LATEST EDITION

CBSE

QUESTION & CONCEPT BANK

Chapter-wise & Topic-wise

CLASS 12

Chapter-wise
CONCEPT MAPS

Definitions & Summarized Concepts
NCERT & SMART SNAPS

Important Questions & MCQ's
POWER PRACTICE

ACCOUNTANCY

CONTENTS

Chapter 1

FUNDAMENTALS OF PARTNERSHIP

LEARNING OBJECTIVES

- Introduction to Accounting for Partnership
- Partnership Deed and Provisions of the Indian Partnership Act 1932
- Accounting Treatment for Interest on Partner's Capital
- Interest on Drawing in case of Partnership
- Accounting Treatment of Partner's Loan, Rent Paid to a Partner, Commission Payable to a Partner, Manager's Commission on Net Profit
- Introduction to Profit and Loss Appropriation Account
- Capital Accounts of the Partner: Fixed Capital Method and Fluctuating Capital Method
- Past Adjustments
- Guarantee of Minimum Profit to a Partner

CONCEPT MAP-1

PARTNERSHIP

Meaning

- Section 4 of the Indian Partnership Act 1932 defines partnership as the 'relation between persons who have agreed to share the profits of a business carried on by all or any of them acting for all'.
- Persons who have entered into partnership with one another are individually called 'partners' and collectively called 'firm'

In Absence of Deed

(a) Profit and losses will be shared equally by all partners.
(b) The interest on loan advanced by partner to the firm will be allowed @6% per annum.
(c) No interest on capital and remuneration will be allowed to partners.
(d) No interest on drawings will be charged from partners.

Partnership Deed

- Written agreement among partners, which may or may not be registered.
- The deed should be properly drafted and prepared as per the provisions of the 'Stamp Act, 1899'

Rights of Partners

- To participate in business activities.
- To share profits and losses.
- To be consulted.
- To inspect the accounts of the firm.
- To deny admission of a new partner.
- To retire.
- To enjoy joint ownership of the partnership property.
- To receive Interest on the Loan
- To be Indemnified

Nature

- Minimum 2 and Maximum 50
- Agreement (written or oral)
- Lawful Business
- Profit Sharing
- Unlimited Liability
- Mutual Agency

Duties of Partners

- To conduct the business diligently.
- To be faithful.
- Not to be engaged in any kind of competitive business.
- To indemnify for the losses caused due to his negligence or breach of the agreement.
- To act in accordance with the clauses of the Partnership Deed if any.
- Not to assign his interest in the business to any other person.

CONCEPT MAP-2

SPECIAL ASPECTS OF PARTNERSHIP

Capital

- **Fixed Capital Method:** Under this method, the capital invested at the beginning remains constant unless additional capital is introduced or capital is withdrawn. So, a separate account called a Current Account is prepared to treat the appropriations, drawings against profit and interest on drawings.
- **Fluctuating Capital Method:** Under this method, the capital of the partners changes throughout the year, and hence no separate account is needed. All the items are recorded in a single Capital Account.

Partner's Loan

It is a charge against profit and thus it is deducted from the given profit before transferring the profit to P&L Appropriation A/c.

Drawings

- The drawings can be **against capital** or **against profit**.
- Interest is charged on drawings against profit only.

Rent Paid to Partner

It is a charge against profit and thus is deducted from the given profit before transferring the profit to P&L Appropriation A/c.

Past Adjustment

When the profits are wrongly distributed among the partners, it becomes necessary to adjust this through the capital accounts. For this we need make past adjustment entries, in which the partner who has wrongly gained (received in excess to the amount entitled) is debited and other is credited.

Guarantee of Minimum Profit to a Partner

It means that a partner has been assured or guaranteed to receive a minimum amount of profit. If in any year, the actual share of the profit of the guaranteed partner is less than the Guaranteed Amount, then the deficiency shall be covered by the partner(s) who has/have given the guarantee.

Manager's Commission

It is a charge against profit and thus is deducted from the given profit before transferring the profit to P&L Appropriation A/c. It is calculated same as partner's commission.

Commission Payable to a Partner

It is an appropriation of profit is debited to P&L Appropriation A/c.

SHORT NOTES

Partnership

"Partnership is the relation between persons who have agreed to share the profits of a business carried on by all or any of them acting for all." **- Section 4 of Indian Partnership Act, 1932.**

"Partnership is an agreement between persons having the contractual capacity to carry on a business in common with a view to private gain." **- L. H. Haney.**

Persons who have entered into partnership with one another are individually called '**partners**' and collectively called '**firm**'.

Legal Status of a Firm

A partnership firm **does not have a separate legal identity in the eyes of law**. Thus,

- A firm can neither sue nor be sued in its own name.
- A firm cannot hold any property in its own name.
- Assets of the firm belong to the partners jointly.
- All partners either jointly or individually bear the liabilities of the firm.

IMPORTANT: However, for the purpose of accounting, the business entity concept is used and thus all the entries are made from the firm's point of view. Hence, for accounting purpose, partners are different from partnership firm.

Partnership Deed

A partnership deed is a **written document** among the partners related to the terms and conditions of the partnership business. A document that contains all the terms of the partnership as agreed to by the partners is called a Partnership Deed or **Article of Partnership**. It is a document signed by all the partners, after which it should be **duly stamped under the Indian Stamp Act, 1899,** which makes it a legal document. A written deed serves as a piece of **evidence in the Court of Law**.

Minor as a Partner

"Section 30 of the Indian Partnership Act 1932, lays down that a minor cannot become a partner, though, with the consent of the adult partners, he may be admitted to the benefits of partnership. Any document which goes beyond this section cannot be regarded as valid for the purpose of registration."

Rights of Minor as a partner

- He is entitled to a share the profits of the firm.
- He is not personally liable for any actions of the firm.
- He can inspect the firm's books of accounts

On Attaining Majority

If a minor who has been admitted to the benefits of partnership attains the age of majority, they have six months to decide whether to become a partner or sever their connection. If they don't make a decision within this period, they are considered a partner with unlimited liability.

Interest on Capital

Case	Interest on Capital
When it is an appropriation	❍ In case of sufficient profit full interest is allowed on capital. ❍ In case of insufficient profit, the available profit is distributed in capital ratio. ❍ In case of loss, no interest is allowed on capital.
When it is a charge	Full interest on capital is allowed whether the profit is sufficient or not and even in case of loss.

DIFFERENCES

1. Fixed Capital Method and Fluctuating Capital Method

Feature	Fixed Capital Method	Fluctuating Capital Method
Number of Accounts	Two (Capital and Current)	One (Capital)
Capital Account Balance	Usually remains constant unless additional capital is introduced or withdrawn	Changes with every transaction related to capital
Transactions Recorded	Profits/losses, salary, interest, etc., are recorded in the Current Account	Profits/losses, salary, interest, etc., are recorded in the Capital Account
Complexity	More complex to maintain	Simpler to maintain
Agreement	Requires explicit mention in the partnership deed	Generally not specified in the partnership deed
Capital Balance	Under this method, the capital account always has a credit balance	Under this method, the capital account may have a credit or debit balance.

2. Difference between Capital Account and Current Account

Feature	Capital Account	Current Account
Purpose	Long-term investment	Day-to-day financial transactions
Transactions	Initial capital, additional capital, permanent withdrawals	Profits, drawings, interest on capital, etc.
Balance	Typically fixed, unless there are permanent changes to capital	Fluctuates based on transactions within the accounting period
Impact on Balance Sheet	Shown on the liabilities side of the balance sheet, reflecting the partner's equity	Can be Shown on the liabilities or asset side of the balance

3. Drawings Against Capital and Drawings Against Profit

Basis	Drawing against Profit	Drawing against Capital
Meaning	Drawing against profit means the amount withdrawn by the partners for personal use is a part of the profit earned by the firm in its ordinary course of business operation.	Drawing against capital means the amount withdrawn by the partners for personal use in excess of the profit amount Such drawings are considered to be part of the capital.
Effect on Capital	No effect on capital.	The capital of the partners is deducted/ reduced by the amount of drawing.
Effect on Interest on Capital	It is not considered to calculate Interest on Capital.	It is considered to calculate Interest on Capital.
Charging Interest on Drawings	Under such a situation Interest on drawings is charged on the amount of drawings.	Interest on drawings is not charged separately as the amount of drawing is deducted directly from the capital and reduces the amount of Interest on Capital.

4. Profit and Loss Account and Profit and Loss Appropriation Account

Basis	Profit and Loss Account	Profit and Loss Appropriation Account
Basis	Profit and Loss Account is not prepared on the basis of Partnership Deed, except for interest on loan from partners.	Profit and Loss Appropriation Account is prepared on the basis of the Partnership Deed.
Principle	Profit and Loss Account follows matching principle, i.e., matching revenue against expenses.	Profit and Loss Appropriation Account does not follow matching principle.
Recordings	Items debited to Profit and Loss Account is charge against profit.	Items debited to Profit and Loss Appropriation Account is appropriation of profit.
Need to Prepare the Account	Profit and Loss Account is prepared to ascertain the net profit or net loss of the organization for the accounting year.	Profit and Loss Appropriation Account is prepared to appropriate the net profit.
Prepared After	Profit and Loss Account is prepared after trading account.	Profit and Loss Appropriation Account is prepared after Profit and Loss Account.

FORMATS

1. Profit and Loss Appropriation Account

Dr. Cr.

Particulars		Amount (₹)	Particulars		Amount (₹)
To Interest on Capitals:			By Profit and Loss A/c (Net Profit)		×××
A	×××	×××	By Interest on Drawings:		×××
B	×××		A	×××	
To Partners' Salary		×××	B	×××	
To Partners' Commission		×××			
To Reserve		×××			
To Profit transferred to:		×××			
A's Capital/Current A/c	×××				
B's Capital/Current A/c	×××				
Total		×××	**Total**		×××

* In case of Net Loss, it will be shown on the debit side

2. Capital Account

2.1 When capitals are fixed

Dr. Cr.

Particulars	A (₹)	B (₹)	Particulars	A (₹)	B (₹)
To Cash/Bank A/c (Permanent withdrawal of Capital)	×××	×××	By Balance b/d (Opening Balance)	×××	×××
			By Cash/Bank A/c (Additional Capital)	×××	×××
To Balance c/d (Closing Balance)	×××	×××			
	×××	×××		×××	×××

Dr. **Current Account** Cr.

Particulars	A (₹)	B (₹)	Particulars	A (₹)	B (₹)
To Balance b/d **	×××	×××	By Balance b/d**	×××	×××
To Drawings	×××	×××	By Interest on Capital	×××	×××
To Interest on Drawings	×××	×××	By Salary	×××	×××
To Profit & Loss Appropriation A/c (Share of loss)	×××	×××	By Commission	×××	×××
			By Profit & Loss Appropriation A/c (Share of profit)	×××	×××
To Balance c/d**	×××	×××	By Balance c/d**	×××	×××
	×××	×××		×××	×××

2.2 When capitals are fluctuating

Dr. **Capital Account** Cr.

Particulars	A (₹)	B (₹)	Particulars	A (₹)	B (₹)
To Drawings	×××	×××	By Balance b/d (Opening Balance)	×××	×××
To Interest on Drawings	×××	×××	By Cash/Bank A/c (Additional Capital)	×××	×××
To Profit & Loss Appropriation A/c (Share of loss)	×××	×××	By Interest on Capital	×××	×××
			By Salary		
			By Commission	×××	×××
To Balance c/d (Closing Balance)	×××	×××	By Profit & Loss Appropriation A/c (Share of profit)	×××	×××
	×××	×××		×××	×××

JOURNAL ENTRIES

1. Transfer of the balance of Profit and Loss Account to Profit and Loss Appropriation Account:

(*a*) If Profit and Loss Account shows a credit balance (net profit):

Profit and Loss A/c	Dr.
To Profit and Loss Appropriation A/c	

(*b*) If Profit and Loss Account shows a debit balance (net loss)

Profit and Loss Appropriation A/c	Dr.
To Profit and Loss A/c	

2. Interest on Capital:

(*a*) For Allowing interest on capital:

Interest on Capital A/c	Dr.
To Partner's Capital/Current A/cs (individually)	

(*b*) For transferring interest on capital to Profit and Loss Appropriation Account:

Profit and Loss Appropriation A/c	Dr.
To Interest on Capital A/c	

3. Interest on Drawings:

(*a*) For charging interest on drawings to partners' capital accounts:

Partner's Capital/Current A/c's (individually)	Dr.
To Interest on Drawings A/c	

(*b*) For transferring interest on drawings to Profit and Loss Appropriation Account:

Interest on Drawings A/c	Dr.
To Profit and Loss Appropriation A/c	

4. Partner's Salary:

(*a*) For Allowing partner's salary to partner's capital account:

Salary to Partner A/c	Dr.
To Partner's Capital/Current A/c's (individually)	

(*b*) For transferring partner's salary to Profit and Loss Appropriation Account:

Profit and Loss Appropriation A/c	Dr.
To Salary to Partner's A/c	

5. Partner's Commission:

(*a*) For crediting commission allowed to a partner, to partner's capital account:

Commission to Partner A/c	Dr.
To Partner's Capital/Current A/c's (individually)	

(*b*) For transferring commission allowed to partners to Profit and Loss Appropriation Account.

Profit and Loss Appropriation A/c	Dr.
To Commission to Partners Capital/Current A/c	

6. Share of Profit or Loss after appropriations:

(*a*) If Profit:

Profit and Loss Appropriation A/c	Dr.
To Partner's Capital/Current A/c's (individually)	

(*b*) If Loss:

Partner's Capital/Current A/c (individually)	Dr.
To Profit and Loss Appropriation A/c	

IT'S TIME FOR EXERCISES

For the correct answers of this test, scan this QR code

Multiple Choice Questions

1. Eliza, Fenn and Garry were partners in a firm sharing profits and losses in the ratio of 4:3:1. Fenn was guaranteed ₹25,000 as his share in the profits. Any deficiency arising on that account was to be met by Eliza. The firm earned a profit of ₹80,000 for the year ended 31 March. 2024. The amount of profit credited to Fenn's capital account will be:

   (*a*) ₹30,000 (*b*) ₹40,000
   (*c*) ₹25,000 (*d*) ₹10,000

2. Nandita and Prabha were partners in a firm. Nandita withdrew ₹3,00,000 during the year for personal use. The partnership deed provides for charging interest on drawings @ 10% p.a. Interest on Nandita's drawings for the year ended 31st March, 2024 will be:

   (*a*) ₹9,000 (*b*) ₹30,000
   (*c*) ₹18,000 (*d*) ₹15,000

3. Radhika, Mehar and Shubha were partners in a firm sharing profits and losses in the ratio of 9 : 8 : 7. If Radhika's share of profit at the end of the year amounted to ₹5,40,000, Shubha's share of profit will be:

   (*a*) ₹5,40,000 (*b*) ₹4,80,000
   (*c*) ₹60,000 (*d*) ₹4,20,000

4. Hina and Neena are partners in a firm. Neena withdrew ₹10,000 per month at the beginning of each month during the year ended 31st March, 2022. Interest on drawings was to be charged @ 6% per annum. Interest on Neena's drawings for the year ended 31st March, 2022 will be:

   (*a*) ₹3,900 (*b*) ₹325
   (*c*) ₹3,600 (*d*) ₹3,300

5. Vibha and Asha are partners in a firm. Asha withdrew ₹1,000 at the end of each quarter during the year ended 31st March, 2022. Interest on drawings will be calculated for an average period of:

   (*a*) 6 months (*b*) 4.5 months
   (*c*) 7.5 months (*d*) 6.5 months

6. Aman and Chaman are partners in a firm. On 1st July, 2021 Aman advanced a loan of ₹6,00,000 to the firm. There is no partnership deed. On 31st March, 2022, Aman was entitled to get the following amount as interest on loan:

   (*a*) ₹36,000 (*b*) ₹18,000
   (*c*) ₹9,000 (*d*) ₹27,000

7. 'A' and 'B' were partners in a firm sharing profits and losses in the ratio of 7 : 1. 'A' withdrew a fixed amount of ₹12,000 at the beginning of each quarter. Interest on drawings is charged @ 6% p.a. The journal entry for charging interest on drawings at the end of the year will be:

   (*a*) Interest on drawings A/c Dr. ₹1,800
   To A's Capital A/c ₹1,800
   (*b*) Interest on drawings A/c Dr. ₹1,800
   To A's Current A/c ₹1,800
   (*c*) A's Capital A/c Dr. ₹1,800
   To Interest on drawings A/c ₹1,800
   (*d*) Profit and Loss Appropriation A/c Dr. ₹1,800
   To Interest on drawings A/c ₹1,800

8. Ram and Mohan were partners with fixed capitals of ₹3,00,000 and ₹2,00,000 respectively. As per their partnership deed, interest on capital was allowed @ 10% p.a. Net profit for the year ended 31st March, 2022 was ₹30,000. The amount of interest on capital was credited to each partner's current account for the year ended 31st March, 2022 was:

   (*a*) Ram ₹30,000 and Mohan ₹20,000 (*b*) Ram ₹20,000 and Mohan ₹10,000
   (*c*) Ram ₹18,000 and Mohan ₹12,000 (*d*) Ram ₹30,000 and Mohan Nil

20. Josh and Jeevan were partners in a firm. During the year ended 31.03.2022 Jeevan withdrew ₹5,000 per month starting from 30.06.2021. The partnership deed provided that interest on drawings will be charged @ 12% per annum. The average number of months for which interest on Jeevan's total drawings will be charged is:
(*a*) 6 months
(*b*) 6.5 months
(*c*) 4.5 months
(*d*) 5 months

21. B and D were partners. According to the provisions of partnership deed, interest on B's capital for the year ended 31.03.2022 was calculated at ₹4,000. The necessary journal entry for transferring interest on B's capital to Profit and Loss Appropriation Account will be:
(*a*) Profit and Loss Appropriation A/c Dr.
To B's Capital A/c
(*b*) Profit and Loss Appropriation A/c Dr
To Interest on B's Capital A/c
(*c*) Interest on B's Capital A/c Dr.
To Profit and Loss Appropriation A/c
(*d*) Profit and Loss Appropriation A/c Dr.
To B's Current A/c

22. K and L were partners in a firm. Their partnership deed provided that interest on partner's drawings will be charged @ 12% per annum. Interest on L's drawings for the year ended 31.03.2022 was calculated at ₹900. The necessary journal entry for charging interest on L's drawings will be:
(*a*) Profit and Loss Appropriation A/c Dr. 900
To Interest on Drawings A/c 900
(*b*) Interest on Drawings A/c Dr. 900
To Profit and Loss Appropriation A/c 900
(*c*) L's Capital/Current A/c Dr. 900
To Interest on Drawings A/c 900
(*d*) Interest on Drawings A/c Dr. 900
To Partner's Capital/Current A/c 900

23. Partnership agreement can be:
(*a*) Only Oral
(*b*) Only Written
(*c*) Oral or Written
(*d*) None of these

24. The relationship of partners with the firm is of:
(*a*) Agent
(*b*) Employee
(*c*) Servant
(*d*) Principal

25. Which of the following statements is NOT true for fixed capital account?
(*a*) The capital balance remains unchanged unless there is any additional capital or permanent withdrawal.
(*b*) The capital account always shows a credit balance.
(*c*) All adjustments regarding appropriation is shown in current account.
(*d*) The drawings against capital as well as against profit is debited to capital account.

Assertion-Reason Based Questions

Instruction: *Choose the correct answer out of the following in the questions given below:*
(a) *Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A).*
(b) *Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).*
(c) *Assertion (A) is true, but Reason (R) is false.*
(d) *Both Assertion (A) and Reason (R) are false.*

1. **Assertion (A):** The maximum number of partners in a partnership firm is 50.
Reason (R): By virtue of the Companies Act 2013, the Central Government is empowered to prescribe maximum number of partners in a firm. The Central Government has prescribed the maximum number of partners in a firm to be 50.

2. **Assertion (A):** Under the fluctuating capital method, the balance in the capital account fluctuates from time to time.
Reason (R): Under the fluctuating capital method, all the adjustments such as share of profit and loss, interest on capital, drawings, interest on drawings etc. are recorded directly in the capital accounts of the partner

3. **Assertion (A):** Interest on partners' loan is debited to Profit and Loss Account.
Reason (R): Interest on partners' loan is a charge against profits.

4. **Assertion (A):** Partnership is the relation between persons who have agreed to share the profits of the business carried on by all or any of them acting for all.
Reason (R): If a partner carries on any business of the same nature and competing with that of the firm, he/she shall account for and pay to the firm all profit made by him/her in that business.

5. **Assertion (A):** Rent paid to partner is deducted from Net Profit before making any appropriation.
Reason (R): Rent paid to a partner is a charge against profit.

Case Based Questions

1. Kavita, Savita and Madhu were partners in a firm with capitals of ₹6,00,000, ₹4,00,000 and ₹2,00,000 respectively. After providing interest on capital @10% p.a., the profits are divisible as follows: Kavita $\frac{1}{2}$, Savita $\frac{1}{3}$ and Madhu $\frac{1}{6}$. Kavita personally guaranteed that Savita's share of profit after charging interest on capital will never be less than ₹1,00,000 in any year. The profit for the year ending 31st March, 2022 amounted to ₹3,00,000 before providing interest on capital.

(*i*) The deficiency in Savita's share is of:

(*a*) ₹40,000
(*b*) ₹70,000
(*c*) ₹20,000
(*d*) ₹10,000

(*ii*) The total profits of the firm after adjustment of guaranteed amount will be distributed between the partners as:

(*a*) Kavita ₹60,000, Savita ₹40,000 and Madhu ₹20,000
(*b*) Kavita ₹50,000, Savita ₹1,00,000 and Madhu ₹30,000
(*c*) Kavita ₹60,000, Savita ₹90,000 and Madhu ₹30,000
(*d*) Kavita ₹60,000, Savita ₹1,00,000 and Madhu ₹20,000

2. Rudra, Dev and Shiv were partners in a firm sharing profits in the ratio of 5 : 3 : 2. Their fixed capitals were ₹6,00,000, ₹4,00,000 and ₹2,00,000 respectively. Besides his capital Shiv had given a loan of ₹75,000 to the firm. Their partnership deed provided for the following:

(*a*) Interest on capital @ 9% p.a.
(*b*) Interest on partner's drawings @ 12% p.a.
(*c*) Salary to Rudra ₹30,000 per month and to Dev ₹40,000 per quarter.
(*d*) Interest on Shiv's loan @ 9% p.a.

During the year Rudra withdrew ₹50,000 at the end of each quarter; Dev withdrew ₹50,000 at the beginning of each half year and Shiv withdrew ₹70,000 at the end of each half year. The profit of the firm for the year ended 31-3-2022 before allowing interest on Shiv's loan was ₹7,06,750.

(*i*) How much amount of net profit will be transferred to Profit and Loss Appropriation A/c?

(*a*) ₹7,06,750
(*b*) ₹7,02,250
(*c*) ₹7,00,000
(*d*) ₹7,13,000

(*ii*) What will be the amount of interest on drawings of the partners?

(*a*) Rudra ₹2,250; Dev ₹4,500 and Shiv ₹2,100
(*b*) Rudra ₹9,000; Dev ₹9,000 and Shiv ₹4,200
(*c*) Rudra ₹4,500; Dev ₹4,500 and Shiv ₹2,100
(*d*) Rudra ₹24,000; Dev₹12,000 and Shiv ₹16,800

3. Anu, Charu and Divya are partners sharing profits and losses in the ratio of 2 : 1 : 2. Their capitals were ₹5,00,000, ₹3,00,000 and ₹2,00,000 respectively. Anu personally guaranteed that in any year, Divya's share of profit after allowing interest on capital to all partners @ 5% p.a. would not be less than ₹75,000. The profit for the year ending 31st March, 2022 amounted to ₹2,00,000.

(*i*) Divya's amount of guarantee is short by the following amount:

(*a*) ₹75,000
(*b*) ₹5,000
(*c*) ₹15,000
(*d*) ₹20,000

(*ii*) The final amount of profit distributed among the partners after adjustment of guaranteed amount will be:

(*a*) Anu ₹50,000; Charu ₹25,000; Divya ₹75,000
(*b*) Anu ₹55,000; Charu ₹30,000; Divya ₹65,000
(*c*) Anu ₹57,000; Charu ₹28,000; Divya ₹65,000
(*d*) Anu ₹45,000; Charu ₹30,000; Divya ₹75,000

4. Keshav, Krishna and Murari were in partnership sharing profits and losses in the ratio of 3 : 2 : 1. Their fixed capitals were : ₹12,00,000, ₹10,00,000 and ₹8,00,000 respectively. It was agreed that interest on capital will be allowed at 10% per annum. Partners were entitled to salaries as follows: Keshav ₹5,000 per month and Krishna ₹3,000 per quarter. Profit of the firm for the year ended 31st March, 2022 was ₹6,72,000.

(*i*) Amount credited to the Partners' Current Accounts on account of interest on capital and salary was:

(*a*) Keshav ₹1,20,000, Krishna ₹1,00,000 and Murari ₹80,000

(*b*) Keshav ₹1,80,000, Krishna ₹1,12,000 and Murari ₹80,000

(*c*) Keshav ₹60,000, Krishna ₹12,000 and Murari ₹0

(*d*) Keshav ₹3,30,000, Krishna ₹2,12,000 and Murari ₹1,30,000

(*ii*) Amount of Profit transferred to Partners' Current Accounts was:

(*a*) Keshav ₹1,00,000, Krishna ₹1,50,000 and Murari ₹50,000

(*b*) Keshav ₹50,000, Krishna ₹1,50,000 and Murari ₹1,00,000

(*c*) Keshav ₹1,50,000, Krishna ₹1,00,000 and Murari ₹50,000

(*d*) Keshav ₹1,51,500, Krishna ₹1,01,000 and Murari ₹50,500

5. X, Y and Z are partners in a firm. They share profits in the ratio of 5 : 3 : 2. Their fixed capitals are ₹1,80,000; ₹1,60,000 and ₹2,00,000 respectively. For the year ending 31st March, 2022, X withdrew ₹7,500 at the end of every quarter.

(*i*) The average number of months for which interest on drawings will be calculated, will be:

(*a*) 3½ months (*b*) 4½ months

(*c*) 7½ months (*d*) 6 months

(*ii*) The partnership deed provided that interest on capital will be allowed @10% p.a. The amount of interest on Z's capital will be:

(*a*) ₹18,000 (*b*) ₹16,000

(*c*) ₹20,000 (*d*) ₹10,000

Short Answer Type Questions

1. Aakash and Baadal entered into partnership on 1st October, 2023 with the capitals of ₹80,00,000 and ₹60,00,000 respectively. They decided to share profits and losses equally. Partners were entitled to interest on capital @ 10% per annum as per the provisions of the partnership deed. Baadal is given a guarantee that his share of profit, after charging interest on capital, will not be less than ₹7,00,000 per annum. Any deficiency arising on that account shall be met by Aakash. The profit of the firm for the year ended 31st March, 2024 amounted to ₹13,00,000. Prepare Profit and Loss Appropriation Account for the year ended 31st March, 2024.

2. Parul and Rajul were partners in a firm, sharing profits and losses in the ratio of 5 : 3. The balance in their fixed capital accounts on 1 April, 2023 were: Parul ₹6,00,000 and Rajul ₹8,00,000. The partnership deed provided for allowing interest on capital @12% per annum. The net profit of the firm for the year ended 31st March 2024 was ₹1,26,000. Prepare Profit and Loss Appropriation Account for the year ended 2024 was ₹1,26,000. 31st March, 2024. Show your working clearly.

3. Rakshit and Malik are partners in a firm sharing profits and losses in the ratio of 4 : 1. On 1st April, 2021, their capitals were ₹1,20,000 and ₹80,000 respectively. On 1st December, 2021, they decided that the total capital of the firm should be ₹3,00,000 to be contributed by them in the ratio of 2 : 1. According to the partnership deed, interest on capital is allowed to the partners @ 6% p.a. Calculate interest on capital to be allowed for the year ending 31st March, 2022.

4. Mohan, Sohan and Suresh were partners in a firm sharing profits in the ratio of 2 : 2 : 1. Suresh was guaranteed a profit of ₹70,000. Any deficiency on account of guarantee to Suresh was to be borne by Mohan and Sohan in 3 : 2 ratio. The profit of the firm for the year ended 31.3.2022 amounted to ₹2,00,000. Prepare Profit and Loss Appropriation Account of the firm for the year ended 31.3.2022.

5. Raman, Manan and Naman were partners sharing profit in the ratio of 2 : 1 : 1. Raman withdrew ₹3,000 every month and Manan withdrew ₹4,000 every month. Interest on drawings @ 6% p.a. was charged whereas the partnership deed was silent about interest on drawings. Showing your working clearly, pass the necessary adjustment entry to rectify the error.

6. Arun and Barun were partners sharing profits in the ratio of 3 : 2. Their capitals were ₹50,000 and ₹30,000 respectively. Partnership deed provided for interest on capital @ 6% p.a. to Arun and Barun and quarterly salary of ₹1,000 to Barun. Arun had given a loan of ₹1,00,000 on 1st October, 2021 to the firm without any agreement about interest. For the year 2021-22, the profits earned were ₹26,800. Prepare Profit and Loss Appropriation Account of the firm for the year ended 31st March, 2022.

7. M, B and K are partners sharing profits in the ratio of 6 : 4 : 1. K is guaranteed a minimum amount of ₹3,00,000 as her share in profits. The firm earned a net profit of ₹22,00,000 for the year ended 31st March 2022. Prepare Profit and Loss Appropriation Account of the firm for the year ended 31st March, 2022.

19. The capitals of A and B as on 1st April 2024 were ₹5,00,000 and ₹3,00,000. Their profit sharing ratio was 3:2. On 31st December 2024 they decided that they will maintain the capital ratio same as their profit sharing ratio and for that the excess capital will be withdrawn and required capital will be introduced. They are entitled to receive interest on capital @12% per annum. Calculate interest on the capitals of A and B.

20. The Profit and Loss Appropriation A/c of X, Y and Z sharing profits in the ratio of 2 : 2 : 1 is given below:

Profit and Loss Appropriation A/c
For the year ended on 31st March 2025

Dr **Cr**

Particulars	Amount	Particulars	Amount
To General Reserve	4,000	By Net Profit	………..
To Interest on Capital		By Interest on Drawings	
X	………..	X	………..
Y	………..	Y	………..
Z	………..	Z	………..
To Profit transferred to			
X	………..		
Y	………..		
Z	………..		

(*a*) The fixed capitals of X, Y and Z as on 1st April 2024 were – ₹3,00,000, ₹2,00,000 and ₹1,00,000 respectively.
(*b*) X withdrew ₹2500 in the beginning of every month, Y withdrew ₹1500 at the end of every month and Z withdrew ₹5000 at the end of each quarter.
(*c*) The interest on drawings was charged @6% per annum and the interest on capital was allowed @5% per annum.
(*d*) 5% of the Net Profit was to be transferred to the General Reserve.
Complete the P&L Appropriation A/c of the firm.

BONUS TIME!!!

Common Mistakes You Can Make!!!

- ❑ Ignoring the Partnership Deed/Act Provisions
- ❑ Errors in Profit & Loss Appropriation Account
- ❑ Issues with Past Adjustments

Teacher's Advice!!!

- ❑ Provisions regarding absence of partnership deed shall be considered.
- ❑ Charge against profits will not be shown in P&L Appropriation A/c.
- ❑ Appropriations can be provided up to the extent of profit only.
- ❑ If Net Profit after salary or Interest on Capital is given it will be added to profit to find NP.

TEST YOUR KNOWLEDGE NOW!

For the correct answers of this test, scan this QR code

Time: 1.5 Minutes **Maximum Marks: 25**

***Instructions*:**

- This Question Paper is divided in two parts – Part A and Part B.
- Part A consists of Multiple Choice Questions of 1 mark each.
- Part B consists of Short Answer Type Questions of 3 marks each.

Part - A

1. A, B and C are partners in a firm, sharing profits in the ratio of 2 : 2 : 1. If C's share in profit is ₹15,000, the total profit of the firm will be:

(*a*) ₹3,000 (*b*) ₹30,000
(*c*) ₹75,000 (*d*) ₹60,000

2. Jay and Vijay are partners sharing profits equally. Their capitals as on 1st April 2024 was ₹1,30,000 and ₹1,20,000 respectively. They are entitled to receive interest on capital @10% per annum. The profit for the year ended on 31st March 2025 was ₹20,000. The interest on Jay's capital will be:

(*a*) ₹13,000 (*b*) ₹6,500
(*c*) ₹10,400 (*d*) ₹10,000

3. A and B are partners in a firm sharing profits in the ratio of 3 : 2. Their capitals as on 31st March 2025 after all adjustment regarding the following were ₹5,00,000 and ₹4,00,000 respectively:

- Drawings of A and B were ₹50,000 and ₹80,000 respectively.
- The profit for the year ended on 31st March 2025 was ₹2,50,000.

The interest on A's Capital @ 6% per annum will be:

(*a*) ₹50,000 (*b*) ₹40,000
(*c*) ₹24,000 (*d*) ₹30,000

4. Veeru, Radha and Jay are partners sharing profits in the ratio of 3 : 2 : 1. The profit for the year ended on 31st March 2025 was ₹3,00,000. Radha was guaranteed that her share in profit will never be less that ₹1,20,000. Any deficiency will be borne by Veeru and Jay in 1 : 3. Jay's share in profit will be:

(*a*) ₹50,000 (*b*) ₹35,000
(*c*) ₹15,000 (*d*) ₹20,000

5. This question consists of two statements, namely, Statement I and Statement II.

Statement I: When an equal amount is withdrawn at the end of every month, the interest on drawing is calculated for 6.5 months.

Statement II: When annual drawings of a partner is given, the interest on drawings will be calculated for full year.

For selecting the correct answer, use the following code:

(*a*) Both Statement I and Statement II are correct. (*b*) Statement I is incorrect and Statement II is correct.
(*c*) Statement I is correct and Statement II is incorrect. (*d*) Both Statement I and Statement II are incorrect.

Read the instructions given below and answer the questions 6 and 7

Q and R are partners sharing profits in the ratio of 3 : 2. Their capitals were ₹3,00,000 and ₹6,00,000 respectively. Q is entitled to get commission @10% of Net profit and R is entitled to get a commission of 10% of Net Profit after charging his commission.

The Profit and Loss Appropriation A/c of the firm for the year ended on 31st March 2025 is given below:

Dr **Cr**

Particulars	Amount	Particulars	Amount
To Q's Commission	22,000	By Net Profit	………..
To R's Commission	………..		
To Profit transferred to Q R	 ……….. ………..		

For the correct answers of this test, scan this QR code

SAMPLE QUESTION PAPER

TIME: 3 HRS **MAXIMUM MARKS: 80**

GENERAL INSTRUCTIONS

1. *This question paper contains 34 questions. All questions are compulsory.*
2. *This question paper is divided into two parts, Part A and B.*
3. ***Part - A is Accounting for Partnership Firms and Companies.***
4. ***Part - B is Analysis of Financial Statements.***
5. *Question 1 to 16 and 27 to 30 carries **1 mark** each.*
6. *Questions 17 to 20, 31and 32 carries **3 marks** each.*
7. *Questions from 21, 22 and 33 carries **4 marks** each*
8. *Questions from 23 to 26 and 34 carries **6 marks** each*
9. *There is no overall choice. However, an internal choice has been provided in 7 questions of **one mark**, 2 questions of **three marks**, 1 question of **four marks** and 2 questions of **six marks.***

Part A: Accounting for Partnership Firms and Companies

1. Anthony a partner was being guaranteed that his share of profits will not be less than ₹ 60,000 p.a. Deficiency, if any was to be borne by other partners Amar and Akbar equally. For the year ended 31st March, 2024 the firm incurred loss of ₹ 1,80,000. What amount will be debited to Amar's Capital Account in total at the end of the year?

(*a*) ₹ 60,000 (*b*) ₹ 1,20,000
(*c*) ₹ 90,000 (*d*) ₹ 80,000

2. **Assertion (A):** Partner's current accounts are opened when their capital are fluctuating.
Reasoning (R): In case of Fixed capitals all the transactions other than Capital are done through Current account of the partner.

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

3. Forfeiture of shares leads to reduction of .... Capital.

(*a*) Authorised (*b*) Issued
(*c*) Subscribed (*d*) Called up

OR

Moon ltd. issued 40,000, 10% debentures of ₹100 each at certain rate of discount and were to be redeemed at20% premium. Exiting balance of Securities premium before issuing of these debentures was ₹12,00,000 and after writing off loss on issue of debentures, the balance in Securities Premium was ₹2,00,000. At what rate of discount these debentures were issued?

(*a*) 10% (*b*) 5%
(*c*) 25% (*d*) 15%

4. At the time of admission of new partner Vasu, Old partners Paresh and Prabhav had debtors of ₹ 6,20,000 and a provision for doubtful debts (PDD) of ₹ 20,000 in their books. As per terms of admission, assets were revalued, and it was found that debtors worth ₹ 15,000 had turned bad and hence should be written off. Which journal entry reflects the correct accounting treatment of the above situation?

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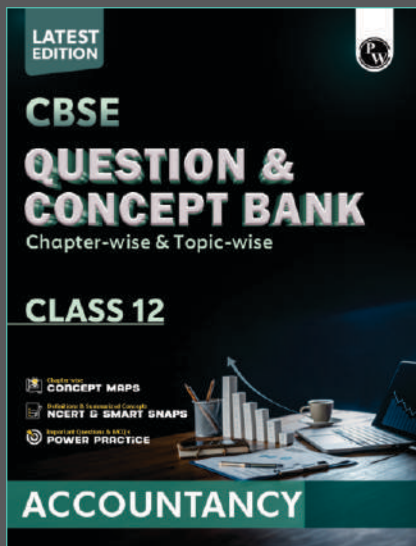

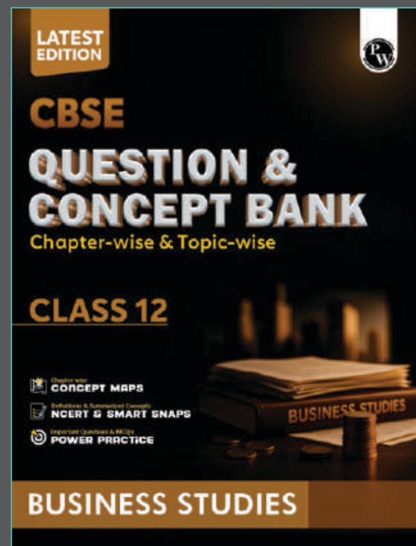

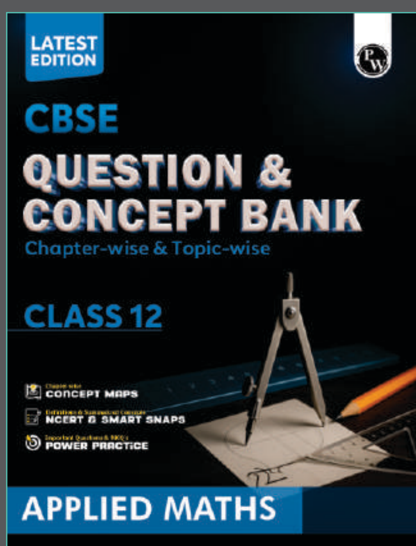

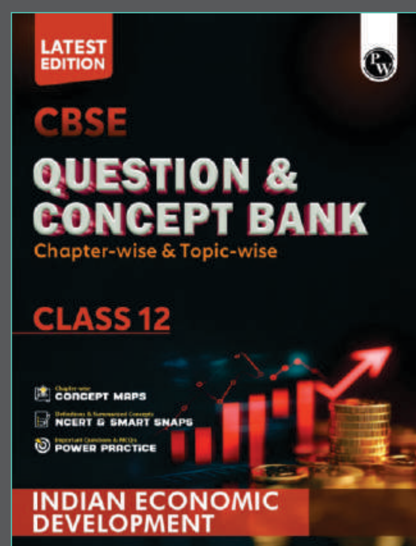

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