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ACCOUNTANCY

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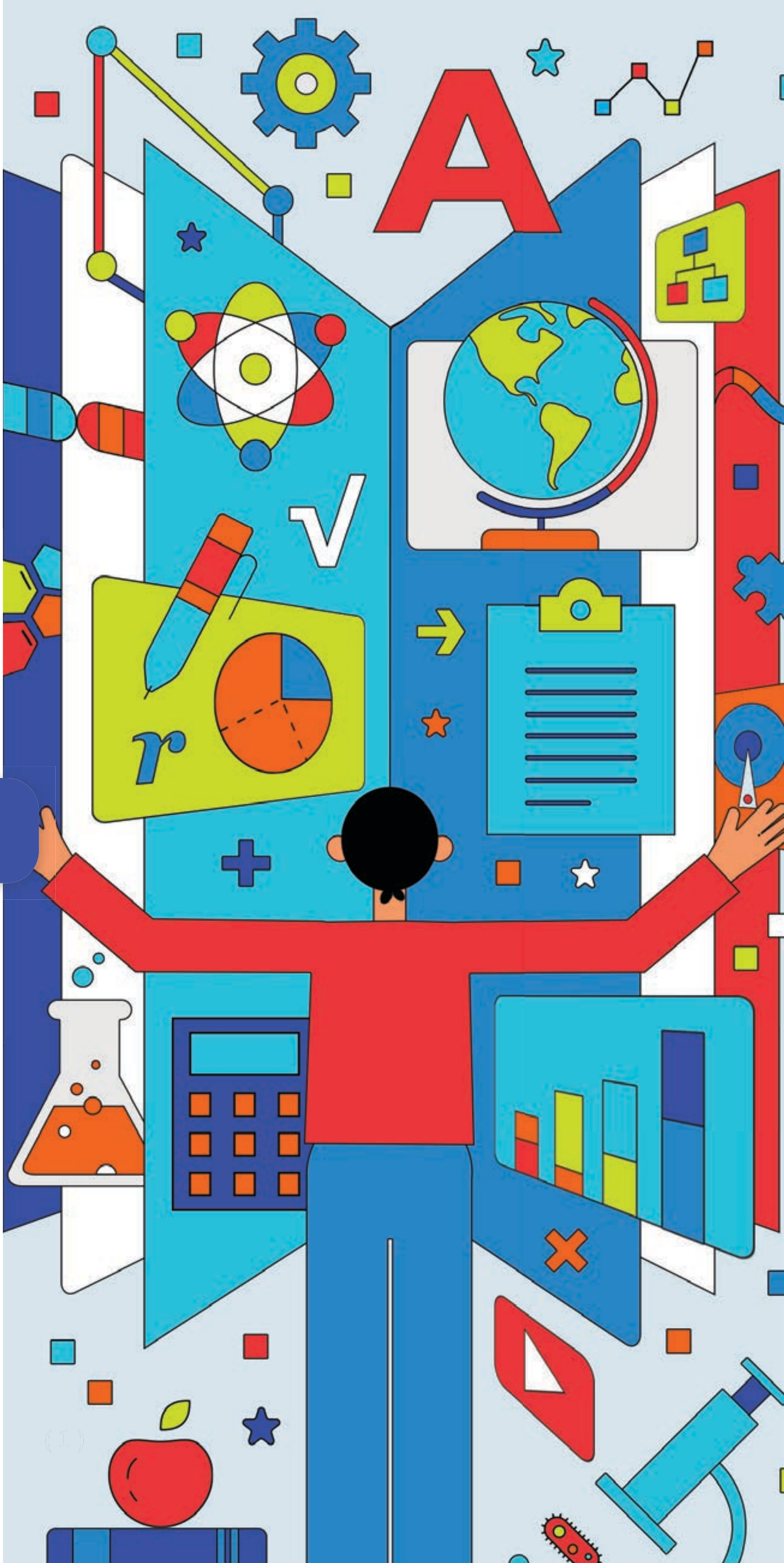

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5. **NEP 2020 Compliance** with Art Integration & Competency-based Questions

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SYLLABUS COVERED

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What is on your wishlist for this Academic Year?

- Do better than the previous year
- Perfect every concept, every topic, and every question from the very beginning

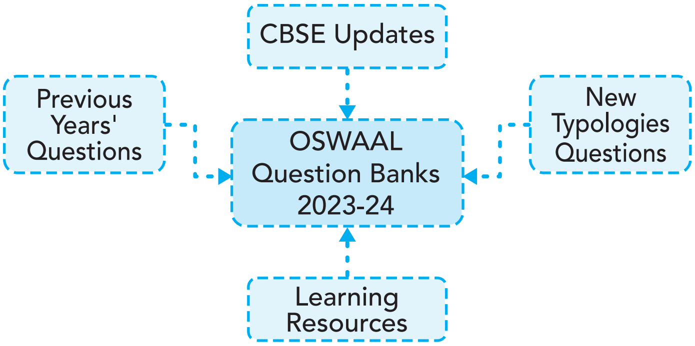
You said it, we heard it!

Practice means to perform, repeatedly in the face of all obstacles, some act of vision, of faith, of desire. Practice is a means of inviting the perfection desired.

-Martha Graham

As we usher into a brand-new Academic Year 2023-24, Oswaal Books, with its all-new Question Banks, empowers you to perfect your learning, consistently!

These Question Banks have been updated for 2023-24 with utmost care. They are a unique blend of all the **CBSE Board Updates, Previous Years' Questions,** and specially curated Questions as per the **Latest Typologies** along with best-in-class **Learning Resources**.



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For those who are looking to ramp up their preparation and to 'PERFECT' every nuance of concepts studied, these Question Banks are a must in your Boards arsenal. This is the perfect time to start your exciting journey with these Question Banks and fill in learning gaps, throughout the year with utmost ease & confidence.

This Question Bank would not have been made possible without the valuable contributions of the esteemed members of the Oswaal Editorial Board-Authors, Editors, Subject matter experts, Proofreaders & DTP operators who worked day and night to bring this incredible book to you. We are also highly grateful to our dear students for all their valuable and impeccable inputs in the making of this one-of-a-kind exam preparation tool.

All the best Students!! Be the perfectionist that you are!

Team Oswaal Books

Syllabus

Latest Syllabus
ACCOUNTANCY (Code No.- 055)
CLASS-XII (2023-24)

Theory : 80 Marks **Hours : 3**
Project : 20 Marks

Units			Periods	Marks
Part A	**Accounting for Partnership Firms and Companies**			
	Unit 1. Accounting for Partnership Firms		105	36
	Unit 2. Accounting for Companies		45	24
			150	**60**
Part B	**Financial Statement Analysis**			
	Unit 3. Analysis of Financial Statements		30	12
	Unit 4. Cash Flow Statement		20	8
			50	**20**
Part C	**Project Work**		20	20
	Project work will include :			
	Project File	4 Marks		
	Written Test	12 Marks (One Hour)		
	Viva Voce	4 Marks		
		OR		
Part B	**Computerized Accounting**			
	Unit 4. Computerized Accounting		50	20
Part C	**Practical Work**		20	20
	Practical work will include :			
	Practical File 4 Marks			
	Practical Examination 12 Marks (One Hour)			
	Viva Voce 4 Marks			

Part A: Accounting for Partnership Firms and Companies
Unit-1: Accounting for Partnership Firms

Units/Topics	Learning Outcomes
• Partnership: features, Partnership Deed. • Provisions of the Indian Partnership Act 1932 in the absence of partnership deed. • Fixed v/s fluctuating capital accounts. Preparation of Profit and Loss Appropriation account- division of profit among partners, guarantee of profits. • Past adjustments (relating to interest on capital, interest on drawing, salary and profit sharing ratio). • Goodwill : nature, factors affecting and methods of valuation - average profit, super profit and capitalization.	**After going through this unit, the student will be able to:** • State the meaning of partnership, partnership firm and partnership deed. • Describe the characteristic features of partnership and the contents of partnership deed. • Discuss the significance of provision of Partnership Act in the absence of partnership deed. • Differentiate between fixed and fluctuating capital, outline the process and develop the understanding

Syllabus

Note : Interest on partner's loan is to be treated as a charge against profits.

Goodwill: meaning, factors affecting, need for valuation, methods for calculation (average profits, super profits and capitalization) , adjusted through partners capital/ current account or by raising and writing off goodwill (AS 26)

Accounting for Partnership firms - Reconstitution and Dissolution.

- **Change in the Profit Sharing Ratio among the existing partners :** sacrificing ratio, gaining ratio, accounting for revaluation of assets and reassessment of liabilities and treatment of reserves, accumulated profits and losses. Preparation of revaluation account and balance sheet.
- **Admission of a partner -** effect of admission of a partner on change in the profit sharing ratio, treatment of goodwill (as per AS 26) treatment for revaluation of assets and reassessment of liabilities, treatment of reserves, accumulated profits and losses, adjustment of capital accounts and preparation of capital, current account and balance sheet.
- **Retirement and death of a partner:** effect of retirement / death of a partner on change in profit sharing ratio, treatment of goodwill (as per AS 26), treatment for revaluation of assets and reassessment of liabilities, adjustment of accumulated profits, losses and reserves, adjustment of capital accounts and preparation of capital, current account and balance sheet. Preparation of loan account of the retiring partner.
- Calculation of deceased partner's share of profit till the date of death. Preparation of deceased partner's capital account and his executor's account.
- **Dissolution of a partnership firm:** meaning of dissolution of partnership and partnership firm, types of dissolution of a firm. Settlement of accounts - preparation of realization account, and other related accounts: capital accounts of partners and cash/bank a/c (excluding piecemeal distribution, sale to a company and insolvency of partner(s)).

Note:

(i) If the realized value of tangible assets is not given it should be considered as realized at book value itself.

(ii) If the realized value of intangible assets is not given it should be considered as nil (zero value).

(iii) In case, the realization expenses are borne by a partner, clear indication should be given regarding the payment there of.

- Develop the understanding and skill of preparation profit and loss appropriation account involving guarantee of profits.
- Develop the understanding and skill of making past adjustments.
- State the meaning, nature and factors affect in goodwill.
- Develop the understanding and skill of valuation of goodwill using different methods.
- State the meaning of sacrificing ratio, gaining ratio and the change in profit sharing ratio among existing partners.
- Develop the understanding of accounting treatment of revaluation of assets and reassessment of liabilities and treatment of reserves and accumulated profits by preparing revaluation account and balance sheet.
- Explain the effect of change in profit sharing ratio on admission of a new partner.
- Develop the understanding and skill of treatment of goodwill as per AS-26, treatment of revaluation of assets and re-assessment of liabilities, treatment of reserves and accumulated profits, adjustment of capital accounts and preparation of capital, current account and balance sheet of the new firm.
- Explain the effect of retirement / death of a partner on change in profit sharing ratio.
- Develop the understanding of accounting treatment of goodwill, revaluation of assets and re-assessment of liabilities and adjustment of accumulated profits, losses and reserves on retirement / death of a partner and capital adjustment.
- Develop the skill of calculation of deceased partner's share till the time of his death and prepare deceased partner's and executor's account.
- Discuss the preparation of the capital accounts of the remaining partners and the balance sheet of the firm after retirement / death of a partner.
- Understand the Situations under which a partnership firm can be dissolved
- Develop the understanding of preparation of realisation account & other stated accounts

Syllabus

Unit 3: Accounting for Companies

<table>
<tr><th>Units/Topics</th><th>Learning Outcomes</th></tr>
<tr><td>

Accounting for Share Capital

- Features and types of companies.
- Share and share capital: nature and types.
- Accounting for share capital: issue and allotment of equity and preferences shares.
Public subscription of shares - over subscription and under subscription of shares; issue at par and at premium, calls in advance and arrears (excluding interest), issue of shares for consideration other than cash.
- Concept of Private Placement and Employee Stock Option Plan (ESOP), Sweat Equity.
- Accounting treatment of forfeiture and reissue of shares.
- Disclosure of share capital in the Balance Sheet of a company.

Accounting for Debentures

- Debentures: Meaning, types, Issue of debentures at par, at a premium and at a discount. Issue of debentures for consideration other than cash; Issue of debentures with terms of redemption; debentures as collateral security-concept, interest on debentures. Writing off discount / loss on issue of debentures.

Note: Discount or loss on issue of debentures to be written off in the year debentures are allotted from Security Premium Reserve (if it exists) and then from Statement of Profit and Loss as Financial Cost (AS 16)

</td><td>

After going through this Unit, the students will be able to:

- State the meaning of share and share capital and differentiate between equity shares and preference shares and different types of share capital.
- Understand the meaning of private placement of shares and Employee Stock Option Plan.
- Explain the accounting treatment of share capital transactions regarding issue of shares.
- Develop the understanding of accounting treatment of forfeiture and re-issue of forfeited shares.
- Describe the presentation of share capital in the balance sheet of the company as per schedule III part I of the Companies Act 2013.
- Explain the accounting treatment of different categories of transactions related to issue of debentures.
- Develop the understanding and skill of writing of discount / loss on issue of debentures.
- Understand the concept of collateral security and its presentation in balance sheet.
- Develop the skill of calculating interest on debentures and its accounting treatment.
- State the meaning of redemption of debentures.

</td></tr>
</table>

Part B: Financial Statement Analysis

Unit 4: Analysis of Financial Statements

<table>
<tr><th>Units/Topics</th><th>Learning Outcomes</th></tr>
<tr><td>

- **Financial statements of a company :** Meaning, Nature, Uses and importance of financial Statement.
Statement of Profit and Loss and Balance Sheet in prescribed form with major headings and sub headings (as per Schedule III to the Companies Act, 2013)

Note: Exceptional items, extraordinary items and profit (loss) from discontinued operations are excluded.

</td><td>

After going through this unit, the students will be able to:

- Develop the understanding of major headings and sub-headings (as per Schedule III to the Companies Act, 2013) of balance sheet as per the prescribed norms / formats.
- State the meaning, objectives and limitations of financial statement analysis.
- Discuss the meaning of different tools of 'financial statements analysis'.

</td></tr>
</table>

Syllabus

• **Financial Statement Analysis:** Meaning, Significance Objectives, importance and limitations. • **Tools for Financial Statement Analysis:** Cash flow analysis, ratio analysis. • **Accounting Ratios:** Meaning, Objectives, Advantages, classification and computation. • **Liquidity Ratios:** Current ratio and Quick ratio. • **Solvency Ratios:** Debt to Equity Ratio, Total Asset to Debt Ratio, Proprietary Ratio and Interest **Coverage Ratio.** Debt to Capital Employed Ratio. • **Activity Ratios:** Inventory Turnover Ratio, Trade Receivables Turnover Ratio, Trade Payables Turnover Ratio, Fixed Asset Turnover Ratio, Net Asset Turnover Ratio and Working Capital Turnover Ratio. • **Profitability Ratios:** Gross Profit Ratio, Operating Ratio, Operating Profit Ratio, Net Profit Ratio and Return on Investment.	• State the meaning, objectives and significance of different types of ratios. • Develop the understanding of computation of current ratio and quick ratio. • Develop the skill of computation of debt equity ratio, total asset to debt ratio, proprietary ratio and interest coverage ratio. • Develop the skill of computation of inventory turnover ratio, trade receivables and trade payables ratio and working capital turnover ratio and others. • Develop the skill of computation of gross profit ratio, operating ratio, operating profit ratio, net profit ratio and return on investment.

Note : Net Profit Ratio is to be calculated on the basis profit before and after tax.

Unit 5 : Cash Flow Statement

Units/Topics	Learning Outcomes
• Meaning, objectives Benefits, Cash and Cash Equivalents, Classification of Activities and preparation (as per AS 3 (Revised) (Indirect Method only) **Note :** *(i) Adjustments relating to depreciation and amortization, profit or loss on sale of assets including investments, dividend (both final and interim) and tax.* *(ii) Bank overdraft and cash credit to be treated as short term borrowings.* *(iii) Current Investments to be taken as Marketable securities unless otherwise specified.*	**After going through this unit, the students will be able to:** • State the meaning and objectives of cash flow statement. • Develop the understanding of preparation of Cash Flow Statement using indirect method as per AS 3 with given adjustments.

Note *Previous years' Proposed Dividend to be given effect, as prescribed in AS-4, Events occurring after the Balance Sheet date. Current years' Proposed Dividend will be accounted for in the next year after it is declared by the shareholders.*

Project Work

Note: Kindly refer to the Guidelines published by the CBSE.

The comprehensive project may contain simple GST calculations.

OR

Part B: Computerised Accounting

Unit 4: Computerised Accounting

Overview of Computerised Accounting System

- Introduction: Application in Accounting.
- Features of Computerised Accounting System.
- Structure of CAS.
- Software Packages: Generic; Specific; Tailored.

Accounting Application of Electronic Spreadsheet.

- Concept of electronic spreadsheet.

- Features offered by electronic spreadsheet.
- Application in generating accounting information - bank reconciliation statement; asset accounting; loan repayment of loan schedule, ratio analysis.
- Data representation- graphs, charts and diagrams.

Using Computerized Accounting System.

- Steps in installation of CAS, codification and Hierarchy of account heads, creation of accounts.
- Data: Entry, validation and verification.
- Adjusting entries, preparation of balance sheet, profit and loss account with closing entries and opening entries.
- Need and security features of the system.

Part C: Practical Work

Please refer to the guidelines published by CBSE.

Prescribed Books:

Financial Accountancy -I	Class XII	NCERT Publication
Accountancy -II	Class XII	NCERT Publication
Accountancy -I	Class XII	NCERT Publication
Accountancy -II	Class XII	NCERT Publication
Accountancy – Computerised Accounting System	Class XII	NCERT Publication

Guidelines for Project Work in Accounting and Practical work in computerised Accounting Class XII CBSE Publication

❑❑

SUGGESTED QUESTION PAPER DESIGN

Accountancy (Code No. 055)

Class XII (2023-24)

Theory : 80 Marks **3 hrs.**
Project : 20 Marks

S.No.	Typology of Questions	Marks	% Percentage
1.	**Remembering and Understanding:** Exhibit memory of previously learned material by recalling facts, terms, basic concepts, and answers. Demonstrate understanding of facts and ideas by organizing, comparing, translating, interpreting, giving descriptions, and stating main ideas	44	55%
2.	**Applying :** Solve problems to new situations by applying acquired knowledge, facts, techniques and rules in a different way.	19	23.75%
3.	**Analysing, Evaluating and Creating:** Examine and break information into parts by identifying motives or causes. Make inferences and find evidence to support generalizations. Present and defend opinions by making judgments about information, validity of ideas, or quality of work based on a set of criteria. Compile information together in a different way by combining elements in a new pattern or proposing alternative solutions.	17	21.25%
Total		**80**	**100%**

❑❑

NEP Derived Learning Resources Prescribed by CBSE for Year 2023-24

Artificial Intelligence (AI)

Mode of Assessment

Elective Subject (Classes 8, 9 & 10)
+
Integrated with other subjects like: Mathematics, Science, Physics, Economics, Sociology, Languages from classes 9-12

Skills to be Developed

- Analysis & Critical Thinking
- Interaction and cooperation
- Innovativeness and initiative
- Vocational ethics
- Communication skills

Implications For Students

Students should opt for this curriculum to:
- Become future ready & become at par with their counterparts at a global level.
- Visualise jobs of the future and prepare for them.

Art Integration Learning (AIL)

For Activities Scan the Code

Mode of Assessment

Art-Integrated Projects as Subject Enrichment Activity

Skills to be Developed

- Art-based enquiry
- Investigation & Exploration
- Critical Thinking
- Creativity

Implications For Students

- At least one Art-Integrated Project in each subject shall be taken up by all students of classes I to XII.
- In a minimum one project work of students from classes I – XII, it is mandatory to integrate any art form of the paired State/UT, as defined under Ek Bharat Shrestha Bharat Programme.

Competency Based Assessment (CBA)

Mode of Assessment

Competency based Questions makes the students understand and apply what they learn in real life situations

Skills to be Developed

- Analysis
- Critical Thinking
- Conceptual Clarity

Implications For Students

40% of the Questions will be asked in the form of:
- MCQs, True/False, Matching Types & Cloze/Gap filling Questions
- Stand Alone Short & Long Answer Questions
- Linked Questions (Source & Case-based Questions)

केन्द्रीय माध्यमिक शिक्षा बोर्ड
भारत
असतो मा सद्गमय

Hear it from our Happy Readers!

Good Book!
According to me, it is a brilliant book for CBSE students. It prepares students really well for the upcoming 2022-23 exams. Thankfully, Maths is no more a worry. Must buy!

Priyanka

All concepts have been explained with examples which simplifies the understanding of the concepts and makes practice very easy. It is worth the money.

Siddharth Gupta

This question bank is the best. It helps me to improve my skills and knowledge. My teacher recommended this book and it helps me a lot to increase my grades.

Avishake Kar

Great Book
This is really a nice book. It helps my son a lot in studies. Many of his friends recommended Oswaal Question Bank to him, so we bought it. It is good and helpful.

Amrik Singh Gujral

Very good book for 12th class preparation. This book contains Previous Years' Questions which is very helpful in exams. It also includes VSAQs, SAQs and one mark questions for exam practice. One must read this book to achieve high percentile in exams.

Priya J.

Outstanding Book!
It is really an outstanding book.
With this question bank, we are able to get 90+ % in CBSE Board.
It is really helpful.

Om Lingyat

I would definitely recommend this book for 12th Boards. It is covering the latest and updated syllabus with great-quality of questions.

Aryan

Fantastic book!
Along with Previous Years Questions & Board Marking scheme answers this book also includes new typology of questions: MCQs, Assertion-Reason, VSA ,SA , LA & case-based questions. Fantastic to study!!

Sumit

Part-A Accounting for Partnership Firms and companies

Unit-1 Accounting for Partnership Firms

CHAPTER 1

BASICS OF PARTNERSHIP

Syllabus

Partnership : Features, Partnership Deed; Provisions of the Indian Partnership Act, 1932 in the absence of partnership deed. Fixed v/s Fluctuating Capital Accounts, Preparation of Profit and Loss appropriation Account, division of profits among partners, guarantee of profits. Past adjustments relating to interest on capital, interest on drawings, salary and profit sharing ratio. Goodwill : Meaning Nature, factors affecting and methods of valuation—Average Profit, Super Profit and Capitalization. Note : Interest on partner's loan is to be treated as a charge against profits. Goodwill to be adjusted through partners' capital/current accounts (AS-26).

In this chapter you will study

The concept of Partnership, Partnership deed, Provision of Partnership Act 1932 in the absence of Partnership deed. Partners' Capital Account, Past adjustments, Concept and valuation of Goodwill.

List of Topics

Topic-1 Meaning of Partnership, Partnership Deed & Partners' Capital Accounts

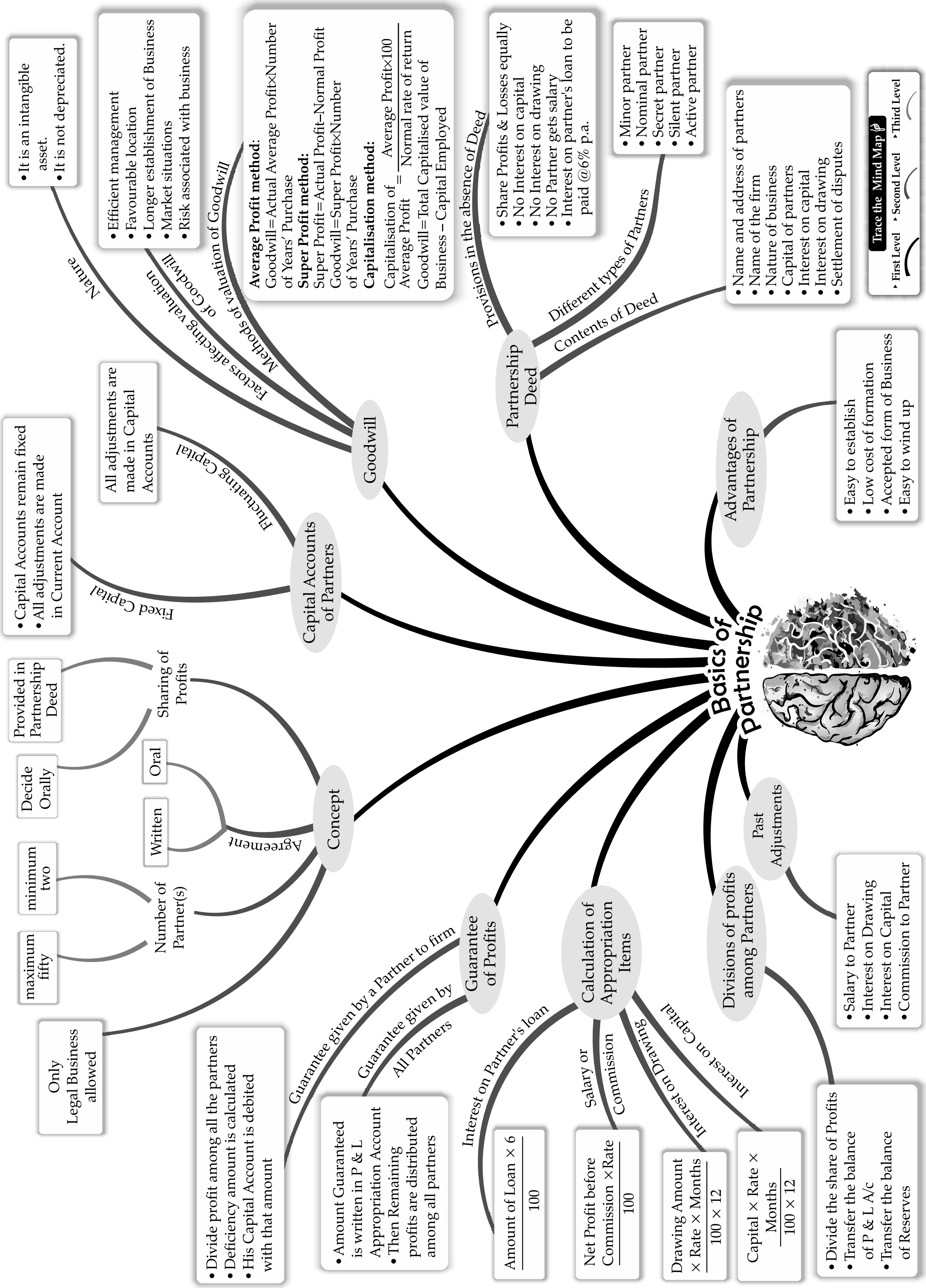
Concepts Covered • *Meaning of Partnership,* • *Features/Characteristics of Partnership,* • *Concept and contents of Partnership deed,* • *Types of Partners,* • *Method of maintaining Capital Accounts of Partners*

Revision Notes

- **Meaning of Partnership :** According to Indian Partnership Act, 1932, "Partnership is the relation between persons who have agreed to share the profits of a business carried on by all or any of them acting for all." The Act also explains that persons who have entered into partnership with one another are individually called "partners" and collectively "a firm."
- **Characteristics of Partnership :**
  - **(i) Association of two or more than two persons :** It is essential for the Partnership that there must be at least two persons who are competent for agreement because less than two persons does not establish partnership.
  - **(ii) Maximum number of partners :** Rule 10 of Company (Miscellaneous) Rules, 2014 says that no association of partnership shall be formed, consisting of more than 50 persons for the purpose of carrying on any business.

Scan to know more about this topic

Partnership Deed


Basics of Partnership
Trace the Mind Map
First Level
Second Level
Third Level
Concept
Number of Partner(s)
maximum fifty
minimum two
Agreement
Written
Oral
Sharing of Profits
Decide Orally
Provided in Partnership Deed
Only Legal Business allowed
Capital Accounts of Partners
Fixed Capital
• Capital Accounts remain fixed
• All adjustments are made in Current Account
Fluctuating Capital
All adjustments are made in Capital Accounts
Goodwill
Nature
• It is an intangible asset.
• It is not depreciated.
Factors affecting valuation of Goodwill
• Efficient management
• Favourable location
• Longer establishment of Business
• Market situations
• Risk associated with business
Methods of valuation of Goodwill
Average Profit method: Goodwill=Actual Average Profit×Number of Years' Purchase
Super Profit method: Super Profit=Actual Profit–Normal Profit
Goodwill=Super Profit×Number of Years' Purchase
Capitalisation method: Capitalisation of Average Profit = Average Profit×100 / Normal rate of return
Goodwill=Total Capitalised value of Business – Capital Employed
Partnership Deed
Provisions in the absence of Deed
• Share Profits & Losses equally
• No Interest on capital
• No Interest on drawing
• No Partner gets salary
• Interest on partner's loan to be paid @6% p.a.
Different types of Partners
• Minor partner
• Nominal partner
• Secret partner
• Silent partner
• Active partner
Contents of Deed
• Name and address of partners
• Name of the firm
• Nature of business
• Capital of partners
• Interest on capital
• Interest on drawing
• Settlement of disputes
Advantages of Partnership
• Easy to establish
• Low cost of formation
• Accepted form of Business
• Easy to wind up
Past Adjustments
• Salary to Partner
• Interest on Drawing
• Interest on Capital
• Commission to Partner
Divisions of profits among Partners
• Divide the share of Profits
• Transfer the balance of P & L A/c
• Transfer the balance of Reserves
Calculation of Appropriation Items
Interest on Partner's loan
Amount of Loan × 6 / 100
Salary or Commission
Net Profit before Commission ×Rate / 100
Interest on Drawing
Drawing Amount × Rate × Months / 100 × 12
Interest on Capital
Capital × Rate × Months / 100 × 12
Guarantee of Profits
Guarantee given by a Partner to firm
• Divide profit among all the partners
• Deficiency amount is calculated
• His Capital Account is debited with that amount
Guarantee given by All Partners
• Amount Guaranteed is written in P & L Appropriation Account
• Then Remaining profits are distributed among all partners

(iii) Existence of an agreement : Partnership is the outcome of an agreement between two or more persons to carry on business. This agreement may be oral or in written. The Partnership Act, 1932 (Section 5) clearly states that "the relation of partnership arises from contract and not from status."

(iv) Existence of business : Partnership Act, 1932 [Section 2(6)] states that a "Business" includes every trade, occupation and profession. Business of course, must be lawful and its main object should be to earn profit.

Partnership Deed

According to Section 5 of the Indian Partnership Act, 1932, Partnership Deed is an agreement between two or more than two partners for determining their mutual contractual relationship and its limitation for better and effective operation of business. It contains rules and conditions for operation of business. It can be registered or unregistered. It should be comprehensive to avoid disputes later on.

The document which contains terms of the agreement is called 'Partnership deed'.

Contents of Partnership Deed

(i) Name and Address of all Partners
(ii) Name and address of the Firm
(iii) Nature of the Business
(iv) Capital to be contributed by each Partner
(v) Rate of Interest on Capital
(vi) Drawings allowed to the Partners
(vii) Rate of Interest on Drawings
(viii) Profit and Loss Sharing Ratio
(ix) Partner's Salary and Commission
(x) Method of Valuation of Goodwill
(xi) Settlement on Dissolution of Firm
(xii) Duration of Partnership
(xiii) Methods of valuation of Assets and Liabilities
(xiv) Lending and Borrowing by the Partners
(xv) Admission and Retirement of Partners
(xvi) Duties of Partners
(xvii) Death of a Partner and his legal representative
(xviii) Insurance and its distribution
(xix) Relinquishment of Partnership
(xx) Arbitration Clause
(xxi) Maintenance of Accounts and their Audit
(xxii) Settlement of Disputes of the business
(xxiii) Treatment of loss arising out of insolvency of one or more partners

Fundamental Fact

Partnership Business in India is regulated by the India Partnership Act 1932.

Different types of Partners in Partnership Firm are given below :

(i) Active Partner: A person who provides his share in capital and also takes active part in the management of the business. The development of business depends upon the active partners.

(ii) Sleeping or Dormant Partners: These partners only provide capital and also share the profits and losses of the business. A sleeping partner does not take active part in the management of a firm. These are not known to public as partners.

(iii) Silent Partner: A silent partner is known to the public as a partner. He does not participate in the affairs of the management. But he is liable to pay debts of the firm.

(iv) Secret Partner: He takes active part in the business but public does not know him as a partner of the firm. He is liable to pay all the debts of the firm.

(v) Nominal Partner: These partners do not share the profits and losses of the firm. These partners do not participate in the management of a firm. A firm only uses the name and reputation of the partners. So these are called nominal partners.

(vi) Minor Partner: A minor may become a partner with the consent of all the partners. A minor is admitted in the profits of the business only. He has no liability for losses.

(vii) Senior Partner: A person who is playing an important role in the management according to his ability, experience and capital is called senior partner.

(viii) Junior Partner: A person who has small investment in the firm and has a limited experience of business is called junior partner.

(ix) Limited Partner: A partner whose liability is restricted to his share only is called limited partner. He cannot take part in the management of a firm.

(x) Unlimited Partner: When the liability of the partner is unlimited, he is called unlimited partner. The debts of the firm can be paid even by using the personal property of that partner.

► **Applicable provisions of the Indian Partnership Act, 1932 in the absence of Partnership Deed:**

(i) Interest on partner's loan will be paid @ 6% p.a.

(ii) If deed is silent regarding interest on capital, no interest on capital is to be allowed.

(iii) If deed is silent regarding interest on drawings or charges on drawings by partners, no interest on drawings is to be charged.

(iv) If deed is silent regarding salary or remuneration or commission of partners for their services, no salary or remuneration or commission is to be allowed to any partner.

(v) If deed is silent regarding profit sharing ratio, profit will be distributed equally.

Example 1

Ram and Shyam are partners in a partnership firm. Partnership deed is not present. Some issues arrived in their firm due to absence of partnership deed. Help them to resolve the following issues giving proper judgement :

(i) Shyam has advanced a loan of ₹ 1,00,000 to the firm and demanding interest @ 12% p.a. on loan but Ram is ready to charge interest @ 6% p.a.

(ii) Ram is an active partner and manages almost every managing activity. So he is demanding remuneration for his work but Shyam is refusing.

(iii) Shyam wants to charge interest on capital @ 10% p.a. but Ram is refusing for it.

(iv) Ram wants to charge interest on drawings @ 12% p.a. but Shyam is refusing.

Ans. (i) Ram is correct in the first issue. In the absence of partnership deed, interest on partner's loan is allowed @ 6% p.a.

(ii) In this issue, Ram will not be paid any remuneration as in the absence of partnership deed, no salary to be paid to partner.

(iii) Interest on capital will not be charged in the absence of partnership deed. So Ram is correct.

(iv) Interest on drawings will not be charged in the absence of partnership deed. So Shyam is correct.

► **Methods of Maintaining Capital Accounts of Partners**

There are two methods by which the capital accounts of partners can be maintained. These are:

(i) Fluctuating Capital: When partners decide to maintain only Capital Accounts for each partner, all entries regarding Interest on Capital, Interest on Drawings, Salary, Share in Profit or Loss and Drawings will be made in the Capital Accounts. In this case, capital will be fluctuating from year to year. This is known as Fluctuating Capital.

(ii) Fixed Capital: When partners decide that their capitals will remain fixed and it will not change due to Interest on Capital, Interest on Drawings, Salary or Share of Profit or Loss and Drawings, it is termed as Fixed Capital. In this case, there will be two accounts for each partner: Capital Account and Current Account. Entries for Interest on Capital, Interest on Drawings, Salary, Share of Profit or Loss and Drawings will be made through Current Account. However when there are frequent drawings, a separate Drawings Account may be opened for each partner. At the end of accounting year, balance of each Partner's Drawings Account will be transferred to their respective Current Accounts.

Fundamental Fact

LLP Stands for Limited Liability Partnership in which the liability of all the partners (except one partner) is limited.

Proforma of Partner's Capital Account under Fluctuating Capital Method

Dr. **Partner's Capital Account** **Cr.**

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
	To Balance b/d (in case of debit opening balance)	....		By Balance b/d (in case of credit opening balance)	....
	To Drawings A/c	....		By Cash/Bank A/c (Additional Capital)	....
	To Interest on drawings A/c	....		By Interest on Capital A/c	....
	To Profit & Loss A/c (Share in Loss)	....		By Commission A/c	....
	To Balance c/d (Balancing Figure)	....		By Partner's Salary A/c	....
				By Profit & Loss Appropriation A/c (Share in Profit)	....
				By Balance c/d (Balancing Figure)	....
		....			....

Proforma of Partner's Capital Account under Fixed Capital Method :

Dr. **Partner's Capital Account** **Cr.**

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
	To Cash/Bank A/c (Withdrawal of Capital)	....		By Balance b/d	....
	To Balance c/d	....		By Cash/Bank A/c (Additional Capital Introduced)	....
		....			....

Proforma of Partner's Current Account under Fixed Capital Method :

Dr. **Partner's Current Account** **Cr.**

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
	To Balance b/d (if there is old debit balance)	....		By Balance b/d (if there is old credit balance)	....
	To Drawings A/c	....		By Interest on Capital A/c	....
	To Interest on Drawings A/c	....		By Salary A/c	....
	To Profit & Loss A/c (Share in Loss)	....		By Commission A/c	....
	To Balance c/d (if credit side total is more)	....		By Profit & Loss Appropriation A/c (Share of Profit)	....
				By Balance c/d (if debit side total is more)	....
		....			....

OBJECTIVE TYPE QUESTIONS

A Multiple Choice Questions

Q. 1. The persons who have entered into partnership are individually known as :

(A) Partners (B) Firm
(C) Associations (D) None of these **R**

Ans. Option (A) is correct.

Explanation: Partners are the persons who enter into partnership.

Q. 2. A, B, C and D are partners in a firm. They want to expand their business for which additional capital and more managerial experts are required. For this they want to admit more members in their

firm. What is the maximum number of additional members that can be admitted by them in the firm:

(A) 02 (B) 50

(C) 20 (D) 46

R [CBSE Term- I, 2021]

Ans. Option (D) is correct.

Explanation: The maximum number of members in a Partnership firm can be 50. As there are 4 partners already, so a maximum of [(50 – 4) = 46] members can be added.

Q. 3. The Agreement of Partnership may be : U

(A) Oral (B) Written

(C) Both (A) and (B) (D) None of these

Ans. Option (C) is correct.

Q. 4. The maximum number of partners allowed in a partnership firm are :

(A) 50 (B) 100

(C) 200 (D) 400 R

Q. 5. Which of the following statements are correct :

(i) The liability of a partner for acts of the firm is unlimited.

(ii) Private assets of a partner can also be used for paying the debts of the firm.

(iii) Each partner is liable jointly with all other partners and also severally to the third parties for all the acts of the firm done, while he is a partner.

(iv) The liability of a partner is limited to the extent of his capital contribution

(A) Only (iii) (B) (i) and (ii)

(C) (i), (ii) and (iii) (D) (i), (ii), (iii) and (iv)

U [CBSE Term- I, 2021]

Ans. Option (C) is correct.

Explanation: Statement (iv) is incorrect because the liability of a partner is not limited to the capital contribution unless otherwise mentioned in the partnership deed.

Q. 6. The minimum number of partners allowed to open a partnership firm are :

(A) 10 (B) 2

(C) 5 (D) 20 R

Ans. Option (B) is correct.

Q. 7. Which of the following is the characteristic of a partnership firm?

(A) Two or more persons are carrying common business under an agreement.

(B) They are sharing profits and losses in the fixed ratio.

(C) Business is carried by all or any of them acting for all as an agent.

(D) All of the above U

Ans. Option (D) is correct.

Q. 8. Following are essential elements of a partnership firm except:

(A) At least two persons.

(B) There is an agreement between all partners.

(C) Equal share of profits and losses.

(D) Partnership agreement is for some business. U

Ans. Option (C) is correct.

Explanation: A partnership firm is an agreement between the two or more persons to carry on a business, but they not necessarily share equal profit or losses unless otherwise provided by the partnership deed or in the absence of one.

Q. 9. According to the Partnership Act, the relation of partnership arises from ________ and not from status."

(A) Business (B) Statute

(C) Contract (D) Consideration U

Ans. Option (C) is correct.

Explanation: There is a contractual relation between the partners of the partnership firm under the consideration of earning profit and carrying out a business.

Q. 10. In the absence of Partnership Deed, the profits of a firm are divided among the partners :

(A) In the ratio of Capital

(B) Equally

(C) In the ratio of time devoted for the firm's business

(D) According to the managerial abilities of the partners R [CBSE Delhi Set- I, 2015]

Ans. Option (B) is correct.

Explanation: If there is no partnership deed the partners share the profit and losses equally irrespective of the capital invested by them.

Q. 11. In the absence of Partnership Deed, interest on loan of a partner is allowed :

(A) at 8% per annum

(B) at 6% per annum

(C) no interest is allowed

(D) at 12% per annum

R [Outside Delhi Set-I, 2015]

Ans. Option (B) is correct.

Q. 12. The partner who provides capital and shares profit and loss in partnership business but does not take active part in the management is known as :

(A) Active Partner (B) Sleeping Partner

(C) Secret Partner (D) Limited Partner

AI R

Ans. Option (B) is correct.

Concept Applied

Types of Partners

Q. 13. The document that contains the terms of partnership is called:

(A) Partnership Agreement

(B) Partnership Contract

(C) Partnership Deed

(D) Partnership Rules R [CBSE Term- I, 2021]

Ans. Option (C) is correct.

Explanation: According to Section 5 of the Indian Partnership Act, 1932, Partnership Deed is an agreement between the partners determining their mutual contracted relationship and its

These questions are for practice and their solutions are available at the end of the chapter limitation for better and effective operation of business. It contains rules and conditions for operation of business.

Q. 14. When there is no partnership deed, the partners are entitled to which of the following?

(A) Salary
(B) Profit share in capital ratio
(C) Interest on loan
(D) Commission AI U

Ans. Option (C) is correct.

Explanation: The salaries, profit sharing ratio, commission, etc. are in accordance with the partnership deed, but if there is no partnership deed the partner receive the interest on loan @6%.

Q. 15. Which of the following statements is not true?

(A) All partners share profit and losses equally in the absence of a partnership deed.
(B) A minor can be admitted as a partner, only into the benefits of the partnership.
(C) A sleeping partner is allowed to sleep during a meeting of the partners.
(D) None of the above U

Ans. Option (C) is correct.

Q. 16. Pick the odd one out :

(A) Interest on capital
(B) Interest on drawings
(C) Interest on partner's loan
(D) Salary to partner U

Ans. Option (C) is correct.

Explanation: Interest on partner's loan is the only one allowed in the absence of a partnership deed.

Q. 17. When only Partner's Capital Account is maintained all the adjustments are made in :

(A) Partners' Capital Accounts
(B) Partners' Current Accounts
(C) Cash Account
(D) None of the above U

Q. 18. Partners' Current Accounts are opened when their Capital Accounts are :

(A) Fixed (B) Fixed and Fluctuating
(C) Fluctuating (D) None of these U

Ans. Option (A) is correct.

Explanation: Partners' Current Account are opened when their capital accounts are fixed, so that all the items and transactions such as interest on capital, drawings etc are adjusted through the Current Account and the capital remains fixed.

Q. 19. Pick the odd one out :

(A) Interest on capital
(B) Salary to partner
(C) Commission to partner
(D) Interest on drawings C

Ans. Option (D) is correct.

Explanation: Interest on drawings is the only item which comes on the debit side of profit and loss Appropriation A/c.

Q. 20. Fluctuating capital account is credited with :

(A) Interest on capital
(B) Profit for the year
(C) Remuneration of partners
(D) All of the above R

Ans. Option (D) is correct.

Explanation: In case of fluctuating capital account, the capital account is credited with all the transactions related to the capital of the partners.

Q. 21. Where would the interest on capital be recorded if the fixed capital account is followed in the partnership firm?

(A) Capital Account
(B) Current Account
(C) Profit and Loss Account
(D) None of the above AI R

Ans. Option (B) is correct.

Explanation: The interest on capital is recorded in the current account if the fixed capital account is followed as the capital amount do not change.

Q. 22. Which of the following will not be recorded in the Current Account?

(A) Interest in capital
(B) Interest on drawings
(C) Partner's Commission
(D) Additional capital brought by a partner R

Ans. Option (D) is correct.

Explanation: Additional capital brought by a partner is recorded in the Capital Account of the partner even if Current Account is maintained.

Q. 23. Where is the Interest on drawings recorded in the Current Account?

(A) Debit side
(B) Credit Side
(C) Not recorded
(D) Recorded as a foot note R

Ans. Option (A) is correct.

B Assertion and Reason

Directions: In the following questions, a statement of assertion (A) is followed by a statement of reason (R). Mark the correct choice as:

(A) Both assertion (A) and reason (R) are true and reason (R) is the correct explanation of assertion (A).
(B) Both assertion (A) and reason (R) are true but reason (R) is not the correct explanation of assertion (A).
(C) Assertion (A) is true but reason (R) is false.
(D) Assertion (A) is false but reason (R) is true.

Q. 1. Assertion (A): The development of business depends upon the active partners only.

Reason (R): Active Partner is a person who provides his share in capital and also takes active part in the management of the business. U

Ans. Option (D) is correct.

Explanation: As the active partner takes in the part of the management of the business, the

These questions are for practice and their solutions are available at the end of the chapter development of the business depends on him but it is not completely true as all other partners are to be consulted for the same.

Q. 2. Assertion (A): Secret Partner participates in the affairs of the management.

Reason (R): The secret partner is not liable to pay debts of the firm. U

Ans. Option (C) is correct.

Explanation: A secret partner is one who makes a capital contribution, to the firm's business and also takes part in the day to day operations actively, but his/her presence is kept hidden, from the general public.

Q. 3. Assertion (A): Nominal partners do not share the profits and losses of the firm.

Reason (R): A firm only uses the name and reputation of the nominal partners. U

Ans. Option (B) is correct.

Explanation: Nominal partner do not share the profits and losses of the firm, as they are not actually the partners of the firm. These are titular partner, who exist in name only.

Q. 4. Assertion (A): A minor may become a partner with the consent of all the partners.

Reason (R): A minor partner can share profits and losses as per the agreement but is not liable to pay the debts of the partnership firm. U

Ans. Option (B) is correct.

Explanation: A minor can become a partner of the firm with the consent of the partners so as to form a partnership agreement.

Q. 5. Assertion (A): Co-ownership of property does not account to partnership.

Reason (R): The element of business is present in co-ownership. U **[CBSE Term- I, 2021]**

Ans. Option (B) is correct.

Explanation: In case of partnership, neither does co-ownership of property nor the element of business amount to partnership. It is an agreement between the partners to enter into a business.

Q. 6. Assertion (A): Partners always share profit and losses equally.

Reason (R): Partnership is the relation between persons who have agreed to share the profits of a business carried on by all or any of them acting for all. U

Q. 7. Assertion (A): The fixed capital method is better as compared to the fluctuating capital method.

Reason (R): The capital of the partners is fixed, and all the transactions are recorded in the current account. U

Ans. Option (D) is correct.

Explanation: It cannot be determined which method of maintaining capital is better, it depends on the preference of the partners.

SUBJECTIVE TYPE QUESTIONS

Short Answer Type Questions-II (4 marks each)

Q. 1. Ajay, Binod and Chandra entered into partnership on 1st April, 2019 with a capital of ₹3,00,000, ₹2,00,000 and ₹1,00,000 respectively. In addition to capital Chandra has advanced a loan of ₹1,00,000. Since they had no agreement to guide them, they faced following issues during and at the end of the year :

(i) Ajay wanted interest on capital to be provided @8% p.a. but Binod and Chandra did not agree.

(ii) Chandra wanted that interest on loan be paid to him @1% p.a. but Ajay and Binod wanted to pay @5% p.a.

(iii) Ajay and Binod demanded to share profits in the ratio fo their capital contribution, Chandra is not in agreement with this proposal.

(iv) Binod, being a working partner, demands a lump sum payment of ₹ 40,000 as remuneration for which other partners are not in agreement.

You are required to suggest and help them resolve these issues. Ap **[CBSE SQP, 2021]**

Ans. (i) In the absence of Partnership deed, the provisions of Partnership Act, 1932 will apply according to which no interest on capital is payable.

(ii) In the absence of Partnership deed, the provisions of Partnership Act, 1932 will apply according to which interest on loan by partner will be paid @ 6% p.a.

(iii) In the absence of Partnership deed, the provisions of Partnership Act, 1932 will apply according to which profits will be shared equally.

(iv) In the absence of Partnership deed, the provisions of Partnership Act, 1932 will be applicable according to which no salary/ remuneration is payable to any partner.

(1 × 4 = 4)

[CBSE SQP Marking Scheme, 2021]

Q. 2. Identify the type of partner stated below :

(i) He does not share profits and losses of the firm nor participates in its management. The firm uses only his name.

(ii) He takes active part in the business but public does not know him as a partner of the firm.

(iii) He does not take active part in the business but provides capital and shares the profit and loss of the firm.

(iv) He provides his share in capital and takes active part in the management of the business of the firm. A

Concept Applied

Types of Partners

These questions are for practice and their solutions are available at the end of the chapter

Topic-2

Preparation of Profit and Loss Appropriation Account and Treatment of Goodwill

Concepts Covered • *Division of profits among partners,* • *Preparation of profit and loss appropriation account,* • *Calculation of appropriation and charge items,* • *Adjustment of past adjustments,* • *Guarantee of profit,* • *Treatment of goodwill*

Revision Notes

- **Division of Profits among Partners**

  The net profit as shown by the Profit and Loss Account of a partnership firm requires certain adjustments with regard to interest on capitals, interest on drawings, etc., if provided under the terms of agreement. In fact, it is an extension of the Profit and Loss Account and is credited with the net profits and interest on drawings and debited with interest on capital, salary to partners, etc. The balance (if any) will be distributed among the partners in their agreed ratio.

- **Journal Entries regarding Profit and Loss Appropriation Account are as follows :**

Scan to know more about this topic

Profit & Loss Appropriation Account

1. Transfer of balance of Profit and Loss Account :

(a) If Profit & Loss Account shows a credit balance (Net Profit) :

Profit & Loss A/c Dr.

To Profit & Loss Appropriation A/c

(Being transfer of net profit to Profit & Loss Appropriation A/c)

(b) If Profit & Loss Account shows debit balance (Net Loss) :

Profit & Loss Appropriation A/c Dr.

To Profit & Loss A/c

(Being transfer of net loss to Profit & Loss Appropriation A/c)

2. Interest on Capitals :

(a) For crediting interest on capital to Partners' Capital Accounts :

Interest on Capital A/c Dr.

To Partners' Capital/Current A/cs

(Being interest on capital at ____% p.a. allowed to partners)

(b) For transferring interest on capital to Profit and Loss Appropriation Account :

Profit & Loss Appropriation A/c Dr.

To Interest on Capital A/c

(Being interest on capital transferred to Profit & Loss Appropriation A/c)

- **NET ENTRY :**

Profit & Loss Appropriation A/c Dr.

To Partners' Capital /Current A/cs

(Being Interest on Capital allowed to partners)

3. Partners' Salary/Commission :

(a) For crediting salary/commission to Partners' Capital Accounts :

Salary/Commission A/c Dr.

To Partners' Capital/Current A/cs

(Being ₹____Salary/Commission allowed to _____ partner for _____months)

(b) For transferring partners' salary/commission to Profit and Loss Appropriation Account :

Profit and Loss Appropriation A/c Dr.

To Salary/Commission A/c

(Being Salary/Commission transferred to Profit and Loss Appropriation Account)

NET ENTRY :

Profit & Loss Appropriation A/c Dr.

To Partners' Capital /Current A/cs

(Being Salary/Commission allowed to partners)

4. **Interest on Drawings :**

(a) For charging interest on drawings :

Partners' Capital/Current A/cs Dr.

To Interest on Drawings A/c

(Being interest on drawings at _____% p.a. charged)

(b) For transferring interest on Drawings to Profit & Loss Appropriation Account :

Interest on Drawings A/c Dr.

To Profit & Loss Appropriation A/c

(Being interest on drawings transferred to Profit & Loss Appropriation A/c)

NET ENTRY :

Partners' Capital/Current A/cs Dr.

To Profit & Loss Appropriation A/c

(Being interest on drawings charged)

5. **Transfer of Profit to Reserve :**

Profit & Loss Appropriation A/c Dr.

To Reserve A/c

(Being profit transferred to Reserve A/c)

6. **Share in Profit :**

Profit & Loss Appropriation A/c Dr.

To Partners' Capital/Current A/cs

(Being distribution of profit among partners)

Proforma of Profit & Loss Appropriation Account

Dr. **for the year ending ______________________** **Cr.**

Particulars	Amount (₹)	Particulars	Amount (₹)
To Partner's Capital A/c (Salaries)	....	By Net Profit (Profit shown by Profit & Loss A/c)	....
To Partner's Capital A/c (Commission)	....	By Partner's Capital/Current A/c (Interest on Drawings)	....
To Partner's Capital A/c (Interest on Capital)	....		
To General Reserve A/c	....		
To Profit transferred to : Partners' Capital/Current A/cs	....		
	....		....

Profit and Loss Appropriation Account is prepared only when there are certain adjustments related to partnership and for ascertaining net profits to be distributed among the partners. It determines the individual profits of all partners.

Example 2

On 1.4.2013, Brij and Nandan entered into partnership to construct toilets in government girls schools in the remote areas of Uttarakhand. They contributed capitals of ₹ 10,00,000 and ₹ 15,00,000 respectively. Their profit sharing ratio was 2 : 3 and interest allowed on capitals as provided in the partnership deed was 12% per annum. During the year ended 31.3.2014, the firm earned a profit of ₹ 2,00,000.

Prepare Profit and Loss Appropriation A/c of Brij and Nandan for the year ended 31.3.2014.

Ans. **In the books of Brij and Nandan**
Profit & Loss Appropriation Account
for the year ended 31^{st} March, 2014

Dr. **Cr.**

Particulars		Amount (₹)	Particulars	Amount (₹)
To Interest on Capital :			By Net Profit b/d	2,00,000
Brij's Capital A/c	80,000			
Nandan's Capital A/c	1,20,000	2,00,000		
		2,00,000		**2,00,000**

Working Notes :
Interest on capital of Brij = ₹ 1,20,000
Interest on capital of Nandan = ₹ 1,80,000
Proportionate profit = ₹ 1,20,000 / ₹ 3,00,000 × ₹ 2,00,000 = ₹ 80,000
= ₹ 1,80,000 / ₹ 3,00,000 × ₹ 2,00,000 = ₹ 1,20,000

Interest on Capital

Interest on Capital will be calculated at the rate as agreed by partners as follows :

$$\text{Interest on Capital} = \frac{\text{Capital Invested} \quad \text{Rate of Interest} \quad \text{Period (months)}}{100 \quad 12}$$

From the above formula, interest will be provided for the full year on the capital at the beginning and interest on additional capital brought during the year will be calculated from the date of introduction till the end of the year. If in question, closing capital is given instead of opening capital then drawings and share of loss written off will be added and additional capital and share of profit will be deducted to find opening balance and on such balance interest will be calculated.

Calculation of opening balance of capital :		₹
Capital at the end of the year (Closing Capital)	----------	
Add : Drawings made during the year		----------
Share of loss debited for the year	----------	----------
Less : Additional capital introduced during the year		----------
Share of profit credited for the year	----------	----------
Capital at the beginning of the year (Opening capital)		----------

Note :

If percentage of interest on capital is not mentioned in partnership deed, partners will not receive any interest on capital. In the case of loss, interest on capital will not be considered. If profit of firm is not sufficient, then interest on capital will not be more than the amount of profit. If interest on capital is agreed to be charged on profit then full interest on capital will be provided even if there is no sufficient profit or there is loss in the firm. If there is an agreement of interest on capital but it is not clear whether it is appropriation of profit or charge of profit then in such case, interest will be provided only when there is profit and it will not be given in case of loss.

Interest on Drawings

The following methods are used for the calculation of interest on drawings made by partners :

(1) Simple Interest Method : In this method, interest is calculated on each amount of drawings from the date of drawings till the closing date of accounts and then total of interest is found which is calculated on different drawings. Thus, interest is calculated as following :

$$\text{Interest on Drawings} = \frac{\text{Drawings Amount} \quad \text{Rate} \quad \text{Time (in months)}}{100 \quad 12}$$

Scan to know more about this topic

Interest on Drawings

(2) Product Method : In this method, period of drawings is calculated in months from the date of drawings to the date of closing of the account and thereafter product is found by multiplying number of months with the amount of drawings and the total of such product is then multiplied with the rate of interest and is divided by 100 × 12. The result obtained is the amount of interest. It is calculated as under :

$$\text{Interest on Drawings} = \frac{\text{Total Product} \quad \text{Rate} \quad 1}{100 \quad 12}$$

(3) Average Period Method : This method is used when partner(s) withdraw uniform amounts at uniform time intervals.

Case (A). If the withdrawals are of equal amounts and are made at regular intervals on the monthly basis throughout the year :

(1) When drawings are made in the beginning of every month :

Average period = (Longest outstanding period+ Shortest outstanding period)/2
=(12+1)/2=6.5 months

$$\text{Interest on Drawings} = \text{Total Drawings} \quad \frac{\text{Rate of Interest}}{100} \quad \frac{6\frac{1}{2}}{12}$$

(2) When drawings are made in the middle of every month :

Average period = (Longest outstanding period + Shortest outstanding period)/2

=(11.5+0.5)/2= 6 months

$$\text{Interest on Drawings} = \text{Total Drawings} \quad \frac{\text{Rate of Interest}}{100} \quad \frac{6}{12}$$

(3) When drawings are made at the end of every month :

Average period=(Longest outstanding period + Shortest outstanding period)/2

=(11+0)/2=5.5 months

$$\text{Interest on Drawings} = \text{Total Drawings} \quad \frac{\text{Rate of Interest}}{100} \quad \frac{5\frac{1}{2}}{12}$$

Case (B). According to this formula, students will be able to calculate interest on drawings made in 9 months, 6 months and 3 months:

If rate of interest on drawings in 12 months = 6

Then rate of interest on drawings in 1 month = $\frac{6}{12}$

Then rate of interest on drawings in 9 months = $\frac{6}{12}$ 9

Drawings made in the middle of each month= 4.5

If drawings made at the beginning of each month (+ 0.5 in given rate)= 4.5 + 0.5 = 5

If drawings made at the end of each month (– 0.5 in given rate) = 4.5 – 0.5 = 4

Just like that, student can calculate each and every rate month wise.

NOTE : If percent of interest on drawings is not mentioned in partnership deed, firm would not charge any interest for drawings of partners.

Salary or Commission and Rent paid to a Partner

It is to be allowed to a partner if the partnership agreement provides for the same. Salary or commission to a partner is an appropriation out of the profits and not a charge against the profits, *i.e.,* they are to be allowed only if there are profits and hence, must be transferred to the debit of Profit and Loss Appropriation Account and not to the debit of Profit and Loss Account.

(1) Commission as a percentage of net profit before charging such commission

$$= \text{Net Profit before Commission} \quad \frac{\text{Rate of Commission}}{100}$$

(2) Commission as a percentage of net profit after charging such commission

= Net Profit after Commission × 100+Rate of Commission

Note : Charges such as interest on partners' loans, manager's salary and commission must be deducted from profit before transferring it to the Profit and Loss Appropriation Account.

Rent Paid to a Partner : It is a charge against the profit and not an appropriation out of profits. It is therefore, debited to Profit and Loss Account and credited to Partner's Current Account in case of fixed capitals or to Partner's Capital Account, when capitals are fluctuating.

Example 3

Himanshu and Mayank are partners in a partnership firm. They share profits in ratio of 5 : 3.

Himanshu withdrew the following amounts during the year to pay his personal expenses :

1st May, 2018	**₹ 20,000**
2nd June, 2018	**₹ 10,000**
1st Nov., 2018	**₹ 5,000**
1st Dec., 2018	**₹ 5,000**

Calculate interest on drawings @ 6% p.a. on 31st March, 2019.

Ans. **Calculation of Interest on Drawings**

Date	Amount (₹)	Period (Months)	Product (₹)
May 1, 2018	20,000	11	2,20,000
June 1, 2018	10,000	10	1,00,000
Nov. 1, 2018	5,000	5	25,000
Dec. 1, 2018	5,000	4	20,000
			3,65,000

$$\text{Interest on Drawings} = \text{Total Product} \times \text{Rate} \ \frac{1}{12}$$

$$= 3,65,000 \times \frac{6}{100}\ \frac{1}{12} = ₹\ 1,825$$

- **Interest on Partner's Loan to Firm** : The firm pays interest on loan at the rate as mentioned in the deed. But, if the partnership deed is silent on this point, the partner is entitled to get interest at the rate of 6% per annum as per section 13 (d) of Indian Partnership Act.
- **Sharing of Profit & Loss**
  Generally, profit or loss of the firm is divided among partners according to the ratio mentioned in partnership deed. Distribution of profits made by the firm as per different methods is given below :

(1) **In a Fixed ratio :** The ratio may be in numbers, fractions or in percentage, like A, B and C are partners and share profit or loss in ratio of 2 : 3 : 5 or $\frac{1}{2}:\frac{3}{5}:\frac{5}{6}$, etc.

(2) **In ratio of Capital :** If, according to deed, profit and loss is to be divided in the ratio of capital then in such case, the deed should mention any one method of determining it out of the following methods :

(a) In the ratio of original capital,
(b) In the ratio of capital at the beginning of the year,
(c) In the ratio of capital at the end of each year,
(d) In the ratio of average capital for each year.

(3) **In equal ratio :** If nothing is mentioned in deed about profit sharing ratio then profit and loss will be divided equally among all partners, like the profit and loss sharing ratio among A, B, C is 1 : 1 : 1.

(4) **Division of Profit and Loss in separate ratio :** In partnership deed, if profit ratio and loss ratio is agreed separately then in such case, profit will be divided in one ratio and loss will be divided in another agreed ratio.

- **Past Adjustments:** Sometimes after preparing the accounts of the firm, it is found that mistakes related to interest on capital, interest on drawings, salary to partner, etc. are committed or omitted or any amount is wrongly entered. Therefore, for the purpose to correcting these omissions or mistakes, adjustment entries are passed through Profit and Loss Adjustment Account in which adjustments in respect to each and every omission are to be made. However, an adjustment entry can also be passed in Journal.
  These entries are recorded for the errors made in past. Therefore, they are called Past Adjustments. Following are some types of omissions or errors given below :

1. Interest on Capital
2. Interest on Drawings
3. Salary to Partners
4. Commission to Partners
5. Interest on Capitals or Drawings provided at higher or lower rate

Scan to know more about this topic

Past Adjustments

Adjustment through Profit & Loss Adjustment Account (Journal Entries for adjustment) :
Following journal entries shall be passed through Profit & Loss Adjustment Account :

1. Adjusting entries for the items which were to be credited to the Partners' Capital or Current Accounts.
   Profit & Loss Adjustment A/c Dr.
   To Partners' Capital/Current A/cs
   (Being adjustment made for ________ previously omitted, now carried out)
2. Adjusting entries for the items which were to be debited to the Partners' Capital or Current Accounts.
   Partners' Capital /Current A/cs Dr.
   To Profit & Loss Adjustment A/c
   (Being adjustment made for ________ previously omitted, now carried out)

Key Words

Drawing: Amount withdrawn from the business is termed as drawing.

Capital Employed: Amount invested into a business [Total Real Assets - External liabilities] is termed as capital employed.

3. For the net profit/ loss on account of above adjustments :

(a) In case of profit :

Profit & Loss Adjustment A/c Dr.
To Partners' Capital /Current A/cs

(Being profit on adjustments transferred to partners' capital/current accounts)

(b) In case of loss :

Partners' Capital / Current A/cs Dr.
To Profit & Loss Adjustment A/c

(Being loss on adjustment transferred to partners' capital/current accounts)

Adjustment without Preparation of Profit & Loss Adjustment Account :

In this method, a statement showing the adjustments is made in which all the omissions are to be carried out and errors rectified. The net impact of all these adjustments is to be examined and on that basis a single adjusting journal entry is to be passed.

Adjustment Chart

Particulars	A	B	C
(+) Interest on Capital	+	+	+
(+) Partner's Salary / Commission	+	+	+
(–) Interest on Drawings	(–)	(–)	(–)
Excess amount taken back in their P & L sharing ratio	+	+	+

Note :

- Assumed that there are three partners.
- Assumed that all errors are related to omission.
- + means Cr. the partner's capital account.
- – means Dr. the partner's capital account.

Example 4

Monu, Nitin and Paras are partners in a firm. They invested ₹ 50,000 each as capital three years ago. At that time, Paras agreed to look after the business as Monu and Nitin were busy. The profits for the past three years were ₹ 15,000, ₹ 25,000 and ₹ 50,000 respectively. While going through the books of accounts; Monu noticed that the profits had been distributed in the ratio of 1 : 1 : 2 . When he enquired from Paras about this, Paras answered that since he looked after the business he should get more profit. Monu disagreed and it was decided to distribute profit equally for the last three years.

You are required to make necessary corrections in the books of accounts of Monu, Nitin and Paras by passing an adjustment entry.

Ans. **In the Books of Monu, Nitin and Paras**
Journal Entry

Date	Particulars	L.F.	Amount Dr. (₹)	Amount Cr. (₹)
	Paras's Capital A/c Dr. To Monu's Capital A/c To Nitin's Capital A/c (Being profit adjusted)		15,000	 7,500 7,500

Working Note :

Statement Showing Adjustment of Profits

Particulars	Monu (₹)	Nitin (₹)	Paras (₹)	Total (₹)
1. Profit wrongly distributed in the ratio 1 : 1 : 2 (Dr.)	22,500	22,500	45,000	90,000
2. Profit to be shared correctly in the ratio 1 : 1 : 1 (Cr.)	30,000	30,000	30,000	90,000
Adjustment	**7,500**	**7,500**	**(15,000)**	—

- **Guarantee of Profits:** Guarantee is an assurance given to the partner(s) of the firm that at least a fixed amount shall be given to him irrespective of the actual earnings. If actual share of profit works out to be less than the guaranteed amount in that case, the deficit amount shall be borne either by the firm or by any partner, as the case may be. If actual amount of profit works out to be more than the guaranteed amount in that case, he is entitled to receive that actual amount.

Scan to know more about this topic

Guarantee of Profit

(i) When Guarantee is given by all the partners in Old Ratio or Specific Ratio :

(a) Amount guaranteed to a partner is transferred to Profit and Loss Appropriation A/c.

(b) Then the remaining profits are distributed among old partners / remaining partners in remaining ratio.

(ii) When Guarantee is given by one partner to another partner :

(a) Guaranteed amount is calculated according to his share.

(b) Deficiency is distributed among the partners who guaranteed in remaining ratio and subtracted from their respective shares.

(iii) When Guarantee is given by a partner to the firm :

(a) Deficient amount in guarantee made by a partner is calculated.

(b) His Capital A/c is then debited with the deficient amount and Profit & Loss A/c is credited with the deficient amount.

(c) This total of new profit, *i.e.*, original and deficient amount is distributed among all partners in their profit and loss sharing ratio.

- **Goodwill:** Goodwill is an intangible asset. It is created due to reputation of the firm and extra earning capacity of the firm. A firm having goodwill will earn more than normal profit. The extra earning capacity of the firm may be due to location of the business, reputation of partners or special benefits to the firm.

- **Factors affecting Goodwill of firm :**

(i) Competent and Capable Management
(ii) Favourable Location
(iii) Favourable Contracts
(iv) Past Performance of Business
(v) Quality of Products
(vi) Nature of Business

- **Need for valuation of Goodwill:** The need for valuation of Goodwill in partnership arises under the following circumstances:

(i) On admission of a new partner
(ii) On retirement/death of a partner
(iii) When there is a change in the profit sharing rate among the partner
(iv) If Goodwill is sold at the time of dissolution of the firm.

- **Methods of Valuation of Goodwill :**

(i) Average Profit Method

Under this method, goodwill is valued on the basis of average profits of past few years. Value of goodwill is certain number of years purchased price of average profits. For calculating average profits, profits of previous four or five years are considered. Before calculating average profits, past profits may require some adjustments. Such adjustments may be of the following nature :

Scan to know more about this topic

Average Profit Method

(a) Any non-recurring or casual income will be deducted from profit.

(b) Any abnormal loss or non-recurring expense will be added back to profit.

(c) Profits will be corrected for any mistakes detected at the time of valuation.

(d) Average profits of past years will be increased for any expected income in future.

(e) Similarly, average profits will be reduced for any expected expense in future.

$$\text{Goodwill} = \text{Average Profit} \times \text{No. of Years' Purchases}$$

Normally simple average profit will be calculated, but in case past profits show a constant increasing or decreasing trend, it is better to calculate weighted average.

(ii) Super Profit Method

Under this method, goodwill is calculated on the basis of annual super profit. The formula for calculation of goodwill is as under :

$$\text{Goodwill} = \text{Annual Super Profit} \times \text{Number of Years}$$

where actual average profit is calculated by average profit method and normal profit is calculated as follows :

$$\text{Normal Profit} = \frac{\text{Average Capital Employed} \quad \text{Normal Rate of Return}}{100}$$

$$\text{Super Profit} = \text{Actual Average Profit} - \text{Normal Profit}$$

Note : If amount of normal profit is more than the average profit, then super profit will be zero and so, the value of goodwill will also be zero.

(iii) Capitalisation Method

Under this method, goodwill is computed by capitalizing profits. Capitalised profit can be computed by the following two methods :

(a) Capitalisation of Average Profit Method : In this method, Capitalised Value or Normal Capital Employed in business is calculated on the basis of average profit, as following :

$$\text{Capitalised Value} = \frac{\text{Actual Average Profit} \quad 100}{\text{Normal Rate of Return}}$$

Find out the actual capital employed or net assets and then deduct actual capital employed from capitalized value to find the value of goodwill.

(b) Capitalisation of Super Profit Method : Under this method, we first calculate the super profits and then calculate the capital needed for earning such super profits on the basis of normal rate of return.

This capitalized value is the value of goodwill. The formula is :

$$\text{Goodwill} = \frac{\text{Super Profit}}{\text{Normal Profit of Return}} \quad 100$$

- **Raising and writing off Goodwill:** In the event of reconstitution of partnership, whenever there its increase in the profit share of a partner, he should compensate the partner or partners whose share(s) is decreased. This compensation payable by the gaining partner for his gain to the sacrificing partner or partner is known as Goodwill or premium for Goodwill. Following entries are passed for raising and writing off Goodwill.

When Goodwill Account is raised, if there is a change in the profit sharing ratio!

Goodwill A/c Dr.
[In old profits sharing ratio]
To Partners' capital A/c
[Being goodwill raised and credited to partners' capital Account in their old profit sharing ratio]

When Goodwill Account is written off

Partners' capital A/c Dr.
[In new profits sharing ratio]
To Goodwill Account
[Being goodwill A/c writing off by defecting partners' capital A/c in new profit sharing ratio]

OBJECTIVE TYPE QUESTIONS

A Multiple Choice Questions

Q. 1. Which of the following items is not dealt through Profit and Loss Appropriation Account ? A I

(A) Interest on partner's loan
(B) Partner's salary
(C) Interest on partner's drawings
(D) Partner's commission U [CBSE SQP 2021]

Ans. Option (A) is correct.

Explanation: Interest on partner's loan directly comes in the Profit and Loss Account. The partner's salary, interest on partner's drawings and partner's commission are dealt through the Profit and Loss Appropriation Account.

Q. 2. Pick the odd one out :

(A) Rent to a partner
(B) Interest on partner's loan
(C) Interest on capital
(D) Depreciation U

Ans. Option (C) is correct.

Explanation: Interest on capital is the only item that comes in the Partner's Capital or Current Account.

Q. 3. The Journal Entry to transfer interest on capital to Profit and Loss Appropriation Account would be :

(A) Interest on Capital A/c Dr.
To Profit & Loss Appropriation A/c
(B) Profit & Loss Appropriation A/c Dr.
To Interest on Capital A/c
(C) Profit & Loss A/c Dr.
Partner's Current A/c Dr.
To Interest on Capital A/c
(D) None of the above Ap

Concept Applied
Adjustment of Appropriate items.

Q. 4. Identify the journal entry for transferring interest on drawings to the Profit and Loss Appropriation A/c.

(A) Partners' Capital/Current A/cs Dr.
To Interest on drawings A/c
(Being interest on drawings transferred to Profit & Loss Appropriation A/c)
(B) Interest on Drawings A/c Dr.
To Partners' Capital/Current A/cs
(Being interest on drawings transferred to Profit & Loss Appropriation A/c)
(C) Interest on Drawings A/c Dr.
To Profit and Loss Appropriation A/c
(Being interest on drawings transferred to Profit & Loss Appropriation A/c)
(D) Profit & Loss Appropriation A/c **DR.**
To Interest on Drawings A/c

These questions are for practice and their solutions are available at the end of the chapter

(Being interest on drawings transferred to Profit & Loss Appropriation A/c) **Ap**

Ans. Option (C) is correct.

Explanation: When the interest on drawings is transferred to Profit and loss appropriation account, interest on drawings in debited and profit and loss appropriation account is credited.

Q. 5. Identify the journal entry for transferring salaries paid to the Active Partner A to the Profit and loss Appropriation A/c.

(A) Profit and Loss Appropriation A/c Dr.
 To Salary A/c
 (Being Salary transferred to Profit and Loss Appropriation Account)

(B) Profit and Loss Appropriation A/c Dr.
 To A's Capital A/c
 (Being Salary transferred to Profit and Loss Appropriation Account)

(C) A's Capital A/c Dr.
 To Profit and Loss Appropriation A/c
 (Being interest on drawings transferred to Profit & Loss Appropriation A/c)

(D) Salary A/c Dr.
 To A's Capital A/c
 (Being interest on drawings transferred to Profit & Loss Appropriation A/c) **Ap**

Ans. Option (A) is correct.

Explanation: When the salary is transferred to profit and loss appropriation account, salary account is credited and profit and loss appropriation account is debited.

Q. 6. When is the Profit and Loss Appropriation Account prepared?

(A) When there are certain adjustments related to partnership.
(B) When the firm is dissolved.
(C) When there is an audit to be done.
(D) It is never prepared. **U**

Ans. Option (A) is correct.

Explanation: The profit and loss appropriation account is prepared when there are adjustments to be done with related to the partnership due to the changes that have occurred.

Q. 7. Vijay and Ratan are partners in a firm. The partnership agreement provides for interest on drawings @ 12% per annum. Which of the following accounts will be debited to transfer interest on drawings to Profit and Loss Appropriation Account?

(A) Interest on Drawings account
(B) Bank account
(C) Partners Current accounts
(D) Partners Capital accounts

U **[CBSE Term- I, 2021]**

Ans. Option (A) is correct.

Explanation: Interest on Drawings account is debited to the Profit and Loss Appropriation Account. Partners Current Account (in case of fixed Capital) or Partners Capital Account (in case of flexible capital) is debited with Interest on Drawings Account.

Q. 8. A and B were partners in a firm. Their capitals at the end of the year ending on 31.3.2021 were ₹ 3,00,000 and ₹ 1,50,000 respectively. During the year B withdrew ₹ 10,000, which was debited to his capital account. Profit for the year ended 31st March, 2021 was ₹ 32,000 which was credited to their capital accounts. During the year B introduced additional capital ₹ 32,000. What was B's capital on 1.4.2020? **Ap** **[CBSE Term- I, 2021]**

(A) ₹ 1,50,000 **(B)** ₹ 1,60,000
(C) ₹ 1,12,000 **(D)** ₹ 1,52,000

Ans. Option (C) is correct.

Explanation:

Dr. **B's Capital Account** **Cr.**

Date	Particulars	Amount (Rs.)	Date	Particulars	Amount (Rs.)
31.3.2021	To Drawings	10,000	1.4.2020	By Balance b/d (Balancing figure)	1,12,000
	To Balance c/d	1,50,000	31.3.2021	By Net Profit $\left(32,000 \times \frac{1}{2}\right)$	16,000
			31.3.2021	By Bank A/c	32,000
		1,60,000			**1,60,000**

The profit will be shared equally as the ratio is not mentioned.

Q. 9. Sharma and Verma were partners in a firm. The partnership deed provided that interest on partners' drawings will be charged @ 12% per annum. During the year, Sharma withdrew ₹ 6,000. Interest on his drawings will be:

(A) ₹ 600 **(B)** ₹ 330
(C) ₹ 360 **(D)** ₹ 720

Ap **[CBSE Term-I, 2021]**

Ans. Option (C) is correct.

Explanation: Interest on drawings $= \frac{6000 \times 12 \times 6}{100 \times 12}$

$= ₹\ 360$

Q. 10. Sangeet and Suman were partners in a firm sharing profits and losses in the ratio of 7 : 3. During the year ended 31.3.2021, the firm earned a profit of ₹ 1,00,000. After preparation of the financial statements it was discovered that salary to Suman @ ₹ 3,000 per month had been omitted.

The necessary adjustment entry for the same will be:

		Dr. (₹)	Cr. (₹)
(A)	Profit and Loss Appropriation A/c Dr.	36,000	
	To Suman's Capital A/c		36,000
(B)	Sangeet's Capital A/c Dr.	36,000	
	To Suman's Capital A/c		36,000
(C)	Profit and Loss Adjustment A/c Dr.	36,000	
	To Suman's Capital A/c		36,000
(D)	Sangeet's Capital A/c Dr.	25,200	
	To Suman's Capital A/c		25,200

Ap [CBSE Term- I, 2021]

Ans. Option (D) is correct.

Explanation:

Total salary = ₹ 3,000 × 12 = ₹ 36,000

Amount of Profit = ₹ 1,00,000

Amount of Profit to be credited = ₹ 64,000

Share of Profit of Sangeet = $\frac{7}{10} \times 64,000$ = 44,800

Amount of profit received by Sangeet before = 70,000

Amount Received less = 70,000 – 44,800 = ₹ 25,200

Q. 11. Pick the odd one out :

(A) Rent to Partner
(B) Manager's Commission
(C) Interest on Partner's Loan
(D) Interest on Partner's Capital

C [CBSE SQP 2021]

Q. 12. Mohit and Rohit were partners in a firm with capitals of ₹ 80,000 and ₹ 40,000 respectively. The firm earned a profit of ₹ 30,000 during the year. Mohit's share in the profit will be :

(A) ₹ 20,000 **(B)** ₹ 10,000
(C) ₹ 15,000 **(D)** ₹ 18,000

Ap [CBSE Delhi Set-I, II, III, 2020]

Ans. Option (C) is correct.

Explanation: As there is no partnership deed, the profit will be shared equally, that is ₹ 15,000 each.

Q. 13. Rahul and Shubham are partners in a partnership. Rahul withdrew ₹ 4,000 during the year as drawings. Interest on drawings is charged @ 15% p.a. The amount of interest on drawings at the end of the year will be :

(A) ₹ 300 **(B)** ₹ 600
(C) ₹ 1,200 **(D)** ₹ 150 **Ap**

Ans. Option (A) is correct.

Explanation: ₹ 4000 × 15% × ½ = ₹ 300

Q. 14. Ramesh and Suresh are partners in the ratio of 3 : 2. Before profit distribution, 'Ramesh is entitled to 5% commission of the net profit (after charging such commission). Before charging commission, firm's profit was ₹84,000. Suresh's share in profit will be :

(A) ₹ 32,000 **(B)** ₹48,000
(C) ₹ 56,000 **(D)** ₹ 32,800 **Ap**

Ans. Option (A) is correct.

Explanation: Profit after charging commission =

$$84,000 - \left(84,000 \times \frac{5}{105}\right)$$

= 84,000 – 4000

= ₹ 80,000

Suresh's share in profit = ₹ 80,000 × $\frac{2}{5}$

= ₹ 32,000

Q. 15. Abin, Babin and Chavi are partners in the ratio of 5 : 3 : 2. Before Babin's salary of ₹34,000 firm's profit is ₹1,84,000. How much in total Babin will receive from the firm?

(A) ₹ 55,200 **(B)** ₹ 79,000
(C) ₹ 89,200 **(D)** ₹ 45,000 **Ap**

Ans. Option (B) is correct.

Explanation: Profit = ₹ 1,84,000 – ₹ 34,000
= ₹ 1,50,000

Babin's Share of Profit = $\frac{3}{10}$ × ₹ 1,50,000
= ₹45,000

Babin gets = ₹ 45,000 + ₹ 34,000
= ₹ 79,000

Q. 16. What will be the interest on drawing @12.5% p.a. for Abhishek if he withdraws ₹ 5,000 once in a month?

(A) ₹ 3,500 **(B)** ₹ 7,500
(C) ₹ 3,750 **(D)** ₹ 3,000 **Ap**

Ans. Option (C) is correct.

Explanation: $\frac{5,000 \times 12 \times 12.5 \times 6}{100 \times 12}$ = ₹ 3,750

Q. 17. What will be the interest on capital for C @ 6%p.a for A, B and C who have invested ₹15,000, ₹25,000 and ₹30,000 and share profits in the ratio 1:2:3?

(A) ₹ 900 **(B)** ₹ 1,500
(C) ₹ 1,800 **(D)** Nil **Ap**

Ans. Option (C) is correct.

Explanation: 6% of 30,000 = ₹ 1,800

Q. 18. Rani and Sumi are partners in the ratio of 1 : 2. Before profit distribution, 'Rani is entitled to 5% commission of the net profit (before charging such commission). Before charging commission, firm's profit was ₹ 60,000. Sumi's share in profit will be :

(A) ₹ 38,000 **(B)** ₹ 19,000
(C) ₹ 20,000 **(D)** ₹ 40,000 **Ap**

Ans. Option (A) is correct.

Explanation: ₹ 60,000 × $\frac{5}{100}$ = ₹ 3,000

Profit after commission = ₹ 60,000 – ₹ 3,000
= ₹ 57,000

Sumi's Share of profit = ₹57,000 × $\frac{2}{3}$
=₹38,000

These questions are for practice and their solutions are available at the end of the chapter

Q. 19. Journal Entry to be passed in case of loss on adjustment transferred to Partner's Current Accounts is :

(A) Profit and Loss Appropriation A/c Dr.
To Partners' Current A/cs

(B) Partners' Current A/cs Dr.
To Profit and Loss Adjustment A/c

(C) Partner's Current A/c Dr.
To Partner's Capital A/c

(D) None of the above **Ap**

Ans. Option (B) is correct.

Q. 20. Which account is prepared when past adjustments are to be done?

(A) Profit and Loss Appropriation Account

(B) Profit and Loss Adjustment Account

(C) Both (A) and (B)

(D) Neither (A) nor (B) **U**

Ans. Option (B) is correct.

Explanation: Profit and Loss Adjustment Account is prepared when the past adjustments are to be done. Profit and Loss Appropriation Account is made to make any transactions of the partners that affects the profit to be shared.

Q. 21. If the interest on capital is omitted what will be the journal entry during the situation?

(A) Profit & Loss Adjustment A/c Dr.
To Partners' Capital/Current A/cs
(Being adjustment made for interest on capital previously omitted, now carried out)

(B) Profit & Loss A/c Dr.
To Partners' Capital/Current A/cs
(Being adjustment made for interest on capital previously omitted, now carried out)

(C) Partners' Capital/Current A/cs Dr.
To Profit and Loss Appropriation A/c
(Being adjustment made for interest on capital previously omitted, now carried out)

(D) Profit and Loss Appropriations A/c Dr.
To Profit and Loss A/c
(Being adjustment made for interest on capital previously omitted, now carried out) **Ap**

Ans. Option (A) is correct.

Q. 22. If the interest on drawings is omitted to be recorded what will be the journal entry?

(A) Profit & Loss Adjustment A/c Dr.
To Partners' Capital/Current A/cs
(Being adjustment made for interest on drawings previously omitted, now carried out)

(B) Profit & Loss A/c Dr.
To Partners' Capital/Current A/cs
(Being adjustment made for interest on drawings previously omitted, now carried out)

(C) Partners' Capital/Current A/cs Dr.
To Profit and Loss Adjustment A/c
(Being adjustment made for interest on drawings previously omitted, now carried out)

(D) Profit and Loss Appropriations A/c Dr.
To Profit and Loss A/c
(Being adjustment made for interest on drawings previously omitted, now carried out) **Ap**

Ans. Option (C) is correct.

Q. 23. How is the interest on capital treated in the Profit and Loss Adjustment statement?

(A) Added (B) Subtracted
(C) No Effect (D) Not shown **U**

Ans. Option (A) is correct.

Q. 24. E, F and G are partners sharing profits in the ratio of 3 : 3 : 2. As per the partnership agreement, G is to get a minimum amount of ₹ 80,000 as his share of profits every year and any deficiency on this account is to be personally borne by E. The net profit for the year ended 31st March, 2020 amounted to ₹ 3,12,000. What will be the amount of deficiency to be borne by E ?

(A) ₹ 1,000 (B) ₹ 4,000
(C) ₹ 8,000 (D) ₹ 2,000

A [CBSE SQP 2021]

Ans. Option (D) is correct.

Explanation: G's Share $= \frac{2}{8} \times ₹3,12,000 = ₹78,000$

Deficient Amount to be borne by E
= ₹ 80,000 – ₹ 78,000
= ₹ 2,000

Concept Applied
Guarantee of profits

Q. 25. Guarantee of profit to a partner is given by :

(A) Only one partner of the firm

(B) Only two partners of the firm

(C) All the partners of the firm

(D) All of the above **R**

Ans. Option (D) is correct.

Explanation: Guarantee of profit to a partner is given by one or more partner to one or more partner or the firm. The guaranteed amount is even paid in case of loss.

Q. 26. Ram, Shyam and Balweer are partners. They share profit and loss equally. Ram is guaranteed to get ₹ 30,000 profit. Any deficiency if arises, will be borne by Shyam. During the year, they earned a profit of ₹ 60,000. Which of the following statement/ statements is/are correct as per the above information?

(A) Shyam will get ₹ 10,000 as profit.

(B) Balweer will get ₹ 20,000 as profit.

(C) Ram will get ₹ 30,000 as profit.

(D) All of the above **Ap**

Ans. Option (D) is correct.

Explanation: Ram's Share $= \frac{1}{3} \times ₹\ 60,000$
= ₹ 20,000

Deficient Amount to be borne by Shyam
= ₹ 30,000 – ₹ 20,000
= ₹ 10,000

Ram's Share = ₹ 30,000
Shyam's Share = ₹ 30,000 – ₹ 10,000
= ₹ 20,000
Balweer's Share = ₹ 20,000

Q. 27. When the profits are guaranteed by the partners on the old profit sharing ratio, which of the following is not true?

(A) Amount guaranteed to a partner is transferred to Profit and Loss Appropriation A/c.

(B) Then the remaining profits are distributed among old partners / remaining partners in remaining ratio.

(C) Guaranteed amount is calculated according to his share.

(D) All of the above U

Ans. Option (C) is correct.

Q. 28. Rehana, Shakina and Jasmine are partners. They share profit and loss in the ratio 1:2:3. Shakina is guaranteed to get ₹50,000 profit. Any deficiency if arises, will be borne by Rehana and Jasmine equally. During the year, they earned a profit of ₹6,00,000. How much money has to be given to her by Rehana and Jasmine?

(A) ₹2,000 by Rehana and Jasmine each

(B) ₹2,500 by Rehana and Jasmine each

(C) ₹3,000 by Rehana and Jasmine each

(D) Nil Ap

Ans. Option (D) is correct.

Explanation: Shakina's share = ₹6,00,000 × $\frac{2}{6}$ = ₹2,00,000, as she gets the share more than the guaranteed, she will not be reimbursed.

Q. 29. Tangible Assets of the firm are ₹ 14,00,000 and outside liabilities are ₹ 4,00,000. Profit of the firm is ₹ 1,50,000 and normal rate of return is 10%. The amount of capital employed will be : AI

(A) ₹ 10,00,000 **(B)** ₹ 1,00,000

(C) ₹ 50,000 **(D)** ₹ 20,000

Ap **[CBSE OD Set-I, II, III, 2020]**

Ans. Option (A) is correct.

Explanation: Capital Employed = Tangible Assets – Outside Liabilities = ₹14,00,000 – ₹4,00,000 = ₹10,00,000

Q. 30. Goodwill is a/an ___________ asset.

(A) Tangible **(B)** Intangible

(C) Not an asset **(D)** None of these R

Ans. Option (B) is correct.

Explanation: Goodwill is an intangible asset as we cannot touch it.

Q. 31. Which of the following factors do not affect the goodwill of the firm?

(A) Competent and capable management

(B) Favourable location

(C) Favourable contracts

(D) None of these U

Ans. Option (D) is correct.

Q. 32. A business earned average profits of ₹ 60,000 during the last three years. The normal rate of return on similar business is 12%. The value of net assets of the business is ₹ 4,00,000. Its goodwill by capitalisation of Average Profits Method will be

(A) ₹ 1,00,000 **(B)** ₹ 2,00,000

(C) ₹ 4,00,000 **(D)** ₹ 50,000 Ap

[CBSE SQP 2021]

Ans. Option (A) is correct.

Explanation:

$$\text{Capitalised Value} = \frac{\text{Actual Average Profit} \quad 100}{\text{Normal Rate of Return}}$$

$$= \frac{60,000 \times 100}{12} = ₹\,5,00,000$$

Goodwill = Capitalised Value – Assets
= ₹ 5,00,000 – ₹ 4,00,000
= ₹ 1,00,000

Concept Applied

Valuation of Goodwill

Q. 33. Which of the following is/are a need for valuation of Goodwill?

(A) Change in profit Sharing among existing partners

(B) Admission of a new partner

(C) Retirement/ death partner

(D) All of these U

Ans. Option (D) is correct.

Q. 34. When Goodwill is raised which account is debited?

(A) Revaluation A/c **(B)** Goodwill A/c

(C) Partners' Capital A/c **(D)** None of these R

Ans. Option (B) is correct.

Explanation: Following entry is passed to raise Goodwill.

Goodwill A/c Dr.

To Partners' capital A/c

(Being goodwill raised credited to Partners' capital Account in old profit sharing ratio.)

B Assertion and Reason

Directions: In the following questions, a statement of assertion (A) is followed by a statement of reason (R). Mark the correct choice as:

(a) Both assertion (A) and reason (R) are true and reason (R) is the correct explanation of assertion (A).

(b) Both assertion (A) and reason (R) are true but reason (R) is not the correct explanation of assertion (A).

(c) Assertion (A) is true but reason (R) is false.

(d) Assertion (A) is false but reason (R) is true.

Q. 1. Assertion (A): Goodwill is an intangible asset.

Reason (R): It is the value of the reputation of a firm in respect of the profits expected in future over and above the normal profits. U **[CBSE Term I, 2021]**

Ans. Option (A) is correct.

Explanation: Goodwill is an intangible asset as it cannot be touched and is calculated as the value of the reputation of the firm with respect to the profits earned.

Q. 2. Assertion (A): Profit and Loss Appropriation Account shows the correct profit earned by the firm.

Reason (R): The net profit is adjusted after taking into account the interest on capital, interest on drawings, salaries/commissions paid to the partner in the Profit and Loss Appropriation Account. U

Ans. Option (A) is correct.

Explanation: The profit and loss appropriation account shows all the other items that needs to be taken into account to be distributed among the partners to find the correct profit of the firm.

Q. 3. Assertion (A): If percentage of interest on capital is not mentioned in partnership deed, partners will not receive any interest on capital.

Reason (R): The interest on capital is charged on the capital invested by the partners. U

Q. 4. Assertion (A): When the items are omitted it is necessary to prepare Profit and Loss Adjustment Account only.

Reason (R): For the purpose of correcting these omissions or mistakes, adjustment entries are passed through Profit and Loss Adjustment Account in which adjustments in respect of each and every omission are to be made. U

Ans. Option (D) is correct.

Explanation: When the items are omitted, profit and Loss Adjustment Statement or necessary journal entries can be passed when Profit and Loss Adjustment Account is prepared.

Q. 5. Assertion (A): The Profit and Loss Appropriation Account is an extension of the Profit and Loss Account.

Reason (R): Profit and Loss Appropriation Account starts with the Net Profit as found in the Profit and Loss Account. U

Ans. Option (A) is correct.

Q. 6. Assertion (A): Profit and Loss Appropriation Account is only prepared when there are certain adjustments related to partnership.

Reason (R): Profit and Loss Appropriation Account is prepared to ascertain the profit earned by the firm and distribution among the partners. U

Ans. Option (B) is correct.

Explanation: Whenever there is an adjustment relating to the partnership, Profit and Loss Appropriation Account is made to ascertain and divide the profit among the partners.

Q. 7. Assertion (A): If percentage of interest on drawings is not mentioned in partnership deed, firm would not charge any interest on drawings of partners.

Reason (R): Interest on drawings is charged only when there is profit. U

Ans. Option (C) is correct.

Explanation: Interest on drawings is charged even when there is a loss.

Q. 8. Assertion (A): Partner needs to pay the interest on loan at 6% even if not mentioned in the partnership deed.

Reason (R): Interest on loan to partners is charged as per the section 13 (d) of the Indian Partnership Act. U

Ans. Option (B) is correct.

Explanation: As per the section 13(d) of the Partnership Act, the interest on the loan is to be charged at 6% even if it is not mentioned in the partnership deed.

Q. 9. Assertion (A): Interest on capital amount to ₹15,000 was shown on the credit side of the Profit and Loss Adjustment Account.

Reason (R): Interest on Capital is to be credited to the Capital/Current Accounts of the Partner. Ap

Ans. Option (D) is correct.

Explanation: Interest on capital is shown on the debit side of the Profit and Loss Adjustment Account.

Q. 10. Assertion (A): The interest on drawings omitted is shown on the credit side of the Profit and Loss Adjustment Account.

Reason (R): Profit and Loss Adjustment Account is prepared when there is an omission of items. U

Ans. Option (B) is correct.

Explanation: The interest on drawings omitted is either shown on the credit side of Profit and Loss Adjustment account or statement or a necessary journal entry can be passed.

Q. 11. Assertion (A): Sandhya and Manoj entered into a partnership in the profit sharing ratio 1:2. Manoj agreed to pay Sandhya if her share of profit fall short of ₹50,000. The profit earned was ₹1,77,000. Sandhya asked him to pay ₹27,000, but Manoj refused to pay anything.

Reason (R): Profit is guaranteed only when the minimum amount of profit is not earned by the partner. Ap

Ans. Option (A) is correct.

Explanation: As the profit share of Sandhya is 77,000, which is more than the guaranteed amount, so Manoj did not have to pay her.

Q. 12. Assertion (A): The profit is guaranteed only to a partner.

Reason (R): The guaranteed profit is to be paid by the other partner in the specific ratio as agreed upon to the partner who has been agreed to be paid if the profit fall short. Ap

Ans. Option (D) is correct.

Explanation: The profit is guaranteed to a partner, few partners or even to the firm.

Q. 13. Assertion (A): Guaranteed amount is even paid when the firm suffers a loss.

Reason (R): If a partner or partners guarantees a certain amount of profit, it needs to be paid at all costs. Ap

Ans. Option (A) is correct.

Q. 14. Assertion (A): Goodwill of the firm is affected by the reputation of the firm.

Reason (R): The goodwill of the firm is dependent on the management capacity of the firm. U

Ans. Option (B) is correct.

Explanation: Goodwill of the firm is affected by the reputation of the firm as the firm will be able to earn more profit if its reputation is good.

These questions are for practice and their solutions are available at the end of the chapter

SUBJECTIVE TYPE QUESTIONS

Short Answer Type Questions-I (3 marks each)

Q. 1. On 1.4.2013, Jay and Vijay entered into partnership for supplying laboratory equipment to government school situated in remote and backward areas. They contributed capitals of ₹ 80,000 and ₹ 50,000 respectively and agreed to share the profits in the ratio of 3 : 2. The partnership deed provided that Interest on Capital shall be allowed at 9% per annum. During the year, the firm earned a profit of ₹ 7,800.

Showing your calculations clearly, prepare Profit and Loss Appropriation A/c of Jay and Vijay for the year ended 31.3.2014. A [CBSE Delhi Set I, II, III, 2015]

Q. 2. Ramesh and Suresh are partners sharing profits and losses in the ratio of 2 : 3 with fixed capitals of ₹ 3,00,000 and ₹ 4,50,000 respectively. The opening balance in current accounts of Ramesh is ₹ 1,00,000 (Cr.) and Suresh ₹ 50,000 (Dr.). Show distribution of profits/losses for the year ended 31st March, 2019 by preparing Profit and Loss Appropriation Account if the partnership deed allows interest on capital and also charges interest on current account @ 5% p.a. The profit is ₹ 90,000. AI E

Ans. Dr. **Profit and Loss Appropriation Account** Cr.

Particulars		Amount (₹)	Particulars	Amount (₹)
To Interest on capitals :			By Profit and Loss A/c	90,000
Ramesh's Current A/c	15,000		(profit for the year)	
Suresh's Current A/c	22,500	37,500	By Interest on Current A/c :	
To Interest on Current A/c :			Suresh's Current A/c	2,500
Ramesh's Current A/c		5,000		
To Profits transferred to Current A/c :				
Ramesh's Current A/c	20,000			
Suresh's Current A/c	30,000	50,000		
		92,500		**92,500**

3

Q. 3. Raman and Nath are partners doing a dry cleaning business in Lucknow, sharing profits in the ratio 2 : 1 with capitals ₹ 5,00,000 and ₹ 4,00,000 respectively.

Raman withdrew the following amounts during the year to pay the hostel expenses of her son :

	₹
1st April	10,000
1st June	9,000
1st November	14,000
1st December	5,000

Nath withdrew ₹ 15,000 on the first day of April, July, October and January to pay rent for the accommodation of his family. He also paid ₹ 20,000 per month as rent for the office of partnership which was in a nearby shopping complex.

Calculate Interest on Drawings @ 6% p.a. on 31st March, 2015. Ap

Ans. Calculation of Interest on Drawings of Raman :

Date	Amount (₹)	Periods (Months)	Product (₹)
April 1	10,000	12	1,20,000
June 1	9,000	10	90,000
November 1	14,000	5	70,000
December 1	5,000	4	20,000
	38,000		**3,00,000**

$$\text{Interest on Drawings} = \text{Total of Products} \times \frac{\text{Rate of Interest}}{100} \quad \frac{1}{12}$$

$$= ₹\,3,00,000 \times \frac{6}{100} \times \frac{1}{12} = ₹\,1,500$$

These questions are for practice and their solutions are available at the end of the chapter

Nath withdrew a fixed amount on first day of April, July, October and January. We calculate average period for quarterly drawings of a year by this formulae :

$$\text{Average Period} = \frac{12 \text{ Months} + 3 \text{ Months}}{2} = 7.5 \text{ Months}$$

$$\text{Interest on Drawings} = ₹\ 60{,}000 \quad \frac{6}{100} \quad \frac{7.5}{12} = ₹\ 2{,}250$$ 3

Concept Applied

Calculation of appropriate items

Q. 4. Abhay, Bheem and Chunnu are partners in a firm. They had omitted Interest on Capital @ 10% p.a. for three years ended 31st March, 2019. Their fixed capitals on which interest was to be calculated were :

A	₹ 1,00,000
B	₹ 80,000
C	₹ 70,000

Give the necessary adjusting journal entry and show your working notes clearly. Ap

Ans. In the books of Abhay, Bheem and Chunnu

Journal Entries

Date	Particulars	L.F.	Amount Dr. (₹)	Amount Cr. (₹)
2019	Bheem's Current A/c Dr.		1,000	
March 31	Chunnu's Current A/c Dr.		4,000	
	To Abhay's Current A/c			5,000
	(Being omission of Interest on Capital for three years rectified)			

1

Working Notes :

Statement Showing Adjustment to be made

Particulars	Abhay (₹)	Bheem (₹)	Chunnu (₹)	Total (₹)
Total amount of Interest on Capital omitted to be credited now	30,000	24,000	21,000	75,000
Total amount of profit already credited, to be debited now	25,000	25,000	25,000	75,000
Net effect	**(Cr.) 5,000**	**(Dr.) 1,000**	**(Dr.) 4,000**	—

Note : Profit divided in the ratio of 1:1:1 **2**

Q. 5. Following is the Profit and Loss Appropriation Account of a firm in which A, B and C are equal partners. A I

Profit and Loss Appropriation Account

Dr. for the year ended 31st March, 2019 Cr.

Particulars		Amount (₹)	Particulars	Amount (₹)
To Profits transferred to :			**By Profit & Loss A/c (Net Profit)**	**3,00,000**
A's capital A/c	**1,00,000**			
B's capital A/c	**1,00,000**			
C's capital A/c	**1,00,000**	**3,00,000**		
		3,00,000		**3,00,000**

After preparing the final accounts, it was known that interest on capital amounting to A ₹ 12,000, B 9,600 and C ₹ 10,500 was not allowed and also interest was not charged on drawings of A and B amounting to A ₹ 1,200 and B ₹ 900.

Pass an adjustment entry to rectify the given adjustment. Ap

Q. 6. Vikas and Vivek were partners in firm sharing profits in the ratio of 3 : 2. On 1.4.2014, they admitted Vandana as a new partner for $\frac{1}{8}$th share in the profits with a guaranteed profit of ₹ 1,50,000. The new profit sharing ratio between Vivek and Vikas will remain the same but they decided to bear any deficiency on account of guarantee to Vandana in the ratio 2 : 3. The profit of the firm for the year ended 31.3.2015 was ₹ 9,00,000.

Prepare Profit & Loss Appropriation A/c of Vikas, Vivek and Vandana for the year ended 31.3.2015.

Ap [O.D. Set-I, 2016]

Ans. **In the Books of Vikas, Vivek and Vandana**

Dr. **Profit & Loss Appropriation Account** **Cr.**

Particulars		Amount (₹)	Particulars	Amount (₹)
To Profit transferred to Partners' Capital A/cs :			By Profit & Loss A/c	9,00,000
Vikas	4,72,500			
Less : Given to Vandana	15,000	4,57,500		
Vivek	3,15,000			
Less : Given to Vandana	22,500	2,92,500		
Vandana	1,12,500			
Add : From Vikas	15,000			
Add : From Vivek	22,500	1,50,000		
		9,00,000		**9,00,000**

Working Note :

Vandana's Guaranteed share = ₹ 1,50,000

Vandana's Actual share = ₹ 9,00,000 $\frac{1}{8}$ = ₹ 1,12,500

Vikas's share = ₹ 9,00,000 – ₹ 1,12,500 = ₹ 7,87,500 × $\frac{3}{5}$ = ₹ 4,72,500

Vivek's share = ₹ 9,00,000 – ₹ 1,12,500 = ₹ 7,87,500 × $\frac{2}{5}$ = ₹ 3,15,000

Deficiency = ₹ 1,50,000 – ₹ 1,12,500 = ₹ 37,500

This deficiency will be borne by Vikas and Vivek in 2 : 3 :

Vikas will pay = ₹ 37,500 × $\frac{2}{5}$ = ₹ 15,000

Vivek will pay = ₹ 37,500 × $\frac{3}{5}$ = ₹ 22,500

[CBSE Marking Scheme, 2016] 3

Q. 7. Amann, Babita and Suresh are partners in a firm. Their profit sharing ratio is 2 : 2 : 1. Suresh is guaranteed a minimum amount of ₹ 10,000 as share of profit, every year. Any deficiency on that account shall be met by Babita. The profits for two years ending March 31, 2016 and March 31, 2017 were ₹ 40,000 and ₹ 60,000, respectively. Prepare the Profit and Loss Appropriation Account for the two years. AI Ap

Ans. **In the Books of Amann, Babita and Suresh**

Profit & Loss Appropriation Account
for year ending 31st March, 2016

Dr. **Cr.**

Particulars		Amount (₹)	Particulars	Amount (₹)
To Profit transferred to Partners' Capital A/cs :			By Profit and Loss A/c	40,000
Amann	16,000			
Babita	14,000			
Suresh	10,000	40,000		
		40,000		**40,000**

Profit & Loss Appropriation Account

Dr. **for year ending 31st March, 2017** **Cr.**

Particulars	Amount (₹)	Particulars	Amount (₹)
To Profit transferred to Partners' Capital A/cs : Amann 24,000 Babita 24,000 Suresh 12,000	60,000	By Profit and Loss A/c	60,000
	60,000		**60,000**

Working Notes:

2016 ₹ 40,000 (2 : 2 : 1) = ₹ 16,000 + ₹ 16,000 + ₹ 8,000

Shortfall = ₹ 10,000 – ₹ 8,000 = ₹ 2,000

Babita's share = ₹ 16,000 – ₹ 2,000 = ₹ 14,000

2017 ₹ 60,000 (2 : 2 : 1) = ₹ 24,000 + ₹ 24,000 + ₹ 12,000 **3**

Commonly Made Error

- Students tend to reimburse the amount given by Babita in the second year.

Answering Tip

- In case of guaranty given by a partner, the amount given in the year of less profit is not reimbursed in the year when the profit is more.

Q. 8. A and B share profits and losses in the ratio of 2 : 1 and as from 1st April 2018, they admit C who is to have one-tenth share of the profit with a guaranteed minimum of ₹ 16,000. A and B continue to share profits as before. The profits for the year ended 31st March, 2019 amount to ₹ 1,00,000. A I **Ap**

Prepare Profit and Loss Appropriation Account.

Ans. **In the books of A, B and C**

Profit and Loss Appropriation Account

Dr. **for the year ended 31st March, 2019** **Cr.**

Particulars	Amount (₹)	Particulars	Amount (₹)
To Profit transferred to Partners' Capital A/cs : A 56,000 B 28,000 C 16,000	1,00,000	By Profit & Loss A/c (Profit for the year)	1,00,000
	1,00,000		**1,00,000**

3

Working Note :

C will get higher of the following :

(i) Share of profit as per profit sharing ratio *i.e.* $\frac{1}{10}$ of ₹ 1,00,000 = ₹ 10,000

(ii) Minimum guaranteed profit *i.e.* ₹ 16,000 out of ₹ 1,00,000 are to be given to C first and Balance of ₹ 84,000 (₹ 1,00,000 – ₹ 16,000) will be shared by A and B in the ratio of 2 : 1.

Net effect :

A will get 56,000 $\frac{2}{3}$ of ₹ 84,000 ; B will get ₹ 28,000 $\frac{1}{3}$ of ₹ 84,000 and C will get ₹ 16,000 (minimum guarantee).

Commonly Made Error

- Students share the extra amount of guarantee equally instead of the profit sharing ratio.

Answering Tip

- The share of the amount to be given to C needs to be shared by A and B in their profit sharing ratio.

Q. 9. The capital of the firm of Anuj and Benu is ₹ 10,00,000 and the market rate of interest is ₹ 15%. Annual salary to the partners is ₹ 60,000 each. The profit for the last three years were ₹ 3,00,000; ₹ 3,60,000 and ₹ 4,20,000. Goodwill of the firm is to be valued on the basis of two years' purchase of last three years average super profits. Calculate the goodwill of the firm. Ap [CBSE Delhi Set-I, 2019]

Ans. Actual profits = ₹ 3,60,000 – ₹ 1,20,000
= ₹ 2,40,000 1

Normal profits = 15% × ₹ 10,00,000 = ₹ 1,50,000

Super profits = Actual profits – Normal profits
= ₹ 2,40,000 – ₹ 1,50,000
= ₹ 90,000 1

Goodwill = Super profits × Number of years' purchase
= ₹ 90,000 × 2
= ₹ 1,80,000 1

[CBSE Marking Scheme, 2019]

Q. 10. A firm earned average profit of ₹ 3,00,000 during the last few years. The normal rate of return of the industry is 15%. The assets of the business were ₹ 17,00,000 and its liabilities were ₹ 2,00,000. Calculate the goodwill of the firm by capitalisation of average profits. AI Ap [CBSE Delhi Set-II, 2019]

Ans. Actual profits = ₹ 3,00,000

Net Tangible Assets = Assets – Liabilities
= ₹ 17,00,000 – ₹ 2,00,000
= ₹ 15,00,000 1

Capitalised value of the firm
= (Average Profits × 100)/Normal rate of return
= (₹ 3,00,000 × 100)/15
= ₹ 20,00,000 1

Goodwill = Capitalised value of the firm – Net Tangible Assets
= ₹ 20,00,000 – ₹ 15,00,000
= ₹ 5,00,000 1

[CBSE Marking Scheme, 2019]

Q. 11. L, M and N were partners in a firm sharing profits and losses in the ratio of 5 : 3 : 2. On 1st April, 2018 they admitted S as a new partner in the firm for 1/5th share in the profits. On S's admission the goodwill of the firm was valued at 3 years' purchase of last five years average profits. The profits during the last five years were :

Year ended 31st March	Profit (₹)
2014	4,00,000
2015	3,00,000
2016	2,00,000
2017	50,000
2018	(50,000)

Calculate the value of the goodwill of the firm. Pass necessary journal entry for the treatment of goodwill on S's admission.

Ap [CBSE Delhi Set-III, 2019]

Ans. Average profits = ₹ 1,80,000

Goodwill = Average profits × Number of years' purchase
= 1,80,000 × 3
= ₹ 5,40,000 1

S's share of Goodwill = ₹ 5,40,000/5
= ₹ 1,08,000 1

In the Books of L, M, N and S
Journal

Date	Particulars	Dr. (₹)	Cr. (₹)
	S's Capital A/c Dr.	1,08,000	
	To L's Capital A/c		54,000
	To M's Capital A/c		32,400
	To N's Capital A/c		21,600
	(Being adjustment entry made for goodwill)		

[CBSE Marking Scheme, 2019] 1

Q. 12. The firm of P, Q and R earned ₹ 4,00,000 average profits during the last three years. The capital employed in the business was ₹ 6,00,000. Normal rate of return of the industry is 8%.
Calculate the goodwill of the firm by capitalising the super profits.

Ap [CBSE Delhi Set-II, III, 2019]

Ans. Average Profit = ₹ 4,00,000

Capital Employed = ₹ 6,00,000

Normal Profit = ₹ 6,00,000 × $\frac{8}{100}$
= ₹ 48,000 1

Super Profit = Average Profit – Normal Profit
= ₹ 4,00,000 – ₹ 48,000
= ₹ 3,52,000 1

Goodwill on the basis of Capitalisation of Super Profit

$= \frac{\text{Super Profit}}{\text{Rate of Normal Profit}} \quad 100$

$= \frac{₹\,3,52,000}{8} \quad 100$

= ₹ 44,00,000 1

[CBSE Marking Scheme, 2019]

Commonly Made Error

- Sometime students forget the formula to capitalise super profit.

Answering Tip

- Capitalisation of super profit

$$= \frac{\text{Super Profit}}{\text{Normal Rate of Return}} \quad 100$$

Q. 13. The total capital of the firm of Sakshi, Mehek and Megha is ₹ 1,00,000 and the market rate of interest is 15%. The net profits for the last 3 years were ₹ 30,000, ₹ 36,000 and ₹ 42,000. Goodwill is to be valued at 2 years' purchase of the last 3 years super profits. Calculate the goodwill of the firm.

Ap [Delhi Comptt. Set, I, 2017]

Ans. Goodwill = Super Profits × No. of years' purchase;

Super Profits = Average Profits – Normal Profits;

Normal Profits = Capital employed × $\frac{\text{Normal Rate of Return}}{100}$

= ₹ 1,00,000×15/100 = ₹ 15,000

Average Profits = $\frac{₹\ 30,000 + ₹\ 36,000 + ₹\ 42,000}{3}$

= ₹ 36,000

Super Profits = ₹ 36,000 – ₹ 15,000 = ₹ 21,000

Goodwill = ₹ 21,000 × 2 = ₹ 42,000

[CBSE Marking Scheme, 2017] 3

Q.14. On 1st April, 2014 a firm had assets of ₹ 1,00,000 excluding stock of ₹ 20,000. Partner's Capital Accounts showed a balance of ₹ 60,000. The current liabilities were ₹ 10,000 and the balance constituted the reserve. If the normal rate of return is 8%, the 'Goodwill' of the firm is valued at ₹ 60,000 at four years of purchase of super profit, Find the average profit of the firm. A I

Ap [OD Set-I, (Comptt.) 2015]

Ans. Goodwill = Super profit × 4 years of purchase

60,000 = Super profit × 4

∴ Super profit = 60,000 / 4 = ₹ 15,000

Capital Employed = 1,00,000 + 20,000

= ₹ 1,20,000 – 10,000 (Current liabilities)

= ₹ 1,10,000

Normal Profit = 1,10,000 × 8/100 = ₹ 8,800

15,000 = Average Profit – 8,800

∴ Average Profit = ₹ 23,800

[CBSE Marking Scheme, 2015]

1+½ +½ +1=3

Short Answer Type Questions-II (4 marks each)

Q. 1. A and B are partners in the ratio of 3 : 2. The firm maintains fluctuating capital accounts and the balance of the same as on 31-03-2020 amounted to ₹ 1,60,000 and ₹ 1,40,000 for A and B respectively. Their drawings during the year were ₹ 30,000 each.

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

Ap **[CBSE SQP, 2021]**

Ans.

In the Books of A and B
Calculation of Opening Capital

Particulars	A (₹)	B (₹)
Closing Capital	1,60,000	1,40,000
Add : Drawings	30,000	30,000
Less : Profits	(37,800)	(25,200)
	1,52,200	1,44,800
Less : Interest on Capital	13,836	13,164
Opening Capital	**1,38,364**	**1,31,636**

Working Notes :

Total Closing Capital (of A and B) = ₹ 1,60,000 + ₹ 1,40,000	₹ 3,00,000
Add : Total Drawings (of A and B)	₹ 60,000
Less : Profits (including Interest on Capital)	(₹ 90,000)
Total capital in the beginning of the years	**2,70,000**

Interest on Capital = 10% of 2,70,000 =₹ 27,000

Divisible profits = 90,000 – 2,70,00 =₹ 63,000

[CBSE SQP Marking Scheme, 2021] (2 + 2 = 4)

Q. 2. A and B are partners sharing profits and losses in the ratio of 3 : 2. Their capitals on 31st March, 2018 after all adjustments stood at ₹ 1,65,500 and ₹ 1,27,600 respectively.
Profits amounting to ₹ 50,000 for the year 2017-18 were distributed after allowing interest on drawings @ 12% p.a. During the year, A withdrew ₹ 15,000 at the beginning of every quarter and B withdrew ₹ 40,000 during the year. Partnership deed is silent on interest on drawings but provides for interest on Capital @ 5% p.a. Interest on Capital has not been provided.
Showing your workings clearly, pass the necessary adjustment entry to rectify the above errors.

Ap [CBSE Outside Delhi Set-I, II, III, 2020]

Q. 3. Arun, Shobha and Yuvraj were partners in a firm. On 1st April, 2018 their Fixed Capitals stood at ₹ 1,00,000, ₹ 50,000 and ₹ 50,000 respectively.
As per the provisions of partnership deed :
(i) Partners were entitled to an annual salary of ₹ 20,000 each.
(ii) Interest on Capital ₹ 10% p.a. was to be provided.
(iii) Profits were to be shared in the ratio 3 : 1 : 1. Net profit for the year ended 31st March, 2019 was ₹ 90,000.

Pass Journal Entries for the above in the books of the firm. **Ap** [CBSE OD Set-I, II, III, 2020]

Ans. **In the books of Arun, Shobha and Yuvraj**
Journal Entries

Date	Particulars		L. F.	Amount Dr. (₹)	Amount Cr. (₹)
	Profit and Loss A/c	Dr.		90,000	
	To Profit and Loss Appropriation A/c				90,000
	(Being profit transferred from Profit and Loss A/c to Profit and Loss Appropriation Account)				
	Partner's Salary A/c	Dr.		60,000	
	To Arun's Current A/c				20,000
	To Shobha's Current A/c				20,000
	To Yuvraj's Current A/c				20,000
	(Being Salary credited to Partners' Current Accounts)				
	Profit and Loss Appropriation A/c	Dr.		60,000	
	To Partner's Salary A/c				60,000
	(Being Partner's Salary transferred to Profit and Loss Appropriation Account)				
	Interest on Capital A/c	Dr.		20,000	
	To Arun's Current A/c				10,000
	To Shobha's Current A/c				5,000
	To Yuvraj's Current A/c				5,000
	(Being interest on capital credited to Partners' Current Accounts)				
	Profit and Loss Appropriation A/c	Dr.		20,000	
	To Interest on Capital A/c				20,000
	(Being interest on capital transferred to Profit and Loss Appropriation Account)				
	Profit & Loss Appropriation A/c	Dr.		10,000	
	To Arun's Current A/c				6,000
	To Shobha's Current A/c				2,000
	To Yuvraj's Current A/c				2,000
	(Being divisible profit credited to Partner's Current Accounts)				

[CBSE Marking Scheme, 2020] [1 + ½ + ½ + ½ + ½ + 1]

Commonly Made Error

- Students generally forget to pass entry of transferring profit from Profit & Loss Account to Profit & Loss Appropriation Account.

Answering Tip

- Pass all the journal entries carefully.

These questions are for practice and their solutions are available at the end of the chapter

Q. 4. Rohit, Raman and Raina are partners in a firm. Their capital accounts on 1st April, 2019, stood at ₹ 2,00,000, ₹ 1,20,000 and ₹ 1,60,000 respectively. Each partner withdrew ₹ 15,000 during the financial year 2019-20.

As per the provisions of their partnership deed :

(a) Interest on capital was to be allowed @ 5% per annum.

(b) Interest on drawings was to be charged @4% per annum.

(c) Profits and losses were to be shared in the ratio 5 : 4 : 1.

The net profit of ₹ 72,000 for the year ended 31st March, 2020, was divided equally amongst the partners without providing for the terms of the deed.

You are required to pass a single adjustment entry to rectify the error (show working clearly).

Ap [CBSE SQP, 2021]

Ans. **In the books of Rohit, Raman and Raina**
Journal

Date	Particulars		L.F.	Amount Dr. (₹)	Amount Cr. (₹)
31.03.20	Raina's Capital A/c	Dr.		11,410	
	To Rohit's Capital A/c				10,150
	To Raman's Capital A/c				1,260
	(Being adjustment entry passed)				

Adjustment Table

Particulars	Rohit (₹)	Raman (₹)	Raina (₹)	Firm (₹)
Interest on Capital	10,000	6,000	8,000	(24,000)
Interest on Drawings	(300)	(300)	(300)	900
Profit wrongly Distributed in equal ratio	(24,000)	(24,000)	(24,000)	72,000
Total	(14,300)	(18,300)	(16,300)	48,900
Distribution of Profit in the ratio of 5 : 4 : 1	24,450	19,560	4,890	48,900
Net Effect	**10,150**	**1,260**	**(11,410)**	—

[CBSE SQP Marking Scheme, 2021] (1.5 + 2.5 = 4)

Q. 5. Puneet and Akshara were partners in a firm sharing profits and losses in the ratio of 2 : 3. The following was the balance sheet of the firm as on 31st March, 2019 : A I

Balance Sheet of Puneet and Akshara
as on 31st March, 2019

Liabilities		Amount (₹)	Assets	Amount (₹)
Capital :			Sundry Assets	2,00,000
Puneet	90,000			
Akshara	1,10,000	2,00,000		
		2,00,000		**2,00,000**

The profits ₹ 40,000 for the year ended 31st March, 2019 were divided between the partners without allowing interest on capital @ 5% p.a. and commission to Akshara @ ₹ 1,000 per quarter.

The drawings of the partners during the year were :

Puneet ₹ 2,500 per month.

Akshara ₹ 10,000 per quarter.

Showing your workings clearly, pass necessary adjustment entry in the books of the firm.

Ap [CBSE Delhi Set-I, II, III, 2020]

Ans. **In the books of Puneet and Akshara**

Journal Entry

Date	Particulars	L.F.	Amount Dr. (₹)	Amount Cr. (₹)
2019 March 31	Puneet's Capital A/c Dr.		1,000	
	To Akshara's Capital A/c			1,000
	(Being omission of interest on capital and commission, now rectified)			

Working Note :

Table Showing Adjustments

Partners	Interest on Capital Cr. (₹)	Commission Cr. (₹)	Profits Dr. (₹)	Net Effect	
				Dr. (₹)	Cr. (₹)
Puneet	5,200	—	6,200	1,000	—
Akshara	6,300	4,000	9,300	—	1,000
	11,500	**4,000**	**15,500**	**1,000**	**1,000**

Note : If an examinee has calculated Net Effect correctly by any other method, full credit be given.

Calculation of Interest on Capital :

Calculation of Opening Capitals

Particulars	Puneet (₹)	Akshara (₹)
Closing Capital	90,000	1,10,000
Add : Drawings	30,000	40,000
Less : Profits	(16,000)	(24,000)
Opening Capitals	1,04,000	1,26,000
Interest on Capital @ 5% p.a.	**5,200**	**6,300**

[CBSE Marking Scheme, 2020] [1 +2 +1 = 4]

Topper's Answer, 2020

2016

P/L Adjustment A/c

Particulars	₹	Particulars	₹
To Interest on Capital		By Profit credited back	
		Puneet Capital - 16,000	
Puneet = 104,000 × $\frac{5}{100}$ = 5200		Akshara - 24,000	40,000
Akshara = 1,26,000 × $\frac{5}{100}$ = 6300	11,500		
To Commission (Akshara).	4,000		
To Profit			
Puneet Capital	9800		
Akshara Capital	14,700		
	24,500		

Closing Capital = opening Capital + Add Capital - Drawings + Profit

Puneet = 90,000 + (2500×12) - 16,000
⇒ 90000 + 30,000 - 16000
1,04,000

Atharva = 1,19000 + (10,000 × 4) - 24,000
⇒ 1,50,000 - 24,000
⇒ 1,26,000

	Dr.	Cr.
Puneet	16,000	15,000
Atharva	24,000	25,000

Journal

Date	Particulars	Dr.	Cr.
(i)	Puneet Capital A/c	1000	
	To Atharva Capital A/c		1000
	(Being adjustment entry passed)		

Q. 6. Praveen, Sahil and Riya are partners having fixed capitals of ₹ 2,00,000, ₹ 1,60,000 and ₹ 1,20,000 respectively. They share profits in the ratio of 3 : 1 : 1. The partnership deed provided for the following which were not recorded in the books :

(i) Interest on Capital @ 5% p.a.
(ii) Salary to Praveen ₹ 1,500 p.m. and to Riya ₹ 1,000 p.m.
(iii) Transfer of profit to General Reserve ₹ 10,000. Net profit for the year ended 31st March, 2015 was ₹ 1,00,000.

Pass necessary rectifying entry for the above adjustments in the books of the firm. Also show your working clearly. **Ap** **[O.D. Set. I, II, III, 2016]**

Commonly Made Error

- Students mostly do not calculate the divisible profit.

Answering Tip

- Students need to calculate the divisible profit in order to make a proper rectification.

Q. 7. B, C and D are partners sharing profits and losses in the ratio of 3 : 2 : 1. It was discovered after preparing the final accounts that interest on drawings @ 5% p.a. had not been taken into consideration. The drawings of the partners were : B ₹ 15,000; C ₹ 12,600; D ₹ 12,000. Give the necessary adjusting journal entry. **A I** **Ap**

Ans. **In the Books of ....**

Journal Entry

Date	Particulars	L.F.	Amount Dr. (₹)	Amount Cr. (₹)
	D's Capital A/c Dr.		135	
	To B's Capital A/c			120
	To C's Capital A/c			15
	(Being interest on drawings omitted, now adjusted)			

2

Working Notes : Interest is to be calculated for six months only since the date of drawings is not specified.

Partners	Interest on Drawings (₹) Dr.	Profits in the ratio of 3 : 2 : 1 to Capital A/cs Cr. (₹)	Net effect	
			Dr. (₹)	Cr. (₹)
B	375	495	—	120
C	315	330	—	15
D	300	165	135	—
	990	**990**	**135**	**135**

Q. 8. Ajay, Binay and Chetan were partners sharing profits in the ratio of 3 : 3 : 2. The partnership deed provided for the following : A I

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

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

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

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

Ap **[Delhi Comptt. I, II, III 2016]**

Ans. **In the Books of Ajay, Binay and Chetan**

Journal Entry

Date	Particulars		L.F.	Amount Dr. (₹)	Amount Cr. (₹)
	Ajay's Capital A/c	Dr.		6,400	
	Binay's Capital A/c	Dr.		2,000	
	To Chetan's Capital A/c				8,400
	(Being salary, commission and guaranteed profit omitted, now adjusted)				

Table Showing Adjustment

	Ajay (₹)	Binay (₹)	Chetan (₹)	Total (₹)
Salary (Cr.)	8,000	8,000	—	16,000
Commission (Cr.)	—	—	8,000	8,000
Guaranteed Profits (Cr.)	—	50,000	—	50,000
Profits to be Distributed (Cr.)	45,600	—	30,400	76,000
Profits to be Recovered (Dr.)	60,000	60,000	30,000	1,50,000
Adjustment	**6,400 (Dr.)**	**2,000 (Dr.)**	**8,400 (Cr.)**	—

2+2=4

Working Notes :

(i) Profit to be distributed (Cr.) = ₹ 76,000 × 3/5 = ₹ 45,600

(ii) Profit to be Distributed (Cr.) = ₹ 76,000 × 2/5 = ₹ 30,400

Q. 9. P and Q were partners in a firm sharing profits in the ratio of 5 : 3. On 1.4.2014, they admitted R as a new partner for 1/8th share in the profits with a guaranteed profit of ₹ 75,000. The new profit sharing ratio between P and Q will remain the same but they agreed to bear any deficiency on account of guarantee to R in the ratio 3 : 2. The profit of the firm for the year ended 31.3.2015 was ₹ 4,00,000.

Prepare Profit & Loss Appropriation A/c of P, Q and R for the year ended 31.3.2015. **Ap** **[Delhi Set-I, 2016]**

Ans. **Profit & Loss Appropriation Account of P, Q and R for the year ending 31st March,2015**

Dr. **Cr.**

Particulars		Amount (₹)	Particulars	Amount (₹)
To Partner's Capital A/c :			By Profit and Loss A/c	4,00,000
(transfer of profit)				
P	2,18,750			
Less : Deficiency	15,000	2,03,750		
Q	1,31,250			
Less :Deficiency	10,000	1,21,250		
R	50,000			
Add: From P	15,000			
Add: From Q	10,000	75,000		
		4,00,000		**4,00,000**

2

Working Notes :

New Profit sharing ratio will be calculated as follows :

R to share 1/8th of the profits. The remaining profit =1 – 1/8= 7/8th will be shared by P and Q in the ratio of 5 : 3.

P's share in profit will be 5/8 × 7/8 = 35/64

Q's share in profit will be 3/8 × 7/8 = 21/64

The new ratio becomes 35/64 : 21/64 : 1/8 or 8/64 = 35 : 21 : 8

P's share in profit = ₹ 4,00,000 × 35/64 = ₹ 2,18,750

Q's share in profit = ₹ 4,00,000 × 21/64 = ₹ 1,31,250

R's share in profit = ₹ 4,00,000 × 8/64 = ₹ 50,000

Deficiency borne = Total Profit – R's profit = ₹ 75,000 – ₹ 50,000 = ₹ 25,000

Deficiency of R (₹ 25,000) will be shared by P and Q in the ratio of 3 : 2

P will bear 3/5 of ₹ 25,000 = 3/5 × ₹ 25,000 = ₹ 15,000

Q will bear 2/5 of ₹ 25,000 = 2/5 × ₹ 25,000 = ₹ 10,000

Thus, the profits of the firm will be shared as follows :

P will get = ₹ 2,18,750 – ₹ 15,000 = ₹ 2,03,750

Q will get = ₹ 1,31,250 – ₹ 10,000 = ₹ 1,21,250

R will get = ₹ 50,000 + ₹ 15,000 + ₹ 10,000 = ₹ 75,000 **2**

Long Answer Type Questions-I **(6 marks each)**

Q. 1. Sudha, Naresh and Geeta were partners in a firm sharing profits in the ratio of 5 : 3 : 2. Their fixed capitals were ₹ 6,00,000, ₹ 4,00,000 and ₹ 2,00,000 respectively. Besides her capital, Geeta had given a loan of ₹ 75,000 to the firm. There partnership deed provided for the following :

(i) Interest on capital @ 9% p.a.

(ii) Interest on partners' drawings @ 12% p.a.

(iii) Salary to Sudha ₹ 30,000 per month and to Naresh ₹ 40,000 per quarter.

(iv) Interest on Geeta's loan @ 9% p.a.

During the year Sudha withdrew ₹ 50,000 at the end of each quarter. Naresh withdrew ₹ 50,000 in the beginning of each half year and Geeta withdrew ₹ 70,000 at the end of each half year.

The profit of the firm for the year ended 31.3.2019 before allowing interest on Geeta's loan was ₹ 7,06,750. Prepare Profit and Loss Appropriation Account. **Ap** [CBSE O.D. Set-I, II, III, 2020]

Ans.

In the books of Suresh, Naresh and Geeta
Profit and Loss Appropriation Account
for the year ending 31st March, 2019

Dr. **Cr.**

Particulars		Amount (₹)	Particulars		Amount (₹)
To Interest on Capital :			By Net Profit		7,00,000
Subha's Current A/c	54,000		By Interest on Drawings :		
Geeta's Current A/c	18,000		Sudha's Current A/c	9,000	
Naresh's Current A/c	36,000	1,08,000	Naresh's Current A/c	9,000	
To Salaries :			Geeta's Current A/c	4,200	22,200
Sudha's Current A/c	3,60,000				
Naresh's Current A/c	1,60,000	5,20,000			
To Profit transferred to Partners' Current A/cs :					
Sudha	47,100				
Naresh	28,260				
Geeta	18,840	94,200			
		7,22,200			**7,22,200**

[1 + 1 + 1 + 1 + 2 = 6]

	₹
Net Profit	7,06,750
***Less* : Interest on Geeta's Loan**	6,750
	7,00,000

[CBSE Marking Scheme, 2020]

Q. 2. Sonu and Rajat started a partnership firm on April 1, 2017. They contributed ₹ 8,00,000 and ₹ 6,00,000 respectively as their capitals and decided to share profits and losses in the ratio of 3 : 2.
The partnership deed provided that Sonu was to be paid a salary of ₹ 20,000 per month and Rajat a commission of 5% on turnover. It also provided that interest on capital be allowed @8% p.a. Sonu withdrew ₹ 20,000 on 1st December, 2017 and Rajat withdrew ₹ 5,000 at the end of each month. Interest on drawings was charged @6% p.a. The net profit as per Profit and Loss Account for the year ended 31st March, 2018 was ₹ 4,89,950. The turnover of the firm for the year ended 31st March, 2018 amounted to ₹ 20,00,000. Pass necessary journal entries for the above transactions in the books of Sonu and Rajat. A I Ap [CBSE Delhi Set-I, II, III 2019]

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

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

Pass necessary adjusting entry for the above adjustments in the books of the firm on 1st April, 2018. Show your working clearly. Ap [CBSE Outside Delhi Set-I, II, III 2019]

Ans.

In the Books of Naveen, Qadir and Rajesh
Journal

Date	Particulars	L.F.	Amount Dr. (₹)	Amount Cr. (₹)
2018 April 1	Rajesh's Current A/c Dr.		17,800	
	To Naveen's Current A/c			10,000
	To Qadir's Current A/c			7,800
	(Being interest on capital wrongly allowed and partner's salary omitted, now rectified)			

2

Working Notes :

Past Adjustment Table

Particulars	Naveen (₹)	Qadir (₹)	Rajesh (₹)	Total (₹)
A. Cancellation of Interest on Capital :				
2016-17	24,000(Dr.)	21,600(Dr.)	14,400 (Dr.)	60,000(Cr.)
2017-18	24,000(Dr.)	21,600(Dr.)	14,400(Dr.)	60,000(Cr.)
Total Interest on Capital	48,000(Dr.)	43,200(Dr.)	28,800(Dr.)	1,20,000(Cr.)
B. Omission of Salary :				
2016-17	14,000(Cr.)	16,000(Cr.)	....	30,000(Dr.)
2017-18	14,000(Cr.)	16,000(Cr.)	....	30,000(Dr.)
Total Salary	28,000(Cr.)	32,000(Cr.)	....	60,000(Dr.)
C. Profits to be credited : (**A – B**)				
2016-17 (3 : 2 : 1)	15,000(Cr.)	10,000(Cr.)	5,000(Cr.)	30,000(Dr.)
2017-18 (3 : 2 : 1)	15,000(Cr.)	9,000(Cr.)	6,000(Cr.)	30,000(Dr.)
Total Profits credited	30,000(Cr.)	19,000(Cr.)	11,000(Cr.)	60,000(Dr.)
Net Effect [A+B+C]	10,000(Cr.)	7,800(Cr.)	17,800(Dr.)	—

Note : In case a student has presented correct working in any other form, full credit may be given.

[CBSE Marking Scheme, 2019] 4

These questions are for practice and their solutions are available at the end of the chapter

OR

Topper's Answer, 2019

Ans.

Statement of adjustment

Particulars	Amount Due			Amount Entered		
	Naveen	Qadir	Rajesh	Naveen	Qadir	Rajesh
1. Interest on capital	–	–	–	48,000	43,200	28,800
2. Salary	~~28,000~~	~~30,000~~	–			
	28,000	32,000	–	–	–	–
3. Profits Division (2016-17)	15,000	10,000	5000	–	–	–
(2017-18)	15,000	9000	6000	–	–	–
TOTAL	58,000	51,000	11,000	48,000	43,200	28,800
Less: Amt Entered	(48,000)	(43,200)	(28,800)			
	10,000 (Cr)	7,800 (Cr)	17,800 (Dr)			

	For 2016-17 (₹)	For 2017-18 (₹)
Intt on capital ⇒	+ 60,000	60,000
(Salary) ⇒	(30,000)	(30,000)
Profit to be distributed →	30,000	30,000

Journal

Date	Particulars	LF	Dr (₹)	Cr (₹)
2018 April 1	Rajesh's current A/c Dr.		17,800	
	To Naveen's current A/c			10,000
	To Qadir current A/c			7000
	(Being adjusting entry passed)			

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

Subsequently, it was discovered that interest on capital and interest on drawings had been omitted. The partners were entitled to interest on capital @ 10% p.a. and were to be charged interest on drawings @ 6% p.a. The drawings during the year were : Abhir ₹ 20,000 drawn at the end of each month, Bobby ₹ 50,000 drawn at the beginning of every half year and Vineet ₹ 1,00,000 withdrawn on 31st October, 2017. The net profit for the year ended 31st March, 2018 was ₹ 1,50,000. The profit sharing ratio was 2 : 2 : 1.

Pass necessary adjusting entry for the above adjustments in the books of the firm. Also show your workings clearly. **Ap** **[CBSE Outside Delhi Set-I, II, III 2019]**

Ans. **In the books of Abhir, Bobby and Vineet**

Journal

Date	Particulars		L.F.	Amount Dr. (₹)	Amount Cr. (₹)
2018 April 1	Bobby's Capital A/c	Dr.		14,402	
	To Abhir's Capital A/c				10,112
	To Vineet's Capital A/c				4,290
	(Being interest on capital and interest on drawings omitted, now rectified)				

Working : 3

Past Adjustment Table

	Particulars	Abhir (₹)	Bobby (₹)	Vineet (₹)	Total (₹)
(A)	Cancellation of profits	60,000 (Dr.)	60,000(Dr.)	30,000(Dr.)	1,50,000(Cr.)
	Omission of IOD	6,600(Dr.)	4,500(Dr.)	2,500(Dr.)	13,600(Cr.)
	Omission of IOC	76,712(Cr.)	50,098(Cr.)	36,790(Cr.)	1,63,600(Dr.)
	Net Effect	**10,112(Cr.)**	**14,402(Dr.)**	**4,290(Cr.)**	—

(B) Calculation of Opening Capital :

Particulars	Abhir (₹)	Bobby (₹)	Vineet (₹)
Capital on 31-3-2018	8,00,000	6,00,000	4,00,000
Add : Drawings	2,40,000	1,00,000	1,00,000
Less : Share of profit	(60,000)	(60,000)	(30,000)
Capital on 1-4-2017	**9,80,000**	**6,40,000**	**4,70,000**

(C) Interest on Capital @ 10% = 98,000 + 64,000 + 47,000 = ₹ 2,09,000

Profits available = ₹ 1,50,000 + 13,600 = ₹ 1,63,600

Therefore, Interest on Capital is given as ₹ 1,63,600 divided in the ratio of 98 : 64 : 47.

[CBSE Marking Scheme, 2019] 3

Commonly Made Error

- Students generally make mistakes while calculating opening capital. Students mostly find difficulty to solve these types of questions.

Answering Tips

- Adequate practice is needed to solve these types of questions.
- Students should prepare adjustment table to find out the correct part of Gain and Sacrifice of the partners; gaining partners are debited and Sacrificing Partners are credited.

Q. 5. Mudit and Uday are partners in a firm sharing profits in the ratio 2 : 3. Their capital accounts as on April 1, 2015, showed balances of ₹ 70,000 and ₹ 60,000 respectively. The drawings of Mudit and Uday during the year 2015-16 were ₹ 16,000 and ₹ 12,000 respectively. Both the amounts were withdrawn on 1st January, 2016. It was subsequently found that the following items had been omitted while preparing the final accounts for the year ended 31st March, 2016 :

(i) Interest on capitals @ 6% p.a.;

(ii) Interest on drawings @ 6% p.a.;

(iii) Mudit was entitled to a commission of ₹ 4,000 for the whole year.

Showing your workings clearly, pass a rectifying entry in the books of the firm.

Ap **[Outside Delhi Comptt. Set, I, 2017]**

Ans. **In the Books of the Mudit and Uday**

Journal

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
2016 Apr. 1	Uday's Capital A/c Dr. To Mudit's Capital A/c (Being rectifying entry for omission of IOC, IOD and Mudit's commission)		3,408	3,408

2

Working Notes :

Past Adjustment Table

Particulars	Mudit (₹)	Uday (₹)	Total (₹)
Omission of IOC	4,200 (Cr.)	3,600 (Cr.)	7,800 (Dr.)
Omission of IOD	240 (Dr.)	180 (Dr.)	420 (Cr.)
Omission of Commission	4,000 (Cr.)	—	4,000 (Dr.)
	7,960 (Cr.)	3,420 (Cr.)	11,380 (Cr.)
Dr. Total divided in 2 : 3	4,552 (Dr.)	6,828 (Dr.)	11,380 (Cr.)
Net Effect	3,408 (Cr.)	3,408 (Dr.)	—

[CBSE Marking Scheme, 2017] 4

Q. 6. On March 31, 2014, the balances in the Capital Accounts of Eleen, Monu and Ahmad after making adjustments for profits and drawings were ₹ 1,60,000, ₹ 1,20,000 and ₹ 80,000 respectively. Subsequently, it was discovered that the interest on capital and drawings had been omitted.

(i) The profit for the year ended 31st March, 2014 was ₹ 40,000.

(ii) During the year Eleen and Monu each withdrew a total sum of ₹ 24,000 in equal instalments in the beginning of each month and Ahmad withdrew a total sum of ₹ 48,000 in equal instalments at the end of each month.

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

(iv) The profit sharing ratio among the partners was 2 : 1 : 1.

Showing your working notes clearly, pass the necessary rectifying entry.

Ap **[Delhi Set-I and Delhi Set-II, III, (Comptt.) 2015]**

Ans. **In the books of Eleen, Monu and Ahmad**

Journal Entry

Date	Particulars	L.F.	Amount (₹) Dr.	Amount (₹) Cr.
2014 Mar. 31	Eleen's Capital A/c Dr. To Monu's Capital A/c To Ahmad's Capital A/c (Being interest on capital and interest on drawings omitted, now adjusted)		3,850	 2,950 900

2

Working Notes :

(i) **Calculation of Opening Capital**

	Eleen (₹)	Monu (₹)	Ahmad (₹)
Closing Capitals	1,60,000	1,20,000	80,000
Less : Profits	(20,000)	(10,000)	(10,000)
Add : Drawings	24,000	24,000	48,000
Opening Capitals	**1,64,000**	**1,34,000**	**1,18,000**

2

(ii) Table showing Adjustment

	Eleen (₹)	Monu (₹)	Ahmad (₹)	Total (₹)
Interest on Capital (Cr.)	16,400	13,400	11,800	41,600
Interest on Drawings (Dr.)	650	650	1,100	2,400
Profits already distributed (Dr.)	20,000	10,000	10,000	40,000
Profits to be distributed (Cr.)	400	200	200	800
Adjustment	**3,850 (Dr.)**	**2,950 (Cr.)**	**900 (Cr.)**	—

2

(iii) Calculation of Interest on Capital :

Interest on Eleen's Capital = ₹ 1,64,000 @ 10% = ₹ 16,400
Interest on Monu's Capital = ₹ 1,34,000 @ 10% = ₹ 13,400
Interest on Ahmad's Capital = ₹ 1,18,000 @ 10% = ₹ 11,800

(iv) Calculation of Interest on Drawings :

Interest on drawings withdrew by Eleen
(Being withdrawn at the beginning of each month) = $\frac{₹24,000 \quad 5 \quad 6.5}{100 \quad 12}$ = ₹ 650

Interest on drawings withdrew by Monu
(Being withdrawn at the beginning of each month) = $\frac{₹24,000 \quad 5 \quad 6.5}{100 \quad 12}$ = ₹ 650

Interest on drawings withdrew by Ahmad
(Being withdrawn at the end of each month) = $\frac{₹48,000 \quad 5 \quad 5.5}{100 \quad 12}$ = ₹ 1,100

Note : In case the working notes have been correctly prepared in a different form, full credit may be given.
Profit to be distributed : ₹ 40,000 − (41,600 − 2,400) = ₹ 800 **[CBSE Marking Scheme, 2015]**

Q. 7. Jay, Vijay and Karan were partners of an architect firm sharing profits in the ratio of 2 : 2 : 1. Their partnership deed provided the following :
(i) A monthly salary of ₹ 15,000 each to Jay and Vijay.
(ii) Karan was guaranteed a profit of ₹ 5,00,000 and Jay guaranteed that he will earn an annual fee of ₹ 2,00,000. Any deficiency arising because of guarantee to Karan will be borne by Jay and Vijay in the ratio of 3 : 2.
During the year ended 31st March, 2018 Jay earned fee of ₹ 1,75,000 and the profits of the firm amounted to ₹ 15,00,000.
Showing your working clearly prepare Profit and Loss Appropriation Account and the Capital Accounts of Jay, Vijay and Karan for the year ended 31st March, 2018. AI Ap **[CBSE Delhi Set-I, II, III, 2019]**

Ans.

In the Books of Jay, Vijay and Karan
Dr. Profit and Loss Appropriation Account Cr.
for the year ended 31st March, 2018

Particulars		Amount (₹)	Particulars	Amount (₹)
To Salary :			By Net Profit	15,00,000
Jay's Capital A/c	1,80,000		By Jay's Capital A/c	25,000
Vijay Capital A/c	1,80,000	3,60,000	(2,00,000 – 1,75,000)	
To Profit transferred to :			(Deficiency in guaranteed fees)	
Jay's Capital A/c	4,66,000			
Less : Guarantee to Karan	(1,60,200)	3,05,800		
Vijay's Capital A/c	4,66,000			
Less : Guarantee to Karan	(1,06,800)	3,59,200		
Karan's Capital A/c	2,33,000			
Add : Guarantee	2,67,000	5,00,000		
		15,25,000		**15,25,000**

3

Dr. **Partners' Capital Accounts** Cr.

Particulars	Jay (₹)	Vijay (₹)	Karan (₹)	Particulars	Jay (₹)	Vijay (₹)	Karan (₹)
To P & L App. A/c	25,000	—	—	By Salary	1,80,000	1,80,000	—
To Balance c/d	4,60,800	5,39,200	5,00,000	By Profit & Loss Appropriation A/c (profit)	3,05,800	3,59,200	5,00,000
	4,85,800	**5,39,200**	**5,00,000**		**4,85,800**	**5,39,200**	**5,00,000**

In case, the candidate has prepared the Partners' Capital Accounts considering the guarantee in any other way and the closing balances in their Capital Accounts are same as indicated above, full credit be given.

[CBSE Marking Scheme, 2019] 3

Q. 8. Moli, Bhola and Raj were partners in a firm sharing profits and losses in the ratio of 3 : 3 : 4. Their partnership deed provided for the following :

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

(ii) Interest on drawing @ 12% p.a.

(iii) Interest on partners' loan @ 6% p.a.

(iv) Moli was allowed an annual salary of ₹ 4,000; Bhola was allowed a commission of 10% of net profit as shown by Profit and Loss Account and Raj was guaranteed a profit of ₹ 1,50,000 after making all the adjustments as provided in the partnership agreement.

Their fixed capitals were Moli : ₹ 5,00,000; Bhola : ₹ 8,00,000 and Raj : ₹ 4,00,000. On 1st April , 2016 Bhola extended loan of ₹ 1,00,000 to the firm. The net profit of the firm for the year ended 31st March, 2017 before interest on Bhola's loan was ₹ 3,06,000.

Prepare Profit and Loss Appropriation Account of Moli, Bhola and Raj for the year ended 31st March, 2017 and their Current Accounts assuming that Bhola withdrew ₹ 5,000 at the end of each month , Moli withdrew ₹ 10,000 at the end of each quarter and Raj withdrew ₹ 40,000 at the end of each half year. Ap [CBSE Delhi/OD 2018]

Ans. **In the Books of Moli, Bhola and Raj**
Profit and Loss Appropriation Account
for the year ended 31st March, 2017

Dr. Cr.

Particulars		Amount (₹)	Particulars		Amount (₹)
To Interest on Capital :			By Profit and Loss A/c (3,06,000 – 6,000)		3,00,000
Moli's Current A/c	25,000		By Interest on Drawings :		
Bhola's Current A/c	40,000		Moli's Current A/c	1,800	
Raj's Current A/c	20,000	85,000	Bhola's Current A/c	3,300	
To Salary :			Raj's Current A/c	2,400	7,500
Moli's Current A/c		4,000			
To Commission :					
Bhola's Current A/c		30,000			
To Profit transferred to :					
Moli's Current A/c	56,550				
Less : Guarantee	(37,300)	19,250			
Bhola's Current A/c	56,550				
Less : Guarantee	(37,300)	19,250			
Raj's Current A/c	75,400				
Add: From Moli	37,300				
Add: From Bhola	37,300	1,50,000			
		3,07,500			**3,07,500**

3

Dr. **Partners' Current Accounts** **Cr.**

Particulars	Moli (₹)	Bhola (₹)	Raj (₹)	Particulars	Moli (₹)	Bhola (₹)	Raj (₹)
To Drawings A/c	40,000	60,000	80,000	By Interest on Capital A/c	25,000	40,000	20,000
To Interest on Drawings A/c	1,800	3,300	2,400	By Salary A/c	4,000	-	-
To Balance c/d	6,450	25,950	87,600	By Commission A/c	-	30,000	-
				By P&L Appropriation A/c-share of profit	19,250	19,250	1,50,000
	48,250	**89,250**	**1,70,000**		**48,250**	**89,250**	**1,70,000**

3 [CBSE Marking Scheme, 2018]

Commonly Made Error

- Generally students pass entries through Capital Account instead of Current Account.

Answering Tip

- Always remember that if partners' capital account are fixed, all the adjustment entries are passed through partners' current accounts.

COMPETENCY BASED QUESTIONS

Case based MCQs

I. On the basis of following information, answer the given questions:

Asif and Ravi are partners in a firm, sharing profits and losses in the ratio of 3 : 2. Their fixed capitals as on 1st April, 2016 were ₹ 6,00,000 and ₹ 4,00,000 respectively.

Their partnership deed provides for the following :

(i) Partners are to be allowed interest on their capital @ 10% per annum.

(ii) They are to be charged interest on drawings @ 4% per annum.

(iii) Asif is entitled to a salary of ₹2,000 per month.

(iv) Ravi is entitled to a commission of 5% of the net profit of the firm before charging such commission.

(v) Asif is entitled to a rent of ₹ 3,000 per month for the use of his premises by the firm.

The net profit of the firm for the year ended 31st March, 2017, before providing for any of the above clauses was ₹ 4,00,000.

Both partners withdrew ₹ 5,000 at the beginning of every month for the entire year.

Q. 1. The amount of Interest on Asif's Capital, shown in the Profit and Loss Appropriation Account is:

(A) ₹60,000 **(B)** ₹40,000

(C) ₹20,000 **(D)** ₹30,000

Ans. Option (A) is correct.

Explanation: ₹6,00,000 × 10% = ₹60,000

Q. 2. How much commission is to be given to Ravi?

(A) ₹19,047 **(B)** ₹18,200

(C) ₹19,200 **(D)** ₹18,047

Ans. Option (B) is correct.

Explanation: Net Profit = ₹4,00,000 – ₹36,000
= ₹3,64,000

Commission = 5% of 3,64,000 = ₹18,200

Q. 3. How much salary is Asif entitled for the full year?

(A) ₹24,000 **(B)** ₹20,000

(C) ₹18,000 **(D)** ₹21,000

Ans. Option (A) is correct.

Explanation: Salary = ₹2000 × 12 = ₹24,000

Q. 4. How will the rent to be paid to Asif treated?

(A) It will be in the debit side of Profit and Loss Appropriation Account.

(B) It will be subtracted from the Net Profit.

(C) It will be added to the Capital Account of Asif.

(D) It will be deducted from the Capital Account of Ravi.

Ans. Option (B) is correct.

II. On the basis of following information, answer the given questions:

Anita, Asha and Bashir are partners sharing profits and losses in the ratio of 3 : 2 : 1 respectively. On 1st April, 2016, they decided to change their profit sharing ratio. Their partnership deed provides that in the event of any change in the profit sharing ratio, the goodwill of the firm should be valued at two years' purchase of the average super profits for the past three years :

2015-16 Profit ₹ 40,000

2014-15 Profit ₹ 30,000

2013-14 loss ₹ 10,000

The average capital employed in the business was ₹ 1,10,000; the rate of interest expected from capital invested was 10%.

Q. 1. The total profit earned in three years is __________.

(A) ₹80,000 **(B)** ₹70,000

(C) ₹60,000 **(D)** None of these

Ans. Option (C) is correct.

Explanation: Total Profit = ₹40,000 + ₹30,000 – ₹10,000 = ₹60,000

Q. 2. The Super Profit of the firm is ________.

(A) ₹10,000 **(B)** ₹20,000

(C) ₹9,000 **(D)** ₹18,000

Ans. Option (C) is correct.

Explanation:

Super Profit = Average Profit – Normal Profit

Normal Profit = Capital Employed × Normal rate of return /100

= ₹1,10,000 × 10/100 = ₹11,000

Super Profit = ₹ 20,000 – ₹ 11,000

= ₹ 9,000

Q. 3. What is the amount of goodwill as calculated?

(A) ₹18,000 **(B)** ₹20,000

(C) ₹27,000 **(D)** None of these

Ans. Option (A) is correct.

Explanation: Goodwill = ₹9,000 × 2 = ₹18,000

Q. 4. The normal profit earned by the firm is __________.

(A) ₹9,000 **(B)** ₹11,000

(C) ₹18,000 **(D)** ₹60,000

Ans. Option (B) is correct.

Case based Subjective Questions

I. Read the passage given below and answer the questions that follow:

The capital accounts of X and Y showed balance of ₹ 40,000 and ₹ 20,000 on 1st April, 2017. They shared profits in the ration of 3:2. They are allowed interest on capitals @10% p.a. and are charged interest on drawings @ 12% p.a. X also advanced a loan of ₹ 10,000 to the firm on 1st august, 2017.

During the year, X withdrew ₹ 1,000 per month at the beginning of every month while Y withdrew ₹ 1,000 per month at the end of every month.

The profits for the year ended 31st march, 2018 before the above mentioned adjustments were ₹ 20,910.

Q. 1. How much interest will be charged on X's drawings?

Ans. Calculation of interest on X's drawings:

$$= 12,000 \times \frac{12}{100} \times \frac{6.5}{12} = ₹\ 780$$

(Note: average period has been taken at 6.5 months because money was drawn at the beginning of every month)

Q. 2. What interest will be charged on X's loan?

Ans. Calculation of interest on X's loan:

$$10,000 \times \frac{6}{100} \times \frac{8}{12} = ₹\ 400$$

[Note: If deed is silent regarding the interest on loan, a partner is entitled to take interest on loan @6% p.a.]

Q. 3. Which account will be opened to distribute profit among partners after taking the above adjustments in accounts?

Ans. Profit and loss Appropriation Account

Solutions for Practice Questions (Topic-1)

Multiple Choice Questions

Ans. 4. Option (A) is correct.

Ans. 17. Option (A) is correct.

Explanation: When only Partner's Capital Account is maintained all the adjustments are made in the Capital account itself and no separate account is to be opened for such thing.

Assertion and Reason

Ans. 6. Option (D) is correct.

Explanation: Partners share profit and losses equally only if provided by the partnership deed or there is no partnership deed.

Short Answer Type Questions-II

Ans. 2.

(i) Nominal partner

(ii) Secret partner

(iii) Dormant partner

(iv) Active partner

Solutions for Practice Questions (Topic-2)

Multiple Choice Questions

Ans. 3. Option (B) is correct.

Ans. 11. Option (D) is correct.

Explanation: Interest on Partner's Capital is the only one that is written in the Capital or Current account.

Assertion and Reason

Ans. 3. Option (B) is correct.

Explanation: The interest on capital is charged in accordance with the partnership deed, and if not mentioned it will not be charged.

Short Answer Type Questions-I

Ans 1. **Profit & Loss Appropriation Account**

Dr. **for the year ended 31st March, 2014** **Cr.**

Particulars		Amount (₹)	Particulars	Amount (₹)
To Interest on Capital A/c :			By Profit & Loss A/c	7,800
Jay's Capital A/c	4,800			
Vijay's Capital A/c	3,000	7,800		
		7,800		**7,800**

Working Notes :

Calculation of Interest on Capital :

Jay = ₹ 80,000 × 9/100 = ₹ 7,200

Vijay = ₹ 50,000 × 9/100 = ₹ 4,500

₹ 11,700

But, Profit earned = ₹ 7,800

$$\text{Jay will get} = \frac{₹7,200}{₹11,700} \times ₹7,800 = ₹4,800$$

$$\text{Vijay will get} = \frac{₹4,500}{₹11,700} \times ₹7,800 = ₹3,000$$

Ans. 5. **In the books of A, B and C**

Profit and Loss Appropriation Account

Dr. **for the year ended 31st March, 2019** **Cr.**

Particulars		Amount (₹)	Particulars		Amount (₹)
To Interest on Capital :			By Profit & Loss A/c (Net Profit)		3,00,000
A	12,000		By Interest on Drawings :		
B	9,600		A	1,200	
C	10,500	32,100	B	900	2,100
To Profit transferred to Partners' Capital A/cs:					
A	90,000				
B	90,000				
C	90,000	2,70,000			
		3,02,100			**3,02,100**

Statement Showing Adjustment of Profit

Particulars	A's (₹)	B's (₹)	C's (₹)
Credited Short for Interest on Capitals	12,000	9,600	10,500
Debited Short for Interest on Drawings	(1,200)	(900)	—
Credited Excess as share of profit	(10,000)	(10,000)	(10,000)
Net Effect	**800**	**(1,300)**	**500**

Journal Entry

Date	Particulars	L.F.	Amount Dr. (₹)	Amount Cr. (₹)
	B's Current A/c Dr.		1,300	
	To A's Current A/c			800
	To C's Current A/c			500
	(Being adjustment entry passed)			

Short Answer Type Questions-II

Ans 2. **In the Books of A and B**

Journal

Date	Particulars	L.F.	Amount Dr. (₹)	Amount Cr. (₹)
	A's Capital A/c Dr.		140	
	To B's Capital A/c			140
	(Ommissin of interest on capital, now rectified)			

Working Note :

Table Showing Adjustments

Partners	Interest on Capital Cr. (₹)	Interest on drawings Cr. (₹)	Profits Dr. (₹)	Net Effect	
				Dr. (₹)	Cr. (₹)
A	10,000	4,500	14,640	140	—
B	7,500	2,400	9,760	—	140
	17,500	**6,900**	**24,400**	**140**	**140**

Note : If an examinee has calculated Net effect by any other method, full credit be given :

Calculation of Interest on Capital :

Calculation of Opening Capitals

	Particulars	L. F.	A (₹)	B (₹)
	Closing Capital		**1,65,500**	**1,27,600**
	Add : Drawings		60,000	40,000
	Add : Interest on Drawings		4,500	2,400
	Less : Share of Profit		(30,000)	(20,000)
	Opening Capital		2,00,000	1,50,000
	Interest on Capital @5% p.a.		**10,000**	**7,500**

Interest on Drawings :

$$A = ₹\ 60{,}000 \times \frac{12}{100}\ \frac{7\frac{1}{2}}{12} = ₹\ 4{,}500$$

$$B = ₹\ 40{,}000 \times \frac{12}{100} \times \frac{6}{12} = ₹\ 2{,}400$$

Ans 6. Divisible Profit will be = ₹ 1,00,000 – General Reserve (₹ 10,000) – Salary (₹ 30,000) – Interest on Capital (₹ 24,000) = ₹ 36,000

Profit wrongly distributed :

Praveen = ₹ 1,00,000 × 3/5 = ₹ 60,000
Sahil = ₹ 1,00,000 × 1/5 = ₹ 20,000
Riya = ₹ 1,00,000 × 1/5 = ₹ 20,000

Table Showing Adjustments

Particulars	Praveen (₹)	Sahil (₹)	Riya (₹)
(a) Profit wrongly distributed	60,000	20,000	20,000
(b) Should be done :			
Interest on capital	10,000	8,000	6,000
Salary	18,000	—	12,000
Profits (36,000) in ratio 3 : 1 : 1	21,600	7,200	7,200
	49,600	15,200	25,200
Difference (a – b)	**10,400 (Dr.)**	**4,800 (Dr.)**	**5,200 (Cr.)**

Journal Entry

Date	Particulars	L.F.	Amount Dr. (₹)	Amount Cr. (₹)
	Praveen's Current A/c Dr. Sahil's Current A/c Dr. To Riya's Current A/c To General Reserve (Being error rectified)		10,400 4,800	 5,200 10,000

Long Answer Type Questions - I

Ans 2. **In the books of Sonu and Rajat**

Journal Entry

Date	Particulars	L.F.	Debit Amount (₹)	Credit Amount (₹)
	Profit and Loss A/c Dr. To Profit and Loss Appropriation A/c (Being profit transferred from Profit and Loss A/c to Profit and Loss Appropriation A/c)		4,89,950	 4,89,950
	Partner's Salary A/c Dr. To Sonu's Capital A/c (Being Salary credited to Sonu's Capital A/c)		2,40,000	 2,40,000
	Profit & Loss Appropriation A/c Dr. To Partner's Salary A/c (Being Salary transferred to Profit and Loss Appropriation A/c)		2,40,000	 2,40,000
	Partner's Commission A/c Dr. To Rajat's Capital A/c (Being Commission credited to Rajat's Capital A/c)		1,00,000	 1,00,000
	Profit and Loss Appropriation A/c Dr. To Partner's Commission A/c (Being Commission transferred to Profit and Loss Appropriation A/c)		1,00,000	 1,00,000
	Interest on Capital A/c Dr. To Sonu's Capital A/c To Rajat's Capital A/c (Being interest on capital credited to Partners' Capital A/cs)		1,12,000	 64,000 48,000
	Profit & Loss Appropriation A/c Dr. To Interest on Capital A/c (Being interest on capital transferred to Profit and Loss Appropriation A/c)		1,12,000	 1,12,000

Sonu's Capital A/c Dr.		400	
Rajat's Capital A/c Dr.		1,650	
To Interest on Drawings A/c			2,050
(Being interest on drawings charged)			
Interest on Drawings A/c Dr.		2,050	
To Profit and Loss Appropriation A/c			2,050
(Being interest on drawings transferred to Profit and Loss Appropriation A/c)			
Profit and Loss Appropriation A/c Dr.		40,000	
To Sonu's Capital A/c			24,000
To Rajat's Capital A/c			16,000
(Being Profit credited to Partners' Capital A/cs)			

Note : If combined entries have been passed for Partner's commission, Partner's salary, Interest on Capital and Interest on Drawings, no mark is to be deducted.

REFLECTIONS

1. What is the use of profit and loss appropriation account?
2. What is guarantee to a partner?
3. What are the methods to compute goodwill?
4. Can you now already differentiate between fixed r/s functioning capital accounts.