Illustration 1 (*Provisions of the Indian Partnership Act, 1932*).

Atal and Lal are partners in a firm. They do not have Partnership Deed. What shall be the position in the following cases?

(i) Atal devotes more time than Lal in the business. Atal demands a salary of ₹ 6,000 per month for it.

(ii) Lal has invested capital of ₹ 50,000 whereas Atal has invested ₹ 5,000 as capital. Atal, however, has advanced ₹ 10,000 as loan to the firm. What interest, if any, will be allowed to Atal and Lal?

Solution:

In the absence of Partnership Deed, provisions of the Indian Partnership Act, 1932 shall apply to settle the disputes:

(i) Salary is not payable to any partner. Therefore, Atal will not get salary.

(ii) Interest on capital is not payable to any partner in the absence of Partnership Deed. Therefore, Atal and Lal will not get interest on their capitals. Interest on loan is payable @ 6% p.a. Thus, Atal will get interest on loan @ 6% p.a.

Illustration 2 (*Preparation of Profit & Loss Appropriation Account*).

Ram and Mohan are partners in a firm. They admitted Rakhi as a partner without capital for 1/3rd share in the profit of the firm. She is blind by birth but having good management qualities. The new partnership agreement provides for the following:

(i) 10% of the trading profit will be donated to Prime Minister's Relief Fund.

(ii) 5% of the trading profit will be donated to the National Blind Relief Fund.

(iii) Products will be sold at a discount of 15% on Maximum Retail Price to the people living below poverty line.

(iv) New retail shops will be opened in the Naxal affected areas of the country.

(v) New jobs of sales persons will be reserved for the girls belonging to Scheduled Castes and Scheduled Tribes.

Trading profit of the firm for the year ended 31st March, 2012 was ₹ 10,00,000.

Prepare 'Profit & Loss Appropriation Account' of Ram, Mohan and Rakhi for the year ended 31st March, 2012. *(Delhi 2013 C, Modified)*

Solution:

PROFIT & LOSS APPROPRIATION ACCOUNT
for the year ended 31st March, 2012

Dr. *Cr.*

Particulars		₹	Particulars	₹
To Prime Minister's Relief Fund		1,00,000	By Profit & Loss A/c (Trading Profit)	10,00,000
To National Blind Relief Fund		50,000		
To Net Profit transferred to:				
Ram's Capital A/c	2,83,333			
Mohan's Capital A/c	2,83,333			
Rakhi's Capital A/c	2,83,334	8,50,000		
		10,00,000		10,00,000

Illustration 3 (*Omission of Interest on Capital and Drawings when Closing Balances of Capital are given*).

On 31st March, 2023, Capital Accounts of *E*, *M* and *A* after making adjustments for profits, drawings, etc., were as *E*—₹ 8,00,000; *M*—₹ 6,00,000 and *A*—₹ 4,00,000. Subsequently, it was noticed that interest on capital and interest on drawings had been omitted. Partners were entitled to interest on capital @ 5% p.a. Drawings during the year were: *E*—₹ 2,00,000; *M*—₹ 1,50,000 and *A*—₹ 90,000. Interest on drawings chargeable to the partners were: *E*—₹ 5,000; *M*—₹ 3,600 and *A*—₹ 2,000. Net profit during the year was ₹ 12,00,000. Profit-sharing ratio of the partners was 3 : 2 : 1.

Pass necessary adjustment entry for rectifying the above omission. Show your workings.

Solution:

RECTIFYING ENTRY

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
2023	*E*'s Capital A/c	...Dr.		5,700	
March 31	To *M*'s Capital A/c				100
	To *A*'s Capital A/c				5,600
	(Adjustment entry recorded due to omission of Interest on Capital and Drawings)				

Working Notes:

1. Interest is allowed on opening capital. Therefore, capitals of the partners in the beginning of the year, *i.e.*, 1st April, 2022 are calculated as follows:

CALCULATION OF CAPITALS IN THE BEGINNING

Particulars	*E* ₹	*M* ₹	*A* ₹
Capital at the end of the year	8,00,000	6,00,000	4,00,000
Add: Drawings made during the year	2,00,000	1,50,000	90,000
	10,00,000	7,50,000	4,90,000
Less: Profit already credited	6,00,000	4,00,000	2,00,000
Capital in the beginning	4,00,000	3,50,000	2,90,000

2. PROFIT & LOSS APPROPRIATION ACCOUNT

for the year ended 31st March, 2023

Dr. *Cr.*

Particulars		₹	Particulars		₹
To Interest on Capital A/cs:			By Profit & Loss A/c (Net Profit)		12,00,000
E (₹ 4,00,000 × 5/100)	20,000		By Interest on Drawings A/cs:		
M (₹ 3,50,000 × 5/100)	17,500		*E*	5,000	
A (₹ 2,90,000 × 5/100)	14,500	52,000	*M*	3,600	
To Profit transferred to:			*A*	2,000	10,600
E's Capital A/c (3/6)	5,79,300				
M's Capital A/c (2/6)	3,86,200				
A's Capital A/c (1/6)	1,93,100	11,58,600			
		12,10,600			12,10,600

3. STATEMENT SHOWING THE ADJUSTMENT TO BE MADE

Particulars	*E's* Capital A/c		*M's* Capital A/c		*A's* Capital A/c		Firm	
	Dr. (₹)	Cr. (₹)	Dr. (₹)	Cr. (₹)	Dr. (₹)	Cr. (₹)	Dr. (₹)	Cr. (₹)
Interest on Capital	...	20,000	...	17,500	...	14,500	52,000	...
Interest on Drawings	5,000	...	3,600	...	2,000	...	...	10,600
Profit already distributed	6,00,000	...	4,00,000	...	2,00,000	...	...	12,00,000
Profit to be credited	...	5,79,300	...	3,86,200	...	1,93,100	11,58,600	...
	6,05,000	5,99,300	4,03,600	4,03,700	2,02,000	2,07,600	12,10,600	12,10,600
Balance to be adjusted (Net Effect)	5,700 Dr.		100 Cr.		5,600 Cr.		...	

Illustration 4 (*Calculation of Interest on Capital when Closing Balances of Capital are given*).

A, B, C and *D* are partners sharing profits and losses in the ratio of 4 : 3 : 3 : 2 and their respective capitals on 31st March, 2023 were ₹ 30,000; ₹ 45,000; ₹ 60,000 and ₹ 45,000. After closing and finalising the accounts, it was noticed that interest on capital @ 6% p.a. was not allowed. Instead of altering the signed accounts it was decided to pass an adjustment entry on 1st April, 2023 crediting or debiting the respective Partners' Capital/Current Accounts.

Solution: ADJUSTMENT ENTRY

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
2023				
April 1	*A's* Current A/c ...Dr.		1,800	
	To *C's* Current A/c			900
	To *D's* Current A/c			900
	(Interest on capital omitted in the accounts, now adjusted)			

Working Note:

Interest on capital is calculated on the opening balance. In the question, closing balances of capital are given. Since, the amount of profit credited to capitals has not been given; it is not possible to ascertain the opening capitals. Thus, it is assumed that capitals of the partners are fixed (*i.e.*, same on opening and closing dates). Interest on capital was ₹ 10,800 (*A*—₹ 1,800; *B*—₹ 2,700; *C*—₹ 3,600 and *D*—₹ 2,700). Due to the omission of this interest, an excess amount of ₹ 10,800 as profit has been credited (distributed) to the partners in the profit-sharing ratio which should have been distributed in the capital ratio (*i.e.*, as interest on capital). Hence, ₹ 10,800 should be written back by debiting the partners in the profit-sharing ratio and thereafter distributed to them in the capital ratio.

STATEMENT SHOWING THE ADJUSTMENT TO BE MADE

Partners	Profits to be Written Back Debit (₹)	Interest to be Allowed Credit (₹)	Adjustment (₹)
A	3,600 (4/12 of 10,800)	30,000 × 6/100 = 1,800	1,800 (Dr.)
B	2,700 (3/12 of 10,800)	45,000 × 6/100 = 2,700	Nil
C	2,700 (3/12 of 10,800)	60,000 × 6/100 = 3,600	900 (Cr.)
D	1,800 (2/12 of 10,800)	45,000 × 6/100 = 2,700	900 (Cr.)
	10,800	10,800	Nil

Illustration 5 (*Minimum earning Guaranteed by a Partner to the Firm and Minimum Profit Guaranteed by the Firm to a Partner*).

Three Chartered Accountants *X*, *Y* and *Z* form a partnership, sharing profits and losses in the ratio of 3 : 2 : 1 subject to the following conditions:

(i) *Z*'s share of profits is guaranteed to be not less than ₹ 30,000 p.a.

(ii) *Y* gives a guarantee to the effect that the gross fee earned by him for the firm shall not be less than the average gross fee earned by him during the preceding five years when he was carrying on the profession alone (the average of which works out at ₹ 50,000).

Profit for the first year (year ended 31st March, 2023) of the partnership is ₹ 1,50,000. The gross fee earned by *Y* for the firm is ₹ 32,000.

Prepare Profit & Loss Appropriation Account after giving effect to the above.

Solution:

PROFIT & LOSS APPROPRIATION ACCOUNT
for the year ended 31st March, 2023

Dr. *Cr.*

Particulars		₹	Particulars	₹
To Profit transferred to:			By Profit & Loss A/c	1,50,000
X's Capital A/c	84,000		—Net Profit	
Less: Deficiency in *Z*'s Share	1,200	82,800	By *Y*'s Capital A/c	18,000
(WN 2)			(WN 1)	
Y's Capital A/c	56,000			
Less: Deficiency in *Z*'s Share	800	55,200		
(WN 2)				
Z's Capital A/c	28,000			
Add: Recovered From *X*	1,200			
Recovered From *Y*	800	30,000		
		1,68,000		1,68,000

Working Notes:

	₹
1. Profit for the first year of partnership	1,50,000
Add: Difference between the guaranteed fee to be earned by *Y* and actual fee earned (₹ 50,000 – ₹ 32,000)	18,000
Projected Gross Fee of the firm	1,68,000

X's Share = ₹ 1,68,000 × 3/6 = ₹ 84,000;

Y's Share = ₹ 1,68,000 × 2/6 = ₹ 56,000; and

Z's Share = ₹ 1,68,000 × 1/6 = ₹ 28,000.

2. *Z* was guaranteed a minimum sum of ₹ 30,000. Hence, the deficiency of ₹ 2,000 will be borne by *X* and *Y* in the ratio of 3 : 2 as follows:

X = ₹ 2,000 × 3/5 = ₹ 1,200; *Y* = ₹ 2,000 × 2/5 = ₹ 800

Thus, *X*'s Share of Profit = ₹ 84,000 – ₹ 1,200 = ₹ 82,800;

Y's Share of Profit = ₹ 56,000 – ₹ 800 = ₹ 55,200;

Z's Share of Profit = ₹ 28,000 + ₹ 1,200 (*X*) + ₹ 800 (*Y*) = ₹ 30,000.

Illustration 6.

Suresh, Sahil and Sumit are partners sharing profits in the ratio of 5 : 3 : 2. During the year ended 31st March, 2023, the firm earned profit of ₹ 3,50,000. Prepare Profit & Loss Appropriation Account giving effect to the following:

(i) Each of the partner is to get remuneration of ₹ 60,000 p.a.

(ii) Interest on Capital is to be allowed @ 10% p.a. Capitals of Suresh, Sahil and Sumit as on 1st April, 2022 were—₹ 5,00,000; ₹ 5,00,000 and ₹ 7,50,000 respectively.

(iii) Interest on Drawings charged was: Suresh—₹ 10,000; Sahil—₹ 20,000; and Sumit—₹ 25,000.

(iv) Sumit is guaranteed minimum profit of ₹ 1,50,000 after above appropriations.

Solution:

PROFIT & LOSS APPROPRIATION ACCOUNT
Dr. *for the year ended 31st March, 2023* *Cr.*

Particulars		₹	Particulars		₹
To Remuneration A/c:			By Profit & Loss A/c (Net Profit)		3,50,000
Suresh	60,000		By Interest on Drawings:		
Sahil	60,000		Suresh	10,000	
Sumit	60,000	1,80,000	Sahil	20,000	
To Interest on Capitals:			Sumit	25,000	55,000
Suresh	50,000		By Loss transferred to Capital A/cs:		
Sahil	50,000		Suresh	62,500	
Sumit	75,000	1,75,000	Sahil	37,500	1,00,000
To Sumit's Capital A/c (Guaranteed Profit)		1,50,000			
		5,05,000			5,05,000

Illustration 7 (*Manager admitted as a partner and Guarantee of Profit given by one Partner*).

X and *Y* are partners in a firm sharing profits in the ratio of 4 : 1. They decide to admit *Z*, their manager, as a partner with effect from 1st April, 2022 for 1/8th share in profits. *Z*, as a manager, was getting salary of ₹ 8,000 per month and commission of 5% of the net profits after charging such salary and commission.

As per the terms of the Partnership Deed, any excess amount which *Z* shall be entitled to receive as a partner over the amount which have been due to him as a manager, would be borne by *X* out of his share of profit.

Profit for the year ended 31st March, 2023, amounted to ₹ 13,56,000 before salary and commission.

Prepare the Profit & Loss Appropriation Account for the period ending 31st March, 2023.

Solution:

PROFIT & LOSS APPROPRIATION ACCOUNT
Dr. *for the year ended 31st March, 2023* *Cr.*

Particulars		₹	Particulars		₹
To Profit transferred to:			By Profit & Loss A/c (Net Profit)		13,56,000
X's Capital A/c	9,46,500				
Y's Capital A/c	2,40,000				
Z's Capital A/c	1,69,500	13,56,000			
		13,56,000			13,56,000

Working Note: *Distribution of Profit before admission of Z as a partner:*	₹	₹
Profit before Manager's Salary and Commission		13,56,000
Less: Amount Due to *Z* as Manager:		
Salary (₹ 8,000 × 12)	96,000	
Commission [5/105 (₹ 13,56,000 – ₹ 96,000]	60,000	1,56,000
Net Divisible Profit		12,00,000

X's Share in Profit = ₹ 12,00,000 × 4/5 = ₹ 9,60,000; and

Y's Share in Profit = ₹ 12,00,000 × 1/5 = ₹ 2,40,000.

As *Z* has been admitted as a partner, he is not entitled to get salary of ₹ 96,000 and commission of ₹ 60,000. Instead, he will get 1/8th share in the profit = ₹ 13,56,000 × 1/8 = ₹ 1,69,500.

The deficiency of ₹ 13,500 (*i.e.*, ₹ 1,69,500 – ₹ 1,56,000) will be borne by *X* personally.

Thus, Final share in Profits:

X's Share = ₹ 9,60,000 – ₹ 13,500 = ₹ 9,46,500; *Y*'s Share = ₹ 2,40,000; and *Z*'s Share = ₹ 1,69,500.

Illustration 8 (*Interest on Capitals and Salary not Allowed to Partners, Profit Distributed in Wrong Ratio*).

P, *Q* and *R* are partners in a firm. Their Capital Accounts stood at ₹ 30,000; ₹ 15,000 and ₹ 15,000 respectively on 1st April, 2022.

As per the Partnership Deed: (i) *R* was to be allowed remuneration of ₹ 3,000 per annum, (ii) Interest @ 5% p.a. was to be allowed on capital and (iii) Profits were to be distributed in the ratio of 2 : 2 : 1. Ignoring the above terms, net profit of ₹ 18,000 for the year ended 31st March, 2023 was distributed among the three partners equally.

Pass an adjustment entry to rectify the errors. Show the workings clearly.

Solution:

ADJUSTMENT ENTRY

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
2023					
April 1	*Q*'s Capital A/c	...Dr.		450	
	To *P*'s Capital A/c				300
	To *R*'s Capital A/c				150
	(Adjustment made for omissions in previous year)				

Working Note: STATEMENT SHOWING THE ADJUSTMENT TO BE MADE

Particulars	*P*'s Capital A/c		*Q*'s Capital A/c		*R*'s Capital A/c		Firm	
	Dr. (₹)	Cr. (₹)	Dr. (₹)	Cr. (₹)	Dr. (₹)	Cr. (₹)	Dr. (₹)	Cr. (₹)
1. Profit already distributed (in the ratio of 1 : 1 : 1)	6,000	...	6,000	...	6,000	...	...	18,000
2. Profit as should be distributed								
• Remuneration to *R*	...	...	...	...	...	3,000	3,000	...
• Interest on Capital	...	1,500	...	750	...	750	3,000	...
• Net Profit distributed (2 : 2 : 1)	...	4,800	...	4,800	...	2,400	12,000	...
	6,000	6,300	6,000	5,550	6,000	6,150	18,000	18,000
3. Net Effect (Dr./Cr.)	300 (Cr.)		450 (Dr.)		150 (Cr.)		Nil	

Illustration 9 (*When Regular Drawings of Fixed Amount are made only for initial 6 months*).

A, B and *C* are partners sharing profits equally. *A* drew regularly ₹ 6,000 in the beginning of every month for the six months ended 30th September, 2022. *B* drew regularly ₹ 6,000 at the end of every month for the six months ended 30th September, 2022. *C* drew regularly ₹ 6,000 in the middle of every month for the six months ended 30th September, 2022. Calculate interest on drawings @ 5% p.a. when the books are closed on 31st March every year.

Solution: *Interest on Drawings by A:*

P Date	*Q* Amount (₹)	*R* No. of Months up to 31st March, 2023	$S = Q \times R$ Product (₹)
1st April, 2022	6,000	12	72,000
1st May, 2022	6,000	11	66,000
1st June, 2022	6,000	10	60,000
1st July, 2022	6,000	9	54,000
1st August, 2022	6,000	8	48,000
1st September, 2022	6,000	7	42,000
	36,000		3,42,000

Interest on ₹ 3,42,000 @ 5% p.a. for one month = $₹\,3,42,000 \times \frac{5}{100} \times \frac{1}{12}$ = ₹ 1,425.

Alternatively, Interest may be calculated for 9.5 months [(12 months + 7 months)/2]

Interest on ₹ 36,000 @ 5% p.a. for 9.5 months = $₹\,36,000 \times \frac{5}{100} \times \frac{9.5}{12} = ₹\,1,425.$

Interest on Drawings by B:

P Date	*Q* Amount (₹)	*R* No. of Months up to 31st March, 2023	$S = Q \times R$ Product (₹)
30th April, 2022	6,000	11	66,000
31st May, 2022	6,000	10	60,000
30th June, 2022	6,000	9	54,000
31st July, 2022	6,000	8	48,000
31st August, 2022	6,000	7	42,000
30th September, 2022	6,000	6	36,000
	36,000		3,06,000

Interest on ₹ 3,06,000 @ 5% p.a. for one month = ₹ 1,275.

Alternatively, Interest may be calculated for 8.5 months [(11 months + 6 months)/2]

Interest on ₹ 36,000 @ 5% p.a. for 8.5 months = $₹\,36,000 \times \frac{5}{100} \times \frac{8.5}{12} = ₹\,1,275.$

Interest on Drawings by C:

P Date	*Q* Amount (₹)	*R* No. of Months up to 31st March, 2023	$S = Q \times R$ Product (₹)
15th April, 2022	6,000	11.5	69,000
15th May, 2022	6,000	10.5	63,000
15th June, 2022	6,000	9.5	57,000
15th July, 2022	6,000	8.5	51,000
15th August, 2022	6,000	7.5	45,000
15th September, 2022	6,000	6.5	39,000
	36,000		3,24,000

Interest on ₹ 3,24,000 @ 5% p.a. for 1 month = ₹ 1,350.

Alternatively, Interest may be calculated for 9 months [(11.5 months + 6.5 months)/2] Interest on ₹ 36,000 @ 5% for 9 months = $₹\,36,000 \times \frac{5}{100} \times \frac{9}{12} = ₹\,1,350$.

Illustration 10.

On 1st April, 2022, 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, 2022. 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, 2022.

(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.

(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, 2023 (before the above adjustments) was ₹ 1,35,000.

Prepare Profit & Loss Appropriation Account and Capital Accounts of Partners if capitals are fixed.

Solution:

PROFIT & LOSS APPROPRIATION ACCOUNT

Dr. *for the year ended 31st March, 2023* *Cr.*

Particulars		₹	Particulars		₹
To Interest on Capital A/cs:			By Profit & 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	8,400	By Interest on Drawings A/cs (Note):		
To Partner's Salaries A/c:			Precious	360	
Precious	2,400		Noble	360	
Noble	3,600	6,000	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	360	360	360	By Partner's Salaries A/c	2,400	3,600	...
(Note)				By P & L App. A/c (Profit)	49,127	29,127	19,126
To Balance *c/d*	38,767	19,367	4,566				
	55,127	35,727	20,926		55,127	35,727	20,926

Notes:

1. 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:

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

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

Illustration 11 (*Profits Apportioned without allowing Interest on Capital and Charging Interest on Drawings*).

Mannu and Shristhi are partners in a firm sharing profits in the ratio of 3 : 2. Following is the Balance Sheet of the firm as on 31st March, 2023:

BALANCE SHEET *as at 31st March, 2023*

Liabilities		₹	Assets		₹
Mannu's Capital	30,000		Drawings:		
Shristhi's Capital	10,000	40,000	Mannu	4,000	
			Shristhi	2,000	6,000
			Other Assets		34,000
		40,000			40,000

Profit for the year ended 31st March, 2023 was ₹ 5,000 which was divided in the agreed ratio, but interest @ 5% p.a. on capital and 6% p.a. on drawings was inadvertently omitted. Adjust interest on drawings on an average basis for 6 months. Give the adjustment entry.

(NCERT, Modified Years)

Solution:

ADJUSTMENT ENTRY

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
2023					
March 31	Shristhi's Capital A/c	...Dr.		288	
	To Mannu's Capital A/c				288
	(Adjustment entry passed for omission of interest on capital and drawings)				

Working Notes:

1. For the calculation of Interest on Capital, opening capital is calculated.

CALCULATION OF OPENING CAPITAL AND INTEREST THEREON

Particulars	Mannu ₹	Shristhi ₹
Closing Capital	30,000	10,000
Add: Drawings already debited*	...	...
	30,000	10,000
Less: Profit of ₹ 5,000 already credited in 3 : 2	3,000	2,000
Opening Capital	27,000	8,000
Interest on Capital @ 5% per annum	₹ 27,000 × 5/100 = ₹ 1,350	₹ 8,000 × 5/100 = ₹ 400

*For calculating opening capital, drawings are added. However, drawings of Mannu and Shristhi appear in the Balance Sheet. It means that their Capital Accounts have not been adjusted for their drawings. Therefore, their drawings have not been added back.

2. *Calculation of Interest on Drawings:* Dates of drawings are not given. Therefore, interest on drawings will be charged for the average period, *i.e.*, 6 months.

   Interest on Drawings:

   Mannu = ₹ 4,000 × 6/12 × 6/100 = ₹ 120;Shristhi = ₹ 2,000 × 6/12 × 6/100 = ₹ 60.

3. ADJUSTMENT TABLE

Particulars	Mannu's Capital A/c		Shristhi's Capital A/c		Firm	
	Dr. (₹)	Cr. (₹)	Dr. (₹)	Cr. (₹)	Dr. (₹)	Cr. (₹)
I. Interest on Capital not yet credited	...	1,350	...	400	1,750	...
II. Interest on Drawings not yet debited	120	...	60	...	...	180
III. Profit after Interest on Capital and Interest on Drawings ₹ 3,430 (*i.e.*, ₹ 5,000 – ₹ 1,750 + ₹ 180) to be credited in the ratio of 3 : 2	...	2,058	...	1,372	3,430	...
IV. Profit of ₹ 5,000 already distributed now taken back (debited)	3,000	...	2,000	...	...	5,000
	3,120	3,408	2,060	1,772	5,180	5,180
Net Effect	288 (Cr.)		288 (Dr.)		Nil	

Illustration 12 (*Guarantee of Profit to a Partner in Case of Loss*).

A, *B* and *C* are partners having capitals of ₹ 10,00,000; ₹ 8,00,000 and ₹ 6,00,000 respectively in a firm and sharing profits and losses equally. *C* is guaranteed a minimum profit of ₹ 1,00,000 as share of profit every year. The firm incurred a loss of ₹ 3,00,000 for the year ended 31st March, 2023. You are required to show the necessary accounts for division of loss and giving effect to minimum guaranteed profit to *C*.

Solution:

PROFIT & LOSS APPROPRIATION ACCOUNT

Dr. *for the year ended 31st March, 2023* *Cr.*

Particulars	₹	Particulars	₹
To Profit & Loss A/c (Net Loss)	3,00,000	By Loss transferred to:	
		A's Capital A/c	1,00,000
		B's Capital A/c	1,00,000
		C's Capital A/c	1,00,000
	3,00,000		3,00,000

Dr. PARTNERS' CAPITAL ACCOUNTS *Cr.*

Particulars	*A* (₹)	*B* (₹)	*C* (₹)	Particulars	*A* (₹)	*B* (₹)	*C* (₹)
To Profit & Loss Appropriation A/c	1,00,000	1,00,000	1,00,000	By Balance *b/d*	10,00,000	8,00,000	6,00,000
To *C*'s Capital A/c (Guaranteed Profit)	1,00,000	1,00,000	...	By *A*'s Capital A/c	...	...	1,00,000
				By *B*'s Capital A/c	...	...	1,00,000
To Balance *c/d*	8,00,000	6,00,000	7,00,000				
	10,00,000	8,00,000	8,00,000		10,00,000	8,00,000	8,00,000
				By Balance *b/d*	8,00,000	6,00,000	7,00,000

Note: *C* is guaranteed a profit of ₹ 1,00,000 p.a. Loss incurred by the firm is ₹ 3,00,000. Out of which ₹ 1,00,000 is debited to *C*'s Capital Account. Therefore, *C*'s Capital Account is to be credited by the amount of deficiency ₹ 2,00,000 (₹ 1,00,000 share of loss debited *plus* ₹ 1,00,000 guaranteed profit) which is met equally by *A* and *B*.

Alternative Method:

Particulars	Total (₹)	*A* (₹)	*B* (₹)	*C* (₹)
I. Loss for the year as per Profit & Loss Account to be debited to *A* and *B* equally as *C* is guaranteed minimum profit	(3,00,000)	(1,50,000)	(1,50,000)	...
II. Guaranteed profit of C to be shared by *A* and *B* equally	...	(50,000)	(50,000)	1,00,000
III. Net Effect	(3,00,000)	(2,00,000)	(2,00,000)	1,00,000

Dr. PARTNERS' CAPITAL ACCOUNTS *Cr.*

Particulars	*A* (₹)	*B* (₹)	*C* (₹)	Particulars	*A* (₹)	*B* (₹)	*C* (₹)
To Profit & Loss App. A/c	1,50,000	1,50,000	...	By Balance *b/d*	10,00,000	8,00,000	6,00,000
To *C*'s Capital A/c	50,000	50,000	...	By *A*'s Capital A/c	...	...	50,000
(Guaranteed Profit)				By *B*'s Capital A/c	...	...	50,000
To Balance *c/d*	8,00,000	6,00,000	7,00,000				
	10,00,000	8,00,000	7,00,000		10,00,000	8,00,000	7,00,000

Illustration 13 (*Calculation of Interest on Capital*).

A and *B* started business on 1st April, 2022 with capitals of ₹ 6,00,000 and ₹ 4,00,000 respectively. During the year, *A* introduced ₹ 1,00,000 as additional capital on 1st October, 2022. They withdrew ₹ 50,000 per month against profits. Interest on capital is to be allowed @ 10% per annum.

Calculate interest payable to *A* and *B* for the year ended 31st March, 2023.

Solution: *Interest on A's Capital:*

		₹
Interest on ₹ 6,00,000 for one year:	₹ 6,00,000 × 10/100	60,000
Interest on ₹ 1,00,000 for 6 months:	₹ 1,00,000 × 6/12 × 10/100	5,000
(from 1st October, 2022 to 31st March, 2023)		
		65,000

Interest on B's Capital:

Interest on ₹ 4,00,000 for one year:	₹ 4,00,000 × 10/100	₹ 40,000

Illustration 14.

From the following Balance Sheet of *X* and *Y*, calculate interest on capital @ 5% p.a. for the year ended 31st March, 2023:

BALANCE SHEET *as at 31st March, 2023*

Liabilities	₹	Assets	₹
X's Capital A/c	90,000	Sundry Assets	2,10,000
Y's Capital A/c	80,000		
General Reserve	40,000		
	2,10,000		2,10,000

During the year ended 31st March, 2023, *X*'s drawings were ₹ 10,000 and *Y*'s drawings were ₹ 30,000. Profit for the year ended 31st March, 2023 was ₹ 60,000, out of which ₹ 40,000 is transferred to General Reserve.

Solution:

Calculation of Interest on X's Capital:	₹
X's Capital as at 31st March, 2023	90,000
Add: Drawings during the year	10,000
	1,00,000
Less: Profit (added or credited) [1/2 (₹ 60,000 – ₹ 40,000)]	10,000
Capital as at 1st April, 2022	90,000

Interest on capital @ 5% p.a. = ₹ 90,000 × 5/100 = ₹ 4,500.

Calculation of Interest on Y's Capital:	₹
Y's Capital as at 31st March, 2023	80,000
Add: Drawings during the year	30,000
	1,10,000
Less: Profit (added or credited) [1/2 (₹ 60,000 – ₹ 40,000)]	10,000
Capital as at 1st April, 2022	1,00,000

Interest on Capital @ 5% p.a. = ₹ 1,00,000 × 5/100 = ₹ 5,000.

Notes:

1. Capital in the beginning is calculated by adding drawings and deducting profit distributed.
2. Profit during the year was ₹ 60,000 out of which ₹ 40,000 is transferred to Reserve and is shown in the Balance Sheet. Thus, in effect, only ₹ 20,000 were distributed which have been deducted.
3. In the absence of any profit-sharing ratio being given, partners will share profit and loss equally.

Illustration 15.

A, *B* and *C* are partners in a firm sharing profits in the ratio of 4 : 2 : 1. It is provided that *C*'s share in profit would not be less than ₹ 37,500. Profit for the year ended 31st March, 2023 was ₹ 1,57,500.

Prepare Profit & Loss Appropriation Account.

Solution:

PROFIT & LOSS APPROPRIATION ACCOUNT

Dr. *for the year ended 31st March, 2023* *Cr.*

Particulars		₹	Particulars	₹
To *A*'s Capital A/c	90,000		By Profit & Loss A/c	1,57,500
Less: C's Share of Deficiency	10,000	80,000	—Net Profit	
To *B*'s Capital A/c	45,000			
Less: C's Share of Deficiency	5,000	40,000		
To *C*'s Capital A/c	22,500			
Add: Deficiency met by:				
A	10,000			
B	5,000	37,500		
		1,57,500		1,57,500

Working Notes:

1. DISTRIBUTION OF PROFIT

Particulars	*A*	*B*	*C*
Divide Net Profit of ₹ 1,57,500 in 4 : 2 : 1.	₹ 1,57,500 × 4/7 = ₹ 90,000	₹ 1,57,500 × 2/7 = ₹ 45,000	₹ 1,57,500 × 1/7 = ₹ 22,500

However, *C*'s Minimum Guaranteed Profit = ₹ 37,500. Thus, deficiency is of ₹ 37,500 – ₹ 22,500 = ₹ 15,000.

Deficiency met by *A* and *B* in 4 : 2 or 2 : 1.	₹ 15,000 × 2/3 = ₹ 10,000	₹ 15,000 × 1/3 = ₹ 5,000	...
Share of Profit	₹ 90,000 – ₹ 10,000 = ₹ 80,000	₹ 45,000 – ₹ 5,000 = ₹ 40,000	₹ 22,500 + ₹ 10,000 (*A*) + ₹ 5,000 (*B*) = ₹ 37,500

2. Since no specific ratio is given in which the deficiency is to be met, it means *A* and *C* shall meet the deficiency in their profit-sharing ratio, *i.e.*, 4 : 2 or 2 : 1.

Illustration 16 (*Interest on Capital Wrongly Provided in the Accounts*).

A, B and *C* are partners in a firm. Partnership Deed does not allow interest on capital, still it was credited to Partners' Current Accounts @ 5% p.a. for the two years ended 31st March, 2022 and 31st March, 2023. Their fixed capitals on which interest was calculated throughout were: *A*—₹ 50,000; *B*—₹ 40,000 and *C*—₹ 30,000.

During the two years ended 31st March, they shared profits as follows:

2022—5 : 3 : 2; and 2023—2 : 2 : 1.

You are required to pass an adjustment entry as at 1st April, 2023.

Solution: ADJUSTMENT ENTRY

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
2023 April 1	*C*'s Current A/c ...Dr.		600	
	To *A*'s Current A/c			400
	To *B*'s Current A/c			200
	(Interest on capital wrongly provided in the accounts for two years, now adjusted)			

Working Note: STATEMENT SHOWING THE ADJUSTMENT TO BE MADE

Partners	31st March, 2022			31st March, 2023			(c + f)
	(a) Interest on Capital ₹	(b) Profit ₹	(c = a + b) Adjustment ₹	(d) Interest on Capital ₹	(e) Profit ₹	(f = d + e) Adjustment ₹	Net Adjustments ₹
A	– 2,500	+ 3,000 (5/10)	+ 500	– 2,500	+ 2,400 (2/5)	– 100	+ 400 (Cr.)
B	– 2,000	+ 1,800 (3/10)	– 200	– 2,000	+ 2,400 (2/5)	+ 400	+ 200 (Cr.)
C	– 1,500	+ 1,200 (2/10)	– 300	– 1,500	+ 1,200 (1/5)	– 300	– 600 (Dr.)
	– 6,000	6,000	...	– 6,000	6,000	...	...

Note: Since interest on capital was allowed, profit decreased by the total amount of interest. Interest allowed was taken by the partners in their profit-sharing ratio. Therefore, interest on capital should be written back and profit (*i.e.*, total amount of interest) should be credited to partners in their profit-sharing ratio.

Illustration 17.

Moli, Bhola and Raj were partners in a firm sharing profits and losses in the ratio of 3 : 3 : 4. Their Partnership Deed provided for the following:

(i) Interest on capitals @ 5% p.a.

(ii) Interest on drawings @ 12% p.a.

(iii) Interest on partners' loan @ 6% p.a.

(iv) Moli was allowed an annual salary of ₹ 4,000; Bhola was allowed a commission of 10% of net profit as shown by Profit & Loss Account and Raj was guaranteed a profit of ₹ 1,50,000 after making all the adjustments as provided in the partnership agreement.

Their fixed capitals were Moli: ₹ 5,00,000; Bhola: ₹ 8,00,000 and Raj: ₹ 4,00,000. On 1st April, 2016 Bhola extended a loan of ₹ 1,00,000 to the firm. The net profit of the firm for the year ended 31st March, 2017 before interest on Bhola's loan was ₹ 3,06,000.

Prepare Profit & Loss Appropriation Account of Moli, Bhola and Raj for the year ended 31st March, 2017 and their Current Accounts assuming that Bhola withdrew ₹ 5,000 at the end of each month, Moli withdrew ₹ 10,000 at the end of each quarter and Raj withdrew ₹ 40,000 at the end of each half year. (*Delhi 2018*)

Solution:

PROFIT & LOSS APPROPRIATION ACCOUNT

Dr. *for the year ended 31st March, 2017* *Cr.*

Particulars		₹	Particulars		₹
To Interest on Capital A/cs:			By Profit & Loss A/c	3,06,000	
Moli's Current A/c	25,000		(Profit as per Profit & Loss A/c)		
(₹ 5,00,000 × 5/100)			*Less:* Interest on Bhola's Loan	6,000	3,00,000
Bhola's Current A/c	40,000		By Interest on Drawings: (WN 1)		
(₹ 8,00,000 × 5/100)			Moli's Current A/c	1,800	
Raj's Current A/c	20,000	85,000	Bhola's Current A/c	3,300	
(₹ 4,00,000 × 5/100)			Raj's Current A/c	2,400	7,500
To Moli's Current A/c (Salary)		4,000			
To Bhola's Current A/c (Commission)		30,000			
(₹ 3,00,000 × 10/100)					
To Profit transferred to: (WN 2)					
Moli's Current A/c	19,250				
Bhola's Current A/c	19,250				
Raj's Current A/c	1,50,000	1,88,500			
		3,07,500			3,07,500

Dr. PARTNERS' CURRENT ACCOUNTS *Cr.*

Particulars	Moli ₹	Bhola ₹	Raj ₹	Particulars	Moli ₹	Bhola ₹	Raj ₹
To Drawings A/c	40,000	60,000	80,000	By Interest on Capital A/c	25,000	40,000	20,000
To Interest on Drawings A/c	1,800	3,300	2,400	By Salary A/c	4,000	...	...
To Balance *c/d*	6,450	25,950	87,600	By Commission A/c	...	30,000	...
				By Profit & Loss			
				Appropriation A/c (Profit)	19,250	19,250	1,50,000
	48,250	89,250	1,70,000		48,250	89,250	1,70,000

Working Notes:

1. *Calculation of Interest on Drawings:*

   (a) *Interest on Moli's Drawings:* ₹ 40,000 (*i.e.*, ₹ 10,000 × 4 Instalments) × 4.5/12 months* × 12/100 = ₹ 1,800.

   (b) *Interest on Bhola's Drawings:* ₹ 60,000 (*i.e.*, ₹ 5,000 × 12 months) × 5.5/12 months* × 12/100 = ₹ 3,300.

   (c) *Interest on Raj's Drawings:* ₹ 80,000 (*i.e.*, ₹ 40,000 × 2 instalments) × 3/12 months* × 12/100 = ₹ 2,400.

   $$\text{*Average period} = \frac{\text{Months Left after First Drawing + Months Left after Last Drawing}}{2}$$

   (a) Average period in case of Moli = $\frac{9+0}{2}$ = 4.5 Months.

   (b) Average period in case of Bhola = $\frac{11+0}{2}$ = 5.5 Months.

   (c) Average period in case of Raj = $\frac{6+0}{2}$ = 3 Months.

   We apply average period for the calculation of interest on drawings when a uniform amount is withdrawn at regular interval.

2. *Distribution of Profit:*

   Profit after adjustments (₹ 3,00,000 + ₹ 7,500 – ₹ 85,000 – ₹ 4,000 – ₹ 30,000) = ₹ 1,88,500. Raj's Current Account will be credited by ₹ 1,50,000 (Guaranteed Profit) and Balance ₹ 38,500 will be shared in the ratio of 3 : 3, *i.e.*, equally.

   Moli's Share of Profit = $\frac{₹\,38,500}{2}$ = ₹ 19,250;

   Bhola's Share of Profit = $\frac{₹\,38,500}{2}$ = ₹ 19,250.

Illustration 18 (*Guarantee of Profit by the Firm*).

A, *B* and *C* are partners in a firm sharing profits and losses in the ratio of 12 : 8 : 5. Partner *C* is guaranteed a minimum profit of ₹ 50,000 p.a. by the firm. The profits and losses for the years ended 31st March, were: 2021—Profit ₹ 2,00,000; 2022—Profit ₹ 3,00,000, and 2023—Loss ₹ 2,00,000.

Pass necessary Journal entries in the books of the firm.

Solution:

Particulars	31st March, 2021 (₹)	31st March, 2022 (₹)	31st March, 2023 (₹)
(i) Guaranteed Profit to *C*	50,000	50,000	50,000
(ii) *C*'s Actual Share of Profit as per profit-sharing ratio 12 : 8 : 5	40,000	60,000	(40,000) Loss
	(*i.e.*, ₹ 2,00,000 × 5/25)	(*i.e.*, ₹ 3,00,000 × 5/25)	(*i.e.*, ₹ 2,00,000 × 5/25)
(iii) Deficiency [(i) – (ii)]	10,000	...	90,000

The deficiency in *C*'s share of profit is to be borne by the firm. Thus, out of the profit of the firm *C*'s Capital Account will be credited with minimum guaranteed profit or his share of profit, whichever is higher and thereafter, balance will be distributed to *A* and *B* in their profit-sharing ratio.

In case of loss, loss will be debited to Partners' Capital Accounts and thereafter, deficiency in guaranteed partner's share will be debited to remaining Partners' Capital Accounts.

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Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
2021				
March 31	Profit & Loss A/c ...Dr.		2,00,000	
	To Profit & Loss Appropriation A/c			2,00,000
	(Net profit transferred to Profit & Loss Appropriation Account)			
	Profit & Loss Appropriation A/c ...Dr.		2,00,000	
	To *A*'s Capital A/c			90,000
	To *B*'s Capital A/c			60,000
	To *C*'s Capital A/c			50,000
	(Distribution of profit among partners and *C* credited with his guaranteed profit)			
2022				
March 31	Profit & Loss A/c ...Dr.		3,00,000	
	To Profit & Loss Appropriation A/c			3,00,000
	(Profit transferred to Profit & Loss Appropriation Account)			
	Profit & Loss Appropriation A/c ...Dr.		3,00,000	
	To *A*'s Capital A/c (₹ 3,00,000 × 12/25)			1,44,000
	To *B*'s Capital A/c (₹ 3,00,000 × 8/25)			96,000
	To *C*'s Capital A/c (₹ 3,00,000 × 5/25)			60,000
	(Net profit distributed among the partners in the ratio of 12 : 8 : 5)			
2023				
March 31	Profit & Loss Appropriation A/c ...Dr.		2,00,000	
	To Profit & Loss A/c			2,00,000
	(Loss for the year transferred)			
	A's Capital A/c ...Dr.		96,000	
	B's Capital A/c ...Dr.		64,000	
	C's Capital A/c ...Dr.		40,000	
	To Profit & Loss Appropriation A/c			2,00,000
	(Distribution of loss as if there is no guarantee)			
	A's Capital A/c ...Dr.		54,000	
	B's Capital A/c ...Dr.		36,000	
	To *C*'s Capital A/c			90,000
	(Deficiency of *C*, met by *A* and *B* in the ratio of 3 : 2)			

Illustration 19 (*Omission of Interest on Capital when Fixed Capitals are given*).

X, *Y* and *Z* are partners. They have omitted interest on capital @ 10% p.a. for three years ended 31st March, 2024. Their fixed capitals on which interest was to be calculated throughout were: *X*—₹ 1,00,000; *Y*—₹ 80,000 and *Z*—₹ 70,000. Their profit-sharing ratios for the years ended 31st March, were: 2022—1 : 2 : 2; 2023—5 : 3 : 2; 2024—4 : 5 : 1. The firm earned profit of ₹ 25,000 in each year. Pass necessary adjustment Journal entry.

Solution: ADJUSTMENT ENTRY

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
	Y's Current A/c	...Dr.		6,000	
	To *X*'s Current A/c				2,500
	To *Z*'s Current A/c				3,500
	(Interest on capital omitted to be provided, now adjusted)				

Working Notes:

1. Interest on capital @ 10% p.a: *X*—₹ 10,000; *Y*—₹ 8,000 and *Z*—₹ 7,000.

   The above interest on capital ₹ 25,000 (*i.e.,* ₹ 10,000 + ₹ 8,000 + ₹ 7,000) has not been credited to the partners. Now, it is to be credited to the Partners' Current Accounts resulting in a loss of ₹ 25,000 to the firm which is to be debited to the partners in their profit-sharing ratio.

2. STATEMENT SHOWING THE ADJUSTMENT TO BE MADE

Particulars	*X* (₹)	*Y* (₹)	*Z* (₹)
I. Amount credited as Share of Profit:			
For the year ended 31st March, 2022	5,000	10,000	10,000
For the year ended 31st March, 2023	12,500	7,500	5,000
For the year ended 31st March, 2024	10,000	12,500	2,500
...Dr.	27,500	30,000	17,500
II. Amount which should have been credited as Interest on Capital:			
For the year ended 31st March, 2022	10,000	8,000	7,000
For the year ended 31st March, 2023	10,000	8,000	7,000
For the year ended 31st March, 2024	10,000	8,000	7,000
...Cr.	30,000	24,000	21,000
III. Difference (I – II)	2,500 (Cr.)	6,000 (Dr.)	3,500 (Cr.)

Note: Since capitals of the partners are fixed, adjustment entry is passed through Partners' Current Accounts.

Illustration 20.

Tarun, Mannan and Harman are partners sharing profits in the ratio of 2 : 2 : 1. Tarun is guaranteed minimum profit of ₹ 80,000 per annum. Net Profit for the year ended 31st March, 2024 is ₹ 50,000.

Prepare Profit & Loss Appropriation Account for the year.

Solution:

PROFIT & LOSS APPROPRIATION ACCOUNT

Dr. *for the year ended 31st March, 2024* Cr.

Particulars	₹	Particulars		₹
To Tarun's Capital A/c	80,000	By Profit & Loss A/c (Net Profit transferred)		50,000
		By Loss transferred to Capital A/cs (Deficiency):		
		Mannan	20,000	
		Harman	10,000	30,000
	80,000			80,000

Note: Deficiency in Tarun's profit share will be borne by Mannan and Harman in their profit-sharing ratio, *i.e.*, 2 : 1.

Illustration 21.

On 31st March, 2024, balances in the Capital Accounts of Eleen, Monu and Ahmad after making adjustments for profit and drawings were ₹ 1,60,000, ₹ 1,20,000 and ₹ 80,000 respectively. Subsequently, it was noticed that interest on capital and drawings had been omitted.

(i) Profit for the year ended 31st March, 2024 was ₹ 40,000.

(ii) During the year, Eleen and Monu each withdrew total amount of ₹ 24,000 in equal instalments in the beginning of each month and Ahmad withdrew total amount of ₹ 48,000 in equal instalments at the end of each month.

(iii) Interest on drawings was to be charged @ 5% p.a. and interest on capital was to be allowed @ 10% p.a.

(iv) Profit-sharing ratio among the partners was 2 : 1 : 1.

Showing your working notes clearly, pass the necessary rectifying entry. (*Delhi 2015 C, Modified*)

Solution:

ADJUSTMENT ENTRY

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
	Eleen's Capital A/c ...Dr.		3,850	
	To Monu's Capital A/c			2,950
	To Ahmad's Capital A/c			900
	(Rectifying entry passed for correct profits)			

Working Notes:

1. *Calculation of Opening Capital and Interest thereon:*

Particulars	Eleen (₹)	Monu (₹)	Ahmad (₹)
A. Closing Capital	1,60,000	1,20,000	80,000
B. *Add:* Drawings already Debited	24,000	24,000	48,000
	1,84,000	1,44,000	1,28,000
C. *Less:* Profit already Credited	20,000	10,000	10,000
D. Opening Capital	1,64,000	1,34,000	1,18,000
E. Interest on Capital	₹ 1,64,000 × 10/100 = ₹ 16,400	₹ 1,34,000 × 10/100 = ₹ 13,400	₹ 1,18,000 × 10/100 = ₹ 11,800

Total Interest on Capital = ₹ 16,400 + ₹ 13,400 + ₹ 11,800 = ₹ 41,600.

2. *Interest on Drawings (For Eleen and Monu 6.5 Months and for Ahmad 5.5 Months):*

$$\text{Eleen} = ₹\,24{,}000 \times \frac{5}{100} \times \frac{13}{24} = ₹\,650$$

$$\text{Monu} = ₹\,24{,}000 \times \frac{5}{100} \times \frac{13}{24} = ₹\,650$$

$$\text{Ahmad} = ₹\,48{,}000 \times \frac{5}{100} \times \frac{11}{24} = ₹\,1{,}100$$

Total Interest on Drawings = ₹ 2,400

3. STATEMENT SHOWING ADJUSTMENT TO BE MADE

Particulars	Eleen's Capital A/c		Monu's Capital A/c		Ahmad's Capital A/c		Firm	
	Dr. (₹)	Cr. (₹)	Dr. (₹)	Cr. (₹)	Dr. (₹)	Cr. (₹)	Dr. (₹)	Cr. (₹)
I. For Interest on Capital	...	16,400	...	13,400	...	11,800	41,600	–
II. For Interest on Drawings	650	...	650	...	1,100	...	...	2,400
III. For Loss to be shared ₹ 39,200 (*i.e.*, ₹ 41,600 – ₹ 2,400) in the ratio of 2 : 1 : 1	19,600	...	9,800	...	9,800	...	...	39,200
	20,250	16,400	10,450	13,400	10,900	11,800	41,600	41,600
Net Effect	3,850 (Dr.)		2,950 (Cr.)		900 (Cr.)		...	

Illustration 22.

A, *B*, and *C* are partners in a firm. According to the Partnership Deed, the partners are entitled to withdraw up to ₹ 7,000 per month from the firm for personal use.

On the first day of every month *A*, *B* and *C* drew ₹ 7,000; ₹ 6,000 and ₹ 5,000 respectively.

On 1st April, 2023, balances of their Capital Accounts were ₹ 5,00,000, ₹ 4,00,000 and ₹ 3,50,000 respectively. Interest on capitals is to be allowed @ 8% p.a. and interest on drawings is to be charged @ 10% p.a.

Profit for the year ended 31st March, 2024 was ₹ 7,55,000 out of which ₹ 2,00,000 is to be transferred to General Reserve.

B and *C* are to get salary of ₹ 30,000 and ₹ 45,000 p.a. respectively and *A* is to get commission @ 10% on distributable profits after charging such commission.

Prepare Profit & Loss Appropriation Account for the year ended 31st March, 2024 and Capital Accounts of Partners in the books of the firm.

Solution:

PROFIT & LOSS APPROPRIATION ACCOUNT

Dr. *for the year ended 31st March, 2024* *Cr.*

Particulars		₹	Particulars		₹
To General Reserve A/c		2,00,000	By Profit & Loss A/c (Net Profit)		7,55,000
To Interest on Capital A/cs:			By Interest on Drawings A/cs (WN 1):		
A (₹ 5,00,000 × 8/100)	40,000		*A* (₹ 84,000 × 10/100 × 13/24)	4,550	
B (₹ 4,00,000 × 8/100)	32,000		*B* (₹ 72,000 × 10/100 × 13/24)	3,900	
C (₹ 3,50,000 × 8/100)	28,000	1,00,000	*C* (₹ 60,000 × 10/100 × 13/24)	3,250	11,700
To Partners' Salaries A/cs:					
B	30,000				
C	45,000	75,000			
To *A*'s Commission A/c (WN 2)		35,609			
To Profit transferred to:					
A's Capital A/c	1,18,697				
B's Capital A/c	1,18,697				
C's Capital A/c	1,18,697	3,56,091			
		7,66,700			7,66,700

Dr. PARTNERS' CAPITAL ACCOUNTS *Cr.*

Particulars	*A* ₹	*B* ₹	*C* ₹	Particulars	*A* ₹	*B* ₹	*C* ₹
To Drawings A/c	84,000	72,000	60,000	By Balance *b/d*	5,00,000	4,00,000	3,50,000
To Interest on Drawings A/c	4,550	3,900	3,250	By Interest on Capital A/c	40,000	32,000	28,000
To Balance *c/d*	6,05,756	5,04,797	4,78,447	By Partners' Salaries A/c	...	30,000	45,000
				By *A*'s Commission A/c	35,609	...	...
				By Profit & Loss Appropriation A/c	1,18,697	1,18,697	1,18,697
	6,94,306	5,80,697	5,41,697		6,94,306	5,80,697	5,41,697

Working Notes:

1. When partners withdraw uniform amount in the beginning of every month, interest is charged on the total amount of drawings at an agreed rate for 6½ months.
2. *A*'s Commission = 10/110 × (₹ 7,55,000 + ₹ 11,700 – ₹ 2,00,000 – ₹ 1,00,000 – ₹ 75,000) = ₹ 35,609.
3. Unless otherwise stated in the Deed, profit of the year is shared equally among partners.

Illustration 23. (*Interest on Capitals and Salary/Commission not Allowed to Partners, Profit Distributed in Wrong Ratio*).

A, *B* and *C* were partners. Their capitals were *A*—₹ 30,000; *B*—₹ 20,000 and *C*—₹ 10,000 respectively. According to the Partnership Deed, they were entitled to an interest on capital at 5% p.a. In addition, *B* was also entitled to draw a salary of ₹ 500 per month. *C* was entitled to a commission of 5% on the profits after charging interest on capital, but before charging salary payable to *B*. Net profit for the year was ₹ 30,000 distributed in the ratio of capitals without providing for any of the above adjustments. The profits were to be shared in the ratio of 5 : 2 : 3.

Pass necessary adjustment entry showing the workings clearly. (*CBSE 2010*)

Solution:

ADJUSTMENT ENTRY

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
	A's Current A/c	...Dr.		3,675	
	To *B*'s Current A/c				930
	To *C*'s Current A/c				2,745
	(Adjustment entry passed for wrong appropriation)				

Working Notes:

1. It is presumed that capitals of the partners are fixed. As a result, interest on capitals has been calculated on given balances of capitals.

	₹
2. Net Profit	30,000
Less: Interest on Capital (₹ 1,500 + ₹ 1,000 + ₹ 500)	3,000
Profit after Charging Interest on Capital	27,000

C's Commission = 5/100 × ₹ 27,000 = ₹ 1,350.

3. TABLE SHOWING ADJUSTMENT TO BE MADE

Particulars		*A* (₹)	*B* (₹)	*C* (₹)
I. Profit wrongly credited, now reversed	(Dr.)	15,000	10,000	5,000
II. *Amount which should have been credited:*				
Interest on Capital		1,500	1,000	500
Salary		...	6,000	...
Commission (WN 2)		...	...	1,350
Net Divisible Profit* Distributed (5 : 2 : 3)		9,825	3,930	5,895
	(Cr.)	11,325	10,930	7,745
III. Net Effect (I – II)		3,675 (Dr.)	930 (Cr.)	2,745 (Cr.)

*Divisible Profit = ₹ 30,000 – ₹ 3,000 (interest on capitals) – ₹ 6,000 (*B*'s Salary) – ₹ 1,350 (*C*'s Commission) = ₹ 19,650.

Illustration 24. (*Guarantee of Profits by one of the Partners*).

Pankaj, Naresh and Saurabh are partners in a firm. Their profit-sharing ratio is 5 : 3 : 2. Saurabh is guaranteed minimum annual profit of ₹ 10,000. Any deficiency arising is to be met by Naresh. Profits for the two years ended 31st March, 2024 and 2025 were ₹ 40,000 and ₹ 60,000 respectively.

Prepare Profit & Loss Appropriation Account for the two years.

Solution:

PROFIT & LOSS APPROPRIATION ACCOUNT

Dr. *for the year ended 31st March, 2023* *Cr.*

Particulars		₹	Particulars	₹
To Profit transferred to:			By Profit & Loss A/c	40,000
Pankaj's Capital A/c (5/10)		20,000	(Net Profit)	
Naresh's Capital A/c (3/10)	12,000			
Less: Deficiency in Saurabh's Share	2,000	10,000		
Saurabh's Capital A/c (2/10)	8,000			
Add: Deficiency met by Naresh	2,000	10,000		
		40,000		40,000

Dr. PROFIT & LOSS APPROPRIATION ACCOUNT *for the year ended 31st March, 2024* *Cr.*

Particulars	₹	Particulars	₹
To Profit transferred to:		By Profit & Loss A/c	60,000
Pankaj's Capital A/c (5/10)	30,000	(Net Profit)	
Naresh's Capital A/c (3/10)	18,000		
Saurabh's Capital A/c (2/10)	12,000		
	60,000		60,000

Note: Saurabh's share in profits is more than the minimum guaranteed profit, therefore, profit for the year is distributed in their profit-sharing ratio, *i.e.*, 5 : 3 : 2.

Illustration 25. (*Calculation of Interest on Capital and Interest on Drawings*).

The Capital Accounts of Alka and Archana showed credit balances of ₹ 4,00,000 and ₹ 3,00,000 respectively, after taking into account drawings and net profit of ₹ 2,00,000. The drawings of the partners during the year 2018–19 were:

(*i*) Alka withdrew ₹ 10,000 at the end of each quarter.

(*ii*) Archana's drawings were:

31st May, 2018	₹ 8,000
1st November, 2018	₹ 7,000
1st February, 2019	₹ 5,000

Calculate interest on partners' capitals @ 10% p.a. and interest on partners' drawings @ 6% p.a. for the year ended 31st March, 2019. (*CBSE 2020*)

Solution: CALCULATION OF OPENING CAPITAL AND INTEREST ON CAPITAL

Particulars	Alka (₹)	Archana (₹)
Closing Capitals	4,00,000	3,00,000
Add: Drawings	40,000	20,000
	4,40,000	3,20,000
Less: Profits	1,00,000	1,00,000
Opening Capital	3,40,000	2,20,000
Interest on Capital @ 10% p.a.	**34,000**	**22,000**

Interest on Alka's Drawings = $₹\,40{,}000 \times \frac{6}{100} \times \frac{4½^*}{12} = ₹\,900$

*Average Period = $\frac{\text{Months Left after First Drawing} + \text{Months Left after Last Drawing}}{2}$

$= \frac{9+0}{2} = 4½$ months

Calculation of Interest on Archana's Drawings:

Date	Amount (₹)	No. of Months	Product (₹)
31st May, 2018	8,000	10	8,000 × 10 = 80,000
1st November, 2018	7,000	5	7,000 × 5 = 35,000
1st February, 2019	5,000	2	5,000 × 2 = 10,000
Total			1,25,000

Note: Interest on Archana's Drawings is calculated on the basis of Product Method because amount of drawings and period is not uniform.

Interest on Drawings will be calculated on the total product for one month.

Interest on Drawings = $₹\,1{,}25{,}000 \times \frac{6}{100} \times \frac{1}{12} = ₹\,625.$

Illustration 26.

A and *B* are partners in a firm sharing profits and losses in the ratio of 3 : 2. Following was the Balance Sheet of the firm as at 31st March, 2025:

Liabilities	₹	Assets	₹
Capital A/cs:		Sundry Assets	8,00,000
A	6,00,000		
B	2,00,000		
	8,00,000		8,00,000

Profit ₹ 3,00,000 for the year ended 31st March, 2025 was divided between the partners without allowing interest on capitals @ 12% p.a. and salary to *A* @ ₹ 10,000 per month. During the year, *A* withdrew ₹ 1,00,000 and *B* ₹ 2,00,000.

Pass necessary adjustment Journal entry and show your working clearly. (*Delhi 2011, Modified*)

Solution:

ADJUSTMENT ENTRY

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
2025				
March 31	*B*'s Capital A/c ...Dr.		52,800	
	To *A*'s Capital A/c			52,800
	(Interest on capitals and salary to *A* not allowed, now adjusted) (WN)			

Working Notes:

1. *Calculation of Opening Capital:*

Particulars	*A* ₹	*B* ₹
Closing Capital	6,00,000	2,00,000
Less: Profit already credited (3 : 2)	1,80,000	1,20,000
	4,20,000	80,000
Add: Drawings already debited	1,00,000	2,00,000
Capital in the beginning	5,20,000	2,80,000

2. TABLE SHOWING ADJUSTMENT TO BE MADE

Particulars	*A*'s Capital A/c		*B*'s Capital A/c		Firm	
	Dr. (₹)	Cr. (₹)	Dr. (₹)	Cr. (₹)	Dr. (₹)	Cr. (₹)
I. Interest on Capital	...	62,400	...	33,600	96,000	...
II. Salary to *A*	...	1,20,000	...	...	1,20,000	...
III. Loss to be Debited (3 : 2)	1,29,600	...	86,400	...	...	2,16,000
	1,29,600	1,82,400	86,400	33,600	2,16,000	2,16,000
Net Balance (Effect)	52,800 (Cr.)		52,800 (Dr.)		Nil	

Illustration 27 (*Interest on Capital Allowed at Higher Rate*).

X, *Y* and *Z* are partners in a firm sharing profits and losses in the ratio of 5 : 3 : 2. Their fixed capitals were ₹ 3,00,000; ₹ 2,00,000 and ₹ 1,00,000 respectively. For the year ended 31st March, 2025, interest on capital was credited to them @ 10% p.a. instead of 8% p.a. Showing your working notes clearly, pass necessary adjustment Journal entry.

Solution:

ADJUSTMENT ENTRY

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
	Y's Current A/c ...Dr.		400	
	To *Z*'s Current A/c			400
	(Interest on capital excessive charged, now rectified)			

Working Note: TABLE SHOWING THE ADJUSTMENT TO BE MADE

Particulars	*X's* Current A/c		*Y's* Current A/c		*Z's* Current A/c		Firm	
	Dr. (₹)	Cr. (₹)	Dr. (₹)	Cr. (₹)	Dr. (₹)	Cr. (₹)	Dr. (₹)	Cr. (₹)
I. Interest on Capital wrongly credited @ 10% p.a., now reversed	30,000	...	20,000	...	10,000	...	...	60,000
II. Interest on Capital credited @ 8% p.a.	...	24,000	...	16,000	...	8,000	48,000	...
III. Profit* credited to partners in 5 : 3 : 2	...	6,000	...	3,600	...	2,400	12,000	...
Total	30,000	30,000	20,000	19,600	10,000	10,400	60,000	60,000
Net Balance (Effect)	...		400 Dr.		400 Cr.		...	

*Low rate of interest on capital will increase the profit of the firm by ₹ 12,000 (*i.e.*, ₹ 60,000 – ₹ 48,000) which is divisible among partners.

Illustration 28 (*Interest on Capital when Profit is Inadequate*).

A and *B* have capitals of ₹ 4,00,000 and ₹ 2,00,000 respectively and interest on capital is to be allowed @ 6% p.a. Their profit-sharing ratio is 2 : 3 and net profit for the year is ₹ 30,000. Prepare Profit & Loss Appropriation Account to distribute the profit.

Solution:

Dr. PROFIT & LOSS APPROPRIATION ACCOUNT *for the year ended...* *Cr.*

Particulars		₹	Particulars	₹
To Interest on Capital A/cs:			By Profit & Loss A/c (Net Profit)	30,000
A	20,000			
B	10,000	30,000		
		30,000		30,000

Working Note: Interest on *A*'s Capital and *B*'s Capital is ₹ 24,000 and ₹ 12,000 respectively. Thus, total interest on capital is ₹ 36,000. Profit before interest is ₹ 30,000. The interest on capital will be allowed as follows:

$$A = \frac{₹\ 30,000 \times ₹\ 24,000}{₹\ 36,000} = ₹\ 20,000; \quad B = \frac{₹\ 30,000 \times ₹\ 12,000}{₹\ 36,000} = ₹\ 10,000.$$

Illustration 29.

A, *B* and *C* were partners in a firm. On 1st April, 2018, their capitals stood at ₹ 4,00,000, ₹ 3,00,000 and ₹ 2,00,000 respectively. As per the provisions of the Partnership Deed:

(i) *A* was entitled to salary of ₹ 5,000 per month.

(ii) Partners were entitled to interest on capital @ 10% p.a.

The net profit for the year ended 31st March, 2019, ₹ 3,00,000 was divided among the partners without providing for the above items. Showing your working clearly, pass an adjustment entry to rectify the above error. *(CBSE 2019 C)*

Solution:

ADJUSTMENT ENTRY

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
	B's Capital A/c	...Dr.		20,000	
	C's Capital A/c	...Dr.		30,000	
	To *A*'s Capital A/c				50,000
	(Omission of interest on capital and salary, now rectified)				

Working Note: TABLE SHOWING THE ADJUSTMENT TO BE MADE

Particulars	*A*'s Capital A/c		*B*'s Capital A/c		*C*'s Capital A/c		Firm	
	Dr. (₹)	Cr. (₹)	Dr. (₹)	Cr. (₹)	Dr. (₹)	Cr. (₹)	Dr. (₹)	Cr. (₹)
Salary	...	60,000	...	...	...	...	60,000	...
Interest on Capital	...	40,000	...	30,000	...	20,000	90,000	...
Excess Profit of ₹ 1,50,000 which was credited (1 : 1 : 1), now debited	50,000	...	50,000	...	50,000	...	...	1,50,000
	50,000	1,00,000	50,000	30,000	50,000	20,000	1,50,000	1,50,000
Net Effect (Dr./Cr.)	50,000 (Cr.)		20,000 (Dr.)		30,000 (Dr.)		...	

Illustration 30.

Amit, Bimal and Chaman are partners sharing profits and losses equally. Amit and Chaman gave loans to the firm on 1st October, 2024 of ₹ 1,00,000 and ₹ 1,50,000 respectively. The Partnership Deed provided to allow interest @ 9% p.a. Bimal was of the view that interest should be allowed @ 6% p.a., it being provided in the Partnership Act, 1932. Books of account of the firm are closed on 31st March every year. Interest on loan is yet to be paid as on 31st March, 2025.

Pass Journal entries allowing interest at the rate that should be allowed and prepare Loan Accounts of the partners.

Solution:

In the Books of Amit, Bimal and Chaman

JOURNAL

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
2024					
Oct. 1	Bank A/c	...Dr.		2,50,000	
	To Loan by Amit A/c				1,00,000
	To Loan by Chaman A/c				1,50,000
	(Loan from partners Amit and Chaman)				
2025					
March 31	Interest on Loan by Partners A/c	...Dr.		11,250	
	To Loan by Amit A/c/Interest Outstanding A/c				4,500
	To Loan by Chaman A/c/Interest Outstanding A/c				6,750
	(Interest on loan by partners provided @ 9% p.a.) (Note)				
March 31	Profit & Loss A/c	...Dr.		11,250	
	To Interest on Loan by Partners A/c				11,250
	(Interest on Loan by Partners Account transferred to Profit & Loss Account)				

Note: Interest will be allowed @ 9% p.a. and not @ 6% p.a. because the Partnership Deed provides so.

Dr. LOAN BY AMIT ACCOUNT *Cr.*

Date	Particulars	₹	Date	Particulars	₹
2025			2024		
March 31	To Balance *c/d*	1,04,500	Oct. 1	By Bank A/c	1,00,000
			2025		
			March 31	By Interest on Loan by Partners A/c	4,500
		1,04,500			1,04,500
			2025		
			April 1	By Balance *b/d*	1,04,500

Dr. LOAN BY CHAMAN ACCOUNT *Cr.*

Date	Particulars	₹	Date	Particulars	₹
2025			2024		
March 31	To Balance *c/d*	1,56,750	Oct. 1	By Bank A/c	1,50,000
			2025		
			March 31	By Interest on Loan by Partners A/c	6,750
		1,56,750			1,56,750
			2025		
			April 1	By Balance *b/d*	1,56,750

Illustration 31.

X and *Y* entered into partnership on 1st April, 2018. Their capitals as on 1st April, 2023 were ₹ 2,00,000 and ₹ 1,50,000 respectively. On 1st October, 2023, *X* gave ₹ 50,000 as loan to the firm. As per the provisions of the Partnership Deed:

(i) 20% of Profits before charging Interest on Drawings but after making appropriations was to be transferred to General Reserve.

(ii) Interest on capital is to be allowed @ 12% p.a. and Interest on Drawings is to be charged @ 10% p.a.

(iii) *X* to get monthly salary of ₹ 5,000 and *Y* to get salary of ₹ 22,500 per quarter.

(iv) *X* is entitled to a commission of 5% on sales. Sales for the year were ₹ 3,50,000.

(v) Profit to be shared in the ratio of their capitals up to ₹ 1,75,000 and balance equally.

Profit for the year ended 31st March, 2024, before allowing or charging interest was ₹ 4,61,000. The drawings of *X* and *Y* were ₹ 1,00,000 and ₹ 1,25,000 respectively.

Pass the necessary Journal entries relating to appropriation of profit. Prepare Profit & Loss Appropriation Account and the Partners' Capital Accounts.

Solution:

JOURNAL

Date	Particulars	L.F.	Dr. (`)	Cr. (`)
2024				
March 31	Profit & Loss A/c ...Dr.		4,59,500	
	To Profit & Loss Appropriation A/c			4,59,500
	(Net profit transferred to Profit & Loss Appropriation A/c)			
	Profit & Loss Appropriation A/c ...Dr.		42,000	
	To *X*'s Capital A/c			24,000
	To *Y*'s Capital A/c			18,000
	(Interest on capital allowed to partners transferred)			

	Profit & Loss Appropriation A/c ...Dr.		1,50,000	
	To *X*'s Capital A/c			60,000
	To *Y*'s Capital A/c			90,000
	(Salary credited to partners transferred)			
	Profit & Loss Appropriation A/c ...Dr.		17,500	
	To *X*'s Capital A/c			17,500
	(Commission payable to *X* credited to his Capital Account transferred)			
	Profit & Loss Appropriation A/c ...Dr.		50,000	
	To General Reserve A/c			50,000
	(Amount transferred to General Reserve)			
	X's Capital A/c ...Dr.		5,000	
	Y's Capital A/c ...Dr.		6,250	
	To Profit & Loss Appropriation A/c			11,250
	(Interest on partners drawings charged transferred)			
	Profit & Loss Appropriation A/c ...Dr.		2,11,250	
	To *X*'s Capital A/c			1,18,125
	To *Y*'s Capital A/c			93,125
	(Divisible profit distributed among partners)			

Dr. PROFIT & LOSS APPROPRIATION ACCOUNT *for the year ended 31st March, 2024* *Cr.*

Particulars		₹	Particulars		₹
To Interest on Capital A/cs:			By Net Profit (₹ 4,61,000 – ₹ 1,500) (WN 1)		4,59,500
X	24,000		By Interest on Drawings A/cs:		
Y	18,000	42,000	*X*	5,000	
To Partners' Salary A/cs:			*Y*	6,250	11,250
X	60,000				
Y	90,000	1,50,000			
To *X*'s Commission A/c		17,500			
To General Reserve A/c (WN 2)		50,000			
To Profit transferred to:					
X's Capital A/c	1,18,125				
Y's Capital A/c	93,125	2,11,250			
		4,70,750			4,70,750

Dr. PARTNERS' CAPITAL ACCOUNTS *Cr.*

Particulars	*X* (₹)	*Y* (₹)	Particulars	*X* (₹)	*Y* (₹)
To Drawings A/c	1,00,000	1,25,000	By Balance *b/d*	2,00,000	1,50,000
To Interest on Drawings A/c	5,000	6,250	By Interest on Capital A/c	24,000	18,000
To Balance *c/d*	3,14,625	2,19,875	By Partners' Salary A/c	60,000	90,000
			By *X*'s Commission A/c	17,500	...
			By Profit & Loss Appropriation A/c	1,18,125	93,125
	4,19,625	3,51,125		4,19,625	3,51,125

Working Notes:

1. According to Indian Partnership Act, 1932, if Partnership Deed is silent on interest on partner's loan, interest on partner's loan is payable @ 6% p.a. and it is a charge against profits. Thus, amount transferred to Profit & Loss Appropriation Account is ₹ 4,59,500 after deducting ₹ 1,500 $\left(\textit{i.e.}, ₹\ 50{,}000 \times \frac{6}{100} \times \frac{6}{12}\right)$.
2. Amount transferred to General Reserve
   = 20% of Profits before charging interest on drawings but after making appropriations
   = 20% of ₹ 2,50,000 (*i.e.*, ₹ 4,59,500 – ₹ 42,000 – ₹ 1,50,000 – ₹ 17,500) = ₹ 50,000.

	X(₹)	Y(₹)
3. *Division of Profit:*		
(A) Profit up to ₹ 1,75,000 (4 : 3)	1,00,000	75,000
(B) Remaining Profit ₹ 36,250 (1 : 1)	18,125	18,125
	1,18,125	93,125

Illustration 32.

P, *Q* and *R* entered into partnership on 1st April, 2018 to share profits and losses in the ratio of 12 : 8 : 5. It was provided that in no case *R*'s share in profit would be less than ₹ 30,000 p.a. Profits and losses for the year ended 31st March, were: 2022 Profit ₹ 1,20,000; 2023 Profit ₹ 1,80,000; 2024 Loss ₹ 1,20,000. Pass the necessary Journal entries in the books of the firm.

Solution:

JOURNAL

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
2022					
March 31	Profit & Loss Appropriation A/c	...Dr.		1,20,000	
	To *P*'s Capital A/c				57,600
	To *Q*'s Capital A/c				38,400
	To *R*'s Capital A/c				24,000
	(Divisible profit for the year distributed among partners)				
	P's Capital A/c	...Dr.		3,600	
	Q's Capital A/c	...Dr.		2,400	
	To *R*'s Capital A/c				6,000
	(Deficiency in *R*'s Share borne by *P* and *Q*)				
2023					
March 31	Profit & Loss Appropriation A/c	...Dr.		1,80,000	
	To *P*'s Capital A/c				86,400
	To *Q*'s Capital A/c				57,600
	To *R*'s Capital A/c				36,000
	(Divisible profit for the year distributed among partners)				
2024					
March 31	*P*'s Capital A/c	...Dr.		57,600	
	Q's Capital A/c	...Dr.		38,400	
	R's Capital A/c	...Dr.		24,000	
	To Profit & Loss A/c				1,20,000
	(Loss for the year debited to partners)				
	P's Capital A/c	...Dr.		32,400	
	Q's Capital A/c	...Dr.		21,600	
	To *R*'s Capital A/c				54,000
	(Deficiency in *R*'s share borne by *P* and *Q*)				

Working Note:

Particulars	31st March, 2022 (₹)	31st March, 2023 (₹)	31st March, 2024 (₹)
(*i*) Guaranteed Profit to *R*	30,000	30,000	30,000
(*ii*) *R*'s Actual Share as per profit-sharing ratio of 12 : 8 : 5	24,000	36,000	(24,000)
(*iii*) Deficiency (*i* – *ii*)	6,000	(6,000)*	54,000
(*iv*) Deficiency in *R*'s Share will be borne by *P* and *Q* in their profit-sharing ratio, *i.e.*, 12 : 8 or 3 : 2. Thus,			
P will bear	3,600	...	32,400
Q will bear	2,400	...	21,600

*Negative amount of deficiency shows there is no deficiency in *R*'s Share. Hence, he will get his original share.

Illustration 33.

Asgar, Chaman and Dholu are partners in a firm. Their Capital Accounts stood at ₹ 6,00,000; ₹ 5,00,000 and ₹ 4,00,000 respectively on 1st April, 2023. They shared Profits and Losses in the proportion of 4 : 2 : 3. Partners are entitled to interest on capital @ 8% per annum and salary to Chaman and Dholu @ ₹ 7,000 per month and ₹ 10,000 per quarter respectively as per the provision of the Partnership Deed.

Dholu's share of profit (excluding interest on capital but including salary) is guaranteed at a minimum of ₹ 1,10,000 p.a. Any deficiency arising on that account shall be met by Asgar. The profit for the year ended 31st March, 2024 amounted to ₹ 4,24,000.

Prepare Profit & Loss Appropriation Account for the year ended 31st March, 2024.

Solution:

PROFIT & LOSS APPROPRIATION ACCOUNT
Dr. *for the year ended 31st March, 2024* *Cr.*

Particulars		₹	Particulars	₹
To Interest on Capital A/cs:			By Profit & Loss A/c (Net Profit)	4,24,000
Asgar	48,000			
Chaman	40,000			
Dholu	32,000	1,20,000		
To Partners' Salaries:				
Chaman (₹ 7,000 × 12)	84,000			
Dholu (₹ 10,000 × 4)	40,000	1,24,000		
To Profit transferred to:				
Asgar's Capital A/c (₹ 1,80,000 × 4/9)	80,000			
Less: Deficiency borne (WN)	10,000	70,000		
Chaman's Capital A/c (₹ 1,80,000 × 2/9)		40,000		
Dholu's Capital A/c (₹ 1,80,000 × 3/9)	60,000			
Add: Deficiency Recovered	10,000	70,000		
		4,24,000		4,24,000

Working Note:

Dholu's share of Profit = ₹ 60,000 + Salary ₹ 40,000 = ₹ 1,00,000
Guaranteed Profit = ₹ 1,10,000
Deficiency of ₹ 10,000 (*i.e.*, ₹ 1,10,000 – ₹ 1,00,000) will be deducted from Asgar's Share of Profit.

Illustration 34.

Following is the extract of the Balance Sheet of Neelkant and Mahadev as on 31st March, 2025:

BALANCE SHEET *as at 31st March, 2025*

Liabilities	₹	Assets	₹
Neelkant's Capital	10,00,000	Sundry Assets	30,00,000
Mahadev's Capital	10,00,000		
Neelkant's Current A/c	1,00,000		
Mahadev' Current A/c	1,00,000		
Profit & Loss A/c (2024–25)	8,00,000		
	30,00,000		30,00,000

During the year, Mahadev's drawings were ₹ 30,000. Profit during the year ended 31st March, 2025 is ₹ 10,00,000. Calculate interest on capital @ 5% p.a. for the year ending 31st March, 2025.

(*NCERT, Modified*)

Solution:

	Neelkant (₹)	Mahadev (₹)
Fixed Capital	10,00,000	10,00,000
Interest on Capital @ 5% p.a.	50,000	50,000

(As capital is fixed for both the partners)

Illustration 35.

Moli and Bholi contribute ₹ 20,000 and ₹ 10,000 respectively towards capital. They decide to allow interest on capital @ 6% p.a. Their respective share of profits is 2 : 3 and profit for the year is ₹ 1,500. Show distribution of profits:

(i) When there is no agreement except for interest on capitals; and

(ii) When there is an agreement that the interest on capital is a charge.

Solution:

Case (i): When there is no agreement except for Interest on Capital.

	Moli (₹)	Bholi (₹)
Capital in the beginning	20,000	10,000
Interest on Capitals @ 6% p.a. should be	1,200	600

Thus, total Interest on Capital to be allowed = ₹ 1,200 + ₹ 600 = ₹ 1,800

Whereas, Profits available for appropriation = ₹ 1,500.

Thus, profit is less than interest on capital. In case profit before interest is less than interest, profit will be distributed in the ratio of interest on capital to each partner.

Thus, out of available profits of ₹ 1,500:

Moli will get = $₹\ 1{,}500 \times \frac{₹\ 1{,}200}{₹\ 1{,}800}$ = ₹ 1,000; Bholi will get = $₹\ 1{,}500 \times \frac{₹\ 600}{₹\ 1{,}800}$ = ₹ 500.

As distributable profit is nil after interest is allowed on capital, partners will not get any profit.

This can be shown in Profit & Loss Appropriation Account as given below:

Dr. PROFIT & LOSS APPROPRIATION ACCOUNT *for the year ended...* *Cr.*

Particulars	₹	Particulars	₹
To Interest on Capital A/cs:		By Profit & Loss A/c (Net Profit)	1,500
Moli (As interest only)	1,000		
Bholi (As interest only)	500		
	1,500		1,500

Case (ii): When there is an agreement that Interest on Capitals be allowed as a charge.

It means, whether there is adequate profit or not, or even if there is a loss, Interest on Capital is to be allowed.

Therefore, Moli shall get by way of interest = ₹ 1,200; Bholi shall get by way of interest = ₹ 600.

And the **Resultant Loss** of ₹ 300 (*i.e.,* ₹ 1,800 – ₹ 1,500) will be debited to their Capital Accounts in their Profit-sharing Ratio, *i.e.,* 2 : 3.

Thus, Loss Share of Moli = ₹ $300 \times \frac{2}{5}$ = ₹ **120**; Loss Share of Bholi = ₹ $300 \times \frac{3}{5}$ = ₹ **180**.

Dr. PROFIT & LOSS ACCOUNT *for the year ended...* *Cr.*

Particulars	₹	Particulars		₹
To Interest on Capital A/cs:		By Profit & Loss A/c (Profit before Interest)		1,500
Moli (As interest only)	1,200	By Loss transferred to:		
Bholi (As interest only)	600	Moli's Capital A/c (*Loss*)	120	
		Bholi's Capital A/c (*Loss*)	180	300
	1,800			1,800

Note: Profit & Loss Appropriation Account should not be prepared since all amounts chargeable against profits are shown in Profit & Loss Account and all appropriations out of profits are shown in Profit & Loss Appropriation Account.

Illustration 36.

Azad and Benny are equal partners. Their opening capitals are ₹ 40,000 and ₹ 80,000 respectively. After the accounts for the year had been prepared, it was noticed that interest @ 5% p.a. as provided in the Partnership Deed was not credited to their Capital Accounts before distribution of profits. It is decided to pass an adjustment entry in the beginning of the next year. Record the necessary Journal entry.

Solution:

ADJUSTMENT ENTRY

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
	Azad's Capital A/c	...Dr.		1,000	
	To Benny's Capital A/c				1,000
	(Adjustment entry passed for omission of interest on capital)				

	Azad (₹)	Benny (₹)
Interest on Capital (Cr.)	2,000	4,000
Profit already distributed (Dr.)	3,000	3,000
	1,000 (Dr.)	1,000 (Cr.)

Illustration 37.

Naveen, Qadir and Rajesh were partners doing an electronic goods business in Uttarakhand. After the accounts of partnership were drawn up and closed, it was discovered that interest on capital has been allowed to partners @ 6% p.a. for the years ending 31st March, 2017 and 2018, although there is no provision for interest on capital in the Partnership Deed. On the other hand, Naveen and Qadir were entitled to a salary of ₹ 3,500 and ₹ 4,000 per quarter respectively, which has not been taken into consideration. Their fixed capitals were ₹ 4,00,000, ₹ 3,60,000 and ₹ 2,40,000 respectively. During the last two years they had shared the profits and losses as follows:

Year Ended	Ratio
31st March, 2017	3 : 2 : 1
31st March, 2018	5 : 3 : 2

Pass necessary adjusting entry for the above adjustments in the books of the firm on 1st April, 2018. Show your workings clearly. (*CBSE 2019*)

Solution:

In the Books of Naveen, Qadir and Rajesh

JOURNAL

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
2018				
April 1	Rajesh's Current A/c ...Dr.		17,800	
	To Naveen's Current A/c			10,000
	To Qadir's Current A/c			7,800
	(Interest on capital wrongly allowed and partners' salary omitted, now rectified)			

Working Note: ADJUSTMENT TABLE

Particulars	Naveen's Current A/c	Qadir's Current A/c	Rajesh's Current A/c	Firm
A. *Cancellation of Interest on Capital:*				
2016–17	24,000 (Dr.)	21,600 (Dr.)	14,400 (Dr.)	60,000 (Cr.)
2017–18	24,000 (Dr.)	21,600 (Dr.)	14,400 (Dr.)	60,000 (Cr.)
Total Interest on Capital	48,000 (Dr.)	43,200 (Dr.)	28,800 (Dr.)	1,20,000 (Cr.)
B. *Omission of Salary:*				
2016–17	14,000 (Cr.)	16,000 (Cr.)	...	30,000 (Dr.)
2017–18	14,000 (Cr.)	16,000 (Cr.)	...	30,000 (Dr.)
Total Salary	28,000 (Cr.)	32,000 (Cr.)	...	60,000 (Dr.)
C. *Profits to be credited:* **A – B**				
2016–17 (3 : 2 : 1)	15,000 (Cr.)	10,000 (Cr.)	5,000 (Cr.)	30,000 (Dr.)
2017–18 (5 : 3 : 2)	15,000 (Cr.)	9,000 (Cr.)	6,000 (Cr.)	30,000 (Dr.)
Total profit to be credited	30,000 (Cr.)	19,000 (Cr.)	11,000 (Cr.)	60,000 (Dr.)
D. Net Effect **(A + B + C)**	10,000 (Cr.)	7,800 (Cr.)	17,800 (Dr.)	Nil

Illustration 38.

Mohit and Sobhit are partners sharing profits in the ratio of 3 : 2. Rohit was admitted for 1/6th share of profit with minimum guaranteed profit of ₹ 10,000. At the close of the first financial year, the firm earned profit of ₹ 54,000. Find the share of profit which Mohit, Sobhit and Rohit will get.

Solution:

Total profit for the year = ₹ 54,000.

Of this, Rohit's $\frac{1}{6}$th share will be = ₹ $54{,}000 \times \frac{1}{6}$ = ₹ 9,000, which falls short of his minimum guaranteed profit of ₹ 10,000.

Thus, Rohit will get = ₹ 10,000

The remaining profit = ₹ 54,000 – ₹ 10,000 = ₹ 44,000 shall be divided between Mohit and Sobhit in their profit-sharing ratio of 3 : 2. Thus,

Mohit will get = ₹ $44{,}000 \times \frac{3}{5}$ = ₹ 26,400; and

Sobhit will get = ₹ $44{,}000 \times \frac{2}{5}$ = ₹ 17,600.