

CLASSES BY

SACHIN SHARMA

Past Adjustments &

Guarantee to a Partner

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SHARMA.COM

PAST ADJUSTMENTS

4 Questions

If, **AFTER PREPARATION OF FINAL ACCOUNTS** of firm,

it is found that some errors or omission in accounts has occurred than such errors or omissions are rectified by **PASSING AN ADJUSTMENT ENTRY**.

A statement is prepared to ascertain the net effect of such errors or omissions on partner's capital/current accounts.

P & L APPROPRIATION A/C (Correct)			
PARTICULARS	AMOUNT	PARTICULARS	AMOUNT
Interest on capital:		NET PROFIT	10,000
A	3,000		
B	2,000		
Net profit distributed			
A	2,500		
B	2,500		
	10,000		10,000

P & L APPROPRIATION A/C (Incorrect)			
PARTICULARS	AMOUNT	PARTICULARS	AMOUNT
Net profit distributed		NET PROFIT	10,000
A	6,000		
B	4,000		
	10,000		⁴ 10,000

TABLE SHOWING ADJUSTMENT						
	A		B		FIRM	
	DR.	CR.	DR.	CR.	DR.	CR.
Profit wrongly credited now to be debited	6000		4000			10,000
Int. on capital to be credited		3000		2,000	5,000	
Net profit to be credited		2500		2,500	5,000	
TOTAL	6,000	5,500	4,000	4,500	10,000	10,000
NET EFFECT		500DR.	500CR.			

A'S CAPITAL A/C DR. 500

TO B'S CAPITAL A/C 500

In case of fixed capital method

A'S CURRENT A/C DR. 500

TO B'S CURRENT A/C 500

In case of fluctuating method capital method

Ques-1

Pass the adjustment entry in the following case:

Interest on capital is credited @ 5% instead of 8%.

Their fixed capital stood as follows

A 100,000, B 50,000

Profit sharing ratio was equally.

TABLE SHOWING ADJUSTMENT						
	A		B		FIRM	
	DR.	CR.	DR.	CR.	DR.	CR.
Differential. Int. on capital to be credited @3%		3,000		1,500	4,500	
Excess profit wrongly credited now to be debited	2,250		2,250			4,500
TOTAL	2,250	3,000	2,250	1,500	4,500	4,500
NET EFFECT		750CR.	750DR.			

B'S CAPITAL A/C DR. 750

TO A'S CAPITAL A/C 750

Ques-2

Pass the adjustment entry in the following case:

Interest on capital is @ 8% p.a. & interest on drawings @ 5% p.a. is yet to be provided.

Their capital stood as follows:

A 100,000, B 50,000

Their drawings stood as A 100,000 p.a , B 150,000 p.a.,

Profit sharing ratio was 3:2, Profit for the year was 100,000

TABLE SHOWING ADJUSTMENT

	A		B		FIRM	
	DR.	CR.	DR.	CR.	DR.	CR.
Profit wrongly credited now to be debited	60,000		40,000			100,000
Int. on capital to be credited @8%		8,000		4,000	12,000	
Int. on drawings to be debited @5%	2,500		3,750			6,250
Net profit to be distributed		56,550		37,700	94,250	
TOTAL	62,500	64,550	43,750	41,700	106,250	106,250
NET EFFECT		2050CR.	2050DR.			

TABLE SHOWING ADJUSTMENT

	A		B		FIRM	
	DR.	CR.	DR.	CR.	DR.	CR.
Int. on capital to be credited @8%		8,000		4,000	12,000	
Int. on drawings to be debited @5%	2,500		3,750			6,250
Excess profit to be debited	3,450		2,300			5,750
TOTAL	5,950	8,000	6,050	4,000	12,000	12,000
NET EFFECT		2,050CR.	2,050DR.			

B'S CAPITAL A/C DR. 2050

TO A'S CAPITAL A/C 2050

Ques - 3

For the year ended March, 2019 & March 2020 interest on capital was credited although there was no such provision in the partnership deed.

The profit sharing ratio was 3:2:1 for 2018-19 & 1:1:1 for 2019-20

	Interest credited	
	2018-19	2019-20
A	900	1800
B	1200	1200
C	1500	1500

TABLE SHOWING ADJUSTMENT

	A		B		C		FIRM	
	DR.	CR.	DR.	CR.	DR.	CR.	DR.	CR.
Int. on capital wrongly credited now to be debited								
2018-19	900		1,200		1,500			3,600
2019-20	1,800		1,200		1,500			4,500
Profit to be credited								
2018-19		1,800		1,200		600	3,600	
2019-20		1,500		1,500		1,500	4,500	
TOTAL	2,700	3,300	2,400	2,700	3,000	2,100	8,100	8,100
NET EFFECT		600CR.		300CR.	900DR.			

C'S CAPITAL A/C DR. 900

TO A'S CAPITAL A/C 600

TO B'S CAPITAL A/C 300

Ques-4

Pass the adjustment entry in the following case:

A & B are partners sharing profits in the ratio 7:5.

For the year ended March 31, 2019 they had distributed the profits equally without providing for Interest on capital @ 12% p.a. and Salary to A- 6,000 p.m and 15,000 p.m

Their fixed capitals at the end of the year were 10, 00,000 & 700,000.

The profits distributed were 504,000

TABLE SHOWING ADJUSTMENT

	A		B		FIRM	
	DR.	CR.	DR.	CR.	DR.	CR.
Profit wrongly credited now to be debited	252,000		252,000			504,000
Int. on capital to be credited @12%		120,000		84,000	204,000	
Salary to be credited		72,000		180,000	252,000	
Net profit to be credited		28,000		20,000	48,000	
TOTAL	252,000	220,000	252,000	284,000	504,000	504,000
NET EFFECT	32,000 DR.			32,000 CR.		

A'S CAPITAL A/C DR. 32,000
TO B'S CAPITAL A/C 32,000

GUARANTEE OF PROFITS TO A PARTNER

6 Questions

Guarantee is an assurance given to the partner of the firm that at least a fixed amount of guaranteed profits shall be given to him.

In case his actual share in profits comes out to be less than the guaranteed amount:-the difference will be given to him **either by the firm or by the concerned partner who has given the guarantee** as the case may be.

If the guarantee is given by the firm- then the deficiency will be borne by the remaining partners in their profit sharing ratio or as the ratio they have decided for such deficiency.

If the guarantee is given by a specific partner- then the deficiency will be borne by that specific partner.

Ques-1 (a)

A, B and C were in partnership sharing profits and losses in the ratio of 4 : 2 : 1 respectively.

It was provided that C's share in profit for a year would not be less than 7,500.

The profit for the year ended 31st March, 2018 amounted to 31,500. You are required to show the appropriation among the partners.

P & L APPROPRIATION A/C				
PARTICULARS		AMOUNT	PARTICULARS	AMOUNT
Net profit distributed:-			NET PROFIT	31,500
A $31,500 \times \frac{4}{7}$	18,000			
Less: Deficiency	2,000	16,000		
B $31,500 \times \frac{2}{7}$	9,000			
Less: Deficiency	1,000	8,000		
C $31,500 \times \frac{1}{7}$	4,500			
Add: Deficiency	3,000	7,500		
		31,500		31,500

Ques-1 (b)

A, B and C were in partnership sharing profits and losses in the ratio of 3: 2 : 1 respectively.

Is guaranteed minimum profit of 150,000 p.a. The firm incurred loss for the year 31st march, 2024 of 30,000

Prepare P&L appropriation A/c

P & L APPROPRIATION A/C			
PARTICULARS	AMOUNT	PARTICULARS	AMOUNT
P & L a/c	30,000	Loss transferred:-	
Loss transferred from P & L a/c		A $180,000 \times 3/4$	135,000
		B $180,000 \times 1/4$	45,000
B's capital A/c	150,000		
Guaranteed profit			
	180,000		180,000

Ques-2

A and B are partners sharing profits in the ratio of 3 : 2.

C was admitted for $\frac{1}{6}$ th share of profit with a minimum guaranteed amount of 10,000.

At the close of the first financial year the firm earned a profit of 54,000. Find out the share of profit which A, B and C will get.

P & L APPROPRIATION A/C

PARTICULARS	AMOUNT	PARTICULARS	AMOUNT
Net profit distributed:-		NET PROFIT	54,000
A $44,000 \times 3/5$	26,400		
B $44,000 \times 2/5$	17,600		
C $54,000 \times 1/6 = 9,000$ or 10,000	10,000		
Whichever is higher			
	54,000		54,000

Ques-3

X, Y and Z entered into partnership on 1st October, 2017 to share profits and losses in the ratio of 4 : 3 : 3.

X, personally guaranteed that Z's share of profit after charging interest on capital @ 10% p.a. would not be less than 40,000 in any year.

The capital contributions were: X 3,00,000, Y 2,00,000 and Z 1,50,000.

The profit for the year ended 31st March, 2018 amounted to 1,60,000.
Prepare Profit and Loss Appropriation Account.

P & L APPROPRIATION A/C				
PARTICULARS		AMOUNT	PARTICULARS	AMOUNT
Interest on capital:			NET PROFIT	160,000
X		15,000		
Y		10,000		
Z		7,500		
Net profit distributed				
X	51,000			
Less: Deficiency	1,750	49,250		
Y		38,250		
Z	38,250			
Add: Deficiency	1,750	40,000		
		160,000		160,000

Ques-4

A and B were partners in a firm sharing profits in the ratio of 3 : 2.

On 1st April, 2017, they admitted C as a new partner for 1/8th share in the profits with a guaranteed profit of 1,50,000.

The new profit-sharing ratio between A & B will remain same but they decided to bear any deficiency on account of guarantee to C in the ratio 2 : 3.

The profit of the firm for the year ended 31st March, 2018 was 9,00,000. Prepare Profit and Loss Appropriation Account for the year ended 31st March, 2018.

P & L APPROPRIATION A/C				
PARTICULARS		AMOUNT	PARTICULARS	AMOUNT
Net profit distributed:-			NET PROFIT	900,000
A $787,500 \times 3/5$	472,500			
Less: Deficiency ($37,500 \times 2/5$)	15,000	457,500		
B $787,500 \times 2/5$	315,000			
Less: Deficiency ($37,500 \times 3/5$)	22,500	292,500		
C $900,000 \times 1/8$	112,500			
Add: Deficiency	37,500	150,000		
		900,000		900,000

Net profit available to A and B after giving $1/8^{\text{th}}$ to C
 $= 900,000 - 112,500 = 787,500$

Ques-5

X, Y & Z are partners in a firm. On 1st April, 2017, the balance in their Capital Accounts stood at 14,00,000, 6,00,000 and 4,00,000 respectively.

They shared profits in the proportion of 7 : 3 : 2 respectively.

Partners are entitled to interest on capital @ 6% per annum and salary to Y @ 50,000 p.a. and a commission of 3,000 per month to Z as per the provisions of the partnership Deed.

Y's share of profit (excluding interest on capital) is guaranteed at not less than 1,70,000 p.a.

Z's share of profit (including interest on capital but excluding commission) is guaranteed at not less than 1,50,000 p.a.

Any deficiency arising on that account shall be met by X.

The profit of the firm for the year ended 31st March, 2018 amounted to 9,50,000. Prepare Profit and Loss Appropriation Account for the year ended 31st March, 2018.

P & L APPROPRIATION A/C				
PARTICULARS		AMOUNT	PARTICULARS	AMOUNT
Interest on capital:			NET PROFIT	950,000
X		84,000		
Y		36,000		
Z		24,000		
Salary to X		50,000		
Commission to Z		36,000		
Net profit distributed				
X $720,000 \times 7/12$	420,000			
Less: Deficiency	6,000	414,000		
Y $720,000 \times 3/12$		180,000		
Z $720,000 \times 2/12$	120,000			
Add: Deficiency	6,000	126,000		
		950,000		³¹ 950,000