

**Girl's High School and College, Prayagraj**  
**2020-2021**  
**Class 12-C**  
**Accountancy**  
**Worksheet-4**

**Note:-**Parents please ensure that your ward refers to the text book **New I.S.C. Accountancy by D.K. Goel and/or the Extra Class /www.studiestoday.com/By JU's.com** for two days to read the topic:- **Partnership Fundamentals.**

**Introduction:-** When Appropriations are more than Profits :

For example, if N.P. available for appropriation is Rs. 40,000/- whereas, out of the two partners, A is to be given Interest on capital - Rs. 50,000/- and B is to be given salary of Rs. 30,000/- Since the N.P is less than the amount to be distributed between A and B, the profit of Rs. 40,000/- will be distributed in the ratio of appropriations.

$$\begin{aligned} \text{Ratio of Appropriation} &= \quad A \quad \quad B \\ & \quad \quad 50,000 \quad 30,000 \\ & \quad \quad \text{or} \quad 5 : 3. \end{aligned}$$

So, Rs. 40,000/- will be distributed among A and B in the ratio of 5:3.

So, lesson learnt - If profit is less and amount of appropriations is more then, the less amount of profit will be distributed in the ratio of **Appropriations.**

Q1. X and Y are partners in a firm sharing profits and losses in the ratio of 3:2 with capitals of Rs. 10,00,000/- and Rs. 5,00,000/- respectively. As per the deed, they are to be allowed interest on Capital @ 8% p.a. The

N.P. available for distribution amounted to Rs. 45,000/- show the distribution of profit.

**Introduction** : Interest on loan taken by a partner from the firm :- No information about the interest in the Indian Partnership Act, 1932. If, there is a Partnership deed and it mentions about the interest (with rate) we shall follow that.

If the question is silent regarding interest on such a loan, then, No Interest is to be charged.

If interest is charged, it is credited to P/L A/c and debited to capital/current A/c.

Q2. What are the opening and the closing entries for interest on the loan taken by the Partner from the firm ?

Q3. A, B and C are partners in a firm sharing profits and losses equally. On 1<sup>st</sup> April, 2018, their fixed capitals were Rs. 8,00,000/-, Rs. 6,00,000/- and Rs. 6,00,000/- respectively. On 1<sup>st</sup> October, 2018, A advanced Rs. 1,00,000/- to the firm whereas C took a loan of Rs. 1,50,000/- from the firm on the same date. It was agreed that C will pay interest @ 10% p.a.

Profit for the year ended 31.3.2019 amounted to Rs. 4,20,000/- before allowing or charging interest on loans. Pass Journal Entries for interest on loans and prepare current A/cs of the partners.

**Introduction :- Interest on Capital -**

Indian Partnership Act, 1932, says if there is no agreement regarding Interest on Capital, then Interest on Capital will not be allowed.

Apart from that, even if the deed has a provision for interest on Capital, it can only be allowed if there are profits available.

In the light of the above information, while solving a numerical, the following information should be taken into account :

If the question uses the term 'charge' for interest on capital, then, it is to be allowed whether there are profits or losses.

P/L A/c	Dr.
To Interest on Capital	

If the question deals with interest on capital as an appropriation, then,

- |       |  |   |
|-------|--|---|
| (i)   | In case of loss : No interest on Capital.                          |   |
| (ii)  | In case of Profits   |   |
| (a)   | Equal to the total amount of interest on capital                   | Full Interest   |
| (b)   | More than the amount of Interest on Capital                        | on Capital  |
| (iii) | When the profit before interest is less than the interest itself : | Profit will be distributed in the ratio of Interest on Capital. |

Q4. A and B are partners sharing the profits and losses in the ratio of 3:2 with capitals of Rs. 2,00,000/- and Rs. 1,00,000/- respectively. Show the distribution of profits in each of the following alternative cases :-

Case(i) If the partnership deed is silent as to the interest on capital and the profits for the year are Rs. 50,000/-.

Case(ii) If the partnership deed provides for interest on capital @ 8% p.a. and the losses for the year are Rs. 50,000/-.

Case(iii) If the partnership deed provides for interest on Capital @ 8% p.a. and the profits for the year are Rs. 50,000/-.

Case(iv) If the partnership deed provides for interest on capital @ 8% p.a. and the profits for the year are Rs. 15,000/-

Case(v) If the partnership deed provides for interest on Capital @ 8% p.a. even if it involves the firm in loss and the profits for the year are Rs. 15,000/.

### **Appropriation of Profit according to Capital Ratio**

A, B and C started a business in partnership. A contributes Rs. 50,000 for the whole year. B introduces Rs. 40,000 at first and increased it to Rs. 46,000 at the end of four months but withdraws Rs. 16,000 at the end of nine months. C invests Rs. 80,000 at first but withdraws Rs. 20,000 at the end of five months.

Firm earned a profit of Rs. 23,750 during the year. You are required to show the division of profits on the basis of the effective capital employed by each partner during the year.

### **Solution :**

Ratio of effective capital will be calculated as under :-

	<u>Products</u>
A: Rs. 50,000 for the whole 12 Months	<u>6,00,000</u>
B: Rs. 40,000 for 4 months	1,60,000

Rs. 46,000 for 5 months	2,30,000
Rs. 30,000 for 3 months	90,000
	<hr/>
	4,80,000
C: Rs. 80,000 for 5 months	4,00,000
Rs. 60,000 for 7 months	4,20,000
	<hr/>
	8,20,000
	<hr/>

Thus the profit sharing ratio would be : 6,00,000 : 4,80,000 : 8,20,000 or 30 : 24 : 41

Q5. On 1st April, 2014, Precious, Noble and Perfect entered into partnership with capitals of Rs. 60,000 and Rs. 30,000 respectively.

Perfect advanced Rs. 10,000 as loan to the partnership on 1st October, 2014. The Partnership Deed contained the following clauses :

- (i) Interest on capitals @ 6% p.a.
- (ii) Interest on drawings @ 6% p.a. Each drew Rs. 4,000 at the end of each quarter commencing from 30th June, 2014.
- (iii) Working partners Precious and Noble to get salaries of Rs. 200 and Rs. 300 per month.
- (iv) Interest on loan was given to Perfect @ 6% p.a.
- (v) Profits and losses are to be shared in the ratio of 4 : 2 : 1 up to Rs. 70,000 and above Rs. 70,000 equally.

Net Profit of the firm for the year ended 31st March, 2015 (before above adjustments) was Rs. 1,11,000.

Prepare Profit and Loss Appropriation Account and Personal Accounts of the Partners assuming capitals to be fixed.

Q6. A and B commenced business on 1st April, 2017 with capitals of Rs. 1,20,000 and Rs. 60,000 respectively. They decided to share profits in the Capital Ratio. You are required to calculate Capital Ratio on 31st March, 2018, on the basis of the following particulars :-

	Capital Introduced		Capital Withdrawn	
	A (Rs.)	B (Rs.)	A (Rs.)	B (Rs.)
1st July, 2017	-	15,000	30,000	-
1st October, 2017	30,000	-	-	15,000
1st December, 2017	-	18,000	-	-
1st January, 2018	-	24,000	6,000	-
1st February, 2018	9,000	-	-	4,500

Also calculate interest on capitals if it is @ 9% p.a.