

VIDYA BHAWAN BALIKA VIDYA PITH

शक्तिउत्थानआश्रमलखीसरायबिहार

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Accounting for Partnership : Basic Concepts

Question 1:

Tripathi and Chauhan are partners in a firm sharing profits and losses in the ratio of 3:2. Their capitals were Rs 60,000 and Rs 40,000 as on January 01, 2015. During the year they earned a profit of Rs 30,000. According to the partnership deed both the partners are entitled to Rs 1,000 per month as Salary and 5% interest on their capital. They are also to be charged an interest of 5% on their drawings, irrespective of the period, which is Rs 12,000 for Tripathi, Rs 8,000 for Chauhan. Prepare Partner's Accounts when, capitals are fixed.

ANSWER:

a) If interest on Capital and Partners' salaries and interest on drawings is **charged against profit**, the solution will be as:

Profit and Loss Appropriation Account

Dr.		Cr.	
Particulars	Amount Rs	Particulars	Amount Rs
Profit transferred to Tripathi's Current Account Chauhan's Current Account	18,000 12,000 30,000	Profit and Loss	30,000 30,000

Partners' Capital Account

Dr.			Cr.		
Particulars	Tripathi	Chauhan	Particulars	Tripathi	Chauhan
Balance c/d	60,000 60,000	40,000 40,000	Balance b/d	60,000 60,000	40,000 40,000

Partners' Current Account

Dr.			Cr.		
Particulars	Tripathi	Chauhan	Particulars	Tripathi	Chauhan
Drawings	12,000	8,000	Interest on Capital	3,000	2,000
Interest on Drawings	600	400	Partners' Salaries	12,000	12,000
Balance c/d	20,400	17,600	Profit & Loss Appropriation	18,000	12,000
	33,000	26,000		33,000	26,000

b)) If interest on Capital and Partners' salaries and interest on drawings is **distributed out of profit**, the solution will be as:

Profit and Loss Appropriation Account

Dr.			Cr.		
Particulars	Amount Rs		Particulars	Amount Rs	
Partners' Salary			Profit and Loss (Profit)		30,000
Tripathi $1,000 \times 12 =$	12,000		Interest on Drawings		
Chauhan $1,000 \times 12 =$	12,000	24,000	Tripathi	600	
			Chauhan	400	1,000
Interest on Capital					
Tripathi	3,000				
Chauhan	2,000	5,000			
Profit Transferred to					
Tripathi's Current	1,200				
Chauhan's Current	800	2,000			
		31,000			31,000

Partners' Capital Account

Dr.			Cr.		
Particulars	Tripathi	Chauhan	Particulars	Tripathi	Chauhan
Balance c/d	60,000	40,000	Balance b/d	60,000	40,000
	60,000	40,000		60,000	40,000

Partners' Current Account

Dr.					Cr.
Particulars	Tripathi	Chauhan	Particulars	Tripathi	Chauhan
Drawings	12,000	8,000	Partners' Salaries	12,000	12,000
Interest on Drawings	600	400	Interest on Capital	3,000	2,000
Balance c/d	3,600	6,400	Profit and Loss Appropriation	1,200	800
	16,200	14,800		16,200	14,800

As the question is silent about the treatment of Interest on Capitals, Salary, Interest on Drawings, so we have prepared the solution by following two methods, namely:

1. Charge against Profits
2. Out of Profits

This was done deliberately so as to make students aware-off the two above mentioned methods and also to match the answer with that of given in the NCERT. The appropriate answer to the question following Out of Profit Method should be as:

Tripathi's Current A/c balance Rs 3,600 and

Chauhan's Current A/c balance Rs 6,400.

In case no information regarding the treatment of above items is mentioned in the question, then we usually follow the Out of Profits Method.

Question 2:

Anubha and Kajal are partners of a firm sharing profits and losses in the ratio of 2:1. Their capital, were Rs 90,000 and Rs 60,000. The profit during the year were Rs 45,000. According to partnership deed, both partners are allowed salary, Rs 700 per month to Anubha and Rs 500 per month to Kajal. Interest allowed on capital @ 5% p.a. The drawings at the end of the period were Rs 8,500 for Anubha and Rs 6,500 for Kajal. Interest is to be charged @ 5% p.a. on drawings. Prepare partners capital accounts, assuming that the capital account are fluctuating.

ANSWER:

a)

Note: If Partners' Salaries, Interest on capital and Interest on Drawing are treated as these have already adjusted in Profit and Loss Account. The Solution will be as

Profit and Loss Appropriation Account

Dr.					Cr.
Particulars	Amount Rs	Particulars	Amount Rs		

Profit Transferred to Current A/c			Profit and Loss	45,000
Anubha's Capital	30,000			
Kajal's Capital	15,000	45,000		
		45,000		45,000

Partners' Capital Account

Dr.			Cr.		
Particulars	Anubha	Kajal	Particulars	Anubha	Kajal
Drawings	8,500	6,500	Balance b/d	90,000	60,000
Interest on Drawings	425	325	Partners' Salaries	8,400	6,000
			Interest on Capital	4,500	3,000
Balance c/d	1,23,975	77,175	Profit and Loss Appropriation	30,000	15,000
	1,32,900	84,000		1,32,900	84,000

b) *Alternative*

Note: If Partners' salaries, interest on capital and interest on drawings adjusted in Profit and Loss Appropriation Account. The solution will be as.

Profit and Loss Appropriation Account

Dr.			Cr.	
Particulars	Amount Rs	Particulars	Amount Rs	
Partners' Salaries:		Profit and Loss Account		45,000
Anubha	8,400	Interest on Drawings		
Kajal	6,000	Anubha	425	
		Kajal	325	750
Interest on Capital:				
Anubha	4,500			
Kajal	3,000			
Profit transferred to				
Anubha's Capital	15,900			
Kajal's Capital	7,950			
	45,750			45,750

Partners' Capital Account

Dr.

Cr.

Particulars	Anubha	Kajal	Particulars	Anubha	Kajal
Drawings	8,500	6,500	Balance b/d	90,000	60,000
Interest on Drawings	425	325	Partners' Salaries	8,400	6,000
Balance c/d	1,09,875	70,125	Interest on Capital	4,500	3,000
			Profit and Loss	15,900	7,950
			Appropriation		
	1,18,800	76,950		1,18,800	76,950

Question 3:

Harshad and Dhiman are in partnership since April 01, 2016. No Partnership agreement was made. They contributed Rs 4,00,000 and 1,00,000 respectively as capital. In addition, Harshad advanced an amount of Rs 1,00,000 to the firm, on October 01, 2016. Due to long illness, Harshad could not participate in business activities from August 1, to September 30, 2017. The profits for the year ended March 31, 2017 amounted to Rs 1,80,000. Dispute has arisen between Harshad and Dhiman.

Harshad Claims:

- (i) He should be given interest @ 10% per annum on capital and loan;
- (ii) Profit should be distributed in proportion of capital;

Dhiman Claims:

- (i) Profits should be distributed equally;
- (ii) He should be allowed Rs 2,000 p.m. as remuneration for the period he managed the business, in the absence of Harshad;
- (iii) Interest on Capital and loan should be allowed @ 6% p.a.

You are required to settle the dispute between Harshad and Dhiman. Also prepare Profit and Loss Appropriation Account.

ANSWER:

DISTRIBUTION OF PROFITS

Harshad Claims:

Decisions

(i) If there is no agreement on interest on partner's capital, according to Indian partnership act 1932, no interest will be allowed to partners.

(ii) If there is no agreement on the matter of profit sharing, according to partnership act 1932, profit shall be distributed equally.

Dhiman Claims:

Decisions

(i) Dhiman claim is justified, according partnership act 1932 if there is no agreement on the matter of profit distribution, profit shall be distributed equally.

(ii) No salary will be allowed to any partner because there is no agreement on matter of remuneration.

(iii) Dhiman's claim is not justified on the matter of interest on capital but justified on the matter of interest on loan. If there is no agreement on interest on partner's loan, Interest shall be provided at 6% p.a.

Profit and Loss Adjustment Account

Dr.		Cr.	
Particulars	Amount Rs	Particulars	Amount Rs
Interest on Partner's Loan Harshad $1,00,000 \times (6/100) \times (6/12)$	3,000	Profit and Loss	1,80,000
Profit and Loss Appropriation	1,77,000		
	1,80,000		1,80,000

Profit and Loss Account

Dr.		Cr.	
Particulars	Amount Rs	Particulars	Amount Rs
Profit transferred to Harshad's Capital Sharma's Capital	88,500 88,500	Profit and Loss Adjustment	1,77,000
	1,77,000		1,77,000

Question 4:

Aakriti and Bindu entered into partnership for making garment on April 01, 2016 without any Partnership agreement. They introduced Capitals of Rs 5,00,000 and Rs 3,00,000 respectively on October 01, 2016. Aakriti Advanced. Rs 20,000 by way of loan to the firm without any agreement as to interest. Profit and Loss account for the year ended March 2017 showed profit of Rs 43,000. Partners could not agree upon the question of interest and the basis of division of profit. You are required to divide the profits between them giving reason for your solution.

ANSWER:

Profit and Loss Adjustment Account

Dr.		Cr.	
Particulars	Amount Rs	Particulars	Amount Rs
Interest on Partner's Loan Aakriti $20,000 \times (6/100) \times (6/12)$	600	Profit and Loss	43,000
Profit transferred to Aakriti's Capital 21,200			
Bindu's Capital 21,200	42,400		
	43,000		43,000

Reason

- a) Interest on partners loan shall be allowed at 6% p.a. because there is no partnership agreement.
- b) Interest on capital shall not be allowed because there is no agreement on interest on capital.
- c) Profit shall be distributed equally because profit sharing ratio has not been given.

Question 5:

Rakhi and Shikha are partners in a firm, with capitals of Rs 2,00,000 and Rs 3,00,000 respectively. The profit of the firm, for the year ended 2016-17 is Rs 23,200. As per the Partnership agreement, they share the profit in their capital ratio, after allowing a salary of Rs 5,000 per month to Shikha and interest on Partner's capital at the rate of 10% p.a. During the year Rakhi withdrew Rs 7,000 and Shikha Rs 10,000 for their personal use. You are required to prepare Profit and Loss Appropriation Account and Partner's Capital Accounts.

ANSWER:

If interest on capital and Partners' salaries will be provided even if firm involves in loss.

Profit and Loss Appropriation Account

Dr.			Cr.	
Particulars	Amount Rs	Particulars	Amount Rs	
Partner's Salaries Shikha	60,000	Profit and Loss	23,200	
Interest on Capital		Loss transferred to		
Rakhi	20,000	Rakhi Capital	34,720	
Shikha	30,000	Shikha's Capital	52,080	86,800
	50,000			
	1,10,000			1,10,000

Partners' Capital Account

Dr.			Cr.		
Particulars	Rakhi	Shikha	Particulars	Rakhi	Shikha
Drawings	7,000	10,000	Balance b/d	2,00,000	3,00,000
Profit & Loss Appropriation	34,720	52,080	Partner's Salaries		60,000
Balance c/d	1,78,280	3,27,920	Interest on Capital	20,000	30,000
	2,20,000	3,90,000		2,20,000	3,90,000

If interest on capital and salaries will be provided out of profit

Profit and Loss Appropriation Account

Dr.		Cr.	
Particulars	Amount Rs	Particulars	Amount Rs
Partner's Salaries		Profit and Loss	23,200
Shikha {23,200 × (6/11)}	12,655		
Interest on Capital			
Rakhi {23,200 × (2/11)}	4,218		
Shikha {23,200 × (3/11)}	6,327		
	23,200		23,200

If profit is less than the sum of distributable items, distribution shall be in proportion of items for distribution.

Partners Salaries	Ratio		
Shikhar (Rs 60,000)	6	$23,200 \times (6/11)$	12,655
Interest on Capital Rakhi (Rs 20,000)	2	$23,200 \times (2/11)$	4,218
Shikhar (Rs 30,000)	3	$23,200 \times (3/11)$	6,327
	11		23,200

Partners' Capital Account

Dr.			Cr.		
Particulars	Rakhi	Shikha	Particulars	Rakhi	Shikha
Drawings	7,000	10,000	Balance b/d	2,00,000	3,00,000
Balance c/d	1,97,218	3,08,972	Partner's Salaries		12,655
			Interest on Capital	4,218	6,327
	2,04,218	3,18,972		2,04,218	3,18,972