CHAPTER-1 ACCOUNTING FOR PARTNERSHIP FIRMS— FUNDAMENTALS

concept no.

12

Guarantee of Minimum Profit to a Partner

concept no.12

Guarantee of Minimum Profit to a Partner

Questions

Q.1). P and Q were partners in a firm sharing profits in the ratio of 5 : 3. On 1 st April, 2023 they admitted R as a new partner for 1 /8th share in the profits with a guaranteed profit of ₹ 75,000. The new profit-sharing ratio between P and 0 will remain the same but they agreed to bear any deficiency on account of guarantee to R in the ratio of 3 : 2. The profit of the firm for the year ended 31st March, 2024 was ₹ 4,00,000. Prepare Profit & Loss Appropriation Account of P, Q and R for the year ended 31st March, 2024.

[Ans.: Deficiency of Profit ₹ 25,000 will be borne by P and Q in the ratio of 3:2. Share of Profit: P–₹ 2,03,750; Q–₹ 1,21,250; R–₹ 75,000.]

Q.2) Asgar, Chaman and Dholu are partners in a firm. Their Capital Accounts stood at ₹ 6,00,000; ₹ 5,00,000 and ₹ 4,00,000 respectively on 1st April, 2023. They shared Profits and Losses in the proportion of 4 : 2 ; 3. Partners are entitled to interest on capital @ 8% per annum and salary to Chaman and Dholu @ ₹ 7,000 per month and ₹ 10,000 per quarter respectively as per the provision of the Partnership Deed. Dholu's share of profit (excluding interest on capital but including salary) is guaranteed at a minimum of ₹ 1,10,000 p.a. Any deficiency arising on that account shall be met by Asgar. The profit for the year ended 31st March, 2024 amounted to ₹ 4,24,000.

Prepare Profit & Loss Appropriation Account for the year ended 31st March, 2024.

[Ans.: Share of Profit: Asgar–₹ 70,000; Chaman–₹ 40,000 and Dholu–₹ 70,000.]

Q.3) The partners of a firm, Alia, Bhanu and Chand distributed the profits for the year ended 31st March, 2024, ₹ 80,000 in the ratio of 3 : 3 : 2 without providing for the following adjustments:

(a) Alia and Chand were entitled to a salary of ₹ 1,500 each per month.

(b) Bhanu was entitled for a commission of ₹ 4,000.

(c) Bhanu and Chand had guaranteed a minimum profit of₹ 35,000 p.a. to Alia, any deficiency to be borne equally by Bhanu and Chand.

Pass the necessary Journal entry for the above adjustments in the books of the firm. Show workings clearly.

[Ans.: Dr. Bhanu's Capital A/c by ₹ 21,000 and Chand's Capital A/c by ₹ 2,000; Cr. Mia's Capital A/c by ₹ 23,000.]

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Q.4). Ram and Rahim are in partnership sharing profits and losses in the ratio of 3:2. As Ram, on account of his advancing years, feels he cannot work as hard as before, the chief clerk of the firm, Ratan, is admitted as a partner with effect from 1st January, 2023, and becomes entitled to 1/10th of the net profits and nothing else, the mutual ratio between Ram and Rahim remaining unaltered. Before becoming a partner, Ratan was getting a salary of ` 500 p.m. together with a commission of 4% on the net profits after deducting his salary and commission. It is provided in the partnership deed that the share of Ratan's profits as a partner in excess of the amount to which he would have been entitled if he had continued as the chief clerk, should be taken out of Ram's share of profits. The net profit for the year ended December 31, 2023 is ` 1,10,000. Show the distribution of net profit amongst the partners.

[Ans.: Share of Profit: Ram—₹ 59,000; Rahim—₹ 40,000 and Ratan—₹ 70,000.]

Q.5) Maanika, Bhavi and Komal are partners sharing profits in the ratio of 6:4: 1. Komal is guaranteed a minimum profit of ₹2,00,000. The firm incurred a loss of ₹22,00,000 for the year ended 31st March, 2023. Pass necessary journal entry regarding deficiency borne by Maanika and Bhavi and prepare Profit and Loss Account.

[Ans. (i) First of all, loss of ₹22,00,000 will be debited to Maanika, Bhavi and Komal in their profit sharing ratio of 6 : 4 : 1.
(ii) Thereafter, Komal's deficiency of ₹4,00,000 will be borne by Maanika and Bhavi in 6 : 4.]