

CHAPTER - II

Accounting for partnership firms - Fundamentals

- Q.1 What is the status of partnership from an accounting view point ?
- Q.2 List the items that may appear on the debit side and credit side of a partner's fluctuating capital account.
- Q.3 Give two points of difference between Profit and Loss and profit and loss appropriation A/c.

ANSWERS

- Ans.1 From an accounting viewpoint, partnership is a separate business entity. From a legal viewpoints, however, a Partnership, like a sole proprietorship, is not separate from the owners.
- Ans.2 On debit side : Drawing, interest on drawing, share of loss, closing credit balance of the capital.
- On credit side : Opening credit balance of capital, additional capital introduced, share of profit, interest on capital, salary to a Partner, commission to a Partner.
- Ans.3 Distinction between Profit and loss and profit and loss appropriation account :

	Profit & Loss A/c		Profit & Loss Appropriation A/c
i)	Profit and Loss A/c is prepared to ascertain net profit or net loss of the business for an accounting year.	i)	In case of partnership firms, profit and loss appropriation A/c is prepared to appropriate / distribute the profit of the year among partners.
ii)	It is prepared by all the business firms.	ii)	Only partnership firms and companies prepare profit and loss appropriation A/c

- Q.4 P and Q are partners with capitals of Rs. 6,00,000 and Rs. 4,00,000 respectively. The profit and Loss Account of the firm showed a net Profit of Rs. 4, 26,800 for the year. Prepare Profit and Loss account after taking the following into consideration:-
- (i) Interest on P's Loan of Rs. 2,00,000 to the firm
 - (ii) Interest on 'capital to be allowed @ 6% p.a.
 - (iii) Interest on Drawings @ 8% p.a. Drawings were ; P Rs 80,000 and Q Rs. 1000,000.

- (iv) Q is to be allowed a commission on sales @ 3%. Sales for the year was Rs. 1000000
- (v) 10% of the divisible profits is to be kept in a Reserve Account.

Solution:4

Profit and Loss Account for the year ended

Particulars	Amount	Particulars	Amount
To Interest on P's Loan A/c	12000	By profit before interest	426800
To Profit transferred to P&L Appropriation A/c	414800		
	426800		426800

Profit and Loss Appropriation Account for the year ended.

Particulars	Amount	Particulars	Amount
To interest on Capital		By profit and Loss A/c (Profit)	414800
P	36000	By interest on drawings	
Q	24000	P	3200
To Q's commission	60000	Q	2000
To reserve A/c	30000		5200
To profit			
P's Capital	135000		
Q's capital	135000		
	270000		
	420000		420000

Q.5 A, and C are partners with fixed capitals of Rs. 2,00,000, Rs. 1,50,000 and Rs. 1,00,000 respectively. The balance of current accounts on 1st January, 2004 were A Rs. 10,000 (Cr.); B Rs. 4,000 (Cr.) and C Rs. 3,000 (Dr.). A gave a loan to the firm of Rs. 25,000 on 1st July, 2004. The Partnership deed provided for the following:-

- (i) Interest on Capital at 6%.
- (ii) Interest on drawings at 9%. Each partner drew Rs. 12,000 on 1st July, 2004.
- (iii) Rs. 25,000 is to be transferred in a Reserve Account.

- (iv) Profit sharing ratio is 5:3: 2 upto Rs. 80,000 and above Rs. 80,000 equally. Net Profit of the firm before above adjustments was Rs. 1,98,360.

From the above information prepare Profit and Loss Appropriation Account, Capital and Current Accounts of the partners.

Solution: 5

**Profit and Loss Appropriation Account
for the year ended 31st December, 2004**

Particulars	Amount	Particulars	Amount
To Interest on Capital at 6% : 198360		By profit and Loss A/c (being profit) A 12000	
Less: interest on A's Loan @ 6% p.a. on Rs 25,000 for six months	750	197610	
B	9000	By interest on drawings @ 9% p.a. for 6 months on Rs 12,000	
C	6000	A	540
To reserve A/c	25000	B	540
To profit		C	540
A's current A/c	62410		1620
B's current A/c	46410		
C's current A/c	38410		
	147230		
	199230		199230

Capital Accounts

Particulars	A	B	C	Particulars	A	B	C
To balance b/d	2,00,000	1,50,000	1,00,000	By balance c/d	2,00,000	1,50,000	1,00,000

Current accounts

Particulars	A	B	C	Particulars	A	B	C
To balance b/d	-	-	3000	By balance b/d	10000	4000	-
To drawings	12000	12000	12000	By interest on capi	1200	9000	6000

To interest on drawings	540	540	540	By P&L A/c	62410	46410	38410
				To balance c/d	71870	46870	28870
	84,410	59,410	44,410		84,410	59,410	44,410

Q.6 Yogesh, Ajay and Atul are partners sharing profits in the ratio 4:3:2. Yogesh withdraws Rs.3,000 in the beginning of every month. Ajay withdraws Rs. 2,000 in the middle of every month whereas Atul withdraws Rs. 1,500 at the end of every month. Interest on capitals and drawings is to be calculated @ 12% p.a. Ajay is also to be allowed a salary of Rs. 1,000 per month. After deducting salary but before charging any type of interest, the profit for the year ending 31st December, 1997 was Rs.,1,14,780. Prepare Profit & Loss Appropriation Account, Partners' Capital Accounts and Current Accounts from the additional information given below:

SOLUTION 6

When there is no agreement between the partners, whether written or verbal, expressed or implied accounts of partners are determined by the following rules given in the Indian Partnership Act, 1932 sections 12 to 17.

- (i) No interest is to be given on the partners' capital.
- (ii) No interest is to be charged on the personal drawings of the partners.
- (iii) No Salary Remuneration or Commission is to be given to any partner for his active participation.
- (iv) If any partner has given loan to the firm interest at the rate of 6% p.a. can be given.
- (v) Profits and losses will be shared among all the partners equally irrespective of their capitals.

Q.7 Ram and Shyam were Partners. in a firm sharing profits in the ratio of 3 : 5. Their Fixed Capitals were : Ram Rs. 5,00,000 and Shyam Rs. 9,00,000. After the accounts of the year had been closed, it was found that interest on capital at 10% per annum as provided in the partnership agreement has not been credited to the Capital Accounts of the partners. pass necessary entry to rectify the error.

Solution:

Rs.

Interest on Ram's Capital of Rs. 5,00,000 @ 10% = 50,000

Interest on Shyam 's Capital of Rs. 9,00,000 @ 10% = 90,000

Total interest to be allowed = 1,40,000

Profit already distributed 140000 in the ratio 3:5 ie 52500 and 87500 the difference is 2500 . The entry is

Ram A/C Dr 2500
To Shyam A/C 2500