**18th May, 2020 JESUS AND MARY SCHOOL AND COLLEGE MODULE 2**

**CLASS – 12**

**ACCOUNT**

**Partners’ Capital Accounts**

**Meaning:** - Partners’ contribution to the firm is called their capitals. It is not necessary that every partner should contribute capital. Further, the partners need not contribute capital equally or in accordance with their profit sharing ratio. It is not necessary that every partner should bring capital in the form of cash. Capital can also be brought in the form of other assets such as stock, furniture, machinery, goodwill, etc. Thus the amount of capital that each partner should bring depends upon the agreement amoung the partners.

When capital is brought into the business by the partners, accounts are opened in the name of the partners. The accounts opened in the name of the partners for the capital contributed by them are called their capital accounts. The transactions relating to partners are recorded in their respective capital accounts.

**Types:** - The partners’ capital accounts can be maintained in any one of the following two manners-

1. Fluctuating Capital Method 2. Fixed Capital Method

**Fluctuating Capital Method:**- It is also known as floating capital method. Under this method, only one account of each partner is maintained, that is capital account. No separate current Account is maintained. It records all transactions affecting partner’s account like amount contributed by a partner, interest on capital, salary, commission, share of profit or loss, drawings, interest on drawings etc. in capital account itself. Then, the capital account of each partner is balanced in the usual manner. The balance in the capital account keeps on changing from year to year. So; it is called fluctuating capital method.

 In the absence of information the Capital Accounts should be prepared by this method.

PERFORM OF

CAPITAL ACCOUNTS (When the capitals are fluctuating)

Dr. Cr.

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Particulars | A | B | Particulars | A | B |
| To cash / Bank (drawings against capital)To Drawings(Drawing against profit )To Interest on Drawing To P & L Appropriation A/c(share of loss)To Balance c\d(Closing Balance) | ₹ | ₹ | By cash /Bank A/c ( If Capital is contributed )OrBy balance b/d (opening balance)By cash /Bank A/c ( Additional Capital )By Interest on Capital By Partner’s salary By Partners CommissionBy P & L appropriation A/c(Share of profit)   | ₹ | ₹ |

2). **Fixed Capital Method:** - Under this method, the capital of partners shall remain fixed unless some additional capital is introduced or some amount of capital is withdrawn by an agreement amoung the partners. Thus, under this method two accounts for each partner are maintained:

1. Capital Account b) Current Account
2. **Capital Account:** This capital account is credited with the original amount of capital introduced by the partner. All other transactions relating to partners are recorded in current account of the respective partners. That is why the balance of this account will remain fixed from year to year. It always shows a credit balance.
3. **Current Account :** This account is debited with drawings, interest on drawing, share of loss etc and credited with interest on capital, salary, commission, bonus, share of profit etc. to which the partner is entitled. The balance of this account will fluctuate from year to year.

It may show a credit balance or a debit balance. A credit balance in the current account of a partner will appear on the liabilities side and a debit balance in the current account of partner will appear on the assets side of the balance sheet of the partnership firm.

**PERFORMA OF**

**CAPITAL ACCOUNTS** (When the capitals are fixed)

Dr. Cr.

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Particulars | A | B | Particulars | A | B |
| To cash / Bank ( capital withdrawn )To Balance c\d(Closing Balance) | ₹ | ₹ | By Cash /Bank A/c (Capital introduced)OrBy balance b/d (opening balance)By Cash /Bank A/c ( Additional Capital )  | ₹ | ₹ |

PERFORMA OF

CURRENT ACCOUNTS (When the capitals are fixed)

Dr. Cr.

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Particulars | A | B | Particulars | A | B |
| To Balance b/d (In case of debit opening balance)To Drawings A/c To Interest on Drawings A/cTo P & L A/c(share of loss)To Balance c\d(Closing Balance) | ₹ | ₹ | By balance b/d (in case of credit opening balance)By Interest on capital By Partner’s salary By Partner’s commission By P & L Appropriation A/c (Share of profit )  | ₹ | ₹ |

**Partners’ Drawings Accounts:**  Amounts withdraw by partners from the partnership business in anticipation of their share of profits for meeting their private or domestic expenses is called drawings. Each partners can withdrew either cash or goods or both for his personal use according to partnership deed.

 **Accounting Treatment:**  At the end of the year, the balance of partner’s drawings account is transferred to the debit side of respective partner’s capital account or partner’ s Current Account.

**Types of Drawings:**  There are two types of drawings:

1. Withdrawls of capital is referred as withdrawls against capital.
2. Withdrawls in anticipation of profits is referred as drawings against profit.

**Interest on Drawings :**  Interest on drawing is to be calculated from the date of the withdrawl of the amount . In the absence of the date of withdrawl, interest should be charge for six months on whole of the amount because it will be assumed that the drawing were made evenly throughout the year.

**Accounting Treament :**  Interest on drawing is recorded on the credit side of P & L appropriation A/c, as it is an item of income for the firm. Interest on drawing is also recorded on debit side of capital / current Accounts, as it reduces the capitals.

**Commission Payable to Partner/ Manager :**

Sometime, the partner/manager is to be allowed a certain percentage of net profit as his commission. Partners / Manager’s commission will be calculated on corrected net profit of the profit & loss A/c if question is silent. There are two alternative for allowing commission:

1. **On net profit before charging such commission :**

For example, if net profit is ₹ 11,000 before charging manager’s / partner’s commission and commission is given 10% on net profit before charging such commission, the commission will be calculated as follow:

Commission=Net Profit × $\frac{Rate}{100}$

 = 11,000 × $\frac{10}{100}$

 =1,100

1. **On net profit after charging such commission :**

 For example, if net profit is ₹ 11,000 before charging manager’s / partner’s commission and commission is given 10% on net profit after charging such commission, the commission will be calculated as follow:

Commission=Net profit × $\frac{Rate}{100+Rate}$

 = 11,000 × $\frac{10}{100+10}$ = 11,000 × $\frac{10}{110}$

 =1,000

**Accounting Treament :**  Commission payable to partner is a business expense but for partner, it is a gain, It is shown on the debit side of profit and loss Appropriation Account and on the credit side of partner’s capital/current Account whereas commission payable to manager is a business expense, it is shown and on the debit side of profit and loss account and on the liabilities side of balance sheet as outstanding commission.

**Interest on capital :**  Interest on capital is to be allowed to the partners if the same has been specifically provided in the partnership dead and is allowed at the given rate with reference to time period for the capital that has been used in the business,

Formula: Interest on capital = Amount of capital × $\frac{Rate}{110}$ × Time

 **Accounting Treament :**  Interest on capital is a loss to the firm, but for partner it is a gain. It is shown on the debit side of profit and loss Appropriation Account and on the credit side of partner’s Capital/Current A/c:

**Salary and Bonus to Partners :**

The active partners may be allowed salary and bonus for the work performed as per agreement.

**Account Treatment :**  Salary and bonus payable to the partner is a business expense, but for partner it is a gain. It is shown on the debit side of profit and loss Appropriation Account and on the credit side of partner’s capital /Current Account.

**Question and their solutions :**

 (On the basis of rules and method discussed above)

Question1 Show how the following item will appear in the capital accounts of the partners, Sunder and Mukari when their capitals are:

1. Fluctuating ii) Fixed

 Sunder Mukari

 ₹ ₹

 Capital Account balances (01-04-2017) 80,000 70,000

Drawings during this year 16,000 14,000

Additional capital brought in during the year - 5, 000

Partner’s Salary 7,200 -

Interest on capital at 6% 4,800 4,200

Interest on drawings at 5% 400 350

 Partners commission 5,000

Share of profit 8,400 6,600

**Solution:**

1. When capitals are fluctuating :

Partner’s capital Accounts

Dr. Cr.

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Particulars | Sundar | Mukari | Particulars | Sundar | Mukari |
| To Drawings A/c To Interest on drawings A/c To Balance c/d | ₹16,000 40084,0001,00,400 | ₹14,000 35076,45090,800 | By balance b/dBy cash A/cBy SalaryBy Interest on capital By Commission A/cBy P & L Appropriation A/c (Share of profit )  | ₹80,000-7,2004,8008,4001,00,400 | ₹70,0005,000-4,2005,0006,60090,800 |

1. When capitals are fixed :

Partner’s capital Accounts

Dr. Cr.

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Particulars | Sundar | Mukari | Particulars | Sundar | Mukari |
| To Balance c/d | ₹80,00080,000 | ₹75,00075,000 | By balance b/dBy cash A/c  | ₹80,000-80,000 | ₹70,0005,000-75,000 |

Partner’s current Accounts

Dr. Cr.

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Particulars | Sundar | Mukari | Particulars | Sundar | Mukari |
| To Drawings A/c To Interest on drawings A/c To Balance c/d | ₹16,000 4004,00020,400 | ₹14,000 3501,45015,800 | By SalaryBy Interest on capital By Commission A/cBy P & L Appropriation A/c (Share of profit )  | ₹7,2004,8008,40020,400 | ₹-4,2005,0006,60015,800 |

**Question 2-** A and B are partner’s sharing profit in the ratio 3:2, with capital of ₹ 5, 00,000 and ₹ 30, 00.000 respectively. Interest on capital is agreed @ 6% p.a. B is to be allowed an annual salary of ₹ 60,000. During the year 2019-20, the profits prior to the calculation of interest on capital but after charging B’s salary amounted to ₹ 1, 80,000. A provision of 5% of the profit is to be made in respect of commission to the manager.

 Prepare Profit and Loss Appropriation account showing the distribution of profit and the partner’s capital accounts for the year ending March 31, 2020.

**Solution :**  Manager’s commission is to be shown in Profit & Loss Account not in Profit & Loss appropriation account because it is a charge against the profit not an appropriation of profit. Hence profit and loss account is to be prepared before the preparation of profit & loss appropriation account.

**Profit and Loss A/c**

**For the year ended on 31 March, 2020**

Dr. Cr.

|  |  |  |  |
| --- | --- | --- | --- |
| Particulars | ₹ | Particulars | ₹ |
| To Manager’s commission  ( 5% of ₹ 2,40,000)To Net Profit Transformed to profit & Loss Appropriation A/c | 1,20002,28,0002,40,000 | By profit for the year (Before B is salary)(1,80,000+ 60,000)  | 2,40,0002,40,000 |

 **Profit and Loss Appropriation Account**

**For the year ended on 31 March, 2020**

Dr. Cr.

|  |  |  |  |
| --- | --- | --- | --- |
| Particulars | ₹ | Particulars | ₹ |
| To B/s Salary To Interest on capital: A 30,000 B 18,000To Profit Transformed to: A’s capital A/c 72,000  B’s capital A/c 48,000  |  60,00048,0001,20,0002,28,000 | By profit & loss A/c  | 2,28,0002,28,000 |

**Partner’s capital Accounts**

Dr. Cr.

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Particulars | A | B | Particulars | A | B |
| To Balance c/d  | ₹6,02,0006,02,000 | ₹4,26,0004,26,000 | By balance b/dBy SalaryBy Interest on capital By P & L Appropriation A/c (Share of profit )  | ₹50,000-30,00072,0006,02,000 | ₹3,00,00060,00018,00048,0006,26,000 |

Question3.

A & B are partners in a firm with a capital ₹ 2, 00,000 and ₹ 1, 00,000 respectively. Each Partner is entitled to 10 % interest on his capital. A is to get a commission of 10 % on net profit after deducting interest on the capital but before charging any commission. B is to get commission of 10% on net profit after deducting interest on capital and after charging all commission. Net profit before charging interest on capital and any commission ₹ 2, 50,000. Find out the commission of A and B and prepare profit & loss Appropriation Account for the year ended 31st March, 2018.

**Solution:**

**Profit and Loss Appropriation Account**

**For the year ended on 31 March, 2018**

Dr. Cr.

|  |  |  |  |
| --- | --- | --- | --- |
| Particulars | ₹ | Particulars | ₹ |
| To Interest on capital  A(2,00,000 \* 10%) 20,000 B (1,00,000 \*10%) 10,000To Commission A/c A 22,000  B 18,000 To Profit transformed to capital A/c: A 1/2 90,000  B 1/2 90,000  | 30,00040,0001,80,0002,50,000 | By profit & loss A/c(Net profit)  | 2,50,0002,50,000 |

Note - In the absence of information, profits will be shared equally.

**Calculation of commission payable to A and B**

1. A’s commission after deducting interest on capital but before charging such commission:

Net profit = ₹ 2,50,000 – 30,000 (Interest on capital)

 = 2, 20,000

Commission = Net profit × $\frac{Rate}{100}$ = ₹ 2,20,000 × $\frac{10}{100}$

 =22,000

1. B’s commission after deducting interest on capital and charging all commission :

Commission = Net profit × $\frac{Rate}{100+Rate}$

 = (2, 20,000 - 22,000) × $\frac{10}{100+10}$

 = ₹ 1, 98,000 × $\frac{10}{110}$

 = 18,000

**WORKSHEET**

Do the questions given below:

**Question1-** What Accounts are maintained?

1. When the capitals are fixed?
2. When the capitals are fluctuating?

**Question2** If the Partner’s capital Accounts are fixed, where will you record the following items:-

1. Drawings made by a partner.
2. Salary payable to a partner
3. Fresh capital introduced by a partner
4. Share of profit
5. Interest on Drawings

**Question3** Mention the items that may appear on the debit side of the capital Account of a partner when

 the capitals are fluctuating.

**Question4** Write two items of credit side of current accounts.

**Question5** Write two items of debit side of current Accounts.

**Question6** From the following details, prepare capital Accounts of the partners Suraj and Prakash, when

 Capitals are fixed:

 Suraj Prakash

 ₹ ₹

 Capital Account balances (01-04-2011) 60,000 40,000

Drawings during this year 7,000 5,000

Additional fixed capital brought in during the year - 20,000

Salary for the year 2,000 1,500

Interest on capital at 5% 3,000 2,500

Share of profit 3,960 2,640

Interest on drawings 350 250

 Current Account Balances (01-04-2011) (Cr.) 2,400 (Dr) 1,000

[Ans. Capital Account Balances: Suraj ₹ 60,000 and Prakash ₹ 60,000 Current Accounts, Suraj

 ₹ 4,010 ( Cr.) and Prakash ₹ 390(Cr.)]

**Question7.**

 On 1st April, 2018 A and B commenced business with capitals of ₹ 6,00,000 and

₹ 2,00,000 respectively. On 31st March, 2019 the net profit (before taking into account the precisions of dead) was ₹ 2, 40,000. Interest on capital is to be allowed at 6% p.a. B was entitled to a salary of ₹ 60,000 p.a. The drawings of the Partner A and B were ₹ 60,000 and ₹ 40,000 respectively. The interest on drawings for A being ₹ 2,000 and B ₹ 1,000 Assuming that A and B are equal partners, prepare the profit & loss Appropriation A/c and partner’ capital Accounts as at 31st March, 2019.

 [Ans. Divisible Profits ₹ 1, 35,000; capitals A ₹ 6, 41,500 and B ₹ 2, 98,500]

**Question8.**

 X and Y are partners with capitals of ₹ 1, 00,000 and 80,000 respectively on 1st April, 2018 and their profit sharing Ratio is 2:1. Interest on capital is agreed @12% p.a. Y is to be allowed an annual salary of ₹6,000. The profit for the year ending 31st March, 2019 amounted to ₹ 50,000. Manage is entitled to a commission of 10% of the profits.

Prepare profit and loss Appropriation account and capital accounts.

[Ans. Divisible profit ₹17,400; commission to manager 5,000. Balances of capital accounts.

 X ₹ 1,23,600 and Y ₹ 1,01,400]

**Question9.**

 A and B are partners in a firm sharing profit or losses in the ratio of 2:3 with capitals of ₹ 4,00,000 and ₹ 8,00,000 respectively. Each partner is entitled to 10 % p.a. interest on his capital. B is entitled a commission of 10 % on net profit remaining after deducting interest on capital but before charging any commission. A is entitled a commission of 8% of net profit remaining after deducting interest on capital and after charging all commissions. The profit for the year prior to calculation of interest on capital was ₹ 6, 00,000.

Prepare profit and loss appropriation account.

[ Ans. Share of profit A ₹ 1,60,000 and B ₹ 2,40,000, commission to B ₹ 48, 000 and to A ₹ 32,000]

**Question10.**

 A and B are partners sharing profits in the ratio of 3:2 with their capitals on April 01, 2011 as ₹ 40,000 and ₹ 30,000 respectively. Interest on capital is allowed at 5% p.a. B is allowed an annual salary of ₹ 3,000. During 2011-12, the profit prior to calculation of interest on capital but after charging B;’s salary amounted to ₹ 12,000. A provision of 5% of corrected profit is to be made in respect of commission to the manger.

Prepare profit and loss appropriation account showing the distribution of profit.

[Ans. Share of profit: A₹ 4,650 and B ₹ 3,100. Manager commission ₹ 750, i.e 5% on corrected

Profit ₹ 15,000]

**Note: - Please do all this work in your NOTE BOOKS which will be check when school will re-open.**

**Please consider this important**