

**Illustration 1.**

Ruma and Neha started business on 1st April, 2021, with fixed capitals of ₹ 4,00,000 and ₹ 3,50,000 respectively.

On 1st October, 2021, they decided that their total capital (fixed) should be ₹ 8,00,000, in their profit-sharing ratio of 3 : 2.

Accordingly, they introduced extra capital or withdrew excess capital.

Their partnership deed provided for the following:

- (a) Interest on capital to be allowed @ 10% per annum.
- (b) A monthly salary of ₹ 1,000 each to be allowed to both Ruma and Neha.
- (c) Interest on drawings to be charged @ 18% per annum.

Ruma had withdrawn ₹ 12,000 during the year. As per the deed, the interest on her drawings amounting to ₹ 1,080 to be charged from her.

During the year ending 31st March, 2022, the firm earned a net profit of ₹ 2,04,000 *before* charging manager's commission of ₹ 20,400 and interest on bank loan of ₹ 4,000.

You are required to:

- (i) Give the Journal entry to *close* Ruma's Drawings Account.
- (ii) Prepare Profit & Loss Appropriation Account for the year ending 31st March, 2022.

(ISC 2023)

**Solution:** (i) Journal entry to close Ruma's Current Account:

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Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
	Ruma's Current A/c ...Dr. To Ruma's Drawings A/c (Being the Drawings Account closed)		12,000	12,000

(ii)

PROFIT & LOSS APPROPRIATION ACCOUNT  
for the year ended 31st March, 2022

Dr.		Cr.	
Particulars	₹	Particulars	₹
To Interest on Capital (Note):		By Profit & Loss A/c (Net Profit) (Note)	1,79,600
Ruma	44,000	By Interest on Drawings A/c:	
Neha	33,500	Ruma	1,080
To Partner's Salary:			
Ruma	12,000		
Neha	12,000		
To Ruma's Current A/c (Profit) (3/5)	47,508		
To Neha's Current A/c (Profit) (2/5)	31,672		
	1,80,680		1,80,680

**Notes:**

1. Manager's commission (₹ 20,400) and Interest on Bank Loan (₹ 4,000) is a charge against profit. Hence, it is deducted from profit to determine net profit.

2. Interest on Capital:

	₹
Ruma: ₹ 4,00,000 × $\frac{10}{100} \times \frac{6}{12}$	20,000
₹ 4,80,000 × $\frac{10}{100} \times \frac{6}{12}$	24,000
	<u>44,000</u>
Neha: ₹ 3,50,000 × $\frac{10}{100} \times \frac{6}{12}$	17,500
₹ 3,20,000 × $\frac{10}{100} \times \frac{6}{12}$	16,000
	<u>33,500</u>

**Illustration 2.**

Ajay and Vijay are in partnership sharing profits and losses in the ratio of 3 : 1.

On 1st April, 2021, their capitals were ₹ 1,00,000 and ₹ 90,000.

The terms of their partnership are as follows:

- Interest on capital to be allowed @ 6% per annum.
- Interest on drawings to be charged @ 4% per annum.
- Partners to get a salary of ₹ 1,000 each per month.
- Vijay to get a commission of 2% on the correct net profit.
- Any partner taking a loan from the firm to be charged interest on it @ 8% per annum.

Ajay had borrowed ₹ 10,000 from the firm on 1st October, 2021.

Vijay had withdrawn ₹ 8,000 on 1st July, 2021.

During the year ending 31st March, 2022, the firm earned a net profit of ₹ 60,000 before any of the provisions mentioned in the partnership deed.

You are required to prepare for the year ending 31st March, 2022:

- Profit and Loss Appropriation Account.
- Ajay's Capital Account.

(ISC Specimen Question Paper 2023)

**Solution:** (i)

PROFIT & LOSS APPROPRIATION ACCOUNT

Dr. for the year ended 31st March, 2022 Cr.

Particulars	₹	Particulars	₹
To Salary A/c:		By Profit & Loss A/c (Net Profit)	60,400
Ajay	12,000	(₹ 60,000 + ₹ 400)	
Vijay	12,000	By Interest on Drawings A/c—Vijay	240
To Commission A/c (Vijay)		(₹ 8,000 × 4% × 9/12)	
To Interest on Capital A/cs:			
Ajay	6,000		
Vijay	5,400		
To Ajay's Capital A/c (Profit)	18,024		
To Vijay's Capital A/c (Profit)	6,008		
	60,640		60,640

(ii) Dr.		AJAY'S CAPITAL ACCOUNT		Cr.
Particulars	₹	Particulars	₹	
To Interest on Loan A/c	400	By Balance b/d	1,00,000	
To Balance c/d	1,35,624	By Salary A/c	12,000	
		By Interest on Capital A/c	6,000	
		By Profit & Loss Appropriation A/c	18,024	
	1,36,024		1,36,024	

**Illustration 3** (*Minimum Profit Guaranteed by a Partner*).

The partnership agreement of Rohit, Ali and Sneh provides that:

- Profits will be shared by them in the ratio of 2 : 2 : 1.
- Interest on capital to be allowed at the rate of 6% per annum.
- Interest on drawings to be charged at the rate of 3% per annum.
- Ali to be given a salary of ₹ 500 per month.
- Ali's guarantee to the firm that the firm would earn a net profit of at least ₹ 80,000 per annum and any shortfall in these profits would be personally met by him.

The capitals of the partners on 1st April, 2021, were:

Rohit—₹ 1,20,000; Ali—₹ 1,00,000; Sneh—₹ 1,00,000.

All the three partners withdrew ₹ 1,000 each at the beginning of every month.

The net profit for the year 2021–22 was ₹ 70,000.

You are required to prepare for the year 2021–2022:

- Profit and Loss Appropriation Account.
- Ali's Capital Account.

(ISC Specimen Question Paper 2023)

**Solution:**

(i) Dr.		PROFIT & LOSS APPROPRIATION ACCOUNT for the year ended 31st March, 2022		Cr.
Particulars	₹	Particulars	₹	
To Salary A/c (Ali)	6,000	By Profit & Loss A/c (Net Profit)	70,000	
To Interest on Capital A/cs:		By Ali's Capital A/c (Guarantee)	10,000	
Rohit	7,200	By Interest on Drawings A/cs:		
Ali	6,000	Rohit	195	
Sneh	6,000	Ali	195	
	19,200	Sneh	195	585
To Rohit's Capital A/c (Profit)	22,154			
To Ali's Capital A/c (Profit)	22,154			
To Sneh's Capital A/c (Profit)	11,077			
	55,385			
	80,585			80,585

**Note:** Ali has guaranteed that the firm would earn a net profit of at least ₹ 80,000 per annum. However, actual net profit earned by firm is ₹ 70,000. Therefore, the deficiency of ₹ 10,000 (*i.e.*, ₹ 80,000 – ₹ 70,000) is debited to Ali's Capital Account and credited to Profit & Loss Appropriation Account.

(ii) Dr.		ALI'S CAPITAL ACCOUNT		Cr.
Particulars	₹	Particulars	₹	
To Profit & Loss Appropriation A/c (Deficiency)	10,000	By Balance b/d	1,00,000	
To Drawings A/c	12,000	By Salary A/c	6,000	
To Interest on Drawings A/c	195	By Interest on Capital A/c	6,000	
To Balance c/d	1,11,959	By Profit & Loss Appropriation A/c	22,154	
	1,34,154		1,34,154	

#### Illustration 4.

The fixed Capital Accounts of Shiv, Azeem and Angad, sharing profits and losses in the ratio of 2 : 2 : 1, stood at ₹ 4,00,000, ₹ 6,00,000 and ₹ 2,00,000 respectively.

The accounts for the year ended 31st March, 2022, were drawn up and closed and the Current Account balances of the partners were determined to be:

Shiv ₹ 35,000, Azeem ₹ 40,000 and Angad ₹ 25,000.

Subsequently the following errors were discovered on 1st April, 2022:

- Interest on capital @ 10% per annum had been allowed to the partners, although there was no provision for it in the partnership deed.
- Salary of ₹ 16,000 per annum to Shiv and ₹ 20,000 per annum to Azeem was not allowed to them, despite a provision for salary in the partnership deed.
- Commission of ₹ 24,000 was not allowed to Angad, despite a provision for commission in the partnership deed.

You are required to prepare the adjusted Current Accounts of the partners on 1st April, 2022, to rectify the lapse in accounting. (ISC 2023)

#### Solution:

Dr.		PARTNERS' CURRENT ACCOUNTS						Cr.
Particulars	Shiv ₹	Azeem ₹	Angad ₹	Particulars	Shiv ₹	Azeem ₹	Angad ₹	
To Profit & Loss Adjustment A/c	40,000	60,000	20,000	By Balance b/d	35,000	40,000	25,000	
To Balance c/d	35,000	24,000	41,000	By Salary A/c	16,000	20,000	...	
				By Commission A/c	...	...	24,000	
				By Profit & Loss Adjustment A/c	24,000	24,000	12,000	
	75,000	84,000	61,000		75,000	84,000	61,000	

**Working Note:**

## PROFIT &amp; LOSS ADJUSTMENT ACCOUNT

Dr. *for the year ended 31st March, 2022* Cr.

Particulars	₹	Particulars	₹
To Partner's Salary A/c	36,000	By Interest on Capital A/c:	
To Partner's Commission A/c	24,000	Shiv	40,000
To Shiv's Current A/c (Profit) 24,000		Azeem	60,000
To Azeem's Current A/c (Profit) 24,000		Angad	20,000
To Angad's Current A/c (Profit) 12,000	60,000		
	1,20,000		1,20,000

**Alternate Solution:** By Single Adjusting Entry

Dr. PARTNERS' CURRENT ACCOUNTS Cr.

Particulars	Shiv ₹	Azeem ₹	Angad ₹	Particulars	Shiv ₹	Azeem ₹	Angad ₹
To Angad's Current A/c	...	16,000	...	By Balance b/d	35,000	40,000	25,000
To Balance c/d	35,000	24,000	41,000	By Azeem's Current A/c	...	...	16,000
	35,000	40,000	41,000		35,000	40,000	41,000

**Working Note:**

## TABLE SHOWING ADJUSTMENTS

Particulars	Shiv's Current A/c (₹)	Azeem's Current A/c (₹)	Angad's Current A/c (₹)	Total ₹
<b>A. Amount already credited:</b>				
Interest on Capital	40,000	60,000	20,000	1,20,000
<b>B. Amount which should have been credited:</b>				
Salary	16,000	20,000	...	36,000
Commission	...	...	24,000	24,000
Share of Profit (₹ 1,20,000 – ₹ 36,000 – ₹ 24,000) = ₹ 60,000 in the ratio of 2 : 2 : 1	24,000	24,000	12,000	60,000
	40,000	44,000	36,000	1,20,000
<b>C. Difference (A – B)</b>		16,000 (Excess) (Dr.)	16,000 (Short) (Cr.)	