CHAPTER-1 ACCOUNTING FOR PARTNERSHIP FIRMS— FUNDAMENTALS

concept no.



Transfer of Profit to Reserve

concept no.10

Transfer of Profit to Reserve

Questions

Q.1). Kabir, Zoravar and Parul are partners sharing profits in the ratio of 5 : 3 : 2. Their capitals as on 1st April, 2023 were: Kabir–₹ 5,20,000, Zoravar–₹ 3,20,000 and Parul–₹ 2,00,000.The Partnership Deed provided as follows:
(i) Kabir and Zoravar each will get salary of ₹ 24,000 p.a.
(ii) Parul will get commission of 2% of Net Sales.
(iii) Interest on capital is to be allowed @ 5% p.a.
(iv) Interest on Drawings is to be charged @ 5% p.a.
(v) 10% of Divisible Profit is to be transferred to General Reserve.
Net Sales for the year ended 31st March, 2024 were ₹ 50,00,000. Drawings by each of the partners during the year was ₹ 60,000. Net Profit for the year was ₹ 1,55,500.Prepare Profit & Loss Appropriation Account for the year ended 31 st March, 2024.
[Ans.: Share of Profit: Kabir–₹ 40,000; Zoravar–₹ 32,000; Parul–₹ 88,000.] [Hints: 1. Since, net profit is not adequate to meet the appropriations, it is distributed in the ratio of appropriation to be made, i.e., ₹ 50,000 : ₹ 40,000 : ₹ 1,10,000 or 5 :4 :11.2. In the absence of divisible profit, amount will not be transferred to General Reserve.]

Q.2) X and Y entered into partnership on 1st April,2024.Their capitals as on 1st April, 2023 were ₹ 2,00,000 and ₹ 1,50,000 respectively. On 1st October, 2023, X gave ₹ 50,000 as loan to the firm. As per the provisions of the Partnership Deed:
(i) 20% of Profits before charging Interest on Drawings but after making appropriations was to be transferred to General Reserve.
(ii) Interest on capital is @ 12% p.a. and Interest on Drawings is to be charged @ 10% p.a.
(iii) X to get monthly salary of ₹ 5,000 and Y to get salary of ₹ 22,500 per quarter.
(iv) X is entitled to a commission of 5% on sales. Sales for the year were ₹ 3,50,000.
(v) Profit to be shared in the ratio of their capitals up to ₹ 1,75,000 and balance equally. Profit for the year ended 31st March, 2024, before allowing or charging interest was ₹ 4,61,000. The drawings of X and Y were ₹ 1,00,000 and ₹ 1,25,000 respectively. Prepare Profit & Loss Appropriation Account and the Partners' Capital Accounts.**[Ans.: IOC: X–₹ 24,000; Y–₹ 18,000; Salary: X–₹ 60,000; Y–₹ 90,000;Commission: X–₹ 17,500; IOD: X–₹ 5,000; Y–₹ 6,250; Share of Profit: X–₹ 1,18,125; Y–₹ 93,125; Capital Balance: X–₹ 3,14,625; Y–₹ 2,19,875; Interest on Loan by X: ₹ 1,500; Transfer to General Reserve–₹ 50,000.]**