

Chapter - 1
ACCOUNTING FOR PARTNERSHIP FIRM –FUNDAMENTAL

Meaning

When two or more person join together to carry on a business under Indian partnership Act 1932 & agree to share profit & losses is partnership.

Partnership deed : It is a written agreement among partners of partnership firm containing terms and condition of partnership

In the absence of partnership deed,
Provision of Indian partnership Act, 1932 applies.

Particular of Partnership deed & Provision of Indian partnership Act,1932

S.NO	Particulars	Partnership deed exist	If silent, Provisions of Indian Partnership Act, 1932 applied
1.	Sharing of Profits/Losses	As mentioned	Profit/Losses are shared equally by the partners.
2.	Interest on Capital	As mentioned	No Interest on capital is paid to partners.
3.	Interest on Drawings	As mentioned	No Interest on drawings is charged from partners.
4.	Remuneration to partners	As mentioned	No Remuneration (salary, commission, etc,) is allowed to any partner.
5.	Interest on Advances Loan by a Partner	As mentioned	Interest on loans is paid @ 6% p.a. Interest is payable even if there is a loss.

Profit & loss Appropriation Account.

- Profit & loss appropriation a/c is a nominal account prepared to show distribution of available profit among partner.
- It is prepared after Profit & Loss A/c
- It shows item of appropriation of profit

Note : Interest on partner's advance loan is charge against profit , hence shown under Profit & loss a/c

PROFIT & LOSS APPROPRIATION ACCOUNT

Particular	Rs.	Particular	Rs.
To Interest On Capital	xxx	By P & L A/c (Net Profit)	xxx
To Partner's Salary	xxx		
To Partner's Commission	xxx	By Interest on drawing	xxx
To Reserve	xxx		
To Profit transfer to Partner capital A/c / Partner Current A/c	xxx	By loss transfer to Partner capital A/c or Partner Current A/c	xxx
	xxx		xxx

Differentiate between Change against profit Vs Appropriation of profit.

Basis	Charge against profit	Appropriation of profit
Consider	Consider under P & L A/c.	Consider under P & L Appropriation A/c
Provide	It is provided whether there is profit or loss	It is provided only if there is profit
Example	Rent paid, interest on partner's, Advance loan, Manager salary	Interest on partner's capital, partner's salary

Preparation of Partner's capital Account.

Partners capital Account can be maintained by two method :

1) Fixed capital method

Under this method two accounts are prepared:

a) Partner Capital Accounts**PARTNER CAPITAL ACCOUNTS****Dr****Cr**

Particulars	X	Y	Z	Particulars	X	Y	Z
To Cash/Bank A/c (Withdrawal out of Capital)	By Balance b/d	...	...	...
To Balance c/d*	By Cash/Bank A/C (Additional Capital)	...	...	...

*The balance may be on the opposite (Credit) Side also.

Partner Current Account

Record all other transaction, other than addition or withdrawal of capital.

Dr.**PARTNER CURRENT ACCOUNT****Cr.**

Particulars	X	Y	Z	Particulars	X	Y	Z
To Balance b/d (In case of debit opening balance)	By Balance b/d (In case of credit opening balance)	...	...	...
To Drawings A/c (withdrwal from firm)	By Interest on Capital A/c	...	...	...
To Interest on Drawings A/c	By Commission A/c	...	...	...
To Profit and Loss App. A/c (Loss)	By Salary A/c	...	...	...
To Balance c/d*	By Profit and Loss App. A/c (Profit)	...	...	...

*The balance may be on the opposite(Credit) Side also.

2) Fluctuating capital method

Under this method only one accounts is prepared.
Capital Accounts: It Record all the transaction.

Dr.	<u>PARTNER'S CAPITAL ACCOUNTS</u>						Cr
Particulars	X	Y	Z	Particulars	X	Y	Z
To Balance b/d (In case of debit opening balance)	By Balance b/d (In case of credit opening balance)	...	...	...
To Drawings A/c (withdrwal from firm)	By Interest on Capital A/c	...	...	...
To Interest on Drawings A/c	By Commission A/c	...	...	...
To Profit and Loss App. A/c (Loss)	By Salary A/c	...	...	...
To Balance c/d*	By Profit and Loss App. A/c (Profit)	...	...	...

*The balance may be on the opposite (Credit) Side also.

1. Interest on Drawing

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

Total drawing = ?

$$\text{Avg. period} = \frac{\text{Time left after first drawing} + \text{Time left after last drawing}}{2}$$

Particular	Beginning	Middle	End
Amount withdrawn every month	6.5	6	5.5
Amount withdrawn every quarter	7.5	6	4.5
Amount withdrawn for 6 month	3.5	3	2.5

2. Interest on partner's capital

Interest on partner's capital is calculated on opening capital.

If Que is silent regarding Interest on partner's capital, then Provision of Indian partnership Act, 1932 applies.

When closing capital is given, then we have to calculate opening capital.

Calculation of opening capital

Capital at the end	
Add : Loss during the year	
Drawing & interest on drawing	
Less : Profit during the year	
Additional capital (if any)	
Interest on capital	
Opening capital	XXX

4. Salary or commission to partner

Commission is calculated under two method:

a) Percentage of Net Profit before charging commission :

$$\text{Net Profit (before commission)} \times \frac{\text{Rate of commission}}{100}$$

b) Percentage of Net Profit after charging such commission.

$$\text{Net Profit (before commission)} \times \frac{\text{Rate of commission}}{100 + \text{rate of commission}}$$

5. Interest on partner's advance Loan.

Interest on loan is **charge against profit** & it is debited to P & L A/c
If, Que is silent, then Interest is provided @ 6% p.a.

PAST ADJUSTMENT.

Sometime after closing books of accounts of partnership firm, there were some error or omission in books of accounts like :

- a) Omission of Interest on capital
- b) Wrong distribution of Interest on capital
- c) Wrong distribution of Interest on drawing
- d) Distribution of profit in wrong ratio

Then , we have to pass an entry to rectify these error.

Guarantee of profit

Sometime a partner may admitted in the firm on guarantee of minimum profit from business. Such guarantee can be given even to an existing partner also.

Such guarantee is given by either by :

- All the partner in agreed ratio
- Specific partner

If actual profit is more than guaranteed profit , then actual profit is provided to partners
We have to calculate following two amount of guaranteed partner.

1. Share of profit as per profit - sharing ratio

2. Minimum guaranteed profit

The higher of the above two is to be given to that partner.

TS Grewal Smartly Designed Questions (Video Explained) :**Video Lecture 1 : Introduction of chapter****Meaning of partnership**

Meaning & Concept of partnership Deed

Provision of Indian Partnership Act 1932 , if partnership deed is silent

Video Lecture 2 : Charge against profit Vs Appropriation of profit & Interest on Capital

Topics covered	TS Grewal 2019
Practical Question on Provision of Indian Partnership Act 1932	Q3
Charge against profit & Appropriation of profit	Demo 1 Below
Concept of Interest on Capital	Q35
Interest on Capital as Charge against profit & Appropriation of profit	Q39
Calculation of opening capital	Q36

Demo Question on Charge Vs Appropriation (Video Lecture 2)

Demo 1 Mahesh & Ramesh are partners with capital of Rs 50,000 & Rs 60,000 respectively. On 1st January 2016 , Mahesh gave loan of Rs 10,000 & Ramesh introduced Rs 20,000 as additional capital. Profit for the year ended 31st , March 2016 was Rs 15,200 . There is no partnership deed. Both Ramesh & Mahesh expect Interest @ 10% p.a on the loan & capital advanced by them. Show how profit would be distributed ? Give reasons. (Divisible profit Rs 15,050)

Video Lecture 3 : Salary or Commission & Interest on partner loan

Topics covered	TS Grewal 2019
Salary or Commission Concept	
Calculation of Commission before charging commission	Q24
Calculation of Commission after charging commission	Q25
Interest on partner loan	Q9 Case III & IV

Video Lecture 4 : Interest on Drawing

Topics covered	TS Grewal 2019
Concept of Average period (Uniform drawing of same amount)	
Uniform drawing at uniform interval	Q29
Formula of Average period	
Drawing for 6 month	Q32
Quarterly drawing	Q33
Drawing amt and frequency Differ (Simple method & Product method)	Q34
Date of Drawing is not given & rate of drawing is given in p.a	Q28