Accounts of Partnership Firms-Fundamentals 3 MARKS

12th Standard

Accountancy

20 x 3 = 60

1) A, B, C and D are partners in a firm. There is no partnership deed. How will you deal with the following?
(i) A has contributed maximum capital. He demands interest on capital at 12% per annum.
(ii) B has withdrawn Rs.1,000 per month. Other partners ask B to pay interest on drawings @ 10% per annum to the firm. But, B does not agree to it.
(iii) Loan advanced by C to the firm is Rs10,000. He demands interest on loan @ 9% per
annum. A and B do not agree with this.
(iv) D demands salary at the rate of Rs.5,000 per month as he spends full time for the business. B and C do not agree with this.
(v) A demands the profit to be shared in the capital ratio. But, B, C and D do not agree.
Answer : Since there is no partnership deed, provisions of the Indian Partnership Act, 1932 will apply.
(i) No interest on capital is payable to any partner. Therefore, A is not entitled to interest on capital.
(ii) No interest is chargeable on drawings made by the partner. Therefore, B need not pay interest on drawings.
(iii) Interest on loan is payable at 6% per annum. Therefore C is to get interest at 6% per annum on Rs.10,000.
(iv) No remuneration is payable to any partner. Hence, D is not entitled to salary.
(v) Profits should be distributed equally.

2) From the following balance sheets of Subha and Sudha who share profits and losses equally, calculate interest on capital at 6% p.a. for the year ending 31st December 2017.

Balance sheet as on 31st December 2017

Liabilities	**Rs.**	**Assets**	**Rs.**
Capital accounts:		Fixed assets	30,000
Subha	15,000	Current assets	20,000
Sudha	20,000		
	15,000		
	50,000		50,000

Drawings of Subha and Sudha during the year were Rs.2,500 and Rs.3,500 respectively. Profit earned during the year was Rs.15,000.
Answer :

Particulars	Subha Rs.	Sudha Rs.
Capital on 31st December 2017	15,000	20,000
Add: Drawings	2,500	3,500
	17,500	23,500
Less: Profit already credited	7,500	7,500
Capital on 1st January 2017	10,000	16,000

Calculation of interest on capital:

Subha:

On opening capital=10,00 x $\frac{6}{100}$ =Rs.600

Sudha:

On opening capital=16,000 x $\frac{6}{100}$ =Rs.960

3) A and B contribute Rs.4,00,000 and Rs.2,00,000 respectively as capital. Their respective share
of profit is 3:2 and the profit before interest on capital for the year is Rs.27,000. Compute the amount of interest on capital in each of the following situations:
(i) if the partnership deed is silent as to the interest on capital
(ii) if interest on capital @ 3% is allowed as per the partnership deed
(iii) if the partnership deed allows interest on capital @ 5% p.a.

Answer : (i) Interest on capital will not be allowed as the partnership deed is silent as to the interest on capital.
(ii) Profit before interest on capital is Rs.27,000.

Computation of interest on capital:

A: 4,00,000 x $\frac{3}{100}$ = Rs12,000

B: 2,00,000 x $\frac{3}{100}$ = Rs.6,000

Since there is sufficient profit, interest on capital will be provided.
(iii) Profit before interest on capital is Rs. 27,000.

Computation of interest on capital:

A: 4,00,000 x $\frac{5}{100}$ = Rs.20,000

B: 2,00,000 x $\frac{5}{100}$ = Rs.10,000

Since the profit is insufficient, interest on capital will not be provided. Profit of Rs.27,000 will be distributed to the partners in their capital ratio of 2:1.

4) Arul is a partner in a partnership firm. As per the partnership deed, interest on drawings is charged at 12% p.a. During the year ended 31st December 2018 he drew as follows:

Date	Rs.
March 1	3,000
June 1	3,000
September 1	3,000
December 1	3,000

Calculate the amount of interest on drawings.

Answer : Interest on drawings = Amount of drawings × Rate of interest × Period of interest

Withdrawal on March 1	Rs.3,000 x $\frac{12}{100} \times \frac{10}{12}$	Rs.300

Withdrawal on June 1	Rs.3,000 x $\frac{12}{100} \times \frac{7}{12}$	Rs.210
Withdrawal on September 1	Rs.3,000 x $\frac{12}{100} \times \frac{4}{12}$	Rs.200
Withdrawal on December 1	Rs.3,000 x $\frac{12}{100} \times \frac{1}{12}$	Rs.30
Total interest on drawings		Rs.600

5) Anbu is a partner in a partnership firm. As per the partnership deed, interest on drawings is charged at 12% p.a. During the year ended 31st December 2018 he drew as follows:

Date	Rs
March 1	6,000
June 1	4,000
September 1	5,000
December 1	2,000

Calculate the amount of interest on drawings by using product method.

Answer : Calculation of interest on drawings under product method.

Date of drawings	Amount withdrawn Rs.	Period up to December 31 (months)	Product Rs.
March 1	6,000	10	60,000
June 1	4,000	7	28,000
September 1	5,000	4	20,000
December 1	2,000	1	2,000
			1,10,000

Interest on drawings = Sum of product x Rate of interest x $\frac{1}{12}$

=1,10,000 x $\frac{12}{100}$ x $\frac{1}{12}$ =Rs.1,100

6) John is a partner in a firm. He withdraws Rs.1,000 p.m. regularly. Interest on drawings is charged @ 5% p.a. Calculate the interest on drawings using average period, if he draws

(i) at the beginning of every month

(ii) in the middle of every month

(iii) at the end of every month

Answer : Total amount withdrawn = 1,000 x 12 = Rs.12,000

(i) If drawings are made at the beginning of every month:

Average period = 6.5

Interest on drawings = Total amount of drawings x Rate of interest x $\frac{Average \quad period}{12}$

=Rs.12,000 x $\frac{5}{100} \times \frac{6.5}{12}$ =Rs.325

(ii) If drawings are made in the middle of every month:

Average period = 6

Interest on drawings = Total amount of drawings x Rate of interest x $\frac{Average \quad period}{12}$

=Rs.12,000 x $\frac{5}{100} \times \frac{6}{12}$ =Rs.300

(iii) If drawings are made at the end of every month:

Average period = 5.5

Interest on drawings = Total amount of drawings × Rate of interest x $\frac{Average \quad period}{12}$

=Rs.12,000 x $\frac{5}{100} \times \frac{5.5}{12}$ =Rs.275

7) Arulappan and Nallasamy are partners in a firm sharing profits and losses in the ratio of 4:1. On 1st January 2018, their capitals were Rs.20,000 and Rs.10,000 respectively. The partnership deed specifies the following:
(a) Interest on capital is to be allowed at 5% per annum.
(b) Interest on drawings charged to Arulappan and Nallasamy are Rs.200 and Rs.300 respectively.
(c) The net profit of the firm before considering interest on capital and interest on drawings
amounted to Rs.18,000.
Give necessary journal entries and prepare Profit and loss appropriation account for the year ending 31st December 2018. Assume that the capitals are fluctuating.

Answer :

Journal entries

Date	Particulars		L.E.	Dr. Rs.	Cr. Rs
2018 Dec. 31	Interest on capital A/c	Dr.		1,500	
	To Arulappan's capital A/c				1,000
	To Nallasamy's capital A/c (Interest on capital @ 5% provided)				500
"	Profit and loss appropriation A/c	Dr.		1,500	
	To Interest on capital A/c (Interest on capital account closed)				1,500
'	Arulappan's capital A/c	Dr.		200	
	Nallasamy's capital A/c	Dr.		300	
	To Interest on drawings A/c (Interest on drawings charged)				500
"	Interest on drawings A/c	Dr.		500	
	To Profit and loss appropriation A/c (Interest on drawings account closed)				500
"	Profit and loss appropriation A/c Dr.			17,000	
	To Arulappan's capital A/c				13,600
	To Nallasamy's capital A/c (Profit transferred)				3,400

Dr. Profit and loss appropriation account for the year ended 31st December 2018 Cr.

Particulars	Rs.	Rs.	Particulars	Rs.
To Interest on capital			By Profit and loss A/c	18,000
Arulappan		1,000	By Interest on drawings A/c	
Nallasamy		500	Arulappan	200
To Partners' capital A/c (profit)			Nallasamy	300

Particulars	Rs.	Rs.	Particulars	Rs.
Arulappan (4/5)	13,600	17,000		
Nallasamy (1/5)	3,400	18,500		18,500

8) State the features of partnership.
Answer : Following are the essential features of partnership
(1) The balance being the profit or loss is transferred to the partner's capital or current account in the profit sharing ratio.
(2) There should be an agreement among the persons to share the profit or loss of the business.
(3) The agreement must be carryon a business and to share the profits of the business.
(4) The business may be carried on by all the partners or any of them acting for all.

9) State the differences between fixed capital method and fluctuating capital method.
Answer :

Basis of destination	**Fixed capital method**	**Fluctuating capitals method**
1.Number of accounts	Two accounts are maintained for each partner, that is, capital account and current account.	Only one account, that is, capital account is maintained for each partner.
2.Change in capital	The amount of capital normally remains unchanged except when additional capital is introduced or capital is withdrawn permanently	The amount of capital changes from period to period.
3.Closing balance	Capital account always shows a credit balance	Capital account generally shows credit balance. It may also show a debit balance.
4.Adjustments	All adjustments relating to interest on capital, interest on drawings, salary or commission, share of profit or loss are done in current account	All adjustments relating to interest on capital, interest on drawings, salary or commission, share of profit or loss are done in the capital account

10) Write a brief note on the applications of the provisions of the Indian Partnership Act, 1932 in the absence of partnership deed.
Answer : If there is no partnership deed- or when there is no express statement in the partnership deed, then the following provisions of the act will apply
(i) Remuneration to partners:
No salary or remuneration is allowed to any partner (Section 13(a))
(ii) Profit sharing ratio:
Profits and losses are to be shared by the partners equally [section 13(b)]
(iii) Interest on capital:
No interest is allowed on the capital, where a partner is entitled to interest on capital contributed as per partnership deed, such interest on capital will be payable only out of profits. [section 13(c)]

(iv) Interest on loans advanced by partners to the firm:
Interest on loan is to be allowed at the rate of 6 per cent annum. [section 13(d)]
(v) Interest on drawings:
No interest is charged on the drawings of the partners.

11) Jayaraman is a partner who withdrew Rs.10,000 regularly in the middle of every month. Interest is charged on the drawings at 6% per annum. Calculate interest on drawings for the year ended 31st December, 2018.
Answer : If Drawings are made in the middle of every month:
Average period = 6
Interest on drawings = Total amount of drawings X Rate of interest X $\frac{Average\ Period}{12}$
= Rs. 10,000 x $\frac{6}{100} \times \frac{6}{12}$
= Rs. 300

12) Akash, Bala, Chandru and Daniel are partners in a firm. There is no partnership deed. How will you deal with the following?
(i) Akash has contributed maximum capital. He demands interest on capital at 10% per annum.
(ii) Bala has withdrawn Rs.3,000 per month. Other partners ask Bala to pay interest on drawings @ 8% per annum to the firm. But, Bala did not agree to it.
(iii) Akash demands the profit to be shared in the capital ratio. But, others do not agree.
(iv) Daniel demands salary at the rate of Rs.10,000 per month as he spends full time for the business.
(v) Loan advanced by Chandru to the firm is Rs.50,000. He demands interest on loan @ 12% per annum.
Answer : (i) No interest on capital is payable to any partner
(ii) No interest is chargeable on drawings made by the partner
(iii) Profits should be distributed equally
(iv) No remuneration is payable to any partner
(v) Interest on loan is payable at 6% per annum of Rs. 50,000

13) Prakash and Supria were partners who share profits and losses in the ratio of 5:3. Balance in their capital account on 1st April, 2018 was Prakash Rs.3,00,000 and Supria Rs.2,00,000. On 1st July, 2018 Prakash introduced additional capital of Rs.60,000. Supria introduced additional capital of Rs.30,000 during the year. Calculate interest on capital at 6% p.a. for the year ending 31st March, 2019 and show the journal entries.
Answer : Calulation of Interest on capital:
Interest on Prakash's capital:
On opening capital for 1 year = 3,00,000 x $\frac{6}{100}$ = Rs. 18,000
On additional capital for 9 months = 60,000 x $\frac{6}{100} \times \frac{9}{12}$ = Rs. 2,700

Interest on capital = Rs.20,700

Interest on Supriya's captial:
On opening capital for 1 year = 2,00,000 x $\frac{6}{100}$ = Rs. 12,000
On additional for 9 months = 30,000 x $\frac{6}{100} \times \frac{9}{12}$ = Rs. 900

Interest on capital = Rs.12,900

Journal entries

Date	Particulars	L.F	Debit Rs.	Credit Rs.
2019 March 31	Interest on capital A/c Dr To Prakash's current A/c To Supriya's current A/c (Interest on capital provided)		33,600	20,700 12,900
2019 March 31	Profit and loss appropriation A/c Dr To Interest on capital A/c (Interest on capital closed)		33,600	33,600

14) The capital account of Begum and Fatima on 1st January, 2018 showed a balance of Rs.50,000 and Rs.40,000 respectively. On 1st October, 2018, Begum introduced an additional capital of Rs.10,000 and on 1st May, 2018 Fatima introduced an additional capital of Rs.9,000. Calculate interest on capital at 4% p.a. for the year ending 31st December, 2018.

Answer : Calculation of Interest on capital:
Begum:
On opening capital for 1 year = 50,000 x $\frac{4}{100}$ = Rs. 2,000
On additional capital for 3 months = 10,000 x $\frac{4}{100}$ x $\frac{3}{12}$ = Rs. 100
(October to December)

Interest on capital = Rs.2,100

Fathima:
On opening capital for 1year = 40,000 x $\frac{4}{100}$ = Rs. 1600
On additional capital for 8months = 9,000 x $\frac{4}{100}$ x $\frac{8}{12}$ = Rs. 240
(May to December)

Interest on capital = Rs.1840

15) From the following balance sheets of Rajan and Devan who share profits and losses 2:1, calculate interest on capital at 6% p.a. for the year ending 31st December, 2018.

Balance sheet as on 31st December, 2018

Liabilities	Rs.	Rs.	Assets	Rs.
Capital accounts:			Sundry assets	2,20,000
Rajan	1,00,000			

Liabilities	Rs.	Rs.	Assets	Rs.
Devan	80,000	1,80,000		
Profit and loss appropriation A/c		40,000		
		2,20,000		2,20,000

On 1st April, 2018, Rajan introduced an additional capital of Rs.40,000 and on 1st September, 2018, Devan introduced Rs.30,000. Drawings of Rajan and Devan during the year were Rs.20,000 and Rs.10,000 respectively. Profit earned during the year was Rs.70,000.

Answer :

Particulars	Rajan		Devan	
	Rs.	Rs.	Rs.	Rs.
Capital on 31st December 2018		1,00,000		80,000
Add: Drawings		20,000		10,000
		1,20,000		90,000
Less: Additional capital	40,000		30,000	
Profit already credited*	20,000	60,000	10,000	40,000
[Rajan (30,000 x 2/3) = 20,000 Devan (30,000 x 1/3) = 10,000]				
Capital as on 1st January 2018		60,000		50,000

(*Profit earned = Profit earned 70,000 - Balance profit as per balance sheet Rs.40,000 = Rs. 30,000.
This amount is distributes in their profit sharing ration of 2 : 1.)

Calculation of interest on capital

Rajan:

On opening capital for 1 year = 60,000 x $\frac{6}{100}$ = Rs.3600

On additional capital for 9 months = 40,000 x $\frac{6}{100}$ x $\frac{9}{12}$ = Rs. 1,8000

(April to December)

Total Interest on capital = Rs. 5,400

Devan:

On opening capital for 1 year = 50,000 x $\frac{6}{100}$ x $\frac{4}{12}$ = Rs. 600

(September to December)

Total Interest on capital = Rs. 3,600

16) Ahamad and Basheer contribute Rs.60,000 and Rs.40,000 respectively as capital. Their respective share of profit is 2:1 and the profit before interest on capital for the year is Rs.5,000. Compute the amount of interest on capital in each of the following situations:

(i) if the partnership deed is silent as to the interest on capital

(ii) if interest on capital @ 4% is allowed as per the partnership deed
(iii) if the partnership deed allows interest on capital @ 6% per annum.
Answer : (i) No Interest on capital will not allowed as the partnership deed.
(ii) Profit before interest on capital is Rs. 5,000.
Computation of interest on capital:
Ahamed: 60,000 x $\frac{4}{100}$ = Rs. 2,400
Basheer : 40,000 x $\frac{4}{100}$ = Rs. 1,600
Since there is sufficient profit, interest on capital will be provided
(iii) Profit before interest on capital is Rs. 5,000
Computation of interest on capital :
Ahamed: 60,000 x $\frac{6}{100}$ = Rs. 3,600
Basheer: 40,000 x $\frac{6}{100}$ = Rs. 2,400
Since the profit is insufficient, interest on capital will not be provided. Profit of 5,000 will be distributed to the partners on their capital ratio of 3 : 2

17) Santhosh is a partner in a partnership firm. As per the partnership deed, interest on drawings is charged at 6% per annum. During the year ended 31st December, 2018 he withdrew as follows:

Date	Rs.
February 1	2,000
May 1	10,000
July 1	4,000
October 1	6,000

Calculate the amount of interest on drawings by using product method.
Answer : Calculate the amount of interest on drawings by using product method.
Calculation of interest on drawings under product method.

Date of drawings	Amount Withdrawn	Period up to December 31 (months)	Product Rs.
February 1	2,000	11	22,000
May 1	10,00	8	80,000
July 1	4,000	6	24,000
October 1	6,000	3	18,000
Sum of Product			1,44,000

Interest on drawings = Sum of product x Rate of interest x $\frac{1}{12}$
= 1,44,000 x $\frac{6}{100}$ x $\frac{1}{12}$
= Rs. 720

18) Kavitha is a partner in a firm. She withdraws Rs.2,500 p.m. regularly. Interest on drawings is charged @ 4% p.a. Calculate the interest on drawings using average period, if she draws
(i) at the beginning of every month
(ii) in the middle of every month
(iii) at the end of every month
Answer : Total amount withdrawn = 2,500 x 12 = Rs.30,000
(i) If drawings are made at the beginning of every month:

Average period = 6.5
Interest on drawings = Total amount of drawings x Rate of interest x $\frac{Average\ Period}{12}$
= Rs. 30,000 x $\frac{4}{100} \times \frac{6.5}{12}$
= Rs.650
(ii) If drawing are made in the middle of every month:
Average period = 6
Interest on drawings = Total amount of drawings x Rate of interest x $\frac{Average\ Period}{12}$
= Rs. 30,000 x $\frac{4}{100} \times \frac{6}{12}$ = Rs.600
(iii) If drawings are made at the end of every month:
Average period = 5.5
Interest on drraawwimgs = Total amount of drawings x Rate of Interest x $\frac{Average\ Period}{12}$
= Rs.30,000 x $\frac{4}{100} \times \frac{5.5}{100}$ = Rs.550

19) Janani, Kamali and Lakshmi are partners in a firm sharing profits and losses equally. As per the terms of the partnership deed, Kamali is allowed a monthly salary of Rs.10,000 and Lakshmi is allowed a commission of Rs.40,000 per annum for their contribution to the business of the firm. You are required to pass the necessary journal entry. Assume that their capitals are fluctuating.
Answer : Salary to Kamali = Rs.10,000x12 = Rs.1,20,000
Commission to Lakshmi = Rs.40,000

Journal entries

Date	Particulars	L.F	Debit Rs.	Credit Rs.
	Kamali's salary A/c Dr To Kamali's capital A/c (Kamali's salary transferred to his capital account)		1,20,000	 1,20,000
	Lakshmi's commission A/c Dr To Kamali's capital A/c (Lakshmi's commission transferred to his capital account)		40,000	 40,000
	Profit and loss appropriation A/c Dr To Kamali's salary A/c To Lakshmi's commission A/c (Salary and commission account transferred)		1,60,000	 1,20,000 40,000

20) Sibi and Manoj are partners in a firm. Sibi is to get a commission of 20% of net profit before charging any commission. Manoj is to get a commission of 20% on net profit after charging all commission. Net profit for the year ended 31st December 2018 before charging any commission was Rs.60,000. Find the commission of Sibi and Manoj. Also show the distribution of profit.
Answer : Calculation of commission:

Commission to sibi :
= Net profit before commission x $\frac{\% \; of \; commission}{100}$ = 60000 x $\frac{20}{100}$ = Rs.12,000

Commission to Manoj :
Net profit after sibi's commission = 60,000 - 12,000
= Rs.48000
Manoj's commission = Net profit after sibi's commission x
$\frac{\% \; of \; commission}{(100+\% \; of \; commission)}$
= 48000 x $\frac{20}{(100+20)}$ = 48000 x $\frac{20}{120}$
= Rs.8000