CHAPTER-1 ACCOUNTING FOR PARTNERSHIP FIRMS— FUNDAMENTALS

concept no.

13

Minimum Earnings Guranteed by a Partner

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Minimum Earnings Guranteed by a Partner

Questions

Q.1). Three Chartered Accountants Abhijit, Baljit and Charanjit form a partnership, profits being shared in the ratio of 3 : 2 :1 subject to the following:
(a) Charanjit's share of profit guaranteed to be not less than ₹ 15,000 p.a.
(b) Baljit gives a guarantee to the effect that gross fee earned by him for the firm shall be equal to his average gross fee of the preceding five years when he was carrying on profession alone, which on an average works out at ₹ 25,000.
The profit for the first year of the partnership is ₹ 75,000. The gross fee earned by Baljit for the firm is ₹ 16,000.
You are required to show Profit & Loss Appropriation Account after giving effect to the above.
[Ans.: Abhijit's Share—₹ 41,400; Baljit's Share—₹ 18,600; Charanjit's Share—₹ 15,000.]

Q.2) Xen, Sam and Tim are partners in a firm. For the year ended 31 st March, 2023, the profit of the firm ₹ 1,200,000 was distributed equally among them, without giving effect to the following terms of the partnership Deed:
(i) Sam's guarantee to the firm that the firm would earn a profit of at least₹ 1,35,000. Any shortfall in these profits would met by him.
(ii) Profits to be shared in the ratio of 2 :2 :1.
You are required to pass the necessary Journal entries to rectify the error in accounting.
[Ans.: (i) Profit wrongly distributed now reversed: Dr. Xen's Capital A/c by ₹ 40,000; Sam's Capital A/c by ₹ 40,000 and Tim's Capital //c by ₹ 40,000
Cr. Profit & Loss Adjustment A/c by ₹ 1,20,000.
(ii) For Shortfall in Profit: Dr. Sam's Capital A/c and Cr. Profit & Loss Adjustment A/c by ₹ 15,000.
(iii) For Rectified Profit Distributed (2:2:1): Dr. Profit & Loss Adjustment A/c by ₹ 1,35,000.
Cr. Xen's Capital by ₹ 54,000, Sam's Capital A/c by ₹ 54,000 and Tim's Capital A/c by ₹ 27,000.]

End OF Chapter-1