COMMERCE POINT

36-A, Rani Ka Bagh, Near Shivaji Park, Amritsar (M) 9888676976

An Institute of Accountancy & Economics (+1, +2, C.B.S.E.)

CHAPTERS: ACCOUNTING FOR PARTNERSHIP FIRMS

1. A and B started business on July 1, 2004 each partner contributing rs.150000 as his share of capital. Three months later, on October 1, 2004, B makes an additional contribution of rs.100000 which is treated as a loan. The profit for the period ending March 2005 was rs.85000 before charging any interest. All the partners were entitled to a salary of rs.3000 each, per quarter. The partners had drawn rs.24000 each on 1.1.2005.Prepare the profit and loss appropriation account for the period ended march 31,2005 4

2. A, B and C were partners in a firm. On 1.4.05 their capitals stood at rs.50000; rs.25000 and rs.25000 respectively. As per partnership deed:
a) C was entitled for a salary of rs.5000 p.a.
b) Partners were entitled to interest on capital at 5% p.a.
c) Profits were to be shared in the ratio of partner's capital.
The net profit for the year 2005-06 of rs.33000 was divided equally without providing for the above terms. Pass an adjustment entry in journal to rectify the above error. 6

3. Ram and Gopal were partners in a firm sharing profits in the ratio of 3:2. On 1.1.07 their fixed capitals were rs.100000 and rs.150000 rasp. On 31.3.07 they decided that their total capital should be rs.300000. It was further decided that the capital should be in their profit sharing ratio. Accordingly they introduced or withdrew the necessary capital. The partnership deed provided the following:
a) Interest on capital @ 12% p.a. ii) Interest on drawings @ 18% p.a. and iii) Monthly salary to Ram @ rs.2000 per month and to Gopal @ rs.3000 per month.
The drawings of Ram and Gopal during the year were as follows:-

Date	Ram	Gopal
July1, 07	10000	rs.12000
Sept30, 07	15000	rs.12000

The profit earned by the firm for the year ended 31.12.07 was rs.200000. 10% of this profit was to be kept in a reserve. You are required to prepare
a) Profit and loss appropriation account
b) Capital accounts of partners and current accounts of partners 6

4. A, B, C sharing profits and losses in the ratio of 4:3:2 decide to share future profits and losses in the ratio of 2:3:4 with effect from 1st April, 2010. An extract of their balance sheet as on 31st March, 2010 is:

LIABILITIES	AMOUNT	ASSETS	AMOUNT
Investment fluctuation reserve	45000	Investment (cost)	500000

Show the accounting treatment of investment fluctuation reserve assuming that the market value of investment on the date of reconstitution of firm is Rs.473000. 4

5. Rao and Reddy were partners in a firm sharing profits in the ratio of 3:1. They admitted Kitty as a new partners for 3/8 the share in the profits. The new profit sharing ratio will be 3:2:3. Kitty brought Rs.200000 for his capital and Rs.50000 for his share of premium for goodwill. On 31.3.09, the date of Kitty's admission, the Balance Sheet of Rao and Reddy was as follows:

Balance sheet as on 31.3.09

liabilities		Amount (Rs)	Assets	Amount(Rs)
Creditors		60000	Cash	90000
Bills payable		20000	Debtors	80000
Capitals:			Stock	150000
Rao	400000		Furniture	50000
Reddy	100000	500000	machinery	210000
		580000		580000

It was agreed that:

a. Stock is valued at Rs.200000.
b. Machinery will be depreciated by 12%.
c. Furniture will be depreciated by Rs.2000.
d. A provision of 5 % for bad and doubtful debts will be made on debtors.
e. The capital accounts of all the partners to be adjusted in new profit sharing ratio taking Kitty's capital as base, for surplus or deficiency the current accounts are to be opened. Prepare revaluation account, partner's capital accounts and the balance sheet of new firm. 6

6. A, B and C were sharing profits in proportion to their capitals. Their balance sheet on 31.3.09 was as follows:

Balance sheet as on 31.3.09

liabilities		Amount (Rs)	Assets		Amount(Rs)
Creditors		15600	Building		100000
Reserve		6000	Machinery		48000
Capitals:			Stock		18000
A	90000		Debtors	20000	
B	60000		Provision:	400	19600
C	30000	180000	cash		16000
		201600			201600

On the above date B retired owning to ill health and the following adjustments were agreed upon:

a. Buildings are appreciated by 10%.
b. Provision for doubtful debts is increased to 5 % of debtors.
c. Machinery be depreciated by 15 %.
d. Goodwill of the firm be valued at rs. 36000 and be adjusted into the capital accounts of A and C who will share profits in future in the ratio of 3:1.
e. A provision be made for outstanding repairs bill of rs. 3000.

f. Included in the value of creditors is rs.1800 for an outstanding legal claim, which is not likely to arise.
g. Out of the insurance premium paid rs.2000 is for the next year. The amount was debited to Profit and Loss account.
h. The partners decide to fix the capital of new firm as Rs.120000 in the profit sharing ratio.
i. B is to be paid Rs.9000 in cash and the balance to be transferred to his loan account.

Prepare the revaluation account, partner's capital accounts and the balance sheet of the new firm after B's retirement. 8

7. A, B and C shared profits in the ratio of 3:2:1. They decided to dissolve the firm and appointed A to realize the assets. A is to receive 5% commission on the sale of assets (except cash) and is to bear all expenses of realization. The position of the firm was as follows:

liabilities		Amount (Rs)	Assets	Amount(Rs)
Bank overdraft		25000	Cash in hand	22500
Creditors		60000	Debtors	52300
Provident fund		12000	Stock	36000
Investment fluctuation fund		6000	Investments	15000
Commission received in advance		8000	Plant	91200
			Profit and loss account	54000
Capitals:				
A	90000			
B	60000			
C	10000	160000		
		271000		271000

Information:

a. A realized the assets as follows: debtors Rs.30000, Stock Rs. 26000, Investments at 75% value; Plant at Rs.42750. Expenses of realization amounted to Rs.4100.
b. Commission received in advance is returned to the customers after deducting Rs.3000 for work done.
c. Firm had to pay Rs.7200 for outstanding salaries, not provided for earlier.
d. Compensation to employees paid by the firm amounted to Rs.9800.This liability was not provided for in the above balance sheet.
e. Rs.25000 has to be paid for provident fund. 6

Prepare (1) Realization account (ii) Partner's capital account (iii) Bank account to close books of the firm.

8. Mohit, Akshay and Johny are partners sharing profits and losses in the ratio 3:2:1. On the date of Balance Sheet, the capital of Mohit, Akshay and Johny are Rs 2,00,000, Rs 1,00,000 and Rs 3,00,000, General Reserve Rs 3,00,000. On the same date, Johny retires and his capital balance after all adjustments is to be paid in cash. The whole amount of Johny's capital is to be brought in by Mohit and Akshay in such a manner that their capitals are in proportion to their profit sharing ratio. Prepare Partners' Capital Account. 4

9.Siva, Bala and Babu were partners in a firm sharing profits and losses equally. Their firm was dissolved on 31st January, 2011. After transfer of assets and external liabilities to Realization Account the following transaction took place:

- **a.** Machinery worth rs. 60000 were taken by Bala at rs.34000 (book value rs.40000) and remaining was sold at a discount of 10%.
- **b.** An unrecorded asset of the firm Rs. 2,000 was taken over by Siva.
- **c.** Mr. Shankar, a creditor, to whom Rs. 20,000 were due to be paid, took over machinery at Rs. 25,000. Balance was paid by him in cash.
- **d.** Realization expenses amounted to Rs. 4,000 paid by firm was to be borne by Babu.
- **e.** The liabilities belong to outsiders rs.40000 were settled at a discount of 10%.
- **f.** 'Babu' takes over the loan payable to Mrs. Babu Rs. 20,000. 6

Pass necessary journal entries.