

PARTNERSHIP BASICS

Solution 1

P&L Appropriation Account

Particulars	Amount	Particulars	Amount
To Rahim's Current A/c Salary – 400*12	4,800	By P&L A/c (Net Profit)	30,000
To Interest on Capital Ram Current (50,000*6%) 3,000 Rahim Current (30,000*6%) <u>1,800</u>	4,800	By Interest on Drawings Ram Current (8,000*6%*6/12) 240 Rahim Current(10,000*6%*6/12) <u>300</u>	540
To Share of Profit (1:1) (Bal. Fig.) Ram Current 10,470 Rahim Current <u>10,470</u>	20,940		
	30,540		30,540

Capital Accounts

Particulars	Ram	Rahim	Particulars	Ram	Rahim
To Balance c/d	50,000	30,000	By Bank A/c	50,000	30,000
	50,000	30,000		50,000	30,000

Current Accounts

Particulars	Ram	Rahim	Particulars	Ram	Rahim
To Drawings	8,000	10,000	By Interest on Capital	3,000	1,800
To Interest on Drawings	240	300	By Salary	-	4,800
To Balance c/d	5,230	6,770	By P&L Appropriation (Share of Profit)	10,470	10,470
	13,470	17,070		13,470	17,070

Solution 2

P&L Appropriation Account

Particulars	Amount	Particulars	Amount
To Salary – B (500*12)	6,000	By P&L A/c (Net Profit)	25,000
To Interest on Capital A (30,000*6%) 1,800 B (20,000*6%) <u>1,200</u>	3,000		
To Share of Profit (5:3) (Bal. Fig.) A 10,000 B <u>6,000</u>	16,000		
	25,000		25,000

Capital Accounts

Particulars	A	B	Particulars	A	B
To Drawings	8,000	10,000	By Bank A/c	30,000	20,000
To Balance c/d	33,800	23,200	By Interest on Capital	1,800	1,200
			By Salary	-	6,000
			By P&L Appropriation (Share of Profit)	10,000	6,000
	41,800	33,200		41,800	33,200

Journal Entries

2023	Particulars	L.F.	Debit	Credit
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31.12	Profit & Loss Appropriation A/c	Dr.	6,000	
	To B's Capital A/c			6,000
	(Salary due to B @ 500 per month)			
31.12	Profit & Loss Appropriation A/c	Dr.	3,000	
	To A's Capital A/c			1,800
	To B's Capital A/c			1,200
	(Interest due on Capital @ 6%)			
31.12	Profit & Loss Appropriation A/c	Dr.	16,000	
	To A's Capital A/c			10,000
	To B's Capital A/c			6,000
	(Remaining profit of 16,000 divide between A and B in the ratio of 5:3)			

Solution 3

When the partnership deed is silent on the matter of interest on capitals and salary to partners, then no partner is entitled to claim interest on capital and salary. Therefore, claim of X and Z is not tenable. However, inclusion of specific provision regarding the said issues in partnership deed can make them entitled for interest on capital and salary.

Solution 4

There is no partnership deed. Therefore, the following provisions of the Indian Partnership Act are to be applied for settling the dispute.

- No interest on capital is payable to any partner. Therefore, Ram is not entitled to interest on capital.
- No remuneration is payable to any partner. Therefore, Rahim is not entitled to any salary.
- Interest on loan is payable @ 6% p.a. Therefore, Karim is to get interest @ 6% p.a. on ₹ 2,000 instead of 12%.
- The profits should be distributed equally.

P&L Appropriation Account

Particulars	Amount	Particulars	Amount
To Reserve (44,880*10%)	4,488	By P&L A/c (Net Profit) [45,000 – Interest on Loan 120 (2,000*6%)]	44,880
To Share of Profit			
Ram	13,464		
Rahim	13,464		
Karim	<u>13,464</u>		
	40,392		
	44,880		44,880

Solution 5

Profit and Loss Appropriation Account for the year ended March 31, 2023

Particulars	Amount	Particulars	Amount
To Salary to X	3,60,000	By Profit & Loss A/c (Net profit)	14,48,000
To Interest on Capital A/c		By Interest on Drawings A/c	
X	1,60,000	X	22,000
Y	<u>1,28,000</u>	Y	<u>18,000</u>
	2,88,000		40,000
To profit transferred to Capital A/c			
X (2/3)	5,60,000		
Y (1/3)	<u>2,80,000</u>		
	8,40,000		
	14,88,000		14,88,000

Partner's Capital Accounts

Particulars	X	Y	Particulars	X	Y
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To Drawings	4,80,000	4,80,000	By Balance b/d	20,00,000	16,00,000
To Interest on Drawings	22,000	18,000	By Salary A/c	3,60,000	-
To Balance c/d	25,78,000	15,10,000	By Interest on Capital	1,60,000	1,28,000
			By P&L App. A/c	5,60,000	2,80,000
	30,80,000	20,08,000		30,80,000	20,08,000

Working Notes:

- X's Share of Profit = $2,80,000 \times \frac{3}{1} \times \frac{2}{3} = 5,60,000$
- Interest on Drawings
 $X = 4,80,000 \times 5.5 \times \frac{1}{12} \times \frac{10}{100} = 22,000$
 $Y = 4,80,000 \times 4.5 \times \frac{1}{12} \times \frac{10}{100} = 18,000$
- Y's Interest on Capital = $2,88,000 - 1,60,000 = 128,000$
- Net profit = Salary + Interest on capital + profit transferred to capital accounts – interest on drawings

Solution 6

P&L Appropriation Account

Particulars	Amount	Particulars	Amount
To Interest on Capital		By P&L A/c (Net Profit)	1,59,000
A $3,20,000 \times 5\% = 16,000$			
B $2,00,000 \times 5\% = 10,000$			
C $1,60,000 \times 5\% = 8,000$	34,000		
To Share of Profit			
A $1,25,000 \times \frac{5}{10} =$			
$62,500 - 5,000 = 57,500$			
B $1,25,000 \times \frac{3}{10} = 37,500$			
C $1,25,000 \times \frac{2}{10} =$			
$25,000 + 5,000 = 30,000$	1,25,000		
	1,59,000		1,59,000

Solution 7

Case 1: When Guarantee is given by Firm

P&L Appropriation Account

Particulars	Amount	Particulars	Amount
To Share of Profit		By P&L A/c (Net Profit)	9,00,00,000
A $6,50,00,000 \times \frac{3}{5} =$	3,90,00,000		
B $6,50,00,000 \times \frac{2}{5} =$	2,60,00,000		
C $9,00,00,000 \times \frac{1}{6}$ or 2,50,00,000 whichever is more	2,50,00,000		
	9,00,00,000		9,00,00,000

Case 2: When Guarantee is given by A

P&L Appropriation Account

Particulars	Amount	Particulars	Amount
To Share of Profit		By P&L A/c (Net Profit)	9,00,00,000
A			
$9,00,00,000 \times \frac{3}{6} = 4,50,00,000$			
Less: Deficiency of C = <u>(1,00,00,000)</u>	3,50,00,000		
B $9,00,00,000 \times \frac{2}{6} =$	3,00,00,000		
C			
$9,00,00,000 \times \frac{1}{6} = 1,50,00,000$			
Add: Shortfall = <u>1,00,00,000</u>	2,50,00,000		
	9,00,00,000		9,00,00,000

Case 3: When Guarantee is given by A & B equally

P&L Appropriation Account

Particulars	Amount	Particulars	Amount
To Share of Profit		By P&L A/c (Net Profit)	9,00,00,000
A			
9,00,00,000*3/6 = 4,50,00,000			
Less: Deficiency of C = (50,00,000)	4,00,00,000		
B			
9,00,00,000*2/6 = 3,00,00,000			
Less: Deficiency of C = (50,00,000)	2,50,00,000		
C			
9,00,00,000*1/6 = 1,50,00,000			
Add: Shortfall = 1,00,00,000	2,50,00,000		
	9,00,00,000		9,00,00,000

Solution 8

Effective Capital

A = (1,00,000*12/12)+(10,000*9/12)+(5,000*6/12)- (40,000*3/12)
 = 1,00,000+7,500+2,500-10,000 = 1,00,000

B = (60,000*12/12)+(30,000*6/12)
 = 60,000+15,000 = 75,000

PSR = 1,00,000:75,000 = 4:3 (ratio of Effective capital)

Interest on Capital

A = 1,00,000*12% = 12,000

B = 75,000*12% = 9,000

Interest on Drawings

A = 12,000*10%*5.5/12 = 550

B = (1,000*10%*6/12)+ (5,000*10%*3/12) = 50 + 125 = 175

Solution 9

As per the Indian Partnership Act, 1932, in the absence of any agreement among the partners,

1. No partner has the right to a salary,
2. No interest is to be allowed on capital,
3. No interest is to be charged on the drawings,
4. Interest at the rate of 6%.p.a is to be allowed on a partner's loan to the firm, and
5. Profits and losses are to be shared equally.

Solution 10

(i)

If Guarantee is given by firm

Profit and Loss Appropriation Account for the year ending on 31st March, 2022

Particulars	₹	Particulars	₹
To X's Capital A/c (3/5 of ₹ 1,30,00,000)	78,00,000	By Profit and Loss, A/c	1,80,00,000
To Y's Capital A/c (2/5 of ₹ 1,30,00,000)	52,00,000		
To Z's Capital A/c (1/6 of ₹1,80,00,000 or ₹ 50,00,000 whichever is more	50,00,000		
	1,80,00,000		1,80,00,000

(ii)

If Guarantee is given by X and Y equally

Profit and Loss Appropriation Account for the year ending on 31st March, 2022

Particulars	₹	Particulars	₹
To X's Capital A/c (3/6 of ₹ 1,80,00,000)	90,00,000	By Profit and Loss, A/c (net profits)	1,80,00,000

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Less: Deficiency Borne for Z (1/2 of 20,00,000)	<u>(10,00,000)</u>	80,00,000		
To Y's Capital A/c (2/6 of ₹ 1,80,00,000)	60,00,000			
Less: Deficiency borne for Z (1/2 of 20,00,000)	<u>(10,00,000)</u>	50,00,000		
To Z's Capital A/c (1/6 of ₹ 1,80,00,000)	30,00,000			
Add: Def. Recovery from X	10,00,000			
Add: Def. Recovery from Y	<u>10,00,000</u>	50,00,000		
		1,80,00,000		1,80,00,000