

## Content

- 1.1 *Meaning and Definition of Partnership*
- 1.2 *The Indian Partnership act 1932.*
- 1.3 *Methods of Capital Account*

## Competency Statements

- ❑ *The students will be able to:*
  - *Understand meaning of Partnership*
  - *Know the important features of Partnership*
  - *Understand the meaning of "The Indian Partnership Act, 1932."*
  - *Know the importance of Partnership Deed.*
  - *Understand the provisions applicable in absence of Partnership Deed.*
  - *Know how to maintain Capital Accounts of Partner.*

## Introduction :

The sole proprietorship has its limitations such as limited capital, limited managerial ability, unlimited liability, no stability, absence of specialization etc. Hence when a business is to be set up on a scale which needs more capital and involves more risk, two or more persons come together to run it. They agree to share the capital, the management, the risk & profits of business, such mutual relationship based on an agreement amongst these persons is termed as "Partnership". The persons who have entered into the partnership are individually known as "Partners" and collectively as a "Firm".

### 1.1 Meaning and Definition of Partnership :

Partnership is an organization where there is an association of two or more persons coming together to carry on a business with a view to share Profit or Losses of a firm.

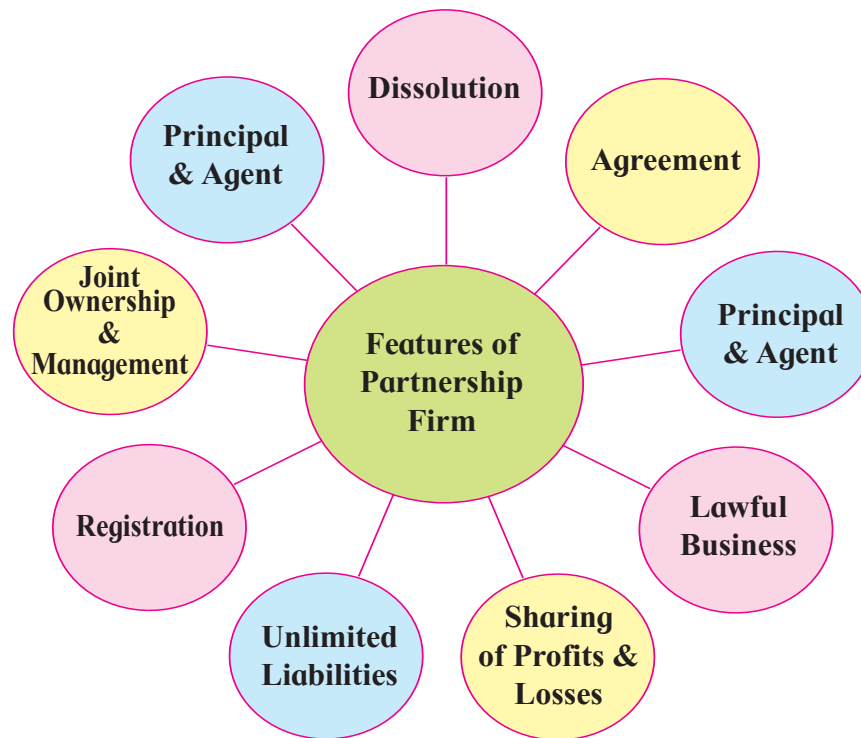
#### Definition :

Indian Partnership Act 1932 Section 4 defines the partnership as, "It is the relation between persons who have agreed to share the profits of a business carried on by all or anyone of them acting for all."

According to **Prof. Handy**, "Partnership is the relation existing between persons competent to make contract, who agree to carry on a lawful business in common with a view to earn private gain.



## Features of Partnership Firm



- 1) **Agreement :-** Partnership is a result of agreement between partners. It could be written or oral. A written agreement is preferred so that it can be used as a proof in the court of law & such written agreement is known as “Partnership Deed.”
- 2) **Number of Partners :-** Minimum two partners are needed to start partnership firm and the maximum number of partners are fifty according to companies Act 2013 (Amended in 2014)
- 3) **Lawful business :-** Business undertaken by partnership should be lawful. It cannot undertake business which is not allowed by state. The definition of Partnership also does not permit any illegal business.
- 4) **Sharing of Profit and losses :-** The purpose of partnership is to earn maximum profits. Partners have to share profits & losses according to the ratio given in the agreement. If the agreement is silent about the ratio then profit and loss sharing will be equal.
- 5) **Unlimited Liability :-** The liability of partners is unlimited joint and several that is, partners are liable till the last rupee in their pocket. If assets of business is not sufficient to pay liabilities, then personal property of partners can be used. If anyone of the partner is declared insolvent then his liability will be borne by the solvent partner.
- 6) **Registrations :-** Registration of partnership firm is compulsory only in the state of Maharashtra with effect from 1st April 2005. According to Indian Partnership Act, 1932, registration of partnership firm is optional it means a firm may or may not be registered. Registration of firm merely certifies its existence and it is a process of entering the name of Partnership Firm in the register of Registrar.
- 7) **Joint Ownership & Management :-** Each partner is joint owner of the property of the firm, so no partner can use property for personal use. All partners have equal rights in managing the firm. So all partners are jointly responsible for the management of firm.
- 8) **Principal and Agent :-** Each partner works in two fold capacities i.e. principal and Agent. A partner acts as a principal of the firm with outsiders and with other partners he acts as an agent.

- 9) **Dissolution :-** A partnership firm can be dissolved through agreement between the partner. If a partner wants to close the firm he can dissolve the firm by giving fourteen days notice. The firm can also be dissolved if a partner dies or retires, becomes insolvent or insane.

## PARTNERSHIP DEED

The document containing the partnership agreement among partners is called **Partnership Deed**. It contains the terms and conditions which are agreed upon by all the partners. An agreement may be written or oral but when it's written, it's called a deed.

The Partnership Act doesn't make it compulsory to have a written agreement. However, in case of dispute among the partners, it is always in the best course to have a written agreement duly signed (by all the respective partners) and registered under the Act. Partnership Deed contains the rules and regulation framed for the internal Management of the firm. It is also an Article of Partnership.

### Contents of the Partnership Deed

- 1) Name and address of the firm and its main business.
- 2) Name and address of all partners and duration of the partnership.
- 3) Capital contribution of all the partners
- 4) Ratio in which profits (and losses) are to be shared.
- 5) Rights, duties and liabilities of the partners.
- 6) Provisions related to admission, retirement, death etc. of a partner.
- 7) Rate of interest on capital, loan, drawings etc.
- 8) Salaries, commission, etc. if payable to any partners.
- 9) Settlement of accounts on dissolution of the firm.
- 10) Method of settlement of disputes among the partners.
- 11) Any other matter relating to the conduct of business.

### Importance of Partnership Deed

Partnership deed is a very important document because it is the written agreement which contains all the terms and conditions of the partnership business. It forms the basis of mutual relationship among the partner. Moreover, partnership deed regulates the rights, duties and liabilities of all the partners as well as of firm. So by having partnership deed partners disputes in future may be avoided.

### Partnership Deed

भारतीय गैर न्यायिक  
एक सौ रुपये  
Rs. 100  
ONE HUNDRED RUPEES  
भारत INDIA  
INDIA NON JUDICIAL  
28/9/14  
Dine  
02AB 335525  
Deed of Partnership  
This deed of partnership is made on [Date, Month, Year] between:  
1. [First Partner's Name], [Son/Daughter] of [Mr. Father's Name], residing at [Address Line 1, Address Line 2, City, State, Pin Code] hereinafter referred to as FIRST PARTNER.  
2. [Second Partner's Name], [Son/Daughter] of [Mr. Father's Name], residing at [Address Line 1, Address Line 2, City, State, Pin Code] hereinafter referred to as SECOND PARTNER.  
3. [Third Partner's Name], [Son/Daughter] of [Mr. Father's Name], residing at [Address Line 1, Address Line 2, City, State, Pin Code] hereinafter referred to as THIRD PARTNER.  
4. [Fourth Partner's Name], [Son/Daughter] of [Mr. Father's Name], residing at [Address Line 1, Address Line 2, City, State, Pin Code] hereinafter referred to as FOURTH PARTNER.  
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Hence it is always in favour, to have a written agreement i.e. partnership deed duly signed by all the partners and registered under the Indian Partnership Act 1932.

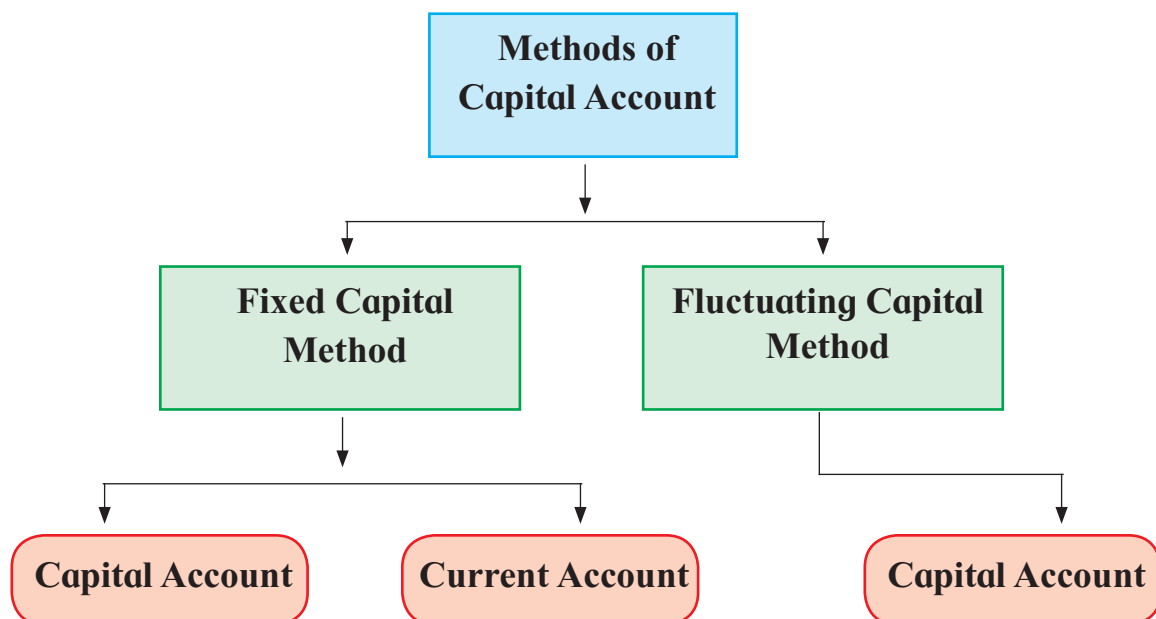
## 1.2 Provision of the Indian Partnership act 1932:

At the time of formation of partnership firm, a document is prepared called as partnership deed and all terms and conditions are mentioned into the deed, but if the partnership deed is silent about any point then this issue is solved as per the provisions in Partnership Act 1932 section no 12 and 17 are made applicable to determine the following issues.

- 1) **Distribution of profit :** If the partnership deed is silent about the profit sharing ratio, then the profit and losses are distributed among the partners in equal ratio.
- 2) **Interest on drawings :** As per the provision of Indian Partnership Act 1932, if the date of drawing is not given then average of six month's interest is charged on drawings.
- 3) **Interest on partner's loan :** If the partner provides additional amount to the business as loan, but rate of interest on loan is not given then 6% p.a. interest is allowed.
- 4) **Interest on capital :** If the partnership deed is silent about interest on capital then interest is not allowed.
- 5) **Salary or commission to Partners :** As per the provision made in the Indian Partnership Act 1932 no salary, commission, allowance or any remuneration is to be given to any of the partners for any extra work done for the firm, However, if any provision is made in partnership deed, then partners are entitled to get commission or salary as per the agreement.
- 6) **Admission of a new partner :** As per the provisions of the Indian Partnership Act 1932, no outside person can be admitted into the firm as a partner without the consent of other partners.

## 1.3 Methods of Capital Accounts

Amount in cash or kind brought in by the partner to manage business activities is termed as Capital. Partners maintain and operate some methods of the Capital Accounts. The two methods of Capital Accounts are discussed below.



### Fixed Capital Method:

In this method amount of capital of a partner remains the same at the end of that financial year. There is no addition or subtraction from capital during the year. When this method is adopted partner's open a new account in name of partner's Current Account and all the related to capital adjustments are solved through Partner's Current Account. For example, Drawings, Interest on Drawings, Interest on Capital, Partner's Salary, Commission, Brokerage, Share of Profit and Losses are recorded in to Current Account.

#### Proforma of Fixed Capital Method Partner's Capital Account

Dr.			Cr.		
Particulars	X Amount (₹)	Y Amount (₹)	Particulars	X Amount (₹)	Y Amount (₹)
To Balance c/d	XXX	XXX	By Balance b/d	XXX	XXX
			By Cash/Bank A/c [Additional capital]	XXX	XXX
			By Assets A/c [Capital in kind]	XXX	XXX
Total	XXX	XXX		XXX	XXX
			By Balance b/d	XXX	XXX

### Journal Entries

#### 1) When additional capital is introduced by a partners

Cash / Bank A/c ..... Dr.

To Partners Capital A/c

(Being additional capital introduced into the business)

#### 2) When capital amount is brought in by a Partner in form of Assets

Assets A/c ..... Dr.

To Partners Capital A/c

(Being additional capital brought in kind)

### Partner's Current Accounts:

When fixed capital method is adopted by the partnership firm, a new separate account is opened i.e. 'Partner's Current Account'. In this account all adjustments related to capital are recorded. Partner's Current Account may show debit or credit balance.

- 1) Drawings made by the partner in the current accounting year
- 2) Goods or any assets taken over by the partner.
- 3) Interest on partners capital allowed by the firm.
- 4) Interest on partners drawings charged by the firm.
- 5) Salary, Commission etc. payable to the partner.
- 6) Distribution of Profit or Loss of the firm.

**Partner's Current Account:**

**Dr.**

**Cr.**

Particulars	X Amount (₹)	Y Amount (₹)	Particulars	X Amount (₹)	Y Amount (₹)
To Balance b/d (Dr. Bal)	XXX	XXX	By Balance b/d (Cr. Bal)	XXX	XXX
To Drawing A/c	XXX	XXX	By Interest on Capital A/c	XXX	XXX
To Interest on Drawing	XXX	XXX	By Salaries A/c	XXX	XXX
To Profit and Loss A/c	XXX	XXX	By Commission A/c	XXX	XXX
(Share in loss)			By Profit and Loss A/c	XXX	XXX
To Balance c/d	XXX	XXX	(Share in Net profit)		
			By Balance c/d	XXX	XXX
	XXX	XXX		XXX	XXX
To Balance b/d	XXX	XXX	By Balance b/d	XXX	XXX

**1) Interest allowed on partner's capital**

- a) Interest on Capital A/c .....Dr. XXX  
     To Partners Capital A/c/ Current Account XXX  
 (Being interest due on capital)
- b) Profit and Loss A/C .....Dr XXX  
     To interest on Capital A/C XXX  
 (Being interest on Capital transferred to profit and loss account)

**2) Salary or Commission allowed to partners**

- a) Salary or Commission in Partner A/c .....Dr. XXX  
     To Partners Current A/c / Capital Account ..... XXX  
 (Being Salary or Commission due for payment)
- b) Profit and Loss A/C .....Dr XXX  
     To Salaries/ Commission A/C ..... /ZXXX  
 (Being Salary/ Commission transferred to Profit and Loss A/C)

**3) Cash or Goods taken over by the partners for their personal use.**

- a) Drawing A/c .....Dr. XXX  
     To Cash or Goods A/C XXX  
 (Being cash or goods withdrawn for personal use)
- b) Partners Current A/c / Capital A/c .....Dr XXX  
     To Drawing A/c XXX  
 (Being balance on account transferred to current A/c)

**4) Interest charged on drawing of the partners**

- a) Partners Current A/c / Capital A/c .....Dr. XXX  
     To Interest on Drawing account XXX  
 (Being interest charged on Drawing)
- b) Interest on Drawings A/C ..... Dr XXX  
     To Profit and Loss A/C XXX  
 (Being interest on Drawings transferred to profit and loss account)



**5) Transfer of Net Profit**

Profit and loss A/c .....Dr. XXX  
     To Partners Current A/c / Capital A/c XXX  
 (Being profit transferred to Partner's Current / Capital Account)

**6) Distribution of Net loss :**

Partners Current A/c / Capital A/c .....Dr. XXX  
     To Profit and Loss A/c XXX  
 (Being loss adjusted to Partners Current / Capital Account)

**Effects in Profit and Loss Account****Dr.****Cr.**

Particulars	Amount (₹)	Amount (₹)	Particulars	Amount (₹)	Amount (₹)
To Interest on Capital		XXX	By Interest on Drawings		XXX
To Salary to Partner		XXX			
To Commission to Partner		XXX			
		XXX			XXX

**Fluctuating capital method :**

In this method, amount of capital balance changes every year. It is called as fluctuating capital method. In this method the partner's current account is not opened. Hence all adjustments are solved through Capital Account. Following are the general adjustment related to capital.

- 1) Initial or Opening Balance of capital
- 2) Additional Capital brought in by the partners in Cash or in kind.
- 3) Salary / Commission payable to partner
- 4) Interest payable on capital balance to partner
- 5) Drawings made during the year and interest payable on drawings by the partner
- 6) Withdrawal of part of the capital by the partner
- 7) Division and transfer of net disposable profit or net adjustable loss of the firm.

**Proforma of Fluctuating Capital Method.****Partners Capital Account****Dr.****Cr.**

Particulars	X Amount (₹)	Y Amount (₹)	Particulars	X Amount (₹)	Y Amount (₹)
To Balance b/d (Dr. Bal)	XXX	XXX	By Balance b/d (Cr. Bal)	XXX	XXX
To Drawing A/c	XXX	XXX	By Cash A/c	XXX	XXX
To Interest on Drawing	XXX	XXX	[Addition made]		
To Profit and Loss A/c	XXX	XXX	By Interest on capital A/c	XXX	XXX
(Share in loss)			By Salaries A/c	XXX	XXX
To Balance c/d	XXX	XXX	By Profit and Loss A/c	XXX	XXX
	XXX	XXX	(Net Profit)		
			By Balance b/d	XXX	XXX

## Examples

- 1) Anand and Bharat are partners sharing profits and losses in the ratio 2 : 3. On 1.4.2019 the capital balance are Anand ₹ 60,000 and Bharat ₹ 30,000 their drawings are ₹ 12,000 and ₹ 10,000 respectively. As per the agreement partners are allowed 10% interest on capital and interest on Drawings is to be charged at 12% p.a. Anand gets salary of ₹ 2,500 per month and Bharat is entitled to get commission @ 3% on net sales which is ₹ 5,00,000. The firm's profit is ₹ 60,000. Prepare partners capital account for the year ended 31st March 2019 under :
- 1) Fixed Capital Method 2) Fluctuating Capital Method

### Solution : 1) Fixed Capital Method

Dr. Partner's Capital A/cs			Cr.		
Particulars	Anand (₹)	Bharat (₹)	Particulars	Anand (₹)	Bharat (₹)
To Balance c/d	60,000	30,000	By Balance b/d	60,000	30,000
	<b>60,000</b>	<b>30,000</b>		<b>60,000</b>	<b>30,000</b>
			By Balance b/d	60,000	30,000

Dr. Partner's Current A/cs			Cr.		
Particulars	Anand (₹)	Bharat (₹)	Particulars	Anand (₹)	Bharat (₹)
To Drawing A/c	12,000	10,000	By Interest on capital A/c	6,000	3,000
To Interest in Drawing	720	600	By Salaries A/c	30,000	—
To Balance c/d	47,280	43,400	By Commission A/c	—	15,000
			By Profit and Loss A/c	24,000	36,000
	<b>60,000</b>	<b>54,000</b>		<b>60,000</b>	<b>54,000</b>

### 2) Fluctuating Capital Method

Dr. Partner's Capital A/cs			Cr.		
Particulars	Anand (₹)	Bharat (₹)	Particulars	Anand (₹)	Bharat (₹)
To Drawing A/c	12,000	10,000	By Balance b/d	60,000	30,000
To Interest in Drawing A/c	720	600	By Interest on capital A/c	6,000	3,000
To Balance c/d	1,07,280	73,400	By Salaries A/c	30,000	—
			By Commission A/c	—	15,000
			By Profit and Loss A/c	24,000	36,000
	<b>1,20,000</b>	<b>84,000</b>		<b>1,20,000</b>	<b>84,000</b>

#### 1) Interest on Capital

$$\text{Anand } 60,000 \times \frac{10}{100} = ₹ 6,000$$

$$\text{Bharat } 30,000 \times \frac{10}{100} = ₹ 3,000$$



## 2) Interest on Drawings

$$\text{Anand } 12,000 \times \frac{12}{100} \times \frac{6}{12} = ₹ 720$$

$$\text{Bharat } 10,000 \times \frac{12}{100} \times \frac{6}{12} = ₹ 600$$

(Interest on Drawing always to be taken for 6 months In case date on Drawings in not mentioned)

3) Anand =  $2500 \times 12 = ₹ 30,000$

4) Commission to Bharat =  $5,00,000 \times \frac{3}{100} = ₹ 15,000$

5) Distribution of Profit ₹ 60,000 2:3

$$\text{Anand} = 60,000 \times \frac{2}{5} = ₹ 24,000$$

$$\text{Bharat} = 60,000 \times \frac{3}{5} = ₹ 36,000$$

- 2) Karan and Kiran are partners in M/s Mehta Enterprises. They have started business of ready made garments on 1st April 2019 on which date they contribute ₹ 5,00,000 each as their initial capitals. Karan has withdrawn ₹ 20,000 and Kiran has withdrawn ₹ 15,000 for their personal use. Interest on capital is allowed @ 12% and interest on drawing is charged @ 3% p.a. Karan is entitled to get salary, ₹ 1800 per month, Kiran is allowed to get commission @ 5% on net sales. During the year net sales is ₹ 2,50,000 and net profit earned during the year is ₹ 60,000. Prepare partners capital accounts under i) Fixed capital Method ii) Fluctuating Capital Method

**Solution :**

**In the books of M/s Mehta Enterprises**

### 1) Fixed Capital Method

**Dr. Partner's Capital A/cs Cr.**

Particulars	Karan (₹)	Kiran (₹)	Particulars	Karan (₹)	Kiran (₹)
To Balance c/d	5,00,000	5,00,000	By Cash/Bank A/c	5,00,000	5,00,000
	<b>5,00,000</b>	<b>5,00,000</b>		<b>5,00,000</b>	<b>5,00,000</b>

**Dr. Partner's Current Accounts Cr.**

Particulars	Karan (₹)	Kiran (₹)	Particulars	Karan (₹)	Kiran (₹)
To Drawing A/c	20,000	15,000	By Interest on Capital A/c	60,000	60,000
To Interest on Drawing	300	225	By Salaries A/c	21,600	-
To Balance c/d	91,300	87,275	By Commission A/c	-	12,500
			By Profit and Loss A/c	30,000	30,000
	<b>1,11,600</b>	<b>1,02,500</b>		<b>1,11,600</b>	<b>1,02,500</b>

## 2) Fluctuating Capital Method

Dr.

### Partner's Capital Accounts

Cr.

Particulars	Karan (₹)	Kiran (₹)	Particulars	Karan (₹)	Kiran (₹)
To Drawing A/c	20,000	15,000	By Cash/Bank A/c	5,00,000	5,00,000
To Interest on Drawing	300	225	By Interest on capital A/c	60,000	60,000
			By Salaries A/c	21,600	-
To Balance c/d	5,91,300	5,87,275	By Commission A/c	-	12,500
			By Profit and Loss A/c	30,000	30,000
	<b>6,11,600</b>	<b>6,02,500</b>		<b>6,11,600</b>	<b>6,02,500</b>
			By Balance b/d	5,91,300	5,87,275

### 1) Interest on capital is calculated as follows :

Karan : On Opening balance i.e. ₹ 5,00,000 for 1 year

$$12\% \text{ p.a. interest} = ₹ 5,00,000 \times 1 \text{ years} \times \frac{12}{100} = ₹ 60,000$$

Kiran : On Opening balance i.e. ₹ 5,00,000 for 1 year

$$12\% \text{ p.a. interest} = 5,00,000 \times 1 \text{ years} \times \frac{12}{100} = ₹ 60,000$$

### 2) Interest on Drawing is charged @3%

$$\text{Karan : } 20,000 \times \frac{6}{12} \times \frac{3}{100} = ₹ 300$$

$$\text{Kiran : } 15,000 \times \frac{6}{12} \times \frac{3}{100} = ₹ 225$$

### 3) Commission paid to Karan = $2,50,000 \times \frac{5}{100} = ₹ 12,500$

### 4) Profit of ₹ 60,000 is distributed equally between Karan and Kiran

$$\text{Karan} = 60,000 \times \frac{1}{2} = ₹ 30,000$$

$$\text{Kiran} = 60,000 \times \frac{1}{2} = ₹ 30,000$$

- 3) Mr. Amey and Mr. Ashish are partners in a partnership firm titled as M/s. Anand Enterprises sharing profit and losses in the ratio 3 : 2 respectively. On 1<sup>st</sup> April 2018 their capital balance were: Mr. Amey ₹ 1,00,000 and Mr. Ashish ₹ 50,000. Their drawing during the year were : Mr. Amey : ₹ 20,000 and Mr. Ashish ₹ 25,000. As per partnership deed 10% p.a. interest is allowed on capital and 12% p.a. interest is charged on drawing Mr. Amey gets salary ₹ 3000 p.m. and Mr. Ashish is entitled to get commission @ 5% on net sales which is ₹ 4,00,000. The divisible profit is ₹ 90,000. Prepare partners capital Accounts for the year ending 31st March 2019 under

1) Fixed capital method 2) Fluctuating Capital Method.

**In the books of M/s. Anand Enterprises**

**1) Under Fixed Capital Method**

**Dr. Partner's Capital Accounts Cr.**

Particulars	Amey Amt. (₹)	Ashish Amt. (₹)	Particulars	Amey Amt. (₹)	Ashish Amt. (₹)
To Balance c/d	1,00,000	50,000	By Balance b/d	1,00,000	50,000
	<b>1,00,000</b>	<b>50,000</b>		<b>1,00,000</b>	<b>50,000</b>

**Dr. Partner's Current Accounts Cr.**

Particulars	Amey Amt. (₹)	Ashish Amt. (₹)	Particulars	Amey Amt. (₹)	Ashish Amt. (₹)
To Drawing A/c	20,000	25,000	By Interest on Capital A/c	10,000	5,000
To Interest on Drawing A/c	1,200	1,500	By Salaries A/c	36,000	-
To Balance c/d	78,800	34,500	By Commission A/c	-	20,000
			By Profit and Loss A/c	54,000	36,000
	<b>1,00,000</b>	<b>61,000</b>		<b>1,00,000</b>	<b>61,000</b>
			By Balance b/d	78,800	34,500

**2) Under Fluctuating Capital Method**

**Dr. Partner's Capital Accounts Cr.**

Particulars	Amey Amt. (₹)	Ashish Amt. (₹)	Particulars	Amey Amt. (₹)	Ashish Amt. (₹)
To Drawing A/c	20,000	25,000	By Cash/Bank A/c	1,00,000	50,000
To Interest on Drawing A/c	1,200	1,500	By Interest on capital A/c	10,000	5,000
			By Salaries A/c	36,000	-----
To Balance c/d	1,78,800	84,500	By Commission A/c	-----	20,000
			By Profit and Loss A/c	54,000	36,000
	<b>2,00,000</b>	<b>1,11,000</b>		<b>2,00,000</b>	<b>1,11,000</b>
			By Balance b/d	1,78,800	84,500

**1) Interest on capital :**

$$\text{Mr. Amey} = 1,00,000 \times 1 \text{ Year} \times \frac{10}{100} = ₹ 10,000$$

$$\text{Mr. Ashish} = 50,000 \times 1 \text{ Year} \times \frac{10}{100} = ₹ 5,000$$

**2) Interest on Drawings :**

Interest on Drawing is calculated for the average. Period of 6 months as date of drawing is not given.

$$\text{Mr. Amey} = 20,000 \times \frac{6}{12} \times \frac{12}{100} = ₹ 1200$$

$$\text{Mr. Ashish} = 25,000 \times \frac{6}{12} \times \frac{12}{100} = ₹ 1500$$

### 3) Distribution of profit

$$\text{Mr. Amey} = \frac{3}{5} \times 90,000 = ₹ 54,000$$

$$\text{Mr. Ashish} = \frac{2}{5} \times 90,000 = ₹ 36,000$$

- 4) Sun and Moon were partners with capital of ₹ 10,00,000 and ₹ 5,00,000 respectively. They agree to share profits in the ratio 3 : 2. Show how the following transactions will be recorded in the capital accounts of the partners in both the cases when i) Capitals are fluctuating and ii) Capitals are fixed. They also introduced additional capital of ₹ 2,25,000 and ₹ 1,50,000

Particulars	Sun (₹)	Moon (₹)
Interest on Capital	5 %	5 %
Drawing A/c (during 2016)	22,500	15,000
Interest on Drawings	1,350	900
Salaries	15,000	—
Commission	7,500	5,250
Share in Loss for the year 2016	45,000	30,000

**Solution :**

#### i) Fluctuating Capital method

Dr. Partner's Capital Accounts			Cr.		
Particulars	Sun (₹)	Moon (₹)	Particulars	Sun (₹)	Moon (₹)
To Drawing A/c	22,500	15,000	By Balance b/d	10,00,000	5,00,000
To Interest on Drawing	1,350	900	By Cash/Bank A/c	2,25,000	1,50,000
To Profit & Loss A/c	45,000	30,000	By Interest on Capital A/c	55,625	28,750
(Loss)			By Salaries A/c	15,000	—
To Balance c/d	12,34,275	6,38,100	By Commission A/c	7,500	5,250
	<b>13,03,125</b>	<b>6,84,050</b>		<b>13,03,125</b>	<b>6,84,050</b>

#### ii) Fixed Capital method

Dr. Partner's Capital Accounts			Cr.		
Particulars	Sun (₹)	Moon (₹)	Particulars	Sun (₹)	Moon (₹)
To Balance c/d	12,25,000	6,50,000	By Balance b/d	10,00,000	5,00,000
			By Bank (Additional Capital)	2,25,000	1,50,000
	<b>12,25,000</b>	<b>6,50,000</b>		<b>12,25,000</b>	<b>6,50,000</b>

### Partner's Current Accounts

**Dr.**

**Cr.**

Particulars	Sun (₹)	Moon (₹)	Particulars	Sun (₹)	Moon (₹)
To Drawing	22,500	15,000	By Interest on capital	55,625	28,750
To Interest on Drawing	1350	900	By Partner's Salaries A/c	15,000	—
To Profit & Loss A/c	45,000	30,000	By Commission A/c	7,500	5,250
To Balance c/d	9,275	—	By Balance b/d	—	11,900
	<b>78,125</b>	<b>45,900</b>		<b>78,125</b>	<b>45,900</b>

#### Calculation of Interest on Capitals

**Sun:** 5% on ₹ 10,00,000 for one year will be

$$= \frac{10,00,000 \times 5}{100} = ₹ 50,000$$

5% of ₹ 2,25,000 for 6 months will be

$$= \frac{2,25,000 \times 5 \times 6}{100 \times 12} = ₹ 5,625$$

Total will be 50,000 + 5,625 = 55,625

**Moon:** 5% on 5,00,000 for one year will be

$$\frac{5,00,000 \times 5}{100} = ₹ 25,000$$

5% of ₹ 1,50,000 for 6 months will be

$$= \frac{1,50,000 \times 5 \times 6}{100 \times 12} = ₹ 3,750$$

Total will be 25,000 + 3,750 = ₹ 28,750

#### Note :

1. Current Account balance may appear in either side i.e. Debit or Credit side
2. In the absence of any instruction the Capital Account should be prepared by Fluctuating capital methods
3. Interest on loan of partners is treated as liability so it is credited to partners current account. But when there is no current account and partners are maintaining Fluctuating capital method than interest on loan of partner is credited to Partners Capital A/c

## Partnership Final Accounts

### Contents -

2.1 Introduction and necessity of preparation of Final Accounts. 2.2 Preparation of Trading Account, Profit and Loss Account and Balance Sheet with following adjustments.

- a) Closing Stock
- b) Outstanding expenses
- c) Prepaid expenses
- d) Income received in advance
- e) Income receivable
- f) Bad debts
- g) Provision for doubtful debts
- h) Reserve for discount on Debtors and Creditors
- i) Depreciation
- j) Interest on capital, drawings and loan.
- k) Interest on Investments and loans given
- l) Goods destroyed by fire/accident (Insured & Uninsured)
- m) Goods stolen
- n) Goods distributed as free samples
- o) Goods withdrawn by partners
- p) Unrecorded purchases and sales
- q) Capital expenditure included in revenue expenses and vice versa
- r) Bills Receivable dishonoured
- s) Bills Payable dishonoured
- t) Deferred expenses
- u) Capital receipts included in revenue receipts and vice versa
- v) Commission to working partners on the basis of Gross Profit, Net Profit/Sales etc.

### Competency Statements -

The students will be able to :

- Understand the meaning of Final Accounts.
- Know the need and importance of Final Accounts.
- Know the effects of adjustments in Final Accounts.
- Know the meaning of Trading Account, Profit and Loss Account and Balance Sheet.
- Know how to find out financial results of the business.

### 2.1 Introduction :

As per the sole proprietary concern we will also prepare the Final Account of partnership firm, the income statement and position statement. Final Account is the last stage of accounting procedure. Generally following steps are followed in the accounting.

### Various Steps in Accounting :

Preparation of Journal/Subsidiary Books.

Preparation of Ledger.

Preparation of Trial Balance considering adjustments.

Preparation of Final Accounts which consist of



a) Trading A/c b) Profit and Loss A/c c) Balance Sheet

As per Income Tax Act, 1961 financial year starts on 1st April and ends on 31st March every year.

### Necessity of Preparation of Final Accounts :

Final account is prepared for the following various purposes.

1. To find out the Gross Profit or Gross Loss incurred during the year.
2. To find out the Net Profit or Net Loss of the business.
3. To know the financial position of the business at the end of every year.
4. To find out the amount of debtors and creditors.
5. To prepare various accounts for future planning.
6. To find the sources and application of fund.
7. To find out the value of goodwill for the purpose of reconstruction of firm.
8. To calculate various taxes of firm like income tax, etc.

### 2.2 Preparation of Partnership Final Accounts:

Trial Balance and adjustments are important in preparation of Final Account. The list of debit and credit balances of all ledger account is called as "Trial Balance". The Final Account is prepared at the end of every financial year.

Trading Account shows the Gross Profit or Gross Loss and Profit and Loss Account shows the Net Profit or Net Loss of the firm. The Balance Sheet shows the financial position of the business in the form of assets and liabilities at the end of year.

### Trading Account :

Trading Account is a Nominal Account. Trading Account is opened in the trading organization for the purpose to find out the Gross Profit or Gross Loss incurred during the year. In the debit side of this account all direct expenses are recorded and in the credit side of account all direct incomes of the firm's are recorded. If the trading account's credit side is more than debit side then account shows the Gross Profit and vice versa. The Gross Profit or Loss is transferred to Profit and Loss Account.

### J. R. Batliboi :

“The Trading Account indicates the results of buying and selling of goods while preparing this account, the general establishment charges are ignored and only the transactions related to goods are included.”



### Trading Account for the year ended...

**Dr.**

**Cr.**

Particulars	Amt. (₹)	Amt. (₹)	Particulars	Amt. (₹)	Amt. (₹)
To Opening Stock		xxx	By Sales	xxx	
To Purchases	xxx		Less : Return Inward	xxx	xxx
Less : Return Outward	xxx	xxx			
To Carriage Inward		xxx	By Goods lost by fire		xxx
To Freight		xxx	By Goods lost by theft		xxx
To Dock Charges		xxx	By Goods distributed as free samples		xxx
To Custom Duty		xxx	By Goods lost in Accident		xxx
To Wages Productive		xxx	By Goods withdrawn by Partners		xxx
To Manufacturing Wages		xxx	By Closing Stock		xxx
To Wages & Salaries		xxx	By Gross Loss c/d		xxx
To Import Duty		xxx			
To Coal/Coke/Gas/ Motive Power/Oil/ Water /Grease		xxx			
To Royalty on Purchase/Production		xxx			
To Primary Packing Charges		xxx			
To Factory Lighting & Heating		xxx			
To Factory Rent & Rates		xxx			
To Factory Insurance		xxx			
To Works Manager's Salary		xxx			
To Gross Profit c/d		xxx			
		xxx			xxx

In the case of combined term of wages and salaries following treatment should be given :

- When the item Wages and Salaries is given in which Wages are appearing first, it should be transferred to Trading A/c debit side.
- When the item Salaries and Wages is given in which Salaries appear first, it should be transferred to Profit and Loss A/c – Debit side.

### Profit and Loss Account :

Profit and Loss Account is the type of Nominal Account. Profit and Loss account is a main account of income statement. It is prepared to ascertain the Net Profit earned or Net Loss suffered by a business concern during the accounting year. All indirect expenses are to be recorded to the debit side where as all indirect incomes are to be recorded to the credit side of this account. The credit balance on this account shows Net Profit which is to be transferred to Capital Accounts credit side or added in capital. The debit balance of this account shows, Net Loss which is to be transferred to Capital Account debit side or deducted from Capital.

**R.N. Carter, "A Profit and Loss Account is an Account into which all gains and losses are considered in order to ascertain the excess of gain over the losses or vice versa."**

**Pro-forma of Profit and Loss Account for year ended...**

**Dr.**

**Cr.**

Particulars	Amt. ₹	Amt. ₹	Particulars	Amt. ₹	Amt. ₹
To Salaries		xxx	By Gross Profit b/d		xxx
To Salaries & Wages		xxx	By Commission Received		xxx
To Rent & Rates		xxx	By Discount Received/ Earned		xxx
To Insurance		xxx	By Interest Received		xxx
To Electricity/Lighting		xxx	By Dividend Received		xxx
To Telephone, Postage		xxx	By Rent Received		xxx
To Printing & Stationery		xxx	By Sundry/Miscellaneous Receipts		xxx
To Travelling Expenses of Salesman		xxx	By Profit on Sale of Asset		xxx
To Depreciation on Assets		xxx	By Net Loss transferred		xxx
To Loading Charges		xxx	to Partners' Capital A/c /		
To Audit Fees		xxx	Current A/c		
To Entertainment Exp.		xxx			
To Repairs / Renewals / Maintenance		xxx			
To Interest on Loan		xxx			
To Sundry/Miscellaneous Expenses		xxx			
To Conveyance		xxx			
To Loss by Fire / Theft / Accident		xxx			
To Warehouse Rent		xxx			
To P.F. Contribution		xxx			
To Goods distributed as free sample		xxx			
To Commission Allowed/ Given		xxx			
To Discount allowed		xxx			
To Allowances		xxx			
To Advertisement		xxx			
To Carriage Outward		xxx			
To Sale Charges		xxx			
To Bad Debts		xxx			
To Export Duty		xxx			
To Taxes		xxx			
To General Expenses		xxx			
To Trade Expenses		xxx			
To Legal Charges		xxx			
To Professional Charges		xxx			
To Bank Charges		xxx			
To Solicitor's Fees		xxx			
To Secondary Packing Charges		xxx			
To Loss on sale of Fixed Assets		xxx			
To Net Profit transferred to		xxx			
Partners' Capital A/c/ Current A/c		xxx			
		xxx			xxx

## Balance Sheet :

Balance Sheet is a statement showing financial position of the firm on a particular day. All liabilities are recorded to its left hand side where as all Assets are recorded to its right hand side. The Balance Sheet is not an account but a statement showing the financial position of a firms, as on a given date in the form of Assets and liabilities.

### A. Palmer defines Balance Sheet as :

"The Balance Sheet is, a statement on a particular date showing on one side the traders property and possessions and on the other side the liabilities".

Proforma of Balance Sheet is given below

#### Balance Sheet as on .....

Liabilities	Amt. ₹	Amt. ₹	Assets	Amt. ₹	Amt. ₹
Capital Accounts :			Goodwill	xxx	
A	xxx		Land and Building	xxx	
B	xxx		Less : Depreciation	xxx	xxx
C	xxx	xxx	Plant & Machinery	xxx	
<b>Partners Current A/c</b>			Less : Depreciation	xxx	xxx
(Credit Balance)	xxx	xxx	Furniture & Fixtures	xxx	
General Reserve		xxx	Less : Depreciation	xxx	xxx
Profit & Loss A/c		xxx	Equipment	xxx	
Loan on Mortgage		xxx	Less : Depreciation	xxx	xxx
Bank Loan		xxx	Delivery/Motor Van	xxx	
Loan from Partners		xxx	Less : Depreciation	xxx	xxx
Bills Payable		xxx	Leasehold / Freehold	xxx	
Bank Overdraft		xxx	Premises		
Sundry Creditors	xxx		Less : Depreciation	xxx	xxx
Add/Less : Any other adjustment			Patents	xxx	
Less : Provision for	xxx	xxx	Less : Depreciation	xxx	xxx
Discount on Creditors			Loose Tools	xxx	
Outstanding Expenses		xxx	Less : Depreciation	xxx	xxx
Income received in Advance		xxx	Investments	xxx	
Provision for Taxes		xxx	Stores & Spare Parts	xxx	
Reserve fund		xxx	Less : Depreciation	xxx	xxx
Providend fund	xxx		Prepaid Expenses		xxx
Add: Interest on P.F. Investment	xxx		Outstanding Incomes		xxx
			Loans and Advances		xxx
			Closing Stock		xxx
			Sundry Debtors	xxx	
			+ Any adjustments		
		xxx	Less : Bad Debts(New)	xxx	
			Less : Provision for Discount on Debtors	xxx	xxx
			Insurance Claim Receivable		xxx
			Bills Receivable		xxx
			Cash in Hand		xxx
			Cash at Bank		xxx
			<b>Partners Current A/c</b>		
			(Debit Balance)		xxx

**Notes :**

- 1) Every item in the Trial Balance must be shown only one time and in just one part of the Final Accounts, excluding silent/ hidden adjustments.
- 2) Every adjustment must have two effects in Final Accounts i.e. debit and credit.
- 3) We have already studied this topic in XI standard as “Final Account of Proprietary Concern.” Most of the theory part, explanation of journal entries, and effects of journal entries are similar. To avoid repetition common explanation is not given in the XII standard. But explanation and Journal Entries of new adjustments are given. For common references / explanation teachers and students can refer textbook of standard XI. First topic in this book i.e Introduction to Partnership is also correlated with Partnership Final Account. Students can refer topic no.1.

**Adjustments :**

	Adjustment	1 <sup>st</sup> Effect	2 <sup>nd</sup> Effect
1.	Closing Stock	Balance Sheet Asset side	Trading A/c credit side
2.	Outstanding Expenses	Add to the particular Expenses on the debit side of Trading/Profit and Loss A/c	Balance Sheet Liability Side
3.	Prepaid Expenses	Deduct from the particular expenses on the debit side of Trading/Profit and Loss A/c	Balance Sheet Asset Side
4.	Income received in advance (Pre-received Income)	Deduct from the particular income on the credit side of Profit and Loss A/c	Balance Sheet Liability Side
5.	Income receivable	Add to the particular income on the credit side of Profit and Loss A/c	Balance Sheet Asset Side
6.	Bad debts (Additional or New Bad debts)	Show to the debit side of Profit and Loss A/c (add to old bad debts if any)	Deduct from Sundry Debtors in Balance Sheet Asset Side
7.	Provision for Doubtful Debts (Reserve for Doubtful debts, new R.D.D.)	Show to the debit side of Profit and Loss A/c	Deduct from Sundry Debtors in Balance Sheet Asset Side
8.	Reserve for discount on Debtors	Show to the debit side of Profit and Loss A/c (Add to discount allowed)	Deduct from Sundry Debtors Balance Sheet Asset Side
9.	Depreciation	Show on the debit side of the Profit and Loss A/c	Less from the particular asset in Balance Sheet Asset Side
10.	i) Interest on capital	Show to the Debit Side of Profit and Loss A/c	Partners Capital/Current A/c Credit Side or add to Capitals/ Current Account

	ii) Interest on Drawings	Show to the Debit Side of partners Capital/Current A/c or less from Capital/ Current Account	Show to the Credit Side of Profit and Loss A/c
	iii) Interest on loan taken	Show to the Debit Side of Profit and Loss A/c	Add to loan taken in the Balance Sheet Liability Side
11.	Interest on investment and on loan given	Show to the Credit Side of Profit and Loss A/c	Balance Sheet Asset Side
12.	i) Insured goods destroyed by fire/accident	Trading A/c Credit Side (gross amount)	1. Balance Sheet Asset Side (Claim amount) 2. Profit and Loss A/c Debit side (Amount of Loss)
	ii) Uninsured goods destroyed by fire/ accident	Profit and Loss A/c Debit Side	Show to the Credit Side of Trading A/c
13.	Goods stolen	Profit and Loss A/c Debit Side	Show to the Credit Side of Trading A/c
14.	Goods distributed as free samples	Profit and Loss A/c Debit Side (Add in Advertisement if any)	Show to the Credit Side of Trading A/c
15.	Goods withdrawn by Partners for personal use	Show to the Credit Side of Trading A/c or deduct from Purchases A/c	Partners Capital/Current A/c Debit Side
16.	i) Unrecorded Purchases	Add to Purchases on the Debit Side of Trading A/c	Add to Creditors on the Liability Side of Balance Sheet
	ii) Unrecorded Sales	Add to Debtors on the Asset Side of the Balance Sheet	Add to Sales on the credit Side of Trading A/c
17.	i) Capital Expenditure included in Revenue Expenditure	Deduct from that particular Revenue Expenses on the Debit Side of Trading or Profit and Loss A/c	Add to that particular asset in Balance Sheet Asset Side
	ii) Revenue Expenditure included in Capital Expenditure	Add to that particular Revenue Expenditure	Deducted from that particular Asset in Balance Sheet
18.	Bills Receivable dishonored	Add the amount of bill dishonored to Sundry Debtors in the Balance Sheet Asset Side	Deduct the amount of bill dishonored from Bills Receivable.
19.	Bills Payable Dishonored	Add the amount of bill dishonored to Sundry Creditors in the Balance Sheet	Deduct the amount of bill dishonored from Bills Payable
20.	Deferred Expenses of Advertisement paid for 5 years	Advertisement Expenses related to current year debited to Profit and Loss A/c	Remaining amount of Advertisement is shown on asset side of the Balance Sheet as prepaid Advertisement

21.	Revenue Receipts included in Capital Receipts e.g. sale of goods included in sale of Furniture	Add to sales on the credit side of Trading A/c.	Add to Furniture on the Asset Side of the Balance Sheet
22.	Commission to partners as percentage of Gross Profit/sales.	Show to the Debit Side of Profit and Loss A/c	Show to the Credit Side of Partners Capital/Current A/c or Add to Partners Capital A/c.

#### Hidden Adjustment Given in Trial Balance

Sr. No.	Adjustment Given in Trial Balance	Trading and Profit and Loss A/c	Balance Sheet
1.	Salaries/Rent Paid (For 10 months)	Add the amount of Salaries/Rent for 2 months to Salaries/Rent respectively	Show separately the amount of Salaries/Rent for 2 months on the Liabilities Side of the Balance Sheet
2.	Insurance premium paid for 1 year ending 30th June, 2019 (Accounting year ends on 31st March 2019)	Deduct the proportionate amount of Insurance Premium for 3 months from insurance on the Debit Side of Profit and Loss A/c	Show separately the amount of prepaid insurance on the Assets Side of the Balance Sheet
3.	Advertisement expenses (for 4 years)	Show 1/4th amount of Advertisement expenses on the Debit Side of Profit and Loss A/c	Show the remaining i.e. 3/4th of Advertisement expenses (not written off) on the Assets Side of the Balance Sheet
4.	Rent received (for 11 months)	Add the proportionate amount of Rent for one month to Rent received on Credit Side of Profit and Loss A/c	Show the same amount on the Assets Side of the Balance Sheet
5.	10% Loan (Borrowed on 1st Jan. 2018)(Accounting year ends on 31st March 2018)	Show the amount of Interest Payable on Loan for 3 months on the Debit Side of the Profit and Loss A/c	Add the amount of Interest Payable on Loan on the Liability Side of the Balance Sheet
6.	16% Investment (Purchased on 1st Jan. 2019) (Accounting year ends on 31st March 2019)	Show the amount of Interest Receivable on Investment for 3 months on the Credit Side of the Profit and Loss A/c	Add the amount of Interest Receivable on Investment on the Assets Side of the Balance Sheet
7.	10% Government Bonds	Show the amount of Interest Receivable on the Credit Side of Profit and Loss Account	Add the amount of Interest Receivable to Government Bonds on the Assets Side of the Balance Sheet or show separately in Balance sheet Asset Side.

### Important Points :

- 1) Each item from Trial Balance will be included only once in the Final Accounts i.e. either in Trading or in Profit & Loss A/c or in Balance Sheet or in working section.
- 2) Each adjustment has two effects for the similar amount.
- 3) Debit balances of Trial Balance will appear on the debit side of Trading Account or Profit & Loss A/c or on the asset side of the Balance Sheet.
- 4) Credit balances of Trial Balance will appear on the credit side of Trading Account or Profit & Loss A/c or Capital Account or on the Liabilities Side of the Balance Sheet.
- 5) If Salaries and Wages are given as separate items, Wages are shown on the debit side of Trading Account while salaries are shown on the debit side of Profit and Loss A/c. If the item is “Wages and Salaries”, it is shown on the debit side of Trading A/c and if the items is “Salaries & Wages”, it is shown on the debit side of Profit & Loss A/c.
- 6) If the Trial Balance contains only “Trade Expenses”, the item will be shown on the debit side of Profit & Loss A/c. If the Trial Balance contains “Trade Expenses” and also other items like “Sundry Expenses” or “Office Expenses” or “General Expenses” or “Miscellaneous Expenses”, the item “Trade Expenses” is shown on the debit side of Trading A/c while the other items of expenses are shown on the debit side of Profit & Loss A/c.
- 7) The adjustment for Bad Debts and Provision for Bad and Doubtful Debts should be effected after other adjustments for Debtors are given effect to. Such adjustments can be unrecorded sales, drawings included in Debtors, drawings treated as sales, etc.
- 8) Reserve for Discount on Debtors should be given effect after the adjustments for Bad Debts and Provision for Bad and Doubtful Debts.
- 9) Reserve for Discount on Creditors should be given effect after making all the other adjustments concerning Creditors.
- 10) Hidden / Self-explanatory adjustments are to be given effect even if there is no special instruction in the problem in this respect.
- 11) Closing Stock should be taken at “Cost or Market Price, whichever is less.”
- 12) If a manager or a partner is allowed commission at a certain percentage on Net Profit, such commission should be calculated in the following manner depending upon how the commission is quoted :
  - a) If it is on Net Profit before charging such commission :

$$\text{Commission Amount} = \frac{\text{Rate of Commission} \times \text{Net Profit}}{100}$$

- b) If it is on Net Profit after charging such commission :

$$\text{Commission Amount} = \frac{\text{Rate of Commission} \times \text{Net Profit}}{100 + \text{Rate of Commission}}$$

- 13) When the date of drawings are not given Interest on drawings should be calculated on average basis or for six months

$$\text{Drawings} \times \frac{\text{Rate}}{100} \times \frac{6}{12}$$

- 14) If a partner introduces capital in the middle of the accounting year, then interest on capital should be calculated on proportionate time period only. (This complication is not expected at your Std. XII level).



### Treatment of some important Items appearing in Trial Balance only :

i)	Any outstanding expenses	Liability Side of Balance Sheet
ii)	Any Prepaid Expenses	Asset Side of Balance Sheet
iii)	Any outstanding income	Asset Side of Balance Sheet
iv)	Income Received in Advance	Liability Side of Balance Sheet
v)	Depreciation	Debit Side of Profit & Loss A/c
vi)	Loss on Sale of any Asset	Debit Side of Profit & Loss A/c
vii)	Goods withdrawn by partner	Debit Side of Capital/Current A/c
viii)	General Reserve / Reserve Fund	Liability Side of Balance Sheet
ix)	Deposit from Public	Liability Side of Balance Sheet
x)	Goods distributed as free samples	Debit side of Profit & Loss A/C
xi)	Suspense Account: a) If it is on Debit Side b) If it is on Credit Side	Show the same figure on Asset Side Show the same figure on Liability Side
xii)	Bank for Collection of Bills	Asset Side of Balance Sheet

### Steps for solving problem :

- 1) Prepare the necessary accounts, including the working notes.
- 2) Place some mark on Trial Balance items for external as well as internal adjustments.
- 3) Go through Trial Balance items and give only one accounting effect sequentially.
- 4) Go through Adjustments and give two accounting effects.
- 5) Close Ledgers in the working notes, except capital.
- 6) Find Gross Profit, Net Profit and transfer it to individual capital accounts.
- 7) Find the closing balance in capital and transfer it to Balance Sheet.
- 8) Tally the Balance Sheet.

**Illustrations**

1. Daya and Kshama are Partners sharing Profits and Losses in the ratio of 1:1 from the following Trial Balance and additional information prepare Trading and Profit and Loss account for the year ended 31st March 2019 and Balance Sheet as on that date.

**Trial Balance as on 31st March, 2019**

Debit Balance	Amt. ₹	Credit Balance	Amt. ₹
Stock (1/4/2018)	65,000	General Reserve	14,500
Bills Receivable	28,000	Capital:	
Wages and salaries	9,000	Daya	1,60,000
Sundry Debtors	1,32,500	Kshama	1,20,000
Bad debts	1,000	Creditors	98,000
Purchases	1,48,000	R.D.D.	1,800
Motor car	68,000	Sales	2,85,500
Machinery	1,14,800	Outstanding Wages	700
Audit Fees	1,200	Purchases Returns	4,000
Sales Return	2,000	Discount	1800
Discount	2,300		
Building	75,000		
Cash at Bank	12,000		
10% Investment	20,000		
Advertisement(Paid for 9 months)	4,500		
Royalties	3,000		
	<b>6,86,300</b>		<b>6,86,300</b>

**Adjustment and Additional Information :**

- (1) Closing Stock ₹ 40,000.
- (2) Depreciate Building and Machinery @ 5% and 3% respectively.
- (3) Bills Receivable included dishonoured bill of ₹ 3000.
- (4) Goods worth ₹ 1000 taken by Daya for personal use was not entered in the books of accounts.
- (5) Write off ₹ 1800 as Bad debts and maintain R.D.D. at 5% on Sundry Debtors.
- (6) Goods of ₹ 6000 were sold but no entry was made in the books of accounts.

**IN THE BOOKS OF DAYA AND KSHAMA**

**Trading, Profit and Loss Account for the year Ended 315 March 2019**

**Dr.**

**Cr.**

Particulars	Amt ₹	Amt ₹	Particulars	Amt ₹	Amt ₹
To Opening Stock		65,000	By Sales	2,85,500	
To Purchases	1,48,000		Add :Unrecorded Sales	6,000	
Less - Purchases Return	4,000	1,44,000		2,91,500	
To Royalties		3,000	Less : Sales Return	2,000	2,89,500
To wages and Salaries		9,000	By Goods take over by Daya for Personal Use		1,000
To Gross Profit c/d		1,09,500	By Closing Stock		40,000
		<b>3,30,500</b>			<b>3,30,500</b>
To Advertisement	4,500				
Add : o/s for 3 months	1,500	6,000	By Gross Profit b/d		1,09,500
To Audit fees		1,200	By Interest Accrued on Investment		2,000
To Depreciation on :			By Discount		1,800
Building	3,750				
Machinery	3,444	7,194			
To Bad debts (old)	1,000				
Add : New Bad Debts	1,800				
Add : New R.D.D.	6,985				
	9,785				
Less : R.D.D.(old)	1,800	7,985			
To Discount		2,300			
To Net Profit (Transferred to Capital A/c's)					
Daya	44,311				
Kshama	44,310	88,621			
		<b>1,13,300</b>			<b>1,13,300</b>

**Balance Sheet as on 31st March, 2019**

Liabilities	Amt. ₹	Amt. ₹	Assets	Amt. ₹	Amt. ₹
Capital : Daya	1,60,000		Building	75,000	
Add : Net Profit	44,311		Less : Depreciation 5%	3,750	71,250
Less: (Goods taken over by	1,000	2,03,311	Machinery	1,14,800	
Daya for personal use)			Less : Depreciation 3%	3,444	1,11,356
Capital Kshama	1,20,000		Bills Receivable	28,000	
Add : Net Profit	44,310	1,64,310	Less : Bills Receivable	3,000	25,000
General Reserve		14,500	Dishonoured		
O/s Advertisement Exp.		1,500	Motor Car		68,000
(3 months)			Cash at Bank		12,000
Creditors		98,000	Closing Stock		40,000
Outstanding Wages		700	Sundry Debtors	1,32,500	
			Add : Bills Receivable	3,000	
			Dishonoured		
				1,35,500	
			Add : Unrecorded Sales	6,000	
				1,41,500	
			Less : Bad debts (New)	1,800	
				1,39,700	
			Less : R.D.D. 5% (New)	6,985	1,32,715
			10% Investment	20,000	
			Add : Interest Accrued	2,000	22,000
		<b>4,82,321</b>			<b>4,82,321</b>

**Working Notes :**

- (1) Adjustment No. 3, 5 and 6 are co-related with sundry Debtors. So, while calculating R.D.D. 5% on sundry Debtors, Amount of dishonour of Bills ₹ 3,000) and goods sold but not recorded (₹ 6000) will be added into the sundry Debtors, then new Bad Debts will be deducted and then Less R.D.D (New) 5% 6985 after 5% R.D.D should be calculated.

1st effect Sundry Debtors	1,32,500
Add : Bills dishonoured	3,000
Add : Unrecorded sales	6,000

1,41,500

Less Bad debts (New) 1,800

1,39,700

Less R.D.D (New) 5% 6,985

₹ **1,32,715** (Shown on Assets side of Balance Sheet)

	₹
2nd Effect To Bad debts (Old)	1,000
Add Bad debts (New)	1,800
Add New R.D.D	6,985
	<hr/>
	9,785
Less R.D.D. (Old)	1,800
	<hr/>
	<b>₹ 7,985</b>
	- (Shown on Debit side of Profit and Loss A/C)

2. From the following Trial Balance and Adjustments given below you are required to prepare Trading and Profit and Loss Account for the year ended 31<sup>st</sup> March, 2019 and Balance Sheet as on that date in the books of Shilpa and Katrina.

**Trial Balance as on 31<sup>st</sup> March, 2019**

Debit Balance	Amount ₹	Credit Balance	Amount ₹
Land and Building	37,800	Capital	
Furniture	17,250	Shilpa	45,000
Sundry Debtors	40,000	Katrina	45,000
Stock (1/4/2018)	65,000	Bills payable	17,500
Bad Debts	400	Bank Over draft	10,000
Printing and Stationary	4,000	Purchases Return	1,480
Wages	3,000	Sundry Creditors	22,000
Salaries	5,000	Bank Loan	15,000
Carriage Inward	4,000	Interest received	1,500
Sales Return	2,000	R.D.D	1,000
Drawings :		Sales	1,20,000
Shilpa	2,000		
Katrina	3,000		
Discount	2,030		
Advance Given to Shaharukh	10,000		
Cash in hand	20,000		
Cash at Bank	8,000		
Interest	1,000		
Commision	2,000		
Royalties	2,000		
Purchases	50,000		
	<b>2,78,480</b>		<b>2,78,480</b>

**Adjustments**

- (1) The Stock in Hand was valued at ₹ 58,000 on 31<sup>st</sup> March, 2019.
- (2) Outstanding Expenses : Royalties ₹ 1,500 and Wages ₹ 800.

- (3) Salaries paid in advance to staff ₹ 2,000.
- (4) Create a provision for Bad Debts ₹ 1,000 and Reserve for Doubtful Debts 3% on Sundry Debtors.
- (5) Depreciate Land and Building by 5% and Furniture by 10%.

**IN THE BOOKS OF SHILPA AND KATRINA**

**Trading and Profit and Loss Account for the year ended 31st March 2019**

**Dr.**

**Cr.**

Particulars	Amount ₹	Amount ₹	Particulars	Amount ₹	Amount ₹
To Opening Stock		65,000	By Sales	1,20,000	
To Purchase	50,000		Less : Sales Return	2,000	1,18,000
Less : Purchases Return	1,480	48,520	By Closing Stock		58,000
To Wages	3,000				
Add : O/s Wages	800	3,800			
To Royalties	2,000				
Add : O/s Royalties	1,500	3,500			
To Carriage Inward		4,000			
To Gross Profit c/d		51,180			
		<b>1,76,000</b>			<b>1,76,000</b>
To Salaries	5,000		By Gross Profit b/d		51,180
Less : Advance Salary	2,000	3,000	By Interest Received		1,500
To Bad debts (Old)	400				
Add : Bad Debts (New)	1,000				
Add : R.D.D. (New)	1,170				
	2,570				
Less - R.D.D. (Old)	1,000	1,570			
To Depreciation :					
Land and Building	1,890				
Furniture	1,725	3,615			
To Printing And Stationary		4,000			
To Discount		2,030			
To Interest		1,000			
To Commission		2,000			
To Net Profit (Transferred to Capital A/c)					
Shilpa	17,732				
Katrina	17,733	35,465			
		<b>52,680</b>			<b>52,680</b>

**Balance Sheet as on 31<sup>st</sup> March, 2019**

Liabilities	Amount ₹	Amount ₹	Assets	Amount ₹	Amount ₹
Capital :			Land and Building	37,800	
Shilpa	45,000		Less : 5% Depreciation	1,890	35,910
Add : Net Profit	17,732		Furniture	17,250	
	62,732		Less : 10% Depreciation	1,725	15,525
Less : Drawings	2,000	60,732	Sundry Debtors	40,000	
Katrina	45,000		Less : Bad debts	1,000	
Add : Net Profit	17,733			39,000	
	62,733		Less : R.D.D. 3%	1,170	37,830
Less : Drawings	3,000	59,733	Cash in Hand		20,000
Bills Payable		17,500	Cash at Bank		8,000
Outstanding Expenses :			Closing Stock		58,000
Wages	800		Advance Salary		2,000
Royalties	1500	2,300	Advance to Shaharukh		10,000
Bank Overdraft		10,000			
Sundry Creditors		22,000			
Bank Loan		15,000			
		<b>1,87,265</b>			<b>1,87,265</b>

3. Rucha and Juili are partners sharing Profits and Losses in their Capital Ratio. From the following Trial Balance and adjustments you are required to prepare Final Accounts.

**Trial Balance as on 31<sup>st</sup> March, 2019**

Debit Balance	Amount ₹	Credit Balance	Amount ₹
Purchases	48,000	Capital A/c	
Trade Expenses	3,000	Rucha	80,000
Salaries	4,500	Juili	40,000
Wages and Salaries	2,800	Sundry Creditors	22,000
Advertisement (2 Years)	4,000	Sales	1,48,000
Sales Returns	8,000	R.D.D.	1,200
Freehold Property	23,000	Bills Payable	12,000
Office Rent	5,000	Purchases Return	6,000
Motor Van	40,000		
Stock (1/4/2018)	89,500		
General Expenses	2,500		
Sundry Debtors	62,000		
Coal, Gas, Fuel	1,000		
Carriage Inward	800		
Carriage Outward	1,300		
Plant and Machinery	13,800		
	<b>3,09,200</b>		<b>3,09,200</b>



**Adjustments :**

- (1) Closing Stock is valued at ₹ 88,000 (Cost Price) and ₹ 90,000 (Market Price)
- (2) Rucha and Juili withdrawn Goods from business ₹ 3000 and ₹ 2000 respectively for their personal use.
- (3) Depreciate Motor Van by 5% and Plant and Machinery by 7%.
- (4) Reserve for Doubtful Debts on Debtors @ 5% is to be created.
- (5) Outstanding Wages ₹ 800.
- (6) Goods of ₹ 6000 were purchased on credit and credit sales of ₹ 6000 but no entry was found in the Books of Account.

**IN THE BOOKS OF RUCHA AND JUILI**  
**Trading and Profit and Loss Account for the year ended 31st March 2019**  
**Balance Sheet as on 31<sup>st</sup> March, 2019**

**Dr.****Cr.**

Particulars	Amount ₹	Amount ₹	Particulars	Amount ₹	Amount ₹
To Opening Stock		89,500	By Sales	1,48,000	
To Purchases	48,000		Add : Unrecorded Sales	6,000	
Add : Unrecorded Purchases	6,000			1,54,000	
	54,000		Less : Sales Return	8,000	1,46,000
Less : Purchases Return	6,000	48,000	By Closing Stock		88,000
To Wages and Salaries	2,800		By Goods withdrawn by Partners :		
Add : Outstanding Wages	800	3,600	Rucha	3,000	
To Trade Expenses		3,000	Juili	2,000	5,000
To Coal, Gas Fuel		1,000			
To Carriage Inward		800			
To Gross Profit c/d		93,100			
		<b>2,39,000</b>			<b>2,39,000</b>
To Salaries		4,500	By Gross Profit b/d		93,100
To Depreciation					
Motor Van	2,000				
Plant and Machinery	966	2,966			
To R.D.D. (New)	3,400				
Less : R.D.D. (Old)	1,200	2,200			
To Advertisement	4,000				
Less : Prepaid Advt.	2,000	2,000			
To Office Rent		5,000			
To General Expenses		2,500			
To Carriage Outword		1,300			
To Net Profit (Transferred to Capital A/c's)					
Rucha	48,423				
Juili	24,211	72,634			
		<b>93,100</b>			<b>93,100</b>

**Balance Sheet as on 31<sup>st</sup> March, 2019**

Liabilities	Amount ₹	Amount ₹	Assets	Amount ₹	Amount ₹
Capitals :			Motor Van	40,000	
Rucha	1,25,423		Less : Depreciation 5%	2,000	38,000
Juili	62,211	1,87,634	Plant and Machinery	13,800	
Outstanding Wages		800	Less : Depreciation 7%	966	12,834
Sundry Creditors	22,000		Debtors	62,000	
Add : Unrecorded	6,000	28,000	Add: Unrecorded Sales	6,000	
Purchases				68,000	
Bills Payable		12,000	Less : R.D.D. 5%	3,400	64,500
			Closing Stock		88,000
			Prepaid Advertisement		2,000
			Freehold Property		23,000
		<b>2,28,434</b>			<b>2,28,434</b>

**Dr.**

**Partners Capital Account**

**Cr.**

Particulars	Rucha ₹	Juili ₹	Particulars	Rucha ₹	Juili ₹
To Drawings	3,000	2,000	By Balance b/d	80,000	40,000
To Balance c/d	1,25,423	62,211	By Profit and Loss A/c	48,423	24,211
	<b>1,28,423</b>	<b>64,211</b>		<b>1,28,423</b>	<b>64,211</b>
			By Balance b/d	1,25,423	62,211

**Working Notes :**

- (2) Advertisement Expenses are paid for 2 Years , so expenses of one year ₹ 2000 are prepaid. Prepaid Expenses (Advertisement) is treated as an Asset. The amount of prepaid should be deducted from total amount of Advertisement in Profit and Loss Account.

4. From the following Trial Balance of Mr. Piyush and Mr. Arun. You are required to prepare Trading and Profit and Loss Account and Balance Sheet as on the date:

**Trial Balance as on 31<sup>st</sup> March, 2019**

Debit Balance	Amount ₹	Credit Balance	Amount ₹
Stock (1/4/2018)	30,800	Capital Account	
Purchases	80,000	Piyush	80,000
Salaries	5,000	Arun	80,000
Wages	7,500	Sundry Creditors	20,500
Carriage	3,000	Interest received on Fixed Deposit	1,000
Royalties	2,500	Bank Overdraft	10,000
Freight	700	Sales	1,20,000
Printing and Stationery	1,050		
Sundry Debtors	43,000		
Furniture	20,200		
Lease hold property	25,000		
Investment	15,000		
Travelling Expenses	3,450		
Advertisement (For 3 years)	30,000		
Bad Debts	500		
Discount Allowed	1,800		
Cash in Hand	7,000		
Cash at Bank	20,000		
Fixed Deposits	15,000		
	<b>3,11,500</b>		<b>3,11,500</b>

**Adjustments :**

- (1) Stock on hand on 31<sup>st</sup> March, 2019 was Cost Price ₹ 40,000 and Market price ₹ 35,000.
- (2) Interest on Fixed Deposit ₹ 1200 is still receivable.
- (3) Provide R.D.D. at 2.5% on Sundry Debtors.
- (4) Depreciate Furniture by 5%.
- (5) Goods of ₹ 8000 destroyed by fire and insurance company admitted a claim of ₹ 6000 only.

**IN THE BOOKS OF MR. PIYUSH AND MR. ARUN.**  
**Trading and Profit and Loss Account for the year Ended 31<sup>st</sup> March 2019**

**Dr.**

**Cr.**

Particulars	Amount ₹	Amount ₹	Particulars	Amount ₹	Amount ₹
To Opening Stock		30,800	By Sales		1,20,000
To Purchases		80,000	By Goods destroyed by Fire		8000
To Wages		7,500			
To Carriage		3,000	By Closing Stock		35,000
To Royalties		2,500			
To Freight		700			
To Gross Profit c/d		38,500			
		<b>1,63,000</b>			<b>1,63,000</b>
To Discount		1,800	By Gross Profit b/d		38,500
To Salaries		5,000	By Interest on Fixed Deposit	1,000	
To Printing and Stationery		1,050			
To Bad Debts	500		Add : Interest Receivable	1,200	2200
Add : R.D.D. (New)	1,075	1,575			
To Loss by Fire		2,000			
To Depreciation on Furniture		1,010			
To Travelling Expenses		3,450			
To Advertisement	30,000				
Less : Prepaid Advt.	20,000	10,000			
To Net Profit (Transferred to Capital A/c's)					
Piyush	7,408				
Arun	7,407	14,815			
		<b>40,700</b>			<b>40,700</b>

**Balance Sheet as on 31<sup>st</sup> March, 2019**

Liabilities	Amount ₹	Amount ₹	Assets	Amount ₹	Amount ₹
Capital Account:			Leasehold Property		25,000
Piyush	80,000		Investment		15,000
Add : Net profit	7,408	87,408	Fixed Deposit	15,000	
Arun	80,000		Add : Interest Receivable	1,200	16,200
Add : Net Profit	7407	87,407	Furniture	20,200	
Sundry Creditors		20,500	Less : Depreciation 5%	1010	19,190
Bank Overdraft		10,000	Sundry Debtors	43,000	
			Less : R.D.D. 2.5%	1075	41,925
			Insurance Claim		6,000
			Prepaid Advertisement		20,000
			Cash in Hand		7,000
			Cash at Bank		20,000
			Closing Stock		35,000
		<b>2,05,315</b>			<b>2,05,315</b>

5. M/s Sudarshan Traders is a Partnership Firm in which, Ram and Krushna are partners sharing Profits and Losses in the ratio 1:1. From the following Trial Balance prepare Final Account for the year 2018-19:

**Trial Balance as on 31<sup>st</sup> March, 2019**

Particulars	Debit ₹	Credit ₹
Opening Stock	36,000	
Capital A/C :		
Ram		1,60,000
Krushna		80,000
Current A/C :		
Ram		8,000
Krushna	4,000	
Purchases	1,00,000	
Sales		2,08,000
Sundry Debtors	1,73,500	
Sundry Creditors		41,800
Bills Receivable	47,000	
Bills Payable		21,000
Commission	2,800	
Wages	1,760	
Salaries	3,000	
Furniture	25,000	
Plant and Machinery	63,000	
R.D.D.		1,000
Investment	10,500	
Loans and Advances Given	35,240	
Insurance	2,500	
Bad debts	500	
12% Govt. Bonds (Purchased on 1.1.2019)	15,000	
	<b>5,19,800</b>	<b>5,19,800</b>

**Adjustments :**

- (1) Stock on hand on 31 March 2019 was valued at ₹ 38000.
- (2) Ram is allowed a Salary of ₹ 6000 and Krushna is allowed Commission at 3% on net sales.
- (3) Interest on Partner's Capital is to be provided @ 5% p.a.
- (4) Provide depreciation on Plant and Machinery 5%.
- (5) ₹ 3000 from our customer is not recoverable.
- (6) Prepaid Insurance ₹ 500.

**Trading and Profit and Loss Account for the year ended 31st March 2019****Dr.****Cr.**

Particulars	Amount ₹	Amount ₹	Particulars	Amount ₹	Amount ₹
To Opening Stock		36,000	By Sales		2,08,000
To Purchases		1,00,000	By Closing Stock		38000
To Wages		1760			
To Gross Profit c/d		1,08,240			
		<b>2,46,000</b>			<b>2,46,000</b>
To Commission		2,800	By Gross Profit b/d		1,08,240
To Salaries		3,000	By Interest on Govt		450
To Insurance	2,500		Bonds Receivable		
Less : Prepaid	500	2,000			
To Ram's Salary		6,000			
To Commission to Krushna		6,240			
To Depreciation on :					
Plant and Machinery		3,150			
To Bad debts (Old)	500				
To Bad Debts (New)	3,000				
	3,500				
Less : R.D.D. (Old)	1,000	2,500			
To Interest on Capital					
(Partners Current A/C)					
Ram	8,000				
Krushna	4,000	12,000			
Net Profit (Transferred					
Partners to Current Account)					
Ram	35,500				
Krushna	35,500	71,000			
		<b>1,08,690</b>			<b>1,08,690</b>

**Balance Sheet as on 31<sup>st</sup> March, 2019**

Liabilities	Amount ₹	Amount ₹	Assets	Amount ₹	Amount ₹
Capital :			Sundry Debtors	1,73,500	
Ram	1,60,000		Less-Bad debts	3,000	1,70,500
Krushna	80,000	2,40,000	Bills Receivable		47,000
Current A/c :			Plant and Machinery	63,000	
Ram	57,500		Less : Depreciation	3,150	59,850
Krushna	41,740	99,240	Furniture		25,000
Creditors		41,800	Investment		10,500
Bills Payable		21,000	Loan and Advances		35,240
			Closing Stock		38,000
			Prepaid Insurance		500
			12% Govt. Bonds	15,000	
			Add : Interest Receivable	450	15,450
		<b>4,02,040</b>			<b>4,02,040</b>

**Dr.**

**Partners Current Account**

**Cr.**

Particulars	Ram Amt. ₹	Krushna Amt. ₹	Particulars	Ram Amt. ₹	Krushna Amt. ₹
To Balance b/d		4,000	By Balance b/d	8,000	-
					-
			By Profit and Loss A/c (Ram's Salary)	6,000	
			By Profit and Loss A/c (Commision)	-	6,240
To Balance c/d	57,500	41,740	By Profit and Loss A/c (Interest on capital)	8,000	4,000
			By Profit and Loss A/c	35,500	35,500
	<b>57,500</b>	<b>45,740</b>		<b>57,500</b>	<b>45,740</b>
			By Balance b/d	57,500	41,740

**Working Notes :**

- (1) In this problem Current Account is given. So total Amount of fixed capital of Ram (₹1,60,000) and Krishna (₹ 80,000) = ₹ 2,40,000 should be directly shown on the liability side of Balance Sheet. Effect of adjustment related with capital. i.e. 5% interest on capital, 3% commission on net sales, partners should be reflected on current account which is separately prepared. Closing Balances of Current Account of partners will be shown on liability side of Balance sheet.
- (2) Amount of Debtor ( 3000) which is not recoverable is to be treated as Bad debts (New) and it should be deducted from debtors on Assets side of Balance Sheet.
- (3) 12% Govt. Bonds - are purchased on 1.1.2019, So Interest receivable is only for 3 months (i.e. 1.1.2019 To 31.3.2019) @ 12% p.a. on 15000. Which is treated as income.

$$\frac{15,000}{100} \times \frac{12}{100} \times \frac{3}{12} = ₹ 1,800$$

₹ 1,800 is for 12 months, we have to consider Interest for 3 months only.



$$\frac{1,800}{100} \times \frac{3}{12} = ₹ 450$$

Interest on Govt Bonds @ 12% for 3 months is ₹ 450

6. From the following Trial Balance of Shreyas and Mrunal and adjustments you are required to prepare Trading and Profit and Loss Account for the year ended 31st March, 2019 and Balance Sheet as on that date:

**Trial Balance as on 31<sup>st</sup> March, 2019 Particulars**

Particulars	Debit ₹	Credit ₹
Capital Accounts :		
Shreyas		35,000
Mrunal		20,000
Purchases	37,800	
Sales		66,700
Bills Receivable	8,000	
Bills Payable		6,500
Commission	2,400	
Salaries	6,000	
Insurance (9 months)	9,000	
Prepaid Rent	3,000	
Sundry Creditors		48,900
Sundry Debtors	25,000	
Postage	1,700	
Freehold Premises	17,300	
Furniture	20,000	
Bad debts	500	
Cash in Hand	4,500	
Cash at Bank	16,000	
Carriage Inward	800	
Carriage Outward	1,700	
Stock (1/4/2018)	22,500	
Returns	1,200	1800
Wages	3,100	
Outstanding Wages		1600
<b>Total</b>	<b>1,80,500</b>	<b>1,80,500</b>

**Adjustments :**

- (1) Closing Stock ₹ 30,000
- (2) Outstanding Expenses - Salary ₹ 1200 and Commission ₹ 400.
- (3) Depreciate Furniture @ 10%
- (4) Provide for further Bad debts ₹ 1200.
- (5) Goods of ₹ 5000 destroyed by fire and insurance company admitted a claim of ₹ 2000 only.
- (6) Shreyas and Mrunal are sharing profits and losses in the ratio 2:1

**THE BOOKS OF SHREYAS AND MRUNAL.**

**Trading and Profit and Loss Account for the year ended 31<sup>st</sup> March 2019**

**Dr.**

**Cr.**

Particulars	Amount ₹	Amount ₹	Particulars	Amount ₹	Amount ₹
To Opening Stock		22,500	By Sales	66,700	
To Purchases	37,800		Less : Returns	1200	65,500
Less : Returns	1,800	36,000	By Goods destroyed by Fire		5,000
To Carriage Inward		800	By Closing Stock		30,000
To Wages		3,100			
To Gross Profit c/d		38,100			
		<b>1,00,500</b>			<b>1,00,500</b>
To Insurance	9,000				
Add : Outstanding (3 months)	3,000	12,000	By Gross Profit b/d		38,100
To Salaries	6,000				
Add : Outstanding	1,200	7,200			
To Commission	2,400				
Add : Outstanding	400	2,800			
To Depreciation on Furniture		2,000			
To Bad debts	500				
Add : Bad Debts (New)	1,200	1,700			
To Loss by fire		3,000			
To Postage		1,700			
To Carriage Outward		1,700			
To Net Profit (Transferred to Capital Accounts)					
Shreyas	4,000				
Mrunal	2,000	6,000			
		<b>38,100</b>			<b>38,100</b>

**Balance Sheet as on 31<sup>st</sup> March, 2019**

Liabilities	Amount ₹	Amount ₹	Assets	Amount ₹	Amount ₹
Capital Account :			Furniture	20,000	
Shreyas	35,000		Less : Depreciation 10%	2,000	18,000
Add : Net Profit	4,000	39,000	Sundry Debtors	25,000	
Mrunal	20,000		Less : Bad debts	1,200	23,800
Add : Net Profit	2,000	22,000	Bills Receivable		8,000
Sundry Creditors		48,900	Freehold Premises		17,300
Bills Payable		6,500	Cash in Hand		4,500
Outstanding Expenses			Cash at Bank		16,000
Salaries	1,200		Closing Stock		30,000
Commission	400	1,600	Insurance Claim		2,000
Outstanding Insurance		3,000	Prepaid Rent		3,000
Outstanding Wages		1,600			
		<b>1,22,600</b>			<b>1,22,600</b>

7. Sapre and Atre are partners sharing Profits and Losses equally. From the following Trial Balance and Adjustments, prepare Trading and Profit and Loss Account for the year ended 31<sup>st</sup> March, 2019 and Balance Sheet as on that date.

**Trial Balance as on 31<sup>st</sup> March, 2019**

Debit Balance	Amount ₹	Credit Balance	Amount ₹
Sundry Debtors	40,000	Sales	85,000
Purchases	65,000	Sundry Creditors	23,000
Returns	800	Sundry Income	2,000
Opening Stock	18,000	Capital :	
Land and Building	10,000	Sapre	35,000
Carriage	1,200	Atre	35,000
Rent, Rates & Taxes	1,000	Provident Fund	10,000
Drawings :		Returns	1,500
Sapre	3,000	Commission Pre Received	800
Atre	2,000	R.D.D	400
Salaries	3,200		
Bad debts	1,000		
Machinery	25,000		
(Additions on 1 <sup>st</sup> Oct, 2018, ₹ 10,000)			
Advertisement	4,000		
Provident Fund Investment	18,500		
	<b>1,92,700</b>		<b>1,92,700</b>

**Adjustments :**

- 1) Closing Stock is valued at ₹ 23,000.
- 2) Depreciate Land and Building @ 5% and Machinery @10%. p.a.
- 3) Create Provision for Bad and Doubtful Debts at 5% on Sundry debtors and write off ₹ 1000 for Bad-debts.
- 4) Goods worth ₹ 3000 were sold, but no entry was found in the books of account.
- 5) Outstanding carriage ₹ 500.
- 6) Goods worth ₹ 8000 were purchased on 31st March, 2019 and included in the closing stock but not recorded in the Books of Account.

**IN THE BOOKS OF SAPRE & ATRE**  
**TRADING AND PROFIT & LOSS ACCOUNT**  
**For the year ended 31<sup>st</sup> March, 2019**

**Dr.****Cr.**

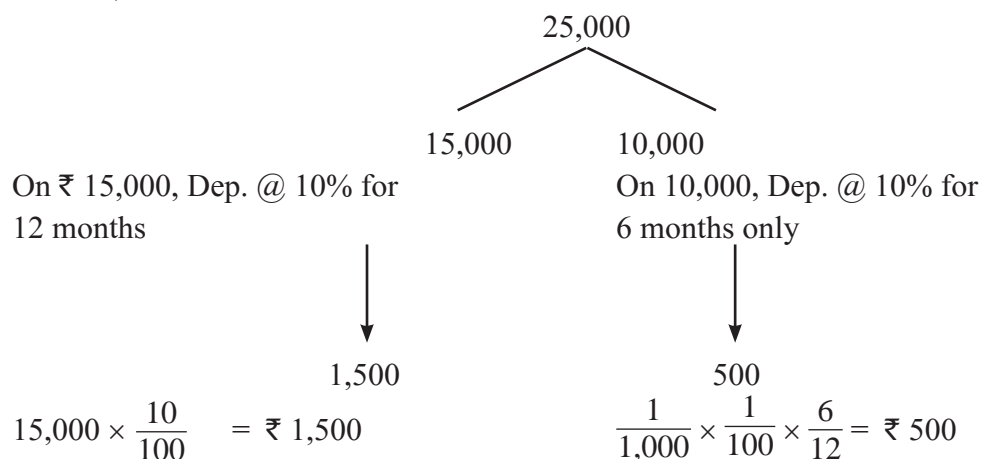
Particulars	Amt ₹	Amt ₹	Particulars	Amt ₹	Amt ₹
To Opening Stock		18,000	By Sales	85,000	
To Purchases	65,000		Add : Unrecorded	3,000	
Add : Unrecorded	8,000		Sales		
Purchases				88,000	
	73,000		Less : Returns	800	87,200
Less : Returns	1,500	71,500			
To Carriage	1,200		By Closing Stock		23,000
Add : Outstanding	500	1,700			
To Gross Profit c/d		19,000			
		<b>1,10,200</b>			<b>1,10,200</b>
To Salaries		3,200	By Gross Profit b/d		19,000
To Rent, Rates & Taxes		1,000			
To Depreciation			By Sundry Income		2,000
Land & Building	500				
Plant & Machinery	2,000	2,500			
To Bad debts (Old)	1,000				
Add : Bad-debts(New)	1,000				
Add : New R.D.D.	2,100				
	4,100				
Less - R.D.D (Old)	400	3,700			
To Advertisement		4,000			
To Net Profit Transferred					
to Capital Accounts :					
Sapre	3,300				
Atre	3,300	6,600			
		<b>21,000</b>			<b>21,000</b>

**BALANCE SHEET**  
**As on 31<sup>st</sup> March, 2019**

Liabilities	Amount ₹	Amount ₹	Assets	Amount ₹	Amount ₹
Capital : Sapre	35,000	35,300	Land & Building	10,000	9,500
Add : Net Profit	3,300		Less : Depreciation 5%	500	
	38,300		Plant & Machinery	25,000	
Less : Drawings	3,000	36,300	Less: Depreciation 10%	2,000	23,000
Capital : Atre	35,000		Sundry Debtors	40,000	
Add : Net Profit	3,300		Add : Unrecorded	3,000	
	38,300	10,000	Sales	43,000	39,900
Less : Drawings	2,000		Less : Bad debts (Now)	1,000	
Providend Fund			Less : R.D.D. 5%	42,000	
Outstanding Expenses :		500		2,100	23,000
Carriage			Closing Stock		
Creditors	23,000		Providend Fund Investment		
Add : Unrecorded	8,000	31,000			18,500
Purchases					
Commission Received in advance					
		800			
		<b>1,13,900</b>			<b>1,13,900</b>

**Working Notes :**

- 1) While calculating Depreciation on Machinery, we have to consider the date of purchase of additional Machine, which is purchased on 1st Oct 2018. (Additional Machine Purchased ₹10,000) So -



So Depreciation is 1,500 + 500 = ₹ 2,000

- 2) Goods worth ₹ 3,000 is unrecorded sales. It will be added in to the Sundry Debtors and in to Sales also and after that Bad Debts (New) will be deducted and on that amount of Debtors 5% R.D.D. will be calculated.

1 <sup>st</sup> effect		2 <sup>nd</sup> effect			
Debtors	40,000	(i) Trading		(ii) Profit & Loss A/c	-
Add : Unrecorded	3,000	A/c Credit Side		To Bad debts	1,000
Sales	43,000	By Sales	85,000	Add : Bad Debts	1,000
Less : Bad-debts(New)	1,000	+Unrecorded Sales	3,000	Add : New R.D.D.	2,100
	42,000		88,000		4,100
Less : R.D.D 5%(New)	2,100	Less : Returns	800	Less : R.D.D. (Old)	400
	<b>39,900</b>		<b>87,200</b>		<b>3,700</b>

- 3) Unrecorded Purchases of ₹ 8,000, This will affects on Purchases and Creditors also - As it is unrecorded, So ₹ 8,000 will be added in to the Purchases (65,000 + 8,000) and also added into the Creditors (23,000 + 8,000)

8. Nene and Kane are Partners, sharing Profits and Losses in the ratio 6:4. From the following Trial Balance and adjustments given below, Prepare, Trading and Profit and Loss Account for the year ending and Balance Sheet as on that date.

**Trial Balance as on 31<sup>st</sup> March, 2019**

Particulars	Debit Amount ₹	Credit Amount ₹
Capital :		
Nene		15,00,000
Kane		10,00,000
Sundry Debtors	4,50,000	
Sundry Creditors		3,00,000
Rent (10 months)	10,000	
Stock (1/4/2018)	5,35,500	
Premises	8,50,000	
Salaries	50,000	
Discount	800	950
Motor Vehicle	3,70,000	
Sales		8,40,500
Purchases	6,40,500	
Wages	10,000	
Office Expenses	20,000	
Bank Overdraft		1,50,000
Returns	5,500	3,500
Providend Fund Investment	8,00,000	
Cash in Hand	40,000	
Providend Fund Contribution	1,00,000	
Providend Fund		2,80,000
Cash at Bank	2,00,000	
Interest on P.F. Investment		42,000
Drawings :		
Nene	20,000	
Kane	15,000	
Bad-debts	3,350	
R.D.D.		3,700
<b>Total</b>	<b>41,20,650</b>	<b>41,20,650</b>

**Adjustments :**

- 1) Closing Stock ₹ 3,60,000.
- 2) Outstanding Wages ₹ 3,000 and Salaries ₹ 2000.
- 3) Depreciate Motor Vehicle @ 5% p.a.
- 4) Write of Bad-debts of ₹ 5,000 and provide for R.D.D at 5% Sundry Debtors.
- 5) Kane withdrew Goods of ₹ 6,000 for his personal use.

**IN THE BOOKS OF NENE AND KANE**  
**TRADING AND PROFIT AND LOSS ACCOUNT**  
**For the year ended 31<sup>st</sup> March, 2019**

**Dr**

**Cr**

Particulars	Amount ₹	Amount ₹	Particulars	Amount ₹	Amount ₹
To Opening Stock		5,35,500	By Sales	8,40,500	
To Purchases	6,40,500		Less : Returns	5,500	8,35,000
Less - Returns	3,500	6,37,000	By Goods		6,000
To Wages	10,000		Withdraw by		
Add : Outstanding Wages	3,000	13,000	Kane for Personal		
To Gross Profit c/d		15,500	Use		
			By Closing Stock		3,60,000
		<b>12,01,000</b>			<b>12,01,000</b>
To Salaries	50,000		By Gross Profit b/d		15,500
Add : Outstanding	2,000	52,000	By Discount		950
To Depreciation on		18,500	By Net Loss		
Motor Vehicle			(Transferred to Capital A/c)		
To Bad debts (Old)	3,350		Nene	1,28,250	
Add : Bad-debts(New)	5,000		Kane	85,500	2,13,750
Add :New R.D.D.	22,250				
	30,600				
Less : R.D.D. (Old)	3,700	26,900			
To Rent	10,000				
Add : Outstanding Rent	2,000	12,000			
To Discount		800			
To Office Expenses		20,000			
To Providend Fund					
Contribution		1,00,000			
		<b>2,30,200</b>			<b>2,30,200</b>



**BALANCE SHEET as on 31<sup>st</sup> March, 2019**

Liabilities	Amt. ₹	Amt. ₹	Assets	Amt. ₹	Amt. ₹
Capital : Nene	15,00,000		Motor Vehicle	3,70,000	
Less : Net Loss	1,28,750		Less : Depreciation 5%	18,500	3,51,500
	13,71,750		Sundry Debtors	4,50,000	
Less : Drawings	20,000	13,51,750	Less : Bad-debts	5,000	
Capital : Kane	10,00,000			4,45,000	
Less - Net Loss	85,500		Less - R.D.D 5%	22,250	4,22,750
	9,14,500		Premises		8,50,000
Less : Drawings	21,000	8,93,500	Providend Fund		
(15,000 + 6,000)			Investment		8,00,000
Sundry Creditors		3,00,000	Cash in Hand		40,000
Outstanding Expenses			Cash at Bank		2,00,000
Wages	3,000		Closing Stock		3,60,000
Salaries	2,000				
Rent	2,000	7,000			
Bank Overdraft		1,50,000			
Providend Fund	2,80,000				
Add : Interest on					
Providend Fund	42,000	3,22,000			
Investment					
		<b>30,24,250</b>			<b>30,24,250</b>

9. Kranti & Sumangala are Partners sharing Profits and Losses in their Capital ratio. From the Trial Balance given below and Adjustments, you are required to prepare Trading and Profit and Loss Account for the year ended 31<sup>st</sup> March, 2019 and Balance Sheet as on that date.

**Trial Balance as on 31<sup>st</sup> March, 2019**

Debit Balance	Amount ₹	Credit Balance	Amount ₹
Stock (1/4/2018)	32,500	Capital :	
Purchases	40,000	Kranti	1,20,000
Sundry Debtors	1,00,000	Sumangala	40,000
Bills Receivable	8,500	Sales	60,000
Wages	3,000	Sundry Creditors	30,000
Investment	32,000	Bills Payable	15,000
Postage	2,700	Commission	325
Insurance	7,500	Purchases Returns	1,000
Plant & Machinery	15,000		
Salaries	4,850		
Prepaid Rent	2,000		
Bad-debts	500		
Furniture	12,500		
Cash in Hand	3,775		
Sales Return	1,500		
	<b>2,66,325</b>		<b>2,66,325</b>

**Adjustments :**

- 1) Closing Stock is valued at Cost Price ₹ 28,000 and Market Price ₹ 32,000.
- 2) Insurance is paid up to 30<sup>th</sup> June 2019.
- 3) Outstanding Expenses - Wages ₹ 800, Salaries ₹ 700.
- 4) Book value of Plant and Machinery is reduced to ₹ 13,000.
- 5) Depreciate Furniture by 5% p.a.
- 6) Provide further Bad debts of ₹ 800.
- 7) Goods of ₹ 3,000 distributed as a free sample.

**IN THE BOOKS OF KRANTI AND SUMANGALA  
TRADING AND PROFIT AND LOSS ACCOUNT**

**For the year ended 31<sup>st</sup> March, 2019**

**Dr.****Cr.**

Particulars	Amount ₹	Amount ₹	Particulars	Amount ₹	Amount ₹
To Opening Stock		32,500	By Sales	60,000	
To Purchases	40,000		Less : Sales Return	1,500	58,500
Less : Purchases Returns	1,000	39,000	By Closing Stock		28,000
To Wages	3,000		By Goods Distributed as Free sample		3,000
Add : Outstanding	800	3,800			
To Gross Profit c/d		14,200			
		<b>89,500</b>			<b>89,500</b>
To Postage		2,700	By Gross Profit b/d		14,200
To Insurance	7,500		By Commission		325
Less : Prepaid Insurance	1,875	5,625			
To Salaries	4,850		By Net Loss		
Add : Outstanding Salary	700	5,550	(Transferred to Capital A/c's)		
To Depreciation on :			Kranti	4,706	
Plant & Machinery	2,000		Sumangala	1,569	6,275
Furniture	625	2,625			
To Bad-debts (Old)	500				
Add : Bad debts (New)	800	1,300			
To Advertisement		3,000			
(Goods distributed)					
		<b>20,800</b>			<b>20,800</b>

**BALANCE SHEET**  
**As on 31<sup>st</sup> March, 2019**

Liabilities	Amount ₹	Amount ₹	Assets	Amount ₹	Amount ₹
Capital : Kranti	1,20,000		Plant & Machinery	15,000	
Less : Net Loss	4,706	1,15,294	Less : Depreciation	2,000	13,000
Capital : Sumangala	40,000		Furniture	12,500	
Less : Net Loss	1,569	38,431	Less : Depreciation 5%	625	11,875
Outstanding Expenses			Sundry Debtors	1,00,000	
Wages	800		Less : Bad Debts	800	99,200
Salaries	700	1,500	Bills Receivable		8,500
Sundry Creditors		30,000	Investment		32,000
Bills Payable		15,000	Cash in Hand		3,775
			Closing Stock		28,000
			Prepaid Insurance		1,875
			Prepaid Rent		2,000
		<b>2,00,225</b>			<b>2,00,225</b>

10. From the following Trial Balance of Riddhi and Siddhi, you are required to prepare Trading and Profit and loss Account for the year ended 31<sup>st</sup> March 2019 and Balance Sheet as on that date after considering the additional information given below.

**Trial Balance as on 31<sup>st</sup> March, 2019**

Particulars	Debit (₹)	Credit (₹)
Stock (1/4/2018)	48,000	
Capital - Riddhi		50,000
Siddhi		30,000
Purchases	22,500	
Wages	800	
Carriage Inward	1,000	
Sundry Creditors		27,600
Bills Payable		20,000
Cash in hand	2,850	
Insurance	1,200	
Sundry Debtors	32,000	
Bank Overdraft		18,000
Carriage outward	900	
Land and Building	42,500	
Furniture	38,700	
Sales		47,000
Purchase Return		500
Sales Return	400	
Rent		1800
Bad-debts	300	
R.D.D		350
Discount	700	1000
Travelling Expenses	250	
Advertisements	4,150	
	<b>1,96,250</b>	<b>1,96,250</b>

**Adjustments :**

- 1) Closing stock ₹ 48,700.
- 2) Outstanding Expenses - Wages ₹ 700 and Travelling Expenses ₹ 200.
- 3) Depreciate Land and Building by 10% and Furniture by 5%.
- 4) Insurance paid in advance ₹ 300.
- 5) Goods of ₹ 3000 destroyed by fire and Insurance company rejected the claim fully.

**IN THE BOOKS OF RIDDHI AND SIDDHI**  
**TRADING AND PROFIT AND LOSS ACCOUNT**  
**For the year ended 31<sup>st</sup> March, 2019**

**Dr.**

**Cr.**

Particulars	Amount ₹	Amount ₹	Particulars	Amount ₹	Amount ₹
To Opening Stock		48,000	By Sales	47,000	
To Purchases	22,500		Less : Sales Return	400	46,600
Less : Purchases Return	500	22,000	By Closing Stock		48,700
To Wages	800		By Good destroyed by fire		3,000
Add : Outstanding Wages	700	1,500			
To Carriage Inward		1,000			
To Gross Profit c/d		25,800			
		<b>98,300</b>			<b>98,300</b>
To Insurance	1,200		By Gross Profit b/d		25,800
Less : Prepaid	300	900	By Rent		1,800
To Depreciation on :			By R.D.D (Old)	350	
Land & Building	4,250		Less : Bad-debts(New)	300	50
Furniture	1,935	6,185	By Discount		1,000
To Travelling Expenses	250				
Add : Outstanding	200	450			
To Loss by fire		3,000			
To Carriage Outward		900			
To Discount		700			
To Advertisement		4,150			
To Net Profit Transferred to Capital A/c					
Riddhi	6,183				
Siddhi	6,182	12,365			
		<b>28,650</b>			<b>28,650</b>

**BALANCE SHEET**  
**As on 31<sup>st</sup> March, 2019**

Liabilities	Amount ₹	Amount ₹	Assets	Amount ₹	Amount ₹
Capital			Land & Building	42,500	
Riddhi	50,000		Less : Depreciation 10%	4,250	38,250
Add : Net Profit	6,183	56,183	Furniture	38,700	
Capital			Less : Depreciation 5%	1,935	36,765
Siddhi	30,000		Prepaid Insurance		300
Add : Net Profit	6,182	36,182	Cash in hand		2,850
Sundry Creditors		27,600	Sundry Debtors		32,000
Outstanding Expenses			Closing Stock		48,700
Wages	700				
Travelling	200	900			
Bill Payable		20,000			
Bank Overdraft		18,000			
		<b>1,58,865</b>			<b>1,58,865</b>

**EXERCISE - 1**

**Q.I Objective Questions :**

**A Select the most appropriate alternatives from the following & rewrite the sentences :**

- When there is no partnership agreement between partners, the division of Profits take place in ..... ratio.
  - Equal
  - capital ratio
  - initial contribution
  - experience and tenure of partners.
- To find out Net Profit or Net Loss of the business ..... account is prepared.
  - Trading
  - Capital
  - Current
  - Profit & Loss
- A ..... is an Intangible Asset.
  - Goodwill
  - Stock
  - Cash
  - Furniture
- In the absence of an agreement, interest on loan advanced by the partner to the firm is allowed at the rate of .....
  - 5%
  - 6%
  - 10%
  - 9%
- Liability of partners in a partnership business is .....
  - Limited
  - Unlimited
  - Limited and Unlimited
  - None of the above

- 6) The Indian Partnership act is in force since .....  
a) 1932                                      b) 1881  
c) 1956                                      d) 1984
- 7) Maximum number of Partners in a firm are ..... according to Companies Act 2013.  
a) 10    b) 25  
c) 20    d) 50

**B Write the word/phrase/term, which can substitute each of the following sentences.**

- 1) Persons who form the partnership firm.
- 2) Amount of cash or goods withdrawn by partners from the business from time to time.
- 3) An association of two or more persons according to Indian partnership Act 1932.
- 4) Act under which partnership firms are regulated.
- 5) Process of entering the name of partnership firm in the register of Registrar.
- 6) Partnership agreement in written form.
- 7) Under this method capital balances of partners remains constant.
- 8) Proportion in which partners share profits.
- 9) Such capital method in which only capital account is maintained for each partner.
- 10) The account to which all adjustment are made when capital is fixed.
- 11) Expenses which are paid before they are due.
- 12) The accounts that are prepared at the end of each accounting year.
- 13) An asset which can be converted into cash easily.
- 14) Order in which fixed assets are recorded first in Balance sheet.
- 15) The account in which selling expenses of business are recorded.
- 16) Debit balance of Trading Account.
- 17) Credit balance of profit & loss account.

**C State whether the following statements are True or False with reasons :**

- 1) Partnership firm is a Non Trading Concern.
- 2) Profit and Loss Account is a Real Account.
- 3) Carriage Inward is carriage on purchases.
- 4) Adjustments are recorded in Partners Current Account in Fixed Capital Method.
- 5) Prepaid expenses are treated as liabilities.
- 6) If Partnership Deed is silent partners share profits and losses in proportion to their capital.
- 7) Balance sheet is an Account.
- 8) Wages paid for installation of Machinery is a Revenue expenditure.
- 9) Income received in advance is a liability.
- 10) R.D.D is created on creditors.
- 11) Depreciation is not calculated on Current Assets.
- 12) Goodwill is an intangible asset.

- 13) Indirect expenses are debited to Trading Account.
- 14) Bank Loan is a current liability.
- 15) Net profit is debit balance of Profit & Loss Account.

**D Find odd one**

1. Wages, Salary, Royalty, Import Duty. .
2. Postage, Stationery Advertising, Purchases.
3. Capital, Bills Receivable, Reserve Fund, Bank overdraft
4. Building, Machinery, Furniture, Bills payable.
5. Discount received, Dividend received, Interest received, Depreciation.

**E Complete the Sentences**

- 1) Partners share profit & losses in ..... ratio in the absence of partnership deed.
- 2) Registration of Partnership is ..... in India.
- 3) Partnership business must be .....
- 4) Liabilities of Partners in Partnership firm is .....
- 5) The balance of Drawings Account of a partner is transferred to his ..... account under the Fixed Capital Method.
- 6) The interest on capital of a partner is debited to ..... account.
- 7) Partners are ..... liable for the debts of the firm.
- 8) Partnership Deed is an ..... of Partnership.
- 9) The withdrawal by partner for personal use from the firm is ..... to his account.
- 10) Commission payable to partner is ..... to the firm.
- 11) When partners adopt Fixed Capital Method then they have to operate ..... Account.
- 12) If partners Current Account shows ..... balance it is shown to the liability side of Balance sheet.
- 13) The expenses paid for trading purpose are known as ..... expenses.
- 14) Cash receipts which are recurring in nature are called as ..... Receipts.
- 15) Return outward are deducted from .....
- 16) Expenses which are paid before due date are called as .....
- 17) Assets which are held in the business for a long period are called .....
- 18) Trading Account is prepared on the basis of ..... expenses.
- 19) When commission is allowed to any partner, it is ..... of the business.
- 20) When goods are distributed as free samples, it is treated as ..... of the business.

**F Answer in one sentence only :**

- 1) What is fluctuating capital?
- 2) Why is Partnership Deed necessary?
- 3) If the Partnership Deed is silent, in which ratio the partners will share the profit or loss?
- 4) What is the Fixed Capital Method?
- 5) How many partners are required to form a Partnership Firm?
- 6) What is Partnership Deed?



- 7) What are the objectives of the Partnership firm?
- 8) What rate of interest is allowed on partner's loan in the absence of an agreement?
- 9) What is the minimum number of Partners in a Partnership firm according to Indian Partnership Act, 1932.
- 10) What is liability of a partner?
- 11) In the absence of Partnership Deed what is the rate of interest on loan advanced by partner to the firm is allowed?
- 12) What do you mean by pre-received income?
- 13) What is the effect of the adjustment of provision for discount on debtors in the final accounts of partnership?
- 14) When is partners Current Account opened ?
- 15) As per which principle of accounting closing stock is valued at cost price or at market price which ever is less?
- 16) What is the provision of Indian Partnership Act with regard to Interest on capital ?
- 17) Why is Balance Sheet prepared?
- 18) Why wages paid for installation of Machinery are not shown in Trading Account?
- 19) What do you mean by indirect incomes?
- 20) Why partners capital is treated as long term liability of business?

**G Do you agree/disagree with the following statements.**

- 1) When Partnership Deed is silent, Partners share profits of the firm according to capital ratio.
- 2) Current account always shows a debit balance.
- 3) It is compulsory to have a partnership agreement in writing.
- 4) Partnership Firm is a trading concern.
- 5) An interest on capital is an expenditure for the partnership firm.
- 6) Partnership is an association of two or more persons.
- 7) Partners are entitled to get Salary or Commission.
- 8) The balance of Capital Account remains constant under Fixed Capital Method.
- 9) The Indian Partnership Act, came into existence in the year 1945.
- 10) Profit and Loss Account reflects the true Financial position.
- 11) Amount borrowed by partner from his business will be debited to Current Account.
- 12) Sold but undispached goods must be part of valuation of closing stock.
- 13) Carriage Inward is a selling and distribution overhead
- 14) Gross profit is an operation profit
- 15) All Direct expenditures are debited to profit and loss account.
- 16) Free distribution of goods is debited to trading account.

**H Calculate the following:**

1. Undervaluation of Closing Stock by 10%. Closing Stock was ₹ 30,000 find out the value of Closing Stock
2. Calculate 12.5% P. A.depreciation on Furniture -
  - a) on ₹ 220,000 for 1 year
  - b) on ₹ 10,000 for 6 months

3. Insurance Premium is paid for the year ending 1<sup>st</sup> September 2019 Amounted to ₹ 1,500. Calculate prepaid insurance assuming that the year ending is 31<sup>st</sup> March 2019.
4. Find out Gross profit / Gross Loss Purchases ₹ 30,000, Sales ₹ 15,000, Carriage Inward ₹ 2,400, Opening Stock ₹ 10,000, Purchase Returns ₹1,000, Closing Stock ₹ 36,000.
5. Borrowed Loan from Bank of Maharashtra ₹ 2,00,000 on 1st October 2019 at rate of 15% p.a. Calculate Interest on Bank Loan for the year 2019-20 assuming that the financial year ends on 31st March, every year.

### Practical Problems

1. Amitbhai and Narendrabhai are in Partnership Sharing Profits and Losses equally. From the following Trial Balance and Adjustments given below, you are required to prepare Trading and Profit and Loss Account for the year ended 31<sup>st</sup> March, 2019 and Balance Sheet as on that date.

**Trial Balance as on 31<sup>st</sup> March, 2019**

Debit Balance	Amount ₹	Credit Balance	Amount ₹
Plant & Machinery	2,80,000	Capital A/c :	
Building	75,000	Amitbhai	3,50,000
Sundry Debtors	28,700	Narendrabhai	3,00,000
Purchases	85,500	Sales	1,80,000
Bad Debts	500	Bills Payable	8,500
Sales Return	2,200	Discount	1,200
10% Govt. Bond	40,000	Creditors	38,500
(Purchased on 1st Oct, 2018)		R.D.D.	2,700
Import Duty	1,800	Bank Loan	15,000
Legal Charges	2,000	Purchases Return	2,000
Motive Power	12,000		
Warehouse Rent	1,800		
Cash in Hand	20,000		
Cash at Bank	70,000		
Advertisement	10,000		
(for 2 years, w.e.f 1st Jan 2019)			
Salaries	3,800		
Rent	1,500		
Drawings :			
Amitbhai	2,400		
Narendrabhai	3,200		
Furniture	1,95,800		
Bills Receivable	20,700		
Free hold Property	41,000		
	<b>8,97,900</b>		<b>8,97,900</b>

**Adjustments :**

- 1) Stock on hand on 31st March 2019 was valued at ₹ 43,000.
  - 2) Uninsured Goods worth ₹ 8,000 were stolen.
  - 3) Create R.D.D at 2% on Sundry debtors.
  - 4) Mr. Patil, our customer become insolvent and could not pay his debts of ₹ 500.
  - 5) Outstanding Expenses - Rent ₹ 800 and Salaries ₹ 300
  - 6) Depreciate Building by ₹ 2,500 and Furniture by ₹ 1,800
- (Ans : G.P. ₹ 1,31,500, N.P. ₹ 1,12,086      Balance Sheet Total ₹ 8,19,586)

- 2 From the following Trial Balance of M/S Mitesh and Mangesh, you are required to prepare Trading and Profit and Loss Account for the year ended 31<sup>st</sup> March, 2019 and Balance Sheet as on that date.

**Trial Balance as on 31<sup>st</sup> March, 2019**

Debit Balance	Amount ₹	Credit Balance	Amount ₹
Stock as on (1/4/2018)	25,000	Sundry Creditors	38,000
Building	48,500	Sales	1,75,000
Carriage	1,780	Capital :	
Factory Insurance	2,700	Mitesh	1,50,000
Postage	1,600	Mangesh	50,000
Bills Receivable	13,700	Outstanding Salaries	2,000
Sundry Debtors	52,200	Bills Payable	18,000
Return Inward	1,600	Return outward	1,800
Purchases	68,900		
Audit fees	1,800	Current A/c :	
Loose tools	32,000	Mitesh	3,000
Manufacturing Expenses	1,820	Mangesh	2,000
Electricity Charges	2,600		
General Expenses	3,400		
Export duty	1,000		
Cash in hand	75,000		
Bank Balance	29,000		
Conveyance	4,100		
Furniture	64,000		
Salaries	2,000		
Rent, Rate & Taxes	3,700		
Drawings :			
Mitesh	1,200		
Mangesh	2,200		
	<b>4,39,800</b>		<b>4,39,800</b>

**Adjustments :**

- 1) Mitesh and Mangesh are sharing Profit and losses in the ratio 3:1.
- 2) Partners are entitled to get Commission @ 1% each on Gross Profit.
- 3) The closing stock is valued at ₹ 23,700.
- 4) Outstanding Expenses - Audit fees ₹ 400; carriage ₹ 600.
- 5) Building is valued at ₹ 46,500.
- 6) Furniture is depreciated by 5%.
- 7) Provide Interest on Partner's capital at 2.5% pa.
- 8) Goods of ₹ 900 were taken by Mangesh for his personal use.
- 9) Write off ₹ 1,000 as Bad Debts and maintain R.D.D at 3% on Sundry Debtors.

(Ans : G.P. ₹ 99,000, N.P. ₹ 63,684    Balance Sheet Total ₹ 3,30,364)

3. From the following Trial Balance and adjustments given below of Reena and Aarti, you are required to prepare Trading and Profit and Loss Account for the year ended 31<sup>st</sup> March, 2019 and Balance Sheet as on that date.

**Trial Balance as on 31<sup>st</sup> March, 2019**

Debit Balance	Amount ₹	Credit Balance	Amount ₹
Purchases	35,500	Sales	58,200
Sundry Debtors	40,000	Sundry Creditors	25,700
Sales Returns	1,000	Purchases Returns	500
Opening Stock	18,100	R.D.D	800
Bad debts	500	Discount	50
Land & Building	25,000	Commission	250
Furniture	20,000	Capital :	
Discount	1,000	Reena	50,000
Royalties	700	Aarti	30,000
Rent	1,900		
Salaries	3,000		
Wages	800		
Insurance	1,500		
Drawings :			
Reena	2,000		
Aarti	1,000		
Cash at Bank	11,500		
Cash in Hand	2,000		
	<b>1,65,500</b>		<b>1,65,500</b>

**Adjustments :**

- 1) Closing Stock valued at ₹ 22,000.
- 2) Write off ₹ 900 for Bad & doubtful debts and create a provision for Reserve for doubtful debts ₹ 1,000.
- 3) Create a provision for Discount on Debtors @ 3% and creditors @ 5%.
- 4) Outstanding Expenses - Wages ₹ 700 and Salaries ₹ 800.
- 5) Insurance is paid for 15 months, w.e.f. 1st April 2018

- 6) Depreciate Land and Building @ 5%
- 7) Reena & Aarti are Sharing Profits & Losses in their Capital Ratio.  
(Ans : G.P. ₹ 23,900, N.P. ₹ 13,592 Balance Sheet Total ₹ 1,16,507)

4. From the following Trial Balance of M/S Meera and Madhav. Prepare Trading and Profit and Loss Account for the year ended 31<sup>st</sup> March, 2019 and Balance Sheet as on that date.

**Trial Balance as on 31<sup>st</sup> March, 2019**

Debit Balance	Amount ₹	Credit Balance	Amount ₹
Stock (1/4/2018)	25,000	Bank overdraft	5,000
Debtors	80,500	Bills Payable	12,500
Bills Receivable	10,000	Creditors	68,000
Purchases	2,08,500	Sales	3,25,000
Returns	1,000	Outstanding Rent	2,000
Carriage Inward	3,000	Unpaid Wages	1,500
Carriage Outwards	4,500	Capital :	
Motor Vehicle	55,000	Meera	75,000
General Expenses	1,800	Madhav	75,000
Export Duty	900	Purchase Return	1000
Advertisement	4,800		
(For 3 years from 1/10/2018)			
Printing & Stationary	1,200		
Drawings :			
Meera	3,500		
Madhav	2,000		
Leasehold Premises	1,10,000		
Cash at Bank	45,000		
Furniture	8,300		
	<b>5,65,000</b>		<b>5,65,000</b>

**Adjustments :**

- Closing Stock is valued at ₹ 32,000.
  - Provide Provision for Doubtful Debts ₹ 2,000.
  - Create reserve for Discount on Debtors @ 3%.
  - Valued of Leasehold Premises on 31<sup>st</sup> March 2019 ₹ 1,00,000.
  - Out standing Expenses Printing & Stationary ₹ 500.
- (Ans : G.P. ₹ 1,20,500, N.P. ₹ 96,445 Balance Sheet Total ₹ 3,30,445)

5. Sucheta & Gayatri are Partners sharing Profit and Losses in the ratio 3:2. From the following Trial Balance and additional information you are required to prepare Trading and Profit and Loss Account for the year ended 31<sup>st</sup> March 2019 and Balance Sheet as on that date.

**Trial Balance as on 31<sup>st</sup> March, 2019**

Particulars	Debit ₹	Credit ₹
Purchases & Sales	65,000	1,85,500
Works Manager's Salary	2,300	
Capital - Sucheta		75,000
- Gayatri		40,000
Opening Stock	18,700	
Debtors & Creditors	47,500	35,000
Wages & Salaries	4,000	
Bills Receivable	22,000	
Bills Payable		27,300
Discount		400
Motive Power	1,350	
Custom duty	1,500	
Interest		1,300
Unproductive Wages	3,000	
Audit fees	2,500	
Rent	1,800	
Conveyance	2,000	
Goodwill	25,000	
Copyrights	20,000	
Building	88,000	
Partner (Sucheta's) Loan		6,150
Investments	40,000	
Cash at Bank	26,000	
	<b>3,70,650</b>	<b>3,70,650</b>

**Adjustments :**

- 1) Stock on 31<sup>st</sup> March 2019 was valued at ₹ 19,700.
  - 2) Goods costing ₹ 3,000 distributed as free sample.
  - 3) Motive Power includes ₹ 500 paid for deposit of Power Meter.
  - 4) Depreciate Building @ 5%.
  - 5) Write of ₹ 2,000 for Bad debts and maintain R.D.D at 3% on Debtors.
  - 6) Bills Receivable included dishonoured of Bill of ₹ 4,000.
- (Ans : G.P. ₹ 1,15,850, N.P. ₹ 96,996 Balance Sheet Total ₹ 2,80,815)**

6. Archana and Prerana are partners, sharing Profits and Losses in the ratio 2:1 with the help of following Trial Balance and Adjustments given below. You are required to prepare Trading and Profit and Loss Account for the year ended 31<sup>st</sup> March 2019 and Balance Sheet as on that date.

**Trial Balance as on 31<sup>st</sup> March, 2019**

Debit Balance	Amount ₹	Credit Balance	Amount ₹
Stock (1/4/2018)	8,560	Capital :	
Patents	2,000	Archana	40,000
Sundry Debtors	18,500	Prerana	20,000
Stock of Stationary	3,000	Other Loans	3,000
Trade Mark	2,000	Reserve fund	1,000
Bills Receivable	6,300	Sundry Creditors	17,500
Electricity charges	1,450	Bills Payable	5,000
Wages	950	Purchase Return	1,000
Heating & Lighting	1,000	R.D.D	500
Trade Expenses	850	Sales	30,200
Sales Return	400	Interest	310
Land & Building	22,000		
Furniture	13,000		
Cash at Bank	5,000		
Investments	7,500		
Drawings :			
Archana	1,200		
Prerana	900		
Baddebts	200		
Purchases	23,700		
	<b>1,18,510</b>		<b>1,18,510</b>

**Adjustments :**

- 1) Stock on 31<sup>st</sup> March 2019 is valued at Cost Price ₹ 12,000 and Market Price ₹ 17,000.
- 2) Our customer Mr. Shekhar failed to pay his dues of ₹ 800.
- 3) 1/8<sup>th</sup> of Patents are to be written off.
- 4) A part of Furniture ₹ 5,000 is purchased on 1st Oct 2018.
- 5) Depreciation on Land & Building 10% and on Furniture 5%.
- 6) Outstanding Expenses Wages ₹ 300 and Electricity Charges ₹ 200.
- 7) Allow Interest on Capital 3%.

(Ans : G.P. ₹ 8,290, N.P. ₹ 825 Balance Sheet Total ₹ 87,525)

7. Satish and Pramod are Partners. Prepare Trading Account and Profit and Loss Account for the year 31<sup>st</sup> March, 2019. You have to find out Gross Profit and Net Profit only.

**Trial Balance as on 31<sup>st</sup> March, 2019**

Debit Balance	Amount ₹	Credit Balance	Amount ₹
Stock (1/4/218)	8,700	Sales	68,000
Purchases	18,300	Dividend	2,000
Wages	1,000	Purchases Return	500
Insurance	800	Sundry Creditors	13,000
Unproductive Wages	1,400	10% Bank Loan	8,000
Warehouse Rent	600	(w.e.f. 1/7/2018)	
Carriage Outward	1,200	Other Receipts	1,000
Sales Return	600		
Export Duty	1,400		
Customs Duty	800		
Sundry Debtors	40,000		
Investments	15,700		
Factory Rent	1,600		
Postage & Telegram	400		
	<b>92,500</b>		<b>92,500</b>

**Adjustments :**

- 1) The Closing Stock is valued at ₹ 15,400.
- 2) Outstanding Wages ₹ 500.
- 3) Create provision for Bad debts ₹ 800 and maintain R.D.D 3% on Sundry Debtors.
- 4) Goods of ₹ 1,800 distributed as a free sample.
- 5) Goods of ₹ 2,000 were sold and delivered on 31<sup>st</sup> March 2019 but no entry is passed in the Books of Account.

(Ans : G.P. ₹ 56,200, N.P. ₹ 48,964 )

8. Nana and Nani are Partners in Partnership Firm sharing Profits and Losses equally. You are required to give effects of Adjustments in Profit & Loss A/c and Balance Sheet with the help of following information.

**Trial Balance as on 31<sup>st</sup> March, 2019**

Debit Balance	Amount ₹	Credit Balance	Amount ₹
Insurance	15,000	Capital A/c	
Land and building	50,000	Nana	50,000
(Addition of ₹ 20,000		Nani	50,000
w.e.f 1st July 2018)		10% Bank loan taken on 1 <sup>st</sup> Oct. 2018	30,000
Salaries	5,000	Interest	1,500
Export Duty	2,500	Bills Payable	8,000
Interest	1,000		
Furniture	40,000		
Debtors	26,000		
	<b>1,39,500</b>		<b>1,39,500</b>



**Adjustments :**

- 1) Gross profit amounted to ₹ 34,500.
- 2) Insurance Paid for 15 months w.e.f. 1.4.2018.
- 3) Depreciate Land and Building at 10% p.a. and Furniture at 5% p.a.
- 4) Write off ₹ 1,000 for Bad Debts and maintain R.D.D at 5% on Sundry Debtors.
- 5) Closing Stock is valued at ₹ 34,500.

(Ans : N.P. ₹ 5,250 Balance Sheet Total ₹ 1,44,750)

9. Sun and Moon are Partners in Partnership Firm sharing Profits and Losses equally. You are required to give effects of Adjustments with the help of following information.

**Trial Balance as on 31<sup>st</sup> March, 2019**

Debit Balance	Amount ₹	Credit Balance	Amount ₹
Land & Building	40,000	Capital A/C	
Furniture	18,000	Sun	33,500
Machinery	40,000	Moon	33,500
(Purchased on 1/7/18)		Current A/c : Sun	6,000
Goodwill	2,000	Sundry Creditors	25,000
Wages	2,000	Bank Overdraft	10,000
Current A/c : Moon	4,000	Reserve Fund	5,000
8% Debentures	8,000	Providend Fund	5,000
(Purchased on 1/10/18)			
Providend Fund Investment	3,500		
Stock of Postal stamps	500		
	<b>1,18,000</b>		<b>1,18,000</b>

**Adjustments :**

- 1) Partners are entitled to get salary ₹ 6,000 p.a. in addition to their profit & loss sharing.
- 2) Depreciation on Land & Building, Furniture & Machinery @ 10%, 5% and 3% p.a. respectively.
- 3) Interest on Capital 5% p.a.
- 4) Closing Stock ₹ 60,743.
- 5) Wages included ₹ 1,000 as advance given to workers.
- 6) Interest due but not paid ₹ 800.
- 7) Total Net Profit amounted to ₹ 38,113.

**You are required to prepare Balance Sheet and Partners Current A/c only.**

(Ans : Balance Sheet Total ₹ 1,68,263, Current A/c Balance Sun ₹ 32,731, Moon ₹ 22,732)

10. Kshipra and Manisha are Partners sharing Profit and Losses in their Capital Ratio. You are required to prepare Trading Account and Profit and Loss Account for the year ended 31st March, 2019 and Balance Sheet as on that date.

**Trial Balance as on 31<sup>st</sup> March, 2019**

Debit Balance	Amount ₹	Credit Balance	Amount ₹
Sundry Debtors	28,000	Sales	1,20,000
Purchases	55,000	Rent	1,800
Furniture	38,500	Sundry Creditors	38,500
Plant & Machinery	60,000	Purchase Return	1,000
Wages	800	Discount	500
Salaries	3,500	Bills Payable	9,000
Discount	800	Capital A/c :	
Bills Receivable	14,400	Kshipra	90,000
Carriage Outward	1,000	Manisha	30,000
Postage	500	Current A/c :	
Sales Return	500	Kshipra	5,000
Cash in Hand	4,000	Manisha	3,000
Cash at Bank	47,000		
Insurance	2,000		
Opening Stock	17,800		
Trade Expenses	1,500		
Ware house Rent	2,500		
Advertisement	1,000		
Building	20,000		
	<b>2,98,800</b>		<b>2,98,800</b>

**Adjustments :**

- 1) Stock on 31<sup>st</sup> March 2019 was at ₹ 37,000.
- 2) Sales includes, sale of machinery of ₹ 2,000, which is sold on 1<sup>st</sup> April 2018.
- 3) Depreciation on fixed assets @ 5%.
- 4) Each Partners is entitled to get Commission at 1% of Gross Profit and Interest on Capital 5% p.a.
- 5) Outstanding Expenses Wages ₹ 200 & Salaries ₹ 500.
- 6) Create provision for doubtful debts @ 3% on Sundry Debtors.

**(Ans : G.P. ₹ 81,700, N.P. ₹ 56,401 Balance Sheet Total ₹ 2,40,235)**

**Activity :**

1. Visit a Partnership firm and study the management of the firm and write a report on it.
2. Write a report on procedure of Registration of Partnership firm under Indian Partnership Act, 1932.
3. Visit Chartered Accountants office and understand the process of finalisation of Partnership Accounts and filing of Income Tax Return

