

## Accountancy, Class-12<sup>th</sup>, Ch -1 ,Basic Concepts:-

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### Question 1.

A, B and C are partners in a firm. They do not have a Partnership Deed. At the end of the first year of the commencement of the firm, they have faced the following problems:

- (a) A wants that interest on capital should be allowed to the partners but B and C do not agree.
  - (b) B wants that the partners should be allowed to draw salary but A and C do not agree.
  - (c) C wants that the loan given by him to the firm should bear interest @ 10% p.a. but A and B do not agree.
  - (d) A and B having contributed larger amounts of capital, desire that the profits should be divided in the ratio of their capital contribution but C does not agree.
- State how you will settle these disputes if the partners approach you for purpose.

### Solution:

	<b>Disputes</b>	<b>Possible Judgements</b>
a.	A wants that interest on capital should be allowed to the partners, but B and C do not agree.	According to the Partnership Act, no interest on capital will be allowed as there is no partnership agreement among A, B and C mentioning payment of interest on capital.
b.	B wants that the partners should be allowed to draw salary, but A and C do not agree.	No salary will be allowed to any partner until and unless there is an agreement to the contrary.
c.	C wants that the loan given by him to the firm should bear interest @ 10% p.a., but A and B do not agree.	Interest on C's loan will be allowed at 6% p.a. in the absence of a partnership agreement mentioning the said amount of interest.
d.	A and B having contributed larger amounts of capital, desire that the profits should be divided in the ratio of their capital contribution, but C does not agree.	Profit will be shared equally if there is no agreement between the partners mentioning such distribution.

### **Question 2.**

Jaspal and Rosy were partners with capital contribution of ₹ 10,00,000 and ₹ 5,00,000 respectively. They do not have a Partnership Deed. Jaspal wants that profits of the firm should be shared in their capital ratio. Rosy convinced jaspal that profits should be shared equally. Explain how Rosy would have

convinced Jaspal for sharing the profit

In case there is no partnership deed entered between partners or if deed is silent on few of the aspects, then the provisions of Indian Partnership Act, 1932 are applicable. According to the Act, if there is no agreement regarding the ratio in which profits are to be shared, then profits (or losses) are to be shared equally among all the partners. Accordingly, Jaspal's view over distribution of profits in the capital ratio is not acceptable, and Rosy should convince Jaspal stating the provisions contained in the Partnership Act, 1932.

### Question 5.

Harshad and Dhiman are in partnership since 1st April, 2017. No partnership agreement was made. They contributed Rs 4,00,000 and 1,00,000 respectively as capital. In addition, Harshad advance an amount of Rs 1,00,000 to the firm on 1st October, 2017. Due to long illness, Harshad could not participate in business activities from 1st August to 30th September, 2017. The profit for the year ended 31st March, 2018 amounted to Rs 1,80,000. Dispute has arisen between Harshad and Dhiman.

Harshad Claims:

- (i) He should be given interest @ 10% per annum on capital and loan;
- (ii) Profit should be distributed in proportion of capital;

Dhiman Claims:

- (i) Profit should be distributed equally;
- (ii) He should be allowed Rs 2,000 p.m. as remuneration for the period he managed the business in the absence of Harshad;
- (iii) Interest on Capital and loan should be allowed @ 6% p.a.

You are required to settle the dispute between Harshad and Dhiman. Also prepare Profit and Loss Appropriation Account.

**Solution:**

**Harshad Claims:**

- (i) It cannot Claim interest on capital to Indian Partnership Act 1932, he is entitled only for 6% interest on loan.
- (ii) In absence to any agreement profit are distributed equally, according to Indian Partnership Act 1932.

**Dhiman Claims:**

- (i) It will be accepted, according to Indian Partnership Act 1932.
- (ii) He is not entitled for any remuneration because there is no agreement on matter of remuneration.
- (iii) It is no interest on capital is allowed whereas 6% interest for loan should be given.

**Distribution Profits:****Profit and Loss Adjustment Account**

Dr		Cr	
Particulars	Rs.	Particulars	Rs.
To Interest on Partner's Loan A/c Harshad [ $1,00,000 \times (6/100) \times (6/12)$ ]	3,000	By Profit and Loss A/c	1,80,000
To Profit and Loss Appropriation A/c	1,77,000		
	1,80,000		1,80,000

**Profit and Loss Appropriation Account**

Dr		Cr	
Particulars	Rs.	Particulars	Rs.
To Profit transferred to :		By Profit and Loss Adjustment A/c	1,77,000
Harshad's Capital A/c	88,500		
Dhiman's Capital A/c	88,500		
	1,77,000		1,77,000

**Question 6.**

A and B are partners from 1st April, 2017, without a Partnership Deed and they introduced capitals of ₹ 35,000 and ₹ 20,000 respectively. On 1st October, 2017, A advances a loan of ₹ 8,000 to the firm without any agreement as to interest. The profit and Loss Account for the year ended 31st March, 2018 shows a profit of ₹ 15,000 but the partners cannot agree on payment of interest and on the basis of division of profits.

You are required to divide the profits between them giving reasons for your method.

**Solution:**

**Profit and Loss Appropriation Account  
for the year ended March 31,2018**

Dr		Cr	
Particulars	Rs.	Particulars	Rs.
To Interest on A's Loan A/c	240	By Profit b/d (before Interest)	15,000
To Profit transferred to :			
A's Capital A/c	7,380		
B's Capital A/c	7,380		
	14,760		
	15,000		15,000

**Working notes :**

**1. Calculation of interest on Loan**

Interest on loan to be provided at 6% p.a.

Amount of Loan = Rs.8,000

Period (from October 01 to March 31) = 6 Months

$$\text{Interest on A's Loan} = 8,000 \times \frac{6}{100} \times \frac{6}{12} = 240$$

**2. Calculation of Profit Share of each partner**

Equal distribution of profits

$$\text{Profit after Interest on A's loan} = \text{Rs.15,000} - \text{Rs.240} = \text{Rs.14,760}$$

$$\therefore \text{Profit Share of A and B each} = 14,760 \times \frac{1}{2} = 7,380$$

**Question 7.**

A and B are partners in a firm sharing profits in the ratio of 3 : 2. They had advanced to the firm a sum of ₹ 30,000 as a loan in their profit-sharing ratio on 1st October, 2017. The Partnership Deed is silent on interest on loans from partners. Compute interest payable by the firm to the partners, assuming the firm closes its books every year on 31st March.

**Solution:**

Total amount advanced by the partners = Rs.30,000

Profit sharing ratio = 3 :2

$$\text{Advance provided by A} = 30,000 \times \frac{3}{5} = \text{Rs. } 18,000$$

$$\text{Advance provided by B} = 30,000 \times \frac{2}{5} = \text{Rs. } 12,000$$

Interest Period (from Oct. 01, 2017 to Mar. 31, 2018) = 6 months

Interest rate = 6% p.a.

#### Calculation of Interest on Advances

$$\text{Interest on Advances given by A} = 18,000 \times \frac{6}{100} \times \frac{6}{12} = \text{₹}540$$

$$\text{Interest on Advances given by B} = 12,000 \times \frac{6}{100} \times \frac{6}{12} = \text{₹}360$$

**Note:** In the absence of a partnership deed, interest on loans and advances is provided at 6% p.a.

#### Question 8.

A and B are partners in a firm sharing profits equally. They had advanced to the firm a sum of ₹ 30,000 as a loan in their profit-sharing ratio on 1st October, 2017. The Partnership Deed is silent on the question of interest on the loan from partners. Compute the interest payable by the firm to the partners, assuming the firm closes its books on 31st March each year.

#### Solution:

Total amount advanced: 30,000

$$\text{Amount advanced by each partner} = 30,000 \times \frac{1}{2} = \text{₹}15,000$$

Period (from Oct. 01, 2017 to Mar. 31, 2018) = 6 months

Interest rate = 6% p.a.

$$\text{Interest on Loan to each partner} = 15,000 \times \frac{6}{100} \times \frac{6}{12} = \text{₹}450$$

#### Question 9.

X and Y are partners sharing profits and losses in the ratio of 2 : 3 with capitals ₹ 2,00,000 and ₹ 3,00,000 respectively. On 1st October, 2017, X and Y granted loans of ₹ 80,000 and ₹ 40,000 respectively to the firm. Show

distribution of profits/losses for the year ended 31st March, 2018 in each of the following alternative cases:

Case 1 : If the profits before interest for the year amounted to ₹ 21,000.

Case 2 : If the profits before interest for the year amounted to ₹ 3,000.

Case 3 : If the profits before interest for the year amounted to ₹ 5,000.

Case 4 : If the loss before interest for the year amounted to ₹ 1,400.

**Solution:**

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**Calculation of Interest on Loan for 6 months**

$$\begin{aligned} \text{Interest on X's Loan for 6 months} &= 80,000 \times \frac{6}{100} \times \frac{6}{12} \\ &= 2,400 \end{aligned}$$

$$\begin{aligned} \text{Interest on Y's Loan for 6 months} &= 40,000 \times \frac{6}{100} \times \frac{6}{12} \\ &= 1,200 \end{aligned}$$

**Case 1 - When Profits before Interest amounted to Rs.21,000**

**Profit and Loss Appropriation Account  
for the year ended March 31,2018**

<b>Dr</b>		<b>Cr</b>	
<b>Particulars</b>	<b>Rs.</b>	<b>Particulars</b>	<b>Rs.</b>
To Interest on X's Loan A/c	2,400	By Profit b/d (before interest)	21,000
To Interest on Y's Loan A/c	1,200		
To Profit transferred to			
X's Capital A/c (17,400 × 2/5)	6,960		
Y's Capital A/c (17,400 × 3/5)	10,440		
	17,400		
	21,000		21,000

**Case 2 – When Profits before Interest amounted to Rs.3,000**

**Profit and Loss Appropriation Account  
for the year ended March 31,2018**

Dr		Cr	
Particulars	Rs.	Particulars	Rs.
To Interest on X's Loan A/c	2,400	By Profit b/d (before interest)	3,000
To Interest on Y's Loan A/c	1,200	By Loss transferred to-	
		X's Capital A/c (600 × 2/5)	240
		Y's Capital A/s (600 × 3/5)	360
			600
	3,600		3,600

**Case 3 – When Profits before Interest amounted to Rs.5,000**

**Profit and Loss Appropriation Account  
for the year ended March 31,2018**

Dr		Cr	
Particulars	Rs.	Particulars	Rs.
To Interest on X's Loan A/c	2,400	By Profit b/d (before interest)	5,000
To Interest on Y's Loan A/c	1,200		
To Profit transferred to			
X's Capital A/c (1400 × 2/5)	560		
Y' Capital A/c (1400 × 3/5)	840		
	1,400		
	5,000		5,000

**Case 4 – When Losses before Interest were Rs.1,400**

**Profit and Loss Appropriation Account  
for the year ended March 31,2018**

Dr		Cr	
Particulars	Rs.	Particulars	Rs.
To Loss b/d (before interest)	2,400	By Loss transferred to:	
To Interest on X's Loan A/c	1,200	X's Capital A/c (1400 × 2/5)	2,000
To Interest on Y's Loan A/c	1,400	Y' Capital A/c (1400 × 3/5)	3,000
	5,000		5,000

**Question 10.**

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, 2017, Bat and Ball granted 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, 2018 before rent and interest

amounted to ₹ 9,000. Show distribution of profit/loss.

**Solution:**

**Profit and Loss Appropriation Account  
for the year ended March 31,2018**

Dr		Cr	
Particulars	Rs.	Particulars	Rs.
To Loss b/d (before interest)	9,000	By Loan transferred to :	
To Interest on Bat's Loan A/c	7,200	Bat's Capital A/c	31,920
To Interest on Ball's loan A/c	3,600	Ball's Capital A/c	47,880
To Rent A/c (Bat's)	60,000		79,800
	79,800		79,800

**Working notes :**

1.

**Interest on Partner's Loan**

$$\text{Interest on Bat's Loan for 6 months} = 2,40,000 \times \frac{6}{100} \times \frac{6}{12} = 7,200$$

$$\text{Interest on Ball's Loan for 6 months} = 1,20,000 \times \frac{6}{100} \times \frac{6}{12} = 3,600$$

2.

$$\text{Rent paid in Bat's for 12 months} = 5,000 \times 12 = 60,000$$

3.

**Distribution of Loss to the Partners**

$$\text{Bat's Share of Loss} = 79,800 \times \frac{2}{5} = 31,920$$

$$\text{Ball's Share of Loss} = 79,800 \times \frac{3}{5} = 47,880$$

**Question 11.**

A and B are partners. A's Capital is ₹ 1,00,000 and B's Capital is ₹ 60,000. Interest on capital is payable @ 6% p.a. B is entitled to a salary of ₹ 3,000 per month. Profit for the current year before interest and salary to B is ₹ 80,000. Prepare Profit and Loss Appropriation Account.

**Solution:**

**Profit and Loss Appropriation Account**

Dr.					Cr.
Particulars		Rs.		Rs.	Particulars
To Interest on Capital:					By Profit and Loss (Net Profit)
A's A/c (6% of 1,00,000)	6,000				80,000
B's A/c(6% of 60,000)	3,600		9,600		
To Salary to B's A/c (3,000 × 12)			36,000		
To Profit transferred to :					
A's Capital A/c	17,200				
B's Capital A/c	17,200		34,400		
		<b>80,000</b>			<b>80,000</b>

**Working Notes :**

**WN 1** Calculation of Profit Share of each Partner

$$\text{Divisible Profit} = 80,000 - 9,600 - 36,000 = 34,400$$

$$\begin{aligned} \text{Profit Share of A and B each} &= 34,400 \times \frac{1}{2} \\ &= ₹17,200 \end{aligned}$$

**Question 12.**

X, Y and Z are partners in a firm sharing profits in 2 : 2 : 1 ratio. The fixed capitals of the partners were : X ₹5,00,000; Y ₹ 5,00,000 and Z ₹ 2,50,000 respectively. The Partnership Deed provides that interest on capital is to be allowed @ 10% p.a. Z is to be allowed a salary of ₹ 2,000 per month. The profit of the firm for the year ended 31st March, 2018 after debiting Z's salary was ₹ 4,00,000. Prepare Profit and Loss Appropriation Account.

**Solution:**

**Profit and Loss Appropriation Account**

Dr.			Cr.
Particulars	Rs.	Particulars	Rs.
To Interest on Capital A/c		By Profit and Loss A/c	4,00,000
X (10% of 5,00,000)	50,000	(Net Profit after Z's salary )	
Y (10% of 5,00,000)	50,000		
Z (10% of 2,50,000)	25,000		
	1,25,000		
To Profit transferred to :			
X's Capital A/c	1,10,000		
Y's Capital A/c	1,10,000		
Z's Capital A/c	55,000		
	2,75,000		
	<b>4,00,000</b>		<b>4,00,000</b>

**Working Notes :**

1. Salary to Z will not be debited to Profit and Loss Appropriation Account as Profit of Rs.4,00,000 is already given after adjusting the Z's salary.

2. Calculation of Profit Share of each Partner

Divisible of Profit after Interest on Capital = Rs.4,00,000 - Rs.1,25,000 = Rs. 2,75,000

Profit sharing ratio = 2 : 2: 1

$$\text{X's Profit Share} = 2,75,000 \times \frac{2}{5} = 1,10,000$$

$$\text{Y's Profit Share} = 2,75,000 \times \frac{2}{5} = 1,10,000$$

$$\text{Z's Profit Share} = 2,75,000 \times \frac{1}{5} = 55,000$$

**Question 13.**

X and Y are partners sharing profits in the ratio of 3 : 2 with capitals of ₹ 80,000 and ₹ 60,000 respectively. Interest on capital is agreed @ 5% p.a. Y is to be allowed an annual salary of ₹ 6,000 which has not been withdrawn. Profit for the year ended 31st march, 2018 before interest on capital but after charging Y's salary amounted to ₹ 24,000. A provision of 5% of the profit is to be made in respect commission to the manager. Prepare an account showing the allocation profits.

**Solution:**

**Profit and Loss Adjustment Account**

Dr.			Cr.
Particulars	Rs.	Particulars	Rs.
To Manager's Commission A/c (30,000 × 5%)	1,500	By Profit and Loss A/c (Net Profit after Y's salary)	24,000
To Profit transferred to Profit and Loss Appropriation A/c:	28,500	By Y's salary A/c	6,000
	<b>30,000</b>		<b>30,000</b>

**Profit and Loss Appropriation Account**

Dr.			Cr.
Particulars	Rs.	Particulars	Rs.
To Salary to Y's A/c	6,000	By Profit and Loss Adjustment A/c (After manager's commission)	28,500
To Interest on Capital A/c			
X	4,000		
Y	3,000		
	7,000		
To Salary to A/c	12,000		
To Profit transferred to :			
X's Capital A/c	9,300		
Y's Capital A/c	6,200		
	15,500		
	<b>28,500</b>		<b>28,500</b>

**Working Notes :**

**1. Calculation of Manager's Commission**

Profit to calculate Managers' Commission = 24,000 + 6,000 (Y's Salary) = Rs.30,000

$$\therefore \text{Manager's Commission} = 30,000 \times \frac{5}{100} = ₹1,500$$

**2. Calculation of Interest on Capital**

$$\text{Interest on X's Capital} = 80,000 \times \frac{5}{100} = ₹4,000$$

$$\text{Interest on Y's Capital} = 60,000 \times \frac{5}{100} = ₹3,000$$

**3. Calculation of Profit Share of each Partner**

Profit available for distribution = 28,500 - 6,000 - 7,000 = Rs.15,500

$$\text{X's Profit Share} = 15,500 \times \frac{3}{5} = ₹9,300$$

$$\text{Y's Profit Share} = 15,500 \times \frac{2}{5} = ₹6,200$$

### Question 14.

Prem and Manoj are partners in a firm sharing profits in the ratio of 3 : 2. The Partnership Deed provided that Prem was to be paid salary of ₹ 2,500 per month and Manoj was to get a commission of ₹ 10,000 per year. Interest on capital was to be allowed @ 5% p.a. and interest on drawings was to be charged @ 6% p.a. Interest on Prem's drawings was ₹ 1,250 and on Manoj's drawings was ₹ 425. Interest on Capitals of the partners were ₹ 10,000 and ₹ 7,500 respectively. The firm earned a profit of ₹ 90,575 for the year ended 31st March, 2018. Prepare Profit and Loss Appropriation Account of the firm.

### Solution:

Profit and Loss Appropriation Account			
Dr.			Cr.
Particulars	Rs.	Particulars	Rs.
To Salary to Prem (2,500 × 12)	30,000	By Profit and Loss A/c (Net Profit)	90,575
To Commission to Manoj	10,000	By Interest on Drawings A/c:	
To Interest on Capital A/c:		Prem	1,250
Prem (5% of 2 Lacs)	10,000	Manoj	425
Manoj (5% of 1.50 Lacs)	7,500		1,675
To Profit transferred to:			
Prem's Capital A/c	20,850		
Manoj's Capital A/c	13,900		
	34,750		
	<b>92,250</b>		<b>92,250</b>

#### Working Notes :

##### 1. Calculation of Profit Share of each Partner

Profit available for distribution = 90,575 + 1,675 - 30,000 - 10,000 - 17,500 = Rs.34,750

Profit Sharing Ratio = 3 : 2

Prem's Profit Share =  $34,750 \times \frac{3}{5} = ₹20,850$

Manoj's Profit Share =  $34,750 \times \frac{2}{5} = ₹13,900$

### Question 15.

Reema and Seema are partners sharing profits equally. The Partnership Deed provides that both Reema and Seema will get monthly salary of Rs 15,000 each, Interest on Capital will be allowed @ 5% p.a. and Interest on Drawings will be charged @ 10% p.a. Their capitals were Rs 5,00,000 each and drawings during the year were Rs 60,000 each. The firm incurred a loss of Rs 1,00,000 during the year ended 31st March, 2018. Prepare Profit and Loss Appropriation Account for the year ended 31st March, 2018.

### Solution:

**Profit and Loss Appropriation Account**  
for the year ended 31<sup>st</sup> March 2018

Dr.			Cr.
Particulars	Rs.	Particulars	Rs.
To Profit and Loss A/c (Loss)	1,00,000	By Interest on Drawings A/c:	
		Reema	3,000
		Seema	3,000
			6,000
		By Net Loss transferred to:	
		Reema Capital A/c	47,000
		Seema Capital A/c	47,000
	<b>1,00,000</b>		<b>94,000</b>
			<b>1,00,000</b>

**Working Notes :**

1. Calculation of Interest on drawings of each Partner

In the no given of dates of drawings, interest thereon has been calculated for the average period.

$$\text{Reema} = 60,000 \times 10\% \times \frac{6}{12} = ₹3,000$$

$$\text{Seema} = 60,000 \times 10\% \times \frac{6}{12} = ₹3,000$$

2. Loss share of each partner Ratio 1:1.

3. Interest on capital is charge against profit.