

Illustration 53 (Guarantee of Profits by one of the Partners).

X, Y and Z are partners in a firm. Their profit-sharing ratio is 5 : 3 : 2. Z is guaranteed a minimum profit of ₹ 10,000 every year. Any deficiency arising is to be met by Y. Profits for the two years ended 31st March, 2019 and 2020 were ₹ 40,000 and ₹ 60,000 respectively.

Prepare Profit and Loss Appropriation Account for the two years.

Solution:

PROFIT AND LOSS APPROPRIATION ACCOUNT
for the year ended 31st March, 2019

Dr.		Cr.	
Particulars	₹	Particulars	₹
To Profit transferred to:		By Profit and Loss A/c (Net Profit)	40,000
X's Capital A/c (5/10)	20,000		
Y's Capital A/c (3/10)	12,000		
Less: Deficiency in Z's Share	2,000		
Z's Capital A/c (2/10)	8,000		
Add: Deficiency met by Y	2,000		
	40,000		40,000

Dr. **PROFIT AND LOSS APPROPRIATION ACCOUNT** for the year ended 31st March, 2020 Cr.

Particulars	₹	Particulars	₹
To Profit transferred to:		By Profit and Loss A/c (Net Profit)	60,000
X's Capital A/c (5/10)	30,000		
Y's Capital A/c (3/10)	18,000		
Z's Capital A/c (2/10)	12,000		
	60,000		60,000

Note: Z's share in profits is more than the minimum guaranteed amount, so there is no need for any adjustment.

1.122

70. Ajit, Harish and Ganesh were partners in a firm. On 1st April, 2019, their capitals stood at ₹ 50,000, ₹ 25,000 and ₹ 25,000 respectively.

As per the provisions of the Partnership Deed:

- (i) Ganesh was entitled for a salary of ₹ 1,500 per month.
- (ii) Partners were entitled to interest on capital @ 5% p.a.
- (iii) Profits were to be shared in the ratio of capitals.

Net profit for the year ended 31st March, 2020 of ₹ 45,000 was divided equally without providing for the above appropriations.

Pass an adjustment entry to rectify the above error.

71. Arun, Tarun and Varun were partners. Their capitals were Arun—₹ 1,50,000; Tarun—₹ 1,00,000 and

Omission of Profit/ Past Adjustment:

- 1) prepare Profit & Loss Appropriation A/C to find out Real Share of Profit
- 2) Prepare a Working Note STATEMENT SHOWING ADJUSTMENT .It is nothing but the statement like form of CAPITAL ACCOUNTS. For your ready understanding you may consult the Text Book of T.S. Grewal page no 1.90 addition 2020
- 3) you prepare single Journal Entries to rectify the mistake

Pass necessary adjustment Journal entry.

65. Mohan, Vijay and Anil are partners, the balances of their Capital Accounts being ₹ 30,000; ₹ 25,000 and ₹ 20,000 respectively. In arriving at these values, profit for the year ended 31st March, 2020, ₹ 24,000 was already credited to partners in their profit-sharing ratio. Their drawings during the year were ₹ 5,000 (Mohan), ₹ 4,000 (Vijay) and ₹ 3,000 (Anil). Subsequently, following omissions were noticed and it was decided to rectify them:

- Interest on capital @ 10% p.a.
- Interest on drawings: Mohan ₹ 250, Vijay ₹ 200 and Anil ₹ 150.

Rectify the errors by passing a Journal entry and show your workings clearly.

Illustration 54.

Anwar, Biswas and Divya are partners in a firm. Their Capital Accounts stood at ₹ 8,00,000; ₹ 6,00,000 and ₹ 4,00,000 respectively on 1st April, 2013. They shared profits and losses in the ratio of 3 : 2 : 1 respectively. Partners are entitled to interest on capital @ 6% per annum and salary to Biswas and Divya @ ₹ 4,000 per month and ₹ 6,000 per quarter respectively as per the provisions of Partnership Deed.

Biswas's share of profit including interest on capital but excluding salary is guaranteed at a minimum of ₹ 82,000 p.a. Any deficiency arising on that account shall be met by Divya. Profit for the year ended 31st March, 2014 amounted to ₹ 3,12,000. Prepare Profit and Loss Appropriation Account for the year ended 31st March, 2014. (Delhi 2013)

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Solution:

PROFIT AND LOSS APPROPRIATION ACCOUNT

Dr.		for the year ended 31st March, 2014		Cr.	
Particulars	₹	Particulars	₹		
To Interest on Capital A/c:		By Profit and Loss A/c (Net Profit)	3,12,000		
Anwar	48,000				
Biswas	36,000				
Divya	24,000				
	1,08,000				
To Partners' Salary A/c:					
Biswas (₹ 4,000 × 12)	48,000				
Divya (₹ 6,000 × 4)	24,000				
	72,000				
To Profit transferred to:					
Anwar's Capital A/c (₹ 1,32,000 × 3/6)	66,000				
Biswas' Capital A/c (₹ 1,32,000 × 2/6)	44,000				
Add: From Divya (Note)	2,000				
Divya's Capital A/c (₹ 1,32,000 × 1/6)	22,000				
Less: Deficiency borne	2,000				
	20,000				
	3,12,000				3,12,000

Note: A. Biswas's Share of Profit ₹ 44,000
 Add: Interest on Capital ₹ 36,000
₹ 80,000

B. Guaranteed Profit = ₹ 82,000

C. Deficiency to be borne by Divya (B - A) = ₹ 82,000 - ₹ 80,000 = ₹ 2,000.

A specimen solution of PAST ADJUSTMENT. But one thing you need to do is to prepare PROFIT & LOSS APPROPRIATION A/C to find real Share of Profit
Sankar sir

[Hint: It is assumed that capitals are fixed.]

79. Alex, John and Sam are partners in a firm. Their capital accounts on 1st April, 2015, stood at ₹ 1,00,000; ₹ 80,000 and ₹ 60,000 respectively.

Each partner withdrew ₹ 5,000 during the financial year 2015-16.

As per the provisions of their Partnership Deed:

- (a) John was entitled to a salary of ₹ 1,000 per month.
- (b) Interest on capital was to be allowed @ 10% per annum.
- (c) Interest on drawings was to be charged @ 4% per annum.
- (d) Profits and losses were to be shared in the ratio of their capitals.

The net profit of ₹ 75,000 for the year ended 31st March, 2016, was divided equally among the partners without providing for the terms of the deed.

You are required to pass a Single Adjustment Journal Entry to rectify the error. (Show the workings clearly).

(ISC 2013)

Illustration 35.

On 1st April, 2019, Precious, Noble and Perfect entered into partnership with capitals of ₹ 60,000, ₹ 50,000 and ₹ 30,000 respectively.

Perfect advanced ₹ 10,000 as loan to the partnership firm on 1st October, 2019. The Partnership Deed has the following clauses:

- (i) Interest on capital is to be allowed @ 6% p.a.
- (ii) Interest on drawings is to be charged @ 6% p.a. Each partner withdrew ₹ 4,000 at the end of each quarter commencing from 30th June, 2019.
- (iii) Working partners, Precious and Noble to get salary of ₹ 200 and ₹ 300 per month respectively.
- (iv) Interest on loan was allowed to Perfect @ 6% p.a.

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(v) Noble is to get rent of ₹ 2,000 per month for use of his building by the firm. It is paid to him by cheque at the end of every month.

(vi) Profits are shared in the ratio of 4 : 2 : 1 up to ₹ 70,000 and above ₹ 70,000 equally. Profit of the firm for the year ended 31st March, 2020 (before the above adjustments) was ₹ 1,35,000. Prepare Profit and Loss Appropriation Account and Capital Accounts of Partners if capitals are fixed.

Solution:

PROFIT AND LOSS APPROPRIATION ACCOUNT

Dr.		for the year ended 31st March, 2020		Cr.	
Particulars	₹	Particulars	₹		
To Interest on Capital A/cs:		By Profit and Loss A/c (Net Profit)	1,10,700		
Precious	3,600	[₹ 1,35,000 – ₹ 24,000 (rent) –			
Noble	3,000	₹ 300 (Interest on Loan)]			
Perfect	1,800	By Interest on Drawings A/cs (Note):			
To Partner's Salaries A/c:		Precious	360		
Precious	2,400	Noble	360		
Noble	3,600	Perfect	360	1,080	
To Profit* transferred to Current A/cs:					
Precious	49,127				
Noble	29,127				
Perfect	19,126				
	97,380				
	1,11,780				1,11,780

*Appropriation of Divisible Profit:

	Precious (₹)	Noble (₹)	Perfect (₹)
Profit of ₹ 70,000 in the ratio of 4 : 2 : 1	40,000	20,000	10,000
Balance Profit ₹ 27,380 in the ratio of 1 : 1 : 1	9,127	9,127	9,126
	49,127	29,127	19,126

Dr.		PARTNERS' CAPITAL ACCOUNTS						Cr.
Particulars	Precious	Noble	Perfect	Particulars	Precious	Noble	Perfect	
	₹	₹	₹		₹	₹	₹	
To Balance c/d	60,000	50,000	30,000	By Bank A/c	60,000	50,000	30,000	

Dr.		PARTNERS' CURRENT ACCOUNTS						Cr.
Particulars	Precious	Noble	Perfect	Particulars	Precious	Noble	Perfect	
	₹	₹	₹		₹	₹	₹	
To Drawings A/c	16,000	16,000	16,000	By Interest on Capital A/c	3,600	3,000	1,800	
To Interest on Drawings A/c (Note)	360	360	360	By Partner's Salaries A/c	2,400	3,600	—	
To Balance c/d	38,767	19,367	4,566	By P & L App. A/c (Profit)	49,127	29,127	19,126	
	55,127	35,727	20,926		55,127	35,727	20,926	

- (v) Noble is to get rent of ₹ 2,000 per month for use of his building by the firm. It is paid to him by cheque at the end of every month.
- (vi) Profits are shared in the ratio of 4 : 2 : 1 up to ₹ 70,000 and above ₹ 70,000 equally. Profit of the firm for the year ended 31st March, 2020 (before the above adjustments) was ₹ 1,35,000. Prepare Profit and Loss Appropriation Account and Capital Accounts of Partners if capitals are fixed.

Solution:

PROFIT AND LOSS APPROPRIATION ACCOUNT

Dr.		Cr.	
for the year ended 31st March, 2020			
Particulars	₹	Particulars	₹
To Interest on Capital A/cs:		By Profit and Loss A/c (Net Profit)	1,10,700
Precious	3,600	[₹ 1,35,000 – ₹ 24,000 (rent) –	
Noble	3,000	₹ 300 (Interest on Loan)]	
Perfect	1,800	By Interest on Drawings A/cs (Note):	
	8,400	Precious	360
To Partner's Salaries A/c:		Noble	360
Precious	2,400	Perfect	360
Noble	3,600		1,080
	6,000		
To Profit* transferred to Current A/cs:			
Precious	49,127		
Noble	29,127		
Perfect	19,126		
	97,380		
	1,11,780		1,11,780

*Appropriation of Divisible Profit:

	Precious (₹)	Noble (₹)	Perfect (₹)
Profit of ₹ 70,000 in the ratio of 4 : 2 : 1	40,000	20,000	10,000
Balance Profit ₹ 27,380 in the ratio of 1 : 1 : 1	9,127	9,127	9,126
	49,127	29,127	19,126

Dr.		PARTNERS' CAPITAL ACCOUNTS			Cr.		
Particulars	Precious ₹	Noble ₹	Perfect ₹	Particulars	Precious ₹	Noble ₹	Perfect ₹
To Balance c/d	60,000	50,000	30,000	By Bank A/c	60,000	50,000	30,000

Dr.		PARTNERS' CURRENT ACCOUNTS			Cr.		
Particulars	Precious ₹	Noble ₹	Perfect ₹	Particulars	Precious ₹	Noble ₹	Perfect ₹
To Drawings A/c	16,000	16,000	16,000	By Interest on Capital A/c	3,600	3,000	1,800
To Interest on Drawings A/c (Note)	360	360	360	By Partner's Salaries A/c	2,400	3,600	—
To Balance c/d	38,767	19,367	4,566	By P & L App. A/c (Profit)	49,127	29,127	19,126
	55,127	35,727	20,926		55,127	35,727	20,926

Notes:

- When fixed amount is withdrawn at the end of each quarter during the year, interest will be charged on the whole amount for average period of 4½ months. Thus, interest on drawings to be charged from each partner will be:

$$\frac{\text{Total Drawings} \times \text{Rate of Interest}}{100} \times \frac{4\frac{1}{2}}{12} = ₹ 16,000 \times 9/2 \times 1/12 \times 6/100 = ₹ 360$$

- Interest on Loan from Perfect and rent payable to Noble are charges against profit.