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- ★ **Model Question Papers 1 to 6 (PTA)** : Questions are incorporated in the appropriate sections.
- ★ Govt. Model Question Paper - 2019 (**Govt. MQP-'19**), Quarterly Exam - 2019 (**QY-'19**), Half Yearly Exam - 2019 (**HY-'19**), Public Exam March - 2020 & May - 2022 (**Mar-2020 & May-'22**), Supplementary Exam September 2020, August 2021 & July 2022 (**Sep-2020, Aug'21 & July-'22**) and First & Second Revision Test - 2022 (**FRT-'22 & SRT-'22**) questions are incorporated in the appropriate sections.
- ★ Instant Supplementary Exam July 2022 Question Paper is given with answers.



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PREFACE

The woods are lovely, dark and deep.
But I have promises to keep, and
miles to go before I sleep

- Robert Frost

Respected Principals, Correspondents, Headmasters/ Headmistresses, Teachers,

From the bottom of our heart, we at SURA Publications sincerely thank you for the support and patronage that you have extended to us for more than a decade.

It is in our sincerest effort we take the pride of releasing **SURA's Accountancy** for +2 Standard. This guide has been authored and edited by qualified teachers having teaching experience for over a decade in their respective subject fields. This Guide has been reviewed by reputed Professors who are currently serving as Head of the Department in esteemed Universities and Colleges.

With due respect to Teachers, I would like to mention that this guide will serve as a teaching companion to qualified teachers. Also, this guide will be an excellent learning companion to students with exhaustive exercises and in-text questions in addition to precise answers for textual questions.

In complete cognizance of the dedicated role of Teachers, I completely believe that our students will learn the subject effectively with this guide and prove their excellence in Board Examinations.

I once again sincerely thank the Teachers, Parents and Students for supporting and valuing our efforts.

God Bless all.

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UNIT

1

ACCOUNTS FROM
INCOMPLETE RECORDS

CHAPTER SNAPSHOT

- 1.1 Introduction
- 1.2 Meaning of incomplete records
- 1.3 Features of incomplete records
- 1.4 Limitations of incomplete records
- 1.5 Differences between double entry system and incomplete records
- 1.6 Accounts from incomplete records
- 1.7 Ascertaining profit or loss from incomplete records through statement of affairs
 - 1.7.1 Calculation of profit or loss through statement of affairs
 - 1.7.2 Steps to be followed to find out the profit or loss by preparing statement of affairs
 - 1.7.3 Statement of affairs
 - 1.7.4 Format of statement of affairs
 - 1.7.5 Differences between statement of affairs and balance sheet
- 1.8 Preparation of final accounts from incomplete records
 - 1.8.1 Steps to be followed to prepare final accounts from incomplete records

Important Points

- When accounting records are not strictly maintained according to double entry system they are called incomplete accounting records.
- In general, only cash and personal accounts are maintained fully.
- Any increase in capital is taken as profit while a decrease is regarded as loss.
- Closing capital + Drawings – Additional capital – Opening capital = Profit/ Loss.
- A statement of affairs is prepared to find out capital on a particular day by showing the balances of assets on the right side and the balances of liabilities on the left side.
- From the information available from incomplete records and from other documents, the missing figures can be found out and then the final accounts can be prepared.

SELF-EXAMINATION QUESTIONS

I. MULTIPLE CHOICE QUESTIONS

CHOOSE THE CORRECT ANSWER

1. Incomplete records are generally maintained by [PTA-1; Aug-'21; FRT & July-'22]

- (a) A company
- (b) Government
- (c) Small sized sole trader business
- (d) Multinational enterprises

[Ans. (c) Small sized sole trader business]

2. Statement of affairs is a [PTA-2; QY-'19; FRT & May-'22]

- (a) Statement of income and expenditure
- (b) Statement of assets and liabilities
- (c) Summary of cash transactions
- (d) Summary of credit transactions

[Ans. (b) Statement of assets and liabilities]

3. Opening statement of affairs is usually prepared to find out the [PTA-3]

- (a) Capital in the beginning of the year
- (b) Capital at the end of the year
- (c) Profit made during the year
- (d) Loss occurred during the year

[Ans. (a) Capital in the beginning of the year]

4. The excess of assets over liabilities is [PTA-4, 6; QY-'19; Sep-2020; FRT, May & July-'22]

- (a) Loss
- (b) Cash
- (c) Capital
- (d) Profit

[Ans. (c) Capital]

5. Which of the following items relating to bills payable is transferred to total creditors account?

[PTA-5; FRT-'22]

- (a) Opening balance of bills payable
- (b) Closing balance of bills payable
- (c) Bills payable accepted during the year
- (d) Cash paid for bills payable

[Ans. (c) Bills payable accepted during the year]

6. The amount of credit sales can be computed from [PTA-5; QY-'19; Sep- 2020]

- (a) Total debtors account
- (b) Total creditors account
- (c) Bills receivables account
- (d) Bills payable account

[Ans. (a) Total debtors account]

7. Which one of the following statements is not true in relation to incomplete records?

[Govt. MQP-'19; PTA-4]

- (a) It is an unscientific method of recording transactions
- (b) Records are maintained only for cash and personal accounts
- (c) It is suitable for all types of organisations
- (d) Tax authorities do not accept

[Ans. (c) It is suitable for all types of organisations]

8. What is the amount of capital of the proprietor, if his assets are ₹ 85,000 and liabilities are ₹ 21,000?. [PTA-3; HY-'19]

- (a) ₹ 85,000
- (b) ₹ 1,06,000
- (c) ₹ 21,000
- (d) ₹ 64,000

[Ans. (d) ₹ 64,000]

Hint: Capital = Assets – Liabilities

$$= ₹ 85,000 - ₹ 21,000 = ₹ 64,000$$

(iii) Difficulty in ascertaining true profitability of the business:

Profit is found out based on available information and estimates. Hence, it is difficult to ascertain true profit as the trading and profit and loss account cannot be prepared with accuracy.

(iv) Errors and frauds cannot be detected easily:

As only partial records are available, it may not be possible to have internal checks in maintaining accounts to detect errors and frauds.

(v) Difficulty in ascertaining financial position : In general, only the estimated values of assets and liabilities are available from incomplete records. Hence, it is difficult to ascertain true and fair view of state of affairs or financial position as on a particular date.

3. State the differences between double entry system and incomplete records.

[Govt. MQP-'19; PTA-3; Aug-'21; FRT-'22]

Ans.

S. No.	Basis of distinction	Double entry system	Incomplete records
1.	Recording of transactions	Both debit and credit aspects of all the transactions are recorded	Debit and credit aspects of all the transactions are not recorded completely.
2.	Type of accounts maintained	Personal, real and nominal accounts are maintained fully	In general, Only personal and cash accounts are maintained fully. Real and nominal accounts are not maintained fully.
3.	Preparation of trial balance	Trial balance can be prepared to check the arithmetical accuracy of the entries made in the books of accounts.	It is difficult to prepare the trial balance to check arithmetic accuracy of entries made in the books of accuracy of entries made in the books of accounts as the accounts are incomplete.
4.	Suitability	It is suitable for all types of organisations	It may be suitable for small sized sole traders and partnership firms.
5.	Reliability	It is reliable since it is a scientific system of accounting.	It is not reliable since it is unscientific.

4. State the procedure for calculating profit or loss through statement of affairs.

Ans. Following are the steps to be followed under the statement of affairs method to find out the profit or loss.

- (1) Ascertain the opening capital by preparing a statement of affairs at the beginning of the year by taking the opening balances of assets and liabilities.
- (2) Ascertain the closing capital by preparing a statement of affairs at the end of the accounting period after making all adjustments such as depreciation, bad debts, outstanding and prepaid expenses, outstanding income, interest on capital, interest on drawings, etc.
- (3) Add the amount of drawings (both in cash and/in kind) to the closing capital.
- (4) Deduct the amount of additional capital introduced, to get adjusted closing capital.
- (5) Ascertain profit or loss by subtracting opening capital from the adjusted closing capital.
 - a) If adjusted closing capital is more than the opening capital, it denotes profit
 - b) If adjusted closing capital is lesser than the opening capital, it denotes loss.

5. Differentiate between statement of affairs and balance sheet. [PTA-1; HY-'19; Aug-'21; FRT-'22]

Ans.

S. No.	Basis of distinction	Statement of affairs	Balance Sheet
1.	Objective	Statement of affairs is generally prepared to find out the capital of the business.	Balance sheet is prepared to ascertain the financial position of the business.
2.	Accounting system	Statement of affairs is prepared when double entry system is not strictly followed.	Balance sheet is prepared when accounts are maintained under double entry system.
3.	Basis of preparation	It is not fully based on ledger balances.	It is prepared exclusively on the basis of ledger balances.
4.	Reliability	It is not reliable as it is based on incomplete records.	It is reliable as it is prepared under double entry system.
5.	Missing items	It is difficult to trace the items omitted as complete records are not maintained.	Since both the aspects of all transactions are duly recorded, items omitted can be traced easily.

6. How is the amount of credit sale ascertained from incomplete records?

Ans. Total sales are calculated by adding cash and credit sales. Cash sales are given in cash book. For ascertaining the amount of credit sales, the total debtors account should be prepared. The specimen of total debtors account is given below.

Dr	Total debtors account		Cr
Particulars	₹	Particulars	₹
To Balace b/d (Op. Bal.)	xxxx	By Cash A/c (received)	xxxx
To Sales A/c (Credit Sales)	xxxx	By Bank A/c (Cheques received)	xxxx
To Bank A/c (Cheque dishonoured)	xxxx	By Discount allowed A/c	xxxx
To Bills receivable a/c (Bills dishonoured)	xxxx	By Sales returns A/c	xxxx
		By Bad debts A/c	xxxx
		By Bills receivable A/c (bills received)	xxxx
		By balance c/d (Closing Bal)	xxxx
	xxxx		xxxx

IV EXERCISES

1. From the following particulars ascertain profit or loss:

[PTA-1, 6]

Particulars	₹
Capital at the beginning of the year (1 st April, 2018)	5,00,000
Capital at the end of the year (31 st March, 2019)	8,50,000
Additional capital introduced during the year	1,20,000
Drawings during the year	70,000

Solution : Statement of profit or loss for the year ending 31st March 2019

Particulars	₹
Closing capital (as on 31.03.2019)	8,50,000
Add : Drawings during the year	70, 000
	9,20,000
Less: Additional capital introduced during the year	1,20,000
Adjusted closing capital	8,00,000
Less: Opening capital (as on 1 st April, 2018)	5,00,000
Profit for the year	3,00,000

2. From the following particulars ascertain profit or loss.

[PTA-2; Sep-2020]

Particulars	₹
Capital as on 1 st January 2018	2,20,000
Capital as on 31 st December 2018	1,80,000
Additional capital introduced during the year	40,000
Drawings made during the year	50,000

Solution : Statement of profit or loss for the year ending 31st December 2018

Particulars	₹
Closing capital as on 31 st December 2018	1,80,000
Add : Drawings during the year	50, 000
	2,30,000
Less: Additional capital introduced during the year	40,000
Adjusted closing capital	1,90,000
Less: Opening capital as on 1 st January, 2018	2,20,000
Loss for the year	30,000

3. From the following details, calculate the missing figure.

Particulars	₹
Closing capital as on 31.3.2018	80,000
Additional capital introduced during the year	30,000
Drawings during the year	15,000
Opening capital on 01.4.2017	?
Loss for the year ending 31.3.2018	25,000

Solution : Statement of profit or loss for the year ending 31st March 2018

Particulars	₹
Closing capital as on 31.03.2018	80,000
Add : Drawings during the year	15,000
	95,000
Less: Additional capital introduced during the year	30,000
Adjusted closing capital	65,000
Less: Opening capital as on 01.04.2017 (B/F)	90,000
Loss for the year ending 31.03.2018	25,000

Dr	Total Creditors account		Cr
Particulars	₹	Particulars	₹
To Cash A/c (paid)	3,70,000	By Balance b/d	75,000
To Purchases return A/c	15,000	By Purchases A/c (Credit)	4,80,000
To Bills payable A/c (bills accepted)	1,20,000	(Balancing figure)	
To Balance c/d	50,000		
	5,55,000		5,55,000

$$\begin{aligned} \text{Total purchases} &= \text{Cash purchase} + \text{Credit purchases} \\ &= ₹3,20,000 + ₹4,80,000 = ₹8,00,000 \end{aligned}$$

6. Draw the format of Bills Receivable Account.

[FRT-'22]

Solution : Refer Ch-1, Text Book Illustration 11 (ii)

ADDITIONAL QUESTIONS AND ANSWERS

1. MULTIPLE CHOICE QUESTIONS.

(i) Choose the correct answer. **1 MARK**

1. The different between the total of assets and total of liabilities is taken as

- (a) drawings (b) capital
(c) profit (d) loss

[Ans. (b) capital]

2. The total assets of a proprietor are ₹5,00,000. His liabilities ₹3,50,000. Then his capital in the business is

- (a) ₹8,50,000 (b) ₹1,50,000
(c) ₹3,50,000 (d) ₹4,25,000

[Ans. (b) ₹1,50,000]

Hint: Capital = Assets – liabilities
= ₹ 5,00,000 – ₹ 3,50,000
= ₹ 1,50,000

3. A firm has assets worth ₹60,000 and capital ₹45,000. Then it's liabilities is

- (a) ₹45,000 (b) ₹1,05,000
(c) ₹60,000 (d) ₹15,000

[Ans. (d) ₹15,000]

Hint: Liabilities = Assets – Capital
= ₹ 60,000 – 45,000 = ₹ 15,000

4. Debtors on 1.4.2018 was ₹1,00,000 and on 31.3.2019 was ₹80,000 cash received from debtors during the year is ₹1,60,000. Then the credit sales during the year is

- (a) ₹3,40,000 (b) ₹2,40,000
(c) ₹1,40,000 (d) ₹1,60,000

[Ans. (c) ₹1,40,000]

5. Under the net worth method, the basis for ascertaining the profit is

- (a) the difference between the capital on two dates
(b) the difference between the liabilities on two dates
(c) the different between the gross assets on two dates
(d) the difference between the gross profit on two dates

[Ans. (a) the difference between the capital on two dates]

6. Credit sale is obtained from

- (a) Bills receivable account
(b) Bills payable account
(c) Total debtors account
(d) Total creditors account

[Ans. (c) Total debtors account]

7. The capital of a business is ascertained by preparing

- (a) Trading account
(b) Statement of profit or loss
(c) Balance sheet
(d) Statement of affairs

[Ans. (d) Statement of affairs]

8. Credit purchase is obtained from

- (a) Bills receivable account
(b) Bills payable account
(c) Total debtors account
(d) Total creditors account

[Ans. (d) Total creditors account]



Hint :

Total Debtors account			
Dr			Cr
Particulars	₹	Particulars	₹
To Balance b/d	1,00,000	By Cash A/c (received)	1,60,000
To Sales A/c (Balancing figure)	1,40,000	By Balance c/d	80,000
	2,40,000		2,40,000

- 9. A firm's total sales is ₹80,000 and its credit sales is ₹60,000. Then its cash sales is**
- (a) ₹1,40,000 (b) ₹70,000
 (c) ₹20,000 (d) ₹80,000

[Ans. (c) ₹20,000]

Hint : Cash Sales = Total Sales – Credit Sales
 = ₹ 80,000 – ₹ 60,000
 = ₹ 20,000

- 10. A firm has assets worth ₹47,500 and liabilities ₹17,700. Then its capital is**
- (a) ₹29,800 (b) ₹65,200
 (c) ₹35,400 (d) ₹17,700

[Ans. (a) ₹29,800]

Hint : Capital = Assets – Liabilities
 = ₹ 47,500 – ₹ 17,700
 = ₹ 29,800

- 11. Companies cannot keep books on single entry system because of**
- (a) tax properties
 (b) legal provisions
 (c) both (a) and (b)
 (d) None of these [Ans. (b) legal provisions]

(ii) Match List I with List II and Select the Correct Answer using the Codes given below.

List I		List II	
(i)	Incomplete records	1.	Net worth method
(ii)	Single entry system	2.	Double entry
(iii)	Statement of affairs method	3.	Small traders
(iv)	Nominal account	4.	Incomplete double system

Codes :

- | | | | | |
|-----|-----|------|-------|------|
| | (i) | (ii) | (iii) | (iv) |
| (a) | 1 | 2 | 3 | 4 |
| (b) | 4 | 3 | 1 | 2 |
| (c) | 2 | 3 | 1 | 4 |
| (d) | 3 | 4 | 1 | 2 |

[Ans. (d) (i) - 3 (ii) - 4 (iii) - 1 (iv) - 2]

2.

List I		List II	
(i)	Nature	1.	Needs and conveniences
(ii)	Types of accounts	2.	No legal obligations
(iii)	Lack of uniformity	3.	Real account and nominal accounts
(iv)	Suitability	4.	Unsystematic way of transactions

Codes :

- | | | | | |
|-----|-----|------|-------|------|
| | (i) | (ii) | (iii) | (iv) |
| (a) | 1 | 2 | 3 | 4 |
| (b) | 2 | 3 | 4 | 1 |
| (c) | 4 | 3 | 1 | 2 |
| (d) | 3 | 4 | 2 | 1 |

[Ans. (c) (i) - 4 (ii) - 3 (iii) - 1 (iv) - 2]

(iii) Choose the Correct Option and Fill in the Blanks.

- 1. Incomplete records are those records which are not kept under _____ system**
- (a) Single entry (b) Double entry
 (c) Book keeping (d) none of these

[Ans. (b) Double entry]

- 2. _____ is an unscientific and unsystematic way of recording transactions.**

- (a) Incomplete records
 (b) Complete records
 (c) Single entry system
 (d) Double entry system

[Ans. (a) Incomplete records]

- 3. Statement of affairs method is also called as _____ method.**

- (a) Net profit (b) Net loss
 (c) Net worth/capital comparison
 (d) None of these

[Ans. (c) Net worth/capital comparison]

4. _____ is a statement showing the balances of assets and liabilities on a particular date.
 (a) Statement of affairs
 (b) Trading account
 (c) Profit and loss account
 (d) Balance sheet
[Ans. (a) Statement of affairs]
5. _____ capital can be found by preparing a statement of affairs at the beginning of the year.
 (a) Opening capital
 (b) Closing capital
 (c) Both (a) and (b)
 (d) None of these
[Ans. (a) Opening capital]
6. A statement of affairs resembles a _____.
 (a) Trading account
 (b) Profit and loss account
 (c) Balance sheet
 (d) Trial balance
[Ans. (c) Balance sheet]
7. Closing capital can be found by preparing a statement affairs at the _____ of the year.
 (a) opening
 (b) end
 (c) centre
 (d) none of these
[Ans. (b) end]
8. In _____ system, only personal and cash accounts are opened.
 (a) Single entry
 (b) Double entry
 (c) Trial balance
 (d) Balance Sheet
[Ans. (a) Single entry]
9. Creditors on 1.4.2016 was ₹80,000 and on 31.3.2017 was ₹65,000 cash paid to creditors during the year is ₹1,10,000. Then the credit purchases during the year is _____.
 (a) ₹95,000
 (b) ₹1,75,000
 (c) ₹1,95,000
 (d) ₹1,50,000
[Ans. (a) ₹ 95,000]
10. _____ maintains only personal and cash accounts.
 (a) Single entry system
 (b) Double entry system
 (c) Both (a) and (b)
 (d) None of these
[Ans. (a) Single entry system]
11. _____ is suitable only for sole traders and partnership firms.
 (a) Double entry system
 (b) Single entry system
 (c) Both (a) and (b)
 (d) None of these
[Ans. (b) Single entry system]
12. Single entry system keeps one cash book which mixes up business as well as _____ transactions.
 (a) Private
 (b) Own
 (c) Public
 (d) Capital
[Ans. (a) Private]
13. True financial position cannot be ascertained as _____ is not prepared due to the absence of nominal and real accounts.
 (a) Trading accounts
 (b) Profit and loss account
 (c) Balance sheet
 (d) Trail balance
[Ans. (c) Balance sheet]
14. If it is desired to calculate profit by preparing trading and profit and loss account under single entry then it is called _____ method.
 (a) Networth
 (b) Statement of affairs
 (c) Conversion
 (d) None of these
[Ans. (c) Conversion]
- (iv) Pick the Odd one Out.**
1. (a) Incomplete (b) Unsystematic
 (c) Balance Sheet (d) Unscientific
[Ans. (c) Balance Sheet]

Hint :

Total Creditors Account			
Dr	₹	Particulars	Cr
Particulars	₹	Particulars	₹
To Cash (Paid)	1,10,000	By Balance b/d	80,000
To Balance c/d	65,000	By Credit Purchases A/c (Balancing figure)	95,000
	1,75,000		1,75,000

- Reason :** Balance sheet is a statement which gives the position of assets and liabilities on a particular date. Other three are limitations of incomplete records.
2. (a) Statement of affairs
 (b) Net worth method method
 (c) Annuity method
 (d) Capital comparison method
[Ans. (c) Annuity method]

Reason : Annuity method, not only the original cost of the asset but also the amount of interest on the investment is taken into account while computing depreciation. Other three are methods of ascertaining profit or loss.

3. (a) Conversion method
 (b) Statement of affairs method
 (c) Straight line method
 (d) Net worth method

[Ans. (c) Straight line method]

Reason : Under this method, a fixed percentage on the original cost of the asset is charged every year by way of depreciation. Other three are methods of ascertaining profit or loss.

(v) Which one of the Following is Correctly Matched?

1.	(a)	Adjusted closing capital	=	Closing capital – Drawings – Additional capital
	(b)	Profit/Loss	=	Closing capital + Drawings – Additional Capital – Opening capital
	(c)	Capital	=	Assets + Liabilities
	(d)	Closing capital	=	Opening capital + Drawings

[Ans. (b) Profit/Loss = Closing capital + Drawings – Additional Capital – Opening capital]

(vi) Consider the Following Statement.

1. **Assertion (A) :** Single Entry System is an incomplete, inaccurate, unscientific and unsystematic system of book keeping.

Reason (R) : The name of the system itself shows that the double aspects of business transactions are recorded.

- (a) Both (A) and (R) are true and (R) is the correct explanation (A).
 (b) Both (A) and (R) are true and (R) is not the correct explanation of (A).
 (c) (A) is true, but (R) is false.
 (d) (A) is false, but (R) is true.

[Ans. (b) Both (A) and (R) are true and (R) is not the correct explanation of (A)]

2. **Assertion (A) :** Single Entry System is a system of book keeping in which as a rule, only records of cash and personal accounts are maintained,

Reason (R) : It is always incomplete double entry varying with circumstances.

- (a) Both (A) and (R) are true and (R) is the correct explanation (A).
 (b) Both (A) and (R) are true and (R) is not the correct explanation of (A).
 (c) (A) is true, but (R) is false.
 (d) (A) is false, but (R) is true.

[Ans. (b) Both (A) and (R) are true and (R) is not the correct explanation (A)]

3. **Assertion (A) :** The single entry system is suitable only for sole traders and partnership firms.

Reason (R) : Companies cannot keep books on Double entry system because of legal provisions.

- (a) Both (A) and (R) are true and (R) is the correct explanation (A).
 (b) Both (A) and (R) are true and (R) is not the correct explanation of (A).
 (c) (A) is true, but (R) is false.
 (d) (A) is false, but (R) is true.

[Ans. (c) (A) is true, but (R) is false]

4. **Assertion (A) :** Double Entry System It maintains only personal and cash accounts.

Reason (R) : Personal accounts are not maintained.

- (a) Both (A) and (R) are true and (R) is the correct explanation (A).
 (b) Both (A) and (R) are true and (R) is not the correct explanation of (A).
 (c) (A) is true, but (R) is false.
 (d) (A) is false, but (R) is true.

[Ans. (c) (A) is true, but (R) is false]

5. **Assertion (A) :** Single entry actually refers to incomplete double entry system or the double entry system.

Reason (R) : It is not based on Single aspect concept. Hence it is incomplete, inaccurate and unscientific.

- (a) Both (A) and (R) are true and (R) the correct explanation (A).
 (b) Both (A) and (R) are true and (R) is not the correct explanation of (A).
 (c) (A) is true, but (R) is false.
 (d) (A) is false, but (R) is true.

[Ans. (d) (A) is false, but (R) is true]

VALUE BASED QUESTIONS AND ANSWERS

1. Radhika started a small bakery for providing healthy and good quality bakery product at reasonable prices on 1st January, 2019 with a capital of ₹1,80,000. She appointed a ten year old boy as a sweeper. She withdrew ₹60,000 for household expenses. She introduced ₹20,000 as fresh capital. Her position of assets and liabilities as at 31st December, 2019 stood as follows.

	₹
Cash in hand	70,000
Stock	80,000
Bills receivable	1,00,000
Debtors	1,50,000
Creditors	60,000
Bills payable	10,000

You are required to calculate profit or loss and also identify the values introduced in this question.

Solution :

Statement of affairs as on 31.12.2019

Liabilities	₹	Assets	₹
Creditors	60,000	Cash in hand	70,000
Bills payables	10,000	Stock	80,000
Capital	3,30,000	Bills receivables	1,00,000
(Balancing figure)		Debtors	1,50,000
	4,00,000		4,00,000

Calculation of Profit

Particulars	₹
Capital at the end	3,30,000
Add: Drawings	60,000
	3,90,000
Less: Additional capital	20,000
	3,70,000
Less: Opening capital	1,80,000
Profit for the year	1,90,000

Values involved are

- (i) Violating child labour act by employing 10 year old boy.
- (ii) By providing good quality product she is promoting the welfare and health of society
- (iii) By charging reasonable prices she is not indulged in profiteering.

2. Which values are affected, when accounts are maintained on single entry system basis.

Ans. Values being affected are

- (i) **Reliability :** Value of reliability is affected as accounts maintained on single entry system are less reliable as they are prepared from incomplete records.
- (ii) **Accuracy :** Value of arithmetical accuracy is affected, as in single entry system, trial balance cannot be prepared which proves arithmetical accuracy of accounts.



UNIT

2

ACCOUNTS OF NOT - FOR - PROFIT
ORGANISATION

CHAPTER SNAPSHOT

- 2.1 Introduction
- 2.2 Features of not-for-profit organisations
- 2.3 Receipts and Payments Account
 - 2.3.1 Steps in preparation of receipts and payments account
- 2.4 Items peculiar to not-for-profit organisations
- 2.5 Income and Expenditure Account
 - 2.5.1 Steps in preparation of income and expenditure account from receipts and payments account
 - 2.5.2 Format of Income and Expenditure Account
 - 2.5.3 Differences between receipts and payments account and income and expenditure account
 - 2.5.4 Treatment of revenue receipts
- 2.6 Balance Sheet

Important Points

- Not-for-profit entities exist to provide services to the members or to the society at large.
- The three principal accounting statements of a not-for-profit organisation include Receipts and Payments Account, Income and Expenditure Account and Balance Sheet.
- The Receipts and Payments Account is a summarised cash book which records all cash receipts and cash payments effected during an accounting year irrespective of the nature as to capital or revenue, irrespective of the period to which it belongs, that is, whether it relates to the previous or current year or subsequent year.
- Income and Expenditure Account is prepared to ascertain the excess of revenue income over revenue expenditure (surplus) or excess of revenue expenditure over revenue income (deficit) for a particular accounting year, which is the result of the entity's over all activities for the accounting year.
- Opening capital is found out by comparing the opening balances of assets and liabilities.
- The Balance sheet is prepared at the end of the accounting year to show the financial position on that date.
- It includes the capital fund or accumulated fund, special purpose funds, long term liabilities and current liabilities on the liabilities side and fixed assets and current assets on the assets side.

SELF-EXAMINATION QUESTIONS

I MULTIPLE CHOICE QUESTIONS CHOOSE THE CORRECT ANSWER

- 1. Receipts and payments account is a** [PTA-5; Sep-2020; Aug-'21; FRT-'22]
(a) Nominal A/c (b) Real A/c
(c) Personal A/c
(d) Representative personal account
[Ans. (b) Real A/c]
- 2. Receipts and payments account records receipts and payments of** [PTA-4]
(a) Revenue nature only
(b) Capital nature only
(c) Both revenue and capital nature
(d) None of the above
[Ans. (c) Both revenue and capital nature]
- 3. Balance of receipts and payments account indicates the** [PTA-2, 3; July-'22]
(a) Loss incurred during the period
(b) Excess of income over expenditure of the period
(c) Total cash payments during the period
(d) Cash and bank balance as on the date
[Ans. (d) Cash and bank balance as on the date]
- 4. Income and expenditure account is a** [Mar-2020; FRT-'22]
(a) Nominal A/c (b) Real A/c
(c) Personal A/c
(d) Representative personal account
[Ans. (a) Nominal A/c]
- 5. Income and Expenditure Account is prepared to find out** [PTA-1; QY-'19; Aug-'21; FRT & May-'22]
(a) Profit or loss
(b) Cash and bank balance
(c) Surplus or deficit
(d) Financial position
[Ans. (c) Surplus or deficit]
- 6. Which of the following should not be recorded in the income and expenditure account?** [PTA-1, 6; Govt. MQP & HY-'19; FRT-'22]
(a) Sale of old news papers
(b) Loss on sale of asset
(c) Honorarium paid to the secretary
(d) Sale proceeds of furniture
[Ans. (d) Sale proceeds of furniture]



7. Subscription due but not received for the current year is [PTA-2; HY-'19]

- (a) An asset (b) A liability
(c) An expense

(d) An item to be ignored [Ans. (a) An asset]

8. Legacy is a [QY-'19; FRT & July-'22]

- (a) Revenue expenditure
(b) Capital expenditure
(c) Revenue receipt
(d) Capital receipt [Ans. (d) Capital receipt]

9. Donations received for a specific purpose is [Sep-2020; May-'22]

- (a) Revenue receipt (b) Capital receipt
(c) Revenue expenditure
(d) Capital expenditure

[Ans. (b) Capital receipt]

10. There are 500 members in a club each paying ₹ 100 as annual subscription. Subscription due but not received for the current year is ₹ 200; Subscription received in advance is ₹ 300. Find out the amount of subscription to be shown in the income and expenditure account.

[PTA-5; QY-'19; Mar-2020]

- (a) ₹ 50,000 (b) ₹ 50,200
(c) ₹ 49,900 (d) ₹ 49,800

[Ans. (a) ₹ 50,000]

II VERY SHORT ANSWER QUESTIONS

1. State the meaning of not-for-profit organisation. [PTA-1; Aug-'21; FRT-'22]

Ans. (i) Some organisations are established for the purpose of rendering services to the public without any profit motive.

(ii) They may be created for the promotion of art, culture, education, sports, etc. These organisations are called not-for-profit organisation.

(iii) Charitable institutions, educational institutions, cultural societies, sports and recreation clubs, hospitals, libraries and literary associations are some of the examples of not-for-profit organisations.

2. What is receipts and payments account? [PTA-2]

Ans. (i) Receipts and Payments account is a summary of cash and bank transactions of not-for-profit organisations prepared at the end of each financial year.

(ii) It is a real account in nature. The receipts and payments account begins with the opening balances of cash and bank and ends with closing balances of cash and bank.

3. What is legacy? [PTA-3; May-'22]

Ans. A gift made to a not-for-profit organisation by a will, is called legacy. It is a capital receipt.

4. Write a short note on life membership fees.

[PTA-4; Sep-2020; FRT-'22]

Ans. Amount received towards life membership fee from members is a capital receipt as it is non-recurring in nature.

5. Give four examples for capital receipts of not-for-profit organisation. [PTA-5; Govt. MQP & QY-'19; Mar-'20; FRT & July-'22]

Ans. (i) Life membership fee

(ii) Endowment fund

(iii) Sale of fixed assets

(iv) Specific donations.

6. Give four examples for revenue receipts of not-for-profit organisation.

Ans. (i) Interest on investment

(ii) Interest on fixed deposit

(iii) Sale of (old) sports materials

(iv) Sale of (old) news papers.

III SHORT ANSWER QUESTIONS

1. What is income and expenditure account? [PTA-6]

Ans. (i) Income and expenditure account is a summary of income and expenditure of a not-for-profit organisation prepared at the end of an accounting year.

(ii) It is prepared to find out the surplus or deficit pertaining to a particular year.

(iii) It is a nominal account in nature in which items of revenue receipts and revenue expenditure, relating to the current year alone are recorded.

(iv) It is just like preparing a profit and loss account. In this account, incomes are shown on the credit side and expenses are shown on the debit side.

(v) Apart from cash items, non-cash items such as income accrued but not received, loss or gain on sale of fixed assets, depreciation, etc. will also be recorded.

2. State the differences between Receipts and Payments Account and Income and Expenditure Account.

Ans.

[PTA-2; Sep-2020; FRT & July-'22]

S.No.	Basis	Receipts and Payments Account	Income and Expenditure Account
1.	Nature of account	It is a real account. Cash receipts are recorded on the debit side and cash payments are recorded on the credit side.	It is a nominal account. Expenses are recorded on the debit side and incomes are recorded on the credit side.
2.	Basis of accounting	It is based on cash system of accounting. Non-cash items are not recorded	It is based on accrual system of accounting. Non-cash items like outstanding expenses, depreciation, etc. are also recorded.
3.	Opening and closing balance	It commences with an opening balance of cash and bank and ends with closing balance of cash and bank.	There is no opening balance. It ends with surplus or deficit.
4.	Nature of items	It contains actual receipts and payments irrespective of revenue or capital items in nature.	It contains only revenue items, that is, only revenue expenses and revenue incomes.
5.	Period	All cash receipts and payments made during the year pertaining to the past period, current period and subsequent period are recorded.	It contains only the items relating to the current period.

3. How annual subscription is dealt with in the final accounts of not-for-profit organisation?

[FRT-'22]

Ans. (a) Treatment in income and Expenditure account :

When subscription received for the current year, previous years and subsequent period are given separately, subscription received for the current year will be shown on the credit side of Income and Expenditure Account after making the adjustments given below:

- (i) Subscription outstanding for the current year is to be added.
- (ii) Subscription received in advance in the previous year which is meant for the current year, is to be added.

When total subscription received during the current year is given, that total subscriptions received during the current year will be shown on the credit side of Income and Expenditure Account after making the following adjustments:

- (i) Subscription outstanding in the previous year which is received in the current year will be subtracted.

- (ii) Subscriptions received in advance in the previous year which is meant for the current year, is added and subscriptions received in advance in the current year which is meant for the subsequent year must be subtracted.

(b) Treatment in Balance Sheet

- (i) Subscriptions outstanding for the current year and still outstanding for the previous year will be shown on the assets side of the balance sheet.
- (ii) Subscriptions received in advance in the current year will be shown on the liabilities side of the balance sheet.

4. How the following items are dealt with in the final accounts of not-for-profit organisation?

- a) **Sale of sports materials** *[PTA-4]*
- b) **Life membership fees**
- c) **Tournament fund**

Ans. (a) Sale of sports materials :

- (i) Consumable items such as sports materials, stationery, medicines, etc., consumed during the year will appear on the debit side of income and expenditure account.
- (ii) Consumption = Opening stock + Purchases during the current year - Closing stock



- | | |
|--|---|
| <p>(iii) Closing stock will appear on the assets side of the balance sheet as at the end of the year.</p> <p>(iv) If there is any sale of old sports materials, etc., that will be shown on the credit side of income and expenditure account or can be subtracted from the respective items consumed on the debit side of income and expenditure account.</p> | <p>(b) Life membership fees : Amount received towards life membership fee from members is a capital receipt as it is non-recurring in nature.</p> <p>(c) Tournament fund : It is recurring in nature. It is revenue receipt. It is shown liabilities side of balance sheet. Opening balance added donations and subtracted expenses incurred.</p> |
|--|---|

IV EXERCISES

1. From the information given below, prepare Receipts and Payments account of Kurunji Sports Club for the year ended 31st December, 2018. [Govt. MQP-'19; PTA-1, 6]

Particulars	₹	Particulars	₹
Cash in hand (1.1.2018)	4,000	Paid for printing charges	2,500
Salaries paid	3,000	Lockers rent received	1,000
Life membership fees received	10,000	Tournament receipts	14,000
Subscription received	15,000	Tournament expenses	10,500
Rent received	2,000	Investments purchased	25,000

Solution :

In the books of kurunji sports club

Receipts and Payments Account for the year ended 31st December 2018

Dr.	₹	Cr.	₹
Receipts		Payments	
To Balance b/d		By Salaries	3,000
Cash in hand	4,000	By Printing Charges	2,500
To Life membership fees	10,000	By Tournament expenses	10,500
To Subscription received	15,000	By Investment purchased	25,000
To Rent received	2,000	By Balance c/d	
To Lockers rent received	1,000	Cash in hand	5,000
To Tournament receipts	14,000		
	46,000		46,000

2. From the information given below, prepare Receipts and Payments account of Coimbatore Cricket Club for the year ending 31st March, 2019. [PTA-2, 6]

Particulars	₹	₹	Particulars	₹
Bank overdraft (1.4.2018)		6,000	Honorarium paid	2,800
Cash in hand (1.4.2018)	1,000		Water and electricity charges	700
Wages paid for ground maintenance		2,000	Match expenses	2,600
Subscription received:			Sports material purchased	1,900
Previous year	500		Match fund receipts	5,200
Current year	9,600		Legacies received	2,000
Subsequent year	400	10,500	Cash balance (31.03.2019)	300
Wages yet to be paid		2,200	Donation received for pavilion	2,000
Interest on loan paid		2,000		

Solution :

In the books of Coimbatore Cricket Club

Receipts and Payments Account for the year ended 31st March 2019

Dr.	₹	₹	Cr.	₹
Receipts			Payments	
To Balance b/d			By Balance b/d	
Cash in hand		1,000	Bank overdraft	6,000
To Subscription received:			By Wages paid for ground maintenance	2,000
Previous year	500		By Interest on loan	2,000
Current year	9,600		By Honorarium paid	2,800
Subsequent year	400	10,500	By Water and electricity charges	700
			By Match expenses	2,600
To Match fund receipts		5,200	By Sports material purchased	1,900
To Legacies received		2,000	By Balance c/d	
To Donation received		2,000	Cash in hand	300
			Cash at bank	2,400
		20,700		20,700

[Hint : Wages yet to be paid is a non cash item. Hence it is excluded in receipts and payments account]

- 3. From the information given below, prepare Receipts and Payments account of Madurai Mother Theresa Mahalir Mandram for the year ended 31st December, 2018. [PTA - 3]**

Particulars	₹	Particulars	₹
Cash balance as on 1.1.2018	2,000	Fire Insurance premium paid	1,500
Bank balance as on 1.1.2018	3,000	Subscription received	8,500
Sale of old newspapers	500	Furniture purchased	6,000
Stationery purchased	6,000	Purchase of newspapers	700
Audit fees paid	2,000	Depreciation on furniture	900
Entrance fees received	3,000	Cash balance as on 31.12.2018	2,500
Sundry charges	6,000	Conveyance paid	1,000
Scholarships given	2,000	Sale of furniture	4,000
Interest on investments	2,000		

Solution :

In the books of Madurai Mother Theresa Mahalir Mandram

Receipts and payments Accounts for the year ended 31st December 2018

Dr.	₹	₹	Cr.	₹
Receipts			Payments	
To Balance b/d			By Stationery purchased	6,000
Cash in hand	2,000		By Audit fees	2,000
Cash at bank	3,000	5,000	By Scholarship	2,000
			By Sundry charges	6,000
To Sale of old news papers		5,00	By Fire insurance premium	1,500
To Entrance fees received		3,000	By Furniture purchased	6,000
To Subscription received		8,500	By Purchase of news papers	700
To Sales of furniture		4,000	By Conveyance paid	1,000
To Interest on investment		2,000	By Balance c/d	
To Balance c/d (Bank overdraft)		4,700	Cash in hand	2,500
		27,700		27,700

[Hint : As depreciation on furniture is a non cash item, it is excluded in receipts and payments account]

HOTS QUESTIONS AND ANSWERS

1. Can be balance in receipts and payments account be treated as income of the period?

Ans. No, as the balance in receipt and payments account is closing cash and bank balance.

2. Every receipt and Payments, whether capital or revenue and irrespective of the period is recorded in receipts and payments accounts why? Give reason.

Ans. It is so because receipts and payments account is prepared on cash basis of accounting.

3. Income and expenditure account of a not-for-profit organization is akin to profit and loss account of a business concern. Explain the statement.

Ans. Income and expenditure account is prepared by a non-profit organization and is a summary of income and expenditure of the accounting year.

Income and expenditure account is akin to profit and loss account because of the following similarities which are observed amongst these accounts.

- (i) Both are nominal accounts. (ii) Both are one prepared on accrual basis.
- (iii) Both record revenue items related to current accounting year only.
- (iv) In both the accounts, expenses and losses are recorded on the debit side and incomes and gains are recorded on the credit side.

4. Distinguish between income and expenditure account and profit and loss account.

Ans. The difference between income and expenditure account and profit and loss account are.

Basis	Income and Expenditure Account	Profit and Loss Account
Preparation	Income and Expenditure account is prepared by non-profit organisation.	Profit and loss account is prepared by organization whose main objective is to earn profit
Basis of preparation	It is prepared on the basis of receipts and payments account.	It is prepared on the basis of trial balance and additional information.
Objective	Its main objective is to ascertain surplus or deficit.	Its main objective is to ascertain net profit or loss.
Balance	The balance in this account is either surplus or deficit.	The balance in this account is either net profit or net loss.

VALUE BASED QUESTIONS AND ANSWERS

1. Yuvan foundation is formed to educate and to provide jobs to unemployed women. Identify the values involved.

Ans. The value involved are Respect for women and women empowerment.

2. Youth of India sports club decided to donate ₹ 50,000 and spread awareness among the people of nearby societies about cleanliness in the country under the programme “Bharat Abhiyan”. Identify the values highlighted.

Ans. The values highlighted are

- (i) Social responsibility towards society.
- (ii) Sensitivity towards cleaner environment.



UNIT
3

ACCOUNTS OF PARTNERSHIP
FIRMS - FUNDAMENTALS

CHAPTER SNAPSHOT

- 3.1 Introduction
- 3.2 Meaning, definition and features of partnership
 - 3.2.1 Meaning and definition of partnership
 - 3.2.2 Features of partnership
- 3.3 Partnership deed
 - 3.3.1 Contents of partnership deed
- 3.4 Application of the provisions of the Indian Partnership Act, 1932 in the absence of partnership deed
- 3.5 Final accounts of partnership firms
- 3.6 Methods of maintaining capital accounts of partners
 - 3.6.1 Fixed capital method
 - 3.6.2 Fluctuating capital method
 - 3.6.3 Differences between fixed capital method and fluctuating capital method
- 3.7 Interest on capital and interest on drawings of partners
 - 3.7.1 Interest on capital
 - 3.7.2 Calculation of interest on capital
 - 3.7.3 Interest on drawings
 - 3.7.4 Calculation of interest on drawings
- 3.8 Salary and commission to partners
- 3.9 Interest on loan from partners
- 3.10 Division of profits among partners
- 3.11 Profit and loss appropriation account
 - 3.11.1 Format of Profit and loss appropriation account



Important Points

- Profits and losses are shared among the partners of a firm in the profit sharing ratio. In the absence of agreed ratio, the profit and losses are to be shared by the partners equally.
- In the absence of agreement, no interest is allowed on capital, no interest is charged on drawings and no salary or other remuneration is given to the partners.
- Partners are entitled to interest on the loans advanced by them to the firm at a rate agreed by them. If the rate of interest on partner's loan is not agreed, the partners are entitled to interest on loan at 6% per annum.
- When fixed capital method is adopted by a firm, current accounts are opened for each partner apart from the capital account of each partner.
- When fluctuating capital method is followed, all the adjustments regarding additional capital introduced, share of profit, interest on capital, interest on drawings, etc. are done in the capital account.
- In profit and loss appropriation account adjustments are made for interest on capital, interest on drawings and partner's remuneration, the resultant profit is shared by the partners in their profit sharing ratio.

SELF-EXAMINATION QUESTIONS

I MULTIPLE CHOICE QUESTIONS

CHOOSE THE CORRECT ANSWER

- In the absence of a partnership deed, profits of the firm will be shared by the partners in** [PTA-5; QY-'19; FRT & May-'22]
(a) Equal ratio (b) Capital ratio
(c) Both (a) and (b) (d) None of these
[Ans. (a) Equal ratio]
- In the absence of an agreement among the partners, interest on capital is** [Govt. MQP-'19; PTA-4; Mar-2020; FRT-'22]
(a) Not allowed
(b) Allowed at bank rate
(c) Allowed @ 5% per annum
(d) Allowed @ 6% per annum
[Ans. (a) Not allowed]
- As per the Indian Partnership Act, 1932, the rate of interest allowed on loans advanced by partners is** [PTA-3; Aug-'21; July-'22]
(a) 8% per annum (b) 12% per annum
(c) 5% per annum (d) 6% per annum
[Ans. (d) 6% per annum]
- Which of the following is shown in Profit and loss appropriation account?** [PTA-2; QY-2019] [Sep-2020]
(a) Office expenses
(b) Salary of staff
(c) Partners' salary
(d) Interest on bank loan
[Ans. (c) Partners' salary]
- When fixed capital method is adopted by a partnership firm, which of the following items will appear in capital account?** [PTA-1]
(a) Additional capital introduced
(b) Interest on capital
(c) Interest on drawings
(d) Share of profit
[Ans. (a) Additional capital introduced]
- When a partner withdraws regularly a fixed sum of money at the middle of every month, period for which interest is to be calculated on the drawings on an average is** [PTA-1, 6; HY-'19; FRT & July-'22]
(a) 5.5 months (b) 6 months
(c) 12 months (d) 6.5 months
[Ans. (b) 6 months]

7. Which of the following is the incorrect pair?
[Govt. MQP-'19; PTA-2, 6; QY-'19; Sep-2020]

- (a) Interest on drawings - Debited to capital account
- (b) Interest on capital - Credited to capital account
- (c) Interest on loan - Debited to capital account
- (d) Share of profit - Credited to capital account

[Ans. (c) Interest on loan - Debited to capital account]

8. In the absence of an agreement, partners are entitled to [PTA-3]

- (a) Salary
- (b) Commission
- (c) Interest on loan
- (d) Interest on capital

[Ans. (c) Interest on loan]

9. Pick the odd one out [PTA-4]

- (a) Partners share profits and losses equally
- (b) Interest on partners' capital is allowed at 7% per annum
- (c) No salary or remuneration is allowed to partners
- (d) Interest on loan from partners is allowed at 6% per annum.

[Ans. (b) Interest on partners' capital is allowed at 7% per annum]

10. Profit after interest on drawings, interest on capital and remuneration is ₹10,500. Geetha, a partner, is entitled to receive commission @ 5% on profits after charging such commission. [PTA-5; Aug-'21]

Find out commission.

- (a) ₹50
- (b) ₹150
- (c) ₹550
- (d) ₹500

[Ans. (d) ₹500]

Hint : Commission as a percentage of net profit after charging such commission
= Net profit before commission

$$\begin{aligned} & \times \frac{\% \text{ of commission}}{100 + \% \text{ of commission}} \\ & = ₹ 10,500 \times \frac{5}{100 + 5} = \frac{10,500 \times 5}{105} \\ & = ₹ 500 \end{aligned}$$

II VERY SHORT ANSWER QUESTIONS

1. Define partnership. [PTA-1; QY-'19]

Ans. According to section 4 of the Indian partnership Act, 1932, partnership is defined as "the relation between persons who have agreed to share the profits of a business carried on by all or any of them acting for all".

2. What is a partnership deed? [FRT-'22]

Ans. Partnership deed is a document in writing that contains the terms of the agreement among the partners. It is not compulsory for a partnership to have a partnership deed as per the Indian Partnership Act, 1932. But, it is desirable to have a partnership deed as it serves as an evidence of the terms of the agreement among the partners.

3. What is meant by fixed capital method? (Or) In which Capital method, two accounts are maintained for each partner? Explain.

[PTA-2; HY-'19]

Ans. (i) Fixed capital method, two accounts are maintained for each partner viz. a) Capital account and b) current account

(ii) The transactions relating to initial capital introduced, additional capital introduced and capital permanently withdrawn are entered in the capital account and all other transactions are recorded in the current account.

4. What is the journal entry to be passed for providing interest on capital to a partner?

[Aug-2021; FRT-22]

Ans. Following are the journal entries to be made in the books of the partnership firm.

a. For providing interest on capital :

Date	Particulars	L.F	Debit ₹	Credit ₹
	Interest on capital A/c Dr To Partner's capital / current A/c		XXXX	XXXX

Note: Interest on capital is due to the partners from the firm hence partner's capital/current account is credited and interest on capital account is debited.



b. For closing interest on capital account :

Date	Particulars	L.F	Debit ₹	Credit ₹
	Profit and loss appropriation A/c Dr To Interest on Capital A/c		XXXX	XXXX

5. Why is Profit and loss appropriation account prepared? [Sep-2020]

- Ans. (i)** The profit and loss appropriation account is an extension of profit and loss account prepared for the purpose of adjusting the transactions relating to amounts due to and amount due from partners. It is a nominal account in nature
- (ii)** 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 to carry on 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.

2. State any six contents of a partnership deed. [QY-'19]

- Ans.** The contents of a partnership deed are,
- (1)** The Name of the firm and nature and place of business.
 - (2)** Date of commencement and duration of business
 - (3)** Names and addresses of all partners
 - (4)** Capital contributed by each partner
 - (5)** Profit sharing ratio
 - (6)** Rate of interest to be allowed on capital

III SHORT ANSWER QUESTIONS

1. State the features of partnership.

[PTA-1; FRT-'22]

- Ans.** Following are the essential features of partnership
- (1)** Partnership is an association of two or more persons. The maximum number of partners is limited to 50.

3. State the differences between fixed capital method and fluctuating capital method.

Ans. *[PTA-5, 6; HY-'19; Mar-2020; FRT & July-'22]*

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. But, current account may show either debit or 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

4. Write a brief note on the applications of the provisions of the Indian Partnership Act, 1932 in the absence of partnership deed.

Ans. 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.

5. Jayaraman is a partner who withdrew ₹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. [FRT-'22]

Solution :

If Drawings are made in the middle of every month :

$$\begin{aligned} \text{Total amount withdrawn} &= 10,000 \times 12 \\ &= 1,20,000 \end{aligned}$$

$$\text{Average period} = 6$$

Interest on drawings = Total amount of drawings

$$\begin{aligned} &\times \text{Rate of interest} \times \frac{\text{Average Period}}{12} \\ &= ₹1,20,000 \times \frac{6}{100} \times \frac{6}{12} \\ &= ₹ 3,600 \end{aligned}$$

IV EXERCISES

1. Akash, Bala, Chandru and Daniel are partners in a firm. There is no partnership deed. How will you deal with the following? [PTA-5; Govt. MQP & QY-'19; Sep-2020; May-'22]

- (i) Akash has contributed maximum capital. He demands interest on capital at 10% per annum.

- (ii) Bala has withdrawn ₹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 ₹10,000 per month as he spends full time for the business.
- (v) Loan advanced by Chandru to the firm is ₹50,000. He demands interest on loan @ 12% per annum.

Ans. 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 Akash is entitled to the interest in capital.
- (ii) No interest is chargeable on drawings made by the partner. Therefore, Bala need not pay interest on drawings.
- (iii) Profits should be distributed equally.
- (iv) No remuneration is payable to any partner. Hence Daniel is not entitled to salary.
- (v) Interest on loan is payable at 6% per annum of ₹ 50,000.

2. From the following information, prepare capital accounts of partners Rooban and Deri, when their capitals are fixed. [PTA-1]

Particulars	Rooban ₹	Deri ₹
Capital on 1 st April, 2018	70,000	50,000
Current account on 1 st April, 2018 (Cr.)	25,000	15,000
Additional capital introduced	18,000	16,000
Drawings during 2018 – 2019	10,000	6,000
Interest on drawings	500	300
Share of profit for 2018 – 2019	35,000	25,800
Interest on capital	3,500	2,500
Salary	Nil	18,000
Commission	12,000	Nil



Solution :

Dr		Partners' Capital Account				Cr	
Date	Particulars	Rooban ₹	Deri ₹	Date	Particulars	Rooban ₹	Deri ₹
2019 March 31	To Balance c/d (Balancing figure)	88,000	66,000	2018 1 April	By Balance b/d By Bank A/c (Additional capital)	70,000 18,000	50,000 16,000
		88,000	66,000			88,000	66,000
				2019 April 1	By Balance b/d	88,000	66,000

Dr		Partners' Current Account				Cr	
Date	Particulars	Rooban ₹	Deri ₹	Date	Particulars	Rooban ₹	Deri ₹
	To Drawings	10,000	6,000		By Balance b/d	25,000	15,000
	To Interest on drawings	500	300		By Profit and loss appropriation A/c (Share of profit)	35,000	25,800
	To Balance c/d (B/F)	65,000	55,000		By Interest on capital	3,500	2,500
					By Salary	-	18,000
					By Commission	12,000	-
		75,500	61,300			75,500	61,300
					By Balance b/d	65,000	55,000

- 3. Arun and Selvam are partners who maintain their capital accounts under fixed capital method. From the following particulars, prepare capital accounts of partners. [PTA-2]**

Particulars	Arun ₹	Selvam ₹
Capital on 1 st January, 2018	2,20,000	1,50,000
Current account on 1 st January, 2018	4,250(Dr.)	10,000(Cr.)
Additional capital introduced during the year	Nil	70,000
Withdrew for personal use	10,000	20,000
Interest on drawings	750	600
Share of profit for 2018	22,000	15,000
Interest on capital	1,100	750
Commission	6,900	Nil
Salary	Nil	6,850

Solution :

Dr				Partners' Capital Account				Cr	
Date	Particulars	Arun ₹	Selvam ₹	Date	Particulars	Arun ₹	Selvam ₹		
31 Dec. 2018	To Balance c/d (B/F)	2,20,000	2,20,000	1 Jan. 2018	By Balance b/d	2,20,000	1,50,000		
					By Bank (additional capital)	-	70,000		
		2,20,000	2,20,000			2,20,000	2,20,000		
				1 Jan. 2019	By Balance b/d	2,20,000	2,20,000		

Dr				Partners' Current Account				Cr	
Date	Particulars	Arun ₹	Selvam ₹	Date	Particulars	Arun ₹	Selvam ₹		
	To Balance b/d	4,250	-		By Balance b/d	-	10,000		
	To Drawings A/c	10,000	20,000		By Profit and loss appropriation A/c (Share of profit)	22,000	15,000		
	To Interest on drawings	750	600		By Interest on capital A/c	1,100	750		
	To Balance c/d (B/F)	15,000	12,000		By Commission A/c	6,900	-		
					By Salary A/c	-	6,850		
		30,000	32,600			30,000	32,600		
					By Balance b/d	15,000	12,000		

4. From the following information, prepare capital accounts of partners Padmini and Padma, when their capitals are fluctuating. [PTA - 3, 6]

Particulars	Padmini ₹	Padma ₹
Capital on 1 st January 2018 (Cr. balance)	5,00,000	4,00,000
Drawings during 2018	70,000	40,000
Interest on drawings	2,000	1,000
Share of profit for 2018	52,000	40,000
Interest on capital	30,000	24,000
Salary	45,000	Nil
Commission	Nil	21,000



Solution :

Dr	Partners' Capital A/c				Cr
Particulars	Padmini ₹	Padma ₹	Particulars	Padmini ₹	Padma ₹
To Drawing A/c	70,000	40,000	By Balance b/d	5,00,000	4,00,000
To Interest on drawings A/c	2,000	1,000	By Profit and loss appropriation A/c (Share of profit)	52,000	40,000
To Balance c/d	5,55,000	4,44,000	By Interest on capital A/c	30,000	24,000
			By Salary A/c	45,000	-
			By Commission A/c	-	21,000
	6,27,000	4,85,000		6,27,000	4,85,000
			By Balance b/d	5,55,000	4,44,000

- 5. Mannan and Ramesh share profits and losses in the ratio of 3:2 and their capital on 1st April, 2018 was Mannan ₹1,50,000 and Ramesh ₹1,00,000 respectively and their current accounts show a credit balance of ₹25,000 and ₹20,000 respectively. Calculate interest on capital at 6% p.a. for the year ending 31st March, 2019 and show the journal entries.**

Solution :

Calculation of interest on capital:

Interest on capital = Amount of capital × Rate of interest

Interest on Mannan's capital = $1,50,000 \times \frac{6}{100} = ₹ 9,000$

Interest on Ramesh's capital = $1,00,000 \times \frac{6}{100} = ₹ 6,000$

Note:

- ☞ Balance of current account will not be considered for calculation of interest on capital.

Journal entries

Date	Particulars	L.F	Debit ₹	Credit ₹
2019 March 31	Interest on capital A/c Dr To Mannan's current A/c To Ramesh's current A/c (Interest on capital provided)		15,000	9,000 6,000
2019 March 31	Profit and loss appropriation A/c Dr. To Interest on capital A/c (Interest on capital closed)		15,000	15,000

- 6. 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 ₹3,00,000 and Supria ₹2,00,000. On 1st July, 2018 Prakash introduced additional capital of ₹60,000. Supria introduced additional capital of ₹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.** [FRT-'22]

Solution :

Calculation of Interest on capital:

Interest on Prakash's capital:

$$\text{On opening capital for 1 year} = 3,00,000 \times \frac{6}{100} = ₹ 18,000$$

$$\text{On additional capital for 9 months} = 60,000 \times \frac{6}{100} \times \frac{9}{12} = ₹ 2,700$$

$$\text{Interest on capital} = ₹ 20,700$$

Interest on Supriya's capital:

$$\text{On opening capital for 1 year} = 2,00,000 \times \frac{6}{100} = ₹ 12,000$$

$$\text{On additional for 6 months} = 30,000 \times \frac{6}{100} \times \frac{6}{12} = ₹ 900$$

$$\text{Interest on capital} = ₹ 12,900$$

Note: Since the date of additional capital introduced by Supriya is not given, interest on additional capital is calculated from an average period of 6 months.

Journal entries

Date	Particulars	L.F	Debit ₹	Credit ₹
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

- 7.** The capital account of Begum and Fatima on 1st January, 2018 showed a balance of ₹50,000 and ₹40,000 respectively. On 1st October, 2018, Begum introduced an additional capital of ₹10,000 and on 1st May, 2018 Fatima introduced an additional capital of ₹9,000. [PTA-3; July-'22]

Calculate interest on capital at 4% p.a. for the year ending 31st December, 2018.

Solution :

Calculation of Interest on capital:

Begum:

$$\text{On opening capital for 1 year} = 50,000 \times \frac{4}{100} = ₹ 2,000$$

$$\text{On additional capital for 3 months (October to December)} = 10,000 \times \frac{4}{100} \times \frac{3}{12} = ₹ 100$$

$$\text{Interest on capital} = ₹ 2,100$$

Fathima:

$$\text{On opening capital for 1 year} = 40,000 \times \frac{4}{100} = ₹ 1600$$

$$\text{On additional capital for 8 months (May to December)} = 9,000 \times \frac{4}{100} \times \frac{8}{12} = ₹ 240$$

$$\text{Interest on capital} = ₹ 1840$$



- 8. From the following balance sheets of Subha and Sudha who share profits and losses in 2:3, calculate interest on capital at 5% p.a. for the year ending 31st December, 2018. [PTA - 3, 5, 6; FRT-'22]**

Balance sheet as on 31st December, 2018

Liabilities	₹	₹	Assets	₹
Capital accounts:			Fixed assets	70,000
Subha	40,000		Current assets	50,000
Sudha	60,000	1,00,000		
Current liabilities		20,000		
		1,20,000		1,20,000

Drawings of Subha and Sudha during the year were ₹8,000 and ₹10,000 respectively. Profit earned during the year was ₹30,000.

Solution :

Particulars	Subha ₹	Sudha ₹
Capital on 31 st December 2018	40,000	60,000
Add: Drawings	8,000	10,000
	48,000	70,000
Less: Profit already credited	12,000	18,000
Capital on 1 st January 2018	36,000	52,000

Calculation of interest on capital:

Subha:

$$\text{On opening capital} = 36,000 \times \frac{5}{100} = ₹ 1,800$$

Sudha:

$$\text{On opening capital} = 52,000 \times \frac{5}{100} = ₹ 2,600$$

- 9. 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. [PTA-5]**

Balance sheet as on 31st December, 2018

Liabilities	₹	₹	Assets	₹
Capital accounts:			Sundry assets	2,20,000
Rajan	1,00,000			
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 ₹40,000 and on 1st September, 2018, Devan introduced ₹30,000. Drawings of Rajan and Devan during the year were ₹20,000 and ₹10,000 respectively. Profit earned during the year was ₹70,000.

Solution :

Particulars	Rajan		Devan	
	₹	₹	₹	₹
Capital on 31 st 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 × 2/3) = 20,000 Devan (30,000 × 1/3) = 10,000]				
Capital as on 1 st January 2018		60,000		50,000

(*Profit earned = Profit earned 70,000 – Balance profit as per balance sheet ₹40,000 = ₹30,000. This amount is distributed in their profit sharing ratio of 2 : 1.)

Calculation of interest on capital

Rajan :

On opening capital for 1 year = $60,000 \times \frac{6}{100} = ₹ 3600$

On additional capital for 9 months = $40,000 \times \frac{6}{100} \times \frac{9}{12} = ₹ 1,800$
(April to December)

Total Interest on capital = ₹ 5,400

Devan :

On opening capital for 1 year = $50,000 \times \frac{6}{100} = ₹ 3000$

On additional capital for 4 months = $30,000 \times \frac{6}{100} \times \frac{4}{12} = ₹ 600$
(September to December)

Total Interest on capital = ₹ 3,600

10. Ahamad and Basheer contribute ₹60,000 and ₹40,000 respectively as capital. Their respective share of profit is 2:1 and the profit before interest on capital for the year is ₹5,000. Compute the amount of interest on capital in each of the following situations: [QY-'19]

- (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.

Solution :

- (i) No Interest on capital will not allowed as the partnership deed.
- (ii) if interest on capital @ 4% is allowed as per the partnership deed.

Computation of interest on capital:

Ahamad: $60,000 \times \frac{4}{100} = ₹ 2,400$

Basheer : $40,000 \times \frac{4}{100} = ₹ 1,600$

Since there is sufficient profit, interest on capital will be provided

- (iii) if the partnership deed allows interest on capital @ 6% per annum.



Computation of interest on capital :

Ahamad: $60,000 \times \frac{6}{100} = ₹3,600$

Basheer: $40,000 \times \frac{6}{100} = ₹2,400$

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.

Note: Capital ratio will be calculated as Ahamed : Basheer = 3,600 : 2,400 = 3:2

- 11. Mani is a partner, who withdrew ₹30,000 on 1st September, 2018. Interest on drawings is charged at 6% per annum. Calculate interest on drawings on 31st December, 2018 and show the journal entries by assuming that fluctuating capital method is followed. [PTA-1; Mar-2020]**

Solution :

$$\begin{aligned} \text{Interest on drawings} &= \text{Amount of drawings} \times \text{Rate of Interest} \times \text{Period of interest} \\ &= ₹30,000 \times \frac{6}{100} \times \frac{4}{12} \end{aligned}$$

Interest on drawings of mani = ₹ 600

Journal entries

Date	Particulars	L.F	Debit ₹	Credit ₹
2018 Dec 31	Mani's capital A/c Dr. To Interest on drawings A/c (Interest on drawings charged)		600	600
2018 Dec 31	Interest on drawings A/c Dr To Profit and loss appropriation A/c (Interest on drawing account closed)		600	600

- 12. 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: [PTA-2, 6; FRT-'22]**

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

Calculate the amount of interest on drawings.

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

Withdrawal on February 1 = $₹2,000 \times \frac{6}{100} \times \frac{11}{12} = ₹110$

Withdrawal on May 1 = $₹10,000 \times \frac{6}{100} \times \frac{8}{12} = ₹400$

Withdrawal on July 1 = $₹4,000 \times \frac{6}{100} \times \frac{6}{12} = ₹120$

Withdrawal on October 1 = $₹6,000 \times \frac{6}{100} \times \frac{3}{12} = ₹90$

Total interest on drawings = ₹ 720

13. Kumar 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	₹
March 1	4,000
June 1	4,000
September 1	4,000
December 1	4,000

Calculate the amount of interest on drawings.

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

$$\text{Withdrawal on March 1} = ₹4,000 \times \frac{6}{100} \times \frac{10}{12} = ₹ 200$$

$$\text{Withdrawal on June 1} = ₹4,000 \times \frac{6}{100} \times \frac{7}{12} = ₹ 140$$

$$\text{Withdrawal on September 1} = ₹4,000 \times \frac{6}{100} \times \frac{4}{12} = ₹ 80$$

$$\text{Withdrawal on December 1} = ₹4,000 \times \frac{6}{100} \times \frac{1}{12} = ₹ 20$$

$$\text{Total interest on drawings} = ₹ \underline{440}$$

14. Mathew is a partner who withdrew ₹20,000 during the year 2018. Interest on drawings is charged at 10% per annum. Calculate interest on drawings on 31st December 2018. [Aug-'21]

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

$$\begin{aligned} \text{Interest on Drawings} &= ₹ 20,000 \times \frac{10}{100} \times \frac{6}{12} \\ &= ₹1,000 \end{aligned}$$

Interest on Drawings of Mathew = ₹1,000

Note: Since, date of drawings is not given, interest is calculated for an average period of six months

15. 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	₹
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.

Solution :

Calculation of interest on drawings under product method.

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

$$\begin{aligned} \text{Interest on drawings} &= \text{Sum of product} \times \text{Rate of interest} \times \frac{1}{12} \\ &= ₹1,44,000 \times \frac{6}{100} \times \frac{1}{12} \\ &= ₹ 720 \end{aligned}$$



16. Kavitha is a partner in a firm. She withdraws ₹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 [PTA-1; QY-2019; Sep-2020; FRT & May-'22]
 (ii) in the middle of every month
 (iii) at the end of every month

Solution : Total amount withdrawn = $2,500 \times 12 = ₹ 30,000$

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

$$\begin{aligned} \text{Average period} &= 6.5 \\ \text{Interest on drawings} &= \text{Total amount of drawings} \times \text{Rate of interest} \times \frac{\text{Average Period}}{12} \\ &= ₹30,000 \times \frac{4}{100} \times \frac{6.5}{12} \\ &= ₹650 \end{aligned}$$

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

$$\begin{aligned} \text{Average period} &= 6 \\ \text{Interest on drawings} &= \text{Total amount of drawings} \times \text{Rate of interest} \times \frac{\text{Average Period}}{12} \\ &= ₹30,000 \times \frac{4}{100} \times \frac{6}{12} = ₹ 600 \end{aligned}$$

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

$$\begin{aligned} \text{Average period} &= 5.5 \\ \text{Interest on drawings} &= \text{Total amount of drawings} \times \text{Rate of interest} \times \frac{\text{Average Period}}{12} \\ &= ₹ 30,000 \times \frac{4}{100} \times \frac{5.5}{12} = ₹ 550 \end{aligned}$$

17. Kevin and Francis are partners. Kevin draws ₹5,000 at the end of each quarter. Interest on drawings is chargeable at 6% p.a. Calculate interest on drawings for the year ending 31st March 2019 using average period. [PTA-4, 6; July-'22]

Solution :

Calculation of interest on drawings of Kevin (using average period)

$$\text{Total amount of drawings} = ₹5,000 \times 4 = ₹ 20,000.$$

If drawings are made at the end of every quarter, average period = 4.5

$$\begin{aligned} \text{Interest on drawings} &= \text{Total amount of drawings} \times \text{Rate of interest} \times \frac{\text{Average period}}{12} \\ &= ₹ 20,000 \times \frac{6}{100} \times \frac{4.5}{12} \end{aligned}$$

$$\text{Interest on drawings of Kevin} = ₹ 450$$

18. Ram and Shyam were partners. Ram withdrew ₹18,000 at the beginning of each half year. Interest on drawings is chargeable @ 10% p.a. Calculate interest on the drawings for the year ending 31st December 2018 using average period.

Solution :

Calculation of interest on drawings of Ram (using average period)

$$\text{Total amount of drawings} = 18,000 \times 2 = ₹ 36,000$$

If drawings are made at the end of every half year, average period = 9

$$\begin{aligned} \text{Interest on drawings} &= \text{Total amount of drawings} \times \text{Rate of interest} \times \frac{\text{Average period}}{12} \\ &= ₹ 36000 \times \frac{10}{100} \times \frac{9}{12} \\ &= ₹ 2,700 \end{aligned}$$

- 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 ₹10,000 and Lakshmi is allowed a commission of ₹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. [FRT-'22]

Solution :

Salary to Kamali = ₹10,000 × 12 = ₹ 1,20,000

Commission to Lakshmi = ₹ 40,000

Journal entries

Date	Particulars	L.F	Debit ₹	Credit ₹
	Kamali's salary A/c Dr To Kamali's capital A/c (Kamali's salary transferred to her capital account)		1,20,000	1,20,000
	Lakshmi's commission A/c Dr To Lakshmi's capital A/c (Lakshmi's commission transferred to her 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 ₹60,000. Find the commission of Sibi and Manoj. Also show the distribution of profit. [PTA-2]

Solution :

Calculation of commission :

Commission to sibi :

$$= \text{Net profit before commission} \times \frac{\% \text{ of commission}}{100}$$

$$= 60000 \times \frac{20}{100} = ₹ 12,000.$$

Commission to Manoj :

Net profit after sibi's commission = 60,000 - 12,000

= ₹48000

Manoj's commission

$$= \text{Net profit after sibi's commission} \times \frac{\% \text{ of commission}}{(100 + \% \text{ of commission})}$$

$$= 48000 \times \frac{20}{(100 + 20)} = 48000 \times \frac{20}{120}$$

$$= ₹ 8000$$



Journal entries

Date	Particulars	L.f	Debit ₹	Credit ₹
2018 Dec. 31	Profit and loss appropriation A/c Dr To Sibi Commission A/c To Manoj Commission A/c (Commission account transferred)		20,000	12,000 8,000

21. Anand and Narayanan are partners in a firm sharing profits and losses in the ratio of 5:3. On 1st January 2018, their capitals were ₹50,000 and ₹30,000 respectively. The partnership deed specifies the following: [PTA-1]

- (a) Interest on capital is to be allowed at 6% per annum.
- (b) Interest on drawings charged to Anand and Narayanan are ₹1,000 and ₹800 respectively.
- (c) The net profit of the firm before considering interest on capital and interest on drawings amounted to ₹35,000.

Give necessary journal entries and prepare profit and loss appropriation account as on 31st December 2018. Assume that the capitals are fluctuating.

Solution :

Journal entries

Date	Particulars	L.f	Debit ₹	Credit ₹
2018 Dec. 31	Interest on capital A/c Dr To Anand's capital A/c To Narayanan's capital A/c (Interest on capital @ 6% provided)		4,800	3,000 1,800
2018 Dec. 31	Profit and loss appropriation A/c Dr To Interest on capital A/c (Interest on capital account closed)		4,800	4,800
2018 Dec. 31	Anand's capital A/c Dr Narayanan's capital A/c Dr To Interest on drawings A/c (Interest on drawings charged)		1,000 800	1,800
2018 Dec. 31	Interest on drawings A/c Dr To Profit and loss appropriation A/c (Interest on drawings account closed)		1,800	1,800
2018 Dec. 31	Profit and loss appropriation A/c Dr To Anand's capital A/c To Narayanan's capital A/c (Profit transferred)		32,000	20,000 12,000

Dr	Profit and loss appropriation account for the year ended 31 st December 2018				Cr
Particulars	₹	₹	Particulars	₹	₹
To Interest on capital A/c Anand	3,000		By Profit and loss A/c		35,000
Narayanan	1,800	4,800	By Interest on drawings A/c Anand	1,000	
			Narayanan	800	1,800
To Partner's capital A/c (Profit) Anand (32,000 × 5/8)	20,000				
Narayanan (32,000 × 3/8)	12,000	32,000			
		36,800			36,800

22. Dinesh and Sugumar entered into a partnership agreement on 1st January 2018, Dinesh contributing ₹1,50,000 and Sugumar ₹1,20,000 as capital. The agreement provided that: [PTA-5; QY-'19]

- (a) Profits and losses to be shared in the ratio 2:1 as between Dinesh and Sugumar.
- (b) Partners to be entitled to interest on capital @ 4% p.a.
- (c) Interest on drawings to be charged Dinesh: ₹3,600 and Sugumar: ₹2,200
- (d) Dinesh to receive a salary of ₹60,000 for the year, and
- (e) Sugumar to receive a commission of ₹80,000

During the year ended on 31st December 2018, the firm made a profit of ₹2,20,000 before adjustment of interest, salary and commission.

Prepare the Profit and loss appropriation account.

Solution :

Profit and loss appropriation accounts for the year ended 31st December 2018

Dr	Profit and loss appropriation accounts for the year ended 31 st December 2018				Cr
Particulars	₹	₹	Particulars	₹	₹
To Interest on capital A/c Dinesh (1,50,000 × 4%)	6,000		By Profit and loss A/c		2,20,000
Sugumar (1,20,000 × 4%)	4,800	10,800	By Interest on drawings A/c Dinesh: 3,600		
To Salary to Dinesh A/c		60,000	Sugumar: 2,200		5,800
To Commission to Sugumar A/c		80,000			
To Partner's capital A/c (Profit transferred) Dinesh (75,000 × 2/3)	50,000				
Sugumar (75,000 × 1/3)	25,000	75,000			
		2,25,800			2,25,800

23. Antony and Ranjith started a business on 1st April 2018 with capitals of ₹4,00,000 and ₹3,00,000 respectively. According to the Partnership Deed, Antony is to get salary of ₹90,000 per annum, Ranjith is to get 25% commission on profit after allowing salary to Antony and interest on capital @ 5% p.a. but after charging such commission. Profit-sharing ratio between the two partners is 1:1. During the year, the firm earned a profit of ₹3,65,000. [PTA-2, 3, 6]

Prepare profit and loss appropriation account. The firm closes its accounts on 31st March every year.



Solution :

Profit and loss appropriation accounts for the year ended 31st March 2018

Dr			Cr
Particulars	₹	₹	Particulars
To Interest on capital A/c			By Profit and loss A/c
Antony (4,00,000 × 5%)	20,000		3,65,000
Ranjith (3,00,000 × 5%)	15,000	35,000	
To Salary to Antony		90,000	
To Commission to Ranjith		48,000	
To Partner's capital A/c (profit)			
Antony $\left(1,92,000 \times \frac{1}{2}\right)$	96,000		
Ranjith $\left(1,92,000 \times \frac{1}{2}\right)$	96,000	1,92,000	
		3,65,000	3,65,000

Note: Calculation of Ranjith Commission :

Profit before commission = 3,65,000 - (35,000 + 90,000) = ₹ 2,40,000

Commission = Net profit before commission × $\frac{\text{Rate of commission}}{(100 + \text{Rate of commission})}$

Commission = 2,40,000 × $\frac{25}{125}$ = ₹ 48,000.

PTA QUESTIONS AND ANSWERS

I. MULTIPLE CHOICE QUESTIONS. 1 MARK

Match List I with List II and Select the Correct Answer using the Codes given below. [PTA-5; QY-2019; FRT-22]

List I		List II	
(i)	Remuneration to partners	1.	Section 13(c)
(ii)	Profit Sharing ratio	2.	Section 13(d)
(iii)	Interest on capital	3.	Section 13(b)
(iv)	Interest on loan	4.	Section 13(a)

Codes:

	(i)	(ii)	(iii)	(iv)
(a)	1	2	3	4
(b)	4	3	1	2
(c)	3	4	2	1
(d)	2	1	4	3

[Ans. (b) i - 4, ii - 3, iii - 1, iv - 2]

II. VERY SHORT ANSWER QUESTIONS

2 MARKS

1. What is Fluctuating capital method?

[PTA-3]

Ans. (i) Under this method, only one capital account is maintained for each partner.

(ii) The capital is changing from period to period.

(iii) This capital account shows always a credit balance

(iv) All adjustment relating to partners are recorded directly in the capital account.

GOVERNMENT EXAM QUESTIONS AND ANSWERS

I. MULTIPLE CHOICE QUESTIONS.

1 MARK

- Closing balance of partner's current account may be _____.
 (a) Debit balance or Credit balance (b) Debit balance only
 (c) Credit balance only (d) Nil balance
 [Ans. (a) Debit balance or Credit balance] [HY-'19]
- Under fixed capital method, partners' salary, commission and interest on capital will be credited in :
 (a) Drawings Account (b) Capital Account [Mar-2020]
 (c) Current Account (d) Loan Account [Ans. (c) Current Account]
- When a partner withdraws regularly a fixed sum of money at the end of every month period for which interest is to be calculated on the drawings on an average is _____. [May-'22]
 (a) 12 months (b) 5.5 months (c) 6.5 months (d) 6 months
 [Ans. (b) 5.5 months]
- Indian Partnership Act _____. [FRT-'22]
 (a) 1986 (b) 2013 (c) 1932 (d) 1935 [Ans. (c) 1932]
- Interest on capital is the interest allowed on _____ of the partners. [FRT-'22]
 (a) profit (b) drawing (c) salary (d) capital
 [Ans. (d) capital]

II. PROBLEMS

2 MARKS

- Vennila and Eswari are partners. Vennila draws ₹5,000 at the beginning of each half year. Interest on drawings is chargeable at 4% p.a. Calculate interest on drawings for the year ending 31st December 2018 using average period. [QY-'19]

Solution :

Calculation of interest on drawings of Vennila (using average period)

Total amount of drawings = 5,000 × 2 = ₹ 10,000

If drawings are made at the end of every half year, average period = 9

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

$$= ₹ 10,000 \times \frac{4}{100} \times \frac{9}{12} = ₹ 300$$

- Balamurugan is a partner who withdrew ₹20,000 regularly in the middle of every month. Interest is charged on the drawing at 6% per annum. calculate interest on drawing for the year ended 31st December, 2019? [Govt. MQP-'19]

Solution :

If Drawings are made in the middle of every month :

Average period = 6

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

$$= 20,000 \times \frac{6}{100} \times \frac{6}{12} = ₹600$$

- Murali and Sethu are partners in a firm. Murali is to get a commission of 10% of net profit before charging any commission. Sethu is to get a commission of 10% on net profit after charging all commission. Net profit for the year ended 31st March 2019 before charging any commission was ₹1,10,000. Find the amount of commission due to Murali and Sethu. [HY-'19; Aug-'21]

Solution :

Calculation of Commission :

$$\begin{aligned} \text{Commission to Murali} &= \text{Net profit before commission} \times \frac{\% \text{ of commission}}{100} \\ &= 1,10,000 \times \frac{10}{100} = ₹11,000 \end{aligned}$$



Commission to Sethu :

Net profit after Murali's commission = 1,10,000 – 11,000 = ₹99,000

Sethu's commission = Net profit after Murali's commission × $\frac{\% \text{ of commission}}{(100 + \% \text{ of commission})}$

= 99,000 × $\frac{10}{(100 + 10)}$ = ₹9,000

III. PROBLEMS

3 MARKS

- 1. 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: [QY-'19]**

Date	₹
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.

Solution : Calculation of interest on drawings under product method

Date of drawings	Amount withdrawn ₹	Period upto December 31 (months)	Product ₹
March 1	6,000	10	60,000
June 1	4,000	7	28,000
September	5,000	4	20,000
December	2,000	1	2,000
Sum of product			1,10,000

Interest on drawings = Sum of product × Rate of interest × $\frac{1}{12}$ = 1,10,000 × $\frac{12}{100}$ × $\frac{1}{12}$ = ₹ 1,100

- 2. Mannan and Ramesh share profits and losses in the ratio 3:1. The Capital on 1st April 2017 was ₹80,000 for Mannan and ₹60,000 for Ramesh and their current accounts show a credit balance of ₹10,000 and ₹5,000 respectively. Calculate interest on capital at 5% p.a. for the year ending 31st March 2018 and show the journal entries. [Aug-'21]**

Solution : Calculation of Interest on Capital :

Interest on Capital = Amount of Capital × Rate of Interest

Interest on Mannan's Capital = 80,000 × $\frac{5}{100}$ = ₹4,000

Interest on Ramesh's Capital = 60,000 × $\frac{5}{100}$ = ₹3,000

Note : Balance of current account will not be considered for calculation of interest on capital.

Journal Entry

Date	Particulars	L.F	Debit ₹	Credit ₹
2018	Interest on capital A/c	Dr	7,000	
March 31	To Mannan's Current A/c			4,000
	To Ramesh's Current A/c			3,000
	(Interest on Capital provided)			
	Profit and loss appropriation A/c	Dr	7,000	
	To Interest on Capital A/c			7,000
	(Interest on Capital closed)			

IV. PROBLEMS.

5 MARKS

- 1. From the following information, prepare capital accounts of partners Mannan and Sevagan, when their capitals are fluctuating. [QY-'19]**

Particulars	Mannan ₹	Sevagan ₹
Capital on 1 st January 2018 (Cr. balance)	2,00,000	1,75,000
Drawings during 2018	40,000	35,000
Interest on drawings	1,000	500
Share of profit for 2018	21,000	16,500
Interest on capital	12,000	10,500
Salary	18,000	--
Commission	--	2,500

Solution :

Dr. Partners' Capital A/c Cr.

Particulars	Mannan ₹	Sevagan ₹	Particulars	Mannan ₹	Sevagan ₹
To Drawings A/c	40,000	35,000	By Balance b/d	2,00,000	1,75,000
To Interest on drawings A/c	1,000	500	By Profit and loss appropriation A/c	21,000	16,500
To Balance c/d	2,10,000	1,69,000	By Interest on capital A/c	12,000	10,500
			By Salary A/c	18,000	-
			By Commission A/c	-	2,500
	2,51,000	2,04,500		2,51,000	2,04,500
			By Balance b/d	2,10,000	1,69,000

- 2. From the following information, prepare capital accounts of partners Raja and Rani, when their capitals are fixed. [Govt. MQP-'19]**

Particulars	Raja ₹	Rani ₹
Capital on 1 st January 2019	1,00,000	80,000
Current account on 1 st January 2019 (Cr.)	5,000	3,000
Additional capital introduced on 1 st June 2019	10,000	30,000
Drawings during 2018	20,000	13,000
Interest on drawings	500	300
Share of profit for 2018	10,000	8,000
Interest on capital	6,300	5,400
Salary	9,000	2,400
Commission	2,700	1,200



Solution :

Dr		Partner's Capital Account				Cr	
Date	Particulars	Raja ₹	Rani ₹	Date	Particulars	Raja ₹	Rani ₹
2019 Dec. 31	To Balance c/d	1,10,000	1,10,000	2019 Jan. 1	By Balance b/d	1,00,000	80,000
				June 1	By Bank (Additional Capital)	10,000	30,000
		1,10,000	1,10,000			1,10,000	1,10,000
				2020 Jan 1	By Balance b/d	1,10,000	1,10,000

Dr		Partner's Current Account				Cr	
Date	Particulars	Raja ₹	Rani ₹	Date	Particulars	Raja ₹	Rani ₹
	To Drawings	20,000	13,000		By Balance b/d	5,000	3,000
	To Interest on drawings	500	300		By Profit and loss appropriation A/c (Share of Profit)	10,000	8,000
	To Balance c/d	12,500	6,700		By Interest on Capital	6,300	5,400
					By Salary	9,000	2,400
					By Commission	2,700	1,200
		33,000	20,000			33,000	20,000
					By Balance b/d	12,500	6,700

3. Alagappan and Ulagappan are partners in a firm sharing profits and losses in the ratio of 10:7. On 1st January 2018, their capitals were ₹20,000 and ₹10,000 respectively. The partnership deed specifies the following : [Govt. MQP-'19]

- (i) Interest on capital is to be allowed at 5% per annum.
- (ii) Interest on drawings charged to Alagappan and Ulagappan are ₹200 and ₹300 respectively.
- (iii) The net profit of the firm before considering interest on capital and interest on drawings amounted to ₹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.

Solution :

Journal Entries

Date	Particulars	L.F	Debit ₹	Credit ₹
2018 Dec. 31	Interest on Capital A/c Dr To Alagappan's Capital A/c (20,000 × 5/100) To Ulagappan's Capital A/c (10,000 × 5/100) (Interest on Capital @ 5% provided)		1,500	1,000 500
"	Profit and loss appropriation A/c Dr To Interest on Capital A/c (Interest on Capital account closed)		1,500	1,500
"	Alagappan's Capital A/c Dr Ulagappan's Capital A/c Dr Interest on Drawings A/c (Interest on drawings charged)		200 300	500
"	Interest on drawings A/c Dr To Profit and loss appropriation A/c (Interest on drawings account closed)		500	500
"	Profit and loss appropriation A/c Dr To Alagappan's Capital A/c To Ulagappan's Capital A/c (Profit transferred)		17,000	10,000 7,000

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

Particulars	₹	₹	Particulars	₹
To Interest on Capital A/c :			By Profit and loss A/c	18,000
Alagappan		1,000	By Interest on drawings A/c :	
Ulagappan		500	Alagappan	200
To Partner's Capital a/c (profit)			Ulagappan	300
Alagappan (17,000 × 10/17)	10,000			
Ulagappan (17,000 × 7/17)	7,000	17,000		
		18,500		18,500

- 4.** Dinesh and Sugumar entered into partnership agreement on 1st January 2018, Dinesh contributing ₹5,00,000 and Sugumar ₹4,00,000 as capital. [Mar-2020]

The agreement provided that:

- (i) Profits and losses to be shared in the ratio 2:1 as between Dinesh and Sugumar.
- (ii) Partners to be entitled to interest on capital @6% p.a.
- (iii) Interest on drawings to be charged: Dinesh: ₹3,600 and Sugumar : ₹2,300
- (iv) Dinesh to receive a salary of ₹62,000 for the year, and
- (v) Sugumar is to receive a commission of 10% on the net profit after charging such commission.

During the year ended on 31st December 2018, the firm made a profit of ₹1,20,000 before adjustment of interest, salary and commission.

Prepare the profit and loss appropriation account.



Solution :

Profit and loss appropriation accounts for the year ended 31st December 2018

Dr	₹	₹	Cr	₹
To Interest on capital A/c			By Profit and loss A/c	1,20,000
Dinesh (5,00,000 × 6%)	30,000		By Interest on drawings A/c	
Sugumar (4,00,000 × 6%)	24,000	54,000	Dinesh: 3,600	
To Salary to Dinesh A/c		62,000	Sugumar: <u>2,300</u>	5,900
To Commission to Sugumar A/c		990		
To Partner's capital A/c (Profit transferred)				
Dinesh (8,910 × 2/3)	5,940			
Sugumar (8,910 × 1/3)	2,970	8,910		
		1,25,900		1,25,900

- 5. From the following information, prepare capital accounts of partners Shanthi and Sumathi, when their capitals are fixed. [Sep-2020]**

Particulars	Shanthi ₹	Sumathi ₹
Capital on 1 st January 2018	1,00,000	80,000
Current account on 1 st January 2018 (Cr.)	5,000	3,000
Additional Capital introduced on 1 st June 2018	10,000	20,000
Drawings during 2018	20,000	13,000
Interest on drawings	500	300
Share of profit for 2018	10,000	8,000
Interest on capital	6,300	5,400
Salary	9,000	Nil
Commission	Nil	1,200

Solution :

Dr				Partner's Capital Account				Cr	
Date	Particulars	Shanthi ₹	Sumathi ₹	Date	Particulars	Shanthi ₹	Sumathi ₹		
2018 Dec. 31	To Balance c/d	1,10,000	1,00,000	2018 Jan. 1	By Balance b/d	1,00,000	80,000		
				June 1	By Bank (Additional Capital)	10,000	20,000		
		1,10,000	1,00,000			1,10,000	1,00,000		
				2019 Jan 1	By Balance b/d	1,10,000	1,00,000		

Dr				Partner's Current Account				Cr	
Date	Particulars	Shanthi ₹	Sumathi ₹	Date	Particulars	Shanthi ₹	Sumathi ₹		
	To Drawings	20,000	13,000		By Balance b/d	5,000	3,000		
	To Interest on drawings	500	300		By Profit and loss appropriation A/c (Share of Profit)	10,000	8,000		
	To Balance c/d	9,800	4,300		By Interest on Capital	6,300	5,400		
					By Salary	9,000	-		
					By Commission	-	1,200		
		30,300	17,600			30,300	17,600		
					By Balance b/d	9,800	4,300		

ADDITIONAL QUESTIONS AND ANSWERS

I. MULTIPLE CHOICE QUESTIONS.

1 MARK

(i) Choose the correct answer.

1. The name under which the business of a firm is carried on is called the

- (a) Company name (b) Firm name
(c) Partnership firm (d) Partner's name

[Ans. (b) Firm name]

2. The profit or loss arising from the partnership business is shared by the partners in the

- (a) old ratio (b) new ratio
(c) agreed ratio (d) sacrifice ratio

[Ans. (c) agreed ratio]

3. In India, partnership firms are governed by the Indian partnership Act.

- (a) 1932 (b) 1930
(c) 1992 (d) 1986

[Ans. (a) 1932]

4. The maximum number of partners in a partnership firm is

- (a) 25 (b) 10
(c) 30 (d) 50

[Ans. (d) 50]

5. In sole proprietorship, the profit or loss in the profit and loss account is transferred directly to the sole proprietor's

- (a) drawings account (b) capital account
(c) loan account (d) salary account

[Ans. (b) capital account]

6. The balance in the appropriation account is transferred to the partner's capital account in the

- (a) agree ratio (b) sacrifice ratio
(c) profit sharing ratio (d) old ratio

[Ans. (c) profit sharing ratio]

7. Capital account balance of the sole proprietor alone as shown in the balance sheet of

- (a) Sole proprietorship (b) Partnership
(c) Joint Hindu family (d) Company

[Ans. (a) Sole proprietorship]

8. Amount invested by partners in the partnership business is called

- (a) Owner's capital
(b) Partner's capital
(c) Profit and loss appropriation
(d) None of these

[Ans. (b) Partner's capital]

9. Which of the following method, the capital of the partners is not altered and it remains generally fixed?

- (a) Fixed capital method
(b) Fluctuating capital method
(c) Both 'a' and 'b'
(d) None of these

[Ans. (a) Fixed capital method]

10. All the transactions between the partner and the firm are recorded in the

- (a) capital account
(b) drawings account
(c) profit and loss account
(d) revaluation account

[Ans. (a) capital account]

11. The rate of interest on capital is generally agreed by the partners and is mentioned in the

- (a) capital account
(b) profit and loss account
(c) partnership deed
(d) none of these

[Ans. (c) partnership deed]



12. Interest on capital is to be calculated on the capitals at the beginning for the

- (a) particular period
- (b) relevant period
- (c) average period
- (d) all of these [Ans. (b) relevant period]

13. Period of interest refers to the period from the date of drawings to the closing date of the

- (a) opening year
- (b) closing year
- (c) previous year
- (d) accounting year [Ans. (d) accounting year]

14. Product method can be used in all situations as an alternative to

- (a) average period
- (b) direct method
- (c) both 'a' and 'b'
- (d) none of these [Ans. (b) direct method]

15. The persons who entered into partnership are collectively known as

- (a) Partners
- (b) Owners
- (c) Firm
- (d) Organisation [Ans. (c) Firm]

16. In a partnership business, agreement is

- (a) compulsory
- (b) optional
- (c) not necessary
- (d) none of these [Ans. (b) optional]

17. Interest on capital is calculated on the

- (a) Opening capital
- (b) Closing capital
- (c) Average capital
- (d) None of these [Ans. (a) Opening capital]

18. Current accounts for partners will be opened under,

- (a) Fixed capital method
- (b) Fluctuating capital method
- (c) Either fixed capital method or fluctuating capital method
- (d) None of these [Ans. (a) Fixed capital method]

19. X and Y are partners sharing the profits and losses in the ratio of 2:3 with capitals of ₹1,20,000 and ₹ 60,000 respectively. Profits for the year are ₹ 9,000. If the partnership deed is silent as to interest on capital. Show how profit is shared among X and Y.

- (a) Profit X - ₹ 6,000; Y - ₹ 3,000
- (b) Profit X - ₹ 3,600; Y - ₹ 5,400
- (c) Profit X - ₹ 3,000; Y - ₹ 6,000
- (d) Profit X - ₹ 2,000; Y - ₹ 2,600 [Ans. (b) Profit X - ₹ 3,600; Y - ₹ 5,400]

Hint : Profit for the year = 9000

$$\text{Interest on Capital for x} = 9,000 \times \frac{2}{5} = ₹ 3,600$$

$$\text{Interest on Capital for y} = 9000 \times \frac{3}{5} = ₹ 5,400$$

20. Under fixed capital method salary payable to a partner is recorded

- (a) in current account
- (b) in capital account
- (c) either in current account or capital account
- (d) none of these [Ans. (a) in current account]

21. If a firm is maintaining both 'capital accounts' and 'current accounts' of the partners A and B. Additional capital introduced by B will be recorded in

- (a) B's Current Account
- (b) B's Capital Account
- (c) A's Capital Account
- (d) A's Current Account [Ans. (b) B's Capital Account]

22. Amount is drawn regularly at the middle of every month during the year. Interest calculated for

- (a) $\frac{13}{24}$
- (b) $\frac{11}{24}$
- (c) $\frac{12}{24}$
- (d) $\frac{10}{24}$ [Ans. (c) $\frac{12}{24}$]

23. In the absence of any specific agreement partner's loan to the firm will carry an interest of

- (a) 6%
- (b) 10%
- (c) 12%
- (d) 10% [Ans. (a) 6%]

24. Amount is drawn regularly at the end of every month during the year, interest is calculated for

- (a) $\frac{11}{24}$ months
- (b) $\frac{12}{24}$ months
- (c) $\frac{13}{24}$ months
- (d) $\frac{6}{24}$ months [Ans. (a) $\frac{11}{24}$ months]

25. When a fixed amount is withdrawn in the beginning of every month the period calculated for interest on drawings is

- (a) $\frac{11}{24}$
- (b) $\frac{12}{24}$
- (c) $\frac{13}{24}$
- (d) $\frac{10}{24}$ [Ans. (c) $\frac{13}{24}$]

(ii) Match List I with List II and Select the Correct Answer using the Codes given below.

List I		List II	
(i)	Partnership Act	1.	2013
(ii)	Agreement	2.	50
(iii)	Indian companies Act	3.	Oral or written
(iv)	Maximum Number	4.	1932

Codes:

	(i)	(ii)	(iii)	(iv)
(a)	2	3	1	4
(b)	1	2	3	4
(c)	4	3	1	2
(d)	3	4	2	1

[Ans. (c) i - 4, ii - 3, iii - 1, iv - 2]

(iii) Choose the Correct Option and Fill in the Blanks.

1. _____ is a form of organization where two or more persons carry on some business acting on the basis of agreement among them.

- (a) Partnership firm
- (b) Sole proprietorship
- (c) Joint Hindu Family
- (d) Company

[Ans. (a) Partnership firm]

2. _____ is a document in writing that contains the terms of the agreement among the partners.

- (a) Partnership deed
- (b) Partnership at will
- (c) Both 'a' and 'b'
- (d) None of these

[Ans. (a) Partnership deed]

3. Capital account will always show credit balance under _____ method.

- (a) Partner's current account
- (b) Partner's capital account
- (c) Both 'a' and 'b'
- (d) None of these

[Ans. (b) Partner's capital account]

4. _____ method, only capital account is maintained for each partner.

- (a) Fixed capital
- (b) Fluctuating capital
- (c) Both 'a' and 'b'
- (d) None of these

[Ans. (b) Fluctuating capital]

5. _____ is the interest allowed on capital of the partners.

- (a) Interest on drawings
- (b) Interest on capital
- (c) Both 'a' and 'b'
- (d) None of these

[Ans. (b) Interest on capital]

6. _____ can be computed by direct method or product method.

- (a) Interest on drawings
- (b) Interest on capital
- (c) Partners salary
- (d) Partner's commission

[Ans. (a) Interest on drawings]

7. _____ intervals refers to withdrawal made monthly, quarterly, half-yearly, once in 2 months and once in 4 months.

- (a) Fixed time
- (b) Current time
- (c) Average time
- (d) None of these

[Ans. (a) Fixed time]

8. Profit and loss appropriation account is _____ account in nature.

- (a) real
- (b) nominal
- (c) personal
- (d) none of these

[Ans. (b) nominal]

9. _____ is a type of partnership in which the liability of the partners is limited to the extent of their capital contribution.

- (a) Limited liability partnership
- (b) Limited assets
- (c) Partnership deed
- (d) None of these

[Ans. (a) Limited liability partnership]

10. Under fluctuating capital method, profit or loss in a year, will be transferred to the respective _____ accounts.

- (a) capital
- (b) profit and loss
- (c) drawings
- (d) none of these

[Ans. (a) capital]

11. Under _____ capital arrangement, current accounts will not be maintained.

- (a) Fixed
- (b) Fluctuating
- (c) Both 'a' and 'b'
- (d) None of these

[Ans. (b) Fluctuating]

12. The debit balance of the current account, will be shown in the _____ side of the balance sheet.

- (a) liabilities
- (b) assets
- (c) debit
- (d) credits

[Ans. (b) assets]



13. Interest on partner's capital is allowed, only when the _____ specifically provides for it.

- (a) partnership Act
- (b) partnership agreement
- (c) both 'a' and 'b' (d) none of these

[Ans. (b) Partnership agreement]

14. _____ can be formed only for a legal business.

- (a) Sole trader
- (b) Co-operative societies (c) Partnership
- (d) None of these **[Ans. (c) Partnership]**

(iv) Pick the Odd one Out.

- 1.** (a) Names and addresses of all partners
 (b) Profit sharing ratio
 (c) Capital contributed by each partner
 (d) Interest on partner's capital is allowed at 7% per annum

[Ans. (d) Interest on partner's capital is allowed at 7% per annum]

- 2.** (a) Remuneration to partners
 (b) Fixed capital method
 (c) Interest on capital
 (d) Interest on drawings

[Ans. (b) Fixed capital method]

- 3.** (a) Manufacturing account
 (b) Profit and loss account
 (c) Balance sheet
 (d) Fluctuating capital method

[Ans. (d) Fluctuating capital method]

(v) Which one of the Following is Not Correctly Matched?

1.	(a) Manufacturing account	-	Sole proprietorship
	(b) Trading and profit and loss account	-	To ascertain profitability
	(c) Profit and loss appropriation account	-	To show the disposal of profits and surplus
	(d) Balance sheet	-	To ascertain the financial status

[Ans. (a) Manufacturing account - Sole proprietorship]

2.	(a) Fixed capital account	-	Two accounts
	(b) Fluctuating capital account	-	Credit balance or debit balance
	(c) Interest on capital	-	Partnership deed
	(d) Interest on drawings	-	Sacrifice ratio

[Ans. (d) Interest on drawings - Sacrifice ratio]

3.	(a) Average period at the end	=	$\frac{11}{2}$
	(b) Average period in the middle	=	$\frac{12}{2}$
	(c) Average period of Quarterly at the end	=	$\frac{6}{2}$
	(d) Average period at the beginning	=	$\frac{13}{2}$

[Ans. (c) Average period of Quarterly at the end = $\frac{6}{2}$]

(vi) Consider the Following Statement.

1. Assertion (A): Partnership firm is a form of organisation where two or more persons carry on some business activity on the basis of agreement among them.

Reason (R): The profit or loss arising from the partnership business is shared by the partners in the agreed ratio.

- (a) Both (A) and (R) are true and (R) is the correct explanation of (A).
- (b) Both (A) and (R) are true and (R) is not the correct explanation of (A).
- (c) (A) is true, but (R) is false
- (d) (A) is false, but (R) is true

[Ans. (a) Both (A) and (R) are true and (R) is the correct explanation of (A)].

2. Assertion (A): The sole proprietorship has its limitations such as limited capital, limited managerial ability and limited risk - bearing capacity.

Reason (R): Hence, when a business expands, it needs more capital and involves more risk

- (a) Both (A) and (R) are true and (R) is the correct explanation of (A).
- (b) Both (A) and (R) are true and (R) is not the correct explanation of (A).
- (c) (A) is true, but (R) is false
- (d) (A) is false, but (R) is true

[Ans. (c) (A) is true, but (R) is false]

3. **Assertion (A):** A partnership deed covers all matters relating to mutual relationship among the partners.

Reason (R): But, in the absence of agreement, the following provisions of the Indian Partnership Act, 1936 shall apply for accounting purposes.

- (a) Both (A) and (R) are true and (R) is the correct explanation of (A).
- (b) Both (A) and (R) are true and (R) is not the correct explanation of (A).
- (c) (A) is true, but (R) is false
- (d) (A) is false, but (R) is true

[Ans. (d) (A) is false, but (R) is true]

4. **Assertion (A):** The Fixed capital method, only one account, viz., the capital account for each partner, is maintained.

Reason (R): It records all adjustments relating to drawings, interest on capital, interest on drawings, salary and share of profit or loss in the capital account itself.

[Ans. (d) (A) is false, but (R) is true]

5. **Assertion (A):** They agree to share the capital, the management, the risk and the Profit or Loss of the business.

Reason (R): Such mutual relationship based on agreement among these persons is termed as "sole proprietorship".

- (a) Both (A) and (R) are true and (R) is the correct explanation of (A).
- (b) Both (A) and (R) are true and (R) is not the correct explanation of (A).
- (c) (A) is true, but (R) is false
- (d) (A) is false, but (R) is true

[Ans. (a) (A) Both (A) and (R) are true and (R) is the correct explanation of (A)].

6. **Assertion (A):** Drawings is the amount withdrawn in cash or in kind, for personal purposes.

Reason (R): A Drawings Account is opened in the name of each partner and the drawings are debited to this account.

- (a) Both (A) and (R) are true and (R) is the correct explanation of (A).
- (b) Both (A) and (R) are true and (R) is not the correct explanation of (A).
- (c) (A) is true, but (R) is false
- (d) (A) is false, but (R) is true

[Ans. (a) (A) Both (A) and (R) are true and (R) is the correct explanation of (A)].

(vii) Choose the Correct Statement.

1. (i) The sole proprietorship has its limitations such as limited capital, limited managerial ability and limited risk - bearing capacity.
(ii) The sole proprietorship has its limitations such as Unlimited capital, Unlimited managerial ability and Unlimited risk - bearing capacity
(iii) The Partnership has its limitations such as Unlimited capital, Unlimited managerial ability and Unlimited risk - bearing capacity
(a) (i) is correct
(b) (i) and (ii) are correct
(c) (ii) and (iii) are correct
(d) (i), (ii) and (iii) are correct

[Ans. (a) (i) is correct]

2. (i) An incoming partner pays his share of good will in cash, and profit sharing ration of old partner is changed, Good - will be distributed among old partners According to new ration.
(ii) Any partner who investments in the business but does not take active part in the businesses Secret partner.
(iii) The relation between persons who have agreed to share the profits of a business carried on by all or any of them acting for all.
(a) (i) and (ii) are correct
(b) (iii) is correct
(c) (ii) and (iii) are correct
(d) (i), (ii) and (iii) are correct

[Ans. (b) (iii) is correct]

3. (i) Any partner who investments in the business but does not take active part in the business is Nominal partner.
(ii) The capital account will continue to show the same balance from year to year unless some amount of capital is introduced or withdrawn.
(iii) In the absence of an agreement, Interest on loan advanced by the partner to the firm is allowed at the rate of 7%.
(a) (ii) and (iii) are correct
(b) (i) and (ii) are correct
(c) (ii) is correct
(d) (i), (ii) and (iii) are correct

[Ans. (c) (ii) is correct]



4. (i) On the retirement of a partner any reserve being should be transferred to the capital account of Neither the retiring partner, nor the remaining partner
 (ii) Amount due to outgoing partner is shown in the balance sheet as his Liability.
 (iii) A partnership firm, the net profit as shown by the Profit and Loss Account need certain adjustments with regard to interest on capitals, interest on drawings, salary and commission to the partners.
 (a) (ii) and (iii) are correct
 (b) (i) and (ii) are correct
 (c) (i), (ii) and (iii) are correct
 (d) (iii) is correct **[Ans. (d) (iii) is correct]**
5. (i) Current accounts of the partners should be opened when the capitals are Either fixed or fluctuating.
 (ii) Goodwill is the present value of a firm's anticipated excess earnings in future and the efforts had already made in the past.
 (iii) Any partner who investments in the business but does not take active part in the business is Nominal partner'
 (a) (ii) and (iii) are correct
 (b) (i) and (ii) are correct
 (c) (ii) is correct
 (d) (i), (ii) and (iii) are correct
[Ans. (c) (ii) is correct]

**II. VERY SHORT ANSWER QUESTIONS.
2 MARKS**

1. What is drawing?
Ans. (i) Drawings is the amount withdrawn in each or in kind, for personal purposes.
(ii) A drawings account is opened in the name of each partner and the drawings are debited to this account.
(iii) At the end of every year, the drawings account is closely by a transfer to the respective partner's capital account or current account.
2. What is partner's current Account?
Ans. In the current account, the transactions relating to drawings, interest on capital, interest on drawings, salary, share of profit or loss etc, are recorded. Hence, the balance in the currents accounts change every year.
3. If the partner's capital accounts are fixed, where will you record the following items?
 (a) Salary payable to a partner
 (b) Drawings made by a partner
Ans. (a) Under fixed capital method, salary payable to a partner is recorded in the current account
(b) Under fixed capital method, drawings made by a partner is recorded in the current account.

PROBLEMS:

1. 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	₹	Assets	₹
Capital accounts:		Fixed assets	60,000
Subha	30,000	Current assets	40,000
Sudha	40,000		
Current liabilities	30,000		
	1,00,000		1,00,000

Drawing of Shubha and Sudha during the year were ₹5,000 and ₹7,000 respectively profit earned during the year was ₹30,000.

- 5. Durga and Preethi entered into a partnership agreement on 1st April 2018, Durga contributing ₹50,000 and Preethi ₹60,000 as capital. The agreement provided that:**
- Profits and losses to be shared in the ratio 3:2 as between Durga and Preethi.
 - Partners to be entitled to interest on capital @ 5% p.a.
 - Interest on drawings to be charged Durga ₹600 Velan ₹900
 - Durga to receive a salary of ₹10,000 for the year and
 - Preethi to receive a commission of ₹4,000

During the year, the firm made a profit of ₹40,000 before adjustment of interest, salary and commission prepare the profit and loss appropriation account.

Solution :

Profit and loss appropriation accounts for the year ended 31st March 2019

Dr	₹	₹	Cr	₹
Particulars			Particulars	
To Interest on capital A/c Durga (50,000 × 5/100) Preethi (60,000 × 5/100)		2,500 3,000	By Profit and loss A/c	40,000
To Salary Durga		10,000	By Interest on drawings A/c Durga	600
To Commission to Preethi A/c		4,000	Preethi	900
To Partner's capital A/c (Profit transferred) Durga (22,000 × 3/5) Preethi (22,000 × 2/5)	13,200 8,800	22,000		
		41,500		41,500

HOTS QUESTIONS AND ANSWERS

- 1. Suresh and Ramesh are partners in a firm with capitals of ₹3,00,000 and ₹4,00,000 respectively. They do not have a partnership deed. Ramesh wants to share the profits in the ratio of capitals. State with reason whether the claim is valid**

Ans. According to Indian partnership Act, 1932 in the absence of partnership deed, profits are shared equally among the partners. So, the claim of Ramesh to share the profits in the ratio of capitals is not valid.

- 2. A and B are partners in a firm without a partnership deed. A is an active partner and claims a salary of ₹ 18,000 per month. State with reasons whether the claim is valid or not**

Ans. According to Indian partnership Act, 1932, no salary is allowed to partners in the absence of partnership deed so the claim of A for salary of ₹ 18,000 per month is not valid.

- 3. Interest on partner's capital and interest on drawings are recorded through profit and loss appropriation account instead of profit and loss account. Why?**

Ans. Interest on partner's capital and interest on drawings are an appropriation of profit and not a charge on profit and hence is recorded through profit and loss appropriation account instead of profit and loss account

- 4. How is interest on drawings calculated, if the drawings are made at regular intervals as on the first day of each month?**

Ans. If the drawings are made regularly on the first day of each month, the interest on drawings will be

$$\text{calculated for } 6\frac{1}{2} \text{ months i.e Interest on drawings} = \text{Total drawings} \times \frac{\text{Rate}}{100} \times \frac{6.5}{12}$$



5. Salary or commission paid to a partner is debited to profit and loss appropriation account and not to profit and loss account. Why?

Ans. It is so because salary or commission paid to a partner is not a charge on profit but an appropriation of profit.

6. An accountant of the firm has debited interest on partner's loan to the profit and loss appropriation account and credited to the partner's capital account. Is he correct?

Ans. No, the accountant is not correct. He has not recorded the interest on loan currently because the interest on loan is a charge against profits and not an appropriation of profits.

7. State where the following items shall appear in case the capital contributed by partners remain fixed.

- i) Interest on capital
- ii) Withdrawal of capital
- iii) Fresh capital introduced
- iv) Drawings
- v) Share of profit by a partner

Ans. (i) Credit side of partner's current account.
 (ii) Debit side of partner's capital account
 (iii) Credit of partner's capital account
 (iv) Debit side of partner's current account
 (v) Credit side of partner's current account

VALUE BASED QUESTIONS AND ANSWERS

1. The firm of A and B earned a profit of ₹2,75,000 during the year ending on 31st March, 2015. They have decided to donate 10% of this profit to an NGO working for senior citizens. Pass necessary journal entry for the distribution of profits. Identify the values shown by the firm in donating a part of profit of NGO.

Solution : **Journal entry**

Date	Particulars	L.F	Debit ₹	Credit ₹
	Profit and loss appropriation A/c Dr To A's capital A/c To B's capital A/c (Being profit transferred to capital account)		2,47,500	1,23,750 1,23,750

Values shown by the firm are

i. Responsibility :

Firm has shown responsibility towards senior citizens by giving them their dues.

ii. Compassion :

Partners have shown compassion towards senior citizens by fulfilling their duties towards senior citizens.

