TS Grewal Accountancy Class 12 Solutions Chapter 1 Accounting for Partnership Firms – Fundamentals

Question 1.

In the absence of Partnership Deed, what are the rules relation to

(a) Salaries of partners,

(b) Interest on partners capitals

(c) Interest on partners loan

(d) Division of profit, and

(e) Interest on partners drawings

Solution:

In the absence of Partnership Deed, the provisions of Indian Partnership Act, 1932 are applicable. Accordingly,

a. No Salary is to be allowed to a partner
b. No Interest on Partner's Capital is to be allowed
c. Interest on Partner's Loan to be allowed at 6% p.a.
d. Distribution of Profit to be done in equal ratio
e. No Interest on Partner's Drawings to be charged

Question 2.

Solution:

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Question 2.

Following differences have arisen among P, Q and R. State who is correct in each case:

(a) P used ₹ 20,000 belonging to the firm and made a profit of ₹ 5,000. Q and R want the amount to be given to the firm?

(b) Q used ₹ 5,000 belonging to the firm and suffered a loss of ₹ 1000. He wants the firm to bear the loss?

(c) P and Q want to purchase goods from a Ltd., R does not agree

(d) Q and R want to admit C as partner, P does not agree?

Solution:

a. P is bound to pay Rs.20,000 along with profit of Rs.5,000 to the firm. This is because this because this amount belongs to the firm and according to the principal and agent relationship, P is principal as well as agent to the firm, to Q and to R. And as per the rule, any profit earned by an agent (P) by using the firm's property is attributable to the firm.
b. Q is liable to pay Rs.5,000 to the firm. This is because, as per the Partnership Act, every partner of a partnership firm is liable to the firm for any loss caused by his/her wilful negligence which is clearly evident from the fact that he used the property of the firm and also mis-represented himself as a principal rather than an agent to the other partners and to the firm.
c. As per the Partnership Act, 1932, a partner has a right to buy and sell goods without consulting the other partners unless a Public Notice has been given by the partnership firm to restrict the partners to buy and sell. Accordingly, P and Q may buy goods from A Ltd.
d. No, C will not be admitted as one of the partners, P, has not agreed to admit C. And as per the Partnership Act, 1932 a new partner cannot be admitted into a firm unless all the existing partners agree on the same decision.

Question 3

Question 3.

A, B and C are partners in a firm. They do not have a Partnership Deed. At the end of the first year of the commencement of the firm, they have faced the following problems:

(a) A wants that interest on capital should be allowed to the partners but B and C do not agree.

(b) B wants that the partners should be allowed to draw salary but A and C do not agree.

(c) C wants that the loan given by him to the firm should bear interest @ 10% p.a. but A and B do not agree.

(d) A and B having contributed larger amounts of capital, desire that the profits should be divided in the ratio of their capital contribution but C does not agree.

State how you will settle these disputes if the partners approach you for purpose.

Solution:

	Disputes	Possible Judgements
a.	A wants that interest on capital should be allowed to the partners, but B and C do not agree.	According to the Partnership Act, no interest on capital will be allowed as there is no partnership agreement among A, B and C mentioning payment of interest on capital.

Question 5.

Harshad and Dhiman are in partnership since 1st April, 2017. No partnership agreement was made. They contributed Rs 4,00,000 and 1,00,000 respectively as capital. In addition, Harshad advance an amount of Rs 1,00,000 to the firm on 1st October, 2017. Due to long illness, Harshad could not participate in business activities from 1st August to 30th September, 2017. The profit for the year ended 31st March, 2018 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) Profit 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;

Solution:

Harshad Claims:
(i) It cannot Claim interest on capital to Indian Partnership Act 1932, he is entitled only for 6% interest on loan.
(ii) In absence to any agreement profit are distributed equally, according to Indian Partnership Act 1932.

Dhiman Claims:
(i) It will be accepted, according to Indian Partnership Act 1932.
(ii) He is not entitled for any remuneration because there is no agreement on matter of remuneration.
(iii) It is no interest on capital is allowed whereas 6% interest for loan should be given.

Distribution Profits:

Profit and Loss Adjustment Account

Dr | Cr

Particulars	Rs.	Particulars	Rs.
To Interest on Partner's Loan A/c		By Profit and Loss A/c	1,80,000
Harshad [1,00,000 ×(6/100)× (6/12)]	3,000		
To Profit and Loss Appropriation A/c	1,77,000		
	1,80,000		1,80,000

Profit and Loss Appropriation Account

Dr | Cr

Particulars	Rs.	Particulars	Rs.
To Profit transferred to :		By Profit and Loss Adjustment A/c	1,77,000
Harshad's Capital A/c	88,500		
Dhiman's Capital A/c	88,500		
	1,77,000		1,77,000

Question 6.

A and B are partners from 1st April, 2017, without a Partnership Deed and they introduced capitals of ₹ 35,000 and ₹ 20,000 respectively. On 1st October, 2017, A advances a loan of ₹ 8,000 to the firm without any agreement as to interest. The profit and Loss Account for the year ended 31st March, 2018 shows a profit of ₹ 15,000 but the partners cannot agree on payment of interest and on the basis of division of profits.

You are required to divide the profits between them giving reasons for your method.

2. Calculation of Profit Share of each partner

Equal distribution of profits

Profit after Interest on A's loan = Rs.15,000 - Rs.240 = Rs.14,760

$\therefore$ Profit Share of A and B each $= 14{,}760 \times \frac{1}{2} = 7{,}380$

Question 7.

A and B are partners in a firm sharing profits in the ratio of 3 : 2. They had advanced to the firm a sum of ₹ 30,000 as a loan in their profit-sharing ratio on 1st October, 2017. The Partnership Deed is silent on interest on loans from partners. Compute interest payable by the firm to the partners, assuming the firm closes its books every year on 31st March.

Solution:

Total amount advanced by the partners = Rs.30,000

Profit sharing ratio = 3 :2

Advance provided by A $= 30{,}000 \times \frac{3}{5} =$ Rs. 18,000

Advance provided by B $= 30{,}000 \times \frac{2}{5} =$ Rs. 12,000

Interest Period (from Oct. 01, 2017 to Mar. 31, 2018) = 6 months

Interest rate = 6% p.a.

Calculation of Interest on Advances

Interest on Advances given by A $= 18{,}000 \times \frac{6}{100} \times \frac{6}{12} =$ ₹540

Interest on Advances given by B $= 12{,}000 \times \frac{6}{100} \times \frac{6}{12} =$ ₹360

__Note__: In the absence of a partnership deed, interest on loans and advances is provided at 6% p.a.

Question 8

Question 19.

Simran and Reema are partners sharing profits in the ratio of 3 : 2. Their capitals as on 31st March, 2017 were ₹ 2,00,000 each whereas Current Accounts had balances of ₹ 50,000 and ₹ 25,000 respectively interest is to be allowed @ 5% p.a. on balances in Capital Accounts. The firm earned net profit of ₹ 3,00,000 for the year ended 31st March 2018. Pass the journal entries for interest on capital and distibution of profit. Also prepare Profit and Loss Appropriation Account for the year.

Solution:

Journal Entries

Date	Particulars	L.F.	Debit Rs.	Credit Rs.
	Profit and Loss Appropriation A/c Dr. To Simran's Current A/c To Reema's Current A/c (Being interest on capital transferred to Profit and Loss Appropriation Account)		20,000	 10,000 10,000