

1. A and B are partners sharing Profit and Loss in the ratio of 3 : 2 having Capital Account balances of ₹ 50,000 and ₹ 40,000 on 1st April, 2018. On 1st July, 2018, A introduced ₹ 10,000 as his additional capital whereas B introduced only ₹ 1,000. Interest on capital is allowed to partners @ 10% p.a. Calculate interest on capital for the financial year ended 31st March, 2019.

[Ans.: Total Interest Payable: A—₹ 5,750; B—₹ 4,075.]

2. Ram and Mohan are partners in a business. Their capitals at the end of the year were ₹ 24,000 and ₹ 18,000 respectively. During the year, Ram's drawings and Mohan's drawings were ₹ 4,000 and ₹ 6,000 respectively. Profit (before charging interest on capital) during the year was ₹ 16,000. Calculate interest on capital @ 5% p.a. for the year ended 31st March, 2019.

[Ans.: Interest on Capital: Ram—₹ 1,000; Mohan—₹ 800.]

3. Pranshu and Himanshu are partners sharing profits and losses in the ratio of 3 : 2 respectively. They admit Anshu as partner with 1/6 share in the profits of the firm. Pranshu personally guaranteed that Anshu's share of profit would not be less than ₹ 30,000 in any year. The net profit of the firm for the year ending 31st March, 2013 was ₹ 90,000.

Prepare Profit & Loss Appropriation Account.

(AI 2014 C)

[Ans.: Deficiency to be borne by Pranshu—₹ 15,000; Share of Profit: Pranshu—₹ 30,000; Himanshu—₹ 30,000; and Anshu—₹ 30,000; New Ratio = 3 : 2 : 1.]

4. Ankur and Bobby were into the business of providing software solutions in India. They were sharing profits and losses in the ratio 3 : 2. They admitted Rohit for a 1/5 share in the firm. Rohit, an alumni of IIT, Chennai would help them to expand their business to various South African countries where he had been working earlier. Rohit is guaranteed a minimum profit of ₹ 2,00,000 for the year. Any deficiency in Rohit's share is to be borne by Ankur and Bobby in the ratio 4 : 1. Loss for the year was ₹ 10,00,000. Pass the necessary Journal entries.

(CBSE Sample Paper 2015)

[Ans.: For Distribution of Loss: Dr. Ankur's Capital A/c by ₹ 4,80,000; Bobby's Capital A/c by ₹ 3,20,000; and Rohit's Capital A/c by ₹ 2,00,000; and Cr. Profit & Loss A/c by ₹ 10,00,000.

For Meeting the Deficiency: Dr. Ankur's Capital A/c by ₹ 3,20,000; and Bobby's Capital A/c by ₹ 80,000 and Cr. Rohit's Capital A/c by ₹ 4,00,000.]

5. Anita, Bimla and Cherry are three partners. On 1st April, 2019, their Capitals stood as: Anita ₹ 1,00,000, Bimla ₹ 2,00,000 and Cherry ₹ 3,00,000. It was decided that:

- they would receive interest on Capitals @ 5% p.a.,
- Anita would get a salary of ₹ 5,000 per month,
- Bimla would receive commission @ 5% of net profit after deduction of commission, and
- 10% of the divisible profit would be transferred to the General Reserve.

Before the above items were taken into account, the profit for the year ended 31st March, 2020 was ₹ 5,00,000. Prepare Profit & Loss Appropriation Account and the Capital Accounts of the Partners.

[Ans.: Divisible Profit—₹ 3,86,190; Commission (Bimla)—₹ 23,810; General Reserve—₹ 38,619; Share of Profit: Anita—₹ 1,15,857; Bimla—₹ 1,15,857; Cherry—₹ 1,15,857; Closing Balances of Capital A/c: Anita—₹ 2,80,857; Bimla—₹ 3,49,667; Cherry—₹ 4,30,857.]

6. A, B and C were partners. Their capitals were A—₹ 30,000; B—₹ 20,000 and C—₹ 10,000 respectively. According to the Partnership Deed, they were entitled to an interest on capital @ 5% p.a. In addition, B was also entitled to draw a salary of ₹ 500 per month. C was entitled to a commission of 5% on the profits after charging the interest on capital, but before charging the salary payable to B. The net profit for the year were ₹ 30,000 distributed in the ratio of capitals without providing for any of the above adjustments. The profits were to be shared in the ratio of 5 : 3 : 2.

Pass necessary adjustment entry showing the workings clearly.

[Ans.: Debit A's Current A/c by ₹ 3,675; Credit B's Current A/c by ₹ 2,895 and C's Current A/c by ₹ 780.]

[Hint: It is assumed that Capitals are fixed.]

7. Gian, Rajat and Bishan are partners sharing profits equally. Gian drew regularly ₹ 10,000 in the beginning of every month for six months ended 30th September, 2019. Rajat drew regularly ₹ 10,000 at the end of every month for six months ended 30th September, 2019. Bishan drew regularly ₹ 10,000 in the middle of every month for six months ended 30th September, 2019. Calculate interest on drawings @ 5% p.a. for the year ended 31st March, 2020.

[Ans.: Interest on Drawings: (i) Gian—₹ 2,375; (ii) Rajat—₹ 2,125; (iii) Bishan—₹ 2,250.]

**8 (Appropriation of Profit).** Complete the following accounts:

Dr. PROFIT & LOSS APPROPRIATION ACCOUNT for the year ended 31st March, 2020				Cr.			
Particulars	₹			Particulars	₹		
To Interest on Capital A/cs:				By Profit & Loss A/c (Net Profit)			10,86,250
A	50,000			By Interest on Drawings A/cs:			
B	55,000			A	16,125		
C	30,000	1,35,000		B	18,000		
To A's Commission A/c (A's Current A/c)		?		C	14,625	48,750	
To B's Salary A/c (B's Current A/c)		?					
To Profit transferred to:							
A's Current A/c	?						
B's Current A/c	?						
C's Current A/c	?	?					
		11,35,000					11,35,000

Dr. PARTNERS' CAPITAL ACCOUNTS							Cr.		
Particulars	A (₹)	B (₹)	C (₹)	Particulars	A (₹)	B (₹)	C (₹)		
To Bank A/c		1,00,000		By Bank A/c	?	?	?		
To Balance c/d	?	?	?	By Bank A/c	6,00,000				
	8,00,000	6,00,000	3,00,000		8,00,000	6,00,000	3,00,000		

Dr. PARTNERS' CURRENT ACCOUNTS							Cr.		
Particulars	A (₹)	B (₹)	C (₹)	Particulars	A (₹)	B (₹)	C (₹)		
To Drawings A/c	50,000	80,000	90,000	By Interest on Capital A/c	?	?	?		
To Drawings A/c	90,000	80,000	30,000	By A's Commission A/c	2,00,000				
To Drawings A/c	1,00,000	80,000	60,000	By B's Salary A/c		3,00,000			
To Interest on Drawings A/c	?	?	?	By Profit & Loss App. A/c (Profit)	2,00,000	2,00,000	1,00,000		
To Balance c/d	1,93,875	2,97,000		By Balance c/d			64,625		
	4,50,000	5,55,000	1,94,625		4,50,000	5,55,000	1,94,625		

**Solution:**

PROFIT & LOSS APPROPRIATION ACCOUNT  
for the year ended 31st March, 2020

Dr.				Cr.			
Particulars	₹			Particulars	₹		
To Interest on Capital A/cs:				By Profit & Loss A/c (Net Profit)			10,86,250
A	50,000			By Interest on Drawings A/cs:			
B	55,000			A	16,125		
C	30,000	1,35,000		B	18,000		
To A's Commission A/c (A's Current A/c)		2,00,000		C	14,625	48,750	
To B's Salary A/c (B's Current A/c)		3,00,000					
To Profit transferred to:							
A's Current A/c	2,00,000						
B's Current A/c	2,00,000						
C's Current A/c	1,00,000	5,00,000					
		11,35,000					11,35,000

Dr.

## PARTNERS' CAPITAL ACCOUNTS

Cr.

Particulars	A (₹)	B (₹)	C (₹)	Particulars	A (₹)	B (₹)	C (₹)
To Bank A/c		1,00,000		By Bank A/c	<b>2,00,000</b>	<b>6,00,000</b>	<b>3,00,000</b>
To Balance c/d	<b>8,00,000</b>	<b>5,00,000</b>	<b>3,00,000</b>	By Bank A/c	6,00,000		
	8,00,000	6,00,000	3,00,000		8,00,000	6,00,000	3,00,000

Dr.

## PARTNERS' CURRENT ACCOUNTS

Cr.

Particulars	A (₹)	B (₹)	C (₹)	Particulars	A (₹)	B (₹)	C (₹)
To Drawings A/c	50,000	80,000	90,000	By Interest on Capital A/c	<b>50,000</b>	<b>55,000</b>	<b>30,000</b>
To Drawings A/c	90,000	80,000	30,000	By A's Commission A/c	2,00,000		
To Drawings A/c	1,00,000	80,000	60,000	By B's Salary A/c		3,00,000	
To Interest on Drawings A/c	<b>16,125</b>	<b>18,000</b>	<b>14,625</b>	By P and L App. A/c (Profit)	2,00,000	2,00,000	1,00,000
To Balance c/d	1,93,875	2,97,000		By Balance c/d			64,625
	4,50,000	5,55,000	1,94,625		4,50,000	5,55,000	1,94,625

9. 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's net profit for the year ended 31st March, 2020 was ₹ 90,575.

Prepare Profit & Loss Appropriation Account of the firm.

[Ans.: Divisible Profit—₹ 34,750; Share of Profit: Prem—₹ 20,850; Manoj—₹ 13,900.]

10. Kanika and Gautam are partners doing a dry cleaning business in Lucknow, sharing profits in the ratio 2 : 1 with capitals ₹ 5,00,000 and ₹ 4,00,000 respectively. Kanika withdrew the following amounts during the year to pay the hostel expenses of her son:

1st April	₹ 10,000
1st June	₹ 9,000
1st November	₹ 14,000
1st December	₹ 5,000

Gautam withdrew ₹ 15,000 on the first day of April, July, October and January to pay rent for the accommodation of his family. He also paid ₹ 20,000 per month as rent for the office of partnership which was in a nearby shopping complex.

Calculate Interest on drawings @ 6% p.a.

(CBSE Sample Paper 2015)

[Ans.: Interest on Drawings: Kanika—₹ 1,500; Gautam—₹ 2,250.]

11. C and D are partners in a firm; C has contributed ₹ 1,00,000 and D ₹ 60,000 as capitals. Interest is payable @ 6% p.a. and D is entitled to salary of ₹ 3,000 per month. In the year ended 31st March, 2021, the profit was ₹ 80,000 before interest and salary.

Prepare Profit & Loss Appropriation Account.

[Ans.: Sharing Profit : C: ₹ 17,200 and D—₹ 17,200.

C will get ₹ 23,200 and D—₹ 56,800.]

12. Aan and Ban are partners sharing profits in the ratio of 3 : 2 with capitals of ₹ 50,000 and ₹ 30,000 respectively. Interest on capital is agreed @ 6% p.a. Ban is to be allowed an annual salary of ₹ 2,500. A provision of 5% of net profit is to be made in respect of Manager's Commission and rent of ₹ 24,000 is to be accounted being payable to Aan. Profit for the year before manager's commission and rent to Aan was ₹ 39,000.

Prepare Profit & Loss Appropriation account and the Partners' Capital Accounts.

[Ans.: Share of Profit: Aan—₹ 4,170 and Ban—₹ 2,780; Balances of Capital A/cs: Aan—₹ 57,170 and Ban—₹ 37,080.]

[Hint: Manager's Commission and rent are charges against profit. Hence, they will be transferred to Profit & Loss Account to determine Net Profit before appropriations (such as partner's salary, interest on capital).

Dr.		PROFIT & LOSS ACCOUNT for the year ended ...		Cr.	
Particulars	₹	Particulars	₹		
To Rent A/c	24,000	By Profit (given)	39,000		
To Manager's Commission A/c (5/100 × ₹ 15,000)	750				
To Net Profit trfd. to P & L App. A/c	14,250				
	39,000				39,000

13. Anshul and Asha are partners sharing profits and losses in the ratio of 3 : 2. Anshul being a non-working partner contributed ₹ 8,00,000 as her capital. Asha being a working partner did not contribute capital. The Partnership Deed provides for interest on capital @ 5% and salary to every working partner @ ₹ 2,000 per month. Net profit (before providing for interest on capital and partner's salary) for the year ended 31st March, 2020 was ₹ 32,000.

Show distribution of profits.

[Ans.: Interest on Anshul's Capital—₹ 20,000; Salary to Asha—₹ 12,000.]

[Hint: Since, both interest on capital and salary to partner are appropriations and net profit is less than the amount of appropriations to be made, net profit has been distributed in the ratio of appropriations to be made, i.e., ₹ 40,000 (interest on Anshul's capital): ₹ 24,000 (Asha's salary) or 5 : 3.]

14. A, B and C are partners in a firm. Net profit of the firm for the year ended 31st March, 2021 is ₹ 30,000, which has been duly distributed among the partners in their agreed ratio of 3 : 1 : 1. It is noticed on 10th April, 2021 that the undermentioned transactions were not passed through the books of account of the firm for the year ended 31st March, 2021.

- Interest on Capital @ 6% per annum, the capital of A, B and C being ₹ 50,000; ₹ 40,000 and ₹ 30,000 respectively.
- Interest on drawings: A ₹ 350; B ₹ 250; C ₹ 150.
- Partners' Salaries: A ₹ 5,000; B ₹ 7,500.
- Commission due to A (for some special transaction) ₹ 3,000.

You are required to pass a Journal entry, which will not affect Profit & Loss Account of the firm and rectify the position of partners inter se.

[Ans.: Dr. A's Capital A/c—₹ 2,520 and C's Capital A/c—₹ 2,740; Cr. B's Capital A/c—₹ 5,260.]

15. Vikas and Vivek were partners in a firm sharing profits in the ratio of 3 : 2. On 1st April, 2019, they admitted Vandana as a new partner for 1/8th share in the profits with a guaranteed profit of ₹ 1,50,000. New profit-sharing ratio between Vikas and Vivek will remain same but they decided to bear any deficiency on account of guarantee to Vandana in the ratio 3 : 2. Profit of the firm for the year ended 31st March, 2020 was ₹ 9,00,000.

Prepare Profit & Loss Appropriation Account of Vikas, Vivek and Vandana for the year ended 31st March, 2020.

[Ans.: Deficiency of Vandana—₹ 37,500 borne by Vikas—₹ 22,500 and Vivek—₹ 15,000. Share of Profit: Vikas—₹ 4,50,000; Vivek—₹ 3,00,000; Vandana—₹ 1,50,000.]

16. A, B and C are partners sharing profits and losses in the ratio of A 1/2, B 3/10, C 1/5 after providing for interest @ 5% on their respective capitals, viz., A ₹ 50,000; B ₹ 30,000 and C ₹ 20,000 and allowing B and C salary of ₹ 5,000 each per annum. During the year ended 31st March, 2022, A has drawn ₹ 10,000 and B and C in addition to their salaries have drawn ₹ 2,500 and ₹ 1,000 respectively. Profit & Loss Account for the year ended 31st March, 2022 showed net profit of ₹ 45,000. On 1st April, 2021, the balances in the Current Accounts of the partners were A (Cr.) ₹ 4,500; B (Cr.) ₹ 1,500 and C (Cr.) ₹ 1,000. Interest is not charged on Drawings and allowed on Current Account balances. Show Partners' Capital and Current Accounts as at 31st March, 2022 after division of profits in accordance with the partnership agreement.

[Ans.: Share of Profit: A—₹ 15,000; B—₹ 9,000; C—₹ 6,000;

Balances of Current A/cs: A (Cr.)—₹ 12,000; B (Cr.)—₹ 9,500; C (Cr.)—₹ 7,000.]

17. The firm of Harry, Porter and Ali, who have been sharing profits in the ratio of 2 : 2 : 1, have existed for some years. Ali wants that he should get equal share in the profits with Harry and Porter and he further wishes that the change in the profit-sharing ratio should come into effect retrospectively for the three years. Harry and Porter have agreed to it. Profits for the last three years ended 31st March, were:

Year ended 31st March,	2020	2021	2022
Profit (₹)	2,20,000	2,40,000	2,90,000

Show adjustment of profits by means of an adjustment Journal entry.

(NCERT, Modified)

[Ans.: Debit Harry by ₹ 50,000 and Porter by ₹ 50,000; Credit Ali by ₹ 1,00,000.]

18. A, B and C are partners in a firm sharing profits in the ratio of 3 : 2 : 1. They earned profit of ₹ 30,000 during the year ended 31st March, 2022. Distribute profit among A, B and C if:

- C's share of profit is guaranteed to be ₹ 6,000 minimum.
- Minimum profit payable to C amounting to ₹ 6,000 is guaranteed by A.
- Guaranteed minimum profit of ₹ 6,000 payable to C is guaranteed by B.
- Any deficiency after making payment of guaranteed ₹ 6,000 will be borne by A and B in the ratio of 3 : 1.

[Ans.: (a) A—₹ 14,400; B—₹ 9,600 and C—₹ 6,000; (b) A—₹ 14,000; B—₹ 10,000 and C—₹ 6,000;

(c) A—₹ 15,000; B—₹ 9,000 and C—₹ 6,000; (d) A—₹ 14,250; B—₹ 9,750 and C—₹ 6,000.]

19. Amar and Bimal are partners sharing profits equally. Their capitals as on 1st April, 2021 were ₹ 10,00,000 each. Partners are allowed interest on capital @ 5% p.a. Drawings of each partner were ₹ 1,00,000. Salary is to be allowed to Bimal @ ₹ 5,000 per month. Net Profit for the year ended 31st March, 2022 was ₹ 9,80,000. 10% of the net divisible profit is to be set aside to General Reserve.

Prepare Profit & Loss Appropriation Account for the year ended 31st March, 2022.

[Ans.: Transfer to General Reserve—₹ 70,000 ( $10/110 \times ₹ 7,70,000$ ); Share of Profit—₹ 3,50,000 each of Amar and Bimal.]

20. Harry, Garry and Parry are partners sharing profits equally. Parry is guaranteed minimum annual profit of ₹ 1,00,000. Interest is allowed on capital @ 5% p.a., which is ₹ 30,000 for each partner. Net Profit for the year ended 31st March, 2022 is ₹ 5,40,000.

Prepare Profit & Loss Appropriation Account for the year.

[Ans.: Share of Profit: Harry, Garry and Parry—₹ 1,50,000 each.]

	Ajay (₹)	Sanjay (₹)
Capitals on 1st April, 2021	4,00,000	3,00,000
Drawings during the year ended 31st March, 2022	50,000	30,000
Interest on Capital	5% p.a.	5% p.a.
Interest on Drawings	1,250	750
Share of Profit for the year ended 31st March, 2022	60,000	50,000
Partner's Salary	36,000	—
Commission	5,000	3,000

[Ans.: Ajay's Capital A/c—₹ 4,69,750; Sanjay's Capital A/c—₹ 3,37,250.]

22. Ram and Shyam are partners in a firm sharing profits in the ratio of 3 : 2. On 1st April, 2021, their fixed capitals were ₹ 3,00,000 and ₹ 2,50,000 respectively. On 1st October, they decided that their total capital (Fixed) should be ₹ 6,00,000 in their profit-sharing ratio. Accordingly, they introduced extra capital or withdrew excess capital. The Partnership Deed provided for the following:

- Interest on capital @ 12% p.a.
- Interest on Drawings @ 18% p.a.
- A monthly salary of ₹ 2,000 to Ram and a quarterly salary of ₹ 4,500 to Shyam.

The drawings of Ram and Shyam were as follows:

Particulars	Ram (₹)	Shyam (₹)
On 30th September, 2021	20,000	15,000
On 31st December, 2021	20,000	25,000

During the year ended 31st March, 2022, the firm earned a net profit of ₹ 1,50,000. 10% of this profit was to be transferred to General Reserve.

You are required to prepare:

- Profit & Loss Appropriation Account;
- Partners' Capital Accounts, and Partners' Current Accounts.

[Ans.: Profit transferred to General Reserve: ₹ 15,000.]

	Ram (₹)	Shyam (₹)
Salary	24,000	18,000
Interest on Capital	39,600	29,400
Interest on Drawings	2,700	2,475
Share of Profit	17,505	11,670
Balances: Capital Accounts	3,60,000	2,40,000
Current Accounts	38,405	16,595]

[Hint: Capital to be introduced by Ram: ₹ 60,000; Capital to be withdrawn by Shyam: ₹ 10,000.]

23. Capital Accounts of A and B stood at ₹ 4,00,000 and ₹ 3,00,000 respectively after necessary adjustments in respect of the drawings and the net profit for the year ended 31st March, 2022. It was subsequently noticed that 5% p.a. interest on capital and also drawings were not taken into account in arriving at the distributable profit. The drawings of the partners had been: A—₹ 12,000 drawn at the end of each quarter and B—₹ 18,000 drawn at the end of each half year.

The profit for the year as adjusted amounted to ₹ 2,00,000. The partners share profits in the ratio of 3 : 2.

You are required to pass Journal entries and show adjusted Capital Accounts of the partners.

[Ans.: Partners' Capital Accounts: A—₹ 3,98,790; B—₹ 3,01,210; Capitals on 1.4.2018: (Opening Capital): A—₹ 3,28,000; B—₹ 2,56,000; Interest on Capital: A—₹ 16,400; B—₹ 12,800; Interest on Drawings: A—₹ 900; B—₹ 450.]

- [Hints: (i) For Interest on Capital: Dr. Profit & Loss Adjustment A/c by ₹ 29,200;  
Cr. A's Capital by A/c by ₹ 16,400 and B's Capital A/c by ₹ 12,800.  
(ii) For Interest on Drawings: Dr. A's Capital A/c by ₹ 900 and B's Capital A/c by ₹ 450;  
Cr. Profit & Loss Adjustment A/c by ₹ 1,350.  
(iii) Loss on Adjustment: Dr. A's Capital A/c by ₹ 16,710 and B's Capital A/c by ₹ 11,140;  
Cr. Profit & Loss Adjustment A/c by ₹ 27,850.]

1. A, B and C were partners in a firm sharing profits in the ratio of 5 : 3 : 2. On 31st March, 2019, their Balance Sheet was as follows:

Liabilities	₹	Assets	₹
Creditors	11,000	Building	20,000
Reserves	6,000	Machinery	30,000
A's Loan A/c	5,000	Stock	10,000
Capital A/cs:		Patents	11,000
A	25,000	Debtors	8,000
B	25,000	Cash	8,000
C	15,000		
	87,000		87,000

A died on 1st October, 2019. It was agreed among his executors and the remaining partners that:

- Goodwill to be valued at 2½ years' purchase of the average profit of the previous 4 years, which were 2015-16: ₹ 13,000; 2016-17: ₹ 12,000; 2017-18: ₹ 20,000 and 2018-19: ₹ 15,000.
- Patents be valued at ₹ 8,000; Machinery at ₹ 28,000; and Building at ₹ 25,000.
- Profit for the year 2019-20 be taken as having accrued at the same rate as that of the previous year.
- Interest on capital be provided @ 10% p.a.
- Half of the amount due to A to be paid immediately to the executors and the balance transferred to his (Executors) Loan Account.

Prepare A's Capital Account and A's Executors' Account as on 1st October, 2019.

(Delhi, AI, Foreign 2004, Modified)

[Ans.: Transfer to A's Executors' A/c—₹ 56,900; A's Executors' Loan A/c—₹ 28,450.]

2. B, C and D were partners in a firm sharing profits in the ratio of 5 : 3 : 2. On 31st December, 2008, their Balance Sheet was as follows:

Liabilities	₹	Assets	₹
Creditors	43,000	Cash	10,200
Bills payable	17,000	Stock	24,500
General Reserve	70,000	Debtors	27,300
Capital A/cs:		Land and Building	1,40,000
B	40,000	Profit & Loss A/c	70,000
C	50,000		
D	52,000		
	1,42,000		
	2,72,000		2,72,000

B died on 31st March, 2009. The Partnership Deed provided for the following on the death of a partner:

- Goodwill of the firm was to be valued at 3 years' purchase of the average profit of last 5 years. The profits for the years ended 31st December, 2007, 31st December, 2006, 31st December, 2005, and 31st December, 2004 were ₹ 70,000; ₹ 60,000; ₹ 50,000 and ₹ 40,000 respectively.
- B's share of profit or loss till the date of his death was to be calculated on the basis of the profit or loss for the year ended 31st December, 2008.

You are required to calculate the following:

- Goodwill of the firm and B's share of goodwill at the time of his death.
- B's share in the profit or loss of the firm till the date of his death.
- Prepare B's Capital Account at the time of his death to be presented to his Executors. (AI 2010 C)

[Ans.: B's Share of Goodwill: ₹ 45,000; Share in the loss of the firm: ₹ 8,750; Amount due to B's Executors: ₹ 76,250.]

3. Babita, Chetan and David are partners in a firm sharing profits in the ratio of 2 : 1 : 1 respectively. Firm closes its accounts on 31st March every year. Chetan died on 30th September, 2012. There was a balance of ₹ 1,25,000 in Chetan's Capital Account in the beginning of the year. In the event of death of any partner, the Partnership Deed provides for the following:
- Interest on capital will be calculated at the rate of 6% p.a.
  - The executor of deceased partner shall be paid ₹ 24,000 for his share of goodwill.
  - His share of Reserve Fund of ₹ 12,000, shall be paid to his executor.
  - His share of profit till the date of death will be calculated on the basis of sales. It is also specified that the sales during the year 2011–12 were ₹ 4,00,000. The sales from 1st April, 2012 to 30th September, 2012 were ₹ 1,20,000. The profit of the firm for the year ending 31st March, 2012 was ₹ 2,00,000.

Prepare Chetan's Capital Account to be presented to his executor.

(Delhi 2013 C)

[Ans.: Transferred to Chetan's Executor's Account—₹ 1,79,750;  
Share of Chetan in current year's profit—₹ 15,000.]

4. Akhil, Nikhil and Sunil were partners sharing profits and losses equally. Following was their Balance Sheet as at 31st March, 2018:

Liabilities	₹	Assets	₹
Trade Creditors	40,000	Building	2,00,000
General Reserve	45,000	Plant and Machinery	80,000
Capital A/cs:		Stock	35,000
Akhil	1,95,000	Debtors	80,000
Nikhil	1,20,000	Cash at Bank	85,000
Sunil	80,000		
	4,80,000		4,80,000

Sunil died on 1st August, 2018. The Partnership Deed provided that the executor of a deceased partner was entitled to:

- Balance of Partners' Capital Account and his share of accumulated reserve.
- Share of profits from the closure of the last accounting year till the date of death on the basis of the profit of the preceding completed year before death.
- Share of goodwill calculated on the basis of three times the average profit of the last four years.
- Interest on deceased partner's capital @ 6% p.a.
- ₹ 50,000 to be paid to deceased's executor immediately and the balance to remain in his Loan Account.

Profits and Losses for the preceding years were: 2014–15—₹ 80,000 Profit; 2015–16—₹ 1,00,000 Loss; 2016–17—₹ 1,20,000 Profit; 2017–18—₹ 1,80,000 Profit.

Pass necessary Journal entries and prepare Sunil's Capital Account and Sunil's Executor's Account.

[Ans.: Sunil's Share of General Reserve—₹ 15,000; Interest on Capital—₹ 1,600;  
Share of Goodwill—₹ 70,000; Share of profit—₹ 20,000;  
Balance of Sunil's Capital A/c transferred to Sunil's Executor's A/c—₹ 1,86,600;  
Amount due to Sunil's Executor—₹ 1,36,600.]



5. A, B, and C are partners in a firm sharing profits in the proportion of 3 : 2 : 1. Their Balance Sheet as at 31st March, 2020 stood as follows:

Liabilities	₹	Assets	₹
Sundry Creditors	2,70,000	Cash In Hand	42,500
General Reserve	1,20,000	Cash at Bank	2,14,500
Capital A/cs:		Debtors	1,63,000
A	2,00,000	Stock	17,500
B	1,20,000	Investment	1,32,500
C	80,000	Building	2,10,000
	4,00,000	B's Loan	10,000
	7,90,000		7,90,000

B died on 30th June, 2020 and according to the deed of the said partnership his executors are entitled to be paid as under:

- The capital to his credit at the time of his death and interest thereon @ 10% per annum.
- His proportionate share of General Reserve.
- His share of profit for the intervening period will be based on the sales during that period. Sales from 1st April, 2020 to 30th June, 2020 were as ₹ 12,00,000. The rate of profit during past three years had been 10% on sales.
- Goodwill according to his share of profit to be calculated by taking twice the amount of profits of the last three years less 20%. The profit of the previous three years were: 1st Year: ₹ 82,000; 2nd year: ₹ 90,000; 3rd year ₹ 98,000.
- The investments were sold at par and his executors were paid out in full.

Prepare B's Capital Account and his Executors' Account.

[Ans.: Amount paid to B's Executors—₹ 3,37,000; Interest on Capital—₹ 3,000; Share in: General Reserve—₹ 40,000; Profit ₹ 40,000 and Goodwill—₹ 1,44,000.]

6. X, Y and Z are partners in a firm sharing profits and losses in the ratio of 5 : 3 : 2. Their Balance Sheet as at 31st March, 2019 was as follows:

Liabilities	₹	Assets	₹
Sundry Creditors	18,000	Goodwill	12,000
Investment Fluctuation Reserve	7,000	Patents	52,000
Workmen Compensation Reserve	7,000	Machinery	62,400
Capital A/cs:		Investment	6,000
X	1,35,000	Stock	20,000
Y	95,000	Sundry Debtors	24,000
Z	74,000	Less: Provision for Doubtful Debts	4,000
	3,04,000	Loan to Z	1,000
		Cash at Bank	600
		Profit & Loss A/c	1,50,000
		Z's Drawings	12,000
	3,36,000		3,36,000

Z died on 1st April, 2019, X and Y decide to share future profits and losses in ratio of 3 : 5. It was agreed that:

- Goodwill of the firm be valued 2½ years' purchase of average of four completed years' profits which were: 2015–16—₹ 1,00,000; 2016–17—₹ 80,000; 2017–18—₹ 82,000.

- (ii) Stock is undervalued by ₹ 14,000 and machinery is overvalued by ₹ 13,600.
- (iii) All debtors are good. A debtor whose dues of ₹ 400 were written off as bad debts paid 50% in settlement.
- (iv) Out of the amount of insurance premium debited to Profit & Loss Account, ₹ 2,200 be carried forward as prepaid insurance premium.
- (v) ₹ 1,000 included in Sundry Creditors is not likely to arise.
- (vi) A claim of ₹ 1,000 on account of Workmen Compensation to be provided for.
- (vii) Investment be sold for ₹ 8,200 and a sum of ₹ 11,200 be paid to executors of Z immediately. The balance to be paid in four equal half-yearly instalments together with interest @ 8% p.a. at half year rest.

Show Revaluation Account, Capital Accounts of Partners and the Balance Sheet of the new firm.

**Note:** Firm enjoys bank overdraft facility.

[Ans.: Gain (Profit) on Revaluation—₹ 10,000; Partners' Capital Accounts: X—₹ 74,250; Y—₹ 30,550; Z's Executors' A/c—₹ 36,000; Bank Overdraft: ₹ 2,200; Balance Sheet Total—₹ 1,61,000.]

7. X, Y and Z were partners in a firm sharing profits in the ratio of 5 : 3 : 2. The firm closes its books on 31st March, every year. On 30th September, 2016, Z died. The Partnership Deed provided that on the death of a partner his executors will be entitled to the following:
- (a) Balance in his Capital Account and Interest on Capital @ 12% per annum. On 1st April, 2016, balance in Z's Capital Account was ₹ 80,000.
  - (b) His share in the profits of the firm in the year of his death, which will be calculated on the basis of rate of net profit on sales of the previous year which was 25%. The sales of the firm till 30th September, 2016 were ₹ 4,00,000.
  - (c) His share in the goodwill of the firm. The goodwill of the firm on Z's death was valued at ₹ 3,00,000.
- The Partnership Deed also provided that the following deductions will be made from the amount payable to the executor of the deceased partner:
- (i) His drawings in the year of his death. Z had withdrawn ₹ 30,000 till 30th September, 2016.
  - (ii) Interest on drawings @ 12% per annum which was calculated as ₹ 2,000.

The accountant of the firm prepared Z's Capital Account to be presented to his executor but in a hurry did not complete it. Z's Capital Account as prepared by the firm's accountant is presented below:

Dr.			Z'S CAPITAL ACCOUNT			Cr.		
Date	Particulars	₹	Date	Particulars	₹			
2016			2016					
Sept. 30	?	30,000	April 1	?	80,000			
Sept. 30	?	2,000	Sept. 30	?	4,800			
Sept. 30	?	?	Sept. 30	?	20,000			
			Sept. 30	?	?			
			Sept. 30	?	?			
		1,64,800			1,64,800			

You are required to complete Z's Capital Account.

(Foreign 2017)

**Solution:**

Dr.			Z'S CAPITAL ACCOUNT			Cr.		
Date	Particulars	₹	Date	Particulars	₹			
2016			2016					
Sept. 30	To Drawings A/c	30,000	April 1	By Balance b/d	80,000			
Sept. 30	To Interest on Drawings A/c	2,000	Sept. 30	By Interest on Capital A/c (WN 2)	4,800			
Sept. 30	To Z's Executor's A/c (Balancing Figure)	1,32,800	Sept. 30	By Profit & Loss Suspense A/c (WN 3)	20,000			
			Sept. 30	By X's Capital A/c (WN 4)	37,500			
			Sept. 30	By Y's Capital A/c (WN 4)	22,500			
		1,64,800			1,64,800			

**Working Notes:**

- Date of last Balance Sheet = 31st March, 2016  
Date of death of Z = 30th September, 2016  
Period from 31st March, 2016 to 30th September, 2016 = 6 months.
- Interest on X's capital = ₹ 80,000 × 12/100 × 6/12 = ₹ 4,800.
- Sale up to 30th September, 2016 = ₹ 4,00,000  
Profit up to 30th September, 2016 = ₹ 4,00,000 × 25/100 = ₹ 1,00,000  
Z's share in the profit = ₹ 1,00,000 × 2/10 = ₹ 20,000.
- Goodwill of the firm = ₹ 3,00,000  
Goodwill payable to Z = ₹ 3,00,000 × 2/10 = ₹ 60,000  
which is contributed by X = ₹ 60,000 × 5/8 = ₹ 37,500 and Y = ₹ 60,000 × 3/8 = ₹ 22,500.
- Vikas, Gagan and Momita were partners in a firm sharing profits in the ratio of 2 : 2 : 1. The firm closes its books on 31st March every year. On 30th September, 2014 Momita died. According to the provisions of Partnership Deed the legal representatives of a deceased partner are entitled for the following in the event of his/her death:
  - Capital as per the last Balance Sheet.
  - Interest on capital at 6% per annum till the date of her death.
  - Her share of profit to the date of death calculated on the basis of average profit of last four years.
  - Her share of goodwill to be determined on the basis of three years' purchase of the average profit of last four years. The profits of last four years were:

Year	2010-11	2011-12	2012-13	2013-14
Profit (₹)	30,000	50,000	40,000	60,000

The balance in Momita's Capital Account on 31st March, 2014 was ₹ 60,000 and she had withdrawn ₹ 10,000 till date of her death. Interest on her drawings was ₹ 300.

Prepare Momita's Capital Account to be presented to her executors.

(Delhi 2015)

[Ans.: Amount due to Momita's Executors—₹ 83,000; Interest on Capital—₹ 1,800; Profit & Loss Suspense A/c (Momita's Share of Profit)—₹ 4,500; Momita's Share of Goodwill—₹ 27,000, which is contributed by Vikas and Gagan equally.]

9. Sunny, Honey and Rupesh were partners in a firm. On 31st March, 2014, their Balance Sheet was as follows:

Liabilities	₹	Assets	₹
Creditors	10,000	Plant and Machinery	40,000
General Reserve	30,000	Furniture	15,000
Capital A/cs:		Investments	20,000
Sunny	30,000	Debtors	20,000
Honey	30,000	Stock	25,000
Rupesh	20,000		
	80,000		
	1,20,000		1,20,000

Honey died on 31st December, 2014. The Partnership Deed provides that the representatives of the deceased partner shall be entitled to:

- Balance in the Capital Account of the deceased partner.
- Interest on Capital @ 6% per annum up to the date of his death.
- His share in the undistributed profits or losses as per the Balance Sheet.
- His share in the profits of the firm till the date of his death, calculated on the basis of rate of net profit on sales of the previous year. The rate of net profit on sales of previous year was 20%. Sales of the firm during the year till 31st December, 2014 was ₹ 6,00,000.

Prepare Honey's Capital Account to be presented to his executors.

(Delhi 2015)

[Ans.: Amount due to Honey's Executors—₹ 81,350; interest on Capital—₹ 1,350; Profit & Loss Suspense Account (Honey's Share of Profit)—₹ 40,000; Honey's Share in General Reserve—₹ 10,000.]

10. X, Y and Z were partners in a firm sharing profits and losses in the ratio of 3 : 2 : 1. Z died on 30th June, 2019. The Balance Sheet of the firm as at that 31st March, 2019 is as follows:

Liabilities	₹	Assets	₹
X's Capital A/c	2,40,000	Machinery	2,40,000
Y's Capital A/c	1,60,000	Furniture	1,50,000
Z's Capital A/c	80,000	Investments	40,000
X's Current A/c		Stock	64,000
Y's Current A/c		Sundry Debtors	50,000
Reserve	60,000	Bills Receivable	22,000
Bills Payable	34,000	Cash at Bank	37,000
Sundry Creditors	40,000	Cash in Hand	22,000
		Z's Current A/c	10,000
	6,35,000		6,35,000

The following decisions were taken by the remaining partners:

- A Provision for Doubtful Debts is to be raised at 5% on Debtors.
- While Machinery to be decreased by 10%, Furniture and Stock are to be appreciated by 5% and 10% respectively.
- Advertising Expenses ₹ 4,200 are to be carried forward to the next accounting year and, therefore, it is to be adjusted through the Revaluation Account.
- Goodwill of the firm is valued at ₹ 60,000.
- X and Y are to share profits and losses equally in future.

(f) Profit for the year ended 31st March, 2019 was ₹ 8,16,000 and Z's share of profit till the date of death is to be determined on the basis of profit for the year ended 31st March, 2019.

(g) The Fixed Capital Accounts Method is to be converted into the Fluctuating Capital Accounts Method by transferring the Current Account balances to the respective Partners' Capital Accounts.

Prepare the Revaluation Account, Partners' Capital Accounts and prepare Z's Executor's Account to show that Z's Executors were paid in two half-yearly instalments plus interest of 10% p.a. on the unpaid balance. The first instalment was paid on 31st December, 2019.

[Ans.: Loss on Revaluation—₹ 8,400; Capital Account Balances: X—₹ 2,81,800;  
Y—₹ 1,38,200; Z's Executors—₹ 1,22,600.]

11. P, Q and R were partners in a firm sharing profits in 2 : 2 : 1 ratio. The Partnership Deed provided that on the death of a partner his executors will be entitled to the following:

(a) Interest on Capital @ 12% p.a.

(b) Interest on Drawings @ 18% p.a.

(c) Salary of ₹ 12,000 p.a.

(d) Share in the profit of the firm (up to the date of death) on the basis of previous year's profit.

P died on 31st May, 2020. His capital was ₹ 80,000. He had withdrawn ₹ 15,000 and interest on his drawings was calculated as ₹ 1,200. Profit of the firm for the previous year ended 31st March, 2020 was ₹ 30,000.

Prepare P's Capital Account to be rendered to his executors.

(Foreign 2008, Modified)

[Ans.: P's Executors' A/c—₹ 69,400 (transfer from P's Capital A/c); P's Share of Profit—₹ 2,000.]

12. Kavita, Leena and Monica are partners in firm sharing profits in the ratio of 1 : 1 : 3 respectively. Their Capital Accounts showed the following balances on 31st March, 2012: Kavita ₹ 70,000; Leena ₹ 65,000 and Monica ₹ 2,10,000. Firm closes its accounts every year on 31st March. Kavita died on 30th September, 2012. In the event of death of any partner, the Partnership Deed provides for the following:

(a) Interest on capital will be calculated at the rate of 6% p.a.

(b) The deceased partner's share in the goodwill of the firm will be calculated on the basis of 2 years' purchase of the average profit of last three years. The profits of the firm for the last three years were ₹ 90,000; ₹ 1,00,000 and ₹ 1,10,000 respectively.

(c) Her share in the Reserve Fund of the firm will be paid. The Reserve Fund of the firm was ₹ 60,000 at the time of Kavita's death.

(d) Her share of profit till the date of death will be calculated on the basis of sales. It is also specified that the sales during the year 2011-12 were ₹ 20,00,000. The sales from 1st April, 2012 to 30th September, 2012 were ₹ 4,00,000. The profit of the firm for the year ending 31st March, 2012 was ₹ 2,00,000.

Prepare Kavita's Capital Account to be presented to his legal representative.

(AI 2013 C)

[Ans.: Transferred to Kavita's Executor's Account—₹ 1,32,100; Kavita's Share in goodwill—  
₹ 40,000, which is contributed by Leena and Monica in their gaining  
ratio, i.e., 1 : 3; Kavita's Share of Current year's profit—₹ 8,000.]

13. Virad, Vishad and Roma were partners in a firm sharing profits in the ratio of 5 : 3 : 2 respectively. On 31st March, 2013, their Balance Sheet was as under:

Liabilities	₹	Assets	₹
Capital A/cs:		Buildings	2,00,000
Virad	3,00,000	Machinery	3,00,000
Vishad	2,50,000	Patents	1,10,000
Roma	1,50,000	Stock	1,00,000
Reserve Fund	60,000	Debtors	80,000
Creditors	1,10,000	Cash	80,000
	8,70,000		8,70,000

Virad died on 1st October, 2013. It was agreed between his executors and the remaining partners that:

- Goodwill of the firm be valued at  $2\frac{1}{2}$  years purchase of average profits for the last three years. The average profits were ₹ 1,50,000.
- Interest on capital be provided at 10% p.a.
- Profit for the 2013-14 be taken as having accrued at the same rate as that of the previous year which was ₹ 1,50,000.

Prepare Virad's Capital Account to be presented to his Executors as on 1st October, 2013. (Delhi 2014)

[Ans.: Transfer to Virad's Executors' Account—₹ 5,70,000.]

1. BBG Ltd. had issued 1,00,000 equity shares of ₹ 10 each at a premium of ₹ 3 per share payable with application money. While passing the Journal entries related to the issue, some blanks are left. You are required to complete these blanks.

**In the Books of BBG Ltd.**  
JOURNAL

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
2022 Jan. 5	? To ? (Application money received for 1,40,000 shares @ ₹ 6 per share including premium)	...Dr.	?	?
Jan. 17	Equity Shares Application A/c To ? To ? To ? To ? (Application money transferred to Share Capital Account, Securities Premium Account, refunded for 20,000 shares for rejected applications and balance adjusted towards money due on allotment as shares were allotted on <i>pro rata</i> basis)	...Dr.	?	? ? ? ?
Jan. 17	? To ? (Allotment money due @ ₹ 4 per share)	...Dr.	?	?
Feb. 20	? To ? (Balance allotment amount received)	...Dr.	?	?
April 1	? To ? (First and Final Call money due)	...Dr.	?	?
April 20	? Calls-in-Arrears A/c To ? (First and Final Call money received)	...Dr. ...Dr.	? 3,000	?
May 20	? To ? To ? (Forfeited the shares on which First and Final Call was not received)	...Dr.	?	? ?
June 15	? ? To ? (Forfeited shares reissued)	...Dr. ...Dr.	? 3,000	?
?	? To ? (...?)	...Dr.	?	?

(OD 2016, Modified)

**Solution:**

**In the Books of BBG Ltd.**

**JOURNAL**

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
2022				
Jan. 5	<b>Bank A/c</b> ...Dr. To <b>Equity Shares Application A/c</b> (Application money received for 1,40,000 shares @ ₹ 6 per share including premium)		<b>8,40,000</b>	<b>8,40,000</b>
Jan. 17	Equity Shares Application A/c ...Dr. To <b>Equity Share Capital A/c (1,00,000 × ₹ 3)</b> To <b>Securities Premium A/c (1,00,000 × ₹ 3)</b> To <b>Equity Shares Allotment A/c (20,000 × ₹ 6)</b> To <b>Bank A/c (20,000 × ₹ 6)</b> (Application money transferred to Share Capital Account, Securities Premium Account, refunded for 20,000 shares for rejected applications and balance adjusted towards money due on allotment as shares were allotted on <i>pro rata</i> basis)		<b>8,40,000</b>	<b>3,00,000</b> <b>3,00,000</b> <b>1,20,000</b> <b>1,20,000</b>
Jan. 17	<b>Equity Shares Allotment A/c (1,00,000 × ₹ 4)</b> ...Dr. To <b>Equity Share Capital A/c</b> (Allotment money due @ ₹ 4 per share)		<b>4,00,000</b>	<b>4,00,000</b>
Feb. 20	<b>Bank A/c (₹ 4,00,000 – ₹ 1,20,000)</b> ...Dr. To <b>Equity Shares Allotment A/c</b> (Balance allotment amount received)		<b>2,80,000</b>	<b>2,80,000</b>
April 1	<b>Equity Shares First and Final Call A/c (1,00,000 × ₹ 3)</b> ...Dr. To <b>Equity Share Capital A/c</b> (First and Final Call money due)		<b>3,00,000</b>	<b>3,00,000</b>
April 20	<b>Bank A/c</b> ...Dr. Calls-in-Arrears A/c ...Dr. To <b>Equity Shares First and Final Call A/c</b> (First and Final Call money received)		<b>2,97,000</b> 3,000	<b>3,00,000</b>
May 20	<b>Equity Share Capital A/c (1,000 × ₹ 10)</b> ...Dr. To <b>Forfeited Shares A/c (1,000 × ₹ 7)</b> To <b>Calls-in-Arrears A/c (1,000 × ₹ 3)</b> (Forfeited the shares on which First and Final Call was not received)		<b>10,000</b>	<b>7,000</b> <b>3,000</b>
June 15	<b>Bank A/c (1,000 × ₹ 7)</b> ...Dr. <b>Forfeited Shares A/c</b> ...Dr. To <b>Equity Share Capital A/c</b> (Forfeited shares reissued)		<b>7,000</b> 3,000	<b>10,000</b>
June 15	<b>Forfeited Shares A/c (₹ 7,000 – ₹ 3,000)</b> ...Dr. To <b>Capital Reserve A/c</b> (Gain on reissue of forfeited shares transferred to Capital Reserve)		<b>4,000</b>	<b>4,000</b>