CHAPTER-1 ACCOUNTING FOR PARTNERSHIP FIRMS— FUNDAMENTALS

concept no.



Profit &Loss App. A/c and Partner's Capital A/c

concept no.9

Profit&Loss App. A/c and Partners' Capital A/c

Profit and Loss Appropriation Account

PARTICULARS	*Amount*	PARTICULARS	*Amount*
Net Loss (If any)	*****	**Balance b/d**	*****
		(Balance r year)	
Interest on Capital:			
Partner A	*****	**Net Profit b/d**	*****
Partner B	*****	(Net profit of current year)	
Partners' Salaries / Commission:		**Interest on Drawings:**	
Partner A	*****	Partner A	*****
Partner B	*****	Partner B	*****
Reserve (Transfer)	*****		
Interest on Partners' Loan:			
Partner A	*****		
Partner B	*****		
Net Profit Transferred to:			
Partner A	*****		
Partner B	*****		
Total	****	**Total**	****



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The journal entries that are passed for various items shown in the above Profit and Loss Appropriation Account are as follows :

1. Entry for transfer of Net Profit to Profit & Loss Appropriation Account:

Profit and Loss A/c Dr.
To Profit and Loss Appropriation A/c (Net Profit transferred)

2. Entry for Interest on Capital:–

(i) On allowing Interest on Capital :

Interest on Capital A/c Dr .
To Partner's Capital A/c (Interest on Capital at.....% P.a)

(ii) On closure of Interest on Capital A/c :

Interest on capital is closed by transferring it to the debit side of Profit & Loss Appropriation A/c, as this is expenses for the firm. The entry will be :

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

3. Entry for Interest on Drawings :–

(i) On Charging Interest on Drawings :

Partner's Capital A/c Dr.
To Interest on Drawings A/c

(ii) On closure of Interest on Drawings A/c :

Interest on Drawings is closed by transferring it to the credit side of Profit & Loss Appropriation A/c, as this is income for the firm. The entry will be :

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

4. Entry for Salary' or Commission Payable to a Partner :–

(i) On allowing salary or Commission to a partner :

Partner's Salary/Commission A/c Dr.
To Partner's Capital A/c

(ii) On closure of salary or commission account:

Salary or Commission payable to a partner is closed by transferring it to the debit side of Profit and Loss Appropriation Account, as these are expenses for the firm. The entry will be :

Profit & Loss Appropriation A/c Dr.
To Partner's Salary/Commission A/c

5. Entry for transferring a part of profit to Reserve :

Profit & Loss Appropriation A/c Dr.
To Reserve A/c/c

6. Entry for transfer of Credit balance of Profit & Loss Appropriation A/c (being profit) :–

Profit & Loss Appropriation A/c Dr .
To Partner's Capital or Current A/cs

Features of Profit and Loss Appropriation Account:

1. It is prepared just after the Profit and Loss Account. Hence, it is an extension of Profit and Loss Account.
2. It is prepared only by partnership firms.
3. It is a Nominal Account.
4. It shows how the net profit for the accounting period is appropriated (distributed) among the partners.
5. Entries in this account are made giving effect to the Partnership Deed and/or the Indian Partnership Act, 1932.

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Questions

Q. 1).A and B are partners sharing profits and losses in the ratio of 3 : 1. On 1 st April, 2023, their capitals were: A ₹ 5,00,000 and B ₹ 3,00,000. During the year ended 31st March, 2024, the firm earned a net profit of ₹ 5,00,000. The terms of partnership are:
(a) Interest on capital is to be allowed @ 6% p.a.
(b) A will get a commission @ 2% on net sales.
(c) B will get a salary of ₹ 5,000 per month.
(d) B will get commission of 5% on profits after deduction of all expenses including such commission. Partners' drawings for the year were: A ₹ 80,000 and B ₹ 60,000. Net Sales for the year was ₹ 30,00,000.
After considering the above facts, you are required to prepare Profit & Loss Appropriation Account and Partners'Capital Accounts.
[Ans.: Commission of B—₹ 15,810; Share of Profit: A—₹ 2,37,140; B—₹ 79,050; Capital A/cs: A—₹ 7,47,140; 6—₹ 4,12,860.]

Q.2) A, B and C were partners in a firm having capitals of ₹ 50,000; ₹ 50,000 and ₹ 1,00,000 respectively. Their Current Account balances were A: ₹ 10,000; B: ₹ 5,000 and C: ₹ 2,000 (Dr.). According to the Partnership Deed the partners were entitled to an interest on Capital @10% p.a. C being the working partner was also entitled to a salary of ₹ 12,000 p.a. The profits were to be distributed as:
(a) The first ₹ 20,000 in proportion to their capitals.
(b) Next ₹ 30,000 in the ratio of 5 : 3 : 2.
(c) Remaining profits to be shared equally.
The firm earned net profit of ₹ 1,72,000 before charging any of the above items. Prepare Profit & Loss Appropriation Account and pass necessary Journal entry for the appropriation of profits. (Foreign 2009)
[Ans.: Divisible Profit—₹ 1,40,000; A's share—₹ 50,000; B's share—₹ 44,000; C's share—₹ 46,000.]

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SOLUTION 2) Questions

Journal Entries

1) Interest on Capital:

Interest on Capital A A/c	Dr.	5,000	
Interest on Capital B A/c	Dr.	5,000	
Interest on Capital C A/c	Dr.	10,000	
To Profit & Loss Appropriation A/c			20,000

2) Salary to C:

C's Salary A/c	Dr.	12,000	
To Profit & Loss Appropriation A/c			12,000

3) Profit Distribution:

Profit & Loss Appropriation A/c	Dr.	1,40,000	
To A's Capital A/c			50,000
To B's Capital A/c			44,000
To C's Capital A/c			46,000

Q.3) Amit, Binita and Charu are three partners. On 1st April, 2023, their Capitals stood as: Amit ₹ 1,00,000, Binita ₹ 2,00,000 and Charu ₹ 3,00,000. It was decided that:
(a) they would receive interest on Capitals @ 5% p.a.,
(b) Amit would get a salary of ₹ 10,000 per month,
(c) Binita would receive commission @ 5% of net profit after deduction of commission, and
(d) 10% of the net profit would be transferred to the General Reserve.
Before the above items were taken into account, profit for the year ended 31 st March, 2024 was ₹ 5,00,000.
Prepare Profit & Loss Appropriation Account and the Capital Accounts of the Partners.
[Ans.: Divisible Profit–₹ 2,76,190; Commission (Binita)– ₹ 23,810; General Reserve –₹ 50,000; Share of Profit: Amit–₹ 92,063; Binita–₹ 92,063, Charu–₹ 92,064; Closing Balances of Capital A/cs: Amit– ₹ 3,17,063; Binita–₹ 3,25,873; Charu–₹ 4,07,064.]

Q.4) Yadu, Vidu and Radhu were partners in a firm sharing profits in the ratio of 4:3 : 3. Their fixed capitals on 1st April, 2023 were ₹ 9,00,000, ₹ 5,00,000 and ₹ 4,00,000 respectively. On 1st November, 2023, Yadu gave loan of ₹ 80,000 to the firm, as per the partnership agreement.
(i) The partners were entitled to an interest on capital @ 6% p.a.
(ii) Interest on partners'drawings was to be charged @ 8% p.a.
The firm earned profit of ₹ 2,53,000 (after interest on Yadu's Loan) during the year 2023-24. Partners' drawings for the year amounted to:
Yadu–₹ 80,000, Vidu–₹ 70,000 and Radhu–₹ 50,000.
Prepare Profit & Loss Appropriation Account for the year ending 31 st March, 2024.
[Ans.: Share of Profit: Yadu–₹ 61,200; Vidu–₹ 45,900; Radhu–₹ 45,900.]
[Hint: Interest on drawings is charged on total amount for an average period of 6 months.]

Q.5. A and B are partners in a firm sharing profits or losses in the ratio of 2 : 3 with capitals of ₹4,00,000 and ₹8,00,000 respectively on 1st April, 2023. Each partner is entitled to 10% p.a. interest on his capital. B is entitled a commission of 10% on net profit remaining after deducting interest on capital but before charging any commission. A is entitled a commission of 8% of net profit remaining after deducting interest on capital and after charging all commissions. The profit for the year ended 31st March, 2024 prior to calculation of interest on capital was ₹6,00,000.Prepare Profit and Loss Appropriation Account.

[Ans. Share of Profit A ₹ 1,60,000 and B ₹2,40,000; Commission to B ₹48,000 and to A ₹32,000.]