INDIAN SCHOOL AL WADI AL KABIR

Class: XII	**Department: Commerce**
Worksheet No: 5	**Topic: Accounting for Partnership-Fundamentals**

1 MARK QUESTIONS

1. Define Partnership.
Ans. According to Section 4 of Indian Partnership Act 1932, "Partnership is the relation between persons who have agreed to share the profits of a business carried on by all or any of them acting for all".

2. What is the status of partnership firm from accounting viewpoint?
Ans. From the accounting view point, Partnership is a separate business entity from the Partners.

3. What is the maximum number of Partners in a firm? Which Act specified the number of partners in a Partnership Firm?
Ans. Minimum 2 and Maximum 50. Rule 10 of Companies (Miscellaneous) Rules, 2014

4. Name the Act under which partnership is governed?
Ans. Partnership Act, 1932.

5. Mention two items that are recorded in Partners Fixed Capital Account.
Ans. i) Capital Withdrawal ii) Fresh Capital Introduced.

6. Would a "Charitable Dispensary" run by 8 members be deemed a Partnership Firm? Give reason in support of your answer.
Ans. Charitable Dispensary run by 8 members cannot be deemed a Partnership firm because: (i) In Partnership, there must be a business; (ii) There must be sharing of profits from such business among the partners.

7. Why is it preferable to have a written agreement between the partners?
Ans. To avoid all kinds of misunderstanding and disputes among the partners.

8. Why the Fixed Capital Account of a partner is does not show "Debit Balance" in spite of regular and Consistent losses year after year?

Ans. When the capitals are fixed, the Capital Account of a partner will never show debit balance since, all Transactions between the firm and the partner are recorded in Current Account.

9. A & B are two working partners whereas B is a sleeping partner in a firm. B wants to inspect the books of Accounts but A denies. What shall be done?
Ans. A is wrong, he cannot deny as B holds the right to inspect the accounts.

10. In which account interest on partners loan is debited and why?
Ans. It is debited to Profit and Loss Account because it is a charge against the profit.

TRUE OR FALSE

1. Mohan and Shyam are partners in a firm. State whether the claim is valid if the Partnership agreement is silent in the following matters:

(i)Mohan is an active partner. He wants a salary of Rs. 10,000 per year;
Ans. Not valid
(ii) Shyam had advanced a loan to the firm. He claims interest @ 10% per annum;
Ans. Not valid
(iii) Mohan has contributed Rs. 20.000 and Shyam Rs. 50.000 as capital. Mohan wants equal share in profits.
Ans. Valid
(iv) Shy am wants interest on capital to be credited@ 6% per annum.
Ans. Not valid

2. State whether the following statements are true or false:

(i) Valid partnership can be formulated even without a written agreement between the partners -True
(ii) Each partner carrying on the business is the principal as well as the agent for all the other partners;-True
(iii) If the deed is silent, interest at the rate of 6% p.a. would be charged on the Drawings made by the partner;-False
(iv) Interest on partner's loan is to be given @ 12% p.a. if the deed is silent about the rate.-False

3. Sameer and Yasmin are partners with capitals of Rs.15, 00,000 and Rs. 10, 00,000 respectively. They agree to share profits in the ratio of 3:2. Show how the following transactions will be recorded in the capital accounts of the partners in case: (i) the capitals are fixed, and (ii) the capitals are fluctuating. The books are closed on March 31, every year

Particulars	Sameer (Rs.)	Yasmin (Rs.)
Additional capital contributed on July 1, 2005	3,00,000	2,00,000
Interest on capital	5 %	5 %
Drawings (during 2005)	30,000	20,000
Interest on drawings	1,800	1,200
Salary	20,000	
Commission	10,000	7,000
Share in loss for the year 2005	60,000	40,000

Solution

Fixed Capital Method

Partner's Capital Accounts

Dr. Cr.

Date	Details	L.F.	Sameer Amount (Rs.)	Yasmin Amount (Rs.)	Date	Details	L.F.	Sameer Amount (Rs.)	Yasmin Amount (Rs.)
	Balance c/d		18,00,000	12,00,000		Balance b/d		15,00,000	10,00,000
						(Additional capital)		3,00,000	2,00,000
			18,00,000	**12,00,000**				**18,00,000**	**12,00,000**

Partner's Current Accounts

Dr. Cr.

Date	Particulars	J.F.	Amount (Rs.) Sameer	Amount (Rs.) Yasmin	Date	Particulars	J.F.	Amount (Rs.) Sameer	Amount (Rs.) Yasmin
	Drawings		30,000	20,000		Interest on capital		82,500	55,000
	Interest on drawings		1,800	1,200		Partner's salary		20,000	7,000
	Profit and Loss Appropriation (Loss)		60,000	40,000		Commission		10,000	
	Balance c/d		20,700	800					
			1,12,500	**62,000**				**1,12,500**	**62,000**

Fluctuating Capital Method

Partner's Capital Accounts

Dr. Cr.

Date	Particulars	J.F.	Amount (Rs.) Sameer	Amount (Rs.) Yasmin	Date	Particulars	J.F.	Amount (Rs.) Sameer	Amount (Rs.) Yasmin
	Drawings		30,000	20,000		Balance b/d		15,00,000	10,00,000
	Interest on Drawings		1800	1200		Bank		3,00,000	2,00,000
	Profit and Loss		60,000	40,000		Interest on capital		82,500	55,000
	Balance c/d		18,20,700	12,00,800		Salary		20,000	7000
						Commission		10,000	-
			19,12,500	**12,62,000**				**19,12,500**	**12,62,000**

4. Amit. Babu and Charu set up a partnership firm on April 1, 2006. They contributed Rs. 50,000, Rs. 40,000 and Rs. 30,000, respectively as their capitals and agreed to share profits and losses in the ratio of 3: 2:1. Amit is to be paid a salary of Rs. 1, 000 per month and Babu, a Commission of Rs. 5,000. It is also provided that interest to be allowed on capital at 6% p.a. The drawings for the year were Amit Rs. 6,000, Babu Rs. 4,000 and Charu Rs. 2,000. Interest on drawings of Rs. 270 was charged on Amit's drawings, Rs. 180 on Babu's drawings and Rs. 90, on Charu's drawings. The net profit as per Profit and Loss Account for the year ending March 31, 2006 was Rs. 35,660. Prepare the Profit and Loss Appropriation Account to show the distribution of profit among the partners.

Solution

Profit and Loss Appropriation Account

Dr. Cr.

Particulars		Amount (Rs.)	Particulars		Amount (Rs.)
Amits' salary		12,000	Net profit		35,660
Babus' commission		5,000	Interest on drawings:		
Interest on Capitals :			Amit	270	
Amit	3,000		Babu	180	
Babu	2,400		Charu	90	540
Charu	1,800	7,200			
Share of profit transferred to Capital accounts :					
Amit	6,000				
Babu	4,000				
Charu	2,000	12,000			
		36,200			**36,200**

5.Anupam and Abhishek are partners sharing profits and losses in the ratio of 3: 2. Their capital accounts showed balances of Rs. 1,50,000 and Rs. 2,00,000 respectively on Jan 01, 2003. Show the treatment of interest on capital for the year ending December 31, 2006 in each of the following alternatives:

(a) If the partnership deed is silent as to the payment of interest on capital and the profit for the year is Rs. 50,000;

(b) If partnership deed provides for interest on capital @ 8% p.a. and the firm incurred a loss of Rs. 10,000 during the year;

(c) If partnership deed provides for interest on capital @ 8% p.a. and the firm earned a profit of Rs. 50,000 during the year;

(d) If the partnership deed provides for interest on capital@ 8%p.a. and the firm earned a profit of Rs. 14,000 during the year.

Solution
(a) In the absence of a specific provision in the Deed. No interest will be paid on the capital to the partners. The whole amount of profit will however be distributed among the partners in their profit sharing ratio.

(b) As the firm has incurred losses during the accounting year, no interest on capital will be allowed to any partner. The firm's loss will however be shared by the partners in their profit sharing ratio.

(c) Interest to Anupam @ 8% on Rs. 2.00.000
Interest to Abhishek@ 8% on Rs. 1.50.000
Rs.
16.000
12.000

28,000
As the profit is sufficient to pay interest at agreed rate, the whole amount of interest on capital shall be allowed and the remaining profit amounting to
Rs. 22,000 (Rs. 50,000 - Rs. 28,000) shall be shared by the partners in their profit sharing ratio.

(d) As the profit for the year is Rs. 14,000, which is less than the amount of interest on capital due to partners, Le. Rs. 28,000 (Rs. 12,000 for Anupam and Rs. 16,000 for Abhishek), interest will be paid to the extent of available profit i.e., Rs. 14,000. Anupam and Abhishek will be credited with Rs. 6,000 and Rs. 8,000, respectively. Effectively this amounts to sharing the firm's profit in the ratio of interest on capital

6. Mohit and Rohan share profits and losses in the ratio of 2:1. They admit Rahul as partner with 1/4 share in profits with a guarantee that his share of profit shall be at least Rs. 50,000. The net profit of the firm for the year
ending March 31, 2006 was Rs. 1, 60,000. Prepare Profit and Loss Appropriation Account.

Solution

Profit and Loss Appropriation Account

Dr. *Cr.*

Particulars		Amount (Rs.)	Particulars	Amount (Rs.)
Mohit's capital (share of profit)	80,000		Net profit	1,60,000
Less: Share in deficiency	6,667	73,333		
Rohan's capital (share of profit)	40,000			
Less: Share in deficiency	3,333	36,667		
Rahul's capital (share of profit)	40,000			
Add: Deficiency received from:				
Mohit	6,667			
Rohan	3,333	50,000		
		1,60,000		**1,60,000**

7. Sonu and Rajat started a partnership firm on April 1, 2017. They contributed Rs 8, 00,000 and Rs 6, 00,000 respectively as their capitals and decided to share profits and losses in the ratio of 3: 2.

The partnership deed provided that Sonu was to be paid a salary of Rs 20,000 per month and Rajat a commission of 5% on turnover. It also provided that interest on capital be allowed @ 8% p.a. Sonu withdrew Rs. 20,000 on 1st December, 2017 and Rajat withdrew Rs 5,000 at the end of each month. Interest on drawings was charged @ 6% p.a. The net profit as per Profit and Loss Account for the year ended 31st March, 2018 was Rs 4, 89,950. The turnover of the firm for the year ended 31st March, 2018amounted to Rs 20, 00,000.

Pass necessary journal entries for the above transactions in the books of Sonu and Rajat

Ans. **Journal**

Date	Particulars	Dr. (₹)	Cr. (₹)
	Profit and Loss A/c Dr. To Profit and Loss Appropriation A/c (Being profit transferred from Profit and Loss A/c to Profit and Loss Appropriation A/c)	4,89,950	 4,89,950
	Partner's Salary A/c Dr. To Sonu's Capital A/c (Being salary credited to Sonu's Capital A/c)	2,40,000	 2,40,000
	Profit and Loss Appropriation A/c Dr. To Partner's Salary A/c (Being salary transferred to Profit and Loss Appropriation A/c)	2,40,000	 2,40,000
	Partner's Commission A/c Dr. To Rajat's Capital A/c (Being commission credited to Rajat's Capital A/c)	1,00,000	 1,00,000
	Profit and Loss Appropriation A/c Dr. To Partner's Commission A/c (Being salary transferred to Profit and Loss Appropriation A/c)	1,00,000	 1,00,000
	Interest on Capital A/c Dr. To Sonu's Capital A/c To Rajat's Capital A/c (Being interest on capital credited to Partners' Capital A/c)	1,12,000	 64,000 48,000
	Profit and Loss Appropriation A/c Dr. To Interest on Capital A/c (Being Interest on Capital transferred to Profit and Loss Appropriation A/c)	1,12,000	 1,12,000
	Sonu's Capital A/c Dr. Rajat's Capital A/c Dr. To Interest on Drawings A/c (Being Interest on drawings charged)	400 1,650	 2,050

	Interest on Drawings A/c Dr. To Profit and Loss Appropriation A/c (Being Interest on drawings transferred to Profit and Loss Appropriation A/c)	2,050	 2,050
	Profit and Loss Appropriation A/c Dr. To Sonu's Capital A/c To Rajat's Capital A/c (Being Profit credited to Partners' Capital accounts)	40,000	 24,000 16,000

8. Jay, Vijay and Karan were partners of an architect firm sharing profits in the ratio of 2: 2: 1. Their partnership deed provided the following:
(i) A monthly salary of Rs15, 000 each to Jay and Vijay.
(ii) Karan was guaranteed a profit of Rs 5, 00,000 and Jay guaranteed that he will earn an annual fee of Rs 2, 00,000. Any deficiency arising because of guarantee to Karan will be borne by Jay and Vijay in the ratio of 3: 2.

During the year ended 31st March, 2018 Jay earned fee of Rs 1, 75,000 and the Profits of the firm amounted to Rs 15, 00,000.
Showing your workings clearly prepare Profit and Loss Appropriation Account and the Capital Account of Jay, Vijay and Karan for the year ended 31st March, 2018

Ans.
Dr. Profit and Loss Appropriation A/c for the year ended 31st March 2018
Cr.

Particulars	Amount (₹)	Particulars	Amount (₹)
To salary Jay's Capital A/c 1,80,000 Vijay's Capital A/c 1,80,000	 3,60,000	By Net Profit By Jay's Capital A/c (2,00,000 – 1,75,000)/ Deficiency in guaranteed fees	15,00,000 25,000
To Profit transferred to: Jay's Capital A/c 4.66,000 - guarantee to Karan (1,60,200)	 3,05,800		
Vijay's Capital A/c 4,66,000 - guarantee to Karan(1,06,800)	3,59,200		
Karan's Capital A/c 2,33,000 Add guarantee 2,67,000	5,00,000		
	15,25,000		15,25,000

Dr. Partners' Capital Accounts Cr.

Particulars	Jay (₹)	Vijay (₹)	Karan (₹)	Particulars	Jay (₹)	Vijay (₹)	Karan (₹)
To P/L Appr. A/c	25,000	-	-	By salary	1,80,000	1,80,000	--
To balance c/d	4,60,800	5,39,200	5,00,000	By P/L Appropriation A/c- Profit	3,05,800	3,59,200	5,00,000
	4,85,800	5,39,200	5,00,000		4,85,800	5,39,200	5,00,000

9. Shreya and Vivek were partners in a firm sharing profits in the ratio 3: 2. The balances in their capital and current accounts as on 1st April, 2017 were as under:

	Shreya (Rs)	Vivek (Rs)
Capital accounts	3, 00,000	2, 00,000
Current accounts	1, 00,000 (Cr.)	28,000 (Dr.)

The partnership deed provided that Shreya was to be paid a salary of Rs 5,000 p.m. whereas Vivek was to get a commission of Rs 30,000 for the year.
Interest on capital was to be allowed @ 8% p.a. whereas interest on drawings was to be charged @ 6% p.a. The drawings of Shreya were Rs 3,000 at the beginning of each quarter while Vivek withdrew Rs 30,000 on 1st September, 2017. The net profit of the firm for the year before making the above adjustments was Rs 1, 20,000.

Prepare Profit and Loss Appropriation Account and Partners' Capital and Current Accounts

Ans.

Dr. PROFIT AND LOSS APPROPRIATION A/C Cr.

For the year ending 31st March, 2018

Particulars	Amount (₹)	Particulars	Amount (₹)
To Partners' Current A/c Shreya- 78,508 Vivek- 42,992	1,21,500	By P/L A/c (Net Profit) By Interest on Drawings Shreya 450 Vivek 1050	1,20,000 1,500
	1,21,500		1,21,500

Dr. PARTNER'S CAPITAL A/C Cr.

Particulars	Shreya (₹)	Vivek (₹)	Particulars	Shreya (₹)	Vivek (₹)
			By Balance b/d	3,00,000	2,00,000
To Balance C/d	3,00,000	2,00,000		....	....
	3,00,000	2,00,000		3,00,000	2,00,000

Dr. PARTNER'S CURRENT A/c Cr.

Particulars	Shreya (₹)	Vivek (₹)	Particulars	Shreya (₹)	Vivek (₹)
To balance b/d	----	28,000	By balance b/d	1,00,000	-----
To Drawings	12,000	30,000	By P& L Appropriation A/c	78,508	42,992
To Int on drawings	450	1,050	By Balance c/d	-----	16,058
To Balance c/d	1,66,058				
	1,78,508	59,050		1,78,508	59,050

Working Notes:

	Shreya (₹)	Vivek(₹)
Interest on Capital	24,000	16,000
Salary	60,000	------
Commission	------	30,000
Amount to be paid	84,000	46,000

Total amount to be paid = 1,30,000.

Since profits available are 1,20,000+1,500= 1,21,500, Appropriations will be made to the extent of 1,21,500 only in the ratio of 42:23 (84,000:46,000)

Shreya's share= 42/65 x 1,21,500= 78,508

Vivek's share=23/65 x1,21,500= 42,992