One Two academy

UNIT 3

ACCOUNTS FOR PARTNERSHIP FIRMS-FUNDAMENTALS

I. Choose the correct answer:

1. In the absence of a partnership deed, profits of the firm will be shared by the partners in
   (a) Equal ratio (b) Capital ratio
   (c) Both (a) and (b) (d) None of these
2. In the absence of an agreement among the partners, interest on capital is
   (a) Not allowed (b) Allowed at bank rate
   (c) Allowed @ 5% per annum (d) Allowed @ 6% per annum
3. As per the Indian Partnership Act, 1932, the rate of interest allowed on loans advanced by partners is
   (a) 8% per annum (b) 12% per annum
   (c) 5% per annum (d) 6% per annum
4. Which of the following is shown in Profit and loss appropriation account?
   (a) Office expenses (b) Salary of staff
   (c) Partners' salary (d) Interest on bank loan
5. When fixed capital method is adopted by a partnership firm, which of the following items will appear in capital account?
   (a) Additional capital introduced (b) Interest on capital
   (c) Interest on drawings (d) Share of profi
6. When a partner withdraws regularly a fixed sum of money at the middle of every month, period for which interest is to be calculated on the drawings on an average is
   (a) 5.5 moths (b) 6 months
   (c) 12 months (d) 6.5 months
7. Which of the following is the incorrect pair?
   (a) Interest on drawings – Debited to capital account
   (b) Interest on capital – Credited to capital account
   (c) Interest on loan – Debited to capital account
   (d) Share of profit – Credited to capital account
8. In the absence of an agreement, partners are entitled to
   (a) Salary (b) Commission
   (c) Interest on loan (d) Interest on capital
9. Pick the odd one out
   (a) Partners share profits and losses equally
   (b) Interest on partners' capital is allowed at 7% per annum
   (c) No salary or remuneration is allowed to partners
   (d) Interest on loan from partners is allowed at 6% per annum.

10. Profit after interest on drawings, interest on capital and remuneration is ₹ 10,500. Geetha, a partner, is entitled to receive commission @ 5% on profits after charging such commission. Find out commission.
    (a) ₹ 50 (b) ₹ 150
    (c) ₹ 550 (d) ₹ 500

Answers:

1 (a) 2(a) 3(d) 4(c) 5 (a) 6(b) 7(c) 8(c) 9(b) 10(d)

II. Very short answer questions:

1. Define partnership.
   According to Section 4 of the Indian Partnership Act, 1932, partnership is defined as, "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".
2. What is partnership deed ?
   i. Partnership deed is a document in writing that contains the terms of the agreement among the partners.
   ii. It is not compulsory for a partnership to have a partnership deed as per the Indian Partnership Act, 1932
3. What is meant by fixed capital method ?
   i. Under fixed capital method, the capital of the partners is not altered and it remains generally fixed.
   ii. Two accounts are maintained for each partner namely - (a) Capital account and (b) Current account.
4. What is the journal entry to be passed for providing interest on capital to a partner ?
   (a) For providing interest on capital

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
	Interest on capital A/c Dr.		xxx	
	To Partner's capital/current A/c			xxx

   (b) For closing interest on capital account

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
	Profit and loss appropriation A/c Dr.		xxx	
	To Interest on capital A/c			Xxx

5. Why profit and loss appropriation account is prepared ?

i. The profit and loss appropriation account is an extension of profit and loss account prepared for the purpose of adjusting the transactions relating to amounts due to and amounts due from partners.

ii. It is nominal account in nature. The balance being the profit or loss is transferred to the partners' capital or current account in the profit sharing ratio.

III. Short answer questions :

1. State the features of partnership.

   i. Partnership is an association of two or more persons. The maximum number of partners is limited to 50.

   ii. There should be an agreement among the persons to share the profit or loss of the business. The agreement may be oral or written or implied.

   iii. The agreement must be to carry on a business and to share the profits of the business.

   iv. The business may be carried on by all the partners or any of them acting for all.

2. State any six contents of a partnership deed.

   i. Name of the firm and nature and place of business

   ii. Date of commencement and duration of business

   iii. Names and addresses of all partners

   iv. Capital contributed by each partner

   v. Profit sharing ratio

   vi. Amount of drawings allowed to each partner

3. State the differences between fixed capital method and fluctuating capital method.

Basis of distinction	Fixed capital method	Fluctuating capital method
1.Number of accounts	Two accounts are maintained for each partner, that is, capital account and current account.	Only one account, that is, capital account is maintained for each partner.
2.Change in capital	The amount of capital normally remains unchanged except when additional capital is introduced or capital is withdrawn permanently	The amount of capital changes from period to period.

3.Closing balance	Capital account always shows a credit balance. But, current account may show either debit or credit balance.	Capital account generally shows credit balance. It may also show a debit balance
4.Adjustments	All adjustments relating to interest on capital, interest on drawings, salary or commission, share of profit or loss are done in current account.	All adjustments relating to interest on capital, interest on drawings, salary or commission, share of profit or loss are done in the capital account.

4. Write a brief note on the applications of the provisions of the Indian Partnership Act,1932 in the absence of partnership deed.

   If there is no partnership deed or when there is no express statement in the partnership deed, then the following provisions of the Act will apply:

   i. Remuneration to partners - No salary or remuneration is allowed to any partner. [Section 13(a)]

   ii. Profit sharing ratio - Profits and losses are to be shared by the partners equally. [Section 13(b)]

   iii. Interest on capital - No interest is allowed on the capital. Where a partner is entitled to interest on capital contributed as per partnership deed, such interest on capital will be payable only out of profits. [Section 13(c)]

   iv. Interest on loans advanced by partners to the firm - Interest on loan is to be allowed at the rate of 6 per cent per annum. [Section 13(d)]

   v. Interest on drawings - No interest is charged on the drawings of the partners.

5. Jayaraman is a partner who withdrew ` 10,000 regularly in the middle of every month. Interest is charged on the drawings at 6% per annum. Calculate interest on drawings for the year ended 31st December, 2018.

   Solution :

   If Drawings are made in the middle of every month :

   Average period = 6

Interest on drawings = Total amount of drawings x Rate of interest x $\frac{\text{Average period}}{12}$

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

$$= \mathbf{₹\ 300}$$

IV. Exercises :

1. Akash, Bala, Chandru and Daniel are partners in a firm. There is no partnership deed. How will you deal with the following?
   i. Akash has contributed maximum capital. He demands interest on capital at 10% per annum.
   ii. Bala has withdrawn ₹ 3,000 per month. Other partners ask Bala to pay interest on drawings @ 8% per annum to the firm. But, Bala did not agree to it.
   iii. Akash demands the profit to be shared in the capital ratio. But, others do not agree.
   iv. Daniel demands salary at the rate of ₹ 10,000 per month as he spends full time for the business.
   v. Loan advanced by Chandru to the firm is ₹ 50,000. He demands interest on loan @ 12% per annum

   Solution :

   Since there is no partnership deed, provisions of the Indian Partnership Act, 1932 will apply.
   i. No interest on capital is payable to any partner. Therefore, Akash is not entitled to interest on capital.
   ii. No interest is chargeable on drawings made by the partner. Therefore, Bala need not pay interest on drawings.
   iii. Profits should be distributed equally
   iv. No remuneration is payable to any partner. Hence, Daniel is not entitled to salary.
   v. Interest on loan is payable at 6% per annum. Therefore Chandru is to get interest at 6% per annum on ₹ 50,000.

2. From the following information, prepare capital accounts of partners Rooban and Deri, when their capitals are fixed.

Particulars	Rooban (₹)	Deri (₹)

Capital on 1st April, 2018	70,000	50,000
Current account on 1st April, 2018	25,000	15,000
Additional capital introduced	18,000	16,000
Drawings during 2018-2019	10,000	6,000
Interest on drawings	500	300
Share of profit for 2018-2019	35,000	25,800
Interest on capital	3,500	2,500
Salary	Nil	18,000
Commission	12,000	Nil

Solution : Partner's Capital Account

Dr. Cr.

Date	Particulars	Rooban ₹	Deri ₹	Date	Particulars	Rooban ₹	Deri ₹
2018 March 31	To balance c/d (balancing figure)	**88,000**	**66,000**	2018 April 1	By balance b/d By bank A/c (additional capital)	70,000 18,000	50,000 16,000
		88,000	66,000			88,000	66,000
				2019 April 1	By balance b/d	88,000	66,000

Dr. Partner's Current Account Cr.

Date	Particulars	Rooban ₹	Deri ₹	Date	Particulars	Rooban ₹	Deri ₹
	To drawings To interest on drawings A/c To balance c/d (B/F)	10,000 500 **65,000**	6,000 300 **55,000**		By balance b/d By profit and loss appropriation A/c Interest on capital A/c By salary A/c	25,000 35,000 3,500 -	15,000 25,800 2,500 18,000

					By commission A/c	12,000	-
		75,000	61,300			75,000	61,300
					By balance b/d	65,000	55,000

3. Arun and Selvam are partners who maintain their capital accounts under fixed capital method. From the following particulars, prepare capital accounts of partners.

Particulars	Arun (₹)	Selvam (₹)
Capital on 1st January, 2018	2,20,000	1,50,000
Current account on 1st January, 2018	4,250(Dr.)	10,000(Cr.)
Additional capital introduced during the year	Nil	70,000
Withdrew for personal use	10,000	20,000
Interest on drawings	750	600
Share of profit for 2018	22,000	15,000
Interest on capital	1,100	750
Commission	6,900	Nil
Salary	Nil	6,850

Solution:

Dr. Partner's capital account Cr.

Date	Particulars	Arun ₹	Selvam ₹	Date	Particulars	Arun ₹	Selvam ₹
2018 Dec 31	To balance c/d (B/F)	**2,20,000**	**2,20,000**	2018 Jan 1	By balance b/d By bank A/c (additional capital)	2,20,000 -	1,50,000 70,000
		2,20,000	2,20,000			2,20,000	2,20,000
				2019 Jan 1	By balance b/d	2,20,000	2,20,000

Dr. Partner's current account Cr.

Date	Particulars	Arun ₹	Selvam ₹	Date	Particulars	Arun ₹	Selvam ₹
	To balance b/d	4,250	-		By balance b/d	-	10,000
	To drawings A/c	10,000	20,000		By profit and loss appropriation A/c	22,000	15,000
	To interest on drawings A/c	750	600		By interest on capital A/c	1,100	750
	To balance c/d (B/F)	**15,000**	**12,000**		By commission A/c	6,900	-
					By salary A/c	-	6,850
		30,000	32,600			30,000	32,600
					By balance b/d	15,000	12,000

4. From the following information, prepare capital accounts of partners Padmini and Padma, when their capitals are fluctuating.

Particulars	Padmini ₹	Padma ₹
Capital on 1st January 2018 (Cr. balance)	5,00,000	4,00,000
Drawings during 2018	70,000	40,000
Interest on drawings	2,000	1,000
Share of profit for 2018	52,000	40,000
Interest on capital	30,000	24,000
Salary	45,000	Nil
Commission	Nil	21,000

Solution :

Dr. Partner's capital account Cr.

Particulars	Padmini ₹	Padma ₹	Particulars	Padmini ₹	Padma ₹
To drawings A/c	70,000	40,000	By balance b/d	5,00,000	4,00,000
To interest on drawings A/c	2,000	1,000	By profit and loss appropriation A/c	52,000	40,000
To balance c/d	**5,55,000**	**4,44,000**	By interest on capital A/c	30,000	24,000
			By salary A/c	45,000	-
			By commission A/c	-	21,000
	6,27,000	4,85,000		6,27,000	4,85,000
			By balance b/d	5,55,000	4,44,000

5. Mannan and Ramesh share profits and losses in the ratio of 3:2 and their capital on 1st April, 2018 was Mannan ₹ 1,50,000 and Ramesh ₹ 1,00,000 respectively and their current accounts show a credit balance of ₹ 25,000 and ₹ 20,000 respectively. Calculate interest on capital at 6% p.a. for the year ending 31st March, 2019 and show the journal entries.

Solution :

Calculation of interest on capital :

Interest on capital = Amount of capital x Rate of interest

Interest on Mannan's capital = 1,50,000 x $\frac{6}{100}$ = **₹ 9,000**

Interest on Ramesh's capital = 1,00,000 x $\frac{6}{100}$ = **₹ 6,000**

Note : Balance of current account will not be considered for calculation of interest on capital.

Journal Entries

Date	Particulars	L.F	Debit ₹	Credit ₹
2019	Interest on capital A/c Dr.		15,000	
March 31	To Mannan's current A/c			
	To Ramesh's current A/c			9,000
	(Interest on capital provided)			6,000
2019	Profit and loss appropriation A/c Dr.		15,000	
March 31	To interest on capital A/c			15,000
	(Interest on capital closed)			

6. Prakash and Supria were partners who share profits and losses in the ratio of 5:3. Balance in their capital account on 1st April, 2018 was Prakash ₹ 3,00,000 and Supria ₹ 2,00,000. On 1st July, 2018 Prakash introduced additional capital of ₹ 60,000. Supria introduced additional capital of ₹ 30,000 during the year. Calculate interest on capital at 6% p.a. for the year ending 31st March, 2019 and show the journal entries.

Solution :

Calculation of interest on capital :

Interest on Prakash's capital:

On opening capital for 1 year $= 3,00,000 \times \frac{6}{100} =$ ₹ 18,000

On additional capital for 9 months $= 60,000 \times \frac{6}{100} \times \frac{9}{12} =$ ₹ 2,700

Interest on capital = **₹ 20,700**

Interest on Supriya's capital:

On opening capital for 1 year $= 2,00,000 \times \frac{6}{100} =$ ₹ 12,000

On additional capital for 6 months $= 30,000 \times \frac{6}{100} \times \frac{6}{12} =$ ₹ 900

Interest on capital = **₹ 12,900**

Note : Since the date of additional capital introduced by Supriya is not given, interest on additional capital is calculated from an average period of 6 months .

Journal entries

Date	Particulars	L.F	Debit ₹	Credit ₹
2019	Interest on capital A/c Dr.		33,600	
March 31	To Prakash's current A/c			20,700

	To Supriya's current A/c (Interest on capital provided)			12,900
2019 March 31	Profit and loss appropriation A/c Dr. To interest on capital A/c (Interest on capital closed)		33,600	33,600

7. The capital account of Begum and Fatima on 1st January, 2018 showed a balance of ₹ 50,000 and ₹ 40,000 respectively. On 1st October, 2018, Begum introduced an additional capital of ₹ 10,000 and on 1st May, 2018 Fatima introduced an additional capital of ₹ 9,000. Calculate interest on capital at 4% p.a. for the year ending 31st December, 2018.

Solution :

Calculation of interest on capital:

Begum :

On opening capital for 1 year $= 50{,}000 \times \frac{4}{100} = ₹\ 2{,}000$

On additional capital for 3 months (October to December) $= 60{,}000 \times \frac{4}{100} \times \frac{3}{12} = ₹\ 100$

Interest on capital = **₹ 2,100**

Fathima :

On opening capital for 1 year $= 40{,}000 \times \frac{4}{100} = ₹\ 1{,}600$

On additional capital for 8 months (May to December) $= 9{,}000 \times \frac{4}{100} \times \frac{8}{12} = ₹\ 240$

Interest on capital = **₹ 1,840**

8. From the following balance sheets of Subha and Sudha who share profits and losses in 2:3, calculate interest on capital at 5% p.a. for the year ending 31st December, 2018.

Balance sheet as on 31st December, 2018

Liabilities	₹	₹	Assets	₹
Capital accounts:			Fixed assets	70,000
Subha	40,000		Current assets	50,000
Sudha	60,000	1,00,000		
Current liabilities		20,000		
		1,20,000		1,20,000

Drawings of Subha and Sudha during the year were ₹ 8,000 and ₹ 10,000 respectively. Profit earned during the year was ₹ 30,000.

Solution :

Particulars	Subha ₹	Sudha ₹
Capital on 31st December 2018	40,000	60,000
Add: Drawings	8,000	10,000
	48,000	70,000
Less: Profit already credited	12,000	18,000
Capital on 1st January 2019	36,000	52,000

Calculation of interest on capital :

Subha : On opening capital = $36{,}000 \times \frac{5}{100}$ = **₹ 1,800**

Sudha : On opening capital = $52{,}000 \times \frac{5}{100}$ = **₹ 2,600**

9. From the following balance sheets of Rajan and Devan who share profits and losses 2:1, calculate interest on capital at 6% p.a. for the year ending 31st December, 2018.

Balance sheet as on 31st December, 2018

Liabilities	₹	₹	Assets	₹
Capital accounts:			Sundry assets	2,20,000
Rajan	1,00,000			
Devan	80,000	1,80,000		
Profit and loss appropriation A/c		40,000		
		2,20,000		2,20,000

On 1st April, 2018, Rajan introduced an additional capital of ₹ 40,000 and on 1st September, 2018, Devan introduced ₹ 30,000. Drawings of Rajan and Devan during the year were ₹ 20,000 and ₹ 10,000 respectively. Profit earned during the year was ₹ 70,000.

Solution :

Particulars	Rajan		Devan	
	₹	₹	₹	₹
Capital as on 31st Dec 2018		1,00,000		80,000
Add: Drawings		20,000		10,000
		1,20,000		90,000
Less: Additional capital	40,000		30,000	

Profit already credited [Rajan 30,000x2/3=20,000 Devan 30,000x1/3=10,000]	20,000	60,000	10,000	40,000
Capital as on 1st Jan 2018		**60,000**		**50,000**

Note: Profit earned = Profit earned ₹ 70,000 – Balance profit as per balance sheet ₹ 40,000 = ₹ 30,000

Calculation of interest on capital :

Rajan: Opening capital for 1 year $= 60{,}000 \times \frac{6}{100}$ = ₹ 3,600

On additional capital for 9 months $= 40{,}000 \times \frac{6}{100} \times \frac{9}{12}$ = ₹ 1,800

Total interest on capital = **₹ 5,400**

Devan: Opening capital for 1 year $= 50{,}000 \times \frac{6}{100}$ = ₹ 3,000

On additional capital for 4 months $= 30{,}000 \times \frac{6}{100} \times \frac{4}{12}$ = ₹ 600

Total interest on capital = **₹ 3,600**

10. Ahamad and Basheer contribute ₹ 60,000 and ₹ 40,000 respectively as capital. Their respective share of profit is 2:1 and the profit before interest on capital for the year is ₹ 5,000. Compute the amount of interest on capital in each of the following situations:

(i) if the partnership deed is silent as to the interest on capital

(ii) if interest on capital @ 4% is allowed as per the partnership deed

(iii) if the partnership deed allows interest on capital @ 6% per annum.

Solution :

(i) No interest on capital will be allowed as the partnership deed is silent

(ii) Profit before interest on capital is ₹ 5,000

Computation of interest on capital :

- Ahamed : $60{,}000 \times \frac{4}{100}$ = ₹ 2,400
- Basheer : $40{,}000 \times \frac{4}{100}$ = ₹ 1,600

Since there is sufficient profit, interest on capital will be provided .

(iii)Profit before interest on capital is ₹ 5,000

Computation of interest on capital :

- Ahamed : 60,000 x $\frac{6}{100}$ = ₹ 3,600
- Basheer : 40,000 x $\frac{6}{100}$ = ₹ 2,400

Since the profit is insufficient, interest on capital will not be provided. Profit of ₹ 5,000 will be distributed to the partners on their capital ratio of 3:2 [3,600 : 2,400]

11. Mani is a partner, who withdrew ₹ 30,000 on 1st September, 2018. Interest on drawings is charged at 6% per annum. Calculate interest on drawings on 31st December, 2018 and show the journal entries by assuming that fluctuating capital method is followed.

Solution :

Interest on drawings = Amount of drawings x Rate of interest x Period of interest

$= 30{,}000 \times \frac{6}{100} \times \frac{4}{12}$

= **₹ 600**

Journal entries

Date	Particulars	L.F	Debit ₹	Credit ₹
2018 Dec 31	Mani's capital A/c Dr. To interest on drawings A/c (Interest on drawings charged)		600	600
2018 Dec 31	Interest on drawings A/c Dr. To profit and loss appropriation A/c (Interest on drawings account closed)		600	600

12. Santhosh is a partner in a partnership firm. As per the partnership deed, interest on drawings is charged at 6% per annum. During the year ended 31st December, 2018 he withdrew as follows:

Date	₹
February 1	2,000
May 1	10,000
July 1	4,000
October 1	6,000

Calculate the amount of interest on drawings.

Solution :

Interest on drawings = Amount of drawings x Rate of interest x Period of interest

Withdrawal on February 1 = $2{,}000 \times \frac{6}{100} \times \frac{11}{12}$ = ₹ 110

Withdrawal on May 1 = $10{,}000 \times \frac{6}{100} \times \frac{8}{12}$ = ₹ 400

Withdrawal on July 1 = $4{,}000 \times \frac{6}{100} \times \frac{6}{12}$ = ₹ 120

Withdrawal on October 1 = $6{,}000 \times \frac{6}{100} \times \frac{3}{12}$ = ₹ 90

Total interest on drawings = **₹ 720**

13. Kumar is a partner in a partnership firm. As per the partnership deed, interest on drawings is charged at 6% per annum. During the year ended 31st December, 2018 he withdrew as follows:

Date	₹
March 1	4,000
June 1	4,000
September 1	4,000
December 1	4,000

Calculate the amount of interest on drawings.

Solution :

Interest on drawings = Amount of drawings x Rate of interest x Period of interest

Withdrawal on March 1 = $4{,}000 \times \frac{6}{100} \times \frac{10}{12}$ = ₹ 200

Withdrawal on June 1 = $4{,}000 \times \frac{6}{100} \times \frac{7}{12}$ = ₹ 140

Withdrawal on September 1 = $4{,}000 \times \frac{6}{100} \times \frac{4}{12}$ = ₹ 80

Withdrawal on December 1 = $4{,}000 \times \frac{6}{100} \times \frac{1}{12}$ = ₹ 20

Total interest on drawings = **₹ 440**

14. Mathew is a partner who withdrew ₹ 20,000 during the year 2018. Interest on drawings is charged at 10% per annum. Calculate interest on drawings on 31st December 2018.

Solution :

Interest on drawings = Amount of drawings x Rate of interest x Period of interest

$$= 20,000 \times \frac{10}{100} \times \frac{6}{12}$$

$= \textbf{₹ 1,000}$

15. Santhosh is a partner in a partnership firm. As per the partnership deed, interest on drawings is charged at 6% per annum. During the year ended 31st December, 2018 he withdrew as follows:

Date	₹
February 1	2,000
May 1	10,000
July 1	4,000
October 1	6,000

Calculate the amount of interest on drawings by using product method.

Solution :

Calculation of interest on drawings under product method :

Date of drawings	Amount withdrawn	Period upto December 31 (months)	Product ₹
February 1	2,000	11	22,000
May 1	10,000	8	80,000
July 1	4,000	6	24,000
October 1	6,000	3	18,000
Sum of Product			1,44,000

Interest on drawings = Sum of product x Rate of interest x 1/12

$$=1,44,000 \times \frac{6}{100} \times \frac{1}{12}$$

$= \textbf{₹ 720}$

16. Kavitha is a partner in a firm. She withdraws ₹ 2,500 p.m. regularly. Interest on drawings is charged @ 4% p.a. Calculate the interest on drawings using average period, if she draws

(i) at the beginning of every month

(ii) in the middle of every month

(iii) at the end of every month

Solution : Total amount withdrawn = 2,500 x 12 = ₹ 30,000

(i) If drawings are made at the beginning of every month :

Average period = 6.5

$$\text{Interest on drawings} = \text{Total amount of drawings} \times \text{Rate of interest} \times \frac{\text{Average period}}{12}$$

$$= 30,000 \times \frac{4}{100} \times \frac{6.5}{12}$$

$$= \textbf{₹ 650}$$

(ii) If drawings are made in the middle of every month:

Average period = 6

$$\text{Interest on drawings} = \text{Total amount of drawings} \times \text{Rate of interest} \times \frac{\text{Average period}}{12}$$

$$= 30,000 \times \frac{4}{100} \times \frac{6}{12}$$

$$= \textbf{₹ 600}$$

(iii) If drawings are made at the end of every month:

Average period = 5.5

$$\text{Interest on drawings} = \text{Total amount of drawings} \times \text{Rate of interest} \times \frac{\text{Average period}}{12}$$

$$= 30,000 \times \frac{4}{100} \times \frac{5.5}{12}$$

$$= \textbf{₹ 550}$$

17. Kevin and Francis are partners. Kevin draws ₹ 5,000 at the end of each quarter. Interest on drawings is chargeable at 6% p.a. Calculate interest on drawings for the year ending 31st March 2019 using average period.

Solution:

Calculation of interest on drawings of Kevin (using average period)

Total amount of drawings = 5,000 x 4 = ₹ 16,000

If drawings are made at the end of every quarter, average period = 4.5

Interest on drawings = Total amount of drawings × Rate of interest × <u>Average period</u>

12

$$= 20{,}000 \times \frac{6}{100} \times \frac{4.5}{12}$$

Interest on drawings of Kevin = **₹ 550**

18. Ram and Shyam were partners. Ram withdrew ₹ 18,000 at the beginning of each half year. Interest on drawings is chargeable @ 10% p.a. Calculate interest on the drawings for the year ending 31st December 2018 using average period.

Solution:

Calculation of interest on drawings of Ram (using average period)

Total amount of drawings = 18,000 x 2 = ₹ 36,000

If drawings are made at the end of every half year , average period = 9

Interest on drawings = Total amount of drawings × Rate of interest × $\frac{\text{Average period}}{12}$

$$= 36{,}000 \times \frac{10}{100} \times \frac{9}{12}$$

Interest on drawings of Ram = **₹ 2,700**

19. Janani, Kamali and Lakshmi are partners in a firm sharing profits and losses equally. As per the terms of the partnership deed, Kamali is allowed a monthly salary of ₹ 10,000 and Lakshmi is allowed a commission of ₹ 40,000 per annum for their contribution to the business of the firm. You are required to pass the necessary journal entry. Assume that their capitals are fluctuating.

Solution :

Salary to Kamali = ₹ 10,000 x 12 = ₹ 1,20,000

Commission to Lakshmi = ₹ 40,000

Journal entries

Date	Particulars	L.F	Debit ₹	Credit ₹
	Kamali's salary A/c Dr. To Kamali's capital A/c (Kamali's salary transferred to her capital account)		1,20,000	 1,20,000
	Lakshmi's commission A/c Dr.		40,000	

	To Kamali's capital A/c (Lakshmi's commission transferred to her capital account)			40,000
	Profit and loss appropriation A/c Dr. To Kamali's salary A/c To Lakshmi's commission A/c (Salary and commission account transferred)		1,60,000	 1,20,000 40,000

20. Sibi and Manoj are partners in a firm. Sibi is to get a commission of 20% of net profit before charging any commission. Manoj is to get a commission of 20% on net profit after charging all commission. Net profit for the year ended 31st December 2018 before charging any commission was ₹ 60,000. Find the commission of Sibi and Manoj. Also show the distribution of profit.

Solution :

Calculation of commission:

Commission to Sibi $= \text{Net profit before commission} \times \frac{\text{\% of commission}}{100}$

$= 60{,}000 \times \frac{20}{100}$ $=$ **₹ 12,000**

Commission to Manoj:

Net profit after Sibi's commission = 60,000 –12,000 = ₹ 48,000

Manoj's commission $= \text{Net profit after Murali's commission} \times \frac{\text{\% of commission}}{(100 + \text{\% of commission})}$

$= 48{,}000 \times \frac{20}{100+20}$ $= 48{,}000 \times \frac{20}{120}$

= **₹ 8,000**

Distribution of profit :

Profit after charging commission = 60,000 – (12,000 + 8,000) = ₹ 40,000

Since, no profit sharing ratio is given, the profit after commission will be shared by Sibi and Manoj equally, ie. ₹ 20,000 each

21. Anand and Narayanan are partners in a firm sharing profits and losses in the ratio of 5:3. On 1st January 2018, their capitals were ₹ 50,000 and ₹ 30,000 respectively. The partnership deed specifies the following:

   (a) Interest on capital is to be allowed at 6% per annum.

(b) Interest on drawings charged to Anand and Narayanan are ₹ 1,000 and ₹ 800 respectively.

(c) The net profit of the firm before considering interest on capital and interest on drawings amounted to ₹ 35,000.

Give necessary journal entries and prepare profit and loss appropriation account as on 31st December 2018. Assume that the capitals are fluctuating.

Solution: Journal entries

Date	Particulars	L.F	Debit ₹	Credit ₹
2018 Dec 31	Interest on capital A/c Dr. To Anand's capital A/c To Narayanan's capital A/c (Interest on capital @ 6% provided)		4,800	 3,000 1,800
2018 Dec 31	Profit and loss appropriation A/c Dr. To interest on capital A/c (Interest on capital A/c closed)		4,800	 4,800
2018 Dec 31	Anand's capital A/c Dr. Narayanan's capital A/c Dr. To interest on drawings A/c (Interest on drawings charged)		1,000 800	 1,800
2018 Dec 31	Interest on drawings A/c Dr. To profit and loss appropriation A/c (Interest on drawings A/c closed)		1,800	 1,800
2018 Dec 31	Profit and loss appropriation A/c Dr. To Anand's capital A/c To Narayanan's capital A/c (Profit transferred)		32,000	 20,000 12,000

Dr. Profit and loss appropriation account for the year ended 31st December 2018 Cr.

Particulars	₹	₹	Particulars	₹
To interest on capital A/c			By profit and loss A/c	35,000
Anand	3,000		By interest on drawings	
Narayanan	1,800	4,800	A/c	
			Anand	1,000

To partner's capital A/c			Narayanan	800
(profit)	**20,000**			
Anand (32,000 x 5/8)	**12,000**	32,000		
Narayanan (32,000 x 3/8)				
		36,800		36,800

22. Dinesh and Sugumar entered into a partnership agreement on 1st January 2018, Dinesh contributing ₹ 1,50,000 and Sugumar ₹ 1,20,000 as capital. The agreement provided that:
    (a) Profits and losses to be shared in the ratio 2:1 as between Dinesh and Sugumar. (b) Partners to be entitled to interest on capital @ 4% p.a.
    (b) Interest on drawings to be charged Dinesh: ₹ 3,600 and Sugumar: ₹ 2,200
    (c) Dinesh to receive a salary of ₹ 60,000 for the year, and
    (d) Sugumar to receive a commission of ₹ 80,000

During the year ended on 31st December 2018, the firm made a profit of ₹ 2,20,000 before adjustment of interest, salary and commission. Prepare the Profit and loss appropriation account.

Solution :

Profit and loss appropriation account for the year ended 31st December 2018

Dr. Cr.

Particulars	₹	₹	Particulars	₹
To interest on capital A/c			By profit and loss A/c	2,20,000
Dinesh (1,50,000 x 4%)	6,000		By interest on	
Sugumar (1,20,000 x 4%)	4,800	10,800	drawings A/c	
To salary to Dinesh A/c		60,000	Dinesh : 3,600	
To commission to			Sugumar : 2,200	5,800
Sugumar A/c		80,000		
To partner's capital A/c				
(profit)				
Dinesh (75,000 x 2/3)	**50,000**			
Sugumar (75,000 x 1/3)	**25,000**	75,000		
		2,25,800		2,25,800

23. Antony and Ranjith started a business on 1st April 2018 with capitals of ₹ 4,00,000 and ₹ 3,00,000 respectively. According to the Partnership Deed, Antony is to get salary of ₹ 90,000 per annum, Ranjith is to get 25% commission on profit after allowing salary to Antony and interest on capital @ 5% p.a. but after charging such commission. Profit-sharing ratio between the two partners is 1:1. During the year, the firm earned a profit of ₹ 3,65,000.

Prepare profit and loss appropriation account. The firm closes its accounts on 31st March every year.

Solution :

Profit and loss appropriation account for the year ended 31st March 2018

Dr. Cr.

Particulars	₹	₹	Particulars	₹
To interest on capital A/c			By profit and loss A/c	3,65,000
Antony (4,00,000 x 5%)	20,000			
Ranjith (3,00,000 x 5%)	15,000	35,000		
To salary to Antony		90,000		
To commission to Ranjith		48,000		
To partner's capital A/c (profit)				
Antony (1,92,000 x ½)	**96,000**			
Ranjith (1,92,000 x ½)	**96,000**	1,92,000		
		3,65,000		3,65,000

Note:

Profit before commission = 3,65,000 – (35,000 + 90,000) = ₹ 2,40,000

Commission = Net profit before commission x $\frac{\text{Rate of commission}}{(100 + \text{Rate of commission})}$

Commission = 2,40,000 x 25/125 = **₹ 48,000**