

Accounting for Partnership Firms—Fundamentals

MEANING OF KEY TERMS USED IN THIS CHAPTER

- Partnership** Partnership is a relation between persons who have agreed to share the profits of a business carried on by all or any of them acting for all.
- Partners** Partners are the persons who have agreed to carry on a partnership business and share its profits and losses.
- Firm** Partners carrying on the business are collectively known as **firm**. The name under which the business is carried on is called **firm name**.
- The Partnership Act, 1932** It is an Act that governs the partnership firms. In case, Partnership Deed is silent on an issue, provisions of the Indian Partnership Act, 1932 are applied.
- Partnership Deed** Partnership Deed is a written agreement among the partners detailing the terms and conditions of the partnership.
- Capital** Capital is the amount contributed by the partners in the firm. Capital may be fixed or fluctuating.
- Fixed Capitals** Fixed Capitals mean that capitals of the partners remain fixed and change with the introduction or withdrawal of capital. When capitals are fixed two accounts for each partner are maintained, *i.e.*, Capital Account and Current Account.
- Fluctuating Capitals** Fluctuating Capitals mean that capitals of the partners do not remain fixed but change with each entry. When capitals are fluctuating, only one account, *i.e.*, Capital Account is maintained for each partner.
- Drawings** Drawings mean withdrawal by the partner from the firm in cash or kind for his or her personal use.
- Profit-sharing Ratio** Profit-sharing Ratio is the ratio in which the partners have agreed to share profits and losses of the firm.
- Past Adjustments** Past Adjustments refer to those adjustments which are related to past period that occurred due to errors or omissions in the books of the firm or giving effect to a new agreement with retrospective effect.
- Guarantee of Profit** Guarantee of Profit means minimum guaranteed profit given to a partner or partners of the firm. It may be given by a partner or partners or by the firm.

Section 4 of the Indian Partnership Act, 1932 defines Partnership as:

“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.”

Nature: A partnership firm does not have separate legal entity from the partners constituting it. However, from accounting point of view, it has separately entity.

‘Partners’, ‘Firm’ and ‘Firm Name’: The persons who have entered into partnership with one another are individually called **partners** and collectively a **firm**. The name under which the business of the firm is carried on is called the **firm name**.

Essential Elements (Main Features) of Partnership

1. There must be two or more persons.
2. There must be an agreement to carry business.
3. There must be business.
4. There must be sharing of profits of business.
5. There is mutual agency, *i.e.*, the business must be either carried on by all or any of them acting for all.

Partnership Deed

A written document detailing the terms and conditions of the agreement between/among partners is termed as the **Partnership Deed**. The Partnership Deed usually includes the following:

- (i) Name and address of the firm.
- (ii) Names and addresses of the partners.
- (iii) Date of commencement of partnership.
- (iv) Capital to be contributed by each partner.
- (v) Whether interest is to be charged on drawings? If yes, at what rate of interest?
- (vi) Whether interest is to be allowed on capitals. If yes, at what rate of interest?
- (vii) Whether any partner is to be allowed salary. If yes, amount of salary to be paid?
- (viii) Profit-sharing Ratio among partners.
- (ix) The rights and duties of each partner.
- (x) Method of valuation of goodwill in case of admission or retirement or death of a partner.
- (xi) Mode of settlement of accounts in case of retirement/death of a partner or dissolution of the firm.

Benefits or Advantages of having a Partnership Deed

- (i) It facilitates functioning of the business.
- (ii) It is helpful in the settlement of disputes arising among partners.
- (iii) It helps in clarity of business relationship among the partners.

Provisions Applicable in the Absence of Partnership Agreement/Partnership Deed

- (i) Interest is not allowed on Partners’ Capitals or charged on drawings.
 - (ii) Partner is not entitled to salary or remuneration from the firm.
 - (iii) Interest @ 6% p.a. is allowed on the loans by any partner.
 - (iv) Profits or losses are divided equally among the partners.
- **Interest on Partner’s Loan to the Firm:** If a partner gives a loan to the firm, he is entitled to an interest on such loan at an agreed rate of interest. If there is no agreement as to the rate of interest on loan, the partner is entitled to interest on loan @ 6% p.a. Such interest is a **charge against the profit**. It is transferred to the debit of **Profit & Loss Account**.
 - **Rent Paid to Partner:** Rent paid to partner is a charge against profit. It is *transferred to the debit of Profit & Loss Account and credited to Rent Payable Account*.
 - **Manager’s Commission and Partners’ Commission** are calculated on corrected Net Profit of Profit & Loss Account, if the question is silent. It should be kept in mind that manager’s commission is a charge against profit (he/she being an employee) whereas, partners’ commission is an appropriation of profit.

Methods of Maintaining Capital Accounts of Partners

Partners' Capital Accounts may be maintained according to the Fixed Capital Accounts Method or the Fluctuating Capital Accounts Method.

Fixed Capital Accounts Method: Under this method, capitals of partners *remain unchanged* except when further capital is invested or is withdrawn. In the case of fixed capital, *two* accounts are maintained for each partner, viz., (i) Fixed Capital Account, and (ii) Current Account. All adjustments regarding drawings, interest on drawings, salary, interest on capital, commission and share of profits or losses are made in *Current Account*. Fixed Capital Account cannot have a debit balance, i.e., negative balance.

Fluctuating Capital Accounts Method: Under this method, a single Capital Account for each partner is maintained. All transactions relating to it or withdrawals are credited and debited to this account. Be it introduction of capital, interest on capital or drawings, salary, commission and share of profit & loss.

If question is silent, partner's capital accounts are assumed to be maintained following **fluctuating capital accounts method**.

- **Remuneration (Salary or Commission) to a Partner:** Remuneration (Salary or Commission) to a partner is allowed if the Partnership Deed or Agreement provides for it.

A: Commission as percentage of the Net Profit or Distributable Profit before charging such commission:

$$\text{Net Profit before Commission} \times \frac{\text{Rate of Commission}}{100}$$

B: Commission as percentage of the Net Profit or Distributable Profit after charging such commission:

$$\text{Net Profit before Commission} \times \frac{\text{Rate of Commission}}{100 + \text{Rate of Commission}}$$

Remuneration (Salary or commission) to a partner *being an appropriation of profit* is transferred to the debit of the Profit & Loss Appropriation Account and not to the debit of the Profit & Loss Account.

- **Drawings:** Unless drawings is stated to be out of capital, it is assumed to be drawings against estimated profit.
- **Interest on Drawings:** If the Partnership Deed so provides, interest on drawings is charged from the partners at the rate specified in the Partnership Deed or at the rate of interest as agreed. The interest charged is transferred to the credit of Profit & Loss Appropriation Account and debited to the Partners' Capital or Current Accounts.
- If dates of drawings are not given, interest on total drawings is calculated for average period, i.e., **6 Months**.
- Interest @ 10% without the word 'per annum' means interest is to be calculated without any reference of time.
- **Interest on Capital:** Interest on capital is calculated on time basis, taking into consideration any additional capital introduced or any existing capital withdrawn.
- Interest is allowed only if it is agreed by the partners.
- Interest on capital is an appropriation of profit, and is provided through Profit & Loss Appropriation Account instead of Profit & Loss Account (except when it is a charge against profit).

Past Adjustments

Past adjustments are made to rectify errors and omissions committed in the past by passing adjustment entry for each adjustment or a single adjustment entry through the Capital/Current Accounts of partners for the net amount of the errors and omissions, as is required by the question.

Guarantee of Minimum Profit to a Partner

Sometimes, a partner may be guaranteed minimum amount of his share in profits. Such guarantee may be provided by one or some or all of the partners in an existing profit-sharing ratio or in some other agreed ratio. If in any year, the actual share of profit is less than the guaranteed amount, the deficiency is borne by the guaranteeing partners in their agreed ratio.

SPECIMEN OF PARTNERSHIP DEED

THIS DEED OF PARTNERSHIP IS MADE on this **1st day of April, 2026** by and between

Ms. Deepali D/o Mr. Hitesh Dutta R/o 403 Green Heavens, Kolkata CGHS LTD., Plot No. 35, Sector-4, Chittranjan Park, Kolkata, West Bengal hereinafter referred to as the First Party (which expression shall deem and include her heirs, executors, administrators, representatives, assigns and agents),

And

Ms. Manju D/o Mr. Debanuj Choudhury R/o 1, L-75A, Airport Road, Maya Enclave, Kolkata, West Bengal hereinafter referred to as Second Party (which expression shall deem and include her heirs, executors, administrators, representatives, assigns and agents).

WHEREAS the above named parties have decided to start the partnership business of **ready-made clothes**.

WHEREAS, they have decided to carry on the business under the name and style of **C4T**.

AND WHEREAS they have agreed to the terms and conditions among themselves to carry on the business.

AND WHEREAS the parties to this Deed have decided to reduce the terms and conditions agreed to among them into writing.

NOW THIS INDENTURE IS WITNESSETH AS FOLLOWS

Name of the Firm

1. That the name and style of the firm under which the business shall be carried shall be **C4T**.
2. That the partners shall be at liberty to change the name of the firm as agreed between them as and when they desire.

Partners of the Firm

3. That the partners of the firm **C4T** shall be
Ms. Deepali D/o Mr. Hitesh Dutta R/o 403 Green Heavens, Kolkata CGHS LTD., Plot No. 35, Sector-4, Chittranjan Park, Kolkata, West Bengal, and
Ms. Manju D/o Mr. Debanuj Choudhury R/o 1, L-75A, Airport Road, Maya Enclave, Kolkata, West Bengal.

Date of Commencement of Business

4. That the business of the Partnership pursuant to this Deed of Partnership shall be deemed to have commenced with effect from **1st April, 2026**.

Business of the Firm

5. That the firm shall carry on the business of manufacturing and selling of fashion clothes for teens.
6. That they may, by their mutual consent, start and carry on any other business or businesses.

Place of Business

7. That the principal place of partnership business shall be situated at 7, Park Street, Kolkata, West Bengal or at such other place or places, as shall be agreed to by the partners from time to time.

Capital Contribution

8. That partners shall contribute capital of ₹ 5,00,000 each.
9. That the partners may agree to increase the capital of the firm by bringing in additional contribution on the terms and conditions as may be mutually decided among the partners.

Interest on Capital

10. That the partners shall not be entitled to interest on capital.

Remuneration to Partners

11. That the partners shall attend business of the partnership diligently and carry on the same for the greatest advantage of the firm.
12. That partners shall not be paid remuneration for the work carried out by them for the firm.

Profit-Sharing Ratio

13. That the Profits or Losses, as the case may be, of the partnership business shall be shared by the partners equally.

Accounts

14. That the accounts of the partnership shall be maintained following the accrual concept according to the financial year, *i.e.*, from 1st April to 31st March each year.
15. That first financial year of the firm shall end on 31st March, 2027.

Introduction of a New Partner

16. That a new partner may be introduced with the consent of all the partners on such terms and conditions as the partners agree upon with the Person to be introduced as a partner, in the firm.

Retirement or Death of a Partner

17. That any partner may retire from the partnership, after a period of three years by giving a notice to the other Partner(s) of not less than three months in writing and at the expiry of such notice period he shall be deemed to have retired.
18. That on the death of any partner, during the continuance of the partnership, the firm shall not be dissolved; the surviving nominee of that partner shall have the option to claim the share of the deceased partner or to join in the partnership business.

Dissolution of Firm

19. That the firm shall be dissolved with the consent of all the partners or in accordance with the Provisions of Indian Partnership Act, 1932.

Banking Account

20. That bank accounts may be opened with one or more scheduled banks and shall be operated by any of the partners.

General

21. That the firm shall maintain its accounts and other books at the place of business and shall not be removed from the place of business without the consent of all the partners.
22. Subject to the contract between the partners, the property of the firm includes all property and rights and interest in the originally brought into the stock of the firm, or acquired, by purchase or otherwise, by or for the firm, or for the purpose and in the course of business of the firm, and includes also the goodwill of the business.
23. Each partner shall—
 - (i) Be just and faithful to other partners in the transactions relating to partnership business;
 - (ii) Pay the private debts and indemnify the other partners and assets of the firm against the same and all other proceedings, costs, claims or demands in respect thereof;
 - (iii) Give full information and truthful explanations of all matters relating to the affairs of the partnership to all the partners at all times.

1.6 Double Entry Book Keeping—CBSE XII

24. No partner shall without the consent of the other partners—
- Engage in any other business that is similar to the business carried on by the firm, directly or indirectly;
 - Enter into partnership on behalf of the firm.
25. That the terms of the Partnership Deed may be altered by the written consent of the Parties to this DEED.
26. That in the case of any dispute arising out of this DEED between the Parties of this DEED, it shall be decided by Arbitration as provided for under the Indian Arbitration Act, 1996.
27. That the other matters for which no provision is made in this DEED, shall be decided upon by the majority of the partners for the time being of the partnership.
28. The terms and conditions not specifically given in this DEED will be termed as per the provisions of the Indian Partnership Act, 1932.

IN WITNESS WHEREOF the Parties hereto have set and subscribed their respective hands to these presents the day, month and year first written above.

WITNESSES

- _____
- _____

SIGNATURES OF PARTNERS

Deepali
(Party of the First Part)

Manju
(Party of the Second Part)

Solved Questions

Illustration 1 (Interest on Capital and Drawings when Capitals are Fixed).

Simmi and Sonu are partners in a firm, sharing profits and losses in the ratio of 3 : 1. Profit & Loss Account of the firm for the year ended 31st March, 2026 shows net profit of ₹ 1,50,000. Prepare Profit & Loss Appropriation Account considering the following information:

- Partners' capitals on 1st April, 2025: Simmi—₹ 30,000; Sonu—₹ 60,000.
- Current Accounts balances on 1st April, 2025:
Simmi—₹ 30,000 (Cr.); Sonu—₹ 15,000 (Cr.).
- Partners' drawings during the year amounted to: Simmi—₹ 20,000; Sonu—₹ 15,000.
- Interest on capital was allowed @ 5% p.a.
- Interest on drawings was to be charged @ 6% p.a. at an average of six months.
- Partners' salaries: Simmi—₹ 12,000; Sonu—₹ 9,000.

Also, show the Partners' Current Accounts.

Solution:

PROFIT & LOSS APPROPRIATION ACCOUNT for the year ended 31st March, 2026

Dr.		Cr.	
Particulars	₹	Particulars	₹
To Partners' Salaries A/c:		By Profit & Loss A/c (Net Profit)	1,50,000
Simmi	12,000	By Interest on Drawings A/cs:	
Sonu	9,000	Simmi (₹ 20,000 × 6/100 × 6/12)	600
	21,000	Sonu (₹ 15,000 × 6/100 × 6/12)	450
To Interest on Capital A/cs:			1,050
Simmi (5% of ₹ 30,000)	1,500		
Sonu (5% of ₹ 60,000)	3,000		
	4,500		
To Profit transferred to:			
Simmi's Current A/c	94,163		
Sonu's Current A/c	31,387		
	1,25,550		
	1,51,050		1,51,050

PARTNERS' CAPITAL ACCOUNTS					
Dr.					Cr.
Particulars	Simmi (₹)	Sonu (₹)	Particulars	Simmi (₹)	Sonu (₹)
To Balance <i>c/d</i>	30,000	60,000	By Balance <i>b/d</i>	30,000	60,000
	30,000	60,000		30,000	60,000

PARTNERS' CURRENT ACCOUNTS					
Dr.					Cr.
Particulars	Simmi (₹)	Sonu (₹)	Particulars	Simmi (₹)	Sonu (₹)
To Drawings A/c (Bank A/c)	20,000	15,000	By Balance <i>b/d</i>	30,000	15,000
To Interest on Drawings A/c	600	450	By Partners' Salaries A/c	12,000	9,000
To Balance <i>c/d</i>	1,17,063	42,937	By Interest on Capital A/c	1,500	3,000
			By Profit & Loss Appropriation A/c (Profit)	94,163	31,387
	1,37,663	58,387		1,37,663	58,387

Illustration 2 (*Partnership Deed does not Exist*).

Ram, Rahim and Karim are partners in a firm. They do not have a Partnership Deed. In the matter of distribution of profits they have put forward the following claims:

- (i) Ram, who has contributed more capital than Rahim and Karim, demands interest on the capital @ 12% p.a. and the share of profit in the capital ratio. But Rahim and Karim do not accept it.
- (ii) Rahim has devoted full time to manage the business and demands salary of ₹ 5,000 per month. But Ram and Karim do not agree with him.
- (iii) Karim demands interest on the loan of ₹ 2,00,000 advanced by him to the firm @ 10% p.a.

How will the disputes be settled? Prepare Profit & Loss Appropriation Account after transferring 10% of the divisible profit to Reserve. Net profit before taking into account any of the above claims is ₹ 4,50,000 at the end of the first year of their business.

Solution:

Since they do not have a Partnership Deed, following provisions of the Indian Partnership Act, 1932 shall apply for settling the dispute:

- (i) Interest on capital is not payable to any partner. Therefore, Ram is not entitled to interest on capital. The profit after transferring 10% of divisible profit to reserve shall be distributed among partners equally.
- (ii) Remuneration is not payable to any partner. Therefore, Rahim is not entitled to any salary.
- (iii) Interest on loan by a partner is payable @ 6% p.a. Therefore, Karim is to get ₹ 12,000 (*i.e.*, interest @ 6% p.a. on ₹ 2,00,000). Interest on loan is debited to Profit & Loss Account and not to Profit & Loss Appropriation Account because interest on loan is a charge on profit. Thus, it should be paid whether there is profit or not.

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PROFIT & LOSS APPROPRIATION ACCOUNT			
Dr.		Cr.	
for the year ended ...			
Particulars	₹	Particulars	₹
To Reserve (10% of ₹ 4,38,000)	43,800	By Profit & Loss A/c (Net Profit)	4,38,000
To Profit transferred to:		(₹ 4,50,000 – ₹ 12,000, interest on	
Ram's Capital A/c	1,31,400	Karim's Loan)	
Rahim's Capital A/c	1,31,400		
Karim's Capital A/c	1,31,400		
	3,94,200		
	4,38,000		4,38,000

Illustration 3 (Fixed Capital Accounts).

Where are the following items shown when:

- (a) Capital Accounts are fixed; and
- (b) Capital Accounts are fluctuating.
 - (i) Salary to a partner,
 - (ii) Drawings made by a partner,
 - (iii) Fresh capital introduced by a partner,
 - (iv) Share of profit earned by a partner, and
 - (v) Commission payable to a partner.

Solution:

- (a) **When Capital Accounts are fixed**
 - (i) In the Credit of Partner's Current Account.
 - (ii) In the Debit of Partner's Current Account.
 - (iii) In the Credit of Partner's Capital Account.
 - (iv) In the Credit of Partner's Current Account.
 - (v) In the Credit of Partner's Current Account.
- (b) **When Capital Accounts are fluctuating**
 - (i) In the Credit of Partner's Capital Account.
 - (ii) In the Debit of Partner's Capital Account.
 - (iii) In the Credit of Partner's Capital Account.
 - (iv) In the Credit of Partner's Capital Account.
 - (v) In the Credit of Partner's Capital Account.

Illustration 4.

Pass the Journal entries to record the following transactions in the books of the firm of *A* and *B* before distributing the profits earned?

- (i) Commission of ₹ 5,000 payable to *B*.
- (ii) Interest on Capital: *A*—₹ 8,000; *B*—₹ 5,000.
- (iii) Salary payable to *A*—₹ 20,000 p.a.
- (iv) Transfer to the General Reserve—₹ 25,000.

Solution:

JOURNAL

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
(i)	Commission A/c ...Dr.		5,000	
	To <i>B</i> 's Capital A/c (Commission payable to <i>B</i> credited to his Capital Account)			5,000
	Profit & Loss Appropriation A/c ...Dr.		5,000	
	To Commission A/c (Amount of commission payable to <i>B</i> transferred)			5,000
(ii)	Interest on Capital A/c ...Dr.		13,000	
	To <i>A</i> 's Capital A/c To <i>B</i> 's Capital A/c (Interest on Capitals credited to Partners' Capital Accounts)			8,000 5,000
	Profit & Loss Appropriation A/c ...Dr.		13,000	
	To Interest on Capital A/c (Interest on capitals transferred)			13,000
(iii)	Partner's Salary A/c ...Dr.		20,000	
	To <i>A</i> 's Capital A/c (Salary payable to <i>A</i> credited to his Capital Account)			20,000
	Profit & Loss Appropriation A/c ...Dr.		20,000	
	To Partner's Salary A/c (Salary payable to <i>A</i> transferred)			20,000
(iv)	Profit & Loss Appropriation A/c ...Dr.		25,000	
	To General Reserve A/c (Amount transferred to General Reserve)			25,000

Note: Partners' Capital Accounts are assumed to be fluctuating.

1.10 Double Entry Book Keeping—CBSE XII

Illustration 5 (Calculation of Interest on Capital and Drawings).

On 1st April, 2025, A and B commenced business with contributing capitals of ₹ 2,00,000 and ₹ 3,00,000 respectively. The terms of the partnership agreement are:

- (i) Profit/loss be shared in the ratio of 2 : 3 between A and B.
- (ii) Partners shall be entitled to interest on capital at the commencement of each year @ 6% p.a.
- (iii) Interest on drawings shall be charged @ 8% p.a.

During the year ended 31st March, 2026, the firm earned a profit of ₹ 1,92,800 before adjustment of interest on capital and drawings. The partners withdrew during the year ₹ 30,000 each at the end of every quarter commencing from 30th June, 2025.

Pass the Journal entries, prepare Profit & Loss Appropriation Account and Capital Accounts of the partners.

Solution:

PROFIT & LOSS APPROPRIATION ACCOUNT

Dr. Cr.
for the year ended 31st March, 2026

Particulars	₹	Particulars	₹
To Interest on Capital A/cs:		By Profit & Loss A/c	1,92,800
A	12,000	(Net Profit)	
B	18,000	By Interest on Drawings A/cs (Note):	
	30,000	A	3,600
To Profit transferred to Capital A/cs:		B	3,600
A (2/5)	68,000		7,200
B (3/5)	1,02,000		
	1,70,000		
	2,00,000		2,00,000

Dr. Cr.
PARTNERS' CAPITAL ACCOUNTS

Date	Particulars	A ₹	B ₹	Date	Particulars	A ₹	B ₹
2026				2025			
March 31	To Drawings A/c	1,20,000	1,20,000	April 1	By Bank A/c	2,00,000	3,00,000
	To Interest on Drawings A/c	3,600	3,600	2026			
	To Balance c/d	1,56,400	2,96,400	March 31	By Interest on Capital A/c	12,000	18,000
					By Profit & Loss Appropriation A/c	68,000	1,02,000
		2,80,000	4,20,000			2,80,000	4,20,000

Note: When the fixed amount is withdrawn at the end of each quarter, interest on drawings will be charged on total drawings for average period of 4.5 months, i.e., ₹ 1,20,000 × 4.5 / 12 × 8/100 = ₹ 3,600.

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Date	Particulars	L.F.	Dr. ₹	Cr. ₹
2026				
March 31	Profit & Loss A/c ...Dr. To Profit & Loss Appropriation A/c (Net profit transferred to Profit & Loss Appropriation Account)		1,92,800	1,92,800
	Interest on Capital A/c ...Dr. To A's Capital A/c To B's Capital A/c (Interest on capital allowed @ 6% p.a.)		30,000	12,000 18,000
	Profit & Loss Appropriation A/c ...Dr. To Interest on Capital A/c (Interest on Capital transferred to Profit & Loss Appropriation Account)		30,000	30,000
	A's Drawings A/c ...Dr. B's Drawings A/c ...Dr. To Cash/Bank A/c (Drawings made by the partners during the year)		1,20,000 1,20,000	2,40,000
	A's Capital A/c ...Dr. B's Capital A/c ...Dr. To A's Drawings A/c To B's Drawings A/c (Amount of drawings transferred to their respective Capital Accounts)		1,20,000 1,20,000	1,20,000 1,20,000
	A's Capital A/c ...Dr. B's Capital A/c ...Dr. To Interest on Drawings A/c (Interest charged on drawings of the partners)		3,600 3,600	7,200
	Interest on Drawings A/c ...Dr. To Profit & Loss Appropriation A/c (Interest on Drawings transferred to Profit & Loss Appropriation Account)		7,200	7,200
	Profit & Loss Appropriation A/c ...Dr. To A's Capital A/c To B's Capital A/c (Divisible profit distributed in the ratio of 2 : 3)		1,70,000	68,000 1,02,000

1.12 Double Entry Book Keeping—CBSE XII

Illustration 6.

A, B and C were partners in a firm. On 1st April, 2008 their fixed capitals stood at ₹ 50,000; ₹ 25,000 and ₹ 25,000 respectively.

As per the provisions of the Partnership Deed:

- (i) B was entitled for a salary of ₹ 5,000 p.a.
- (ii) All the partners were entitled to interest on capital @ 5% p.a.
- (iii) Profits were to be shared in the ratio of capitals.

The net profit for the year ended 31st March, 2009 of ₹ 33,000 and 31st March, 2010 of ₹ 45,000, was divided equally without providing for the above terms.

Pass an adjustment Journal entry to rectify the above error.

(AI 2011 C)

Solution:

ADJUSTMENT JOURNAL ENTRY

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
2010				
March 31	C's Current A/c ...Dr.		9,000	
	To A's Current A/c			8,000
	To B's Current A/c			1,000
	(Required adjustment for correcting wrong distribution of profits)			

Working Note:

STATEMENT SHOWING ADJUSTMENT TO BE MADE

Particulars	A (₹)	B (₹)	C (₹)	Total
(i) Amount already credited as Share of Profit, now reversed:				
31st March, 2009	11,000	11,000	11,000	33,000
31st March, 2010	15,000	15,000	15,000	45,000
(Dr.)	26,000	26,000	26,000	78,000
(ii) Amount which should have been credited:				
Salary:				
31st March, 2009	...	5,000	...	5,000
31st March, 2010	...	5,000	...	5,000
Interest on Capital:				
31st March, 2009	2,500	1,250	1,250	5,000
31st March, 2010	2,500	1,250	1,250	5,000
Share of Profit*:				
31st March, 2009	11,500	5,750	5,750	23,000
31st March, 2010	17,500	8,750	8,750	35,000
(Cr.)	34,000	27,000	17,000	78,000
(iii) Net Effect [(i) – (ii)]	8,000 Cr.	1,000 Cr.	9,000 Dr.	...

*Calculation of Share of Profit (31st March, 2009):

Adjusted Profits = ₹ 33,000 – ₹ 5,000 (Salary) – ₹ 5,000 (Interest on Capital) = ₹ 23,000

A's Share = ₹ 23,000 × 2/4 = ₹ 11,500

B's Share = ₹ 23,000 × 1/4 = ₹ 5,750

C's Share = ₹ 23,000 × 1/4 = ₹ 5,750

Calculation of Share of Profit (31st March, 2010):

Adjusted Profits = ₹ 45,000 – ₹ 5,000 (Salary) – ₹ 5,000 (Interest on Capital) = ₹ 35,000

A's Share = ₹ 35,000 × 2/4 = ₹ 17,500

B's Share = ₹ 35,000 × 1/4 = ₹ 8,750

C's Share = ₹ 35,000 × 1/4 = ₹ 8,750.

Illustration 7.

A and B were in a partnership sharing profits and losses in the ratio of 3 : 2. In appreciation of the services of C who was in receipt of a salary of ₹ 24,000 per annum and a commission of 5% of the net profit after charging such salary and commission, they took him into partnership from 1st April, 2025 giving him 1/8th share of profits. The agreement provided that any excess over his former remuneration to which C becomes entitled will be borne by A and B in the ratio of 2 : 3. The profit for the year ended 31st March, 2026 amounted to ₹ 4,44,000.

Prepare Profit & Loss Appropriation Account.

Solution:

PROFIT & LOSS APPROPRIATION ACCOUNT

Dr.

for the year ended 31st March, 2026

Cr.

Particulars	₹	Particulars	₹
To Profit transferred to:		By Profit & Loss A/c	4,44,000
A's Capital A/c	2,40,000	(Net Profit)	
Less: Transferred to C	4,600		
B's Capital A/c	1,60,000		
Less: Transferred to C	6,900		
C's Capital A/c	44,000		
Add: Transferred From A	4,600		
Transferred From B	6,900		
	4,44,000		4,44,000

Working Notes:

- | | ₹ | ₹ |
|---|--------|---------------|
| 1. Profit for the year = ₹ 4,44,000 | | |
| C's Share as partner (1/8 × ₹ 4,44,000) | | 55,500 |
| Less: Amount payable to C as employee: | | |
| Salary | 24,000 | |
| Commission [$\frac{5}{105}$ (₹ 4,44,000 – ₹ 24,000)] | 20,000 | 44,000 |
| Deficiency | | <u>11,500</u> |
| Deficiency chargeable to A and B in the ratio of 2 : 3 | | |
| ∴ A to bear = 11,500 × 2/5 = ₹ 4,600; B to bear = 11,500 × 3/5 = ₹ 6,900. | | |
| 2. Profits for the year available to A and B | | |
| (₹ 4,44,000 – C's share as Manager ₹ 44,000) = ₹ 4,00,000 | | |
| A's Share of Profit = ₹ 4,00,000 × 3/5 = ₹ 2,40,000 | | |
| A's Share of Profit after adjusting deficiency = ₹ 2,40,000 – Share in deficiency | | |
| = ₹ 2,40,000 – ₹ 4,600 = ₹ 2,35,400 | | |
| B's Share of Profit = ₹ 4,00,000 × 2/5 = ₹ 1,60,000 | | |
| B's Share of Profit after adjusting deficiency = ₹ 1,60,000 – Share in deficiency | | |
| = ₹ 1,60,000 – ₹ 6,900 = ₹ 1,53,100. | | |

1.14 Double Entry Book Keeping—CBSE XII

Illustration 8.

X and Y are partners. As per the terms of agreement interest is allowed on capitals @ 8% p.a. and charged on drawings @ 10% p.a. X withdrew ₹ 20,000 per month at the end of each month and Y withdrew ₹ 60,000 at the end of each quarter. You are required to fill up the missing figures (?) in the following accounts:

Dr. PROFIT & LOSS APPROPRIATION ACCOUNT for the year ended 31st March, 2026				Cr.	
Particulars	₹		Particulars	₹	
To ?	?		By Profit & Loss A/c (Net Profit)	?	
To Interest on Capital A/cs:			By Interest on Drawings A/cs:		
X	80,000		X	?	
Y	?	1,44,000	Y	?	?
To Profit transferred to Capital A/cs:					
X (2/3)	?				
Y (1/3)	1,40,000	?			
		?			

Dr. PARTNERS' CAPITAL ACCOUNTS						Cr.	
Particulars	X (₹)	Y (₹)	Particulars	X (₹)	Y (₹)		
To ?	?	?	By ?	?	?		
To ?	?	?	By X's Salary A/c	1,80,000			
To ?	?	?	By ?	?	?		
			By ?	?	?		
	?	?		?	?		

Solution:

Dr. PROFIT & LOSS APPROPRIATION ACCOUNT				Cr.	
for the year ended 31st March, 2026					
Particulars	₹		Particulars	₹	
To X's Salary A/c	1,80,000		By Profit & loss A/c (Net Profit)	7,24,000	
To Interest on Capital A/cs:			By Interest on Drawings A/cs:		
X	80,000		X	11,000	
Y	64,000	1,44,000	Y	9,000	20,000
To Profit transferred to Capital A/cs:					
X (2/3)	2,80,000				
Y (1/3)	1,40,000	4,20,000			
		7,44,000			

Dr. PARTNERS' CURRENT ACCOUNTS						Cr.	
Particulars	X (₹)	Y (₹)	Particulars	X (₹)	Y (₹)		
To Drawings A/c	2,40,000	2,40,000	By Balance b/d	10,00,000	8,00,000		
To Interest on Drawings A/c	11,000	9,000	By X's Salary A/c	1,80,000			
To Balance c/d	12,89,000	7,55,000	By Interest on Capital A/c	80,000	64,000		
			By Profit & Loss App. A/c	2,80,000	1,40,000		
	15,40,000	10,04,000		15,40,000	10,04,000		

Working Notes:

$$1. \text{ X's Share of Profit} = ₹ 1,40,000 (Y) \times \frac{3}{1} \times \frac{2}{3} = ₹ 2,80,000.$$

2. **Interest on Drawings:**

$$X = ₹ 2,40,000 \times \frac{11}{2} \times \frac{1}{12} \times \frac{10}{100} = ₹ 11,000;$$

$$Y = ₹ 2,40,000 \times \frac{9}{2} \times \frac{1}{12} \times \frac{10}{100} = ₹ 9,000.$$

$$3. \text{ Y's Interest on Capital} = ₹ 1,44,000 - ₹ 80,000 = ₹ 64,000.$$

$$4. \text{ Net Profit} = \text{Salary} + \text{Interest on Capital} + \text{Profit transferred to Capital Accounts} - \text{Interest on Drawings}.$$

Illustration 9.

Sharma and Verma were partners in a firm sharing profits in the ratio of 4 : 1. Their capitals on 1st April, 2008 were: Sharma ₹ 5,00,000 and Verma ₹ 1,00,000. The Partnership Deed provided that Sharma will get a commission of 10% of the net profit after allowing a salary of ₹ 5,000 per month to Verma. The profit of the firm for the year ended 31st March, 2009 was ₹ 2,80,000.

Prepare Profit & Loss Appropriation Account of Sharma and Verma for the year ended 31st March, 2009. (AI 2009 C)

Solution:

PROFIT & LOSS APPROPRIATION ACCOUNT

Dr.

for the year ended 31st March, 2009

Cr.

Particulars	₹	Particulars	₹
To Verma's Capital A/c (Salary)	60,000	By Profit & Loss A/c (Net Profit)	2,80,000
To Sharma's Capital A/c (Commission) [10/100 (₹ 2,80,000 – ₹ 60,000)]	22,000		
To Profit transferred to:			
Sharma's Capital A/c (₹ 1,98,000 × 4/5)	1,58,400		
Verma's Capital A/c (₹ 1,98,000 × 1/5)	39,600		
	1,98,000		
	2,80,000		2,80,000

Illustration 10.

Simran and Puneet are partners in a firm sharing profits and losses equally. On 1st April, 2025, capitals of the partners were: Simran—₹ 2,00,000 and Puneet—₹ 1,60,000. Profit & Loss Account of the firm showed net profit of ₹ 3,75,000 (before interest on Puneet's Loan) for the year ended 31st March, 2026. Considering following information, prepare Profit & Loss Appropriation Account of the firm and Partners' Capital Accounts:

- Interest on capital to be allowed @ 6% p.a.
- Interest on Puneet's Loan Account of ₹ 1,00,000 for the whole year.
- Interest on drawings of partners @ 6% p.a. Drawings being Simran—₹ 40,000 and Puneet—₹ 30,000.
- Transfer 10% of the distributable profit to General Reserve.

1.16 Double Entry Book Keeping—CBSE XII

Solution:

PROFIT & LOSS APPROPRIATION ACCOUNT

Dr. *sultan chand* for the year ended 31st March, 2026 Cr. *sultan chand*

Particulars	₹	Particulars	₹
To Interest on Capital A/cs:		By Profit & Loss A/c—Net Profit	3,69,000
Simran	12,000	(After Interest on Puneet's Loan)	
Puneet	9,600	(₹ 3,75,000 – ₹ 6,000) (WN 1)	
	21,600	By Interest on Drawings A/cs:	
To General Reserve A/c (WN 3)	34,950	Simran	1,200
To Share of Profit transferred to:		Puneet	900
Simran's Capital A/c	1,57,275		2,100
Puneet's Capital A/c	1,57,275		
	3,14,550		
	3,71,100		3,71,100

Dr. *sultan chand* PARTNERS' CAPITAL ACCOUNTS Cr. *sultan chand*

Particulars	Simran (₹)	Puneet (₹)	Particulars	Simran (₹)	Puneet (₹)
To Bank A/c (Drawings)	40,000	30,000	By Balance b/d	2,00,000	1,60,000
To Interest on Drawings A/c	1,200	900	By Interest on Capital A/c	12,000	9,600
To Balance c/d	3,28,075	2,95,975	By Profit & Loss		
			Appropriation A/c (Profit)	1,57,275	1,57,275
	3,69,275	3,26,875		3,69,275	3,26,875

Working Notes:

- Interest on Partner's Loan is allowed @ 6% p.a., as there is no agreement. It will be shown on the debit side of the Profit & Loss Account being a charge on profit.
- As the date of drawings is not mentioned, interest is calculated for the average period, i.e., 6 months.
- General Reserve is calculated @ 10% of ₹ 3,49,500 (i.e., ₹ 3,69,000 + ₹ 1,200 + ₹ 900 – ₹ 21,600).

Illustration 11.

X and Y entered into partnership on 1st April, 2025 and contributed ₹ 4,80,000 and ₹ 3,60,000 respectively as their capitals. On 1st October, 2025, X granted loan of ₹ 1,20,000 to the firm. The terms of the partnership agreement are as follows:

- Interest on capital @ 12% p.a. and Interest on Drawings @ 10%.
- X to get monthly salary of ₹ 12,000 and Y to get salary of ₹ 54,000 per quarter.
- X is entitled to commission of 2% on sales. Sales for the year were ₹ 21,00,000.
- 20% of profits before charging Interest on Drawings but after making appropriations to be transferred to General Reserve.
- Profits and losses are to be shared in the ratio of their capital contribution up to ₹ 4,20,000 and above ₹ 4,20,000 equally.

Profit for the year ended 31st March, 2026, before providing for interest was ₹ 11,06,400. Drawings of X and Y were ₹ 2,40,000 and ₹ 3,00,000 respectively.

Prepare Profit & Loss Appropriation Account and Partners' Capital Accounts.

Solution:

PROFIT & LOSS APPROPRIATION ACCOUNT

Dr. *sultan chand* for the year ended 31st March, 2026 *sultan chand* Cr.

Particulars	₹	Particulars	₹
To Interest on Capital A/cs:		By Profit & Loss A/c:	
X (₹ 4,80,000 × 12/100)	57,600	Net Profit	11,06,400
Y (₹ 3,60,000 × 12/100)	43,200	Less: Interest on X's Loan	3,600
	1,00,800	(₹ 1,20,000 × 6/12 × 6/100)	
To Partners' Salary:		(Note 1)	
X (₹ 12,000 × 12)	1,44,000	By Interest on Drawings A/cs: (Note 2)	
Y (₹ 54,000 × 4)	2,16,000	X (₹ 2,40,000 × 10/100 × 6/12)	12,000
	3,60,000	Y (₹ 3,00,000 × 10/100 × 6/12)	15,000
To X's Commission	42,000		27,000
(2% of ₹ 21,00,000)			
To General Reserve (Note 3)	1,20,000		
To Profit transferred to:			
X's Capital A/c	2,83,500		
Y's Capital A/c	2,23,500		
	5,07,000*		
	11,29,800		11,29,800

***Division of Profit:**

Partners	Up to ₹ 4,20,000	₹ 87,000 (above ₹ 4,20,000)	Total
X	₹ 2,40,000	₹ 43,500	₹ 2,83,500
Y	₹ 1,80,000	₹ 43,500	₹ 2,23,500
Total	₹ 4,20,000	₹ 87,000	₹ 5,07,000

Dr.

PARTNERS' CAPITAL ACCOUNTS

Cr.

Particulars	X ₹	Y ₹	Particulars	X ₹	Y ₹
To Drawings A/c	2,40,000	3,00,000	By Bank A/c	4,80,000	3,60,000
To Interest on Drawings A/c	12,000	15,000	By Interest on Capital A/c	57,600	43,200
To Balance c/d	7,55,100	5,27,700	By Partners' Salary A/c	1,44,000	2,16,000
			By X's Commission A/c	42,000	...
			By Profit & Loss Appro. A/c (Profit)	2,83,500	2,23,500
	10,07,100	8,42,700		10,07,100	8,42,700

Notes:

- As per The Indian Partnership Act, 1932, Interest on loan is to be allowed @ 6% p.a.
- Interest on Drawings has been calculated for an average period of 6 months as the date of drawings is not given.
- Transfer to Reserve = 20% of (₹ 11,02,800 – ₹ 1,00,800 – ₹ 3,60,000 – ₹ 42,000) = ₹ 1,20,000.

Illustration 12 (Distribution of Profit in wrong Profit-Sharing Ratio).

X, Y and Z shared the profit of ₹ 7,50,000 in the ratio of 2 : 2 : 1 without providing for interest on Y's Loan. Y granted a loan of ₹ 5,00,000 in the beginning of accounting year, whereas the Partnership Deed is silent on interest on loan and the profit-sharing ratio. Give necessary adjustment entry.

1.18 Double Entry Book Keeping—CBSE XII

Solution:

ADJUSTMENT JOURNAL ENTRY

Date	Particulars	L.F.	Dr. ₹	Cr. ₹
	X's Capital A/c ...Dr.		60,000	
	Y's Capital A/c ...Dr.		60,000	
	To Z's Capital A/c			90,000
	To Y's Loan A/c			30,000
	(Profit distributed in wrong ratio, now rectified after providing for interest on loan)			

STATEMENT SHOWING THE ADJUSTMENT TO BE MADE

Particulars	X's Capital A/c		Y's Capital A/c		Z's Capital A/c		Firm	
	Dr. (₹)	Cr. (₹)	Dr. (₹)	Cr. (₹)	Dr. (₹)	Cr. (₹)	Dr. (₹)	Cr. (₹)
Amount already credited as share of profit in the ratio of 2 : 2 : 1	3,00,000	...	3,00,000	...	1,50,000	...	...	7,50,000
Amount which should have been credited as share of profit (₹ 7,50,000 – ₹ 30,000) in the ratio of 1 : 1 : 1	...	2,40,000	...	2,40,000	...	2,40,000	7,20,000	...
	3,00,000	2,40,000	3,00,000	2,40,000	1,50,000	2,40,000	7,20,000	7,50,000
Net Effect	60,000 Dr.	...	60,000 Dr.	...	...	90,000 Cr.	...	30,000*

*Interest on loan ₹ 30,000 (*i.e.*, ₹ 5,00,000 × 6/100) is a charge against profit. It is an expense for the firm and hence, is debited to Profit & Loss Account. On the other hand, it is a gain for partner as a lender and hence is credited to his Loan Account and not to his Capital Account. Being a charge against profits, it should be transferred to the debit of Profit & Loss Account and not to the debit of Profit & Loss Appropriation Account.

Illustration 13 (*Guarantee by the Firm as well as by Partners*).

A, B, C and D are partners sharing profits and losses in the ratio of 4 : 3 : 2 : 1. Their capitals as at 1st April, 2025 were ₹ 3,00,000; ₹ 2,50,000; ₹ 1,50,000 and ₹ 1,00,000 respectively.

D's share of profits *excluding* interest on capital has been guaranteed by the firm to be not less than ₹ 2,50,000. C's share of profits *including* interest on capital and salary guaranteed by A is not less than ₹ 2,60,000.

The profit for the year ended 31st March, 2026 were ₹ 9,00,000 before interest on capital @ 10% and salary to C @ ₹ 10,000 per month.

Prepare Profit & Loss Appropriation Account and distribute the profit.

Solution:**PROFIT & LOSS APPROPRIATION ACCOUNT**Dr. *sultan chand* for the year ended 31st March, 2026 Cr. *sultan chand*

Particulars	₹	Particulars	₹
To Interest on Capital A/cs:		By Profit & Loss A/c	9,00,000
A (₹ 3,00,000 × 10/100)	30,000	—Net Profit	
B (₹ 2,50,000 × 10/100)	25,000		
C (₹ 1,50,000 × 10/100)	15,000		
D (₹ 1,00,000 × 10/100)	10,000		
	80,000		
To C's Salary A/c (₹ 10,000 × 12)	1,20,000		
To Share of Profit transferred to Capital A/cs:			
[(₹ 9,00,000 – ₹ 80,000 –			
₹ 1,20,000) = ₹ 7,00,000]			
A: 4/10 of ₹ 7,00,000	2,80,000		
Less: Firm's Deficiency			
borne (WN 1)			
(₹ 1,80,000 × 4/9)	80,000		
Deficiency borne of C	25,000	1,75,000	
B: 3/10 of ₹ 7,00,000	2,10,000		
Less: Firm's Deficiency			
(₹ 1,80,000 × 3/9)	60,000	1,50,000	
C: 2/10 of ₹ 7,00,000	1,40,000		
Less: Firm's Deficiency			
(₹ 1,80,000 × 2/9)	40,000		
	1,00,000		
Add: Deficiency recovered			
from A (WN 2)	25,000	1,25,000	
D: 1/10 of ₹ 7,00,000	70,000		
Add: Deficiency recovered			
from A, B and C	1,80,000	2,50,000	
		9,00,000	9,00,000

Working Notes:

1. Calculation of firm's deficiency:		₹
D's share of profit <i>excluding</i> interest on Capital has		
been guaranteed by the firm		2,50,000
Less: D's share of profits (₹ 7,00,000 × 1/10)		70,000
Firm's deficiency borne by A, B and C		<u>1,80,000</u>
2. Calculation of deficiency recovered by C from A:		
C's share of profits (₹ 7,00,000 × 2/10)		1,40,000
Less: C's share in firm's deficiency (₹ 1,80,000 × 2/9)		40,000
		<u>1,00,000</u>
Add: Interest on Capital	15,000	
Salary	1,20,000	1,35,000
		<u>2,35,000</u>
Deficiency recovered from A (Balancing Figure)		25,000
C's share of profits <i>including</i> interest on capital		
and salary is guaranteed by A		<u>2,60,000</u>

1.20 Double Entry Book Keeping—CBSE XII

Illustration 14 (Guarantee and Past Adjustment).

The partners of a firm distributed the profit for the year ended 31st March, 2026, ₹ 4,50,000 in the ratio of 3 : 2 : 1 without providing for the following:

- Salary to X and Z of ₹ 7,500 p.a. each.
- Commission to Y of ₹ 22,500.
- Y and Z had guaranteed a minimum profit of ₹ 1,75,000 to X.
- Profit was to be shared in the ratio of 3 : 3 : 2.

Pass necessary Journal entry for the above adjustment in the books of the firm.

Solution:

JOURNAL

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
2026 March 31	X's Capital A/c To Y's Capital A/c To Z's Capital A/c (Required adjustment made to rectify the errors)	...Dr.	42,500	15,000 27,500

Working Notes:

1.

ADJUSTMENT TABLE

Particulars	X's Capital A/c		Y's Capital A/c		Z's Capital A/c		Firm	
	Dr. (₹)	Cr. (₹)	Dr. (₹)	Cr. (₹)	Dr. (₹)	Cr. (₹)	Dr. (₹)	Cr. (₹)
Salaries to be paid to X and Z	...	7,500	...	...	...	7,500	15,000	...
Commission to be paid to Y	...	...	...	22,500	...	...	22,500	...
Profit to be shared (WN 2)	...	1,75,000	...	1,42,500	...	95,000	4,12,500	...
Profit of ₹ 4,50,000 already distributed in 3 : 2 : 1, now to be debited	2,25,000	...	1,50,000	...	75,000	...	...	4,50,000
Total	2,25,000	1,82,500	1,50,000	1,65,000	75,000	1,02,500	4,50,000	4,50,000
Net Effect (Dr./Cr.)	42,500 (Dr.)		15,000 (Cr.)		27,500 (Cr.)		NIL	

2.

PROFIT & LOSS APPROPRIATION ACCOUNT

Dr.

for the year ended 31st March, 2026

Cr.

Particulars	₹	Particulars	₹
To Partner's Salary: X Z	7,500 7,500	By Profit & Loss A/c (Net Profit)	4,50,000
To Y's Commission A/c	22,500		
To Profit transferred to: X's Capital A/c Y's Capital A/c Z's Capital A/c	1,75,000 1,42,500 95,000		
	4,50,000		4,50,000

3. **Distribution of Profit:** Profit of ₹ 4,12,500 (i.e., ₹ 4,50,000 – ₹ 15,000 – ₹ 22,500) will be distributed among X, Y and Z in the ratio of 3 : 3 : 2. X's share = ₹ 4,12,500 × 3/8 = ₹ 1,54,687.50. Y and Z had guaranteed minimum profit of ₹ 1,75,000 to X. Guaranteed profit is higher than his actual profit. Therefore, out of ₹ 4,12,500, first ₹ 1,75,000 will be credited to X and balance of ₹ 2,37,500 will be distributed between Y and Z in ratio of 3 : 2. Y will get 3/5 of ₹ 2,37,500, i.e., ₹ 1,42,500 and Z will get 2/5 of ₹ 2,37,500, i.e., ₹ 95,000.

Final distribution will be X—₹ 1,75,000; Y—₹ 1,42,500 and Z—₹ 95,000.

1.22 Double Entry Book Keeping—CBSE XII

PARTNERS' CURRENT ACCOUNTS							
Dr.							Cr.
Particulars	A (₹)	B (₹)	C (₹)	Particulars	A (₹)	B (₹)	C (₹)
To Balance c/d		4,000		By Balance b/d	10,000		5,000
To Drawings A/c	72,000	48,000	48,000	By Partners' Salary A/c		20,000	30,000
To Interest on Drawings A/c	3,300	2,200	2,200	By Interest on Capital A/c	11,000	8,750	4,500
To Balance c/d	38,600	67,450	35,750	By Profit & Loss App. A/c	92,900	92,900	46,450
	<u>1,13,900</u>	<u>1,21,650</u>	<u>85,950</u>		<u>1,13,900</u>	<u>1,21,650</u>	<u>85,950</u>

PARTNERS' CAPITAL ACCOUNTS							
Dr.							Cr.
Particulars	A (₹)	B (₹)	C (₹)	Particulars	A (₹)	B (₹)	C (₹)
To Bank A/c			10,000	By Balance b/d	1,00,000	80,000	50,000
To Balance c/d	1,20,000	95,000	40,000	By Bank A/c	20,000	15,000	
	<u>1,20,000</u>	<u>95,000</u>	<u>50,000</u>		<u>1,20,000</u>	<u>95,000</u>	<u>50,000</u>

Illustration 16 (When Partnership Deed does not Exist).

Amit presents following Profit & Loss Appropriation Account to his partner Bishan:

PROFIT & LOSS APPROPRIATION ACCOUNT for the year ended 31st March, 2026							
Dr.							Cr.
Particulars	₹			Particulars	₹		
To Amit's Capital A/c—Salary	1,00,000			By Profit & Loss A/c (Net Profit)	2,94,000		
To Bishan's Capital A/c—Salary	70,000						
To Interest on Capital @ 6% p.a.:							
Amit on ₹ 5,00,000	30,000						
Bishan on ₹ 2,00,000	<u>12,000</u>		42,000				
To Interest on Amit's Loan @ 6% p.a.							
	12,000						
To Profit transferred to:							
Amit's Capital A/c (5/7 of ₹ 70,000)	50,000						
Bishan's Capital A/c (2/7 of ₹ 70,000)	<u>20,000</u>		70,000				
	<u>2,94,000</u>				<u>2,94,000</u>		

Bishan is of the opinion that he has not been treated fairly. The partnership is not supported by a Partnership Deed. Point out whether the Profit & Loss Appropriation Account prepared by Amit is as per the provisions of the Indian Partnership Act, 1932.

You are required to redraw Profit & Loss Appropriation Account on the basis of the Provisions of Indian Partnership Act, 1932.

Solution: The account presented by Amit is not correct because when Partnership Deed does not exist, provisions of the Indian Partnership Act, 1932 apply. Therefore,

- Salary will not be paid to any of the partners.
- Interest on capitals will not be allowed.
- Both partners will share profit equally.
- Interest charged on Amit's Loan @ 6% p.a. is in order. Interest on such loan being a charge against the profit, shall be transferred to the debit of the Profit & Loss Account and not to the debit of the Profit & Loss Appropriation Account.

1.24 Double Entry Book Keeping—CBSE XII

Dr. PARTNERS' CAPITAL ACCOUNTS				Cr.			
Date	Particulars	A (₹)	B (₹)	Date	Particulars	A (₹)	B (₹)
2026				2025			
March 31	To Drawings A/c	8,000	6,000	April 1	By Balance b/d	50,000	30,000
March 31	To Balance c/d	74,714	41,286	2026			
				March 31	By Interest on Capital A/c	3,000	1,800
				March 31	By Partner's Salary A/c	...	6,000
				March 31	By Commission A/c	6,000	1,581
				March 31	By Profit & Loss Appropriation A/c (Profit)	23,714	7,905
		82,714	47,286			82,714	47,286

Working Notes:

1. A's Commission = $2/100 \times ₹ 3,00,000 = ₹ 6,000$

2. B's Commission:

Net profit after charging interest, salary and A's Commission

but before charging B's Commission = ₹ (50,000 – 4,800 – 6,000 – 6,000) = ₹ 33,200

Profit after Commission	Commission	Profit before Commission
100	5	105
	x	33,200

∴ $x = 5/105 \times ₹ 33,200 = ₹ 1,581$.

3. Rent payable to a partner for the use of his premises is a charge against profit not an appropriation of profit. Hence, Amount transferred to Profit & Loss Appropriation Account is ₹ 50,000 (i.e., ₹ 74,000 – ₹ 24,000).

Illustration 18.

A, B and C are partners sharing profits in the ratio of 5 : 4 : 1. C is given a guarantee that his share of profit in any given year would be ₹ 50,000. Deficiency, if any, would be borne by A and B equally. Profit for the year ending 31st March, 2026 was ₹ 4,00,000.

Pass necessary entries in the books of the firm.

Solution:

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Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
2026				
March 31	Profit & Loss A/c ...Dr. To Profit & Loss Appropriation A/c (Net profit transferred to Profit & Loss Appropriation Account)		4,00,000	4,00,000
	Profit & Loss Appropriation A/c ...Dr. To A's Capital A/c To B's Capital A/c To C's Capital A/c (Net profit distributed among the partners in the ratio of 5 : 4 : 1)		4,00,000	2,00,000 1,60,000 40,000
	A's Capital A/c ...Dr. B's Capital A/c ...Dr. To C's Capital A/c (₹ 50,000 – ₹ 40,000) (Deficiency of C's share in profits, met by A and B equally)		5,000 5,000	10,000

Working Note: When the net profit of ₹ 4,00,000 is distributed amongst the partners in the ratio of 5 : 4 : 1, C gets ₹ 40,000 (i.e., 1/10th of ₹ 4,00,000). But his guaranteed profit is ₹ 50,000. The shortfall of ₹ 10,000 (i.e., ₹ 50,000 – ₹ 40,000) is to be borne by A and B equally. In effect, shortfall borne by A is ₹ 5,000 (i.e., 1/2 of ₹ 10,000) and B is ₹ 5,000 (i.e., 1/2 of ₹ 10,000).

Illustration 19.

A and B are partners sharing profits and losses in the ratio of 3 : 2 with capitals of ₹ 4,00,000 and ₹ 3,00,000 respectively. Interest on capital is agreed @ 5% p.a. B is to be allowed an annual salary of ₹ 30,000 which has not been withdrawn. Profit for the year ending 31st March, 2026 prior to calculation of interest on capital but after charging B's salary is ₹ 1,20,000. A provision of 5% of the profit is to be made in respect of commission to the manager. Prepare an account showing the appropriation of profit.

Solution:

Dr. PROFIT & LOSS ACCOUNT for the year ended 31st March, 2026 Cr.

Particulars	₹	Particulars	₹
To Manager's Commission A/c (@ 5% on ₹ 1,50,000)	7,500	By Profit (₹ 1,20,000 + ₹ 30,000) (Note)	1,50,000
To Net Profit transferred to Profit & Loss Appropriation A/c	1,42,500		
	1,50,000		1,50,000

Dr. PROFIT & LOSS APPROPRIATION ACCOUNT for the year ended 31st March, 2026 Cr.

Particulars	₹	Particulars	₹
To B's Salary A/c	30,000	By Profit & Loss A/c (Net Profit)	1,42,500
To Interest on Capital A/cs:			
A	20,000		
B	15,000		
	35,000		
To Profit transferred to:			
A's Capital A/c	46,500		
B's Capital A/c	31,000		
	77,500		
	1,42,500		1,42,500

Note: Manager is an employee of the firm. Commission payable to him/her is in the nature of salary. Therefore, it is debited to Profit & Loss Account to determine net profit.

Unsolved Questions

1. A and B are partners in a firm sharing profits equally. They had advanced ₹ 30,000 as loan in their profit-sharing ratio on 1st October, 2025. The Partnership Deed is silent on the question of interest on the loan from partners. Compute the interest payable by the firm to the partners, assuming the firm closes its books on 31st March each year.

[Ans.: Interest on partner's loan = ₹ 15,000 × 6/100 × 6/12 = ₹ 450.]

2. On 1st April, 2025, A and B entered into partnership contributing ₹ 60,000 and ₹ 45,000 respectively. They agreed to share profits and losses in the ratio of 3 : 2. B is allowed salary of ₹ 12,000 per year. Interest on capital is to be allowed @ 10% p.a. During the year, A withdrew ₹ 9,000 and B withdrew ₹ 18,000 as drawings. Interest on drawings paid by A and B were ₹ 150 and ₹ 210 respectively. Profit for the year ended 31st March, 2026 before the above adjustments was ₹ 35,000. Show distribution of profits by preparing Profit & Loss Appropriation Account of the firm. Prepare Partners' Capital Accounts also.

[Ans.: Profit: A—₹ 7,716; B—₹ 5,144 and Balances of Capital A/cs: A—₹ 64,566; B—₹ 48,434.]

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3. Ram and Mohan are equal partners. Their capitals are ₹ 4,000 and ₹ 8,000 respectively. After the accounts for the year are prepared it is discovered that interest @ 5% p.a. on capital as provided in the Partnership Deed has not been credited to the Capital Accounts before distribution of profits. It is decided to make an adjusting entry in the beginning of the next year.

Give necessary adjustment entry.

[Ans.: Debit Ram and Credit Mohan by ₹ 100.]

4. X and Y are partners in a firm sharing profits in the ratio of 3 : 2. They have a manager, Z, who gets ₹ 10,000 p.m. salary plus commission of 5% of the profit after charging his salary and commission. Now, they decide to admit Z as a partner, giving him 1/5th share in the profits of the firm. Any excess amount which Z receives as a partner (over his salary and commission) will be borne by X. The profit for the year ended 31st March, 2026 amounted to ₹ 8,40,000 after charging Z's salary. Prepare Profit & Loss Appropriation Account showing the division of profit for the year.

[Ans.: Z's Share as a Manager = ₹ 1,60,000; Z's Share as a Partner = ₹ 1,92,000

Deficiency of ₹ 32,000 to be met by X. Final Share of Profit:

X = ₹ 4,48,000; Y = ₹ 3,20,000; Z = ₹ 1,92,000.]

5. A and B are partners sharing profits and losses equally with capitals of ₹ 30,000 and ₹ 20,000 respectively. Their drawings during the year 2025–26 are:

		₹
A's drawings on	30th June, 2025	500
	31st July, 2025	600
	1st October, 2025	450
	1st March, 2026	1,400

B drew ₹ 300 at the end of each month. The Deed provides for interest on capitals and drawings @ 6% p.a. Calculate interest on capitals and drawings for the year ended 31st March, 2026.

[Ans.: Interest on Capitals: A—₹ 1,800 and B—₹ 1,200;

Interest on Drawings: A—₹ 67 and B—₹ 99.]

6. Kalu and Lalu are partners in a firm. Their capitals on 1st April, 2025 were: Kalu ₹ 50,000 and Lalu ₹ 30,000. They share profits and losses in the ratio of 3 : 2. They earned profits of ₹ 55,000 for the year ended 31st March, 2026. Their Drawings were: Kalu ₹ 3,500 and Lalu ₹ 2,400.

Prepare Profit & Loss Appropriation Account and the Partners' Capital Accounts after taking into consideration the following facts:

- Partners' Salaries—Kalu ₹ 500 per month, Lalu ₹ 400 per month.
- Interest is payable @ 5% p.a. on the Partners' Capitals.
- Interest is to be charged @ 5% p.a. on the Partners' Drawings.

[Ans.: Divisible Profit: Kalu—₹ 24,208.50 and Lalu—₹ 16,139;

Balance of Capital: Kalu—₹ 79,121 and Lalu—₹ 49,979.]

7. Ripa, Rini and Rima are three partners in a firm. According to Partnership Deed, the partners are entitled to draw ₹ 700 per month. On 1st day of every month Ripa, Rini and Rima draw ₹ 700, ₹ 600 and ₹ 500 respectively. Interest on capitals and interest on drawings are fixed @ 8% p.a. and 10% p.a. respectively. Profit during the year 2025–26 was ₹ 75,500 out of which ₹ 20,000 is transferred to the General Reserve. Rini and Rima are entitled to receive a salary of ₹ 3,000 and ₹ 4,500 p.a. respectively and Ripa is entitled to receive commission @ 10% on net distributable profits after charging such commission.

On 1st April, 2025, the balances of their Capital Accounts were ₹ 50,000, ₹ 40,000 and ₹ 35,000 respectively. You are required to show the Profit & Loss Appropriation Account for the year ended 31st March, 2026 and the Capital Accounts of Partners in the books of the firm.

[Ans.: Net Divisible Profit—₹ 35,609; Ripa's Commission—₹ 3,561; Closing Balance of Capital A/cs: Ripa—₹ 60,576; Rini—₹ 50,480; Rima—₹ 47,844.]

[Hint: Interest on Drawings (For 6.5 months): Ripa ₹ 455; Rini ₹ 390; Rima ₹ 325.

Ripa's Commission = 10/110 of [₹ 75,500 + ₹ 1,170 (Interest on Drawings) – ₹ 20,000 (General Reserve) – ₹ 10,000 (Interest on Capital) – ₹ 7,500 (Salary)] = ₹ 3,561.]

8. A and B formed a partnership on 1st April, 2025. They agreed that out of profits:

- A should receive a salary of ₹ 500 per month;
- Interest on capitals should be allowed @ 6% p.a. and
- Remaining profits be divided equally.

A contributed a capital of ₹ 50,000 on 1st April, 2025 but B brought in his capital of ₹ 1,00,000 on 1st July, 2025. During the year, the drawings were: A ₹ 15,000 and B ₹ 20,000. Profit for the year ended 31st March, 2026 before the above noted salary and interest was ₹ 50,000.

Prepare Profit & Loss Appropriation Account and the Capital Accounts of the Partners.

[Ans.: Capital Accounts: A—₹ 62,250; B—₹ 1,02,750.]

9. A and B had been sharing profits and losses equally. After dividing the profits for the year 2025–26 ₹ 60,000, it was agreed that they would share profits and losses from 1st April, 2025 in the ratio of 3 : 2. At that time it was also found that while preparing accounts for 2025–26, interest on capital @ 5% p.a. was ignored. The fixed capitals of A and B were ₹ 1,00,000 and ₹ 80,000 respectively.

Pass a single adjustment entry to adjust the accounts of the partners. (Foreign 1995, Modified)

[Ans.: Dr. B's Current A/c—₹ 5,600 and Cr. A's Current A/c—₹ 5,600.]

10. Shiv and Shanker were partners in a firm sharing profits in 3 : 2 ratio. Their fixed capitals were ₹ 1,70,000 and ₹ 2,10,000 respectively. The Partnership Deed provides the following:

- Interest on Capital @ 12% p.a.
- Interest on Drawings @ 18% p.a.

Shiv withdrew ₹ 12,000 on 30th June, 2025 and Shanker withdrew ₹ 18,000 on 30th September, 2025. The profit for the year ended 31st March, 2026 was ₹ 97,000, which was distributed among the partners without providing for the above adjustments. Pass adjustment entry. (Foreign 2008, Modified)

[Ans.: Dr. Shiv's Current A/c and Cr. Shanker's Current A/c by ₹ 6,636.]

11. A, B and C are partners in a firm. A and B sharing profits in the ratio of 5 : 3 and C receiving a salary of ₹ 150 per month, plus a commission of 5% on the profits after charging such salary and commission or 1/5th of the profits of the firm, whichever is larger. Any excess of the latter over the former is, under the partnership agreement, to be borne personally by A.

The profits for the year ended 31st March, 2026 amounted to ₹ 10,710 after charging C's salary.

Prepare Profit & Loss Appropriation Account showing the division of the profits of the year.

[Ans.: Share of Profit: A—₹ 6,183; B—₹ 3,825; C—₹ 2,502.]

[Hint: For C: (i) $(₹ 150 \times 12) + (5/105 \times ₹ 10,710) = ₹ 2,310$ or

(ii) C's share = $1/5 [₹ 10,710 (\text{Profit}) + ₹ 1,800 (\text{Salary})] = ₹ 2,502$

C will get ₹ 2,502 since Option (ii) is higher than Option (i).

Deficiency = ₹ 2,502 – ₹ 2,310 = ₹ 192, borne by A.

Share of profit before adjusting deficiency: A = $5/8 \times (₹ 12,510 - ₹ 2,310)$;

B = $3/8 \times (₹ 12,510 - ₹ 2,310)$.]

12. Abha and Bhrat were partners. They shared profits and losses equally. On 1st April, 2014 their Capital Accounts showed balances of ₹ 3,00,000 and ₹ 2,00,000 respectively. Calculate the amount of profit to be distributed between the partners if the Partnership Deed provided for Interest on Capital @ 10% p.a. and the firm earned a profit of ₹ 50,000 for the year ended 31st March, 2015. (Delhi 2016 C)

[Ans.: Profit Available for Distribution—NIL.]

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13. If the Partners' Capital Accounts are fixed where will the following be recorded?

- | | |
|--|--------------------------------------|
| (a) Salary payable to a partner, | (b) Drawings made by a partner, |
| (c) Fresh capital introduced by a partner, | (d) Share of profit of the firm, |
| (e) Share of loss of the firm, | (f) Commission payable to a partner, |
| (g) Interest on capital, and | (h) Interest on drawings. |

[Ans.: On Credit Side of Current A/c—(a), (d), (f) and (g);
On Debit Side of Current A/c—(b), (e) and (h);
On Credit Side of Capital A/c—(c).]

14. Nusrat and Sonu were partners in a firm sharing profits in the ratio of 3 : 2. During the year ended 31st March, 2015 Nusrat had withdrawn ₹ 15,000. Interest on her drawings amounted to ₹ 300.

Pass necessary Journal entry for charging interest on drawings assuming that the capitals of the partners were fixed. (Delhi 2016)

15. Tom and Harry were partners in a firm sharing profits in the ratio of 5 : 3. During the year ended 31st March, 2015 Tom had withdrawn ₹ 40,000. Interest on his drawings amounted to ₹ 2,000.

Pass necessary Journal entry for charging interest on drawings assuming that the capitals of the partners were fluctuating. (AI 2016)

16. Manpreet and Jaspreet were partners sharing profits and losses in the ratio of 3 : 2. They decided that from 1st April, 2026 they will share profits and losses equally. On that date, the Balance Sheet of the firm had credit balance of ₹ 1,00,000 in General Reserve. Jaspreet was of the opinion that it should be credited to the Capital Accounts equally. Manpreet was of the opinion that it should be credited to the Capital Accounts in their old profit-sharing ratio. Jaspreet agreed to the views of Manpreet. Explain what arguments must have been put forward by Manpreet to which Jaspreet agreed.

17. Mahesh and Ramesh are partners with capitals of ₹ 50,000 and ₹ 60,000 respectively. On 1st January, 2026, Mahesh gives a loan of ₹ 10,000 and Ramesh introduced ₹ 20,000 as additional capital. Profit for the year ended 31st March, 2026 was ₹ 15,200. There is no Partnership Deed. Both Mahesh and Ramesh expect interest @ 10% p.a. on the loan and additional capital advanced by them.

Show how the profits would be divided? Give reasons.

[Ans.: Divisible Profit—₹ 15,050 being Mahesh's share and Ramesh's share—₹ 7,525 each.]

[Hints: Reasons: (i) Interest on Partner's loan will be allowed @ 6% p.a.

(ii) No interest on partner's capital will be allowed.

(iii) Profits will be shared equally between partners.]

18. Jagmohan and Ramesh were partners with capital contribution of ₹ 10,00,000 and ₹ 5,00,000 respectively. They do not have a Partnership Deed. Jagmohan wants that the firm should allow interest on capital @ 6% p.a. Ramesh convinced Jagmohan that interest cannot be allowed on capital to which Jagmohan agreed after discussion. What argument must have been put forward by Ramesh that convinced Jagmohan?

19. Sunil and Jatinder were partners in a firm. Their drawings during the year were ₹ 1,00,000 and ₹ 75,000 respectively. They do not have a Partnership Deed. Jatinder wanted that the firm should charge interest on drawings @ 6% p.a. Sunil convinced Jatinder that interest cannot be charged on drawings to which Jatinder agreed after discussion. What argument must have been put forward by Sunil that convinced Jatinder?

20. Black and White are partners with capitals of ₹ 30,000 and ₹ 20,000 respectively. Profits for the year ended 31st March, 2026 amounted to ₹ 27,100. It is agreed that 5% interest on capital shall be allowed. There is no agreement regarding sharing of profits or partnership salary. Black is a whole-time partner whereas White does not attend business regularly. Black claims ₹ 600 salary per month and 60% of balance profits. White advanced ₹ 10,000 as loan and he now claims 10% interest.

State how you will settle the accounts.

[Ans.:

	Black (₹)	White (₹)
Interest on Capital @ 5%	1,500	1,000
Interest on Loan @ 6% p.a.	...	600
Residue of profit equally	12,000	12,000.]

21. From the following Balance Sheet of X and Y, calculate interest on capital @ 6% p.a. payable to Y for the year ended 31st March, 2026:

Liabilities	₹	Assets	₹
X's Capital A/c	50,000	Sundry Assets	1,10,000
Y's Capital A/c	40,000		
Contingency Reserve (transferred in 2025–26)	20,000		
	1,10,000		

During the year, Y's drawings were ₹ 15,000 and profit for the year ended 31st March, 2026 was ₹ 30,000.

[Ans.: Interest on Y's Capital—₹ 3,000.]

22. P, Q and R were partners in a firm sharing profits in the ratio of 1 : 2 : 2. After division of the profit for the year ended 31st March, 2026, their capitals were: P ₹ 1,50,000; Q ₹ 1,80,000 and R ₹ 2,10,000. During the year, they withdrew ₹ 20,000 each. The profit for the year was ₹ 60,000. The Partnership Deed provided that the interest on capital will be allowed @ 10% p.a. While preparing final accounts, interest on partners' capitals was not allowed.

You are required to calculate capital of P, Q and R as at 1st April, 2025 and pass necessary adjustment entry for providing interest on capital. Show your working clearly. (Delhi 2002, Modified)

[Ans.: Opening Capitals: P ₹ 1,58,000; Q ₹ 1,76,000; R ₹ 2,06,000;
Debit Q with ₹ 4,000; R with ₹ 1,000 and Credit P with ₹ 5,000.]

23. A, B and C were partners in a firm. On 1st April, 2025 their capitals stood at ₹ 50,000, ₹ 25,000 and ₹ 25,000 respectively. As per the provisions of the Partnership Deed:

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

The net profit for the year ended 31st March, 2026 of ₹ 45,000 was divided equally without providing for the above terms.

Pass an adjustment entry to rectify the above error.

[Ans.: A's Capital A/c (Dr.) ₹ 1,500; B's Capital A/c (Dr.) ₹ 8,250; C's Capital A/c (Cr.)—₹ 9,750.]

24. A, B and C entered into partnership on 1st April, 2024 to share profits and losses in the ratio of 5 : 3 : 2. A guaranteed that C's share of profit, after charging interest on capital @ 5% p.a., would not be less than ₹ 15,000 in any year.

The capitals were as follows: A—₹ 1,60,000; B—₹ 1,00,000 and C—₹ 80,000.

Profit for the year ended 31st March, 2026 amounted to ₹ 79,500 before providing for interest on capital. Show Profit & Loss Appropriation Account. [Ans.: Share of Profit: A—₹ 28,750; B—₹ 18,750; C—₹ 15,000.]

25. After the accounts of a partnership have been drawn up and the books closed, it is discovered that interest on capitals for the year 2024–25 and 2025–26 has been credited to partners though there is no such provision in the Partnership Deed. The amounts involved are:

Partners	Interest Credited	
	2024–25 (₹)	2025–26 (₹)
A	350	360
B	200	210
C	110	110

You are required to put through adjustment entries as on 1st April, 2026, if the profits were shared as follows:

2024–25—1 : 1 : 1; 2025–26—3 : 4 : 3

It may be assumed that capitals are fixed.

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[Ans.: 2024–25:

For Interest on Capital: Dr. A's Current A/c by ₹ 350; B's Current A/c by ₹ 200 and C's Current A/c by ₹ 110;
Cr. Profit & Loss Adjustment A/c ₹ 660.

For Profit: Dr. Profit & Loss Adjustment A/c by ₹ 660;
Cr. A's Current A/c by ₹ 220; B's Current A/c by ₹ 220 and C's Current A/c by ₹ 220.

2025–26:

For Interest on Capital: Dr. A's Current A/c by ₹ 360; B's Current A/c by ₹ 210 and C's Current A/c by ₹ 110;
Cr. Profit & Loss Adjustment A/c ₹ 680;

For Profit: Dr. Profit & Loss Adjustment A/c by ₹ 680
Cr. A's Current A/c by ₹ 204; B's Current A/c by ₹ 272 and C's Current A/c by ₹ 204.]

Note: If question requires necessary single Adjustment Entry:

Dr. A's Current A/c by ₹ 286;

Cr. B's Current A/c by ₹ 82 and C's Current A/c by ₹ 204.

26. On 31st March, 2026, the balances in the Capital Accounts of Ekta, Ankit and Chahat after making adjustments for profits and drawings were ₹ 1,50,000, ₹ 2,10,000 and ₹ 2,70,000 respectively. Subsequently, it was discovered that the interest on capital and drawings had been omitted.

- The profit for the year ended 31st March, 2026 was ₹ 1,20,000.
- During the year Ekta withdrew ₹ 24,000 and Ankit and Chahat each withdrew a sum of ₹ 24,000 in equal instalments in the middle of each quarter.
- The interest on drawings was to be charged @ 5% p.a. and interest on capital was to be allowed @ 10% p.a.
- The profit-sharing ratio among the partners was 1 : 2 : 3.

Showing your working notes clearly, pass the necessary rectifying entry.

[Ans.: Dr. Chahat's Capital A/c—₹ 5,400; Cr. Ekta's Capital A/c—₹ 5,400.]