

Introduction to Partnership and Partnership Final Accounts

EXERCISE - 1 [PAGES 50 - 51]

Exercise - 1 | Q 1 | Page 50

Select the most appropriate alternative from the following & rewrite the sentence:

When there is no partnership agreement between partners, the division of Profits takes place in _____ ratio.

1. **Equal**
2. capital ratio
3. initial contribution
4. experience and tenure of partner

Solution: When there is no partnership agreement between partners, the division of Profits takes place in equal ratio.

Exercise - 1 | Q 2 | Page 50

Select the most appropriate alternative from the following and rewrite the sentence:

To find out Net Profit or Net Loss of the business _____ account is prepared.

1. Trading
2. Capital
3. Current
4. **Profit & Loss**

Solution: To find out Net profit or Net loss of the business Profit and Loss Account is prepared.

Exercise - 1 | Q 3 | Page 50

Select the most appropriate alternative from the following and rewrite the sentence:

A _____ is an Intangible Asset.

1. **Goodwill**
2. Stock



3. Cash
4. Furniture

Solution: A Goodwill is an Intangible Asset.

Exercise - 1 | Q 4 | Page 50

Select the most appropriate alternative from the following and rewrite the sentence:

In the absence of an agreement, interest on loan advanced by the partner to the firm is allowed at the rate of _____.

1. 5%
2. 6%
3. 10%
4. 9%

Solution: In the absence of an agreement, interest on loan advanced by the partner to the firm is allowed at the rate of 6%.

Exercise - 1 | Q 5 | Page 50

Select the most appropriate alternative from the following and rewrite the sentence:

Liability of partners in a partnership business is _____.

1. Limited
2. Unlimited
3. Limited and Unlimited
4. None of the above

Solution: Liability of partners in a partnership business is unlimited.

Exercise - 1 | Q 6 | Page 51

Select the most appropriate alternative from the following and rewrite the sentence:

The Indian Partnership Act is in force since _____.

1. 1932
2. 1881



3. 1956
4. 1984

Solution: The Indian Partnership Act is in force since 1932.

Exercise - 1 | Q 7 | Page 51

Select the most appropriate alternative from the following and rewrite the sentence:

Maximum number of Partners in a firm are ____ according to Companies Act 2013

1. 10
2. 25
3. 20
4. **50**

Solution: Maximum number of partners in a firm are 50 according to Companies Act, 2013.

EXERCISE - 1 [PAGE 51]

Exercise - 1 | Q 1 | Page 51

Write the word/phrase/term, which can substitute the following sentence.

Persons who form the partnership firm.

Solution: Persons who form the partnership firm. - **Partners**

Exercise - 1 | Q 2 | Page 51

Write the word/phrase/term, which can substitute the following sentence.

Amount of cash or goods withdrawn by partners from the business from time to time.

Solution: Amount of cash or goods withdrawn by partners from the business from time to time. - **Drawings**

Exercise - 1 | Q 3 | Page 51

Write the word/phrase/term, which can substitute the following sentence.

An association of two or more persons according to the Indian partnership Act 1932.

Solution: An association of two or more persons according to the Indian partnership Act 1932. - **Partnership Firm**



Exercise - 1 | Q 4 | Page 51

Write the word/phrase/term, which can substitute the following sentence.

Act under which partnership firms are regulated.

Solution: Act under which partnership firms are regulated. - **Indian Partnership Act**

Exercise - 1 | Q 5 | Page 51

Write the word/phrase/term, which can substitute the following sentence.

Process of entering the name of a partnership firm in the register of Registrar.

Solution: Process of entering the name of a partnership firm in the register of Registrar.
- **Registration**

Exercise - 1 | Q 6 | Page 51

Write the word/phrase/term, which can substitute the following sentence.

Partnership agreement in written form.

Solution: Partnership agreement in written form. - **Partnership Deed**

Exercise - 1 | Q 7 | Page 51

Write the word/phrase/term, which can substitute the following sentence.

Under this method capital, balances of partners remain constant.

Solution: Under this method capital, balances of partners remain constant. - **Fixed Capital Method**

Exercise - 1 | Q 8 | Page 51

Write the word/phrase/term, which can substitute the following sentence.

Proportion in which partners share profit.

Solution: Proportion in which partners share profit. - **Profit Sharing Ratio**

Exercise - 1 | Q 9 | Page 51

Write the word/phrase/term, which can substitute the following sentence.

Such capital method in which only Capital Account is maintained for each partner.

Solution: Such capital method in which only Capital Account is maintained for each partner. - **Fluctuating Capital Method**

Exercise - 1 | Q 10 | Page 51

Write the word/phrase/term, which can substitute the following sentence.

The account to which all adjustments are made when capital is fixed.

Solution: The account to which all adjustments are made when capital is fixed.

- **Current Account**

Exercise - 1 | Q 11 | Page 51

Write the word/phrase/term, which can substitute the following sentence.

Expenses which are paid before they are due.

Solution: Expenses which are paid before they are due. - **Prepaid Expenses**

Exercise - 1 | Q 12 | Page 51

Write the word/phrase/term, which can substitute the following sentence.

The accounts that are prepared at the end of each accounting year.

Solution: The accounts that are prepared at the end of each accounting year. - **Final Accounts**

Exercise - 1 | Q 13 | Page 51

Write the word/phrase/term, which can substitute the following sentence.

An asset which can be converted into cash easily.

Solution: An asset which can be converted into cash easily. - **Current Assets or Liquid Assets**

Exercise - 1 | Q 14 | Page 51

Write the word/phrase/term, which can substitute the following sentence.

Order in which fixed assets are recorded first in the Balance Sheet.

Solution: Order in which fixed assets are recorded first in the Balance Sheet. - **Order of liquidation**

Exercise - 1 | Q 15 | Page 51

Write the word/phrase/term, which can substitute the following sentence.

The account in which selling expenses of the business are recorded.



Solution: The account in which selling expenses of the business are recorded. - **Profit and Loss account**

Exercise - 1 | Q 16 | Page 51

Write the word/phrase/term, which can substitute the following sentence.

Debit balance of Trading Account.

Solution: Debit balance of Trading Account. - **Gross Loss**

Explanation: The debit balance of the Trading Account is termed as gross loss because the amount of purchases and the expenses directly related with purchases is more than the amount of sales.

Exercise - 1 | Q 17 | Page 51

Write the word/phrase/term, which can substitute the following sentence.

Credit balance of Profit and Loss Account.

Solution: Credit balance of Profit and Loss Account. - **Net Profit**

Explanation: The credit balance of Profit and Loss Account is regarded as net profit. When the credit side of the Profit & Loss Account exceeds its debit side, the resultant balance is net profit. It is added to the amount of capital.

EXERCISE - 1 [PAGES 51 - 52]

Exercise - 1 | Q 1 | Page 51

State whether the following statement is True or False with reasons.

Partnership firm is a Non-Trading Concern.

1. True
2. **False**

Solution: Partnership firm is a Non-Trading Concern. - **False**

Explanation:

The main aim of the partnership firm is to earn maximum profit. The partnership is a trading concern. It undertakes either manufacturing or distributive activities with the sole aim of earning profit and distribute that profit among the partners in a specific ratio. It is never formed for charitable purposes.

Exercise - 1 | Q 2 | Page 51

State whether the following statement is True or False with reasons.

Profit and Loss Account is a Real Account.

1. True

2. **False**

Solution: Profit and Loss Account is a Real Account. - **False.**

Explanation:

Account of expenses, losses, gains, and incomes is called the Nominal account. Profit and Loss Account contains all indirect expenses and indirect incomes of the firm. Therefore, Profit and Loss Account is a Nominal Account and not a real account.

Exercise - 1 | Q 3 | Page 51

State whether the following statement is True or False with reasons.

Carriage inward is a carriage on purchase.

1. **True**

2. False

Solution: Carriage inward is a carriage on purchase. - **True**

Explanation:

Total transport expenses incurred on bringing the goods from the market to the place of business is called the carriage. When goods are purchased, the carriage is supposed to be borne by the firm. It is known as carriage inward. It means carriage paid on purchase.

Exercise - 1 | Q 4 | Page 51

State whether the following statement is True or False with reasons.

Adjustments are recorded in Partner's Current Account in Fixed Capital Method.

1. **True**

2. False

Solution: Adjustments are recorded in Partner's Current Account in Fixed Capital Method. - **True**

Explanation:

In the Fixed Capital Method, as the name suggests capital balances (opening and closing) are generally remain fixed. Under this method, adjustments are not to be recorded in Capital Account. All adjustments are recorded in a separate account called Partners' Current Accounts.

Exercise - 1 | Q 5 | Page 51

State whether the following statement is True or False with reasons.

Prepaid expenses are treated as liabilities.

1. True
2. **False**

Solution: Prepaid expenses are treated as liabilities. - **False**

Explanation:

Prepaid expenses are expenses which are paid before they are due. Therefore, they are considered an asset of the business organisation.

Exercise - 1 | Q 6 | Page 51

State whether the following statement is True or False with reasons.

If the partnership deed is silent, partners share profits and losses in proportion to their capital.

1. True
2. **False**

Solution: If the partnership deed is silent, partners share profits and losses in proportion to their capital. - **False**

Explanation:

As per the provisions made under Indian Partnership Act 1932, when partnership deed is silent about profit and loss sharing ratio, partners are supposed to share profits and losses in equal proportion, and not in their capital ratio

Exercise - 1 | Q 7 | Page 51

State whether the following statement is True or False with reasons.

Balance Sheet is an Account.

1. True
2. **False**

Solution: Balance Sheet is an Account. - **False**

Explanation:

Financial statement showing all assets and liabilities is called the Balance sheet. It is not an account. It is a position statement which shows various assets owned by the firm and various liabilities owned by it. On the left-hand side, all liabilities are listed and on the right-hand side all assets are recorded.

Exercise - 1 | Q 8 | Page 51

State whether the following statement is True or False with reasons.

Wages paid for the installation of Machinery is a Revenue expenditure.

1. True

2. **False**

Solution: Wages paid for the installation of Machinery is a Revenue expenditure.
- False

Explanation:

Wages paid for the installation of machinery is a capital expenditure and therefore it is added to the cost of machinery. It is, generally, paid once in the life of an asset. It is long-term and capital expenditure.

Exercise - 1 | Q 9 | Page 51

State whether the following statement is True or False with reasons.

Income received in advance is a liability.

1. **True**

2. False

Solution: Income received in advance is a liability. - True

Explanation:

When income in respect to next year, it received in the current year, it is known as income received in advance. So, in next year the firm will not be able to receive that amount and therefore it is considered as a liability for the current year.

Exercise - 1 | Q 10 | Page 51

State whether the following statement is True or False with reasons.

R.D.D. is created on Creditors.

1. True

2. **False**

Solution: R.D.D. is created on Creditors. - False.

Explanation:

R.D.D. stands for Reserve for Doubtful Debts. It is created on the value of debtors. Such provision is made against profit and loss account. In the future if the loss is incurred on account of bad debts, such amount is used to run the business.

Exercise - 1 | Q 11 | Page 51

State whether the following statement is True or False with reasons.

Depreciation is not calculated on Current Assets.

1. **True**
2. False

Solution: Depreciation is not calculated on Current Assets. - **True**

Explanation:

Current Assets mean liquid assets having no fixed tenure therefore depreciation cannot be calculated on it. Depreciation is calculated and charged on fixed assets for their use, wear and tear, etc.

Exercise - 1 | Q 12 | Page 51

State whether the following statement is True or False with reasons.

Goodwill is an intangible asset.

1. **True**
2. False

Solution: Goodwill is an intangible asset. - **True**

Explanation:

Goodwill is a reputation of business computed in terms of money. Reputation can be experienced but can't be seen or felt. Therefore, Goodwill is an intangible asset.

Exercise - 1 | Q 13 | Page 52

State whether the following statement is True or False with reasons.

Indirect expenses are debited to Trading Account.

1. True
2. **False**

Solution: Indirect expenses are debited to Trading Account. - **False**

Explanation:

Indirect expenses mean expenses that are not directly related to the production of goods and services. Therefore, indirect expenses cannot be debited to the Trading Account. All indirect expenses are debited to Profit and Loss Account.

Exercise - 1 | Q 14 | Page 52



State whether the following statement is True or False with reasons.

Bank loan is a current liability.

1. True

2. **False**

Solution: Bank loan is a current liability. - **False.**

Explanation:

The loan usually taken for the period more than 1 year say 5 years from the bank is called Bank Loan. It is a long term loan. It is not repaid within 1 year but paid in installments over a number of years. It might be paid in lumpsum at the expiry of the term.

Exercise - 1 | Q 15 | Page 52

State whether the following statement is True or False with reasons.

Net profit is a debit balance of Profit and Loss Account.

1. True

2. **False**

Solution: Net profit is a debit balance of Profit and Loss Account. - **False**

Explanation:

In a Profit and Loss Account, when the credit side total i.e. a total of incomes is more than the debit side total, i.e. expenses it is known as a credit balance. When incomes exceed expenses there is profit. Therefore credit balance of Profit and Loss Account indicates net profit.

EXERCISE - 1 [PAGE 52]

Exercise - 1 | Q 1 | Page 52

Find odd one.

1. Wages

2. **Salary**

3. Royalty

4. Import Duty

Solution: Wages, Salary, Royalty, Import Duty. - **Salary.**

Exercise - 1 | Q 2 | Page 52

Find odd one



1. Postage
2. Stationery
3. Advertising
4. **Purchases.**

Solution: Postage, Stationery Advertising, Purchases. - **Purchases**

Exercise - 1 | Q 3 | Page 52

Find odd one.

1. Capital
2. **Bills Receivable**
3. Reserve Fund
4. Bank overdraft.

Solution: Capital, Bills Receivable, Reserve Fund, Bank overdraft. - **Bills receivable**

Exercise - 1 | Q 4 | Page 52

Find odd one.

1. Building
2. Machinery
3. Furniture
4. **Bills payable.**

Solution: Building, Machinery, Furniture, Bills payable. - **Bills Payable**

Exercise - 1 | Q 5 | Page 52

Find odd one.

1. Discount received
2. Dividend received
3. Interest received
4. **Depreciation.**

Solution: Discount received, Dividend received, Interest received, Depreciation.

- **Depreciation**



EXERCISE - 1 [PAGE 52]

Exercise - 1 | Q 1 | Page 52

Complete the Sentence.

Partners share profit & losses in _____ ratio in the absence of partnership deed

Solution: Partners share profit & losses in equal ratio in the absence of partnership deed.

Exercise - 1 | Q 2 | Page 52

Complete the Sentence.

Registration of Partnership is _____ in India.

Solution: Registration of Partnership is optional in India.

Exercise - 1 | Q 3 | Page 52

Complete the Sentence.

Partnership business must be _____ .

Solution: Partnership business must be lawful.

Exercise - 1 | Q 4 | Page 52

Complete the Sentence.

Liabilities of Partners in Partnership firm is _____.

Solution: Liabilities of Partners in Partnership firm is unlimited.

Exercise - 1 | Q 5 | Page 52

Complete the Sentence.

The balance of Drawings Account of a partner is transferred to his _____ account under the Fixed Capital Method.

Solution: The balance of Drawings Account of a partner is transferred to his current account under the Fixed Capital Method.

Exercise - 1 | Q 6 | Page 52

Complete the Sentence.

The interest on capital of a partner is debited to _____ account.

Solution: The interest on capital of a partner is debited to Profit and Loss account.

Exercise - 1 | Q 7 | Page 52

Complete the Sentence.

Partners are _____ liable for the debts of the firm.

Solution: Partners are joint & several liable for the debts of the firm.

Exercise - 1 | Q 8 | Page 52

Complete the Sentence.

Partnership Deed is an _____ of Partnership.

Solution: Partnership Deed is an Article of Partnership.

Exercise - 1 | Q 9 | Page 52

Complete the Sentence.

The withdrawal by partner for personal use from the firm is _____ to his account.

Solution: The withdrawal by partner for personal use from the firm is debited to his account.

Exercise - 1 | Q 10 | Page 52

Complete the Sentence.

Commission payable to partner is _____ to the firm.

Solution: Commission payable to partner is liability/outstanding expense to the firm.

Exercise - 1 | Q 11 | Page 52

Complete the Sentence.

When partners adopt Fixed Capital Method then they have to operate _____ Account.

Solution: When partners adopt Fixed Capital Method then they have to operate partners current Account.

Exercise - 1 | Q 12 | Page 52

Complete the Sentence.

If partners Current Account shows _____ balance it is shown to the liability side of Balance sheet

Solution: If partners Current Account shows credit balance it is shown to the liability side of Balance sheet.

Exercise - 1 | Q 13 | Page 52

Complete the Sentence.

The expenses paid for trading purpose are known as _____ expenses.

Solution: The expenses paid for trading purpose are known as trade expenses.

Exercise - 1 | Q 14 | Page 52

Complete the Sentence.

Cash receipts which are recurring in nature are called as _____ Receipts.

Solution: Cash receipts which are recurring in nature are called as revenue Receipts.

Exercise - 1 | Q 15 | Page 52

Complete the Sentence.

Return outward are deducted from _____ .

Solution: Return outward are deducted from purchase .

Exercise - 1 | Q 16 | Page 52

Complete the Sentence.

Expenses which are paid before due date are called as _____.

Solution: Expenses which are paid before due date are called as Prepaid Expenses .

Exercise - 1 | Q 17 | Page 52

Complete the Sentence.

Assets which are held in the business for a long period are called _____.

Solution: Assets which are held in the business for a long period are called fixed assets.

Exercise - 1 | Q 18 | Page 52

Complete the Sentence.

Trading Account is prepared on the basis of is _____ expenses.

Solution: Trading Account is prepared on the basis of is **direct** expenses.

Exercise - 1 | Q 19 | Page 52

Complete the Sentence.

When commission is allowed to any partner, it is _____ of the business.

Solution: When commission is allowed to any partner, it is **expenditure** of the business.

Exercise - 1 | Q 20 | Page 52

Complete the Sentence.

When goods are distributed as free samples, it is treated as _____ of the business.

Solution: When goods are distributed as free samples, it is treated as **advertisement expense** of the business.

EXERCISE - 1 [PAGES 52 - 53]

Exercise - 1 | Q 1 | Page 52

Answer in one sentence only

What is Fluctuating Capital?

Solution: When capital balances of the partners go on changing every year due to transactions of partners with the firm, it is known as Fluctuating Capital.

Exercise - 1 | Q 2 | Page 52

Answer in one sentence only

Why is Partnership Deed necessary?

Solution: Partnership Deed is necessary to prevent disputes or misunderstandings among the partners in future.

Exercise - 1 | Q 3 | Page 52

Answer in one sentence only.

If the Partnership Deed is silent, in which ratio, the partners will share the profit or loss?

Solution: If the Partnership Deed is silent, partners will share profits and losses in equal ratio.

Exercise - 1 | Q 4 | Page 52

Answer in one sentence only

What is the Fixed Capital Method?

Solution: When capital accounts of the partners are maintained under fixed capital method, then the capital of the partners remains unchanged or unaltered. It alters only in case of permanent change in capital (i.e. additional capital introduced or withdrawal of capital). In this method, two accounts, namely, Capital Account and Current Account are prepared.

Exercise - 1 | Q 5 | Page 52

Answer in one sentence only

How many partners are required to form a partnership firm?

Solution: Minimum two persons are required to form a partnership firm.

Exercise - 1 | Q 6 | Page 52

Answer in one sentence only

What is Partnership Deed?

Solution: A partnership deed is a written agreement duly stamped and signed document containing the terms and condition of the partnership.

Exercise - 1 | Q 7 | Page 53

Answer in one sentence only

What are the objectives of the Partnership Firm?

Solution: To earn maximum profit is the main objective of the partnership firm.

Exercise - 1 | Q 8 | Page 53

Answer in one sentence only

What rate of interest is allowed on partner's loan in the absence of an agreement?

Solution: 6 % is the rate of interest to be allowed on partner's loan in the absence of an agreement.

Exercise - 1 | Q 9 | Page 53

Answer in one sentence only

What is the minimum number of partners in a partnership firm according to Indian Partnership Act 1932?

Solution: Minimum two persons are required number of partners in a partnership firm according to Indian Partnership Act 1932.

Exercise - 1 | Q 10 | Page 53

Answer in one sentence only

What is liability of a partner?

Solution: Liability of a partner (except minor partner) is unlimited.

Exercise - 1 | Q 11 | Page 53

Answer in one sentence only

In the absence of Partnership Deed, what is the rate of interest on loan advanced by partner to the firm is allowed?

Solution: In the absence of Partnership Deed, 6 % is the rate of interest on loan advanced by partner to the firm

Exercise - 1 | Q 12 | Page 53

Answer in one sentence only

What do you mean by pre-received income?

Solution: Income which is received by the partnership firm before it is due is called pre received income.

Exercise - 1 | Q 13 | Page 53

Answer in one sentence only

What is the effect of the adjustment of provision for discount on debtors in the final accounts of partnership?

Solution: The effects of the adjustment of provision for discount on debtors in the final accounts of partnership are as follows:

Debit Profit and Loss A/c and deduct the amount of provision for discount on debtors from the amount of debtors.

Exercise - 1 | Q 14 | Page 53

Answer in one sentence only

When is Partners Current Account is opened?

Solution: When Fixed Capital Method is adopted by the firm, Partners Current Account is opened.

Exercise - 1 | Q 15 | Page 53

Answer in one sentence only

As per which principle of accounting, closing stock is valued at cost price or at market price whichever is less?

Solution: As per the conservatism principle of accounting, the closing stock is valued at cost price or at market price whichever is less.

Exercise - 1 | Q 16 | Page 53

Answer in one sentence only

What is the provision of Indian Partnership Act with regard to Interest on Capital?

Solution: As per provision of Indian Partnership Act, Interest on Capital is not to be allowed.

Exercise - 1 | Q 17 | Page 53

Answer in one sentence only

Why is Balance Sheet prepared?

Solution: Balance Sheet is prepared to know the financial position of the business in the form of its assets and liabilities on a particular date.

Exercise - 1 | Q 18 | Page 53

Answer in one sentence only

Why wages paid for installation of machinery are not shown in Trading Account?

Solution: Wages paid for installation of machinery is a capital expenditure and it is not to be recorded in Trading Account.

Exercise - 1 | Q 19 | Page 53

Answer in one sentence only

What do you mean by indirect incomes?

Solution: All incomes other than direct incomes are called indirect incomes. [e.g. Interest received on investments, Incomes like discount, commission, dividend, rent etc. received].

Exercise - 1 | Q 20 | Page 53

Answer in one sentence only

Why partners capital is treated as long-term liability of business?

Solution: Partner's Capital is not refunded during the existence of partnership firm unless partner is retired or expired.

EXERCISE - 1 [PAGE 53]

Exercise - 1 | Q 1 | Page 53

Do you agree/disagree with the following statement:

When Partnership Deed is silent, Partners share profits of the firm according to capital ratio.

1. Agree
2. **Disagree**

Solution: When Partnership Deed is silent, Partners share profits of the firm according to capital ratio. - **Disagree.**

Exercise - 1 | Q 2 | Page 53

Do you agree/disagree with the following statement:

Current account always shows a debit balance.

1. Agree
2. **Disagree**

Solution: Current account always shows a debit balance. - **Disagree.**



Exercise - 1 | Q 3 | Page 53

Do you agree/disagree with the following statement:

It is compulsory to have a partnership agreement in writing.

1. Agree
2. **Disagree**

Solution: It is compulsory to have a partnership agreement in writing. - **Disagree**

Exercise - 1 | Q 4 | Page 53

Do you agree/disagree with the following statement:

Partnership Firm is a trading concern.

1. **Agree**
2. Disagree

Solution: Partnership Firm is a trading concern. - **Agree.**

Exercise - 1 | Q 5 | Page 53

Do you agree/disagree with the following statement:

An interest on capital is an expenditure for the partnership firm.

1. **Agree**
2. Disagree

Solution: An interest on capital is an expenditure for the partnership firm. - **Agree.**

Exercise - 1 | Q 6 | Page 53

Do you agree/disagree with the following statement:

Partnership is an association of two or more persons.

1. **Agree**
2. Disagree

Solution: Partnership is an association of two or more persons. - **Agree.**

Exercise - 1 | Q 7 | Page 53

Do you agree/disagree with the following statement:

Partners are entitled to get Salary or Commission.

1. Agree



2. Disagree

Solution: Partners are entitled to get Salary or Commission. - **Disagree.**

Exercise - 1 | Q 8 | Page 53

Do you agree/disagree with the following statement:

The balance of Capital Account remains constant under Fixed Capital Method.

1. Agree

2. Disagree

Solution: The balance of Capital Account remains constant under the Fixed Capital Method. - **Agree.**

Exercise - 1 | Q 9 | Page 53

Do you agree/disagree with the following statement:

The Indian Partnership Act, came into existence in the year 1945.

1. Agree

2. Disagree

Solution: The Indian Partnership Act came into existence in the year 1945. - **Disagree.**

Exercise - 1 | Q 10 | Page 53

Do you agree/disagree with the following statement:

Profit and Loss Account reflects the true Financial position.

1. Agree

2. Disagree

Solution: Profit and Loss Account reflects the true financial position. - **Disagree.**

Exercise - 1 | Q 11 | Page 53

Do you agree/disagree with the following statement:

Amount borrowed by partner from his business will be debited to Current Account.

1. Agree

2. Disagree

Solution: Amount borrowed by the partner from his business will be debited to the Current Account. - **Agree.**

Exercise - 1 | Q 12 | Page 53

Do you agree/disagree with the following statement:

Sold but undispached goods must be part of valuation of closing stock.

1. Agree
2. **Disagree**

Solution: Sold but undispached goods must be part of the valuation of closing stock.

- **Disagree.**

Exercise - 1 | Q 13 | Page 53

Do you agree/disagree with the following statement:

Carriage Inward is a selling and distribution overhead.

1. Agree
2. **Disagree**

Solution: Carriage Inward is a selling and distribution overhead. - **Disagree.**

Exercise - 1 | Q 14 | Page 53

Do you agree/disagree with the following statement:

Gross profit is an operation profit.

1. Agree
2. **Disagree**

Solution: Gross profit is an operation profit. - **Disagree.**

Exercise - 1 | Q 15 | Page 53

Do you agree/disagree with the following statement:

All financial expenditures are debited to profit and loss account.

1. **Agree**
2. Disagree

Solution: All financial expenditures are debited to profit and loss account. - **Agree**

Exercise - 1 | Q 16 | Page 53

Do you agree/disagree with the following statement:

Free distribution of goods is debited to the trading account.



1. Agree

2. **Disagree**

Solution: Free distribution of goods is debited to the trading account. - **Disagree**

EXERCISE - 1 [PAGE 53]

Exercise - 1 | Q 1 | Page 53

Calculate the following:

Undervaluation of Closing Stock by 10%. Closing Stock was ₹30,000 find out the value of Closing Stock

Solution:

Undervaluation of Closing Stock by 10%.

$$\begin{aligned}\text{Revised Value} &= \frac{\text{Book Value}}{100 - \% \text{ of undervaluation}} \times 100 \\ &= \frac{30,000}{100 - 10} \times 100 = ₹ 33,333.\end{aligned}$$

∴ Value of closing stock = ₹ 33,333

Exercise - 1 | Q 2 | Page 53

Calculate the following:

Calculate 12.5 % P.A. depreciation on Furniture :

(a) on ₹ 2,20,000 for 1 year

(b) on ₹ 10,000 for 6 months

Solution:

Depreciation = Amount of asset × Period × %

$$\begin{aligned}\text{(a) Depreciation on furniture} &= 2,20,000 \times 1 \times \frac{12.5}{100} \\ &= ₹ 27,500\end{aligned}$$

Hence depreciation on furniture for 1 year = ₹ 27,500

$$(b) \text{ Depreciation. on furniture} = 10,000 \times \frac{6}{12} \times \frac{12.5}{100}$$

$$= ₹ 625$$

∴ Depreciation on furniture for 6 months = ₹ 625

PRACTISE PROBLEM [PAGES 54 - 61]

Practise Problem | Q 1 | Page 54

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 (Purchased on 1st Oct 2018)	40,000	Creditors	38,500
Import Duty	1,800	R.D	2,700
Legal Charges	2,000	Bank Loan	15,000
Motive Power	12,000	Purchases Return	2,000
Warehouse Rent	1,800		
Cash in Hand	20,000		
Cash at Bank	70,000		
Advertisement (for 2 years, w.e.f 1st Jan 2019)	10,000		
Salaries	3,800		



Rent	1,500		
Drawings :			
Amitbhai	2,400		
Narendrabhai	3,200		
Furniture	1,95,800		
Bills Receivable	20,700		
Freehold 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 becomes 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

Solution:

Dr.	In the books of Amitbhai and Narendrabhai Trading and Profit and Loss Account for the year ended on 31st March 2019				Cr.
Particulars	Amount ₹	Amount ₹	Particulars	Amount ₹	Amount ₹
To Purchases	85,500		By Sales	1,80,000	
Less: Purchase Return	2,000	83,500	Less: Sales Return	2,200	1,77,800
To Import Duty		1,800	By Closing Stock		43,000
To Motive Power		12,000	By Goods Stolen Away		8,000



To Depreciation - Factory Building		2,500			
To Gross Profit c/d		1,29,000			
		2,28,800			2,28,800
To Warehouse Rent		1,800	By Gross Profit b/d		1,29,000
To R.B.D.D. A/C			By Discount		1,200
Bad debts	500		By O/s Interest on Govt. Bonds		2,000
Add: New Bad debts	500		By R.B.D.D. A/c (Excess Reserve) (2,700 – 1,564)		1,136
Add: New Reserve	564				
	1564				
Less: Old Reserve	2700				
To Legal Charges		2,000			
To Advertisement Expenses	10,000				
less: Prepaid Adv. Exp.	8,750	1250			

To Salaries	3,800				
Add: O/s Salaries	300	4100			
To Rent	1500				
Add: O/s Rent	800	2,300			
To Depreciation on Furniture		1,800			
To Loss due to Theft		8,000			
To Net Profit Transferred to Capital A/c					
Amitbhai	56,043				
Narendrabhai	56,043	1,12,086			
		1,33,336			1,33,336

Balance Sheet as on 31st March 2019

Liabilities	Amount ₹	Amount ₹	Assets	Amount ₹	Amount ₹
Capital Account: Amitbhai			Plant & Machinery		2,80,000
Opening Balance	3,50,000		Factory Building	75,000	
Add: Net Profit	56,043		Less: Depreciation	2,500	72,500
Less: Drawings	2,400	4,03,643	Closing Stock		43,000
			Sundry Debtors	28,700	



Capital Account: Narendrabhai			Less: B.D. (New)	500	
Opening Balance	3,00,000			28,200	
Add: Net Profit	56,043		Less: R.D.D. (New)	564	27,636
Less: Drawings	3,200	3,52,843	10 % Govt. Bond		40,000
Bills Payable		8,500	O/s Interest on Govt. Bond		2,000
Creditors		38,500	Cash in Hand		20,000
Bank Loan		15,000	Cash at Bank		70,000
Outstanding expenses			Prepaid Advertisement Expense		8,750
Rent	800		Furniture	1,95,800	
Salaries	300	1,100	Less: Depreciation	1,800	1,94,000
			Bills Receivable		20,700
			Freehold property		41,000
		8,19,586			8,19,586

Notes :

(1) Import duty, Motive power, and Depreciation on Factory building are recorded in the Trading A/c.

(2) 10 % govt. bond is an investment. It was purchased on 1 – 10 – 2018.

∴ Interest is calculated for six months.

$$\text{Interest on Govt. Bond} = \frac{4000}{1} \times \frac{6}{12} \times \frac{10}{100} = ₹ 2,000$$

(3) Adv. exp. paid for 2 years from 01 – 01 – 2019. Up to 31 – 3 – 2019, 3 months adv. exp. is written off to Profit and Loss A/c. It is calculated as below :

$$10,000 \times \frac{3}{24} = ₹ 1,250$$



Practise Problem | Q 2 | Page 55

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 outword	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) The 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.

Solution:

Dr.	In the books of M/s. Mitesh and Mangesh Trading and Profit and Loss Account for the year ended on 31st March 2019				Cr.
Particulars	Amt ₹	Amt ₹	Particulars	Amt ₹	Amt ₹
To Opening Stock		25,000	By Sales	1,75,000	
To Purchase	68,900		Less: Sales Return	1,600	1,73,400
Less: Purchase Return	1,800	67,100	By Closing Stock		23,700
To Factory Insurance		2,700	By Goods Withdrawn for personal use Mangesh		900
To Manufacturing Expenses		1,820			
To Carriage	1,780				
Add : O/s Carriage	600	2,380			



To Gross Profit c/d		99,000			
		1,98,000			1,98,000
To Postage		1,600	By Gross Profit b/d		99,000
To Audit Fees	1,800				
Add: O/s Audit Fees	400	2,200			
To Electricity Charges		2,600			
To General Expenses		3,400			
To Export Duty		1,000			
To Conveyance		4,100			
To Salaries		2,000			
To Rent, Rate & Taxes		3,700			
To Depreciation on:					
Building	2,000				
Furniture	3,200	5,200			
To R.B.D.D. A/c		1,536			
New Bad debts	1,000				
Add: New Reserve	1,536	2,536			
To Interest on Capital A/cs:					
Mitesh	3,750				
Mangesh	1,250	5,000			

To Commission to Partners' A/c:					
Mitesh	990				
Mangesh	990	1,980			
To Net Profit (Transferred to Partners' Current A/cs)					
Mitesh	47,763				
Mangesh	15,921	63,684			
		99,000			99,000

Dr.	Partners' Current Accounts				Cr.
	Particulars	Mitesh	Mangesh	Particulars	Mitesh Mangesh
	To Drawings	1,200	2,200	By Balance b/d	3,000 2,000
	To Additional Drawings (Goods)		900	By Profit and Loss A/c (Commission)	990 990
	To Balance c/d	54,303	17,061	By Profit and Loss A/c (Interest on Capital)	3,750 1,250
				By Profit and Loss A/c	47,763 15,921
		55,503	20,161		55,503 20,161
				By Balance b/d	54,303 17,061

Balance Sheet as on 31st March 2019

Liabilities	Amount ₹	Amount ₹	Asset	Amount ₹	Amount ₹
Capital Accounts:			Building	48,500	
Mitesh	1,50,000		Less : Depreciation	2,000	46,500
Mangesh	50,000	2,00,000	Bills Receivable		13,700



Current Accounts:			Sundry Debtors	52,200	
Mitesh	54,303		Less: B.D. (New)	1,000	
Mangesh	17,061	71,364		51,200	
Sundry Creditors		38,000	Less : R.D.D. (New)	1,536	49,664
Bills Payable		18,000	Loose Tools		32,000
Outstanding expenses			Cash in Hand		75,000
Salaries	2,000		Bank Balance		29,000
Audit fees	400		Furniture	64,000	
Carriage	600	3,000	Less: Depreciation	3,200	60,800
			Closing Stock		23,700
		3,30,364			3,30,364

Working Notes:

(1) In this problem, Current Account balances are given. So, the total amount of fixed capital is directly shown on the Liabilities side of the Balance Sheet. Effects of adjustments related to the commission to partners, interest on capital, goods are withdrawn by Mangesh are given in the Current Account. Closing balances of Current Account are shown separately on the Liability side of the Balance Sheet.

(2) Building is valued at ₹ 46,500 whereas the opening balance of the Building given is ₹ 48,500. Therefore, the difference of the amount of ₹2,000 (48,500 - 46,500) is nothing but Depreciation charged on Building.

(3) Return Inward ⇒ Sales Return

Return Outward ⇒ Purchase Return

(4) Commission payable to partners:

$$\text{Mitesh} = 1\% \text{ on Gross Profit} = \frac{1}{100} \times \frac{99000}{1} = ₹ 990/-$$

$$\text{Mangesh} = 1\% \text{ on Gross Profit} = \frac{1}{100} \times 99,000 = ₹ 990/-$$

Practise Problem | Q 3 | Page 56

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.

Solution:

Dr.	In the books of Reena and Aarti Trading and Profit and Loss Account for the year ended on 31st March 2019				Cr.
Particulars	Amount ₹	Amount ₹	Particulars	Amount ₹	Amount ₹
To Opening Stock		18,100	By Sales	58,200	
To Purchases	35,500		Less: Sales Return	1,000	57,200
Less: Purchase Return	500	35,000	By Closing Stock		22,000
To Royalties		700			
To Wages	800				
Add: O/s Wages	700	1,500			
To Gross Profit c/d		23,900			
		79,200			79,200
To Rent		1,900	By Gross Profit b/d		23,900
To Salaries	3,000		By Commission		250
Add: O/s Salaries	800	3,800	By Discount		50
To Insurance	1,500		By R.D.C. (New)		1,285
Less: Prepaid Ins.	300	1,200			

To Depreciation on Land and building		1,250			
To R.B.D.D. A/c					
Bad debts	500				
Add: New Bad debts	900				
Add: New Reserve	1,000				
	2,400				
Less: Old Reserve	800	1,600			
To Reserve for Discount on Debtors A/c					
Discount	1,000				
Add: New Reserve for Discount	1143	2,143			
To Net Profit (Transferred to Capital A/cs)					
Reena	8,495				
Aarti	5,097	13,592			
		25,485			25,485

Balance Sheet as on 31st March 2019

Liabilities	Amount ₹	Amount ₹	Assets	Amount ₹	Amount ₹
Capital Account: Reena			Land and Building	25,000	
Opening Balance	50,000		Less: Depreciation	1,250	23,750
Add: Net Profit	8,495		Furniture		20,000
Less: Drawings	2,000	56,495	Closing Stock		22,000
Capital Account: Aarti			Sundry Debtors	40,000	
Opening Balance	30,000		Less: Bad Debts (New)	900	
Add: Net Profit	5,097			39,100	
Less: Drawings	1,000	34,097	Less: Provision for Doubtful Debts (New)	1,000	
Sundry Creditors	25,700			38,100	
Less: Provision for Discount on creditors	1,285	24,415	Less: Provision for Discount on Debtors 3%	1,143	36,957
Outstanding expenses			Prepaid Insurance Premium		300



Wages	700		Cash at Bank		11,500
Salaries	800	1,500	cash in Hand		2,000
		1,16,507			1,16,507

Working Notes:

(1) Insurance premium ₹ 1,500 is paid for 15 months i.e. prepaid insurance premium for 3 months = ₹ 300.

(2) Reserve for Discount on Debtors
= 3% on (Debtors – New Bad debts – New Reserve)

$$= \frac{3}{100} \times (40,000 - 900 - 1,000)$$

$$= \frac{3}{100} \times (40,000 - 1,900)$$

$$= \frac{3}{100} \times 38100$$

$$= ₹ 1,143$$

(3) Reserve for Discount on Creditors = 5% on (Value of Creditors)

$$= \frac{5}{100} \times 25,700$$

$$= ₹ 1,285$$

(4) Profit and Loss ratio = Capital ratio

$$= 50,000: 30,000$$

$$= 5: 3.$$

Practise Problem | Q 4 | Page 57

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 & Stationery	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 :

- 1) Closing Stock is valued at ₹32,000.
- 2) Provide Provision for Doubtful Debts ₹ 2,000.
- 3) Create reserve for Discount on Debtors @ 3%.
- 4) Valued of Leasehold Premises on 31st March 2019 ₹1,00,000.
- 5) Outstanding Expenses Printing & Stationary ₹500.

Solution:

Dr.	In the books of M/s Meera and Madhav Trading and Profit and Loss Account for the year ended on 31st March 2019				Cr.
Particulars	Amount ₹	Amount ₹	Particulars	Amount ₹	Amount ₹
To Opening Stock		25,000	By Sales	3,25,000	



To Purchase	2,08,500		Less: Sales Return	1,000	3,24,000
Less: Purchase Return	1,000	2,07,500	By Closing Stock		32,000
To Carriage Inward		3,000			
To Gross Profit c/d		1,20,500			
		3,56,000			3,56,000
To Carriage Outward		4,500	By Gross Profit b/d		1,20,500
To General Expenses		1,800			
To Export Duty		900			
To Advertisement	4,800				
Less: Prepaid Advt.	4,000	800			
To Printing & Stationery	1,200				
Add : O/s Printing & Stationery	500	1,700			
To Written off Leasehold Premises		10,000			
To Provision for Doubtful debts (New)		2,000			
To R.D.D. (New)		2,355			
To Net Profit (Transferred to Capital A/c)					
Meera	48,223				



Madhav	48,222	96,445			
		1,20,500			1,20,500

Balance Sheet as on 31st March 2019					
Liabilities	Amount ₹	Amount ₹	Assets	Amount ₹	Amount ₹
Capital Account: Meera			Motor Vehicle		55,000
Opening Balance	75,000		Prepaid Advt. Expense		4,000
Add: Net Profit	48,223		Leasehold Premises	1,10,000	
Less: Drawings	3,500	1,19,723	Less: Written off	10,000	1,00,000
Capital Account: Madhav			Closing Stock		32,000
Opening Balance	75,000		Debtors	80,500	
Add: Net Profit	48,222		Less: Provision for Doubtful Debts	2,000	
Less: Drawings	2,000	1,21,222		78,500	
Bank Overdraft		5,000	Less : R.D.D. (New)	2,355	76,145
Bills Payable		12,500	Bills Receivable		10,000
Creditors		68,000	Cash at Bank		45,000
O/s Rent		2,000	Furniture		8,300
Unpaid Wages		1,500			
O/s Stationery & Printing		500			
		3,30,445			3,30,445

Working Notes:

(1) Advertisement expenses written off to Profit and Loss account during the year 2018 – 19 for six months i.e from 1/10/18 to 31/03/19

Advertisement expenses W/off

$$= (\text{Advertisement bill paid}) \times \frac{1}{3} \times \frac{6}{12}$$

$$= 4800 \times \frac{1}{3} \times \frac{6}{12}$$

$$= ₹ 800$$

$$\text{Prepaid advertisement} = 4,800 - 800 = ₹ 4,000$$



.(2) Reserve for Discount on Debtors

= 3% (Balance in debtors)

$$= \frac{3}{100} (80,500 - 2,000)$$

$$= \frac{3}{100} \times 78,500$$

$$= ₹ 2,355.$$

(3) The difference of opening balance (₹ 1,10,000) and closing balance (₹ 1,00,000) for leasehold premises to be considered as written off on leasehold premises.

Practise Problem | Q 5 | Page 58

Sucheta & Gayatri are Partners sharing Profit and Loss 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
-		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 a free sample.
- 3) Motive Power includes ₹ 500 paid for the 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 dishonored of Bill of ₹ 4,000.

Solution:

Dr.	In the books of Sucheta and Gayatri Trading and Profit and Loss Account for the year ended on 31st March 2019				Cr.
Particulars	Amount ₹	Amount ₹	Particulars	Amount ₹	Amount ₹
To Opening Stock		18,700	By Sales		1,85,500
To Purchase		65,000	By Goods Distributed as Free sample		3,000
To Works Manager's Salary		2,300	By Closing Stock		19,700
To Wages & Salaries		4,000			
To Motive Power	1,350				
Less: Deposit for Power Meter	500	850			
To Custom Duty		1,500			
To Gross Profit c/d		1,15,850			



		2,08,200			2,08,200
To Unproductive Wages		3,000	By Gross Profit b/d		1,15,850
To Audit Fees		2,500	By Discount		400
To Rent		1,800	By Interest		1,300
To Conveyance		2,000			
To O/s Interest on Sucheta's Loan		369			
To Advertisement Expenses (Goods distributed as samples)		3,000			
To Depreciation on Building		4,400			
To R.B.D.D A/c					
Bad debts (New)	2000				
Add: New Reserve	1,485	3,485			
To Net Profit (Transferred to Capital A/cs)					

Sucheta	58,198				
Sucheta	38,798	96,996			
		1,17,550			1,17,550

Balance Sheet as on 31st March 2019

Liabilities	Amount ₹	Amount ₹	Assets	Amount ₹	Amount ₹
Capital Account: Sucheta			Deposit Power Meter		500
Opening Balance	75,000		Building	88,000	
Add: Net Profit	58,198	1,33,198	Less: Depreciation	4,400	83,600
Capital Account: Gayatri			Debtors	47,500	
Opening Balance	40,000		Add: Dishonoured Bill	4,000	
Add: Net Profit	38,798	78,798		51,500	
Sucheta's Loan	6,150		Less: Bad Debts (New)	2,000	
Add: O/s Int. on Loan	369	6,519		49,500	
Creditors		35,000	Less : R.D.D. (New) @ 3%	1,485	48,015
Bills Payable		27,300	Bills Receivable	22,000	



			Less: Dishonoured Bill	4,000	18,000
			Goodwill		25,000
			Copy Rights		20,000
			Investments		40,000
			Closing Stock		19,700
			Cash at Bank		26,000
		2,80,815			2,80,815

Working Notes:

(1) The rate of interest on the partner's loan is not mentioned, therefore interest on the loan is calculated at 6% p.a.

$$\text{Interest on Sucheta's Loan} = 6,150 \times 1 \times 6/100 \\ = ₹ 369$$

(2) Add dishonored bill amount to debtors amount and then calculate B.D. and R.D.D.

(3) Subtract dishonored bill amount from bills receivable amount.

Practise Problem | Q 6 | Page 59

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		
Bad debts	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%.

Solution:

Dr.	In the books of Archana and Prerna Trading and Profit and Loss Account for the year ended on 31st March 2019				Cr.
Particulars	Amount (Rs.)	Amount (Rs.)	Particulars	Amount (Rs.)	Amount (Rs.)
To Opening Stock		8,560	By Sales	30,200	
To Purchases	23,700		Less: Sales Return	400	29,800
Less: Purchase Return	1,000	22,700	By Closing Stock		12,000



To Wages	950				
Add: O/s Wages	300	1,250			
To Heating & Lighting		1,000			
To Gross Profit c/d		8,290			
		41,800			41800
To Electricity Charges	1,450		By Gross Profit b/d		8,290
Add: O/s Electricity Charges	200	1,650	By Interest		310
To Trade Expenses		850			
To R.B.D.D A/c					
Bad debts	200				
Add: New Bad debts	800				
Less: Old Reserve	1,000	500			
To Written off Patents	500	250			
To Depreciation					
Furniture	525				
Land and Building	2,200	2,725			
To Interest on Capital					
Archana	1,200				
Prerna	600	1,800			



To Net Profit (Transferred to Capital A/c)					
Archana	550				
Prerna	275	825			
		8600			8,600

Balance Sheet as on 31st March 2019

Liabilities	Amount ₹	Amount ₹	Assets	Amount ₹	Amount ₹
Capital Account: Archana			Patents	2,000	
Opening Balance	40,000		Less: Written off	250	1,750
Add: Int. on Capital	1,200		Furniture	13,000	
Add: Net Profit	550		Less: Depreciation (400 + 125)	525	12,475
	41,750		Land and Building	22,000	
Less: Drawings	1,200	40,550	Less: Depreciation	2,200	19,800
Capital Accounts: Prerna			Stock of Stationery		3,000
Opening Balance	20,000		Closing Stock		12,000
Add: Int. on Capital	600		Sundry Debtors	18,500	
Add: Net Profit	275		Less: Bad Debts (New)	800	17,700
	20,875		Trade Mark		2,000
Less: Drawings	900	19,975	Bills Receivable		6,300
Other Loans		3,000	Cash at Bank		5,000
Reserve Fund		1,000	Investments		7,500
Sundry Creditors		17,500			
Bills Payable		5,000			



Outstanding Expenses					
Wages	300				
Electricity Charges	200	500			
		87,525			87,525

Working Notes:

(1) Stationery stock is an asset.

(2) Depreciation on furniture:

13,000	
8,000 (Opening Balance) = $8,000 \times 5/100$ (Depr. for full year) = Rs. 400.	5,000 (Pur. on 01/10/18) = $5,000 \times 6/12 \times 5/100$ (Depr. for six months) = Rs. 125.

Total depreciation. = $400 + 125 + ₹ 525$

(3) $1/8$ patents to be written off = $2,000 \times 1/8 = ₹ 250$.

(4) As no other expenses are given, Trade Expense is recorded in the Profit and Loss Account.

Practise Problem | Q 7 | Page 59

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 (1/4/2018)	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 Rs. 15,400.
- 2) Outstanding Wages Rs. 500.
- 3) Create provision for Bad debts Rs. 800 and maintain R.D.D 3% on Sundry Debtors.
- 4) Goods of Rs. 1,800 distributed as a free sample.
- 5) Goods of Rs. 2,000 were sold and delivered on 31st March 2019 but no entry is passed in the Books of Account.

Solution:

Dr.	In the books of Satish and Pramod Trading and Profit and Loss Account for the year ended on 31st March 2019	Cr.
-----	--	-----



Particulars	Amount ₹	Amount ₹	Particulars	Amount ₹	Amount ₹
To Opening Stock		8700	By Sales	68,000	
To Purchases	18,300		Less: Sales Return	600	
Less: Purchase Return	500	17,800		67,400	
To Wages	1,000		Add: Unrecorded Sales	2,000	69,400
Add: O/s Wages	500	1,500	By Closing Stock		15,400
To Custom Duty		800	By Goods Distributed as Free Samples		1,800
To Factory Rent		1,600			
To Gross Profit c/d		56,200			
		86,600			86,600
To Advertisement Expenses		1,800	By Gross Profit b/d		56,200
To Insurance		800	By Dividend		2,000
To Unproductive Wages		1,400	By Other Receipts		1,000



To Carriage Outward		1,200			
To Warehouse Rent		600			
To Export Duty		1,400			
To Postage & Telegram		400			
To O/s Interest on Bank Loan		600			
To R.B.D.D A/c					
Bad debts					
Add: New Bad debts	800				
Add: New Reserve	1,236	2,036			
To Net Profit (Transferred to Capital A/cs)					
Satish	24,482				
Pramod	24,482	48,964			
		59,200			59,200

Working Notes:

(1) Here only gross profit and net profit are to find out. Therefore, the Balance Sheet is not prepared.

(2) Interest on 10 % bank loan is calculated for 9 months (From 1/7/2018 to 31/3/2019)

$$I = \frac{PRN}{100} = \frac{8,000 \times 10}{100} \times \frac{9}{12} = ₹ 600$$

(3) Goods distributed as free samples is an advertisement expense for business.



(4)

Sundry Debtors	40,000
Add: Unrecorded Sales	2,000
Less: Provision for Bad Debts	800
	41,200
Less : R.D.D. (New) (3 % of 41,200)	1,236
	39,964

Practise Problem | Q 8 | Page 60

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 the 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 w.e.f 1 st July 2018)		Nani	50,000
Salaries	5,000	10% Bank loan taken on 1 st Oct. 2018	30,000
Export Duty	2,500	Interest	1,500
Interest	1,000	Bills Payable	8,000
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.

Solution:

Dr.	In the books of Nana and Nani Profit and Loss Account for the year ended on 31 st March 2019				Cr.
Particulars	Amt ₹	Amt ₹	Particulars	Amt ₹	Amt ₹
To Insurance	15,000		By Gross Profit b/d		34,500
Less: Prepaid Insurance	3,000	12,000	By Interest		1,500
To Depreciation					
Land & Building	4,500				
Furniture	2,000	6,500			
To Salaries		5,000			
To Export Duty		2,500			
To Interest		1,000			
To O/s Interest on Bank Loan		1,500			
To R.B.D.D A/c					
New Bad debts	1,000				
Add: New Reserve	1,250	2,250			

To Net Profit (Transferred to Capital A/c)					
Nana	2,625				
Nani	2,625	5,250			
		36,000			36,000

Balance Sheet as on 31st March 2019					
Liabilities	Amt ₹	Amt ₹	Assets	Amt ₹	Amt ₹
Capital Account: Nana	50,000		Land and Building	30,000	
Opening Balance	2,625	52,625	Add: Purchased on 1/07/18	20,000	
Capital Account: Nani				50,000	
Opening Balance	50,000		Less: Depreciation	4,500	45,500
Add: Net Profit	2,625	52,625	Furniture	40,000	
10% Bank Loan	30,000		Less: Depreciation	2,000	38,000
Add: O/s Interest on Bank Loan	1,500	31,500	Debtors	26,000	
Bills Payable		8,000	Less: Bad Debts (New)	1,000	
				25,000	
			Less: R.D.D. (New) @ 5%	1,250	23,750
			Closing Stock		34,500
			Prepaid Insurance		3,000
		1,44,750			1,44,750



Working Notes:

(1) Here, the Profit and Loss Account and Balance Sheet are to be prepared. Therefore, the Trading Account is not prepared. Gross profit (given) is recorded on the Credit side of the Profit and Loss Account.

(2) Land and Building:

Land and Building	
30,000 (Opening Balance) Depre. = $30,000 \times 10/100$ = Rs. 3,000.	20,000 (Add on 1/7/2018) Depre. = $20,000 \times 10/100 \times 9/12$ = Rs. 1500.

Total Depreciation = $3000 + 1500 = ₹ 4,500$

(3) Interest on 10 % bank loan is calculated for 6 months. (From 1/10/2018 to 31/3/2019)

$I = PRN/100$

$= 30,000 \times 10/100 \times 6/12$

$= ₹ 1,500.$

(4) Prepaid insurance = $3/15 \times \text{Insurance Amount}$

$= 3/15 \times 15,000$

$= ₹ 3,000$

(5) RDD = 5% on (Debtors – New Bad debts)

$= 5/100 \times (26,000 - 1,000)$

$= 5/100 \times 25,000$

$= ₹ 1,250.$

Practise Problem | Q 9 | Page 61

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

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

Solution:

Dr.	In the books of Sun and Moon Partner's Current Account					Cr.
Particulars	Sun	Moon	Particulars	Sun	Moon	
To Balance b/d		4,000	By Balance b/d	6,000	-	
			By Profit and Loss A/c (Share in Net Profit)	19,056	19,056	
			By Profit and Loss A/c (Partners Salary)	6,000	6,000	
			By Profit and Loss A/c (Interest on Capital)	1,675	1,675	
To Balance c/d	32,731	22,732				



	32,731	26,732		32,731	26,732
			By Balance b/d	32,731	22,732

Balance Sheet as on 31st March 2019					
Liabilities	Amt ₹	Amt ₹	Assets	Amt ₹	Amt ₹
Capital Accounts:			Land & Building	40,000	
Sun	33,500		Less: Depreciation	4,000	36,000
Moon	33,500	67,000	Furniture	18,000	
Current A/cs:			Less: Depreciation	900	17,100
Sun	32,731		Machinery	40,000	
Moon	22,732	55,463	Less: Depreciation	900	39,100
Sundry Creditors		25,000	Goodwill		2000
Bank Overdraft		10,000	8 % Debentures	8,000	
Reserve Fund		5,000	Add: O/s Interest	320	8,320
Provident Fund		5,000	Provident Fund Investments		3,500
O/s Interest		800	Stock & Postal Stamps		500
		1,68,263	Closing Stock		60,743
			Advance to Workers		1,000
		1,68,263			1,68,263

Working Notes:

(1) Depreciation on machinery is calculated for 9 months. (i.e. from 1/7/18 to 31/3/19)

$$\text{Depreciation} = 40,000 \times \frac{3}{100} \times \frac{9}{12} = ₹ 900$$

(2) Interest on 8 % debentures, calculated for 6 months. (i.e. from 1/10/18 to 31/3/19)

$$I = \frac{PRN}{100} = 8,000 \times \frac{8}{100} \times \frac{6}{12} = ₹ 320$$



(3) Advance given to workers (by firm) ₹ 1,000 is an asset for the firm, so, it is shown on Assets side.

(4) Interest due but not paid is a liability for firm, so, it is shown on the Liabilities side

Practise Problem | Q 10 | Page 61

Kshipra and Manisha are Partners sharing Profit and Loss 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		
Warehouse 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 include the 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.

Solution:

Dr	In the books of Kshipra and Manisha Trading and Profit and Loss Account for the year ended on 31st March 2019				Cr
Particulars	Amt ₹	Amt ₹	Particulars	Amt ₹	Amt ₹
To Opening Stock		17,800	By Sales	1,20,000	
To Purchase	55,000		Less: Machinery Sold		



Less: Purchase Return	1,000	54,000	Wrongly Recorded as Sales	2,000	
To Wages	800		Less: Sales Return	500	1,17,500
Add: O/s Wages	200	1,000	By Closing Stock		37,000
To Gross Profit c/d		81,700			
		1,54,500			1,54,500
To Salaries	3,500		By Gross Profit b/d		81,700
Add: O/s Salaries	500	4,000	By Rent		1,800
To Discount		800	By Discount		500
To Carriage Outward		1,000			
To Postage		500			
To Insurance		2,000			
To Trade Expenses		1,500			
To Warehouse Rent		2,500			
To Advertisement		1,000			
To Provision for Doubtful Debts (New)		840			



To Depreciation					
Furniture	1,925				
Plant & Machinery	2,900				
Building	1,000	5,825			
To Interest on Capital					
Kshipra	4,500				
Manisha	1,500	6,000			
To Commission					
Kshipra	817				
Manisha	817	1,634			
To Net Profit (Transferred to Capital A/c)					
Kshipra	42,301				
Manisha	14,100	56,401			
		84,000			84,000

Partners' Current Accounts					
Particulars	Kshipra ₹	Manisha ₹	Particulars	Kshipra ₹	Manisha ₹
To Balance c/d	52,618	19,417	By Balance b/d	5,000	3,000
			By Profit and Loss A/c (Commission)	817	817
			By Profit and Loss A/c (Interest on Capital)	4,500	1,500
			By Profit and Loss A/c (Share in Profit)	42,301	14,100



	52,618	19,417		52,618	19,417
			To Balance b/d	52,618	19,417

Balance Sheet as on 31st March 2019					
Liabilities	Amount ₹	Amount ₹	Assets	Amount ₹	Amount ₹
Capital Accounts:			Furniture	38,500	
Kshipra	90,000		Less: Depreciation	1,925	36,575
Manisha	30,000	1,20,000	Plant & Machinery	60,000	
Current A/cs			Less: Sold on 1/4/18	2,000	
Kshipra	52,618			58,000	
Manisha	19,417	72,035	Less: Depreciation	2,900	55,100
Sundry Creditors		38,500	Building	20,000	
Bills Payable		9,000	Less: Depreciation	1,000	19,000
Outstanding expenses			Closing Stock		37,000
Wages	200		Sundry Debtors	28,000	
Salaries	500	700	Less: Provision for Doubtful Debts	840	27,160
			Bills Receivable		14,400
			Cash in Hand		4,000
			Cash at Bank		47,000
		2,40,235			2,40,235

Working Notes :

(1) Depreciation on fixed assets means depreciation on Furniture, Plant & Machinery, and Building.

(2) Sales include the sale of Machinery of ₹ 2,000 is subtracted from sales and from Plant & Machinery.

On balance amount of Plant & Machinery ₹ 58,000, calculate 5 % depreciation i.e.

60,000 - 2,000

= ₹ 58,000 x 5%

= ₹ 2,900



(3) Here on gross profit calculate 1 % commission for partners and record it to Profit and Loss A/c and in Current A/cs.

Commission payable to each partner

= $\frac{1}{100} \times \text{Gross Profit}$

= $\frac{1}{100} \times 81,700$

= ₹ 817.

