1. A , B and C are partners with fixed capitals of 1,00,000 , 200,000 and 3,00,000 respectively. Their partnership deed provides that : (a) A is to be allowed a monthly salary of 600 and B is to be allowed a monthly salary of 400. (b) C will be allowed a commission of 5% of the net profit after allowing salaries of A and B. (c) Interest is to be allowed on capitals @ 6%. (d) Interest will be charged on partners annual drawings at 4%. (e) The annual drawings were :B 10,000 and C 15,000. The net profit for the year ending 31st march, 2014 amounted to 1,72,000. Prepare P&L Appropriation account.

[Ans: Share of profit 39,000 to each partner.

1. A, B and C were partners in a firm having capitals of Rs.60,000, Rs.60,000 andRs.80,000 respectively. Their current account balances were : A Rs.10,000; B Rs.5,000and C Rs.2,000 (Dr.). According to the partnership deed the partners were entitled tointerest on capital @5% p.a. C being the working partner was also entitled to a salaryof Rs.6,000 p.a. The profits were to be divided as follows: (a)The first Rs.20,000 in proportion to their capitals (b) Next Rs.30,000 in the ratio of 5 : 3 : 2 (c) Remaining profits to be shared equally The firm made a profit of Rs.1,56,000 before charging any of the above items. Prepare the profit and loss appropriation account and pass the necessary Journal entry for the appropriation of profits
2. [Answer :- Share of profit : A Rs.51,000; B Rs.45,000; C Rs.44,000
3. David and John were partners in a firm sharing profits in the ratio of 4 : 1. Theircapitals on 1.4.2006 were : David Rs.2,50,000 and John Rs.50,000. The partnershipdeed provided that David will get a commission of 10% on the net profit afterallowing a salary of Rs.2,500 per month to John. The profit of the firm for the yearended 31.3.2007 was Rs.1,40,000. Prepare Profit and Loss Appropriation Account for the year ended 31.3.2007

(a) Salaries Of partners   
(b) Interest on partners’ capitals  
(c) Interest on partners’ loan  
(d) Division of profit, and  
(e) Interest on partners’ drawings

1. Bat and Ball are partners sharing the profits in the ratio of 2 : 3 with capitals of ₹ 1,20,000 and ₹ 60,000 respectively. On 1st October, 2018, Bat and Ball gave loans of ₹ 2,40,000 and ₹ 1,20,000 respectively to the firm. Bat had allowed the firm to use his property for business for a monthly rent of ₹ 5,000. The loss for the year ended 31st March, 2019 before rent and interest amounted to ₹ 9,000. Show distribution of profit/loss.
2. Simrat and Bir are partners in a firm sharing profits and losses in the ratio of 3 : 2. On 31st March, 2019 after closing the books of account, their Capital Accounts stood at ₹ 4,80,000 and ₹ 6,00,000 respectively. On 1st May, 2018, Simrat introduced an additional capital of ₹ 1,20,000 and Bir withdrew ₹ 60,000 from his capital.On 1st October, 2018, Simrat withdrew ₹ 2,40,000 from her capital and Bir introduced ₹ 3,00,000. Interest on capital is allowed at 6% p.a. Subsequently, it was noticed that interest on capital @ 6% p.a. had been omitted. Profit for the year ended 31st March, 2019 amounted to ₹ 2,40,000 and the partners' drawings had been: Simrat – ₹ 1,20,000 and Bir – ₹ 60,000. Compute the interest on capital if the capitals are (a) fixed, and (b) fluctuating.
3. Show how the following will be recorded in the Capital Accounts of the Partners Sohan and Mohan when their capitals are fluctuating:

|  |  |  |
| --- | --- | --- |
|  | **Sohan (₹)** | **Mohan (₹)** |
| Capital on 1st April, 2018 | 4,00,000 | 3,00,000 |
| Drawings during the year ended 31st march, 2019 | 50,000 | 30,000 |
| Interest on Capital | 5% | 5% |
| Interest on Drawings | 1,250 | 750 |
| Share of Profit for the year ended 31st march, 2019 | 60,000 | 50,000 |
| Partner's Salary | 36,000 | ..... |
| Commission | 5,000 | 3,000 |

1. Sajal and Kajal are partners sharing profits and losses in the ratio of 2 : 1. On 1st April, 2018 their Capitals were: Sajal – ₹ 50,000 and Kajal – ₹ 40,000.  
   Prepare Profit and Loss Appropriation Account and the Partners' Capital Accounts at the end of the year after considering the following items:  
   (a) Interest on Capital is to be allowed @ 5% p.a.  
   (b) Interest on the loan advanced by Kajal for the whole year, the amount of loan being ₹ 30,000.  
   (c) Interest on partners' drawings @ 6% p.a. Drawings: Sajal ₹ 10,000 and Kajal ₹ 8,000.  
   (d) 10% of the divisible profit is to be transferred to Reserve.  
     
   Net profit for the year ended 31st March, 2019 is ₹ 68,460.  
   **Note:** Net profit means net profit after debit of interest on loan by the partner.

MULTIPLE CHOICE QUESTION:-

1. Rani and Shyam is partner in a firm. They are entitled to interest on their capital but the net profit was not sufficient for paying his interest, then the net profit will be disturbed among partner in

(a) 1 : 2 (b) Profit Sharing Ratio

(c) Capital Ratio (d) Equally

2. Which one of the following items is recorded in the Profit and Loss Appropriation account:-

(a) Interest on Loan (b) Partner salary

(c) Rent paid to Partner’s (d) Managers Commission

3. A, B and C were partner in a firm sharing Profit in the ratio of 3:2:1during the year the firm earned profit of ₹ 84,000.Calculate the amount of Profit or Loss transferred to the Capital A/c of B. (a) Loss ₹ 87,000 (b) Profit ₹ 87,000 (c) Profit ₹ 28,000 (d) Profit ₹14,000

4. Closing entry for interest on loan allowed to partners

(a) Interest on Partner’s loan … Dr. To Profit and Loss A/c

(b) Interest on loan … Dr. To Profit and Loss Appropriation A/c

(c) Profit and Loss Appropriation A/c …Dr. 18 To Interest on Partners loan A/c

(d) Profit and Loss Appropriation A/c …Dr. To Interest on loan A/c

5. Salary to a partner under fixed capital account is credited to (a) Partner’s Capital A/c (b) Partners current A/C (c) Profit & Loss A/c (d) Partner’s Loan A/c

6. In the absence of partnership deed partner share profit and loss in

(a) Ratio of capital Employed (b) Equal Ratio (c) 2 : 1 (d) 1 : 2

7. As per section a minor may be admitted for the benefit of the partnership if:-

(a) One partner agree (b) More than one agree (c) All Partners agree (d) Both (a) or (b)

8. If the partner carries on the business that is similar to firm competition with the firm and profit earned from it, the profit

(a) Shall be retained by the partner (b) Shall be paid to firm (c) Can be retained or gained to the firm (d) Both (a) or (b)

9. The relation of the partner with the firm is that of

(a) An owner (b) An agent and a Principal (c) An agent (d) Manager

10. A, B, and C are partner’s sharing profits in the ratio of 5:3:2 According to the partnership agreement C is to get a minimum amount of ₹ 10,000 as his share of profits every year. The net profit for the year ended 31st March, 2021 amounted to ₹ 40,000. How much amount contributed by A?

(a)₹ 1,350 (b) ₹ 1,250

(c) ₹ 750 (d) ₹ 1,225]

11. Goodwill is

(a) Tangible asset (b) Intangible asset (c) Fictitious asset (d) Both (b) & (c:

TRUE / FALSE

1. The nature of Profit and Loss Account is real.

2. Registration of partnership is optional.

3. A body corporate can be a partner in partnership firm.

4. Sleeping partner are those who do not take part in conduct of the business.

5. When the Partnership agreement is silent about the treatment of interest on capital then it will be treated as charge on profit.

6. Fixed capital always shows Dr. balance.

7. When a partnership firm gives loan to its partner then interest on loan will be debited in profit and loss account.

8. In case of fixed capital account method drawing out of capital is shown in partner current account.

9. Manager’s commission is shown in Profit and Loss Appropriation A/c.

10. Interest as a charge means interest on capital is to be allowed whether the firm has earned profit or incurred loss.

11. In the absence of partnership deed mutual relations are governed by the Indian partnership act 2013.

12. Capital in the beginning is calculated by subtracting drawing and adding profit distributed.