CHAPTER-1 ACCOUNTING FOR PARTNERSHIP FIRMS— FUNDAMENTALS

concept no.



Past Adjustments for Incorrect Appropriations

concept no.11

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In a Partnership, the profit is divided among partners according to the conditions mentioned in the partnership deed. For example, according to the conditions of the Partner's Salary, Interest on Capital, etc. Even though there are conditions, sometimes partners forget to fulfil them or make some errors in fulfilling these conditions.

Past Adjustments are made to correct all the errors made in the partnership accounting. Some of these errors are as follows:
1) Interest not given on partner's loan
2) Interest on capital wrongly calculated or not paid
3) Wrong profit-sharing ratio
4) Interest on drawings not charged or charged at the wrong rate
5) Salary or commission paid to a partner without considering whether or not the partner is entitled to it
Because of the above-mentioned errors, the profits are wrongly distributed among the partners. Hence,
it becomes necessary to adjust this through the capital accounts before or after the closure of accounts.

Steps for the Calculation of Amount of Past Adjustment Entry
The steps are as follows:
Step 1: The first step is to determine the amount which should have been credited by way of interest on capital, salary, commission, share of profit, etc.
Step 2: In the second step, the amount already credited by way of interest on capital, salary, commission, share of profit, etc., is calculated.
Step 3: The next step involves calculation of the difference between the amounts calculated in the above two steps.
Step 4: After calculating the difference, the company has to find out which partner has received excess and which partner has received short.
Step 5: The last step of calculation of amount of adjustment entry involves passing the adjusting journal entry by debiting the Capital A/c of the partner who has received excess amount and crediting the Capital A/c of the partner who has received short.

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Questions

Q.1). P and Q were partners in a firm sharing profits in 7 : 3 ratio. Their fixed capitals were P ₹5,00,000 and Q ₹8,00,000. For the year ended 31st March, 2024, interest on capital was credited @ 12% instead of 10%. Show the necessary adjusting entry for the rectification of the error. Also show the working notes clearly.

Ans.: Q's Current A/c Dr. 8,200
To P's Current A/c 8,200]

Q.2) A, B and C are partners. Their fixed capitals as on 31st March, 2023 were A ₹2,00,000, B ₹3,00,000 and C ₹4,00,000. Profits for the year ended 31st March, 2024 amounting to ₹ 1,80,000 were distributed. Give the necessary adjusting entry in each of the following alternative cases :
Case (a) Interest on capital was credited @ 8% p.a. though there was no such provision in the partnership deed.
Case (b) Interest on capital was not credited @ 8% p.a. though there was such provision in the partnership deed.
Case (c) Interest on capital was credited @ 8% p.a. instead of 10% p.a.
Case (d) Interest on capital was credited @ 10% p.a. instead of 8% p.a.
[Ans.: Debit C's Current A/c and Credit A's Current A/c with ₹8,000;
Debit A's Current A/c and Credit C's Current A/c with ₹8,000;
Debit A's Current A/c and Credit C's Current A/c with ₹2,000;
Debit C's Current A/c and Credit A's Current A/c with ₹2,000.]

Q.3) Neena and Sara were partners in a firm with fixed capitals of ₹5,00,000 and ₹4,00,000 respectively. It was discovered that interest on capital @ 6% p.a. was credited to the partners for the two years ending 31st March, 2023 and 31st March, 2024 whereas there was no such provision in the partnership deed. Their profit sharing ratio during the last two years was :

2022-23	4:5
2023-24	5:1

Showing your workings clearly, pass the necessary adjustment entry to rectify the error.

[Ans. Sara's Current A/c Dr. 9,000
To Neena's Current A/c 9,000]

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Questions

Q.4). Mudit, Sudhir and Uday are partners in a firm sharing profits in the ratio of 3:1:1 .Their fixed capital balances are ₹ 4,00,000, ₹ 1,60,000 and ₹ 1,20,000 respectively. Net profit for the year ended 31st March, 2024 distributed amongst the partners was ₹ 1,00,000, without taking into account the following adjustments:

(a) Interest on capitals @ 2.5% p.a.

(b) Salary to Mudit ₹ 18,000 p.a. and commission to Uday ₹ 12,000.

(c) Mudit was allowed a commission of 6% of divisible profit after charging such commission.

Pass a rectifying Journal entry in the books of the firm. Show workings clearly.

[Ans.: Dr. Sudhir's Current A/c by ₹ 6,000; Cr. Mudit's Current A/c by ₹ 1,000 and Uday's Current A/c by ₹ 5,000.]

Q.5) Naveen, Qadir and Rajesh were partners doing an electronic goods business in Uttarakhand. After the accounts of partnership were drawn up and closed, it was discovered that interest on capital has been allowed to partners @6% p.a. for the years ending 31 st March, 2023 and 2024, although there is no provision for interest on capital in the Partnership Deed. On the other hand, Naveen and Qadir were entitled to a salary of₹ 3,500 and ₹ 4,000 per quarter respectively, which has not been taken into consideration. Their fixed capitals were ₹ 4,00,000, ₹ 3,60,000 and ₹ 2,40,000 respectively. During the last two years they had shared the profits and losses as follows:

Year Ended	Ratio
31st March, 2023	3:2:1
31st March, 2024	5:3:2

Pass necessary adjusting entry for the above adjustments in the books of the firm on 1st April, 2024. Show your workings clearly.

[Ans.: Dr. Rajesh's Current A/c by ₹ 17,800; Cr. Naveen's Current A/c by ₹ 10,000 and Qadir's Current A/c by ₹ 7,800.]