENE AND KANE
TRADING AND PROFIT AND LOSS ACCOUNT
For the year ended 31st March, 2019

Dr

Cr

| Particulars | Amount ₹ | Amount ₹ | Particulars | Amount ₹ | Amount ₹ |
|-------------------------|-------------|------------------|------------------------------|-------------|------------------|
| To Opening Stock | | 5,35,500 | By Sales | 8,40,500 | |
| To Purchases | 6,40,500 | | Less : Returns | 5,500 | 8,35,000 |
| Less - Returns | 3,500 | 6,37,000 | By Goods | | 6,000 |
| To Wages | 10,000 | | Withdraw by | | |
| Add : Outstanding Wages | 3,000 | 13,000 | Kane for Personal | | |
| To Gross Profit c/d | | 15,500 | Use | | |
| | | | By Closing Stock | | 3,60,000 |
| | | 12,01,000 | | | 12,01,000 |
| To Salaries | 50,000 | | By Gross Profit b/d | | 15,500 |
| Add : Outstanding | 2,000 | 52,000 | By Discount | | 950 |
| To Depreciation on | | 18,500 | By Net Loss | | |
| Motor Vehicle | | | (Transferred to Capital A/c) | | |
| To Bad debts (Old) | 3,350 | | Nene | 1,28,250 | |
| Add : Bad-debts(New) | 5,000 | | Kane | 85,500 | 2,13,750 |
| Add :New R.D.D. | 22,250 | | | | |
| | 30,600 | | | | |
| Less : R.D.D. (Old) | 3,700 | 26,900 | | | |
| To Rent | 10,000 | | | | |
| Add : Outstanding Rent | 2,000 | 12,000 | | | |
| To Discount | | 800 | | | |
| To Office Expenses | | 20,000 | | | |
| To Providend Fund | | | | | |
| Contribution | | 1,00,000 | | | |
| | | 2,30,200 | | | 2,30,200 |

BALANCE SHEET as on 31st March, 2019

| Liabilities | Amt. ₹ | Amt. ₹ | Assets | Amt. ₹ | Amt. ₹ |
|----------------------|-----------|------------------|------------------------|----------|------------------|
| Capital : Nene | 15,00,000 | | Motor Vehicle | 3,70,000 | |
| Less : Net Loss | 1,28,750 | | Less : Depreciation 5% | 18,500 | 3,51,500 |
| | 13,71,750 | | Sundry Debtors | 4,50,000 | |
| Less : Drawings | 20,000 | 13,51,750 | Less : Bad-debts | 5,000 | |
| Capital : Kane | 10,00,000 | | | 4,45,000 | |
| Less - Net Loss | 85,500 | | Less - R.D.D 5% | 22,250 | 4,22,750 |
| | 9,14,500 | | Premises | | 8,50,000 |
| Less : Drawings | 21,000 | 8,93,500 | Providend Fund | | |
| (15,000 + 6,000) | | | Investment | | 8,00,000 |
| Sundry Creditors | | 3,00,000 | Cash in Hand | | 40,000 |
| Outstanding Expenses | | | Cash at Bank | | 2,00,000 |
| Wages | 3,000 | | Closing Stock | | 3,60,000 |
| Salaries | 2,000 | | | | |
| Rent | 2,000 | 7,000 | | | |
| Bank Overdraft | | 1,50,000 | | | |
| Providend Fund | 2,80,000 | | | | |
| Add : Interest on | | | | | |
| Providend Fund | 42,000 | 3,22,000 | | | |
| Investment | | | | | |
| | | 30,24,250 | | | 30,24,250 |

9. Kranti & Sumangala are Partners sharing Profits and Losses in their Capital ratio. From the Trial Balance given below and Adjustments, you are required to prepare Trading and Profit and Loss Account for the year ended 31st March, 2019 and Balance Sheet as on that date.

Trial Balance as on 31st March, 2019

| Debit Balance | Amount ₹ | Credit Balance | Amount ₹ |
|-------------------|-----------------|-------------------|-----------------|
| Stock (1/4/2018) | 32,500 | Capital : | |
| Purchases | 40,000 | Kranti | 1,20,000 |
| Sundry Debtors | 1,00,000 | Sumangala | 40,000 |
| Bills Receivable | 8,500 | Sales | 60,000 |
| Wages | 3,000 | Sundry Creditors | 30,000 |
| Investment | 32,000 | Bills Payable | 15,000 |
| Postage | 2,700 | Commission | 325 |
| Insurance | 7,500 | Purchases Returns | 1,000 |
| Plant & Machinery | 15,000 | | |
| Salaries | 4,850 | | |
| Prepaid Rent | 2,000 | | |
| Bad-debts | 500 | | |
| Furniture | 12,500 | | |
| Cash in Hand | 3,775 | | |
| Sales Return | 1,500 | | |
| | 2,66,325 | | 2,66,325 |



Adjustments :

- 1) Closing Stock is valued at Cost Price ₹ 28,000 and Market Price ₹ 32,000.
- 2) Insurance is paid up to 30th June 2019.
- 3) Outstanding Expenses - Wages ₹ 800, Salaries ₹ 700.
- 4) Book value of Plant and Machinery is reduced to ₹ 13,000.
- 5) Depreciate Furniture by 5% p.a.
- 6) Provide further Bad debts of ₹ 800.
- 7) Goods of ₹ 3,000 distributed as a free sample.

IN THE BOOKS OF KRANTI AND SUMANGALA TRADING AND PROFIT AND LOSS ACCOUNT

For the year ended 31st March, 2019

Dr.

Cr.

| Particulars | Amount ₹ | Amount ₹ | Particulars | Amount ₹ | Amount ₹ |
|--------------------------|-------------|---------------|--|-------------|---------------|
| To Opening Stock | | 32,500 | By Sales | 60,000 | |
| To Purchases | 40,000 | | Less : Sales Return | 1,500 | 58,500 |
| Less : Purchases Returns | 1,000 | 39,000 | By Closing Stock | | 28,000 |
| To Wages | 3,000 | | By Goods Distributed as Free sample | | 3,000 |
| Add : Outstanding | 800 | 3,800 | | | |
| To Gross Profit c/d | | 14,200 | | | |
| | | 89,500 | | | 89,500 |
| To Postage | | 2,700 | By Gross Profit b/d | | 14,200 |
| To Insurance | 7,500 | | By Commission | | 325 |
| Less : Prepaid Insurance | 1,875 | 5,625 | | | |
| To Salaries | 4,850 | | By Net Loss | | |
| Add : Outstanding Salary | 700 | 5,550 | (Transferred to Capital A/c's) | | |
| To Depreciation on : | | | Kranti | 4,706 | |
| Plant & Machinery | 2,000 | | Sumangala | 1,569 | 6,275 |
| Furniture | 625 | 2,625 | | | |
| To Bad-debts (Old) | 500 | | | | |
| Add : Bad debts (New) | 800 | 1,300 | | | |
| To Advertisement | | 3,000 | | | |
| (Goods distributed) | | | | | |
| | | 20,800 | | | 20,800 |

BALANCE SHEET
As on 31st March, 2019

| Liabilities | Amount ₹ | Amount ₹ | Assets | Amount ₹ | Amount ₹ |
|----------------------|-------------|-----------------|------------------------|-------------|-----------------|
| Capital : Kranti | 1,20,000 | | Plant & Machinery | 15,000 | |
| Less : Net Loss | 4,706 | 1,15,294 | Less : Depreciation | 2,000 | 13,000 |
| Capital : Sumangala | 40,000 | | Furniture | 12,500 | |
| Less : Net Loss | 1,569 | 38,431 | Less : Depreciation 5% | 625 | 11,875 |
| Outstanding Expenses | | | Sundry Debtors | 1,00,000 | |
| Wages | 800 | | Less : Bad Debts | 800 | 99,200 |
| Salaries | 700 | 1,500 | Bills Receivable | | 8,500 |
| Sundry Creditors | | 30,000 | Investment | | 32,000 |
| Bills Payable | | 15,000 | Cash in Hand | | 3,775 |
| | | | Closing Stock | | 28,000 |
| | | | Prepaid Insurance | | 1,875 |
| | | | Prepaid Rent | | 2,000 |
| | | 2,00,225 | | | 2,00,225 |



10. From the following Trial Balance of Riddhi and Siddhi, you are required to prepare Trading and Profit and loss Account for the year ended 31st March 2019 and Balance Sheet as on that date after considering the additional information given below.

Trial Balance as on 31st March, 2019

| Particulars | Debit (₹) | Credit (₹) |
|---------------------|-----------------|-----------------|
| Stock (1/4/2018) | 48,000 | |
| Capital - Riddhi | | 50,000 |
| Siddhi | | 30,000 |
| Purchases | 22,500 | |
| Wages | 800 | |
| Carriage Inward | 1,000 | |
| Sundry Creditors | | 27,600 |
| Bills Payable | | 20,000 |
| Cash in hand | 2,850 | |
| Insurance | 1,200 | |
| Sundry Debtors | 32,000 | |
| Bank Overdraft | | 18,000 |
| Carriage outward | 900 | |
| Land and Building | 42,500 | |
| Furniture | 38,700 | |
| Sales | | 47,000 |
| Purchase Return | | 500 |
| Sales Return | 400 | |
| Rent | | 1800 |
| Bad-debts | 300 | |
| R.D.D | | 350 |
| Discount | 700 | 1000 |
| Travelling Expenses | 250 | |
| Advertisements | 4,150 | |
| | 1,96,250 | 1,96,250 |

Adjustments :

- 1) Closing stock ₹ 48,700.
- 2) Outstanding Expenses - Wages ₹ 700 and Travelling Expenses ₹ 200.
- 3) Depreciate Land and Building by 10% and Furniture by 5%.
- 4) Insurance paid in advance ₹ 300.
- 5) Goods of ₹ 3000 destroyed by fire and Insurance company rejected the claim fully.

IN THE BOOKS OF RIDDHI AND SIDDHI
TRADING AND PROFIT AND LOSS ACCOUNT
For the year ended 31st March, 2019

Dr.

Cr.

| Particulars | Amount ₹ | Amount ₹ | Particulars | Amount ₹ | Amount ₹ |
|---|-------------|---------------|------------------------------|-------------|---------------|
| To Opening Stock | | 48,000 | By Sales | 47,000 | |
| To Purchases | 22,500 | | Less : Sales Return | 400 | 46,600 |
| Less : Purchases Return | 500 | 22,000 | By Closing Stock | | 48,700 |
| To Wages | 800 | | By Good destroyed by fire | | 3,000 |
| Add : Outstanding Wages | 700 | 1,500 | | | |
| To Carriage Inward | | 1,000 | | | |
| To Gross Profit c/d | | 25,800 | | | |
| | | 98,300 | | | 98,300 |
| To Insurance | 1,200 | | By Gross Profit b/d | | 25,800 |
| Less : Prepaid | 300 | 900 | By Rent | | 1,800 |
| To Depreciation on : | | | By R.D.D (Old) | 350 | |
| Land & Building | 4,250 | | Less : Bad-debts(New) | 300 | 50 |
| Furniture | 1,935 | 6,185 | By Discount | | 1,000 |
| To Travelling Expenses | 250 | | | | |
| Add : Outstanding | 200 | 450 | | | |
| To Loss by fire | | 3,000 | | | |
| To Carriage Outward | | 900 | | | |
| To Discount | | 700 | | | |
| To Advertisement | | 4,150 | | | |
| To Net Profit Transferred to Capital A/c | | | | | |
| Riddhi | 6,183 | | | | |
| Siddhi | 6,182 | 12,365 | | | |
| | | 28,650 | | | 28,650 |



BALANCE SHEET
As on 31st March, 2019

| Liabilities | Amount ₹ | Amount ₹ | Assets | Amount ₹ | Amount ₹ |
|----------------------|-------------|-----------------|-------------------------|-------------|-----------------|
| Capital | | | Land & Building | 42,500 | |
| Riddhi | 50,000 | | Less : Depreciation 10% | 4,250 | 38,250 |
| Add : Net Profit | 6,183 | 56,183 | Furniture | 38,700 | |
| Capital | | | Less : Depreciation 5% | 1,935 | 36,765 |
| Siddhi | 30,000 | | Prepaid Insurance | | 300 |
| Add : Net Profit | 6,182 | 36,182 | Cash in hand | | 2,850 |
| Sundry Creditors | | 27,600 | Sundry Debtors | | 32,000 |
| Outstanding Expenses | | | Closing Stock | | 48,700 |
| Wages | 700 | | | | |
| Travelling | 200 | 900 | | | |
| Bill Payable | | 20,000 | | | |
| Bank Overdraft | | 18,000 | | | |
| | | 1,58,865 | | | 1,58,865 |

EXERCISE - 1

Q.I Objective Questions :

A Select the most appropriate alternatives from the following & rewrite the sentences :

- When there is no partnership agreement between partners, the division of Profits take place in ratio.
 - Equal
 - capital ratio
 - initial contribution
 - experience and tenure of partners.
- To find out Net Profit or Net Loss of the business account is prepared.
 - Trading
 - Capital
 - Current
 - Profit & Loss
- A is an Intangible Asset.
 - Goodwill
 - Stock
 - Cash
 - Furniture
- In the absence of an agreement, interest on loan advanced by the partner to the firm is allowed at the rate of
 - 5%
 - 6%
 - 10%
 - 9%
- Liability of partners in a partnership business is
 - Limited
 - Unlimited
 - Limited and Unlimited
 - None of the above



- B Write the word/phrase/term, which can substitute each of the following sentences.**

- C State whether the following statements are True or False with reasons :**

- 1) Partnership firm is a Non Trading Concern.
- 2) Profit and Loss Account is a Real Account.
- 3) Carriage Inward is carriage on purchases.
- 4) Adjustments are recorded in Partners Current Account in Fixed Capital Method.
- 5) Prepaid expenses are treated as liabilities.
- 6) If Partnership Deed is silent partners share profits and losses in proportion to their capital.
- 7) Balance sheet is an Account.
- 8) Wages paid for installation of Machinery is a Revenue expenditure.
- 9) Income received in advance is a liability.
- 10) R.D.D is created on creditors.
- 11) Depreciation is not calculated on Current Assets.
- 12) Goodwill is an intangible asset.

- 13) Indirect expenses are debited to Trading Account.
- 14) Bank Loan is a current liability.
- 15) Net profit is debit balance of Profit & Loss Account.

D Find odd one

1. Wages, Salary, Royalty, Import Duty. .
2. Postage, Stationery Advertising, Purchases.
3. Capital, Bills Receivable, Reseve Fund, Bank overdraft
4. Building, Machinery, Furniture, Bills payable.
5. Discount received, Dividend received, Interest received, Depreciation.

E Complete the Sentences

- 1) Partners share profit & losses in ratio in the absense of partnership deed.
- 2) Registration of Partnership is in India.
- 3) Partnership business must be
- 4) Liabilities of Partners in Partnership firm is
- 5) The balance of Drawings Account of a partner is transferred to his account under the Fixed Capital Method.
- 6) The interest on capital of a partner is debited to account.
- 7) Partners are liable for the debts of the firm.
- 8) Partnership Deed is an of Partnership.
- 9) The withdrawal by partner for personal use from the firm is to his account.
- 10) Commission payable to partner is to the firm.
- 11) When partners adopt Fixed Capital Method then they have to operate Account.
- 12) If partners Current Account shows balance it is shown to the liability side of Balance sheet.
- 13) The expenses paid for trading purpose are known as expenses.
- 14) Cash receipts which are recurring in nature are called as Receipts.
- 15) Return outward are deducted from
- 16) Expenses which are paid before due date are called as
- 17) Assets which are held in the business for a long period are called
- 18) Trading Account is prepared on the basis of expenses.
- 19) When commission is allowed to any partner, it is of the business.
- 20) When goods are distributed as free samples, it is treated as of the business.

F Answer in one sentence only :

- 1) What is fluctuating capital?
- 2) Why is Partnership Deed necessary?
- 3) If the Partnership Deed is silent, in which ratio the partners will share the profit or loss?
- 4) What is the Fixed Capital Method?
- 5) How many partners are required to form a Partnership Firm?
- 6) What is Partnership Deed?

- 7) What are the objectives of the Partnership firm?
- 8) What rate of interest is allowed on partner's loan in the absence of an agreement?
- 9) What is the minimum number of Partners in a Partnership firm according to Indian Partnership Act, 1932.
- 10) What is liability of a partner?
- 11) In the absence of Partnership Deed what is the rate of interest on loan advanced by partner to the firm is allowed?
- 12) What do you mean by pre-received income?
- 13) What is the effect of the adjustment of provision for discount on debtors in the final accounts of partnership?
- 14) When is partners Current Account opened ?
- 15) As per which principle of accounting closing stock is valued at cost price or at market price which ever is less?
- 16) What is the provision of Indian Partnership Act with regard to Interest on capital ?
- 17) Why is Balance Sheet prepared?
- 18) Why wages paid for installation of Machinery are not shown in Trading Account?
- 19) What do you mean by indirect incomes?
- 20) Why partners capital is treated as long term liability of business?

G Do you agree/disagree with the following statements.

- 1) When Partnership Deed is silent, Partners share profits of the firm according to capital ratio.
- 2) Current account always shows a debit balance.
- 3) It is compulsory to have a partnership agreement in writing.
- 4) Partnership Firm is a trading concern.
- 5) An interest on capital is an expenditure for the partnership firm.
- 6) Partnership is an association of two or more persons.
- 7) Partners are entitled to get Salary or Commission.
- 8) The balance of Capital Account remains constant under Fixed Capital Method.
- 9) The Indian Partnership Act, came into existence in the year 1945.
- 10) Profit and Loss Account reflects the true Financial position.
- 11) Amount borrowed by partner from his business will be debited to Current Account.
- 12) Sold but undispached goods must be part of valuation of closing stock.
- 13) Carriage Inward is a selling and distribution overhead
- 14) Gross profit is an operation profit
- 15) All financial expenditures are debited to profit and loss account.
- 16) Free distribution of goods is debited to trading account.

H Calculate the following:

1. Undervaluation of Closing Stock by 10%. Closing Stock was ₹ 30,000 find out the value of Closing Stock
2. Calculate 12.5% P. A.depreciation on Furniture -
 - a) on ₹ 220,000 for 1 year
 - b) on ₹ 10,000 for 6 months



3. Insurance Premium is paid for the year ending 1st September 2019 Amounted to ₹ 1,500. Calculate prepaid insurance assuming that the year ending is 31st March 2019.
4. Find out Gross profit / Gross Loss Purchases ₹ 30,000, Sales ₹ 15,000, Carriage Inward ₹ 2,400, Opening Stock ₹ 10,000, Purchase Returns ₹1,000, Closing Stock ₹ 36,000.
5. Borrowed Loan from Bank of Maharashtra ₹ 2,00,000 on 1st October 2019 at rate of 15% p.a. Calculate Interest on Bank Loan for the year 2019-20 assuming that the financial year ends on 31st March, every year.

Practical Problems

1. Amitbhai and Narendrabhai are in Partnership Sharing Profits and Losses equally. From the following Trial Balance and Adjustments given below, you are required to prepare Trading and Profit and Loss Account for the year ended 31st March, 2019 and Balance Sheet as on that date.

Trial Balance as on 31st March, 2019

| Debit Balance | Amount ₹ | Credit Balance | Amount ₹ |
|-----------------------------------|-----------------|------------------|-----------------|
| Plant & Machinery | 2,80,000 | Capital A/c : | |
| Factory Building | 75,000 | Amitbhai | 3,50,000 |
| Sundry Debtors | 28,700 | Narendrabhai | 3,00,000 |
| Purchases | 85,500 | Sales | 1,80,000 |
| Bad Debts | 500 | Bills Payable | 8,500 |
| Sales Return | 2,200 | Discount | 1,200 |
| 10% Govt. Bond | 40,000 | Creditors | 38,500 |
| (Purchased on 1st Oct, 2018) | | R.D.D. | 2,700 |
| Import Duty | 1,800 | Bank Loan | 15,000 |
| Legal Charges | 2,000 | Purchases Return | 2,000 |
| Motive Power | 12,000 | | |
| Warehouse Rent | 1,800 | | |
| Cash in Hand | 20,000 | | |
| Cash at Bank | 70,000 | | |
| Advertisement | 10,000 | | |
| (for 2 years, w.e.f 1st Jan 2019) | | | |
| Salaries | 3,800 | | |
| Rent | 1,500 | | |
| Drawings : | | | |
| Amitbhai | 2,400 | | |
| Narendrabhai | 3,200 | | |
| Furniture | 1,95,800 | | |
| Bills Receivable | 20,700 | | |
| Free hold Property | 41,000 | | |
| | 8,97,900 | | 8,97,900 |



Adjustments :

- 1) Stock on hand on 31st March 2019 was valued at ₹ 43,000.
 - 2) Uninsured Goods worth ₹ 8,000 were stolen.
 - 3) Create R.D.D at 2% on Sundry debtors.
 - 4) Mr. Patil, our customer become insolvent and could not pay his debts of ₹ 500.
 - 5) Outstanding Expenses - Rent ₹ 800 and Salaries ₹ 300
 - 6) Depreciate Factory Building by ₹ 2,500 and Furniture by ₹ 1,800
- (Ans : G.P. ₹ 1,31,500, N.P. ₹ 1,12,086 Balance Sheet Total ₹ 8,19,586)

- 2 From the following Trial Balance of M/S Mitesh and Mangesh, you are required to prepare Trading and Profit and Loss Account for the year ended 31st March, 2019 and Balance Sheet as on that date.

Trial Balance as on 31st March, 2019

| Debit Balance | Amount ₹ | Credit Balance | Amount ₹ |
|------------------------|-----------------|----------------------|-----------------|
| Stock as on (1/4/2018) | 25,000 | Sundry Creditors | 38,000 |
| Building | 48,500 | Sales | 1,75,000 |
| Carriage | 1,780 | Capital : | |
| Factory Insurance | 2,700 | Mitesh | 1,50,000 |
| Postage | 1,600 | Mangesh | 50,000 |
| Bills Receivable | 13,700 | Outstanding Salaries | 2,000 |
| Sundry Debtors | 52,200 | Bills Payable | 18,000 |
| Return Inward | 1,600 | Return outward | 1,800 |
| Purchases | 68,900 | | |
| Audit fees | 1,800 | Current A/c : | |
| Loose tools | 32,000 | Mitesh | 3,000 |
| Manufacturing Expenses | 1,820 | Mangesh | 2,000 |
| Electricity Charges | 2,600 | | |
| General Expenses | 3,400 | | |
| Export duty | 1,000 | | |
| Cash in hand | 75,000 | | |
| Bank Balance | 29,000 | | |
| Conveyance | 4,100 | | |
| Furniture | 64,000 | | |
| Salaries | 2,000 | | |
| Rent, Rate & Taxes | 3,700 | | |
| Drawings : | | | |
| Mitesh | 1,200 | | |
| Mangesh | 2,200 | | |
| | 4,39,800 | | 4,39,800 |

Adjustments :

- 1) Mitesh and Mangesh are sharing Profit and losses in the ratio 3:1.
- 2) Partners are entitled to get Commission @ 1% each on Gross Profit.
- 3) The closing stock is valued at ₹ 23,700.
- 4) Outstanding Expenses - Audit fees ₹ 400; carriage ₹ 600.
- 5) Building is valued at ₹ 46,500.
- 6) Furniture is depreciated by 5%.
- 7) Provide Interest on Partner's capital at 2.5% pa.
- 8) Goods of ₹ 900 were taken by Mangesh for his personal use.
- 9) Write off ₹ 1,000 as Bad Debts and maintain R.D.D at 3% on Sundry Debtors.

(Ans : G.P. ₹ 99,000, N.P. ₹ 63,684 Balance Sheet Total ₹ 3,30,364)

3. From the following Trial Balance and adjustments given below of Reena and Aarti, you are required to prepare Trading and Profit and Loss Account for the year ended 31st March, 2019 and Balance Sheet as on that date.

Trial Balance as on 31st March, 2019

| Debit Balance | Amount ₹ | Credit Balance | Amount ₹ |
|-----------------|-----------------|-------------------|-----------------|
| Purchases | 35,500 | Sales | 58,200 |
| Sundry Debtors | 40,000 | Sundry Creditors | 25,700 |
| Sales Returns | 1,000 | Purchases Returns | 500 |
| Opening Stock | 18,100 | R.D.D | 800 |
| Bad debts | 500 | Discount | 50 |
| Land & Building | 25,000 | Commission | 250 |
| Furniture | 20,000 | Capital : | |
| Discount | 1,000 | Reena | 50,000 |
| Royalties | 700 | Aarti | 30,000 |
| Rent | 1,900 | | |
| Salaries | 3,000 | | |
| Wages | 800 | | |
| Insurance | 1,500 | | |
| Drawings : | | | |
| Reena | 2,000 | | |
| Aarti | 1,000 | | |
| Cash at Bank | 11,500 | | |
| Cash in Hand | 2,000 | | |
| | 1,65,500 | | 1,65,500 |

Adjustments :

- 1) Closing Stock valued at ₹ 22,000.
- 2) Write off ₹ 900 for Bad & doubtful debts and create a provision for Reserve for doubtful debts ₹ 1,000.
- 3) Create a provision for Discount on Debtors @ 3% and creditors @ 5%.
- 4) Outstanding Expenses - Wages ₹ 700 and Salaries ₹ 800.
- 5) Insurance is paid for 15 months, w.e.f. 1st April 2018



- 6) Depreciate Land and Building @ 5%
- 7) Reena & Aarti are Sharing Profits & Losses in their Capital Ratio.
(Ans : G.P. ₹ 23,900, N.P. ₹ 13,592 Balance Sheet Total ₹ 1,16,507)

4. From the following Trial Balance of M/S Meera and Madhav. Prepare Trading and Profit and Loss Account for the year ended 31st March, 2019 and Balance Sheet as on that date.

Trial Balance as on 31st March, 2019

| Debit Balance | Amount ₹ | Credit Balance | Amount ₹ |
|------------------------------|-----------------|------------------|-----------------|
| Stock (1/4/2018) | 25,000 | Bank overdraft | 5,000 |
| Debtors | 80,500 | Bills Payable | 12,500 |
| Bills Receivable | 10,000 | Creditors | 68,000 |
| Purchases | 2,08,500 | Sales | 3,25,000 |
| Returns | 1,000 | Outstanding Rent | 2,000 |
| Carriage Inward | 3,000 | Unpaid Wages | 1,500 |
| Carriage Outwards | 4,500 | Capital : | |
| Motor Vehicle | 55,000 | Meera | 75,000 |
| General Expenses | 1,800 | Madhav | 75,000 |
| Export Duty | 900 | Purchase Return | 1000 |
| Advertisement | 4,800 | | |
| (For 3 years from 1/10/2018) | | | |
| Printing & Stationary | 1,200 | | |
| Drawings : | | | |
| Meera | 3,500 | | |
| Madhav | 2,000 | | |
| Leasehold Premises | 1,10,000 | | |
| Cash at Bank | 45,000 | | |
| Furniture | 8,300 | | |
| | 5,65,000 | | 5,65,000 |

Adjustments :

- Closing Stock is valued at ₹ 32,000.
 - Provide Provision for Doubtful Debts ₹ 2,000.
 - Create reserve for Discount on Debtors @ 3%.
 - Valued of Leasehold Premises on 31st March 2019 ₹ 1,00,000.
 - Out standing Expenses Printing & Stationary ₹ 500.
- (Ans : G.P. ₹ 1,20500, N.P. ₹ 96,445 Balance Sheet Total ₹ 3,30,445)

5. Sucheta & Gayatri are Partners sharing Profit and Losses in the ratio 3:2. From the following Trial Balance and additional information you are required to prepare Trading and Profit and Loss Account for the year ended 31st March 2019 and Balance Sheet as on that date.

Trial Balance as on 31st March, 2019

| Particulars | Debit ₹ | Credit ₹ |
|--------------------------|-----------------|-----------------|
| Purchases & Sales | 65,000 | 1,85,500 |
| Works Manager's Salary | 2,300 | |
| Capital - Sucheta | | 75,000 |
| - Gayatri | | 40,000 |
| Opening Stock | 18,700 | |
| Debtors & Creditors | 47,500 | 35,000 |
| Wages & Salaries | 4,000 | |
| Bills Receivable | 22,000 | |
| Bills Payable | | 27,300 |
| Discount | | 400 |
| Motive Power | 1,350 | |
| Custom duty | 1,500 | |
| Interest | | 1,300 |
| Unproductive Wages | 3,000 | |
| Audit fees | 2,500 | |
| Rent | 1,800 | |
| Conveyance | 2,000 | |
| Goodwill | 25,000 | |
| Copyrights | 20,000 | |
| Building | 88,000 | |
| Partner (Sucheta's) Loan | | 6,150 |
| Investments | 40,000 | |
| Cash at Bank | 26,000 | |
| | 3,70,650 | 3,70,650 |

Adjustments :

- 1) Stock on 31st March 2019 was valued at ₹ 19,700.
 - 2) Goods costing ₹ 3,000 distributed as free sample.
 - 3) Motive Power includes ₹ 500 paid for deposit of Power Meter.
 - 4) Depreciate Building @ 5%.
 - 5) Write of ₹ 2,000 for Bad debts and maintain R.D.D at 3% on Debtors.
 - 6) Bills Receivable included dishonoured of Bill of ₹ 4,000.
- (Ans : G.P. ₹ 1,15,850, N.P. ₹ 96,996 Balance Sheet Total ₹ 2,80,815)

6. Archana and Prerana are partners, sharing Profits and Losses in the ratio 2:1 with the help of following Trial Balance and Adjustments given below. You are required to prepare Trading and Profit and Loss Account for the year ended 31st March 2019 and Balance Sheet as on that date.

Trial Balance as on 31st March, 2019

| Debit Balance | Amount ₹ | Credit Balance | Amount ₹ |
|---------------------|-----------------|------------------|-----------------|
| Stock (1/4/2018) | 8,560 | Capital : | |
| Patents | 2,000 | Archana | 40,000 |
| Sundry Debtors | 18,500 | Prerana | 20,000 |
| Stock of Stationary | 3,000 | Other Loans | 3,000 |
| Trade Mark | 2,000 | Reserve fund | 1,000 |
| Bills Receivable | 6,300 | Sundry Creditors | 17,500 |
| Electricity charges | 1,450 | Bills Payable | 5,000 |
| Wages | 950 | Purchase Return | 1,000 |
| Heating & Lighting | 1,000 | R.D.D | 500 |
| Trade Expenses | 850 | Sales | 30,200 |
| Sales Return | 400 | Interest | 310 |
| Land & Building | 22,000 | | |
| Furniture | 13,000 | | |
| Cash at Bank | 5,000 | | |
| Investments | 7,500 | | |
| Drawings : | | | |
| Archana | 1,200 | | |
| Prerana | 900 | | |
| Baddebts | 200 | | |
| Purchases | 23,700 | | |
| | 1,18,510 | | 1,18,510 |

Adjustments :

- 1) Stock on 31st March 2019 is valued at Cost Price ₹ 12,000 and Market Price ₹ 17,000.
- 2) Our customer Mr. Shekhar failed to pay his dues of ₹ 800.
- 3) 1/8th of Patents are to be written off.
- 4) A part of Furniture ₹ 5,000 is purchased on 1st Oct 2018.
- 5) Depreciation on Land & Building 10% and on Furniture 5%.
- 6) Outstanding Expenses Wages ₹ 300 and Electricity Charges ₹ 200.
- 7) Allow Interest on Capital 3%.

(Ans : G.P. ₹ 8,290, N.P. ₹ 825 Balance Sheet Total ₹ 87,525)

7. Satish and Pramod are Partners. Prepare Trading Account and Profit and Loss Account for the year 31st March, 2019. You have to find out Gross Profit and Net Profit only.

Trial Balance as on 31st March, 2019

| Debit Balance | Amount ₹ | Credit Balance | Amount ₹ |
|--------------------|---------------|-------------------|---------------|
| Stock (1/4/218) | 8,700 | Sales | 68,000 |
| Purchases | 18,300 | Dividend | 2,000 |
| Wages | 1,000 | Purchases Return | 500 |
| Insurance | 800 | Sundry Creditors | 13,000 |
| Unproductive Wages | 1,400 | 10% Bank Loan | 8,000 |
| Warehouse Rent | 600 | (w.e.f. 1/7/2018) | |
| Carriage Outward | 1,200 | Other Receipts | 1,000 |
| Sales Return | 600 | | |
| Export Duty | 1,400 | | |
| Customs Duty | 800 | | |
| Sundry Debtors | 40,000 | | |
| Investments | 15,700 | | |
| Factory Rent | 1,600 | | |
| Postage & Telegram | 400 | | |
| | 92,500 | | 92,500 |

Adjustments :

- 1) The Closing Stock is valued at ₹ 15,400.
- 2) Outstanding Wages ₹ 500.
- 3) Create provision for Bad debts ₹ 800 and maintain R.D.D 3% on Sundry Debtors.
- 4) Goods of ₹ 1,800 distributed as a free sample.
- 5) Goods of ₹ 2,000 were sold and delivered on 31st March 2019 but no entry is passed in the Books of Account.

(Ans : G.P. ₹ 56,200, N.P. ₹ 48,964)

8. Nana and Nani are Partners in Partnership Firm sharing Profits and Losses equally. You are required to give effects of Adjustments in Profit & Loss A/c and Balance Sheet with the help of following information.

Trial Balance as on 31st March, 2019

| Debit Balance | Amount ₹ | Credit Balance | Amount ₹ |
|-----------------------|-----------------|---|-----------------|
| Insurance | 15,000 | Capital A/c | |
| Land and building | 50,000 | Nana | 50,000 |
| (Addition of ₹ 20,000 | | Nani | 50,000 |
| w.e.f 1st July 2018) | | 10`% Bank loan taken on 1 st Oct. 2018 | 30,000 |
| Salaries | 5,000 | Interest | 1,500 |
| Export Duty | 2,500 | Bills Payable | 8,000 |
| Interest | 1,000 | | |
| Furniture | 40,000 | | |
| Debtors | 26,000 | | |
| | 1,39,500 | | 1,39,500 |



Adjustments :

- 1) Gross profit amounted to ₹ 34,500.
- 2) Insurance Paid for 15 months w.e.f. 1.4.2018.
- 3) Depreciate Land and Building at 10% p.a. and Furniture at 5% p.a.
- 4) Write off ₹ 1,000 for Bad Debts and maintain R.D.D at 5% on Sundry Debtors.
- 5) Closing Stock is valued at ₹ 34,500.

(Ans : N.P. ₹ 5,250 Balance Sheet Total ₹ 1,44,750)

9. Sun and Moon are Partners in Partnership Firm sharing Profits and Losses equally. You are required to give effects of Adjustments with the help of following information.

Trial Balance as on 31st March, 2019

| Debit Balance | Amount ₹ | Credit Balance | Amount ₹ |
|---------------------------|-----------------|-------------------|-----------------|
| Land & Building | 40,000 | Capital A/C | |
| Furniture | 18,000 | Sun | 33,500 |
| Machinery | 40,000 | Moon | 33,500 |
| (Purchased on 1/7/18) | | Current A/c : Sun | 6,000 |
| Goodwill | 2,000 | Sundry Creditors | 25,000 |
| Wages | 2,000 | Bank Overdraft | 10,000 |
| Current A/c : Moon | 4,000 | Reserve Fund | 5,000 |
| 8% Debentures | 8,000 | Providend Fund | 5,000 |
| (Purchased on 1/10/18) | | | |
| Providend Fund Investment | 3,500 | | |
| Stock of Postal stamps | 500 | | |
| | 1,18,000 | | 1,18,000 |

Adjustments :

- 1) Partners are entitled to get salary ₹ 6,000 p.a. in addition to their profit & loss sharing.
- 2) Depreciation on Land & Building, Furniture & Machinery @ 10%, 5% and 3% respectively.
- 3) Interest on Capital 5% p.a.
- 4) Closing Stock ₹ 60,743.
- 5) Wages included ₹ 1,000 as advance given to workers.
- 6) Interest due but not paid ₹ 800.
- 7) Total Net Profit amounted to ₹ 38,113.

You are required to prepare Balance Sheet and Partners Current A/c only.

(Ans : Balance Sheet Total ₹ 1,68,263, Current A/c Balance Sun ₹ 32,731, Moon ₹ 22,732)

10. Kshipra and Manisha are Partners sharing Profit and Losses in their Capital Ratio. You are required to prepare Trading Account and Profit and Loss Account for the year ended 31st March, 2019 and Balance Sheet as on that date.

Trial Balance as on 31st March, 2019

| Debit Balance | Amount ₹ | Credit Balance | Amount ₹ |
|-------------------|-----------------|------------------|-----------------|
| Sundry Debtors | 28,000 | Sales | 1,20,000 |
| Purchases | 55,000 | Rent | 1,800 |
| Furniture | 38,500 | Sundry Creditors | 38,500 |
| Plant & Machinery | 60,000 | Purchase Return | 1,000 |
| Wages | 800 | Discount | 500 |
| Salaries | 3,500 | Bills Payable | 9,000 |
| Discount | 800 | Capital A/c : | |
| Bills Receivable | 14,400 | Kshipra | 90,000 |
| Carriage Outward | 1,000 | Manisha | 30,000 |
| Postage | 500 | Current A/c : | |
| Sales Return | 500 | Kshipra | 5,000 |
| Cash in Hand | 4,000 | Manisha | 3,000 |
| Cash at Bank | 47,000 | | |
| Insurance | 2,000 | | |
| Opening Stock | 17,800 | | |
| Trade Expenses | 1,500 | | |
| Ware house Rent | 2,500 | | |
| Advertisement | 1,000 | | |
| Building | 20,000 | | |
| | 2,98,800 | | 2,98,800 |

Adjustments :

- 1) Stock on 31st March 2019 was at ₹ 37,000.
- 2) Sales includes, sale of machinery of ₹ 2,000, which is sold on 1st April 2018.
- 3) Depreciation on fixed assets @ 5%.
- 4) Each Partners is entitled to get Commission at 1% of Gross Profit and Interest on Capital 5% p.a.
- 5) Outstanding Expenses Wages ₹ 200 & Salaries ₹ 500.
- 6) Create provision for doubtful debts @ 3% on Sundry Debtors.

(Ans : G.P. ₹ 81,700, N.P. ₹ 56,401 Balance Sheet Total ₹ 2,40,235)

Activity :

1. Visit a Partnership firm and study the management of the firm and write a report on it.
2. Write a report on procedure of Registration of Partnership firm under Indian Partnership Act, 1932.
3. Visit Chartered Accountants office and understand the process of finalisation of Partnership Accounts and filing of Income Tax Return

