

Solution
Class 12 - Accountancy
fundamentals of partnership
Section A

1. **(d)** Interest on Drawings

Explanation: Interest on Drawings is shown on the credit side of Profit & Loss Appropriation A/c.

2. **(c)** A= Rs.11,600, B= Rs.10,500 and C= Rs.2,700

Explanation: Calculation of opening capital of partners during the year:

Opening Capital = Closing Capital + Drawings during the year - Profit during the year.

A = 20,000 + 3,600 - 12,000 = Rs.11,600

B = 18,000 + 4,500 - 12,000 = Rs.10,500

C = 12,000 + 2,700 - 12,000 = Rs. 2,700

3. **(d)** Rs.420

Explanation: Calculation of interest on drawings:

i. When drawings during the year are given but Period of drawing is not mentioned then,

ii. We will take Average Period for drawing = 6 Months

iii. Interest on Drawings will be = Rs. 7,000 $\times \frac{12}{100} \times \frac{6}{12}$ = Rs. 420

4. **(b)**

P and L Appropriation A/c ... Dr.	60,000	
To A's Capital A/c		25,000
To B's Capital A/c		20,000
To C's Capital A/c		15,000

Explanation: Capitals of the partners are : 50,000 : 40,000 : 30,000

Capital Ratio will be: 5 : 4 : 3

Calculation of Distribution of Profit in capital Ratio:

A's share of profit = Rs.60,000 $\times \frac{5}{12}$ = Rs.25,000

B's share of profit = Rs.60,000 $\times \frac{4}{12}$ = Rs.20,000

C's share of profit = Rs.60,000 $\times \frac{3}{12}$ = Rs.15,000

5. **(c)** Profit and Loss A/c Dr.

To Profit and Loss Appropriation A/c

Explanation: Correct Journal Entry is Profit and loss A/c Debit and Profit and loss appropriation account Credit. To find out the net profit all charge items should be deducted and all non-operating incomes should be added to the profit. Net Profit shown by profit and loss account is transferred to the credit side of profit and loss appropriation account.

Journal Entry will be:

P & L A/c ... Dr

To P & L Appropriation A/c

6. **(a)** Interest on Parntners Loan A/c Dr.

To partners Loan A/c

Explanation: Interest on partner's loan is a charge against the profit. It should be shown in the debit side of Profit and Loss account and credit side of Partner's Loan account. In a normal situation Interest on partner's loan should not be shown in the partners capital account or partners current account.

7. **(c)** Communicating the correct information

Explanation: Adjustments in accounts of the partnership firm may be needed whenever something relating to the past period has to be corrected. The main purpose of rectification of past adjustments is to communicate the correct information to the users of the partnership firm.

8. **(d) Current account**
Explanation: When capitals are fixed, we prepare two accounts (i) Partner's fixed capital account and (ii) Partner's Current Account. In the capital account, only capitals are shown with additional capital and withdrawn of capital (if any). In current, all items are recorded except capitals i.e. Interest on capital, profit, drawings, interest on drawings, salary, commission, the share of profit etc.
9. **(d) Profits**
Explanation: Interest on Capital: If the partnership deed is silent on interest on partner's capital, then according to the Partnership Act of 1932, no interest on capital should be given to the partners of the firm. However, interest on capital is given only out of the profits, if mutually agreed by all the partners. If there is loss no interest on capital will be provided unless it is not charged against profit.
10. **(a) Nominal Account**
Explanation: Rent paid to a partner is an expense for the business. All expenses and losses are considered as Nominal account. Rent paid to the partner is a charge against the profit and it will be paid whether there is profit or loss in the business. Rent paid to the partner is expenses hence charged from P&L A/c.
11. **(a) Charge against profit**
Explanation:
 Anything which will reduce the net profit of the firm is called charge. Normally interest on capital is an appropriation; it means it will be paid out of profits and up to the profits only. But in some cases it is paid as a charge, it means whether there is profit or loss, it will be paid. Only in such cases interest on capital is treated as a charge.
12. **(d) Equal share of profits and losses**
Explanation: The essential elements of a partnership firm are at least two persons, there is an agreement between all partners and a partnership agreement is for some business. But it's not necessary that the partners have an equal share of profits. They may have any profit sharing ratio as agreed.
13. **(d) To strengthen the financial position**
Explanation: It is a good decision by the partners to create a reserve. A reserve is created only out of profits when there is sufficient profit in the business. In case of loss, a reserve cannot be created. The main purpose of creating a reserve is to strengthen the financial position of the business firm in future. Reserve is created for the strengthening the business.
14. **(a) Only partnership firm**
Explanation:
- i. Profit and loss appropriation account is prepared only in case of the partnership business. The main purpose of preparing this account to distribute the profits among the partners in the form of appropriations and profits.
 - ii. Other firms i.e. companies and sole proprietorship firms are not required to prepare profit and loss appropriation account. These firms are required to prepare only profit and loss account to calculate profit or loss of business.
15. **(a) A = ₹60,000, B = ₹40,000, C = ₹20,000**
Explanation: In this case there is no deficiency of profit to C:
- i. Share of Profit to A = $1,20,000 \times \frac{3}{6} = \text{Rs.}60,000$
 - ii. Share of Profit to B = $1,20,000 \times \frac{2}{6} = \text{Rs.}40,000$
 - iii. Share of Profit to C = $1,20,000 \times \frac{1}{6} = \text{Rs.}20,000$
- The guaranteed amount is Rs.15,000 but C is getting more than that so there is no deficiency.
16. **(a) ₹6,60,000**
Explanation: R's Commission = $180,000 - 120,000(\text{salary}) = 60,000$
 Net Profit $\times (R/100 + R) = \text{Manager Commission after charging such commission}$
 Net Profit = $60,000 \times (110/10)$
 Net Profit before charging commission and Salary = $60,000 \times 11 = 6,60,000$
17. **(a) Interest on Partner's Loan Account**
Explanation: Entry for interest due on a partner's loan :

Interest on Partners Loan A/c ... Dr.
 To Partner' s Loan A/c
 Interest on partners Loan A/c is debited

18. **(d) Insurance Premium**

Explanation: Insurance Premium paid for the business is a charge against the profit. It means this transaction will reduce the profit of the firm. All charge items are shown in profit and loss account only. That's why Insurance Premium paid for the business is shown in profit and loss account and not in profit and loss appropriation account. It is not an appropriation of profit.

19. **(a) $\frac{\text{rate} \times 5.5}{100 \times 12}$**

Explanation: In the case of drawings, when a fixed amount is withdrawn at the end of the last day of every month, interest in drawings will be calculated as follows:

Step 1. Average Time Period = $\frac{\text{period after 1st installment} + \text{period after last installment}}{2} = \frac{11+0}{2} = \frac{11}{2} = 5.5$

Step 2. Total Drawings $\times \frac{\text{Rate}}{100} \times \frac{5.5}{12}$

20. **(b) ₹1,408.33**

Explanation: When amounts are different for each drawing and dates of drawings are also different, in such a case Product method should be used to calculate the interest on drawings:

Amount (A)	Months (B)	Products (A × B)
6,000	11	66,000
4,000	09	36,000
8,000	06	48,000
3,000	03	9,000
5,000	02	10,000

Interest on drawings Charged During the year = Total products \times Rate of Drawing $\times \frac{1}{12}$
 = Rs.1,69,000 $\times \frac{10}{100} \times \frac{1}{12}$ = Rs.1,408.33

21. **(b) 10,000**

Explanation: Minimum guarantee of profit to a partner means, that partner will not get the less amount than the guarantee amount. If there is any deficiency, it will be borne by the existing partners who have given guarantee. But it does not mean that he will get only guarantee amount if his profit exceeds the limit of guaranteed amount, that will be paid to him. For example, in the above question guaranteed amount of C is Rs. 8,000 but he is getting Rs. 10,000 (Rs. 30,000 $\times \frac{1}{3}$) as per the profit-sharing ratio. So he will get Rs. 10,000 instead of Rs. 8000.

22. **(b) Drawings against capital will reduce the capital**

Explanation: The main difference between drawings against profit and drawings against capital is:

- i. Drawings against capital will reduce the amount of capital but not the profit because it is withdrawn from capital only.
- ii. Drawings against profit will reduce the amount of profit but not the capital.

23. **(a) Drawing**

Explanation: To calculate the interest on capital, we must find out the opening capital first. Sometimes opening capital is not given in the question but closing capital is given. In such a case following formula should be used to find out the opening capital:

Opening Capital = Closing Capital + Drawings during the year - profit during the year.

24. **(d) ₹12,000**

Explanation:

There are two ways to provide commission:

- i. Before charging such commission = Net Profit before the commission $\times \frac{\text{Rate}}{100}$
- ii. After charging such commission = Net profit before commission $\times \frac{\text{Rate}}{100} + \text{Rate}$

In the above case, the commission will be calculated as $1,20,000 \times \frac{10}{100} = 12,000$.

25. (d) ₹14,000

Explanation: Calculation of Interest on Rohit's Capital:

$$1,50,000 \times \frac{8}{100} \times \frac{6}{12} = \text{Rs. } 6,000$$

$$2,00,000 \times \frac{8}{100} \times \frac{6}{12} = \text{Rs. } 8,000$$

Total Interest on Rohit's Capital = 6,000 + 8,000 = Rs.14,000

26. (d) A= ₹30,000, B= ₹22,667, C= ₹23,333 and D= ₹20,000

Explanation:

Distribution of profit in 4:3:3:2 Ratio:

$$\text{A's share of profit} = 96,000 \times \frac{4}{12} = 32,000 - 2,000 = \text{Rs. } 30,000$$

$$\text{B's share of profit} = 96,000 \times \frac{3}{12} = 24,000 - 1,333 = \text{Rs. } 22,667$$

$$\text{C's share of profit} = 96,000 \times \frac{3}{12} = 24,000 - 667 = \text{Rs. } 23,333$$

$$\text{D's share of profit} = 96,000 \times \frac{2}{12} = 16,000 + 4,000 = \text{Rs. } 20,000$$

D's Guaranteed amount is Rs.20,000 but he is getting Rs.16,000 (remaining 20,000 - 16,000 = Rs. 4,000 will be paid by A, B and C in 3:2:1 Ratio), Deficiency is Rs.4,000 will be shared by A, B & C in the ratio of 3:2:1.

$$\text{A's share in deficiency} = 4000 \times \frac{3}{6} = 2,000$$

$$\text{B's share in deficiency} = 4000 \times \frac{2}{6} = 1,333$$

$$\text{C's share in deficiency} = 4000 \times \frac{1}{6} = 667$$

27. (d) ₹12,000

Explanation: Interest on Capital = 120000 × 10/100 = 12,000

28. (b) ₹ 15,000

Explanation: In the absence of a partnership deed, profits are to be shared equally among the partners.

Therefore, Mohit's share of profit will be ₹15,000 (i.e. 30,000 × $\frac{1}{2}$)

29. (c) P = ₹35,000, Q = ₹30,000, R = ₹25,000

Explanation: New Profit Sharing Ratio = 3:2:1

$$\text{P's Share of Profit} = 90,000 \times \frac{3}{6} = 45,000$$

$$\text{Q's Share of Profit} = 90,000 \times \frac{2}{6} = 30,000$$

$$\text{R's Share of Profit} = 90,000 \times \frac{1}{6} = 15,000$$

R should get a minimum profit of rs. 25,000 but he is getting only Rs.15,000, deficiency Rs.10,000 (25,000 - 10,000) will be met by P.

Now P's Share will be = 45,000 - 10,000 = Rs. 35,000

30. (c) Allowed in full irrespective of profit

Explanation: When interest on capital is treated as charge, amount of interest will be paid in full irrespective of profits/losses. In a normal situation, interest on capital is an appropriation; it means it will be paid out of profits and up to the profits only. But in some cases it is paid as a charge, it means whether there is profit or loss, it will be paid. Only in such cases, interest on capital is treated as a charge. if there is loss or profit is less than the amount of interest on capital, interest will be paid full and loss will be bear by a partner in their profit sharing ratio.

31. (b) Irrespective of time period

Explanation: The word per annum (P.a.) is the key element in the calculation of interest on drawings.

When per annum (p.a.) word is given, it means interest on drawings is to be calculated on the time basis or for a particular time period. When word per annum (p.a.) is not given with the rate of interest on drawings, it means interest on drawings is to be calculated for the full year irrespective of time period. Interest on drawing will be calculated for full year. Time will not be taken for calculation of interest on drawing.

32. (c)

N's Current A/c ... Dr.	15,000	
To L's Current A/c		12,000
To M's Current A/c		3,000

Explanation:

Adjustment of amounts will be done as follows:

Amount wrongly taken (2%) L Rs.30,000 M Rs.60,000 N Rs.1,20,000 = Total Rs.2,10,000

Adjust 2,10,000 in 2:3:5 ratio L Rs.42,000 M Rs.63,000 N Rs.1,05,000

L has already taken Rs.30,000 but he should get 42,000, so credit him for Rs.12,000

M has already taken Rs.60,000 but he should get 63,000, so credit him for Rs.3,000

N has already taken Rs.1,20,000 but he should get 1,05,000, so Debit him for Rs.15,000

Entry will be:

L's Current A/c ... Dr.	15000	
To N's Current A/c		12000
To M's Current A/c		3000

33. (a) After calculating Net Profit

Explanation: Profit and Loss Account is prepared after calculating the net profit. Profit and loss appropriation account show the distribution of net profit among the partners in the form of interest on capital, salary, commission and remuneration etc. and transfer of profit to various reserves. Profit and loss appropriation account is prepared after the preparation of profit and loss account. Profit and loss appropriation account show the appropriation of profit of a business. Where the profit of the business is used.

34. (a) Reserve A/c

Explanation: Reserve account should be credited at the time of the creation of a reserve when it is created out of the profit available for appropriations. Reserve is to be shown in the debit side of profit and loss appropriation account and in the liabilities side of the balance sheet. Journal for Reserve:

Profit and Loss Appropriation A/c ... Dr

To Reserve A/c

35. (a) 6 % p.a even if the firm incurs loss

Explanation: 6 % p.a even if the firm incurs loss

36. (a)

X's capital A/c ... Dr.	45,000	
Y's capital A/c ... Dr.	5,000	
To Z's capital A/c		50,000

Explanation: Distribution of profit:

i. Actual distribution of profit in 2:3:5 Ratio = X Rs.30,000; Y Rs.45,000 and Z Rs.75,000

ii. Wrongly distributed in 3:2:1 Ratio = X Rs.75,000; Y Rs.50,000 and Z Rs.25,000

iii. Adjustment : X Dr.45,000; Y Dr.5,000 and Z Cr.50,000.

Entry will be:

X's capital A/c ... Dr.	45,000	
Y's capital A/c ... Dr.	5,000	
To Z's capital A/c		50,000

37. (c) Partnership Deed

Explanation: The partnership is created by an agreement between the parties. The agreement may be in writing or by word of mouth or implied by the conduct of the parties. However, it is always desirable for the partners to have the agreement in writing. The document in writing should contain the important terms of partnership as agreed upon by the partners themselves to avoid any future dispute. So the document in writing containing the terms and conditions as agreed between the partners is called the partnership deed. Partnership deed in writing is evidence in case of disputes.

38. (c) Both All partners and in agreed ratio by all old partners

Explanation: Guarantee of the minimum amount can be given by a single partner, some of the partners or

by all the partners in an agreed ratio. If a guarantee is given by only one partner then it is known as a guarantee by a partner but if the guarantee is given by the firm (all partners) then it is known as a guarantee by the firm. In case of deficiency of profit of partner, then deficiency will be borne by all or any of the partner in the agreed ratio.

39. (c) capitals are fixed

Explanation: Under the 'Fixed Capital' method, current accounts of partners are maintained. All transactions relating to the partners, which include interest on capital and drawings, salary, share of profit or loss etc., are entered in the Partner's Current account.

40. (b) For 6 months

Explanation:

When partnership deed provides for the interest on drawings but dates of withdrawal of drawings are not given, in such a case average time period should be taken as six months.

$$\text{Interest on Drawings} = \text{Total Drawings} \times \frac{\text{Rate}}{100} \times \frac{6}{12}$$

In the absence of a period of drawing, we will take 6 months as average period.

41. (a) R= ₹8,200, S= ₹10,200 and T= ₹7,200

Explanation:

Calculation of Distribution of Profits During the year:

First Rs. 10,000 of profit will be distributed in 30%, 50% and 20% i.e. 3,000; 5,000 and 2,000

Next 15,600 (25,600 - 10,000) in equal ratio i.e. 5,200 each (15,600 × 1/3).

R's Share of Profit = 3,000 + 5,200 = Rs. 8,200

S's Share of Profit = 5,000 + 5,200 = Rs. 10,200

T's Share of Profit = 2,000 + 5,200 = Rs. 7,200

42. (a) ₹1,300

Explanation: In this case, the partner has withdrawn a fixed amount on a fixed date for the full year. To calculate the interest on drawings follows these two steps in this situation:

$$\text{Step 1: Average Time Period} = \frac{\text{Period after 1st installment} + \text{period after last installment}}{2} = \frac{12+1}{2} = \frac{13}{2} = 6.5 \text{ months}$$

$$\text{Step 2: Interest on Drawings} = 24,000 \times \frac{10}{100} \times \frac{6.5}{12} = 1,300$$

43. (d) appropriation out of profits

Explanation: In a normal situation, salary or commission paid to a partner is treated as an appropriation. It means salary or commission is paid only when there is profit and amount of salary or commission cannot be more than the profits. So we can say that in the case of profit, commission or salary to a partner can be provided.

44. (d) 10,000

Explanation: Rent paid to a partner is a charge against the profit. It means it will be paid whether there is profit or loss in the business. In this case rent payable to the partners is Rs.10,000. This rent is a charge against profit. Hence should be paid to Partner.

45. (b) Only B

Explanation: Minor can be admitted for profit shares only.

46. (a) Rs.900

Explanation: When drawings are made at the end of each quarter for the same amount, use these two steps to find out the interest on drawings:

$$\text{Step 1: Average Time Period} = \frac{\text{period after 1st installment} + \text{period after last installment}}{2} = \frac{9+0}{2} = \frac{9}{2} = 4.5 \text{ months}$$

$$\text{Step 2: Interest on Drawings Charged during the year} = 24,000 \times \frac{10}{100} \times \frac{4.5}{12} = \text{Rs. } 900$$

47. (d) Partners who gave the guarantee

Explanation: Deficiency will be born by partners who have given Guarantee.

48. (b) Fixed capital account can never show a negative balance

Explanation: When capitals of the partners are fixed, two accounts are prepared at that time i.e. Partners Fixed capital account and Partners Current account. Partners fixed capital account shows only capital balance and additional capital or withdrawal of some part of capital permanently (if any). That's why this account cannot show a negative balance. This account shows an only positive balance.

49. **(d)** Opening capital

Explanation: Calculation of interest on capital should be always done on the opening capital first and after that on additional capital introduced (if any) by the partner during the year. Interest on opening capital and additional capital should be shown in a combined manner as total interest on capital during the year.

Interest on capital calculation = Amount of capital at the beginning $\times \frac{\text{Rate of interest}}{100}$ + amount of additional capital introduced $\times \frac{\text{Rate of interest}}{100} \times \frac{\text{period}}{12}$

50. **(b)** Liabilities side

Explanation: Liabilities side is also known as credit side, all credit balances are shown in the balance sheet (personal accounts). This is the only reason that the credit balance of capital accounts and current accounts of the partners are shown in the liabilities side of the balance sheet. and if there is debit balance it will be shown on the Assets side.

Section B

51. State True or False:

a) **(a)** True

Explanation: Interest on drawings = Total amount of drawings \times Rate of interest \times Average period / 12

b) **(b)** False

Explanation: Unless and until the partnership deed specifically provides for the entitlement of salary, no partner can receive any amount as remuneration of doing work.

c) **(b)** False

Explanation: False

d) **(a)** True

Explanation: True

e) **(b)** False

Explanation: Partnership agreement may be oral or written. It is not compulsory to form a partnership agreement in writing under the Partnership Act, 1932. However, a written partnership deed is desirable as it helps in avoiding disputes and misunderstandings among the partners related to business.

Section C

52. (a) - (iii), (b) - (iv), (c) - (i), (d) - (iv)

53. (a) - (ii), (b) - (iii), (c) - (iv), (d) - (i)

54. (a) - (ii), (b) - (iii), (c) - (iv), (d) - (i)

55. (a) - (iii), (b) - (iv), (c) - (i), (d) - (iv)

56. (a) - (ii), (b) - (iii), (c) - (iv), (d) - (i)