

## PARTNERSHIP ACCOUNTING

### CHAPTER -1----- PROFIT AND LOSS APPROPRIATION ACCOUNT

**1// INTRODUCTION-----** As per Section 4 of Partnership Act 1932, the term partnership refers to the relation between two or persons who have agreed to share profit of a business carried on by all or any of them acting for all. It has no separate entity .It is formed by the agreement which is referred as Partnership Deed and it is governed by the clauses of the deed or in absence of deed provision u/s 13 of partnership Act 1932.

### **2// ITEMS TO BE CONSIDERED IN P&L APPROPRIATION A/C**

- a. Remuneration to partners-such as, salaries ,Bonus and Commission –It is allowed as per deed.
- b. Interest on capital—It is charged as per deed if any .
- c. Interest on loan-In the absence of the rate of interest on advance given by partners to firm 6% interest on advance will be charged on the amount of advance given as per sec.13 (d) of partnership Act 1932
- d. Interest on drawing is calculated as per clause in the deed .But the period of interest is taken in the following way : drawing from first day of month=6.5 m, for middle of the month=6ms, for the end of each month =5.5 ms.

Capital of the partners may be maintained either Fixed capital or Fluctuating capital method .

### **3// example 1**

A & B are two partners sharing profit and losses in the ratio 4:1 .from the following information prepare a P/L appropriation a/c :-

Detail	common	A	B
Capital		50000	20000
Interest on capital	10 %		
Remuneration (per month)		1000	500
Loan to Firm		50000	
Drawing		1000 (1 <sup>st</sup> day of every month)	500 (end of every month)
Interest on drawing	12% p.a		

Net profit for the year 51500.

**SOL.**

**Profit & Loss Appropriation A/c  
For The Year Ended 31/12/19**

Dr.    Cr.

particulars	Amount	Amount	particulars	Amount	Amount
To Interest on Capital A-10% on 50000 B-10% on 20000	5000 2000	7000	By Net profit Less :interest @6% ½ yr	51500 <u>1500</u>	50000
To partners' remuneration- A-@ 1000 p.m B-@ 500 p.m To partners Capital:- --A 4/5*25110 --B 1/5* 25110	12000 <u>6000</u>  20088 5022		18000	By Interest on Drawing : --A 12000*12*13/100*2*12 -- B 6000*12*11/100*12*2	
		51110			<u>51110</u>

Capital A/c may be drawn any of the methods.

**Partners' Capital A/c**

	<b>A</b>	<b>B</b>		<b>A</b>	<b>B</b>
<b>To Drawing</b>	12000	<b>6000</b>	By Balance b/f	<b>50000</b>	<b>20000</b>
<b>To Inerest on Drawing</b>	780	<b>330</b>	By Interest on Capital	5000	<b>2000</b>
<b>To Balance c/d</b>	74308	<b>26692</b>	By Remuneration	12000	<b>6000</b>
			By Share of profit	20088	<b>5022</b>
	<u>87088</u>	<u>33022</u>		<u>87088</u>	<u>33022</u>

**EXAMPLE-2**      **A & B** two partners sharing profit and losses in the ratio 3:2. On 31/3/20 balance of capital account stood 62000 and 48000 after adjusting profit 20000 and drawing 10000 each. At the end year the following discrepancies were found:-a. closing stock was undervalued by Rs. 6000 b.

outstanding expenses 1000 was ignored c. omitted interest on capital and drawing 6% p.a..

Prepare a revised profit and loss appropriation a/c and single adjustment entry in this connection after proper rectification.

**SOL. Working:-** 1. Corrected net profit- as per p/L A/c.....20000

Add : undervaluation of stock.....+6000

Less : outstanding expenses.....- 1000

Revised corrected profit.....25000

2. Opening capital= closing balance-share of profit-drawing OR

= 62000-12000-10000=**40000**, B=48000-8000-10000=**30000**

3. Interest on capital=A-6%on 40000=**2400**, B=6% on 30000=**1800**

4. Interest on drawing= A-6% on 10000 for ½ yr.=**300** ,B=6% on 10000 for ½ yr=**300**

### Case-1

**Dr.** Profit and loss Appropriation A/c for the year ended 31/3/20 **Cr.**

particulars	Amount	Amount	particulars	Amount	Amount
To Interest on capital (2400+1800)		4200	By P/L Adjustment a/c		25000
To Partners Capital A/c (Divisible profit)	12840		By Interest on Drawing (300+300)		600
A' capital 3/5	8560	21400			
B' capital 2/5					
		25600			25600

### Case-2

Statement of distribution of profit

Items	A- 3/5	B- 2/5

Right to claim : share of adjustment of profit 5000	3000	2000
Add: Interest on capital to be distributed	2400	1800
Less : Interest on drawing	300	300
Total Receivable without any discrepancies	5100	3500
Less: Received due to discrepancies 5100+3500= 8600 in the ratio 3:2	5160	3440
Difference	-60	+60

**Journal**

A' Capital A/c Dr.....60 To B' Capital A/c.....60

**EXAMPLE-3** X,Y and Z ,sharing profits and losses in the ratio 4:3:3 gave you the following information for the year ended 31/3/2020:-

- i. Capital of X,Y & Z Rs. 60000 , 40000, 50000 ii. Salary 1000 p.m iii. Interest on capital 10% pa. iv. Commission 8 % on divisible profit. v. Profit beyond 30000 should be distributed 2:1:1 subject to the minimum guaranteed amount in all of Z was 35000. Vi. Net profit for the year was 100000. Prepare P&L A/c.

**SOL**

Profit & Loss Appropriation A/c

For the year ended 31<sup>st</sup> March 2020

Dr.

Cr.

Particulars	Amount	Amount	Particulars	Amount	Amount
To Interest on Capital A/c:			By P/L A/c (net Profit)		101000
...X 10% on 60000	6000				
...Y 10% on 40000	4000				
...Z 10% on 50000	5000				
To Salary @ 1000p.m		15000			
...X-1000x12	12000				
...Y-1000x12	12000				
...Z-1000x12	12000	36000			
To Commission –Z 8% on (101000-15000-36000)		4000			
To Partners' Capital (Divisible profit)					
X' capital	14000				
Y' Capital	19333				
Z' Capital (as per working)	<u>12667</u>	46000			

		101000			101000
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Working:-Z ' guaranteed amount=share of profit + int.on cap.+commission=35000

i.e Minimum share of profit=35000-5000-12000-4000=14000

Distribution of profit in favour of Z on 1<sup>st</sup> 30000 i.e...3/10 of 30000 = 9000

Profit beyond 30000 i.e 101000-55000= (46000-30000) x1/4 = 4000

Total.....13000

Since guaranteed amount is more than the share of profit 13000 Z will get minimum share of profit=14000

Distribution of profit between A & B

Balance of Profit after Z up to 30000-9000=21000 X--4/7=12000 Y= 3/7=9000

Profit above 30000 i.e 16000-Z'sahre (14000-9000)=11000 or  
X=2/3x11000=7333 Y=1/3x11000=3667

Total X=12000+7333=19333 , Y=9000+3667=12667