

**Q16.** X, Y and Z are partners in a firm sharing profits in the ratio of 2:2:1. Fixed capitals of the partners were: X 5, 00,000; Y 5, 00,000 and Z 2, 50,000 respectively. The Partnership Deed provides that interest on capital is to be allowed @ 10% p.a. Z is to be allowed a salary of 2,000 per month. Profit of the firm for the year ended 31<sup>st</sup> March, 2024 after debiting Z's salary was 4, 00,000. Prepare Profit & Loss Appropriation Account.

**Solution – Profit & Loss Appropriation Account**  
**Dr for the year ended March 31, 2024**

Particulars		Amount	Particulars	Amount
To Interest on capital A/c			By Net Profit	4,00,000
X'S Current A/c	50,000			
Y's Current A/c	50,000			
Z's Current A/c	25,000	1,25,000		
To Profit Transferred to				
X's Current A/c	1,10,000			
Y's Current A/c	1,10,000			
Z's Current A/c	55,000	2,75,000		
		4,00,000		4,00,000

**Q17.** X and Y are partners sharing profits in the ratio of 3:2 with capitals of 8, 00,000 and 6, 00,000 respectively. Interest on capital is agreed @ 5% p.a. Y is to be allowed an annual salary of 60,000 which has not been withdrawn. Profit for the year ended 31<sup>st</sup> March, 2024 before interest on capital but after charging Y's salary was 2, 40,000.

A provision of 5% of the net profit is to be made in respect of commission to the Manager.

Prepare Profit & Loss Appropriation Account showing the allocation of profits.

**Solution –**

Profit and Loss Account			
Dr		Cr	
Particulars	Amount	Particulars	Amount
To Provision for manager commission		By Net Profit	
3,00,000 x 5/100	15,000	(2,40,000 + 60,000)	3,00,000
To Profit transferred to P & I Appropriation A/c	2,85,000		
	<u>3,00,000</u>		<u>3,00,000</u>

Manager's Commission is a charge against profit and it is not an appropriation out of profit. Hence a separate Profit and Loss Account is prepared to charge manager's commission.

Profit & Loss Appropriation Account for the year ended March 31, 2024			
Dr		Cr	
Particulars	Amount	Particulars	Amount
To Interest on capital A/c		By Profit & Loss A/c	2,85,000
X'S Current A/c			
(8,00,000 x 5%)      40,000			
Y's Current A/c			
(6,00,000 x 5%)      30,000	70,000		
To Salary Y's Current A/c	60,000		
To Profit Transferred to			
X's Current A/c			
1,55,000 x 3/5      93,000			



### Profit & Loss Appropriation Account

Dr

for the year ended March 31, 2022

Cr

Particulars	Amount	Particulars	Amount
To Interest on capital A/c		By Net Profit	2,20,000
Atul Current A/c		By Interest on Drawings	
(5,00,000 x 10%)      50,000		Atul                      5,000	
Mithun Current A/c		Mithun                  5,000	
(6,00,000 x 10%)      60,000	1,10,000		10,000
To Profit Transferred to	60,000		
Atul Current A/c			
1,20,000 x 3/5              72,000			
Mithun Current A/c			
1,20,000 x 2/5              78,000	1,20,000		
	2,30,000		2,30,000

**Q19. Reema and Seema are partners sharing profits equally. The partnership Deed provides that both Reema and Seema will get monthly salary of 15,000 each, Interest on Capital will be allowed @ 5% p.a. and Interest on Drawings will be charged @ 10% p.a. Their capitals were 5, 00,000 each and drawings during the year were 60,000 each. The firm incurred net loss of 1, 00,000 during the year ended 31<sup>st</sup> March, 2024. Prepare Profit & Loss Appropriation Account for the year ended 31<sup>st</sup> March, 2024.**

**Solution –**

### Profit & Loss Appropriation Account

Dr

for the year ended March 31, 2024

Cr

Particulars	Amount	Particulars	Amount
To Net Loss	1,00,000	By Interest on Drawings A/c	
		Reema Capital              3,000	

		Seema Capital	3,000	6,000
		By Loss Transferred to		
		Reema's Capital	47,000	
		Seema's Capital	47,000	94,000
	1,00,000			1,00,000

#### Working Note 1:

Reema's Interest on Drawings =  $60,000 \times 10/100 \times 6/12 = 3,000$

Seema's Interest on Drawings =  $60,000 \times 10/100 \times 6/12 = 3,000$

**Q20. Bhanu and Pratap are partners sharing profits equally. Their fixed capitals as on 1<sup>st</sup> April, 2023 were 8, 00,000 and 10, 00,000 respectively. Their drawings during the year were 50,000 and 1, 00,000 respectively. Interest on Capital is a charge and is to be allowed @ 10% p.a. and interest on drawings is to be charged @ 15% p.a. Profit for the year ended 31<sup>st</sup> March, 2024 before giving effect to the above was 1, 20,000. Prepare Profit & Loss Appropriation Account.**

#### Solution –

Profit and Loss Account			
Dr		Cr	
Particulars	Amount	Particulars	Amount
To Interest on Capital		By Profit	1,20,000
Bhanu Current A/c		By Profit & Loss Appropriation A/c (Net Loss)	60,000
8,00,000 x 10% = 80,000			
Pratap Current A/c			
10,00,000 x 10% = 1,00,000	1,80,000		
	1,80,000		1,80,000

Profit & Loss Appropriation Account				
Dr		for the year ended March 31, 2024		Cr
Particulars	Amount	Particulars	Amount	
To Net Loss	60,000	By Interest on Drawings A/c		
		Bhanu		
		50,000 x 15/100 x 6/12 = 3,750		
		Pratap		
		1,00,000 x 15/100 x 6/12 = 7,500		11,250
		By Loss Transferred to		
		Bhanu Current A/c		
		48,750 x ½ =	24,375	
		Pratap Current A/c		
		48,750 x ½ =	24,375	48,750
	60,000			60,000

### Partner's Capital Accounts:-

### Fixed Capital:

**Q21. Amit and Sumit entered into partnership on 1<sup>st</sup> April, 2023 contributing 1, 50,000 and 2, 50,000 respectively towards capitals. The partnership Deed provided for interest on capitals @ 10% p.a. It also provided that Capital Accounts shall be maintained following Fixed Capital Accounts method. The firm earned net profit of 1, 00,000 for the year ended 31<sup>st</sup> March, 2024. Pass the Journal entry for interest on Capital.**

**Solution –**

**Journal Entries**

Date	Particulars	L/F	Dr	Cr
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31 Mar	Profit & Loss Appropriation A/c	.....Dr	40,000	
2023	To Amit Current A/c			15,000
	To Sumit Current A/c			25,000
	(Interest on capital transferred to Profit & Loss Account)			

#### Working Note 1:

Interest on Capital

Amit = 1, 50,000 x 10% = 15,000

Sumit = 2, 50,000 x 10% = 25,000

**Q22. Kamal and Kapil are partners having fixed capitals of 5, 00,000 each as on 1<sup>st</sup> april, 2023. Kamal introduced further capital of 1, 00,000 on 1<sup>st</sup> October, 2023 whereas Kapil withdrew 1, 00,000 on 1<sup>st</sup> January, 2024 out of capital. Interest on capital is to be allowed @ 10% p.a.**

**The firm earned net profit of 6, 00,000 for the year ended 31<sup>st</sup> March, 2024 Pass the Journal entry for interest on capital are prepare Profit & Loss Appropriation Account.**

**Solution – Journal Entries**

Date	Particulars	L/F	Dr	Cr
31 Mar	Profit & Loss Appropriation A/c	.....Dr	1,00,000	
2023	To Kamal Current A/c			52500
	To Kapil Current A/c			47500
	(Interest on capital transferred to Profit & Loss Appropriation Account)			

#### Working Note 1:

Interest on Capital

Kamal = 5, 00,000 x 10/100 = 50,000

1, 00,000 x 10/100 x 3/12 = 25,00 52500

Kapil = 5, 00,000 x 10/100 = 50,000

1, 00,000 x 10/100 x 3/12 = 2500 47500

**Profit & Loss Appropriation Account  
for the year ended March 31, 2024**

**Dr**

**Cr**

Particulars	Amount	Particulars	Amount
To Interest on capital A/c		By Net Profit	6,00,000
Kamal(5,00,000 x 10/100*3/12)	52500		
Kapil (5,00,000 x 10/100*3/12)	47500		
To Profit Transferred to			
Kamal Current A/c   2,50,000			
Mithun Current A/c <u>2,50,000</u>	5,00,000		
	6,00,000		6,00,000

**Q23. Simran and Reema are partners sharing profits in the ratio of 3:2. Their capitals as on 1 april, 2023 were 2, 00,000 each whereas Current accounts had balances of 50,000 and 25,000 respectively. Interest on capital is to be allowed @ 5% p.a. the firm earned net profit of 3, 00,000 for the year ended 31<sup>st</sup> March, 2024**

**Pass the Journal entries for interest on capital and distribution of profit. Also prepare Profit & Loss Appropriation Account for the year.**

**Solution –**

**Journal Entries**

Date	Particulars	L/F	Dr	Cr
31 Mar	Profit & Loss Appropriation A/c .....Dr		20,000	



2023	To Simran Current A/c			10,000
	To Reema's Current A/c			10,000
	(Interest on capital transferred to Profit & Loss Appropriation Account)			
	Profit & Loss Appropriation A/c .....Dr		2,80,000	
	To Simran Current A/c			1,68,000
	To Reema's Current A/c			1,12,000
	(Profit transferred to Partners Account)			

### Profit & Loss Appropriation Account

Dr

for the year ended March 31, 2024

Cr

Particulars	Amount	Particulars	Amount
To Interest on capital A/c		By Net Profit	3,00,000
Simran (2,00,000 x 5%) 10,000			
Reema (2,00,000 x 5%) 10,000	20,000		
To Profit Transferred to			
Simran Current A/c			
2,80,000 x 3/5 = 1,68,000			
Reema Current A/c			
2,80,000 x 2/5 = 1,12,000	2,80,000		
	3,00,000		3,00,000

### Fluctuating Capital:

**Q24.** Anita and Ankita are partners sharing profits equally. Their capitals, maintained following Fluctuating Capital Accounts Method, as on 1 april, 2023 were 5, 00,000 and 4, 00,000 respectively. Partnership Deed provided to allow interest on capital @ 10% p.a. the firm earned net profit of 2, 00,000 for the year ended 31<sup>st</sup> March, 2024. Pass the Journal entry for interest on capital.

#### **Solution – Journal Entries**

Date	Particulars	L/F	Dr	Cr
31 Mar 2024	Profit & Loss Appropriation A/c .....Dr  To Anita Capital A/c  To Ankita Capital A/c  (Interest on capital transferred to Profit & Loss Appropriation Account)		90,000	50,000  40,000

#### **Working Note 1:**

Interest on Capital

Anita = 5, 00,000 x 10% = 50,000

Ankita = 4, 00,000 x 10% = 40,000

**Q25.** Ashish and Aakash are partners sharing profits in the ratio of 3:2 Their Capital Accounts had credit balances of 5,00,000 and 6,00,000 respectively as on 31<sup>st</sup> March, 2024 after debit of drawings during the year of 1,50,000 and 1,00,000 respectively. Net profit for the year ended 31<sup>st</sup> March, 2024 was 5, 00,000. Interest on capital is to be allowed @ 10% p.a. Pass the Journal entries for interest on capital and prepare Profit & Loss Appropriation Account.

#### **Solution – Journal Entries**

Date	Particulars	L/F	Dr	Cr
31 Mar	Profit & Loss Appropriation A/c .....Dr		1,35,000	

2023	To Ashish Capital A/c			65,000
	To Akash Capital A/c			70,000
	(Interest on capital transferred to Profit & Loss Appropriation Account)			
	Profit & Loss Appropriation A/c .....Dr		3,65,000	
	To Ashish's Capital A/c			2,19,000
	To Akash's Capital A/c			146,000
	(Profit transferred to Partners Capital Account)			

### Profit & Loss Appropriation Account

for the year ended March 31, 2024

Dr

Cr

Particulars	Amount	Particulars	Amount
To Interest on capital A/c		By Profit & Loss A/c	5,00,000
Ashish (6,50,000 x 10%) 65,000		(Profit)	
Akash (7,00,000 x 10%) 70,000	1,35,000		
To Profit Transferred to			
Ashish Current A/c			
3,65,000 x 3/5 = 2,19,000			
Akash Current A/c			
3,65,000 x 2/5 = 1,46,000	3,65,000		
	5,00,000		5,00,000

**Working Note:**

**Calculation of Opening Capital**

Particulars	Ashish	Akash
Capital at the end	5,00,000	6,00,000
Add: Drawing made	1,50,000	1,00,000
	6,50,000	7,00,000

**Q26.** Naresh and Sukesh are partners with capitals of 3, 00,000 each as on 31<sup>st</sup> March, 2024. Naresh had withdrawn 50,000 against capital on 1<sup>st</sup> October, 2023 and 1, 00,000 drawings against profit. Sukesh also had drawings of 1, 00,000 Interest on capital is to be allowed @ 10% p.a. Net Profit for the year was 2, 00,000 which is yet to be distributed Pass the Journal entries for interest on capital and distribution of profit.

**Solution – Journal Entries**

Date	Particulars	L.F	Dr	Cr
31 Mar 2023	Profit & Loss Appropriation A/c .....Dr  To Naresh Capital A/c To Sukesh Capital A/c  (Interest on capital transferred to Profit & Loss Appropriation Account)		82,500	42,500 40,000
	Profit & Loss Appropriation A/c .....Dr  To Naresh's Capital A/c To Sukesh's Capital A/c  (Profit transferred to Partners Capital Account)		1,17,500	58,750 58,750

**Working Note 1:**

**Calculation of Opening Capital**

Particulars	Naresh	Sukesh
Capital at the year and against	3,00,000	3,00,000

Add: Capital	50,000	
Less: Drawings against Profit	1,00,000	1,00,000
	4,50,000	4,00,000

### Working Note 2:

Calculation of interest on capital

Naresh – 4, 50,000 x 10/100 = 45,000

Interest on Capital (Drawings against Capital)

= 50,000 x 10/100 x 6/12 = 2,500

Total = 42,500

Suresh – 40,000 x 10/100 = 40,000

### Working Note 3:

Particulars	Naresh	Sukesh
Distribution of Profit after Interest on capital (2,00,000 – 82,500) is ratio 1:1	58,750	58,750

**Q27. On 1<sup>st</sup> April, 2013, Jay and Vijay entered into partnership for supplying laboratory equipments to Government schools situated in remote and backward areas. They contributed capitals of 80,000 and 50,000 respectively and agreed to share the profits in the ratio of 3: 2 The Partnership Deed provided that interest on capital shall be allowed at 9% per annum. During the year the firm earned a profit of 7,800.**

**Showing your calculations clearly, prepares Profit & Loss Appropriation Account of Jay and Vijay for the year ended 31<sup>st</sup> March, 2014.**

**Solution – Profit & Loss Appropriation Account**

Dr		Cr	
Particulars	Amount	Particulars	Amount
To Interest on capital A/c		By Net Profit	7,800
Jay's Capital A/c           4,800			
Vijay's Capital A/c       3,000	7,800		

	7,800		7,800
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### Working Note 1:

Calculation of Interest on Capital

Jay –  $80,000 \times 9\% = 7,200$

Vijay –  $50,000 \times 9\% = 4,500$   
11,700

Total profit given in question is = 7,800

The available profit for interest on capital is 7,800 and appropriate in the ratio of 7,200:4,500 i.e., 8:5

Jay =  $7,800 \times 8/13 = 4,800$

Vijay =  $7,800 \times 5/13 = 3,000$   
7,800

### Calculation of Interest on Partners Capital:-

**Q28.** A and B partners in the ratio of 3:2 the firm maintains Fluctuating Capital Accounts and the balance of the same as on 31<sup>st</sup> March, 2020 amounted to 1,60,000 and 1,40,000 for A and B respectively. Their drawings during the year were 30,000 each.

As per Partnership Deed, interest on capital @ 10% p.a. on opening capitals had been provided to them .Calculate opening capitals of partners given that their profit was 90,000. Show your working clearly.

**Solution – Calculation of Opening Capital**

Particulars	A	B
Closing Capital	1,60,000	1,40,000
Add: Drawings	30,000	30,000
	1,90,000	1,70,000
Less: Profit already credited	37,800	25,200
Capitals of Partners at the Interest on capital	1,52,200	1,44,800

Less: Interest on Capital	13,836	13,164
Opening capital of the partners	1,38,364	1,31,636

**Working Note 1:**

$$\begin{aligned}
 \text{Total Capital of A and B (1, 60,000 + 1, 40,000)} &= 3, 00,000 \\
 \text{Add: Drawings (30,000 + 30,000)} &= 60,000 \\
 &3, 60,000 \\
 \text{Less: Profit (Including Interest on Capital)} &= 90,000 \\
 \text{Total opening capital include Interest on Capital} &= \underline{2, 70,000} \\
 \text{Interest on Capital} &= 2, 70,000 \times 10\% \\
 &= 27,000 \\
 \text{Divisible Profit} &= 90,000 - 27,000 \\
 &= 63,000
 \end{aligned}$$

**Q29. Following is the extract of the Balance Sheet of Neelkant and Mahadev as on 31<sup>st</sup> March, 2024:**

**Balance Sheet as at 31<sup>st</sup> March, 2024**

Liabilities	Amount	Assets	Amount
Neelkant's capital	10,00,000	Sundry Assets	30,00,000
Mahadev's Capital	10,00,000		
Neelkant's Current A/c	1,00,000		
Mahadev's Current A/c	1,00,000		
Profit & Loss A/c (2021-22)	8,00,000		
	30,00,000		30,00,000

During the year, Mahadev's drawings were 30,000. Profit during the year ended 31<sup>st</sup> March, 2022 is 10, 00,000. Calculate interest on capital @ 5% p.a. for the year ending 31<sup>st</sup> March, 2024

**Solution – Calculation of Interest on capital**

- I. Interest on Capital Neelkant –  $10,00,000 \times 5\% = 50,000$

II. Interest on Capital of Mahadev –  $10,00,000 \times 5\% = 50,000$

**Q30. From the following Balance sheet of Long and Short, calculate interest on capital @ 8% p.a. for the year ended 31<sup>st</sup> March, 2024:**

**Balance Sheet as at 31<sup>st</sup> March, 2024**

Liabilities	Amount	Assets	Amount
Long's Capital A/c	1,20,000	Fixed Assets	3,00,000
Short's capital A/c	1,40,000	Other Assets	60,000
General Reserve	1,00,000		
	3,60,000		3,60,000

During the year, long withdrew 40,000 and short withdrew 50,000. Profit for the year was 1, 50,000 out of which 1, 00,000 was transferred to General Reserve.

**Solution – Calculation of Opening Capital**

Particulars	Long	Short
Capital at the end	1,20,000	1,40,000
Add: Drawings	40,000	50,000
	1,60,000	1,90,000
Less: Share of Profit	25,000	25,000
Opening Capital	1,35,000	1,65,000

**Calculation of Interest on Capital:**

Long's Interest on Capital =  $1,35,000 \times 8/100 = 10,800$

Short Interest on Capital =  $1,65,000 \times 8/100 = 13,200$