Class-12 (Accountancy)

Book-1 (40 marks Approx.)

- NPO
- Partnership

Book-2 (20 marks Approx.)

Issue of → Shares
         → Deb's
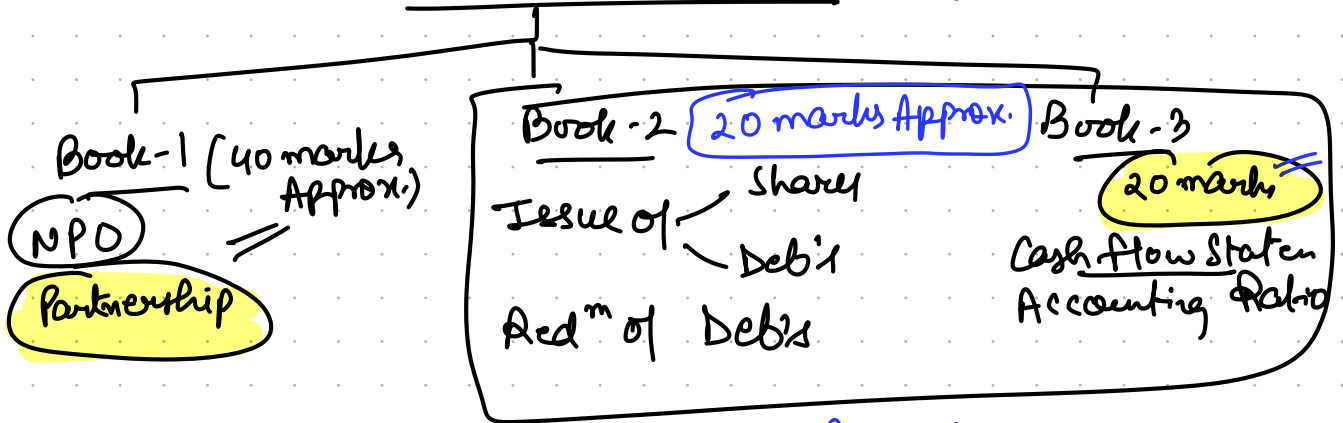
Red^m of Deb's

Book-3

20 marks

Cash flow Statem
Accounting Ratio

Book 1 + Book-2 → Part-A

Book-3 → Part-B

Base Material → T.S Grewal

Partnership
↓
chap-1   fundamental of Partnership firm

Class-11

financial St. of [Sole Proprietorship]

⚲
Vinay

[⚲ ⚹ ⚹] → Partnership

[2 or more Person]

[☐] [Partnership firm]

Note:- Partnership deed is optional, therefore it is not mandatory to prepare P.D.

Note:- P.D can be oral as well as written

Deepak   Sanjay   Vinay

Name of firm
Name of Partners & Description
Place of Business
object of Business
P.S.R → _____
Salary →
Interest on cap. →
                              etc.

→ Partnership deed /
   Partnership Agreement

Int. on cap = 10%.

capital ₹ 1,00,000

Deepak ← IOC = ₹ 10,000

cap. ₹ 2,00,000

Sanjay

cap. ₹ 3,00,000

Vinay

Partnership firm

→ Accounting will be done from the point of view of Partnership firm.

Dhruti Bhatt.

Partnership :- It is the relation between persons who have agreed to share the profits of a business carried on by all or any of them acting for all.

Mr. A   B   C

features of Partnership :-
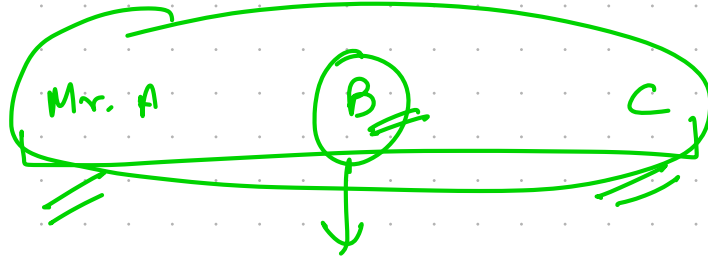
Indian Contract-Act, 1872

1. **Two or more persons:-** there must be at least two persons to form a partnership form of business and all such persons must be **competent to contract.**
Every person is competent to contract except:-
 A) minor
 B) person of unsound mind
 C) person disqualified by law.

Maximum no. Of partners - 50 (Sec-464 of companies Act, 2013)

2. Agreement:- Partnership comes into existence by an agreement, either **oral** or **written.**
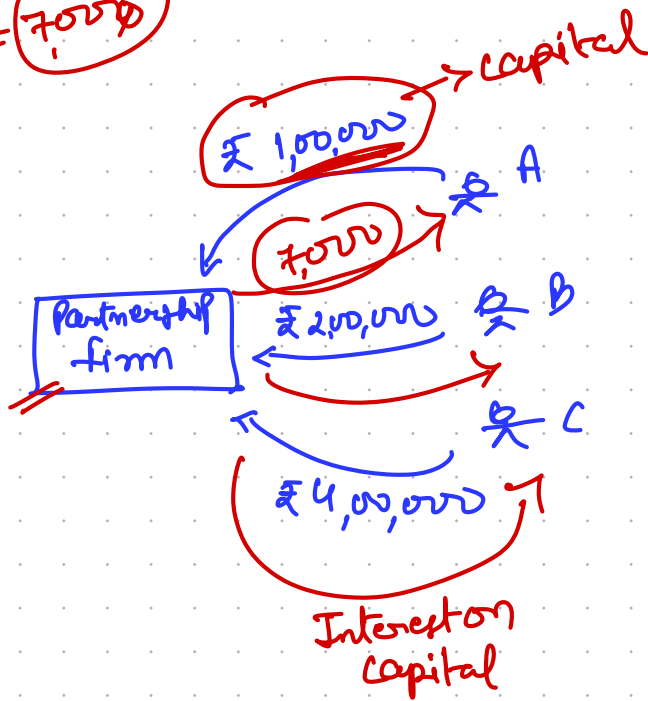
3. **Lawful business:-** the buisness must be lawful.

4. **Profit sharing :-** the **agreement must be to share profit/losses** among the **partners of the business.**

5. **Business can be carried on by all partners or by any of them on behalf of all the partners.**
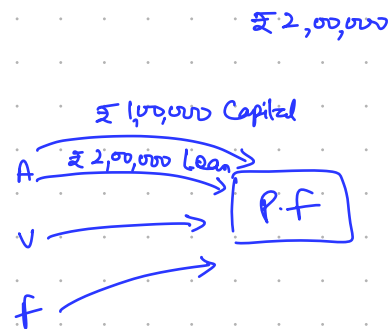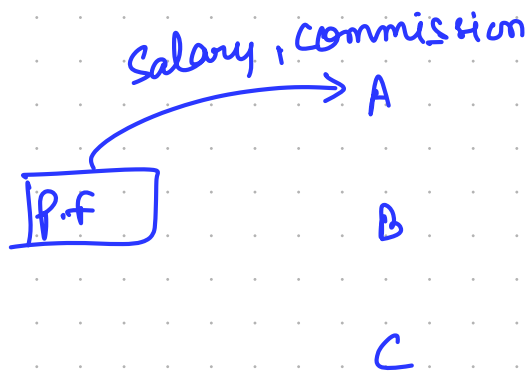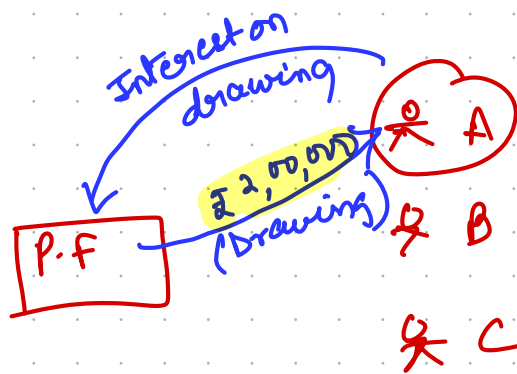
Note:- Partnership form of business is operated by **Indian Partnership Act, 1932.**

F   A   U

$1,00,000 \times 7\% = \boxed{7000}$

$\rightarrow$ capital

₹ 1,00,000 → A

$\boxed{7,000}$

Partnership firm ← ₹2,00,000 → B

C

₹ 4,00,000

Interest on Capital

$\boxed{\text{Interest on capital} = 7\% \text{ P.a}}$

Interest on drawing

₹ 2,00,000 (Drawing)

A

P.f ← B

C

Salary, commission → A

P.f

B

C

₹2,00,000

₹1,00,000 Capital

A ₹2,00,000 Loan → P.f

v →

f →

Note:— Vaise TO Han firm ko partnership deed banani chahiye but agan Partnership deed nahi banai aun partners ke beech me dispute ho gaya, Tab aaega provisions of Indian Partnership Act, 1932.

V.V.V.V.I

In the absence of Partnership Deed, following provisions are to be followed :-

i) No Salary to Partners

ii) No Interest on Capital (IOC) to partner

iii) No commission to partners

iv) No Interest on Drawings to be charged from partners

v) Profit-sharing Ratio will be equal.

vi) Interest on Partner's Loan will be 6% p.a.

vii) New partner can be admitted to the firm only with the permission of all the existing partners.

Note:- Partnership deed is not mandatory, it is optional.

Note:- Partnership deed can be made orally or in written form.

₹1,00,000 capital

P.f → 🧍

IOC

₹2,00,000 Loan

P.f → 🧍

IOL

Sole Prop.
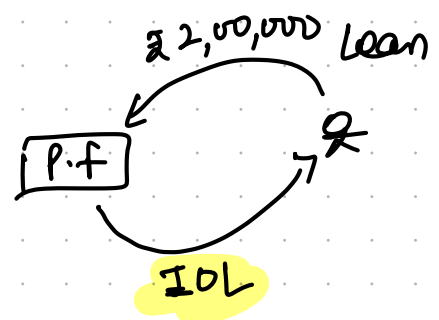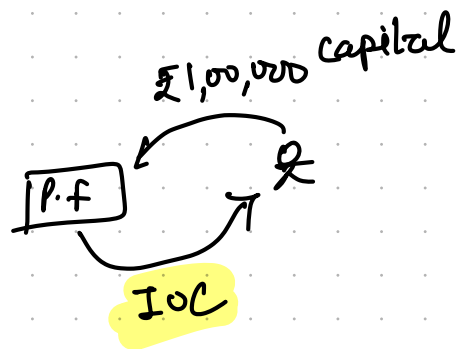
Trading A/C
_____

BIS
capital ___
+ N.P ___

To Gross profit

P & L A/C
_____

By Gross profit

To Net Profit

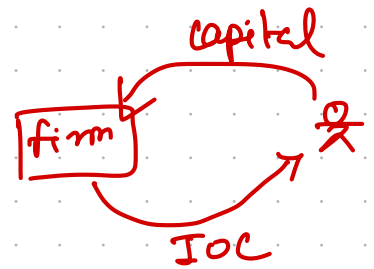P & L Appropriation A/C
_____

Profit ko partners me distribute karenge

By Net Profit / By P&L A/C

Journal Entries

① Entry for transfer of profit from P&L A/c to P&L **App'r** A/c

         P&L A/c   Dr.
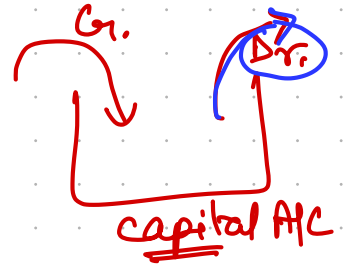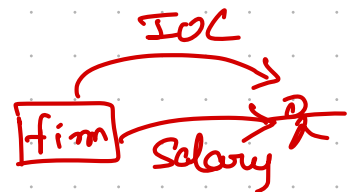   To P&L App'r A/c

② Entry for [IOC] paid to partners.

      Intt. on cap A/c   Dr.
         To Partner cap A/c

      P&L App'r A/c   Dr.
         To Intt. on cap. A/c

③ Entry for [Salary] paid to partners.

 Partner Salary A/c   Dr.
      To Partner cap. A/c

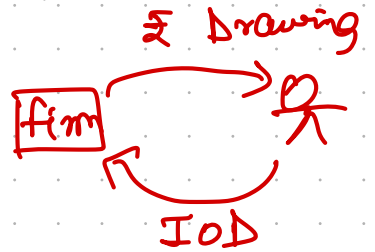 P&L App'r A/c   Dr.
      To Partner's Salary A/c

④ Entry for [Commission] paid to partners.

     Partner comm. A/c   Dr.
        To Partner cap A/c

     P&L App'r A/c   Dr.
       To Partner comm. A/c

(5) for charging Intt. on Drawings from partner

Partner cap A/c   Dr.
To Int. on Drawing

→ Int. on Drawing A/c   Dr.
To P&L Appr A/c

∑ Drawing
firm →→ 🧍
IOD

(6) for Transfer of profit to any reserve → General Reserve
→ WCR
→ IfR etc.

P&L Appr A/c   Dr.
To Reserve (Name) A/c

(7) for transfer of profit to Partner's cap A/c in P.S.R.

P&L Appr A/c   Dr.
To Partner's cap A/c   [P.S.R]

Note:-   firm partner ko koi cheez deti hai → To partner's cap A/c
(for Ex:- IOC, salary, comm. etc.)   hota hai

firm partner se koi cheez leti hai → Partner's cap A/c   Dr.
(for Ex:- IOD)   hota hai

Partner's Loan and Interest on Partner's Loan :—

① when loan is given by partner to firm

        Bank A/c   Dr.
           To Partner's Loan

② when interest on loan is provided to partner

        Interest on loan A/c   Dr.
           To Partner's Loan A/c

③ To close the Interest on loan A/c

        P & L A/c   Dr.
           To Interest on loan

Dr.   P & L Appropriation A/c   **Cr.**

Particulars	₹	Particulars	₹
To Int. on capital		By P&L A/c ①	×××
A ×××			
B ×××	×××	By Interest on Drawing	
		A ×××	
To Salary		B ×××	×××
A ×××			
B ×××	×××		
To Partner commission			
A ×××			
B ×××	×××		
To Reserve	×××		
To Profit t/f to			
A ××× ⎤	In		
B ××× ⎦	P.S.R		
	×××		×××

→ Jo profit ko बाँटता hai

Charge Against Profit

↓

Anything which is paid to **outsiders** by the firm like, salary to Employees, Rent, Electricity etc. is **charge against profit**

↓

Examples of Charge Against Profit :- Salary to Employees
Rent paid
Stationary Expenses
Postage

Interest on Partner Loan

Rent Payable to Partner

↓

If something is 'Charge against profit' then such item will be posted on **Dr. side of P&L A/c**

↓

If something is 'Charge against Profit' then it has to be paid no matter there is Profit or Loss in the business.

→ Jo profit ko बाँटता hai

Appropriation of Profit

↓

Anything which is paid to **partners** by the firm like Ioc, salary, commission, profit share etc. is **appropriation of profit**

↓

Only two things which are paid to partners are not considered appropriation of Profit.
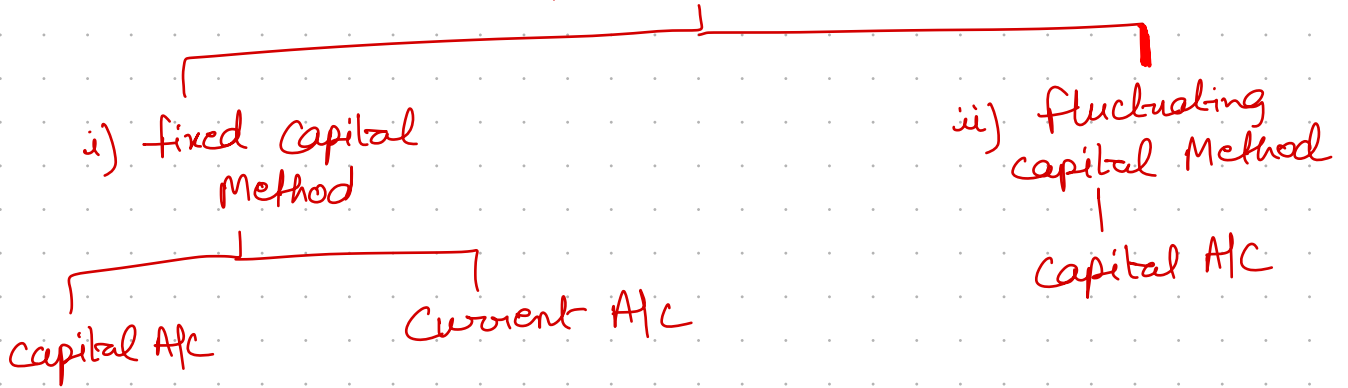
① Interest on Partner Loan

② Rent payable to Partner.

These two items are treated as Charge against profit.

↓

If something is 'Appropriation of Profit' then such item will be posted on **Dr. side of P&L App^r A/c.**

↓

If something is 'Appropriation of Profit' then it will be paid only when there is Profit.

Partner's Capital Account

There are **two Methods** to prepare Partner's capital A/C

i) fixed Capital Method
ii) fluctuating capital Method

fixed Capital Method:
- capital A/C
- Current A/C

fluctuating capital Method:
- Capital A/C

fixed capital Method — Method-1

Capital A/C

Dr.					Cr.
Particulars	A	B	Particulars	A	B
To bank A/C (amount withdrawn from capital)	xxx	xxx	By bal b/d (opg. bal. of capital)	xxx	xxx
To bal c/d (clg. bal. of capital)	xxx	xxx	By Bank A/C (capital introduced)	xxx	xxx
	xxx	xxx		xxx	xxx

Current A/C

Particulars	A	B	Particulars	A	B
To bal b/d	xxx	xxx	By bal b/d (opg. bal. of current A/c)	xxx	xxx
To Intt. on drawing	xxx	xxx	By Intt. on cap	xxx	xxx
To Drawings	xxx	xxx	By Salary	xxx	xxx
To P&L A/C (Net Loss)	xxx	xxx	by commissn	xxx	xxx
To bal c/d (B/F)	xxx	xxx	By P&L App A/c (Profit)	xxx	xxx
			By bal c/d	xxx	xxx
	xxx	xxx		xxx	xxx

P&L Appropriation A/c

Particulars	₹	Particulars	₹
To Int. on capital		By P&L A/c	xxx
A xxx			
B xxx	xxx	By Interest on drawing	
To Salary		A xxx	
A xxx		B xxx	xxx
B xxx	xxx		
To Partner commission			
A xxx			
B xxx	xxx		
To Reserve	xxx		
To Profit t/f to			
A xxx	In P.S.R		
B xxx			
	xxx		xxx

Note:- Capital A/c will always have a Credit balance only

| To bal c/d | By bal b/d |

But

Current A/c can have Credit balance as well as debit balance.

current A/c

| To bal. b/d | By bal b/d |
| To bal c/d (Cr. bal.) | By bal c/d (Dr. balance) |
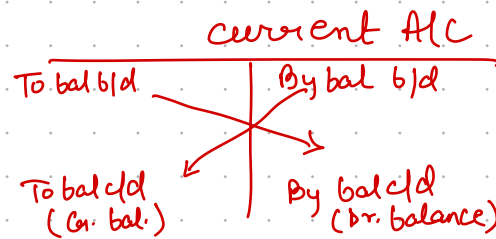
Note:- If in question, it is not mentioned that which method to follow then follow fluctuating capital method.

Method - 2

fluctuating Capital Method

capital A/C

Particulars	A	B	Particulars	A	B
To bank A/c	xxx	xxx	By bal b/d	xxx	xxx
To Interest on Drawing	xxx	xxx	By Bank	xxx	xxx
			By Intt. on cap.	xxx	xxx
To Drawings	xxx	xxx	By Salary	xxx	xxx
To P&L A/c (loss)	xxx	xxx	By Commission	xxx	xxx
			By P&L App^r A/c (Profit)	xxx	xxx
To bal c/d (B/f)	xxx	xxx			
	xxx	xxx		xxx	xxx

Manager's Commission

case-1   Percentage of Net Profit (or) Distributable profit (before) charging commission

$$\text{Manager Commission} = \text{Net Profit or Distributable profit} \times \frac{\text{Rate of commission}}{100}$$

case-2   Percentage of Net Profit (or) Distributable profit (after) charging commission

$$\text{Manager Commission} = \text{Net Profit or Distributable profit} \times \frac{\text{Rate of Commission}}{100 + \text{Rate of commission}}$$

Note:- If nothing is given in the question always assume 'Before'.

② Average Period Method :— Before Applying this method
below 2 condition are to be
fulfilled.

cond-1   Equal amount is withdrawn

cond-2   Amount withdrawn at Equal Interval
of time.

$$\text{Intt. on Drawing} = \text{Total Drawing} \times \frac{\text{Rate of Interest}}{100} \times \frac{\text{Avg. Period}}{12}$$

April   May   June   July   Aug.   Sept.

Oct.   Nov.   Dec.   Jan.   Feb.   March

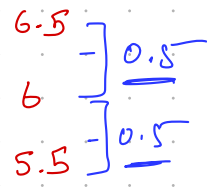$$\text{Avg. Period} = \frac{\text{Time left after FIRST Drawing} + \text{Time left after LAST Drawing}}{2}$$

Table for diff. case of IOD

		Avg. Period

When amount is withdrawn whole year

Months

case-1	Begining of every month	6.5 ⎤
case-2	Mid of every month	6 ⎦ 0.5
case-3	End of every month	5.5 ⎤ 0.5

Quarter

case-1	Begining of every quarter	7.5 ⎤
case-2	Mid of every quarter	6 ⎬ −1.5
case-3	End of every quarter	5.5 ⎦ −1.5
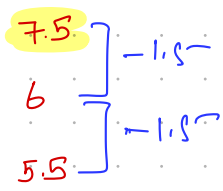
Amount withdrawn for 6 months only

Months

case-1	Begining of every month	(3.5) ⎤
case-2	Mid of every month	3 ⎬ −0.5
case-3	End of every month	2.5 ⎦ −0.5
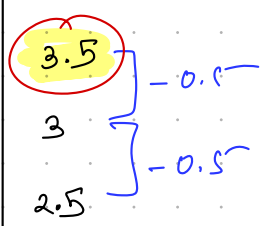
Quarter

case-1	Begining of every quarter	4.5 ⎤
case-2	Mid of every quarter	3 ⎬ −1.5
case-3	End of every quarter	1.5 ⎦ −1.5

When amount is withdrawn whole year
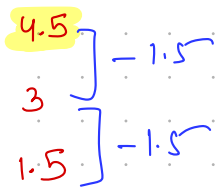
Different cases of Interest on Capital

case-1 when (P·D) does not exist (or) if (P·D) is prepared then nothing about (IOC) is mentioned

No IOC will be Provided

case-2 when (P·D) provides for IOC but it is not mentioned whether (IOC) is a charge or appropriation of Profit

Assume (IOC) is appropriation of Profit →

(case-2) consist of 3 sub-cases

a) Situation-1

In case of Loss
↓
No IOC will be provided

b) Situation-2

In case Profit before > IOC
IOC
↓
full IOC will be given

c) Situation-3 ***

In case Profit before < IOC
IOC
↓
full IOC will not be given
↓
Only Profit before IOC
will be distributed as
IOC in Capital Ratio

case-3 when (P·D) provides for (IOC) and treat it as charge against profit

full IOC will be given whether there is profit or loss

charge → P&L A/C

Note :- Interest on Capital is calculated on $\boxed{\text{Opening Capital}}$ of the Partner, if no capital is introduced during the year and no capital is withdrawn during the year.

But, sometimes in question $\boxed{\text{Closing capital}}$ will be given and we are required to calculate opening capital to find the $\boxed{\text{IOC}}$. follow the below Steps to find opening capital from Closing capital.

i) **when capital is fluctuating**

capital at the end of year	x x x
(+) Drawing against capital	xxx
(+) Drawing against profit	x x x
(+) Interest on Drawing	x x x
(+) Share of Loss	xxx
(-) Share of Profit	(x x x)
(-) Salary	(x x x)
(-) Commission	(x x x)
(-) Additional capital introduced	(x x x)
(-) Interest on cap.	(x x x)
opening-capital	x x x

ii) **when capital is fixed**

capital at the end of year	x x x
(-) Additional capital introduced	(x x x)
(+) Drawing against capital	x x x
opening Capital	x x x

Past Adjustments

Sometimes after closing the books of accounts of a partnership firm, some ERRORS or OMMISSIONS in the accounts of the earlier years are noticed.

For ex:- Omission- interest on capital was to be given @9% p.a but its was mistakenly not provided.

Error:- Interest-on capital was to be given @9% p.a but it was provided @6% p.a.

for the purpose of Adjustment entry we are required to prepare 'Table showing Adjustment' as working note.

Interest on cap.
Salary
commission
profit
} → (Cr.)

Interest on Drawing
Losses
} → (Dr.)