Girl's High School and College, Prayagraj

2020-2021

Class 12-C

Accountancy

Worksheet-5

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

Introduction:- Adjustments before the closing of Partnership Accounts :-

All these errors which come to light before closing of the books of accounts of the firm, such errors are taken into account to show the true figure of Profit or Loss and Financial Position.

Fore example, if because of certain errors, the figure of profit or loss of the firm for the current year is incorrect, then the incorrect figure of Profit/Loss is to be corrected before proceeding with the preparation of P/L Appropriation A/c.

If N.P. for the year is Rs. 1,00,000/- and, if, the following errors are discovered :

(1) Wages - Rs. 15,000/- paid for installation of machinery was debited to wages A/c.

(2) The closing stock was under valued by Rs. 5,000/-

First, we shall rectify there errors

(i) Wages of Rs. 15,000/- are capital expenditure and must not be debited to P/L A/c. Hence Profit is to be increased by Rs. 15,000/-

(ii) Closing Stock is credited to trading A/c. Closing stock + Net Sales - Cost of goods sold = Gross Profit.

If closing stock is under valued, by Rs. 5,000/- it will reduce the Profit by Rs. 5,000/- Hence Profit is to be increased by Rs. 5,000/-

Q1. A, B and C are in partnership sharing profits and losses in the ratio of 2:1:1. Following particulars are available from their books :

	A Rs.	B Rs.	C Rs.
Capital Accounts Ist April, 2015	20,000	15,000	10,000
Current Accounts Ist April, 2015	1,500	2,500	2,000
Drawings	6,000	4,000	4,000

Life Insurance Premium Ist October, 2015	2,000		

Life Insurance Premium of A has been paid by the firm and has been charged to General Expenses A/c. Partners are allowed 8% p.a. interest on their capitals and charged at 10% p.a. on their drawings. Profits for the year ending 31st March, 2016 amounted to Rs. 20,800 before taking into account the interest on capitals and drawings. While calculating profits, depreciation at the rate of 20% p.a. has been omitted on building of the value of Rs. 20,000. Prepare Profit and Loss Appropriation Account and Partners' Current Accounts for the year.

<u>Introduction : Past Adjustments or Adjustments in the closed Accounts</u>

When errors come to light after the books of accounts for the current year have been closed and Balance Sheet signed.

Such errors are rectified not by altering the closed books of accounts but by adjustments at the beginning of the next year.

Rectification can be done :-

(i) By passing a Single adjustment entry with the net amount of all the past adjustments.

(ii) By passing separate adjustment entries for each errors and omission.

(i) **<u>When a single Adjustment Entry is passed :-</u>**

For example X, Y and Z are partners, who, as per their deed are supposed to receive interest on Capital as Rs. 3,000/- Rs. 2,000/- and Rs. 1,000/- respectively.

The N.P. for the year Rs. 6,000/- was divided among them in their P.S.R. which was equal.

Since the distribution of N.P. as Rs. 2,000/- each was wrongly credited to partners capital/current a/c, it should be now debited.

And, Interest on Capital of Rs. 3,000/- Rs. 2,000/- and Rs. 1,000/- respectively to X, Y and Z should now be credited to partners' Capital/Current A/c.

<u>Table showing Adjustment :</u>

	X	Y	Z	Total
Distribution of N.P. to be now debited (write back) (Dr)	2000	2000	2000	6000
Interest on Capital (Cr)	3000	2000	1000	6000
Difference	1000 (Cr)		1000 (Dr)	-

Single Adjustment Entry :-

Z' Capital/Current A/c Dr. 1000

To X' Capital/Current A/c 1000

Q2. Roshan, Mahesh, Gopi and Jai are partners sharing profits and losses in the ratio of 3:3:2:2.

The balances of capital accounts on Ist April, 2015 were: Roshan Rs. 8,00,000, Mahesh Rs. 5,00,000, Gopi Rs. 6,00,000 and Jai Rs. 6,00,000.

After the accounts for the year ended 31st March, 2016 were prepared, it was discovered that interest on capital @ 10% per annum as provided in the partnership deed had not been credited to the partners' capital accounts before the distribution of profits.

You are required to rectify the error by passing a single adjusting journal entry.

Q3. A, B and C are partners sharing profits and losses in the ratio of 5 : 3 : 1. After the final accounts have been prepared, it was discovered that interest on drawings had not been taken into consideration. The interest on drawing of partners amounted to A Rs. 8,000, B Rs. 6,000 and C Rs. 4,000. Give the necessary adjusting journal entry.

Q4. Anil, Sunil and Sanjay have omitted interest on Capitals for two years ended on 31st March, 2015. Their fixed capitals in two years were Anil Rs. 8,00,000, Sunil Rs. 7,00,000 and Sanjay Rs. 3,00,000. Rate of interest on Capital is10% p.a. Their profit Sharing ratios were in first year 4 : 3 : 2 and in second year 3 : 2 : 1.

Give necessary adjusting entry at the beginning of next year.

Q5. A, B and C are partners sharing profits in the ratio of 2 : 2 : 1. Their fixed capitals were Rs. 4,00,000, Rs. 2,50,000 and Rs. 1,00,000 respectively. Net profit for the year ending 31st March, 2017 amounted to Rs. 2,20,000 which was distributed without providing for the following :

(i) Salary to B Rs. 5,000 p.m. and to C Rs. 10,000 per quarter.

(ii) Interest on capital @ 6% p.a.

(iii) Commission to Manager @ 10% after charging such commission.

Pass necessary rectifying entry.