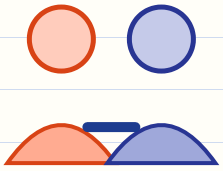
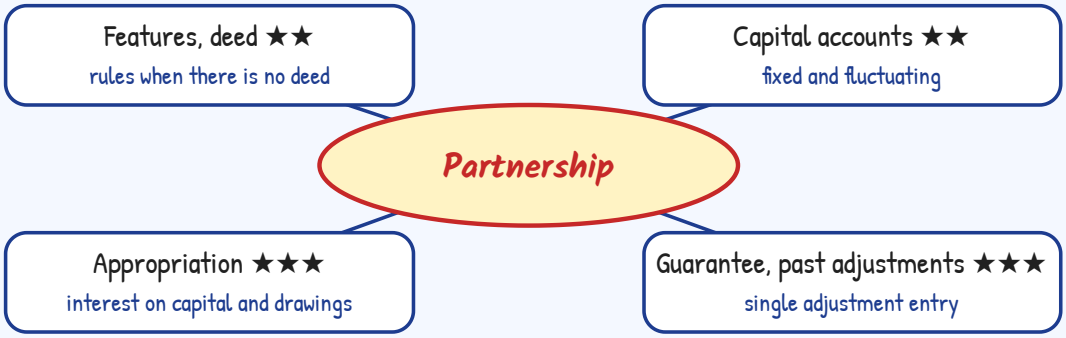
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Chapter 1
Accounting for Partnership: Basic Concepts



NCERT Accountancy Part I, Reprint 2026-27 · CBSE board 2027

Chapter map (★ = asked in almost every CBSE paper 2024–2026)



What is inside

1. Concept notes, journal entries and worked examples
2. NCERT exercises (all 55), fully solved
3. CBSE PYQs 2024–2026, fully solved
4. Quick-reference sheet; practice A–G, 20 MCQs, 6 A–R, answers, summary

Colour code used

red = key term green = definition

purple = sub-heading black = explanation

★ = high-frequency board topic

1 = mark the examiner gives for that point

★ **Exam tip:** Every paper asks interest on drawings (average period), interest on capital when profits are short, a guarantee of profit, a P&L Appropriation Account or capital/current accounts, and a past adjustment through a single entry. All these board questions are solved in full here.

Based on NCERT Accountancy Part I (2026-27), Chapter 1. All answers written by us. Board questions are quoted from the CBSE papers named in each tag; every answer checked against the CBSE marking schemes.

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1.1 Nature of partnership: meaning and essential features ★★

Why partnership?

A sole proprietor has only his own money, his own skill and his own time. When the business grows it needs **more capital**, **more people to manage it** and someone to **share its risk**. So two or more persons come together, pool their money and skills, and agree to share the profit and the loss. This form of organisation is the **partnership**.

Meaning

Partnership (Section 4, Indian Partnership Act, 1932): 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.

- The persons are individually called **partners**; collectively they are the **firm**; the name under which they work is the **firm name**.
- A partnership firm has **no separate legal entity** apart from its partners: in law, the firm is only a short name for the partners. (In the books, however, the firm is treated as a separate business entity, so partners have capital accounts like any proprietor.)

Essential features

1. **Two or more persons.** At least two persons are needed. Section 464 of the Companies Act, 2013 lets the Central Government fix the maximum, which cannot exceed 100; the Government has fixed it at **50** (Rule 10 of the Companies (Miscellaneous) Rules, 2014). A group larger than this must form a company.
2. **Agreement.** Partnership arises from an **agreement**, not from status or birth. The agreement may be oral or written; both are valid, but a written one is preferred to avoid disputes.
3. **Business.** The agreement must be to carry on a **lawful business**. Mere co-ownership of property is not partnership (see the table).
4. **Mutual agency.** The business may be carried on by all the partners or by **any of them acting for all**. So every partner may take part in running the business, and each partner is both an **agent** (his acts bind the other partners) and a **principal** (he is bound by their acts) for the firm's business. Mutual agency is the real test: without it there is no partnership.
5. **Sharing of profit.** The agreement must be to share the **profits** of the business; sharing of **losses** is implied. Persons who join hands for a charitable purpose, with no aim of profit, are not partners.
6. **Liability of partners.** Each partner is liable **jointly** with the others and also **severally** (individually) to outsiders for all acts of the firm done while he is a partner. The liability is **unlimited**: if the firm's assets are not enough, a partner's **private assets** can be used to pay the firm's debts.

Is it a partnership?

situation	*partnership?*	*reason*
Rekha and Sonal jointly buy a flat to live in	No	co-ownership only; no business
Rekha and Sonal buy and sell plots to earn profit, sharing it equally	Yes	agreement + business + profit sharing
Five friends run a free coaching centre for poor children	No	no aim of profit
Kiran lends ₹ 1,00,000 to a firm at 10% interest; she has no share in profit	No	she is a lender, not a partner
62 persons agree to run a trading business	No (not allowed as a firm)	more than 50 members; they must form a company

Quick check: true or false?

statement	answer
A partnership is valid even without a written agreement.	True: an oral agreement is enough.
Each partner is an agent as well as a principal for the other partners.	True: mutual agency.
A partner's liability is limited to the capital he has brought in.	False: it is unlimited.
A firm is a legal person separate from its partners.	False: it has no separate legal entity.
Sharing of losses must be expressly written in the agreement.	False: it is implied in sharing of profits.

★ **Exam tip:** For "state any two features" questions, write the feature name in bold and one line of explanation each: two or more persons, agreement, business, mutual agency, sharing of profit, unlimited liability.

✗ **Don't do this:** Do not write the maximum as 20 or 100. As per the present rules it is 50; 100 is only the ceiling within which the Government can fix it.

1.2 Partnership deed; 1.2.1 rules when the deed is silent

★★★

The written agreement containing the terms of the partnership is called the **partnership deed**. The Act does not require the agreement to be in writing, but a written deed is always better. It should be properly drafted, stamped as per the **Indian Stamp Act** and preferably **registered with the Registrar of Firms**. Its clauses can be changed only with the **consent of all the partners**.

Why a written deed is important

- It sets out the rights, duties and liabilities of each partner clearly, so there are fewer disputes.
- If a dispute arises, the deed is **evidence** of what was agreed and can be produced in court.
- The accountant needs it: the profit sharing ratio, interest on capital and drawings, salaries and the method of valuing goodwill all come from the deed.

Contents of the deed

- Names and addresses of the firm and of all partners; nature and place of the business.
- Date of commencement; duration of the partnership; the accounting period.
- Capital to be contributed by each partner; rules for operating the bank accounts.
- Profit (and loss) sharing ratio.
- Rates of interest on capital, on loans and on drawings.
- Salary, commission or other remuneration payable to partners.
- Rights, duties and liabilities of each partner; mode of appointing the auditor, if any.
- Rules for admission, retirement and death of a partner; method of valuing goodwill.
- Treatment of loss arising from the insolvency of a partner; settlement of accounts on dissolution.
- Method of settling disputes among partners (e.g. arbitration); any other matter about the conduct of business.

Which claims are valid? (deed silent)

claim	valid?
Meera, an active partner, wants a salary of ₹ 10,000 per month.	No: no remuneration without a deed clause.
Kunal gave a loan of ₹ 50,000 and wants interest @ 9% p.a.	Partly: only 6% p.a. (₹ 3,000 a year).
Meera brought ₹ 4,00,000 and Kunal ₹ 1,00,000; Kunal wants an equal share of profit.	Yes: profits are shared equally.
Meera wants interest on capital @ 6% p.a.	No: not allowed when the deed is silent.
Kunal wants Meera to pay interest on her drawings.	No: not charged when the deed is silent.

Whatever the deed does not cover is governed by the **Indian Partnership Act, 1932**. The rules that matter for accounts are on the right.

Provisions of the Act when the deed is silent (Section 13)

item	rule if the deed is silent	effect in the accounts
profits and losses	shared **equally**, whatever the capitals	divide the profit equally
interest on capital	**not allowed**; if the deed allows it, it is paid **only out of profits**	no entry
interest on drawings	**not charged**	no entry
interest on a partner's loan	**6% p.a.**; it is a **charge**, paid even if there is a loss	debit P&L Account
salary, commission or other remuneration	**not allowed**, however much work a partner does	no entry

Other rights and duties (subject to the deed): every partner may take part in the business, has the right to be consulted, and may inspect and copy the books. A partner who has misused firm money or caused loss by wilful neglect must **indemnify** the firm. A new partner can be admitted only with the **consent of all** the partners.

The Act also says: (i) if a partner earns a **private profit** from any transaction of the firm, or from the use of its property, business connection or name, he must account for it and pay it to the firm; (ii) if he carries on a **competing business** of the same nature, he must pay the firm all the profit made in it.

✗ **Don't do this:** The 6% applies to a partner's **loan** only when the deed is silent; if the deed fixes a rate (say 10%), that rate is paid. The 6% rule does **not** apply to capital or drawings.

Worked example 1: deed silent

Ravi and Sunil started a firm with capitals of ₹ 3,00,000 and ₹ 1,50,000; there is no deed. Ravi works full-time and claims a salary of ₹ 15,000 per month. Sunil claims interest on capital @ 10% p.a. and interest @ 12% p.a. on a loan of ₹ 1,00,000 he gave the firm on 1 July 2025. Profit for the year ended 31 March 2026, before any of these items: ₹ 1,24,500.

Salary to Ravi: **not allowed**. Interest on capital: **not allowed**.

Interest on Sunil's loan: only 6% (not 12%), for 9 months = 1,00,000 × 6/100 × 9/12 = **₹ 4,500** (a charge).

Profit to be shared = 1,24,500 − 4,500 = 1,20,000, **equally** (not 2 : 1 as per capital): Ravi ₹ 60,000; Sunil ₹ 60,000 (plus ₹ 4,500 interest on loan).

1.3 Special aspects; 1.4 maintenance of capital accounts ★★

1.3 Special aspects of partnership accounts

Accounting for a firm is the same as for a sole proprietor (journal, ledger, trial balance, final accounts), except for the following:

1. **Maintenance of partners' capital accounts**: one account per partner (or two, under fixed capitals).
2. **Distribution of profit or loss** through a P&L Appropriation Account, after interest, salary, etc.
3. **Adjustments for wrong appropriation of profits in the past** (past adjustments).
4. **Reconstitution of the firm**: change in profit sharing ratio, admission, retirement or death of a partner (Chapters 2–3).
5. **Dissolution of the firm** (Chapter 4).

Items 1–3 are covered in this chapter.

1.4 Capital accounts of partners

Every transaction between a partner and the firm is recorded through his capital account: capital brought in, capital withdrawn, share of profit, interest on capital, drawings, interest on drawings, salary and commission. There are two

methods. They differ only in **where** the items other than the addition or withdrawal of capital are recorded.

(a) Fixed capital method

The capital stays **fixed** at the agreed amount. It changes only for a **permanent addition** or a **withdrawal of capital** as agreed. All other items are recorded in a second account, the **partner's current account**. So each partner has **two** accounts.

Partner's Capital A/c (fixed capital method)

Dr. Particulars	₹	Particulars	₹
To Bank (permanent withdrawal of capital)	xxx	By Balance b/d (opening)	xxx
To Balance c/d (closing)	xxx	By Bank (fresh capital introduced)	xxx
	xxx		xxx

Cr.

Partner's Current A/c

Dr. Particulars	₹	Particulars	₹
To Balance b/d (if debit)	xxx	By Balance b/d (if credit)	xxx
To Drawings	xxx	By Interest on Capital	xxx
To Interest on Drawings	xxx	By Salary / Commission	xxx
To P&L Appropriation (share of loss)	xxx	By P&L Appropriation (share of profit)	xxx
To Balance c/d (if credit)	xxx	By Balance c/d (if debit)	xxx
	xxx		xxx

Cr.

The capital account always has a **credit** balance (liabilities side). The current account may have a credit balance (liabilities side) or a **debit** balance (shown on the **assets side** of the balance sheet).

(b) Fluctuating capital method

Only **one** account, the capital account, is kept for each partner. Every item (drawings, interest, salary, commission, share of profit or loss) is posted directly to it, so the balance **fluctuates** from year to year. **If the question does not say which method to use, prepare fluctuating capital accounts.**

Partner's Capital A/c (fluctuating capital method)

Dr. Particulars	₹	Particulars	₹
To Balance b/d (if debit)	xxx	By Balance b/d (if credit)	xxx
To Drawings	xxx	By Bank (fresh capital introduced)	xxx
To Interest on Drawings	xxx	By Interest on Capital	xxx
To Bank (withdrawal of capital)	xxx	By Salary / Commission	xxx
To P&L Appropriation (share of loss)	xxx	By P&L Appropriation (share of profit)	xxx
To Balance c/d (if credit)	xxx	By Balance c/d (if debit)	xxx
	xxx		xxx

Cr.

1.4.1 Fixed versus fluctuating capital

basis	fixed capital	fluctuating capital
number of accounts	two for each partner: capital and current	one for each partner: capital
where adjustments go	drawings, interest, salary, commission and profit go to the **current** account	all go to the **capital** account
balance of capital	stays the same unless capital is added or withdrawn	changes every year
debit balance	capital account is always credit; the current account may be debit	capital account is usually credit but may become debit
balance sheet	capital and current accounts shown separately	only capital accounts shown
when used	only if the deed (or question) says so	if nothing is stated

✗ **Don't do this:** Under fixed capitals, drawings, interest, salary and profit **never** touch the capital account. Only additional capital and withdrawal of capital do.

★ **Exam tip:** Interest on capital under the fixed method is calculated on the **capital account** balance only, not on the current account balance, unless the question says otherwise.

Both methods give the **same total** of partners' funds; only the presentation differs (worked example 2).

Worked example 2: the same data under both methods ★★★

Neha and Arjun share profits 3 : 2. Capitals on 1 April 2025: Neha ₹ 5,00,000; Arjun ₹ 3,00,000. Arjun brought additional capital of ₹ 1,00,000 on 1 October 2025. Interest on capital 10% p.a. Arjun gets a salary of ₹ 4,000 per month and Neha a commission of ₹ 15,000. Drawings: Neha ₹ 60,000, Arjun ₹ 40,000; interest on drawings: Neha ₹ 1,800, Arjun ₹ 1,200. Net profit for 2025-26 as per the P&L Account: ₹ 2,32,000. Prepare the capital accounts (i) under the fixed capital method and (ii) under the fluctuating capital method.

Workings. Interest on capital: Neha 5,00,000 × 10% = 50,000; Arjun 3,00,000 × 10% + 1,00,000 × 10% × 6/12 = 30,000 + 5,000 = 35,000.

Arjun's salary = 4,000 × 12 = 48,000.

Divisible profit = 2,32,000 + 3,000 (interest on drawings) − 85,000 − 48,000 − 15,000 = **87,000**: Neha 3/5 = **52,200**; Arjun 2/5 = **34,800**.

P&L Appropriation A/c for the year ended 31 March 2026

Dr. Particulars	₹	Particulars	₹
To Interest on Capital: Neha 50,000; Arjun 35,000	85,000	By Profit and Loss A/c	2,32,000
To Arjun's Salary	48,000	By Interest on Drawings: Neha 1,800; Arjun 1,200	3,000
To Neha's Commission	15,000		
To Profit: Neha 52,200; Arjun 34,800	87,000		
	2,35,000		2,35,000

Cr.

(i) Fixed capital method

Partners' Capital Accounts

Dr. Particulars	Neha ₹	Arjun ₹	Particulars	Neha ₹	Arjun ₹
To Balance c/d	5,00,000	4,00,000	By Balance b/d	5,00,000	3,00,000
			By Bank	–	1,00,000
	5,00,000	4,00,000		5,00,000	4,00,000

Cr.

Partners' Current Accounts

Dr. Particulars	Neha ₹	Arjun ₹	Particulars	Neha ₹	Arjun ₹
To Drawings	60,000	40,000	By Interest on Capital	50,000	35,000
To Interest on Drawings	1,800	1,200	By Salary	–	48,000
To Balance c/d	55,400	76,600	By Commission	15,000	–
			By P&L Appropriation	52,200	34,800
	1,17,200	1,17,800		1,17,200	1,17,800

Cr.

(ii) Fluctuating capital method

Partners' Capital Accounts

Dr. Particulars	Neha ₹	Arjun ₹	Particulars	Neha ₹	Arjun ₹
To Drawings	60,000	40,000	By Balance b/d	5,00,000	3,00,000
To Interest on Drawings	1,800	1,200	By Bank	–	1,00,000
To Balance c/d	5,55,400	4,76,600	By Interest on Capital	50,000	35,000
			By Salary	–	48,000
			By Commission	15,000	–
			By P&L Appropriation	52,200	34,800
	6,17,200	**5,17,800**		**6,17,200**	**5,17,800**

Cr.

Balance sheet (extract) as at 31 March 2026

Liabilities: fixed method	₹	Liabilities: fluctuating method	₹
Capital A/cs: Neha 5,00,000; Arjun 4,00,000	9,00,000	Capital A/cs: Neha 5,55,400	5,55,400
Current A/cs: Neha 55,400; Arjun 76,600	1,32,000	Arjun 4,76,600	4,76,600
Partners' funds	**10,32,000**	**Partners' funds**	**10,32,000**

Both methods give partners' funds of **₹ 10,32,000**. Check: opening capitals 8,00,000 + additional capital 1,00,000 + net profit 2,32,000 − drawings 1,00,000 = 10,32,000.

Debit current account. Had Neha drawn ₹ 1,20,000 (interest on drawings ₹ 3,600), the divisible profit would be 88,800 and her share 53,280. Her current account: credits 50,000 + 15,000 + 53,280 = 1,18,280; debits 1,20,000 + 3,600 = 1,23,600. The closing balance is ₹ 5,320 **debit** (written "By Balance c/d") and is shown on the **assets side**. Her capital account stays at ₹ 5,00,000.

★ ***Exam tip:*** Post items in the same order on both sides for every partner; put "–" where an item does not apply to a partner. Examiners give marks for each correct balance c/d.

✗ ***Don't do this:*** Do not add the additional capital of ₹ 1,00,000 to Arjun's current account. It is capital, so it goes to the capital account under both methods.

1.5 Distribution of profit; P&L Account vs P&L Appropriation Account ★★★

Profits and losses are shared in the **agreed ratio**, or **equally** if the deed is silent. A sole proprietor's net profit goes straight to his capital account. A firm's net profit cannot, because the deed may first give partners interest on capital, salary or commission and charge them interest on drawings. These adjustments are made in a separate account, and only the balance is shared in the profit sharing ratio.

1.5.1 Profit and Loss Appropriation Account

The **Profit and Loss Appropriation Account** is an extension of the Profit and Loss Account that shows how the net profit (or loss) is distributed among the partners. It starts with the net profit (credit side) or net loss (debit side) carried down from the P&L Account. All adjustments for interest on capital, interest on drawings, salary and commission to partners and transfers to reserve are made through it.

Profit and Loss Appropriation A/c for the year ended ...

Dr. Particulars	₹	Particulars	₹
To P&L A/c (net loss, if any)	xxx	By P&L A/c (net profit)	xxx
To Interest on Capital	xxx	By Interest on Drawings	xxx
To Partners' Salary / Commission	xxx	By Partners' Capital/Current A/cs (loss shared)	xxx
To General Reserve	xxx		
To Partners' Capital/Current A/cs (profit shared)	xxx		
	xxxx		xxxx

Cr.

Final accounts of a firm = Trading Account + P&L Account + **P&L Appropriation Account** + Balance Sheet. Everything up to the net profit is the same as for a sole proprietor.

Charge against profit vs appropriation of profit

basis	charge (P&L Account)	appropriation (P&L Appropriation)
meaning	an expense that must be paid to **find** the profit	a **division** of the profit already found
items	interest on partner's loan; rent paid to a partner; manager's or employee's salary and commission	interest on capital; partner's salary and commission; transfer to reserve; share of profit
if there is a loss	still allowed in full	allowed only out of profits (unless the deed treats it as a charge)
credited to	partner's loan account / paid in cash	partner's capital or current account

Interest on a partner's loan

A loan given by a partner is not capital. Interest on it is paid at the agreed rate, or **6% p.a.** if nothing is agreed, for the period the loan was used, whether the firm makes a profit or a loss. It is credited to the partner's **loan account**, not his capital account.

Particulars		Dr. (₹)	Cr. (₹)
Interest on Partner's Loan A/c	Dr.	xxx	
To Partner's Loan A/c			xxx
(Interest on loan credited)			
Profit and Loss A/c	Dr.	xxx	
To Interest on Partner's Loan A/c			xxx
(Interest on loan charged to profit)			

Rent paid to a partner

If a partner lets his own building to the firm, the rent is a business **expense**, like rent paid to an outsider. It is a **charge**: debit the P&L Account, credit the partner's capital/current account (or Bank, if paid).

Particulars		Dr. (₹)	Cr. (₹)
Rent A/c	Dr.	xxx	
To Partner's Capital/Current A/c (or Bank)			xxx
(Rent due to partner)			
Profit and Loss A/c	Dr.	xxx	
To Rent A/c			xxx
(Rent charged to profit)			

Partner's commission

Commission is usually a percentage of net profit. Read the wording carefully:

wording	formula
on net profit **before** charging such commission	NP × rate ÷ 100
on net profit **after** charging such commission	NP × rate ÷ (100 + rate)

Example 4: net profit before commission ₹ 2,20,000; commission 10%.

Before charging: 2,20,000 × 10/100 = **₹ 22,000**.

After charging: 2,20,000 × 10/110 = **₹ 20,000**. Check: profit after commission = 2,00,000, and 10% of 2,00,000 = 20,000.

A **manager's** commission uses the same formulas, but it is a **charge** (P&L Account), because the manager is an employee, not a partner.

> ✗ ***Don't do this:*** CBSE note: interest on a partner's **loan** is always a **charge**. Never show it in the P&L Appropriation Account.

Salary; worked example 3; I.S.2 interest on capital ★★★

Partner's salary

A partner gets a salary only if the **deed provides** for it, usually because he gives more time or skill than the others. It is an **appropriation**, so it is debited to the P&L Appropriation Account and allowed only out of profits. Credit it for the period it is due: ₹ 2,000 per month for a full year = ₹ 24,000; for a partner admitted on 1 October, only 6 months.

Worked example 3: charges first, then appropriation

Xavier and Yash share profits 2 : 1. Profit for 2025-26 before the items below: ₹ 1,80,000. Xavier gave the firm a loan of ₹ 80,000 on 1 April 2025 (no rate agreed). Yash's building is used as the firm's godown at a rent of ₹ 3,000 per month. Yash gets a salary of ₹ 2,000 per month.

Interest on loan = 80,000 × 6% = 4,800; rent = 3,000 × 12 = 36,000 (both charges).

Net profit = 1,80,000 − 4,800 − 36,000 = **1,39,200**.

Profit and Loss A/c (extract)

Dr. Particulars	₹	*Particulars*	₹	*Cr.*
To Interest on Xavier's Loan	4,800	By Balance b/d (profit before these items)	1,80,000	
To Rent (Yash)	36,000			
To P&L Appropriation A/c (net profit)	1,39,200			
	1,80,000		**1,80,000**	

Profit and Loss Appropriation A/c

Dr. Particulars	₹	*Particulars*	₹	*Cr.*
To Yash's Salary	24,000	By Profit and Loss A/c	1,39,200	
To Profit: Xavier 76,800; Yash 38,400	1,15,200			
	1,39,200		**1,39,200**	

I.S.2 Interest on capital

Interest on capital is allowed **only if the deed provides** for it. It is fair when partners bring **unequal capitals but share profits equally**, or bring **equal capitals but share profits unequally**: the partner whose money is used more is compensated. It is calculated at the agreed rate for the time the capital was used during the year:

- on the **opening capital** for the whole year;
- on **additional capital** from the date it was brought in to the year end;
- on capital **withdrawn**: deduct interest from the date of withdrawal (or work on the reduced capital for the rest of the year). Worked example 8 shows both changes.

Ordinary **drawings** do not reduce capital for interest; they attract interest on drawings instead.

Opening capital not given

Work back from the closing capital: **opening capital = closing capital + drawings − share of profit − interest on capital and salary already credited − additional capital + share of loss + capital withdrawn**.

Example 5: P and Q (2 : 1). Closing capitals ₹ 2,40,000 and ₹ 1,80,000, after debiting drawings ₹ 30,000 and ₹ 20,000 and crediting profit ₹ 60,000 (P 40,000, Q 20,000). Q brought additional capital of ₹ 40,000 on 1 October 2025. Interest @ 10% p.a.

particulars	P ₹	Q ₹
Closing capital	2,40,000	1,80,000
Add: Drawings	30,000	20,000
Less: Share of profit	(40,000)	(20,000)
Less: Additional capital	–	(40,000)
Opening capital	**2,30,000**	**1,40,000**

Interest: P = 2,30,000 × 10% = **₹ 23,000**; Q = 1,40,000 × 10% + 40,000 × 10% × 6/12 = 14,000 + 2,000 = **₹ 16,000**.

Interest on capital in every case

case	treatment
deed silent	no interest; whole profit in the profit sharing ratio
profit ≥ interest	full interest; balance shared in the profit sharing ratio
profit < interest	interest limited to the profit: the **whole profit** is shared in the **ratio of interest** due (not the profit sharing ratio)
net loss	no interest; loss shared in the profit sharing ratio
deed says interest is a **charge**	full interest even if profit is short or there is a loss; the resulting loss is shared in the profit sharing ratio

Summary: where each item goes

item	account	allowed in a loss?
interest on partner's loan	P&L A/c (charge)	yes
rent to a partner; manager's commission	P&L A/c (charge)	yes
interest on capital	P&L Appropriation	no (yes if a charge)
salary / commission to partners	P&L Appropriation	no
interest on drawings	P&L Appropriation (credit)	yes, still charged
transfer to reserve	P&L Appropriation	no

Worked examples: interest on capital in every case; loss year

★★★

Worked example 6: all the cases

A and B share profits **equally**. Capitals: A ₹ 3,00,000; B ₹ 2,00,000. Interest on capital @ 10% p.a. is due: A 30,000; B 20,000; total 50,000.

case	A ₹	B ₹
(a) deed silent; profit 80,000: equally	40,000	40,000
(b) profit 80,000: interest 30,000 / 20,000 + balance 30,000 equally (15,000 each)	45,000	35,000
(c) profit 40,000 < 50,000: profit in ratio of interest 3 : 2	24,000	16,000
(d) loss 20,000: no interest; loss equally	(10,000)	(10,000)
(e) charge; profit 40,000: interest 30,000 / 20,000, loss 10,000 equally	25,000	15,000
(f) charge; loss 20,000: interest 30,000 / 20,000, loss 70,000 equally	(5,000)	(15,000)

P&L Appropriation A/c for case (c)

Dr. Particulars	₹	Particulars	₹
To Interest on Capital:		By Profit and Loss A/c	40,000
A 24,000; B 16,000	40,000		
	40,000		40,000

Cr.

P&L A/c (extract) for case (e): interest as a charge

Dr. Particulars	₹	Particulars	₹
To Interest on Capital: A 30,000; B 20,000	50,000	By Balance b/d (profit before interest)	40,000
		By P&L Appropriation A/c (net loss)	10,000
	50,000		50,000

Cr.

In case (e) the interest is shown in the P&L Account, the net loss of ₹ 10,000 is carried to the P&L Appropriation Account and shared equally (A ₹ 5,000; B ₹ 5,000).

✗ **Don't do this:** In case (c) do not share ₹ 40,000 equally (the profit sharing ratio). It is shared 3 : 2, the ratio of interest due.

Worked example 6A: appropriation in a loss year

R and S share profits 3 : 2. Capitals ₹ 1,00,000 each; interest on capital 10% p.a.; R's salary ₹ 1,000 per month; interest on drawings R ₹ 1,200, S ₹ 800. The P&L Account shows a net loss of ₹ 30,000 (after interest on S's loan, which is a charge).

Loss year: no interest on capital and no salary. Interest on drawings is still charged (₹ 2,000).

Loss to be shared = 30,000 − 2,000 = 28,000: R 3/5 = 16,800; S 2/5 = 11,200.

P&L Appropriation A/c

Dr. Particulars	₹	Particulars	₹
To Profit and Loss A/c (net loss)	30,000	By Interest on Drawings: R 1,200; S 800	2,000
		By Loss transferred: R's Capital 16,800; S's Capital 11,200	28,000
	30,000		30,000

Cr.

Worked example 6B: commission after charging; reserve

A and B share profits 3 : 2. Net profit ₹ 2,64,000. Interest on capital: A ₹ 20,000, B ₹ 12,000. B gets a commission of 10% of the net profit after charging such commission. ₹ 20,000 is transferred to General Reserve.

B's commission = 2,64,000 × 10/110 = 24,000. Divisible profit = 2,64,000 − 32,000 − 24,000 − 20,000 = 1,88,000: A 1,12,800; B 75,200.

P&L Appropriation A/c

Dr. Particulars	₹	Particulars	₹
To Interest on Capital: A 20,000; B 12,000	32,000	By Profit and Loss A/c	2,64,000
To B's Commission	24,000		
To General Reserve	20,000		
To Profit: A 1,12,800; B 75,200	1,88,000		
	2,64,000		2,64,000

Cr.

★ **Exam tip:** Interest on capital entries: Interest on Capital A/c Dr. To Partners' Capital/Current A/cs; then P&L Appropriation A/c Dr. To Interest on Capital A/c. All entries are listed on the next page.

Journal entries for distribution of profit; worked examples

★★★

Journal entries (fixed capitals: use Current A/c; fluctuating: Capital A/c)

Particulars		Dr. (₹)	Cr. (₹)
Profit and Loss A/c	Dr.	xxx	
To Profit and Loss Appropriation A/c			xxx
(1. Net profit transferred)			
Interest on Capital A/c	Dr.	xxx	
To Partners' Capital/Current A/cs			xxx
(2a. Interest on capital allowed)			
P&L Appropriation A/c	Dr.	xxx	
To Interest on Capital A/c			xxx
(2b. Interest on capital closed)			
Partners' Drawings A/cs	Dr.	xxx	
To Cash/Bank A/c			xxx
(3a. Drawings during the year)			
Partners' Capital/Current A/cs	Dr.	xxx	
To Partners' Drawings A/cs			xxx
(3b. Drawings closed at the year end)			
Partners' Capital/Current A/cs	Dr.	xxx	
To Interest on Drawings A/c			xxx
(4a. Interest on drawings charged)			
Interest on Drawings A/c	Dr.	xxx	
To P&L Appropriation A/c			xxx
(4b. Interest on drawings closed)			
Partner's Salary/Commission A/c	Dr.	xxx	
To Partner's Capital/Current A/c			xxx
(5a. Salary or commission credited)			
P&L Appropriation A/c	Dr.	xxx	
To Partner's Salary/Commission A/c			xxx
(5b. Salary or commission closed)			
P&L Appropriation A/c	Dr.	xxx	
To General Reserve A/c			xxx
(6. Transfer to reserve)			
P&L Appropriation A/c	Dr.	xxx	
To Partners' Capital/Current A/cs			xxx
(7. Share of profit; for a loss the entry is reversed)			

★ **Exam tip:** A direct entry (P&L Appropriation A/c Dr. To Partners' Current A/cs) is also accepted.

Interest on drawings is charged (if the deed provides) even when the firm has a loss, because it is the partner's dues to the firm. **Interest on a partner's loan** is a charge: Interest on Loan A/c Dr. To Partner's Loan A/c, then P&L A/c Dr. To Interest on Loan A/c.

Worked example 7: P&L Appropriation and current accounts

A and B share profits 3 : 2. Fixed capitals ₹ 4,00,000 and ₹ 3,00,000. Deed: interest on capital 6% p.a.; interest on drawings 5% p.a.; B's salary ₹ 3,000 per month; 10% of net profit to General Reserve. Drawings (evenly through the year): A ₹ 40,000, B ₹ 30,000. Net profit for 2025–26: ₹ 2,10,000.

Workings. Interest on capital: A 4,00,000 × 6% = 24,000; B 3,00,000 × 6% = 18,000. Interest on drawings (6 months): A 40,000 × 5% × 6/12 = 1,000; B 30,000 × 5% × 6/12 = ₹750. Salary B = 3,000 × 12 = 36,000. Reserve = 10% × 2,10,000 = 21,000.

Divisible profit = 2,10,000 + 1,750 − 42,000 − 36,000 − 21,000 = **1,12,750**: A 3/5 = ₹67,650; B 2/5 = 45,100.

Profit and Loss Appropriation A/c for the year ended 31 March 2026

Dr. Particulars	₹	Particulars	₹
To Interest on Capital:		By Profit and Loss A/c	2,10,000
A 24,000; B 18,000	42,000	By Interest on Drawings:	
To B's Salary	36,000	A 1,000; B ₹750	1,750
To General Reserve	21,000		
To Profit transferred to:			
A's Current A/c ₹67,650; B's 45,100	1,12,750		
	2,11,750		2,11,750

Cr.

Partners' Current Accounts

Dr. Particulars	A ₹	B ₹	Particulars	A ₹	B ₹
To Drawings	40,000	30,000	By Interest on Capital	24,000	18,000
To Interest on Drawings	1,000	₹750	By Salary	–	36,000
To Balance c/d	50,650	68,350	By P&L Appropriation	₹67,650	45,100
	91,650	99,100		91,650	99,100

Cr.

Capitals stay at ₹ 4,00,000 and ₹ 3,00,000 (fixed). If fluctuating, closing capitals: A 4,50,650; B 3,68,350.

Worked example 8: interest on capital with changes during the year

C's capital on 1 April 2025 ₹ 2,00,000; additional capital ₹ 50,000 on 1 October 2025; withdrawal of capital ₹ 20,000 on 1 January 2026; interest 10% p.a.

2,00,000 × 10% (12 months) = 20,000

+ 50,000 × 10% × 6/12 = 2,500

− 20,000 × 10% × 3/12 = 500

Interest on capital = **₹ 22,000**

Ordinary drawings do not reduce the capital for interest; only a withdrawal of capital does.

1.5.3 Interest on drawings: every case ★★★

Drawings are amounts (cash or goods) taken by a partner from the firm for personal use. **Interest on drawings** is the interest charged to the partner on these amounts for the time they were out of the business. It is charged **only if the deed provides** for it, and it is meant to **discourage excessive drawings**. It is a **gain to the firm**: debit the partner, credit the P&L Appropriation Account. It is charged even in a **loss** year, because the partner owes it.

Interest on drawings = total drawings × rate/100 × average period/12

Average period (in months) = (months left after the first drawing + months left after the last drawing) ÷ 2. It only works when **equal amounts** are drawn at **equal intervals**.

how drawn (12-month year)	average period	why
dates not given / evenly through the year / total only	6 months	assumed mid-year
fixed amount, **beginning** of each month	6½ months	(12 + 1) ÷ 2
fixed amount, **middle** of each month	6 months	(11.5 + 0.5) ÷ 2
fixed amount, **end** of each month	5½ months	(11 + 0) ÷ 2
beginning of each quarter	7½ months	(12 + 3) ÷ 2
end of each quarter	4½ months	(9 + 0) ÷ 2
beginning / end of each half-year	9 / 3 months	(12 + 6) ÷ 2; (6 + 0) ÷ 2
rate "irrespective of the period"	12 months	full year on total drawings
unequal amounts or irregular dates	**product method** (worked example 13)	

Worked example 9: quarterly drawings

Kavya withdrew ₹ 25,000 at the **beginning** of each quarter in 2025–26. Interest on drawings 10% p.a.

date	amount ₹	months left	interest ₹
1 April 2025	25,000	12	2,500
1 July 2025	25,000	9	1,875
1 October 2025	25,000	6	1,250
1 January 2026	25,000	3	625
Total	**1,00,000**		**6,250**

Short way: 1,00,000 × 10/100 × 7.5/12 = **₹ 6,250**.

If drawn at the **end** of each quarter (9, 6, 3, 0 months): 1,00,000 × 10/100 × 4.5/12 = **₹ 3,750**.

Worked example 10: half-yearly drawings

Dev withdrew ₹ 40,000 at the beginning of each half-year; rate 12% p.a.

Beginning: 80,000 × 12/100 × 9/12 = **₹ 7,200** (check: 4,800 on the April drawing + 2,400 on the October drawing).

End of each half-year: 80,000 × 12/100 × 3/12 = **₹ 2,400** (the last drawing, on 31 March, bears no interest).

Worked example 11: other cases

(a) **Part of the year.** Esha drew ₹ 6,000 at the beginning of every month from 1 October 2025 to 1 March 2026 (6 drawings = ₹ 36,000); rate 10%. Average period = (6 + 1) ÷ 2 = 3½ months. Interest = 36,000 × 10/100 × 3.5/12 = **₹ 1,050**.

(b) **Dates not given.** Farhan's drawings ₹ 50,000; rate 12%. Interest = 50,000 × 12/100 × 6/12 = **₹ 3,000**.

(c) **Irrespective of the period.** Same data: 50,000 × 12/100 = **₹ 6,000**.

(d) **Single drawing on a date.** ₹ 20,000 drawn on 1 December 2025 at 9%: 4 months to 31 March ⟶ 20,000 × 9/100 × 4/12 = **₹ 600**.

Journal entries

Particulars		Dr. (₹)	Cr. (₹)
Partner's Capital/Current A/c	Dr.	xxx	
To Interest on Drawings A/c			xxx
(Interest charged on drawings)			
Interest on Drawings A/c	Dr.	xxx	
To P&L Appropriation A/c			xxx
(Interest on drawings transferred)			

Goods withdrawn by a partner are drawings at cost: Drawings A/c Dr. To Purchases A/c. Interest is charged on them in the same way.

Drawings vs withdrawal of capital. Ordinary drawings are taken against expected profit; they carry interest on drawings. A **withdrawal of capital** permanently reduces the capital; it carries no interest on drawings, but interest

on capital is reduced from that date (worked example 8).

★ **Exam tip:** Always count the months to the **end of the accounting year**. If the year ends on 31 December, a drawing on 1 October has 3 months left, not 6.

✗ **Don't do this:** The 6½ / 5½ / 7½ / 4½ rules hold only for a **full year** of equal drawings. For drawings in part of the year, count the actual months as in example 11(a).

1.6 Guarantee of profit; 1.7 past adjustments ★★★

1.6 Guarantee of profit to a partner

A **guarantee of profit** is an assurance that a partner (usually a new partner) will get at least a stated minimum amount as his share of profit. If his share, worked out in the profit sharing ratio, is **less** than the guaranteed amount, the **deficiency** is made good by the partner(s) who gave the guarantee. If his share is **more**, he simply gets his actual share and nothing is adjusted.

Steps

1. Divide the profit among all partners in the profit sharing ratio.
2. Deficiency = guaranteed amount − actual share (only if positive).
3. Charge the deficiency to the guaranteeing partner(s) and add it to the guaranteed partner's share.
4. Show the final shares in the P&L Appropriation Account (e.g. "To C's Capital 40,000 + 10,000"). The total must equal the divisible profit.

Who bears the deficiency

guarantee given by	*deficiency borne*
all the other partners, ratio not stated	in their own profit sharing ratio (old ratio between them)
the **firm**	by all the other partners in their profit sharing ratio
all the other partners, in a stated ratio	in that stated ratio (e.g. equally)
one partner only	wholly by that partner
guarantee to two or more partners	work out each deficiency separately and charge each to its guarantor

Worked example 12: guarantee to two partners

X, Y and Z share profits 5 : 3 : 2. X guarantees that Y will get at least ₹ 45,000 and Z at least ₹ 30,000. Net profit ₹ 1,20,000.

particulars	X ₹	Y ₹	Z ₹
Share in 5 : 3 : 2	60,000	36,000	24,000
Deficiency of Y (45,000 − 36,000)	(9,000)	9,000	-
Deficiency of Z (30,000 − 24,000)	(6,000)	-	6,000
Final share (total 1,20,000)	**45,000**	**45,000**	**30,000**

Guarantee of minimum fees or business by a partner. If a partner guarantees that the fees (or profit) earned by him will be at least a stated amount, any shortfall is **debited to his capital** and **added to the firm's profit**; the increased profit is shared by all (worked example 16).

✗ **Don't do this:** The deficiency is not a charge in the P&L Account and does not change the total profit. It is a transfer between partners.

1.7 Past adjustments

Past adjustments are corrections made in the current year for omissions or errors in the distribution of profit of an earlier year, after the final accounts were closed. Common causes:

- interest on capital, interest on drawings, salary or commission **omitted** or recorded at a wrong rate;
- profit distributed in a **wrong ratio**, or the ratio changed later **with retrospective effect**;
- a change in the deed or in the accounting system that applies to past years.

Old accounts are **not re-opened**. The firm's total profit was right; only its division among partners was wrong. So the correction is made in the partners' accounts, in one of two ways:

(a) Through a Profit and Loss Adjustment Account. Credit the omitted items to partners and debit the P&L Adjustment A/c; debit items such as interest on drawings to partners and credit the P&L Adjustment A/c. The balance of the P&L Adjustment A/c is then closed to partners in the profit sharing ratio (worked example 18).

(b) Directly in partners' capital (or current) accounts. Prepare a statement and pass a single adjusting entry:

step	what to do
1	credit each partner with what he **should have received** (interest on capital, salary, commission) and debit what he **should have paid** (interest on drawings)
2	debit the **net** amount of step 1 to all partners in the profit sharing ratio: it was wrongly given to them as profit
3	net effect: partners with a net credit are credited, those with a net debit are debited, in **one** entry

Particulars		Dr. (₹)	Cr. (₹)
Partner(s) with net debit: Capital/Current A/c	Dr.	xxx	
To Partner(s) with net credit: Capital/Current A/c			xxx
(Adjustment for past omission)			

Retrospective change in ratio. The same table works: compare the profit each partner **got** in the old ratio with the profit he **should get** in the new ratio; the difference is the adjustment (worked example 17).

- Fixed capitals: pass the entry through **current** accounts. Fluctuating: through **capital** accounts.
- The firm's column (or the total of the net effect) is always **nil**: the firm neither gains nor loses.
- If the question asks for the adjusted capitals, add the effect to the closing balances given.

★ ***Exam tip:*** The board asks for "a single adjusting journal entry". Show the statement as working; the answer is the one entry.

Worked examples: interest on drawings, guarantee, past adjustment ★★★

Worked example 13: product method

X withdrew ₹ 10,000 on 1 June 2025, ₹ 6,000 on 1 September, ₹ 8,000 on 1 December and ₹ 4,000 on 1 March 2026. Interest on drawings 6% p.a.; year ends 31 March 2026.

date	amount ₹	months to 31 March	product ₹
1 June	10,000	10	1,00,000
1 September	6,000	7	42,000
1 December	8,000	4	32,000
1 March	4,000	1	4,000
Total	**28,000**		**1,78,000**

Interest = 1,78,000 × 6/100 × 1/12 = **₹ 890**

Worked example 14: fixed amount every month

Y draws ₹ 5,000 at the **beginning** of every month; rate 8% p.a. Total drawings = 60,000; average period 6½ months.

Interest = 60,000 × 8/100 × 6.5/12 = **₹ 2,600**

(end of every month: 5½ months → ₹ 2,200; middle: 6 months → ₹ 2,400)

★ **Exam tip:** Check the period first: if drawings run only from October to March (6 drawings at the beginning of each month), the average period is (6 + 1) ÷ 2 = 3½ months, not 6½.

Worked example 15: past adjustment

P and Q share profits 3 : 2; fixed capitals ₹ 3,00,000 and ₹ 2,00,000. After the accounts for 2025-26 were closed, it was found that interest on capital @ 10% p.a. was not allowed, and interest on drawings P ₹ 2,000 and Q ₹ 1,000 was not charged.

Statement showing the adjustment

particulars	P ₹	Q ₹	firm ₹
Interest on capital (to be credited)	30,000 Cr.	20,000 Cr.	50,000 Dr.
Interest on drawings (to be debited)	2,000 Dr.	1,000 Dr.	3,000 Cr.
Net amount	28,000 Cr.	19,000 Cr.	47,000 Dr.
Profit wrongly given (47,000 in 3 : 2) taken back	28,200 Dr.	18,800 Dr.	47,000 Cr.
Net effect	**200 Dr.**	**200 Cr.**	**nil**

Particulars		Dr. (₹)	Cr. (₹)
P's Current A/c	Dr.	200	
To Q's Current A/c			200
(Omission of interest on capital and drawings adjusted)			

The firm column always totals nil: the firm neither gains nor loses; only the partners' balances change. With fluctuating capitals the entry is passed through the capital accounts.

Worked example 16: guarantee of profit

L, M and N share profits 3 : 2 : 1. N is guaranteed a minimum profit of ₹ 50,000. Net profit ₹ 2,40,000.

N's actual share = 2,40,000 × 1/6 = 40,000 → deficiency = 50,000 − 40,000 = **10,000**. L's share 1,20,000; M's 80,000.

deficiency borne by	L ₹	M ₹	N ₹
(a) L alone	1,10,000	80,000	50,000
(b) L and M in 3 : 2 (or by the firm)	1,14,000	76,000	50,000
(c) L and M equally	1,15,000	75,000	50,000

P&L Appropriation A/c (extract) for case (b)

Dr. Particulars	₹	Particulars	₹
To L's Capital 1,20,000 − 6,000	1,14,000	By Profit and Loss A/c	2,40,000
To M's Capital 80,000 − 4,000	76,000		
To N's Capital 40,000 + 10,000	50,000		
	2,40,000		2,40,000

Cr.

Particulars		Dr. (₹)	Cr. (₹)
L's Capital A/c	Dr.	6,000	
M's Capital A/c	Dr.	4,000	
To N's Capital A/c			10,000
(Deficiency of N's guaranteed profit made good by L and M)			

★ **Exam tip:** "Guaranteed by the firm" means by all the other partners in their profit sharing ratio (here L and M in 3 : 2). If N's actual share is more than ₹ 50,000, N simply gets the actual share.

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Guarantee of minimum fees by a partner

If M guarantees that his fees will be at least ₹ 60,000 but earns only ₹ 45,000, the shortfall of ₹ 15,000 is **added to the firm's profit** (credited to P&L Appropriation) and **debited to M's capital**; the increased profit is then shared by all partners.

Common mistakes

- Charging interest on capital in a loss year when the deed does not say it is a charge.
- Showing interest on a partner's loan in the P&L Appropriation Account (it is a charge, in the P&L Account).
- Taking 6½ months for drawings made only in part of the year.
- Re-opening the Profit and Loss Account for a past omission instead of one adjustment entry.

Worked examples: retrospective change of ratio; P&L Adjustment Account ★★★

Worked example 17: retrospective change in profit sharing ratio

Aman, Binu and Chetan shared profits 2 : 2 : 1. Profits for the last three years were ₹ 60,000, ₹ 90,000 and ₹ 1,20,000 (total ₹ 2,70,000). They now agree that profits should have been shared **equally** from the start. Capitals are fluctuating. Pass a single adjusting entry.

Statement showing the adjustment

particulars	Aman ₹	Binu ₹	Chetan ₹	total ₹
Profit that should have been credited (equally)	90,000	90,000	90,000	2,70,000
Profit actually credited (2 : 2 : 1)	1,08,000	1,08,000	54,000	2,70,000
Net effect	**18,000 Dr.**	**18,000 Dr.**	**36,000 Cr.**	**nil**

Particulars		Dr. (₹)	Cr. (₹)
Aman's Capital A/c	Dr.	18,000	
Binu's Capital A/c	Dr.	18,000	
To Chetan's Capital A/c			36,000
(Profits of the last three years re-shared equally with retrospective effect)			

Short way. Change in share × total profit: Aman 2/5 − 1/3 = 1/15 × 2,70,000 = 18,000 excess; Binu the same; Chetan 1/3 − 1/5 = 2/15 × 2,70,000 = 36,000 short.

Worked example 18: several omissions, both methods

Lata, Mohan and Nitin share profits 2 : 2 : 1; fixed capitals ₹ 2,00,000, ₹ 1,50,000 and ₹ 1,00,000. After the accounts for 2025-26 were closed, it was found that: (i) interest on capital @ 8% p.a. was not allowed; (ii) Nitin's salary of ₹ 2,000 per month was not credited; (iii) interest on drawings (Lata ₹ 1,500, Mohan ₹ 1,000, Nitin ₹ 500) was not charged.

Interest on capital: Lata 16,000; Mohan 12,000; Nitin 8,000 (total 36,000). Salary: Nitin 24,000. Net amount omitted = 36,000 + 24,000 − 3,000 = **57,000**.

(b) Directly: statement and single entry

particulars	Lata ₹	Mohan ₹	Nitin ₹	firm ₹
Interest on capital	16,000 Cr.	12,000 Cr.	8,000 Cr.	36,000 Dr.
Salary	-	-	24,000 Cr.	24,000 Dr.
Interest on drawings	1,500 Dr.	1,000 Dr.	500 Dr.	3,000 Cr.
Net amount due	14,500 Cr.	11,000 Cr.	31,500 Cr.	57,000 Dr.
Profit taken back (57,000 in 2 : 2 : 1)	22,800 Dr.	22,800 Dr.	11,400 Dr.	57,000 Cr.
Net effect	**8,300 Dr.**	**11,800 Dr.**	**20,100 Cr.**	**nil**

Particulars		Dr. (₹)	Cr. (₹)
Lata's Current A/c	Dr.	8,300	
Mohan's Current A/c	Dr.	11,800	
To Nitin's Current A/c			20,100
(Omission of interest on capital, salary and interest on drawings adjusted)			

(a) Through the P&L Adjustment Account

Particulars		Dr. (₹)	Cr. (₹)
P&L Adjustment A/c	Dr.	60,000	
To Lata's Current A/c			16,000
To Mohan's Current A/c			12,000
To Nitin's Current A/c (8,000 + 24,000)			32,000
(Interest on capital and salary omitted, now credited)			
Lata's Current A/c	Dr.	1,500	
Mohan's Current A/c	Dr.	1,000	
Nitin's Current A/c	Dr.	500	
To P&L Adjustment A/c			3,000
(Interest on drawings omitted, now charged)			
Lata's Current A/c	Dr.	22,800	
Mohan's Current A/c	Dr.	22,800	
Nitin's Current A/c	Dr.	11,400	
To P&L Adjustment A/c			57,000
(Net loss on adjustment shared 2 : 2 : 1)			

Profit and Loss Adjustment A/c

Dr. Particulars	₹	Particulars	₹
To Lata's Current A/c	16,000	By Lata's Current A/c	1,500
To Mohan's Current A/c	12,000	By Mohan's Current A/c	1,000
To Nitin's Current A/c	32,000	By Nitin's Current A/c	500
		By Loss: Lata 22,800; Mohan 22,800; Nitin 11,400	57,000
	60,000		60,000

Cr.

Both methods give the same net effect: Lata 8,300 Dr.; Mohan 11,800 Dr.; Nitin 20,100 Cr.

★ **Exam tip:** For a retrospective change, add up the profits of all the years affected first; then one statement is enough. If a year had a loss, deduct it from the total.

✗ **Don't do this:** In a past adjustment, never debit or credit the P&L Account of the old year, and never forget the "profit taken back" line.

NCERT exercises, fully solved

Short answer questions

SA 1. Define partnership deed.

> **Ans.** The partnership deed is the written agreement among the partners that sets out the terms of the partnership: capital, profit sharing ratio, interest on capital and drawings, salaries, rules for admission, retirement and dissolution, and so on. It is stamped under the Indian Stamp Act.

SA 2. Why is it considered desirable to make the partnership agreement in writing?

> **Ans.** An oral agreement is hard to prove. A written deed records the agreed terms clearly, prevents misunderstandings and disputes among partners, and is evidence in a court of law if a dispute arises. It also guides

the preparation of accounts (ratio, interest, salaries).

SA 3. List the items which may be debited or credited in the capital accounts of partners when (i) capitals are fixed (ii) capitals are fluctuating.

Ans. (i) **Fixed**: capital account credited with opening balance and additional capital introduced; debited with permanent withdrawal of capital. (Drawings, interest, salary, commission and profit go to the current account.) (ii) **Fluctuating**: credited with opening balance, additional capital, interest on capital, salary, commission and share of profit; debited with drawings, interest on drawings, share of loss and withdrawal of capital.

SA 4. Why is the Profit and Loss Appropriation Account prepared?

Ans. To show how the net profit (or loss) of the firm is distributed among the partners: interest on capital, salaries, commission, transfer to reserve and the final share of profit, after adding interest on drawings.

SA 5. Give two circumstances under which the fixed capitals of partners may change.

Ans. (i) When a partner introduces additional capital. (ii) When a partner permanently withdraws part of his capital. (Also on admission, retirement or adjustment of capitals to a new ratio.)

SA 6. If a fixed amount is withdrawn on the first day of every quarter, for what period will interest on the total amount be calculated?

Ans. For an average period of **7½ months**: the first drawing earns interest for 12 months and the last for 3, so (12 + 3) ÷ 2 = 7½.

SA 7. In the absence of a deed, state the rules for (i) sharing profits and losses (ii) interest on capital (iii) interest on drawings (iv) interest on partner's loan (v) salary to a partner.

Ans. (i) Equally. (ii) No interest on capital. (iii) No interest on drawings. (iv) Interest @ 6% p.a. on loans by partners. (v) No salary or remuneration.

Long answer questions

LA 1. What is meant by partnership? Explain its chief characteristics.

Ans. Partnership 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 (Section 4). Characteristics: (1) **two or more persons**, not more than 50; (2) an **agreement**, oral or written; (3) a lawful **business**; (4) **mutual agency**: each partner is an agent and a principal; (5) **sharing of profits**; (6) **unlimited liability** of partners, joint and several.

LA 2. Discuss the main provisions of the Indian Partnership Act 1932 relevant to partnership accounts if there is no deed.

Ans. (a) Profits and losses are shared equally. (b) No interest on capital; where the deed provides for it, it is payable only out of profits. (c) No interest is charged on drawings. (d) Interest @ 6% p.a. is allowed on loans and advances made by a partner beyond his capital. (e) No partner is entitled to salary or remuneration for taking part in the business. (f) Every partner has a right to take part in the business, to be consulted and to inspect the books.

LA 3. Explain why it is better to make a partnership agreement in writing.

Ans. A written deed (i) records all terms clearly, so there is no confusion about capital, ratio, interest and salaries; (ii) reduces the chance of disputes among partners; (iii) is legal evidence and helps settle disputes in court; (iv) provides the basis for preparing accounts and for settling accounts on admission, retirement, death or dissolution; (v) is needed for registration of the firm.

LA 4. Illustrate how interest on drawings will be calculated under various situations.

Ans. Take drawings of ₹ 2,000 per month (₹ 24,000) and interest @ 10% p.a. (a) Dates not given: 24,000 × 10% × 6/12 = ₹ 1,200. (b) Beginning of each month: average 6½ months → ₹ 1,300. (c) Middle of each month: 6 months → ₹ 1,200. (d) End of each month: 5½ months → ₹ 1,100. (e) ₹ 6,000 at the beginning of each quarter: 7½

months → ₹ 1,500; end of each quarter: 4½ months → ₹ 900. (f) Unequal amounts on different dates: product method, e.g. ₹ 5,000 on 1 July and ₹ 3,000 on 1 January: 5,000 × 9 + 3,000 × 3 = 54,000; interest = 54,000 × 10% ÷ 12 = ₹ 450.

LA 5. How will you deal with a change in profit sharing ratio among existing partners? Illustrate.

Ans. When the ratio changes, some partners gain and some sacrifice. (i) Find each partner's **sacrifice or gain** = old share – new share. (ii) Distribute existing reserves and accumulated profits or losses in the **old ratio**. (iii) Revalue assets and liabilities and share the profit or loss in the old ratio. (iv) Adjust **goodwill**: the gaining partners compensate the sacrificing partners in the ratio of gain/sacrifice. Example: A and B share 3 : 2 and change to 1 : 1; goodwill ₹ 50,000. A sacrifices 3/5 – 1/2 = 1/10; B gains 1/10. Entry: B's Capital Dr. 5,000, To A's Capital 5,000.

Numerical questions

1. Tripathi and Chauhan (3 : 2) had capitals of ₹ 60,000 and ₹ 40,000 on 1st April, 2019. Profit ₹ 30,000. Each partner gets a salary of ₹ 1,000 per month and interest on capital @ 5% p.a.; interest on drawings @ 5% p.a. irrespective of the period (drawings Tripathi ₹ 12,000, Chauhan ₹ 8,000). Prepare capital/current accounts when capitals are fixed.

Ans. Salaries 12,000 each; interest on capital 3,000 and 2,000; interest on drawings (full year) 600 and 400. Divisible profit = 30,000 + 1,000 – 24,000 – 5,000 = 2,000 (1,200 and 800).

Profit and Loss Appropriation A/c

Dr. Particulars	₹	Particulars	₹
To Salary: Tripathi 12,000; Chauhan 12,000	24,000	By Profit and Loss A/c	30,000
To Interest on Capital: Tripathi 3,000; Chauhan 2,000	5,000	By Interest on Drawings: Tripathi 600; Chauhan 400	1,000
To Profit: Tripathi 1,200; Chauhan 800	2,000		
	31,000		**31,000**

Cr.

Partners' Current Accounts

Dr. Particulars	Tripathi	Chauhan	Particulars	Tripathi	Chauhan
To Drawings	12,000	8,000	By Salary	12,000	12,000
To Interest on Drawings	600	400	By Interest on Capital	3,000	2,000
To Balance c/d	3,600	6,400	By P&L Appropriation	1,200	800
	16,200	**14,800**		**16,200**	**14,800**

Cr.

The capital accounts simply show ₹ 60,000 and ₹ 40,000 (no change).

2. Anubha and Kajal (2 : 1) had capitals of ₹ 90,000 and ₹ 60,000; profit ₹ 45,000; salary Anubha ₹ 700 p.m., Kajal ₹ 500 p.m.; interest on capital @ 5% p.a.; drawings ₹ 8,500 and ₹ 6,500; interest on drawings @ 5% p.a. Prepare capital accounts (fluctuating).

Ans. Salaries 8,400 and 6,000; interest on capital 4,500 and 3,000; interest on drawings (dates not given, 6 months) 212.50 and 162.50. Divisible profit = 45,000 + 375 – 14,400 – 7,500 = 23,475 (15,650 and 7,825).

Partners' Capital Accounts

Dr. Particulars	Anubha	Kajal	Particulars	Anubha	Kajal
To Drawings	8,500	6,500	By Balance b/d	90,000	60,000
To Interest on Drawings	212.50	162.50	By Salary	8,400	6,000
To Balance c/d	1,09,837.50	70,162.50	By Interest on Capital	4,500	3,000
			By P&L Appropriation	15,650	7,825
	1,18,550	**76,825**		**1,18,550**	**76,825**

Cr.

(The NCERT key prints ₹ 1,09,860 and ₹ 70,140; the two balances still total ₹ 1,80,000 but the split given above is the one that follows from the data.)

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3. Harshad and Dhiman began on 1st April, 2019 without an agreement, with capitals of ₹ 4,00,000 and ₹ 1,00,000. Harshad also advanced ₹ 1,00,000 on 1st October, 2019; he was ill and absent for two months. Profit ₹ 1,80,000. Harshad claims 10% interest on capital and loan and profit in capital ratio; Dhiman claims equal profit, ₹ 2,000 p.m. for managing alone and 6% interest. Settle the dispute and prepare the P&L Appropriation Account.

Ans. With no deed, Section 13 applies: no interest on capital; interest on Harshad's loan @ 6% p.a. = 1,00,000 × 6% × 6/12 = ₹ 3,000 (a charge); no remuneration to Dhiman; profit shared equally. So Harshad's claims (i) and (ii) fail, except 6% on the loan; Dhiman's claim (i) is accepted and (ii) rejected; (iii) only partly (6% on the loan, none on capital).

Profit and Loss Appropriation A/c

Dr. Particulars	₹	Particulars	₹
To Profit: Harshad 88,500; Dhiman 88,500	1,77,000	By Profit and Loss A/c (1,80,000 – 3,000 interest on loan)	1,77,000
	1,77,000		**1,77,000**

Cr.

4. Aakriti and Bindu began on 1st April, 2019 without an agreement; they introduced capitals of ₹ 5,00,000 and ₹ 3,00,000 on 1st October, 2019, and Aakriti advanced a loan of ₹ 20,000 (no agreement on interest). Profit ₹ 43,000. Divide the profit with reasons.

Ans. No deed: no interest on capital; interest on Aakriti's loan @ 6% p.a. for 6 months = ₹ 600 (charge); profit shared equally.

Profit and Loss Appropriation A/c

Dr. Particulars	₹	Particulars	₹
To Profit: Aakriti 21,200; Bindu 21,200	42,400	By Profit and Loss A/c (43,000 – 600)	42,400
	42,400		**42,400**

Cr.

5. Rakhi and Shikha had capitals of ₹ 2,00,000 and ₹ 3,00,000; profit ₹ 23,200; profits shared in capital ratio after a salary of ₹ 5,000 p.m. to Shikha and interest on capital @ 10% p.a., both treated as a **charge**; drawings Rakhi ₹ 7,000, Shikha ₹ 10,000. Prepare the accounts.

Ans. Charges: salary 60,000; interest on capital 20,000 + 30,000. Net result = 23,200 – 1,10,000 = loss ₹ 86,800, shared 2 : 3: Rakhi 34,720, Shikha 52,080.

Profit and Loss A/c (extract)

Dr. Particulars	₹	Particulars	₹
To Shikha's Salary	60,000	By Profit before these charges	23,200
To Interest on Capital: Rakhi 20,000; Shikha 30,000	50,000	By Loss: Rakhi 34,720; Shikha 52,080	86,800
	1,10,000		**1,10,000**

Cr.

Partners' Capital Accounts

Dr. Particulars	Rakhi	Shikha	Particulars	Rakhi	Shikha
To Drawings	7,000	10,000	By Balance b/d	2,00,000	3,00,000
To Profit and Loss (loss)	34,720	52,080	By Salary		60,000
To Balance c/d	1,78,280	3,27,920	By Interest on Capital	20,000	30,000
	2,20,000	**3,90,000**		**2,20,000**	**3,90,000**

Cr.

6. Lokesh and Azad (3 : 2) had capitals of ₹ 50,000 and ₹ 30,000; interest on capital @ 6% p.a.; Azad's salary ₹ 2,500 p.a. Profit before interest on capital but after Azad's salary ₹ 12,500; a provision of 5% of profits is to be made for manager's commission. Prepare the accounts.

Ans. Following the NCERT key, the 5% commission is on the profit before partners' salary: 5% × (12,500 + 2,500) = ₹ 750 (a charge). Profit for appropriation = 12,500 – 750 = 11,750. Interest 3,000 and 1,800; balance 6,950 shared 3 : 2.

Profit and Loss Appropriation A/c

Dr. Particulars	₹	Particulars	₹ Cr.
To Interest on Capital: Lokesh 3,000; Azad 1,800	4,800	By Profit and Loss A/c (12,500 – 750)	11,750
To Profit: Lokesh 4,170; Azad 2,780	6,950		
	11,750		11,750

Partners' Capital Accounts

Dr. Particulars	Lokesh	Azad	Particulars	Lokesh	Azad Cr.
To Balance c/d	57,170	37,080	By Balance b/d	50,000	30,000
			By Salary		2,500
			By Interest on Capital	3,000	1,800
			By P&L Appropriation	4,170	2,780
	57,170	37,080		57,170	37,080

(If the 5% is taken on ₹ 12,500 only, commission is ₹ 625 and the shares become ₹ 4,245 and ₹ 2,830.)

7. Maneesh and Girish share equally; Maneesh's salary ₹ 400 p.m.; Girish's commission 10% of net profit after Maneesh's salary; interest on fixed capitals (₹ 1,00,000 and ₹ 80,000) @ 7% p.a.; interest on annual drawings (₹ 16,000 and ₹ 14,000) @ 5% p.a.; net profit ₹ 40,000. Prepare the P&L Appropriation Account.

Ans. Salary 4,800; commission 10% × (40,000 – 4,800) = 3,520; interest on capital 7,000 and 5,600; interest on drawings (annual, full year as per the key) 800 and 700.

Profit and Loss Appropriation A/c

Dr. Particulars	₹	Particulars	₹ Cr.
To Maneesh's Salary	4,800	By Profit and Loss A/c	40,000
To Girish's Commission	3,520	By Interest on Drawings: Maneesh 800; Girish 700	1,500
To Interest on Capital: Maneesh 7,000; Girish 5,600	12,600		
To Profit: Maneesh 10,290; Girish 10,290	20,580		
	41,500		41,500

8. Ram, Raj and George (5 : 3 : 2). George is to get at least ₹ 10,000. Profit ₹ 40,000. Prepare the P&L Appropriation Account.

Ans. George's share 8,000; deficiency 2,000 borne by Ram and Raj 5 : 3 (1,250 and 750).

Profit and Loss Appropriation A/c

Dr. Particulars	₹	Particulars	₹ Cr.
To Ram (20,000 – 1,250)	18,750	By Profit and Loss A/c	40,000
To Raj (12,000 – 750)	11,250		
To George (8,000 + 2,000)	10,000		
	40,000		40,000

9. Amann, Babita and Suresh (2 : 2 : 1). Suresh is guaranteed ₹ 10,000 a year; any deficiency is met by Babita. Profits: 2018–19 ₹ 40,000; 2019–20 ₹ 60,000. Prepare the P&L Appropriation Account for both years.

Ans. 2018–19: shares 16,000, 16,000, 8,000; Babita pays the deficiency of 2,000. 2019–20: Suresh's share 12,000 exceeds the guarantee.

Profit and Loss Appropriation A/c (2018–19)

Dr. Particulars	₹	Particulars	₹ Cr.
To Amann	16,000	By Profit and Loss A/c	40,000
To Babita (16,000 – 2,000)	14,000		
To Suresh (8,000 + 2,000)	10,000		
	40,000		40,000

Profit and Loss Appropriation A/c (2019-20)

Dr. Particulars	₹	Particulars	₹
To Amann	24,000	By Profit and Loss A/c	60,000
To Babita	24,000		
To Suresh	12,000		
	60,000		60,000

Cr.

10. Simmi and Sonu (3 : 1); net profit ₹ 1,50,050; capitals ₹ 30,000 and ₹ 60,000; current accounts ₹ 30,000 Cr. and ₹ 15,000 Cr.; drawings ₹ 20,000 and ₹ 15,000; interest on capital @ 5%; interest on drawings @ 6% for an average of 6 months; salaries ₹ 12,000 and ₹ 9,000. Prepare the P&L Appropriation Account and current accounts.

Ans. Interest on capital 1,500 and 3,000; interest on drawings 600 and 450. Divisible = 1,50,050 + 1,050 − 4,500 − 21,000 = 1,25,600 (94,200 and 31,400).

Profit and Loss Appropriation A/c

Dr. Particulars	₹	Particulars	₹
To Interest on Capital: Simmi 1,500; Sonu 3,000	4,500	By Profit and Loss A/c	1,50,050
To Salaries: Simmi 12,000; Sonu 9,000	21,000	By Interest on Drawings: Simmi 600; Sonu 450	1,050
To Profit: Simmi 94,200; Sonu 31,400	1,25,600		
	1,51,100		1,51,100

Cr.

Partners' Current Accounts

Dr. Particulars	Simmi	Sonu	Particulars	Simmi	Sonu
To Drawings	20,000	15,000	By Balance b/d	30,000	15,000
To Interest on Drawings	600	450	By Interest on Capital	1,500	3,000
To Balance c/d	1,17,100	42,950	By Salaries	12,000	9,000
			By P&L Appropriation	94,200	31,400
	1,37,700	58,400		1,37,700	58,400

Cr.

(The NCERT key ₹ 94,162 and ₹ 31,388 comes from taking the profit as ₹ 1,50,000.)

11. Arvind and Anand had capitals of ₹ 4,40,000 and ₹ 2,60,000; interest on capital @ 5%; interest on drawings @ 6% (drawings ₹ 40,000 and ₹ 28,000); Arvind's salary ₹ 35,000. The firm made a net loss of ₹ 32,400. Prepare the P&L Appropriation Account.

Ans. There is a loss, so no interest on capital and no salary are allowed (appropriations need profit). Interest on drawings (6 months) 1,200 and 840 reduces the loss: 32,400 − 2,040 = 30,360, shared 3 : 1 (the ratio printed as 8 : 3 : 1 is a misprint; the key uses 3 : 1).

Profit and Loss Appropriation A/c

Dr. Particulars	₹	Particulars	₹
To Profit and Loss A/c (net loss)	32,400	By Interest on Drawings: Arvind 1,200; Anand 840	2,040
		By Loss: Arvind 22,770; Anand 7,590	30,360
	32,400		32,400

Cr.

12. Ramesh and Suresh share in their capital ratio (₹ 80,000 : ₹ 60,000); interest on capital @ 12% p.a.; monthly salaries ₹ 2,000 and ₹ 3,000; profit before appropriations ₹ 1,00,300; drawings ₹ 40,000 and ₹ 50,000; interest on drawings ₹ 2,000 and ₹ 2,500. Prepare the P&L Appropriation Account and capital accounts (fluctuating).

Ans. Ratio 4 : 3. Interest on capital 9,600 and 7,200; salaries 24,000 and 36,000. Divisible = 1,00,300 + 4,500 − 16,800 − 60,000 = 28,000 (16,000 and 12,000).

Profit and Loss Appropriation A/c

Dr. Particulars	₹	Particulars	₹
To Interest on Capital: Ramesh 9,600; Suresh 7,200	16,800	By Profit and Loss A/c	1,00,300
To Salaries: Ramesh 24,000; Suresh 36,000	60,000	By Interest on Drawings: Ramesh 2,000; Suresh 2,500	4,500
To Profit: Ramesh 16,000; Suresh 12,000	28,000		
	1,04,800		1,04,800

Cr.

Partners' Capital Accounts

Dr. Particulars	Ramesh	Suresh	Particulars	Ramesh	Suresh
To Drawings	40,000	50,000	By Balance b/d	80,000	60,000
To Interest on Drawings	2,000	2,500	By Interest on Capital	9,600	7,200
To Balance c/d	87,600	62,700	By Salaries	24,000	36,000
			By P&L Appropriation	16,000	12,000
	1,29,600	1,15,200		1,29,600	1,15,200

Cr.

13. Sukesh and Vanita (3 : 2): capitals ₹ 40,000 each; current accounts ₹ 7,200 Cr. and ₹ 2,800 Cr.; drawings ₹ 10,850 and ₹ 8,150; interest on capital @ 5%; a monthly salary of ₹ 600. Net profit before interest on capital but after charging the partner's salary ₹ 9,500. Prepare the P&L Appropriation Account and current accounts.

Ans. The salary (₹ 7,200, Vanita's per the deed; "Sukesh's salary" in the question is a slip) is already charged, so it is credited to Vanita's current account. Interest on capital 2,000 each; divisible = 9,500 − 4,000 = 5,500 (3,300 and 2,200).

Profit and Loss Appropriation A/c

Dr. Particulars	₹	Particulars	₹
To Interest on Capital: Sukesh 2,000; Vanita 2,000	4,000	By Profit and Loss A/c	9,500
To Profit: Sukesh 3,300; Vanita 2,200	5,500		
	9,500		9,500

Cr.

Partners' Current Accounts

Dr. Particulars	Sukesh	Vanita	Particulars	Sukesh	Vanita
To Drawings	10,850	8,150	By Balance b/d	7,200	2,800
To Balance c/d	1,650	6,050	By Salary		7,200
			By Interest on Capital	2,000	2,000
			By P&L Appropriation	3,300	2,200
	12,500	14,200		12,500	14,200

Cr.

14. Rahul, Rohit and Karan started on 1st April, 2019 with capitals of ₹ 20,00,000, ₹ 18,00,000 and ₹ 16,00,000; profit ₹ 1,35,000; ratio 3 : 2 : 1. Calculate interest on capital @ 5% p.a.

Ans. Interest @ 5% on opening capitals: Rahul **₹ 1,00,000**, Rohit **₹ 90,000**, Karan **₹ 80,000** (total 2,70,000). Note: if interest is an appropriation, the profit of ₹ 1,35,000 is not enough; it would then be divided in the ratio of interest 10 : 9 : 8 as ₹ 50,000, ₹ 45,000 and ₹ 40,000.

15. Sunflower and Pink Rose started on 1st April, 2019 with capitals of ₹ 2,50,000 and ₹ 1,50,000; on 1st October, 2019 both capitals were made ₹ 2,00,000. Interest @ 10% p.a. Calculate interest on capital.

Ans. Sunflower: 2,50,000 × 10% × 6/12 + 2,00,000 × 10% × 6/12 = 12,500 + 10,000 = **₹ 22,500**. Pink Rose: 7,500 + 10,000 = **₹ 17,500**.

16. After closing, the capitals of Mountain, Hill and Rock were ₹ 4,00,000, ₹ 3,00,000 and ₹ 2,00,000; interest on capital @ 10% was omitted; profit ₹ 1,50,000; drawings ₹ 20,000, ₹ 15,000, ₹ 10,000. Calculate interest on capital.

Ans. Ratio not given: profit shared equally (50,000 each). Opening capital = closing + drawings − profit: Mountain 3,70,000; Hill 2,65,000; Rock 1,60,000. Interest @ 10%: **₹ 37,000, ₹ 26,500, ₹ 16,000**.

17. Neelkant and Mahadev have fixed capitals of ₹ 10,00,000 each and current accounts of ₹ 1,00,000 each; Mahadev's drawings ₹ 30,000; profit ₹ 10,00,000. Calculate interest on capital @ 5% p.a.

Ans. With fixed capitals, drawings affect only the current account, so interest is on the fixed capital: 10,00,000 × 5% = **₹ 50,000 each**.

18. Rishi withdrew ₹ 12,000 on 1 May 2019, ₹ 6,000 on 31 July, ₹ 9,000 on 30 September, ₹ 12,000 on 30 November, ₹ 8,000 on 1 January 2020 and ₹ 7,000 on 31 March 2020. Interest @ 9% p.a. Calculate interest on drawings.

Ans.

Date	Amount	Months to 31 March	Product
1 May 2019	12,000	11	1,32,000
31 July 2019	6,000	8	48,000
30 Sept 2019	9,000	6	54,000
30 Nov 2019	12,000	4	48,000
1 Jan 2020	8,000	3	24,000
31 March 2020	7,000	0	0
Total	**54,000**		**3,06,000**

Interest = 3,06,000 × 9% ÷ 12 = **₹ 2,295**.

19. Moli and Golu (3 : 2) had capitals of ₹ 40,000 and ₹ 20,000; interest on capital @ 10%, on drawings @ 12%. Golu advanced ₹ 10,000 on 1st August, 2019. Moli drew ₹ 1,000 at the beginning of every month, Golu ₹ 1,000 at the end of every month. Profit before these adjustments ₹ 20,950. Show the distribution and prepare capital accounts.

Ans. Interest on Golu's loan @ 6% (no rate agreed) for 8 months = 400 (charge). Interest on drawings: Moli 12,000 × 12% × 6½/12 = 780; Golu 12,000 × 12% × 5½/12 = 660. Interest on capital 4,000 and 2,000. Divisible = 20,950 − 400 + 1,440 − 6,000 = 15,990 (9,594 and 6,396).

Profit and Loss Appropriation A/c

Dr. Particulars	₹	Particulars	₹
To Interest on Capital: Moli 4,000; Golu 2,000	6,000	By Profit and Loss A/c (20,950 − 400)	20,550
To Profit: Moli 9,594; Golu 6,396	15,990	By Interest on Drawings: Moli 780; Golu 660	1,440
	21,990		**21,990**

Cr.

Partners' Capital Accounts

Dr. Particulars	Moli	Golu	Particulars	Moli	Golu
To Drawings	12,000	12,000	By Balance b/d	40,000	20,000
To Interest on Drawings	780	660	By Interest on Capital	4,000	2,000
To Balance c/d	40,814	15,736	By P&L Appropriation	9,594	6,396
	53,594	**28,396**		**53,594**	**28,396**

Cr.

(The ₹ 400 interest is credited to Golu's loan account.)

20. Rakesh drew ₹ 600 (31 May), ₹ 500 (30 June), ₹ 1,000 (31 Aug), ₹ 400 (1 Nov), ₹ 1,500 (31 Dec), ₹ 300 (31 Jan) and ₹ 700 (1 March); Roshan drew ₹ 400 at the beginning of each month. Interest @ 6% p.a.; books close on 31st March. Calculate interest on drawings.

Ans. Rakesh (product method): 600 × 10 + 500 × 9 + 1,000 × 7 + 400 × 5 + 1,500 × 3 + 300 × 2 + 700 × 1 = 6,000 + 4,500 + 7,000 + 2,000 + 4,500 + 600 + 700 = 25,300; interest = 25,300 × 6% ÷ 12 = **₹ 126.50**.

Roshan: 4,800 × 6% × 6½/12 = **₹ 156**.

21. Himanshu withdrew ₹ 2,500 at the end of each month; interest @ 12% p.a. Calculate interest for the year.

Ans. 30,000 × 12% × 5½/12 = **₹ 1,650**.

22. Bharam withdrew ₹ 3,000 at the start of each month; interest @ 10% p.a. Calculate interest.

Ans. 36,000 × 10% × 6½/12 = **₹ 1,950**.

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23. Raj and Neeraj had capitals of ₹ 2,50,000 and ₹ 1,50,000 on 1st April, 2019; on 1st July, 2019 both capitals were made ₹ 1,00,000. Interest @ 8% p.a. Compute interest on capital.

> **Ans.** Raj: 2,50,000 × 8% × 3/12 + 1,00,000 × 8% × 9/12 = 5,000 + 6,000 = **₹ 11,000**. Neeraj: 3,000 + 6,000 = **₹ 9,000**.

24. Amit and Bhola drew ₹ 24,000 and ₹ 16,000 evenly through the year; interest @ 10% p.a. Calculate interest on drawings.

> **Ans.** Evenly drawn: average 6 months. Amit 24,000 × 10% × 6/12 = **₹ 1,200**; Bhola **₹ 800**.

25. Harish drew ₹ 4,000 (May 2019), ₹ 12,000 (August), ₹ 4,000 (September), ₹ 12,000 (December) and ₹ 4,000 (March 2020); interest @ 7½% p.a. Calculate interest on drawings.

> **Ans.** Exact dates are not given; taking each drawing on the first day of the month and the year ending 31st March, 2020 (product method): 4,000 × 11 + 12,000 × 8 + 4,000 × 7 + 12,000 × 4 + 4,000 × 1 = 44,000 + 96,000 + 28,000 + 48,000 + 4,000 = 2,20,000. Interest = 2,20,000 × 7.5% ÷ 12 = **₹ 1,375**. (The NCERT key ₹ 1,800 cannot be obtained from these data; it equals 36,000 × 7.5% × 8/12.)

26. Menon draws ₹ 2,000 every month; interest @ 10% p.a. Calculate interest if drawn (i) at the beginning (ii) in the middle (iii) at the end of every month.

> **Ans.** Drawings 24,000. (i) 6½ months: **₹ 1,300**. (ii) 6 months: **₹ 1,200**. (iii) 5½ months: **₹ 1,100**.

27. After closing, the capitals of Ram, Shyam and Mohan (3 : 2 : 1) were ₹ 24,000, ₹ 18,000 and ₹ 12,000; interest @ 5% was omitted; profit ₹ 36,000; drawings ₹ 3,600, ₹ 4,500 and ₹ 2,700. Calculate interest on capital.

> **Ans.** Profit shares 18,000, 12,000, 6,000. Opening capitals: Ram 24,000 + 3,600 − 18,000 = 9,600; Shyam 18,000 + 4,500 − 12,000 = 10,500; Mohan 12,000 + 2,700 − 6,000 = 8,700. Interest @ 5%: **₹ 480, ₹ 525, ₹ 435**.

28. Amit, Sumit and Samiksha (3 : 2 : 1). Samiksha's share is guaranteed by Amit and Sumit at ₹ 8,000 minimum. Profit ₹ 36,000. Prepare the P&L Appropriation Account.

> **Ans.** Shares 18,000, 12,000, 6,000; deficiency 2,000 borne by Amit and Sumit 3 : 2 (1,200 and 800).

Profit and Loss Appropriation A/c

Dr. Particulars	₹	Particulars	₹
To Amit (18,000 − 1,200)	16,800	By Profit and Loss A/c	36,000
To Sumit (12,000 − 800)	11,200		
To Samiksha (6,000 + 2,000)	8,000		
	36,000		**36,000**

Cr.

29. Pinki, Deepti and Kaku (5 : 4 : 1). Kaku's share is guaranteed at ₹ 5,000; deficiency borne equally by Pinki and Deepti. Profit ₹ 40,000. Pass journal entries.

> **Ans.** Kaku's share 4,000; deficiency 1,000.

Particulars		Dr. (₹)	Cr. (₹)
Profit and Loss Appropriation A/c	Dr.	40,000	
To Pinki's Capital A/c			20,000
To Deepti's Capital A/c			16,000
To Kaku's Capital A/c			4,000
(Profit distributed)			
Pinki's Capital A/c	Dr.	500	
Deepti's Capital A/c	Dr.	500	
To Kaku's Capital A/c			1,000
(Deficiency of guarantee made good)			

30. Abhay, Siddharth and Kusum (5 : 3 : 2). Kusum is guaranteed ₹ 10,000; deficiency met by Siddharth. Profits ₹ 40,000 (2015–16) and ₹ 60,000 (2016–17). Prepare the P&L Appropriation Account.

Ans. 2015–16: shares 20,000, 12,000, 8,000; Siddharth pays 2,000 → 10,000 each to Siddharth and Kusum. 2016–17: 30,000, 18,000, 12,000 (no deficiency).

Profit and Loss Appropriation A/c (2015–16)

Dr. Particulars	₹	Particulars	₹ Cr.
To Abhay	20,000	By Profit and Loss A/c	40,000
To Siddharth (12,000 – 2,000)	10,000		
To Kusum (8,000 + 2,000)	10,000		
	40,000		**40,000**

Profit and Loss Appropriation A/c (2016–17)

Dr. Particulars	₹	Particulars	₹ Cr.
To Abhay	30,000	By Profit and Loss A/c	60,000
To Siddharth	18,000		
To Kusum	12,000		
	60,000		**60,000**

31. Radha, Mary and Fatima (5 : 4 : 1). Fatima is guaranteed at least ₹ 5,000; any shortfall borne by Radha and Mary 3 : 2. Profit ₹ 35,000. Record the journal entry.

Ans. Fatima's share 3,500; shortfall 1,500 (900 and 600).

Particulars		Dr. (₹)	Cr. (₹)
Profit and Loss Appropriation A/c	Dr.	35,000	
To Radha's Capital A/c			17,500
To Mary's Capital A/c			14,000
To Fatima's Capital A/c			3,500
Radha's Capital A/c	Dr.	900	
Mary's Capital A/c	Dr.	600	
To Fatima's Capital A/c			1,500

32. X, Y and Z (3 : 2 : 1). Z's share is guaranteed by X and Y at ₹ 8,000 minimum. Profit ₹ 30,000. Prepare the P&L Appropriation Account.

Ans. Shares 15,000, 10,000, 5,000; deficiency 3,000 borne 3 : 2 (1,800 and 1,200).

Profit and Loss Appropriation A/c

Dr. Particulars	₹	Particulars	₹ Cr.
To X (15,000 – 1,800)	13,200	By Profit and Loss A/c	30,000
To Y (10,000 – 1,200)	8,800		
To Z (5,000 + 3,000)	8,000		
	30,000		**30,000**

33. Arun, Boby and Chintu (2 : 2 : 1). Chintu must get at least ₹ 60,000; any deficiency is borne by Arun. Show the distribution if profits are (i) ₹ 2,50,000 (ii) ₹ 3,60,000.

Ans. (i) Shares 1,00,000, 1,00,000, 50,000; Arun pays 10,000: **Arun 90,000, Boby 1,00,000, Chintu 60,000.** (ii) Shares 1,44,000, 1,44,000, 72,000 (above the guarantee): no adjustment.

Profit and Loss Appropriation A/c (case i)

Dr. Particulars	₹	Particulars	₹
To Arun (1,00,000 – 10,000)	90,000	By Profit and Loss A/c	2,50,000
To Boby	1,00,000		
To Chintu (50,000 + 10,000)	60,000		
	2,50,000		2,50,000

Cr.

34. Ashok, Brijesh and Cheena (2 : 2 : 1); Ashok and Brijesh guarantee Cheena ₹ 20,000. Profit ₹ 70,000. Prepare the P&L Appropriation Account.

Ans. Shares 28,000, 28,000, 14,000; deficiency 6,000 borne equally (their ratio 2 : 2).

Profit and Loss Appropriation A/c

Dr. Particulars	₹	Particulars	₹
To Ashok (28,000 – 3,000)	25,000	By Profit and Loss A/c	70,000
To Brijesh (28,000 – 3,000)	25,000		
To Cheena (14,000 + 6,000)	20,000		
	70,000		70,000

Cr.

35. Ram, Mohan and Sohan have capitals of ₹ 5,00,000, ₹ 2,50,000 and ₹ 2,00,000. After interest on capital @ 10%, profits are shared 1/2, 1/3, 1/6. Ram and Mohan guarantee Sohan at least ₹ 25,000. Profit before interest ₹ 2,00,000. Prepare the P&L Appropriation Account.

Ans. Interest 50,000, 25,000, 20,000 = 95,000; divisible 1,05,000 ⟶ 52,500, 35,000, 17,500. Sohan's deficiency 7,500 borne by Ram and Mohan 3 : 2 (4,500 and 3,000).

Profit and Loss Appropriation A/c

Dr. Particulars	₹	Particulars	₹
To Interest on Capital: Ram 50,000; Mohan 25,000; Sohan 20,000	95,000	By Profit and Loss A/c	2,00,000
To Ram (52,500 – 4,500)	48,000		
To Mohan (35,000 – 3,000)	32,000		
To Sohan (17,500 + 7,500)	25,000		
	2,00,000		2,00,000

Cr.

36. Amit, Babita and Sona (3 : 2 : 1). Sona is guaranteed at least ₹ 15,000; Babita guaranteed that her gross fees would be at least ₹ 25,000, but she earned only ₹ 16,000. Net profit ₹ 75,000. Prepare the P&L Appropriation Account.

Ans. Babita makes good her fee shortfall of 9,000, raising divisible profit to 84,000: shares 42,000, 28,000, 14,000. Sona's deficiency 1,000 borne by Amit and Babita 3 : 2 (600 and 400).

Profit and Loss Appropriation A/c

Dr. Particulars	₹	Particulars	₹
To Amit (42,000 – 600)	41,400	By Profit and Loss A/c	75,000
To Babita (28,000 – 400)	27,600	By Babita's Capital A/c (fee shortfall)	9,000
To Sona (14,000 + 1,000)	15,000		
	84,000		84,000

Cr.

37. The profit of X, Y and Z (3 : 1 : 1) of ₹ 60,000 was distributed, but interest on capital @ 5% (fixed capitals ₹ 1,00,000, ₹ 80,000, ₹ 60,000), interest on drawings (₹ 700, ₹ 500, ₹ 300) and salaries (X ₹ 1,000, Y ₹ 1,500) were omitted. Record the adjustment entry.

Ans.

Particulars	X	Y	Z	Total
Interest on capital (Cr.)	5,000	4,000	3,000	12,000
Salary (Cr.)	1,000	1,500	nil	2,500
Interest on drawings (Dr.)	(700)	(500)	(300)	(1,500)
Net amount due	5,300	5,000	2,700	13,000
Profit taken back (3 : 1 : 1)	(7,800)	(2,600)	(2,600)	(13,000)
Net effect	**2,500 Dr.**	**2,400 Cr.**	**100 Cr.**	**nil**

Particulars		Dr. (₹)	Cr. (₹)
X's Current A/c	Dr.	2,500	
To Y's Current A/c			2,400
To Z's Current A/c			100

38. Harry, Porter and Ali (2 : 2 : 1) agree to share equally with effect from the last three years; profits ₹ 22,000, ₹ 24,000 and ₹ 29,000. Pass a single adjustment entry.

Ans. Total 75,000. Given 30,000, 30,000, 15,000; due 25,000 each.

Particulars		Dr. (₹)	Cr. (₹)
Harry's Capital A/c	Dr.	5,000	
Porter's Capital A/c	Dr.	5,000	
To Ali's Capital A/c			10,000

39. Mannu and Shristhi (3 : 2): capitals ₹ 30,000 and ₹ 10,000 (after crediting profit of ₹ 5,000); drawings ₹ 4,000 and ₹ 2,000 shown separately. Interest on capital @ 5% and on drawings @ 6% (6 months) were omitted. Give the adjustment entry.

Ans. Opening capitals = 30,000 − 3,000 = 27,000; 10,000 − 2,000 = 8,000. Interest on capital 1,350 and 400; on drawings 120 and 60. Net credit 1,230 and 340 = 1,570, taken back 3 : 2 (942 and 628). Net: Mannu +288, Shristhi −288.

Particulars		Dr. (₹)	Cr. (₹)
Shristhi's Capital A/c	Dr.	288	
To Mannu's Capital A/c			288

40. After adjustments the capitals of Eluin, Monu and Ahmed (3 : 2 : 1) were ₹ 80,000, ₹ 60,000 and ₹ 40,000. Interest on capital @ 5% and on drawings (₹ 500, ₹ 360, ₹ 200) were omitted; drawings ₹ 20,000, ₹ 15,000, ₹ 9,000; profit ₹ 1,20,000. Record the adjustment entry.

Ans. Opening capitals: 80,000 + 20,000 − 60,000 = 40,000; 60,000 + 15,000 − 40,000 = 35,000; 40,000 + 9,000 − 20,000 = 29,000.

Particulars	Eluin	Monu	Ahmed	Total
Interest on capital	2,000	1,750	1,450	5,200
Less interest on drawings	(500)	(360)	(200)	(1,060)
Net due	1,500	1,390	1,250	4,140
Profit taken back (3 : 2 : 1)	(2,070)	(1,380)	(690)	(4,140)
Net effect	**570 Dr.**	**10 Cr.**	**560 Cr.**	**nil**

Particulars		Dr. (₹)	Cr. (₹)
Eluin's Capital A/c	Dr.	570	
To Monu's Capital A/c			10
To Ahmed's Capital A/c			560

41. Azad and Benny are equal partners with fixed capitals of ₹ 40,000 and ₹ 80,000. Interest @ 5% was not credited. Record the adjusting entry.

Ans. Interest 2,000 and 4,000 = 6,000; taken back equally 3,000 each. Net: Azad −1,000; Benny +1,000.

Particulars		Dr. (₹)	Cr. (₹)
Azad's Current A/c	Dr.	1,000	
To Benny's Current A/c			1,000

42. The capitals of Mohan, Vijay and Anil were ₹ 30,000, ₹ 25,000 and ₹ 20,000 after crediting profit of ₹ 24,000; drawings ₹ 5,000, ₹ 4,000, ₹ 3,000. Interest on capital @ 10% and interest on drawings (₹ 250, ₹ 200, ₹ 150) were omitted. Record the correction.

Ans. Ratio not stated: equal (8,000 each). Opening capitals 27,000, 21,000, 15,000; interest 2,700, 2,100, 1,500; less interest on drawings → net 2,450, 1,900, 1,350 = 5,700; taken back equally 1,900 each. Net: Mohan +550; Vijay nil; Anil −550.

Particulars		Dr. (₹)	Cr. (₹)
Anil's Capital A/c	Dr.	550	
To Mohan's Capital A/c			550

43. Anju, Manju and Mamta have fixed capitals of ₹ 10,000, ₹ 8,000 and ₹ 6,000; interest @ 5% was omitted for three years, during which the ratios were 4 : 3 : 5, 3 : 2 : 1 and 1 : 1 : 1. Pass the adjustment entry in April 2019.

Ans. Interest per year 500, 400, 300 (1,200); three years 1,500, 1,200, 900. Profit to be taken back: year 1 (4 : 3 : 5) 400, 300, 500; year 2 (3 : 2 : 1) 600, 400, 200; year 3 (1 : 1 : 1) 400, 400, 400; totals 1,400, 1,100, 1,100. Net: Anju +100; Manju +100; Mamta −200.

Particulars		Dr. (₹)	Cr. (₹)
Mamta's Current A/c	Dr.	200	
To Anju's Current A/c			100
To Manju's Current A/c			100

CBSE board questions 2024–2026, fully solved

Every question on this chapter from the 16 papers (sets 67/1/1 to 67/7/1, 2024–2026), quoted with complete answers.

A. MCQs and Assertion–Reason (1 mark each)

CBSE 2024 · 67/1/1 Abhay, Boris and Chetan shared profits 5 : 3 : 2. Boris was guaranteed a profit of ₹ 95,000; any deficiency was to be borne by Abhay and Chetan equally. The firm earned ₹ 2,00,000 for the year ended 31st March, 2023. The amount given by Abhay to Boris will be: (A) ₹ 17,500 (B) ₹ 35,000 (C) ₹ 25,000 (D) ₹ 10,000 [1]

Ans. Boris's actual share = 2,00,000 × 3/10 = ₹ 60,000. Deficiency = 95,000 − 60,000 = ₹ 35,000, borne equally, so Abhay gives 35,000 × 1/2 = ₹ 17,500. **(A).**

CBSE 2024 · 67/1/1 Assertion (A): Each partner is a principal as well as an agent for all the other partners. Reason (R): As per the definition in the Partnership Act, partnership business may be carried on by all the partners or any of them acting for all. (A) Both true, R not the correct explanation (B) Both true, R is the correct explanation (C) A true, R false (D) A false, R true [1]

Ans. Because the business may be carried on by any partner acting for all (mutual agency), every partner binds the others (agent) and is bound by them (principal). R explains A. **(B).**

CBSE 2024 · 67/1/1 Abha and Babita (2 : 1) had capitals of ₹ 5,00,000 and ₹ 10,00,000 on 1st April, 2023. The deed allows interest on capital @ 10% p.a. The firm earned a profit of ₹ 90,000. The interest on capital allowed to Abha will be: (A) ₹ 50,000 (B) ₹ 1,00,000 (C) ₹ 60,000 (D) ₹ 30,000 [1]

Ans. Interest due: Abha 50,000, Babita 1,00,000 (total 1,50,000). Profit is only ₹ 90,000, so interest on capital (an appropriation) is limited to the profit and shared in the ratio of interest, 1 : 2. Abha = 90,000

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× 1/3 = ₹ 30,000. **(D)**.

CBSE 2024 · 67/1/1 In the same case, Babita's share in profit will be: (A) ₹ 60,000 (B) ₹ 30,000 (C) Nil (D) ₹ 1,00,000 [1]

Ans. The whole ₹ 90,000 is used up as interest on capital (Abha 30,000, Babita 60,000), so nothing is left to share as profit. **(C) Nil.**

CBSE 2024 · 67/2/1 Which item cannot be recorded in the capital accounts of partners when capitals are fixed? (A) Drawings (B) Withdrawal of capital (C) Introduction of additional capital (D) Opening balance of capital [1]

Ans. Under fixed capitals, routine items (drawings, interest, salary, profit share) go to the **current account**; only permanent changes in capital go to the capital account. **(A)**.

CBSE 2024 · 67/2/1 On 1st January, 2023 Abhishek, a partner, advanced a loan of ₹ 3,00,000 to the firm. In the absence of a partnership agreement, interest on the loan for the year ending 31st March, 2023 will be: (A) ₹ 18,000 (B) ₹ 4,500 (C) ₹ 9,000 (D) no interest [1]

Ans. Without a deed, interest on a partner's loan is 6% p.a. For 3 months: 3,00,000 × 6% × 3/12 = ₹ 4,500. **(B)**.

CBSE 2024 · 67/2/1 (OR) If a partner withdraws a fixed amount at the end of each quarter, interest on drawings will be charged for _____ months. (A) 9 (B) 7½ (C) 6 (D) 4½ [1]

Ans. End-of-quarter drawings are outstanding for 9, 6, 3 and 0 months: average (9 + 6 + 3 + 0) ÷ 4 = 4½ months. **(D)**.

CBSE 2024 · 67/2/1 (OR) Neeru and Meetu have capitals of ₹ 2,00,000 and ₹ 1,50,000. The firm earned ₹ 17,500 for the year; interest on capital @ 10% p.a. would be: (A) Neeru 15,000; Meetu 20,000 (B) 8,750 each (C) Neeru 20,000; Meetu 15,000 (D) Neeru 10,000; Meetu 7,500 [1]

Ans. Interest due 20,000 + 15,000 = 35,000 exceeds the profit 17,500, so profit is shared in the ratio of interest 4 : 3: Neeru 10,000, Meetu 7,500. **(D)**.

CBSE 2024 · 67/2/1 (OR) Raju, Sohan and Tina share 2 : 2 : 1. Tina is guaranteed ₹ 40,000; any deficiency is borne by Raju. If profit is ₹ 1,60,000, Raju will bear: (A) ₹ 8,000 (B) ₹ 40,000 (C) ₹ 48,000 (D) ₹ 4,000 [1]

Ans. Tina's share = 1,60,000 × 1/5 = 32,000; deficiency = 40,000 − 32,000 = ₹ 8,000, all borne by Raju. **(A)**.

CBSE 2024 · 67/2/1 In the same case, interest on drawings of Nisha would be: (A) ₹ 2,000 (B) ₹ 1,000 (C) ₹ 4,000 (D) ₹ 4,800 [1]

Ans. Dates of drawings are not given, so interest is charged for an average of 6 months: 80,000 × 5% × 6/12 = ₹ 2,000. **(A)**.

CBSE 2024 · 67/2/1 Vivek and Nisha (3 : 2) had capitals of ₹ 8,00,000 and ₹ 4,00,000 on 1st April, 2022. Vivek introduced additional capital of ₹ 2,00,000 on 1st July, 2022. Drawings: Vivek ₹ 40,000, Nisha ₹ 80,000. Interest on capital 6% p.a., on drawings 5% p.a.; net profit ₹ 6,50,000. Interest on capital payable to Vivek will be: (A) ₹ 48,000 (B) ₹ 60,000 (C) ₹ 57,000 (D) ₹ 24,000 [1]

Ans. 8,00,000 × 6% = 48,000 plus 2,00,000 × 6% × 9/12 = 9,000. Total ₹ 57,000. **(C)**.

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CBSE 2024 · 67/3/1 Shrikant withdrew ₹ 10,000 at the beginning of each quarter during the year ended 31st March, 2023. Interest on his drawings @ 6% p.a. will be: (A) ₹ 2,400 (B) ₹ 1,200 (C) ₹ 1,500 (D) ₹ 900 [1]

> **Ans.** Beginning of each quarter: average period 7½ months on the total 40,000. 40,000 × 6% × 7.5/12 = ₹ 1,500. **(C)**.

CBSE 2024 · 67/3/1 (OR) Rhea withdrew ₹ 30,000 at the beginning of each half year. Interest on her drawings @ 10% p.a. for the year will be: (A) ₹ 6,000 (B) ₹ 4,500 (C) ₹ 3,000 (D) ₹ 1,500 [1]

> **Ans.** Outstanding 12 and 6 months: average 9 months on 60,000. 60,000 × 10% × 9/12 = ₹ 4,500. **(B)**.

CBSE 2024 · 67/3/1 Assertion (A): Partners' current accounts under the fixed capital method may show a debit or a credit balance. Reason (R): Under the fixed capital method all items like share of profit, interest on capital, drawings etc. are recorded in the partners' capital accounts. (A) Both correct, R not the explanation (B) Both correct, R explains A (C) A correct, R not correct (D) both not correct [1]

> **Ans.** A is true (current accounts can go into debit). R is false: those items go to **current** accounts, not capital accounts. **(C)**.

CBSE 2024 · 67/3/1 Richa, Sheena and Tapti (3 : 2 : 1) charge interest on drawings @ 10% p.a. Drawings: ₹ 50,000, ₹ 40,000 and ₹ 30,000; net profit ₹ 57,000. Sheena's interest on drawings: (A) ₹ 5,000 (B) ₹ 4,000 (C) ₹ 3,000 (D) ₹ 2,000 [1]

> **Ans.** Dates unknown: average 6 months. 40,000 × 10% × 6/12 = ₹ 2,000. **(D)**.

CBSE 2024 · 67/3/1 In the same case, Tapti's share of profit will be: (A) ₹ 11,500 (B) ₹ 34,500 (C) ₹ 10,500 (D) ₹ 23,000 [1]

> **Ans.** Interest on drawings 2,500 + 2,000 + 1,500 = 6,000 is added to profit: 57,000 + 6,000 = 63,000. Tapti 1/6 = ₹ 10,500. **(C)**.

CBSE 2024 · 67/4/1 Nisha had given a loan of ₹ 1,00,000 to the firm @ 10% p.a. The accountant insists interest will be paid @ 6% p.a. At what rate will interest on the loan be paid? (A) 6% (B) 10% (C) 8% (D) no interest [1]

> **Ans.** An agreed rate overrides the 6% default of the Partnership Act, so interest is paid at **10%**. **(B)**.

CBSE 2024 · 67/4/1 Assertion (A): Under the fixed capital method, partners' capital accounts always show a credit balance. Reason (R): Under the fixed capital method, share of profit, interest on capital, drawings etc. are recorded in a separate current account. (A) Both correct, R explains A (B) Both correct, R does not explain (C) A correct, R incorrect (D) A incorrect, R correct [1]

> **Ans.** Because all fluctuating items go to the current account, the capital account keeps its fixed credit balance. **(A)**.

CBSE 2024 · 67/4/1 Vanya and Aanya (3 : 2) had capitals ₹ 5,00,000 and ₹ 1,00,000. Vanya gets interest on capital @ 8% p.a. and Aanya a salary of ₹ 5,000 per month. Net profit before appropriation ₹ 1,75,000. Vanya's share in divisible profit: (A) ₹ 45,000 (B) ₹ 30,000 (C) ₹ 37,500 (D) ₹ 40,000 [1]

> **Ans.** 1,75,000 − interest 40,000 − salary 60,000 = 75,000; Vanya 3/5 = ₹ 45,000. **(A)**.

CBSE 2024 · 67/4/1 (OR) Omkar's salary is ₹ 20,000 p.a. and Shiva's ₹ 50,000 p.a. Net profit after charging salaries is ₹ 5,60,000. Total credited to Omkar's capital: (A) ₹ 2,45,000 (B) ₹ 2,65,000 (C) ₹ 3,15,000 (D) ₹ 3,00,000 [1]

> **Ans.** No ratio given: equal shares 2,80,000 each. Omkar = 20,000 + 2,80,000 = ₹ 3,00,000. **(D)**.

CBSE 2024 · 67/4/1 Aditi and Saurabh (2 : 1) had capitals of ₹ 5,00,000 and ₹ 4,00,000; profit before appropriation ₹ 81,000; interest on capital @ 10% p.a. Interest on capital will be provided in the ratio: (A) 5 : 4 (B) 2 : 1 (C) 1 : 1 (D) 8 : 1 [1]

> **Ans.** Interest due 50,000 + 40,000 = 90,000 exceeds profit, so the profit is shared in the ratio of interest, 5 : 4. **(A)**.

CBSE 2024 · 67/4/1 In the same case, interest on Aditi's capital will be: (A) ₹ 50,000 (B) ₹ 45,000 (C) ₹ 40,500 (D) ₹ 54,000 [1]

> **Ans.** 81,000 × 5/9 = ₹ 45,000. **(B)**.

CBSE 2024 · 67/4/1 Mishu draws a fixed amount at the end of every quarter; interest on drawings @ 15% p.a. came to ₹ 9,000. Interest was charged for: (A) 6 (B) 7½ (C) 4½ (D) 4 months [1]

> **Ans.** End of each quarter: average 4½ months. **(C)**.

CBSE 2024 · 67/4/1 Which item is not dealt with through the Profit and Loss Appropriation Account? (A) interest on capital (B) interest on drawings (C) rent paid to partners (D) partner's salary [1]

> **Ans.** Rent to a partner is a **charge** against profit (P&L Account), not an appropriation. **(C)**.

CBSE 2024 · 67/5/1 A partnership firm has 45 partners and wants to admit 7 more. Only _____ more partners can be admitted according to the Companies Act, 2013. (A) 1 (B) 6 (C) 5 (D) 3 [1]

> **Ans.** The maximum number of partners is 50 (Companies (Miscellaneous) Rules, 2014), so only 50 − 45 = 5 more. **(C)**.

CBSE 2024 · 67/5/1 Assertion (A): In a partnership firm, the private assets of the partners can also be used to pay off the firm's debts. Reason (R): The liability of the partners for acts of the firm is limited. (A) Both true, R explains A (B) Both true, R does not explain (C) A false, R true (D) A true, R false [1]

> **Ans.** Partners have **unlimited** liability, which is why private assets can be used. A true, R false. **(D)**.

CBSE 2024 · 67/5/1 Ridhima and Kavita (3 : 2) have fixed capitals of ₹ 1,50,000 and ₹ 2,00,000; interest on capital @ 8% p.a.; net profit ₹ 21,000. Interest credited will be: (A) 12,000 and 16,000 (B) 10,500 each (C) 9,000 and 12,000 (D) 16,000 and 5,000 [1]

> **Ans.** Interest due 12,000 + 16,000 = 28,000 exceeds the profit 21,000, so it is shared 3 : 4: 9,000 and 12,000. **(C)**.

CBSE 2024 · 67/5/1 (OR) Ruchika withdrew ₹ 9,000 at the end of each quarter throughout the year. Interest on her drawings @ 6% p.a.: (A) ₹ 540 (B) ₹ 2,160 (C) ₹ 1,080 (D) ₹ 810 [1]

> **Ans.** 36,000 × 6% × 4.5/12 = ₹ 810. **(D)**.

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CBSE 2024 · 67/S/1 Keshav and Hitesh (3 : 2): after a profit of ₹ 15,000 was divided, their capitals on 31st March, 2023 were ₹ 55,000 and ₹ 45,000. Keshav drew ₹ 1,500 at the beginning of each quarter; Hitesh withdrew ₹ 9,000 on 1st November, 2022. Interest on capital @ 5% and on drawings @ 8% was omitted. Keshav's opening capital was: (A) ₹ 35,000 (B) ₹ 39,000 (C) ₹ 43,000 (D) ₹ 52,000 [1]

Ans. Opening = closing + drawings − profit share = 55,000 + 6,000 − 9,000 = ₹ 52,000. **(D)**.

CBSE 2024 · 67/S/1 In the same case, interest on Hitesh's drawings will be: (A) ₹ 225 (B) ₹ 4,500 (C) ₹ 300 (D) ₹ 7,200 [1]

Ans. 1st November to 31st March = 5 months: 9,000 × 8% × 5/12 = ₹ 300. **(C)**.

CBSE 2024 · 67/S/1 Mahi, Ruhi and Ginni (6 : 4 : 1). Mahi guaranteed a profit of ₹ 50,000 to Ginni. Net profit ₹ 1,10,000. Mahi's share after the guarantee: (A) ₹ 20,000 (B) ₹ 60,000 (C) ₹ 40,000 (D) ₹ 10,000 [1]

Ans. Shares: Mahi 60,000; Ruhi 40,000; Ginni 10,000. Deficiency 40,000 borne by Mahi alone: 60,000 − 40,000 = ₹ 20,000. **(A)**.

CBSE 2025 · 67/1/1 Sara and Tara had capitals of ₹ 6,00,000 and ₹ 4,00,000 on 1st April, 2023. On 1st October, 2023 Tara withdrew ₹ 1,00,000 for personal use. Interest on capital is @ 8% p.a. Interest on Tara's capital for the year ended 31st March, 2024: (A) ₹ 28,000 (B) ₹ 30,000 (C) ₹ 48,000 (D) ₹ 32,000 [1]

Ans. A withdrawal "for personal use" is **drawings**, not a withdrawal of capital, so interest is on the full opening capital: 4,00,000 × 8% = ₹ 32,000. **(D)**.

CBSE 2025 · 67/1/1 Assertion (A): Each partner carrying on the business is the principal as well as the agent for all the other partners. Reason (R): There exists a relationship of mutual agency between all the partners. (A) Both correct, R explains A (B) Both correct, R does not explain (C) A correct, R incorrect (D) A incorrect, R correct [1]

Ans. Mutual agency is exactly what makes each partner both principal and agent. **(A)**.

CBSE 2025 · 67/1/1 When capitals are fixed, drawings by a partner are recorded on the: (A) debit side of capital (B) credit side of capital (C) debit side of current account (D) credit side of current account [1]

Ans. **(C)**.

CBSE 2025 · 67/1/1 Anuj withdrew ₹ 20,000 at the beginning of every alternate month starting 1st April, 2023. Interest on his drawings @ 6% p.a. for the year: (A) ₹ 8,400 (B) ₹ 1,200 (C) ₹ 4,200 (D) ₹ 3,600 [1]

Ans. 6 drawings (April, June, Aug, Oct, Dec, Feb) outstanding 12, 10, 8, 6, 4, 2 months: average 7 months on 1,20,000. 1,20,000 × 6% × 7/12 = ₹ 4,200. **(C)**.

CBSE 2025 · 67/2/1 Eliza, Fenn and Garry (4 : 3 : 1). Fenn was guaranteed ₹ 25,000, any deficiency met by Eliza. Profit ₹ 80,000. Amount credited to Fenn: (A) ₹ 30,000 (B) ₹ 40,000 (C) ₹ 25,000 (D) ₹ 10,000 [1]

Ans. Fenn's share = 80,000 × 3/8 = 30,000, which already exceeds the guarantee, so no deficiency. **(A)**.

CBSE 2025 · 67/2/1 Assertion (A): The maximum number of partners in a partnership firm is 50. Reason (R): Under the Companies Act, 2013 the Central Government prescribes the maximum number of partners, and it has prescribed 50. (A) Both true, R explains A (B) Both true, R does not explain (C) A true, R false (D) both false [1]

Ans. **(A)**.

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CBSE 2025 · 67/2/1 Nandita withdrew ₹ 3,00,000 during the year for personal use. Interest on drawings @ 10% p.a.: (A) ₹ 9,000 (B) ₹ 30,000 (C) ₹ 18,000 (D) ₹ 15,000 [1]

> **Ans.** Dates unknown: 6 months. 3,00,000 × 10% × 6/12 = ₹ 15,000. **(D)**.

CBSE 2025 · 67/2/1 Radhika, Mehar and Shubha share 9 : 8 : 7. If Radhika's share of profit is ₹ 5,40,000, Shubha's share will be: (A) ₹ 5,40,000 (B) ₹ 4,80,000 (C) ₹ 60,000 (D) ₹ 4,20,000 [1]

> **Ans.** One part = 5,40,000 ÷ 9 = 60,000; Shubha = 7 × 60,000 = ₹ 4,20,000. **(D)**.

CBSE 2025 · 67/4/1 Emily, Flora and Ginni began on 1st October, 2023 with capitals of ₹ 10,00,000 each; interest on capital @ 10% p.a.; net profit ₹ 7,50,000 for the year ended 31st March, 2024. Profit transferred to Emily's capital: (A) ₹ 2,00,000 (B) ₹ 1,50,000 (C) ₹ 6,00,000 (D) ₹ 2,50,000 [1]

> **Ans.** Interest for 6 months: 50,000 each (1,50,000). Remaining 6,00,000 shared equally: ₹ 2,00,000. **(A)**.

CBSE 2025 · 67/5/1 Sudha withdrew ₹ 12,000 on 31st October, 2023; interest on drawings @ 6% p.a. Interest for the year ended 31st March, 2024: (A) ₹ 300 (B) ₹ 30 (C) ₹ 3,000 (D) ₹ 150 [1]

> **Ans.** 5 months: 12,000 × 6% × 5/12 = ₹ 300. **(A)**.

CBSE 2025 · 67/4/1 'The business of a partnership firm may be carried on by all the partners or any of them acting for all.' This highlights which feature? (A) agreement (B) business (C) sharing of profit (D) mutual agency [1]

> **Ans.** **(D)**.

CBSE 2025 · 67/4/1 Assertion (A): Partners' salary is debited to Profit and Loss Appropriation Account, not to Profit and Loss Account. Reason (R): Partners' salary is an appropriation of profit, not a charge. (A) Both correct, R explains A (B) Both correct, R does not explain (C) A correct, R incorrect (D) both incorrect [1]

> **Ans.** **(A)**.

CBSE 2025 · 67/4/1 Reema, Meesha and Shikha (8 : 7 : 5). On 1st October, 2023 Reema advanced a loan of ₹ 5,00,000; there is no deed. Profit before interest on the loan ₹ 2,15,000. Profit credited to Shikha: (A) ₹ 80,000 (B) ₹ 70,000 (C) ₹ 50,000 (D) ₹ 42,500 [1]

> **Ans.** Interest @ 6% for 6 months = 15,000 (a charge). Profit = 2,00,000; Shikha 5/20 = ₹ 50,000. **(C)**.

CBSE 2025 · 67/5/1 Assertion (A): Partners' fixed capital accounts always show a credit balance, which remains the same year after year unless capital is added or withdrawn. Reason (R): When capitals are fixed, items like share of profit, interest on capital, drawings and interest on drawings are recorded in partners' capital accounts. (A) Both correct, R explains A (B) Both correct, R does not explain (C) A correct, R incorrect (D) A incorrect, R correct [1]

> **Ans.** Those items go to current accounts under fixed capitals. **(C)**.

CBSE 2025 · 67/5/1 Sun and Moon share equally with fixed capitals of ₹ 5,00,000 each. Interest on capital @ 10% was not credited. The rectifying entry will be: (A) no entry (B) Sun Dr. 50,000, To Moon (C) Moon Dr. 50,000, To Sun (D) both Dr. 50,000, To P&L Appropriation [1]

> **Ans.** Each would get 50,000 interest and lose 50,000 profit: net effect nil. **(A)**.

CBSE 2025 · 67/5/1 (OR) The partnership deed should be prepared as per the provisions of: (A) Companies Act, 2013 (B) Indian Partnership Act, 1932 (C) Indian Stamp Act (D) Co-operative Societies Act [1]

> **Ans.** A written deed must be stamped as per the Indian Stamp Act (board's key). **(C).**

CBSE 2025 · 67/5/1 Manoj, Dilip and Rajinder have fixed capitals; interest on drawings @ 12% p.a. is charged. Which account is debited for interest on drawings? (A) partners' capital (B) P&L Appropriation (C) interest on drawings (D) P&L [1]

> **Ans.** With fixed capitals the debit goes to the partners' current accounts (the board's answer; none of the options states it exactly).

CBSE 2025 · 67/5/1 (OR) Which event does not result in reconstitution of a firm? (A) dissolution of partnership (B) dissolution of partnership firm (C) death of a partner (D) change in profit sharing ratio [1]

> **Ans.** Dissolution of the firm ends the business altogether. **(B).**

CBSE 2025 · 67/6/1 Interest on drawings @ 12% p.a. Starting 1st July, 2023 Mohan withdrew ₹ 20,000 every month for personal use. For the year ended 31st March, 2024 interest on his drawings will be charged for _____ months: (A) 6½ (B) 6 (C) 5½ (D) 5 [1]

> **Ans.** Taken as drawn at the beginning of each month (board's answer): 9 drawings outstanding 9, 8, …, 1 months; average (9 + 1)/2 = 5 months. **(D).**

CBSE 2025 · 67/6/1 Assertion (A): Partnership is the result of an agreement between two or more persons to do business and share its profits and losses. Reason (R): Partnership agreement should always be in written form. (A) Both correct, R explains A (B) Both correct, R does not explain (C) A correct, R incorrect (D) A incorrect, R correct [1]

> **Ans.** The agreement may be oral or written. **(C).**

CBSE 2025 · 67/6/1 Mohan withdrew ₹ 80,000 during the year; interest on drawings @ 12% p.a. Interest: (A) ₹ 9,600 (B) ₹ 4,800 (C) ₹ 800 (D) ₹ 1,600 [1]

> **Ans.** 80,000 × 12% × 6/12 = ₹ 4,800. **(B).**

CBSE 2025 · 67/6/1 (OR) The account debited for allowing interest on partners' capital: (A) P&L (B) partners' current (C) interest on capital (D) partners' capital [1]

> **Ans.** Interest on Capital A/c Dr., To Partners' Capital/Current (board's key). **(C).**

CBSE 2025 · 67/7/1 Usha withdrew a fixed amount at the end of every half-year. Interest on drawings is charged for _____ months: (A) 3 (B) 6 (C) 9 (D) 12 [1]

> **Ans.** Outstanding 6 and 0 months: average 3. **(A).**

CBSE 2025 · 67/6/1 Ashok and Avinash (3 : 2) had capitals of ₹ 10,00,000 and ₹ 15,00,000; interest on capital @ 10% was not credited before distribution. Had it been provided, divisible profit would have: (A) reduced by ₹ 2,50,000 (B) increased by ₹ 2,50,000 (C) no change (D) reduced by ₹ 25,000 [1]

> **Ans.** Interest 1,00,000 + 1,50,000 = 2,50,000 would be appropriated first. **(A).**

CBSE 2025 · 67/7/1 Assertion (A): Private assets of a partner can be used for paying off the firm's debts. Reason (R): Liability of a partner for acts of the firm is limited. (A) A incorrect, R correct (B) A correct, R incorrect (C) both correct, R not the explanation (D) both correct, R explains A [1]

> **Ans.** Liability is unlimited. **(B).**

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CBSE 2025 · 67/7/1 Saloni and Mohini (3 : 2). On 31st March, 2024 Saloni's capital was ₹ 1,50,000; during the year she withdrew ₹ 10,000 and introduced ₹ 32,000; profit ₹ 50,000. Her opening capital: (A) ₹ 1,30,000 (B) ₹ 2,02,000 (C) ₹ 1,08,000 (D) ₹ 98,000 [1]

> **Ans.** 1,50,000 + 10,000 − 32,000 − 30,000 = ₹ 98,000. **(D)**.

CBSE 2026 · 67/1/1 Assertion (A): Partnership agreement becomes the basis of relationship among the partners. Reason (R): Partnership is the result of an agreement between two or more persons to do business and share its profits and losses. (A) Both correct, R explains A (B) Both correct, R does not explain (C) A correct, R incorrect (D) A incorrect, R correct [1]

> **Ans.** **(A)**.

CBSE 2026 · 67/1/1 Tarun and Tej (3 : 2). On 1st April, 2024 Tej gave a loan of ₹ 50,000 to the firm. Net profit before interest on the loan was ₹ 3,75,000. Profit transferred to the P&L Appropriation Account: (A) ₹ 3,75,000 (B) ₹ 3,72,000 (C) ₹ 4,25,000 (D) ₹ 3,78,000 [1]

> **Ans.** Interest @ 6% (no deed) = 3,000 is a charge: 3,75,000 − 3,000 = ₹ 3,72,000. **(B)**.

CBSE 2026 · 67/1/1 (OR) Ashok and Vasu (4 : 3). Vasu's capital on 31st March, 2025 was ₹ 3,75,000; during the year he withdrew ₹ 40,000 and introduced ₹ 1,50,000; profit ₹ 1,40,000. His opening capital: (A) ₹ 2,75,000 (B) ₹ 4,25,000 (C) ₹ 2,05,000 (D) ₹ 3,45,000 [1]

> **Ans.** 3,75,000 + 40,000 − 1,50,000 − 60,000 = ₹ 2,05,000. **(C)**.

CBSE 2026 · 67/1/1 Interest on drawings @ 12% p.a. Starting from 31st December, Madhvi withdrew ₹ 40,000 at the end of every month (books close 31st March). Interest: (A) ₹ 19,200 (B) ₹ 4,800 (C) ₹ 2,400 (D) ₹ 1,600 [1]

> **Ans.** Four drawings (Dec, Jan, Feb, Mar) of 1,60,000 outstanding 3, 2, 1, 0 months: average 1.5 months. 1,60,000 × 12% × 1.5/12 = ₹ 2,400. **(C)**.

CBSE 2026 · 67/1/1 Nidhi and Kunal (4 : 1) had capitals of ₹ 3,00,000 and ₹ 2,00,000; interest on capital @ 6% p.a.; profit ₹ 15,000. Interest on capitals: (A) 18,000 and 12,000 (B) 7,500 each (C) Nidhi 9,000; Kunal 6,000 (D) 12,000 and 3,000 [1]

> **Ans.** Interest due 30,000 > profit; shared 3 : 2. **(C)**.

CBSE 2026 · 67/2/1 Navya, Kartik and Samir (4 : 3 : 1). Samir was guaranteed at least ₹ 57,000; any deficiency borne by Navya and Kartik equally. Profit ₹ 4,00,000. Deficiency borne by Kartik: (A) ₹ 3,500 (B) ₹ 4,000 (C) ₹ 3,000 (D) ₹ 7,000 [1]

> **Ans.** Samir's share 50,000; deficiency 7,000 ÷ 2 = ₹ 3,500. **(A)**.

CBSE 2026 · 67/2/1 Nandita withdrew ₹ 80,000 in cash and ₹ 20,000 as furniture for personal use during the year; interest on drawings @ 6% p.a. Interest: (A) ₹ 6,000 (B) ₹ 1,200 (C) ₹ 2,400 (D) ₹ 3,000 [1]

> **Ans.** Drawings in kind count too: 1,00,000 × 6% × 6/12 = ₹ 3,000. **(D)**.

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CBSE 2026 · 67/2/1 Dilshad, Ajit and Deepna (2 : 2 : 1) have fixed capitals of ₹ 5,00,000, ₹ 4,00,000 and ₹ 1,00,000. Interest on capital was provided @ 6% instead of 7%. The adjustment entry: (A) Deepna's Current Dr. 1,000, To Dilshad's Current (B) Dilshad's Current Dr., To Deepna's (C) Deepna's Capital Dr., To Dilshad's Capital (D) Dilshad's Capital Dr., To Deepna's Capital [1]

> **Ans.** Short interest: 5,000, 4,000, 1,000 (credit); profit taken back 4,000, 4,000, 2,000. Net: Dilshad +1,000, Ajit nil, Deepna –1,000; fixed capitals use current accounts. **(A)**.

CBSE 2026 · 67/2/1 On 1st October, 2024 Rohit gave a loan of ₹ 2,00,000 to the firm at 10% p.a. as per the agreement; the accountant insists on 6%. Interest for the year ended 31st March, 2025: (A) ₹ 20,000 (B) ₹ 10,000 (C) ₹ 12,000 (D) ₹ 6,000 [1]

> **Ans.** Agreed 10% for 6 months = ₹ 10,000. **(B)**.

CBSE 2026 · 67/2/1 Amita, Shivani and Tarush (4 : 3 : 2). Tarush's profit was ₹ 1,80,000. Amita's: (A) ₹ 2,70,000 (B) ₹ 3,60,000 (C) ₹ 1,80,000 (D) ₹ 2,00,000 [1]

> **Ans.** One part 90,000 × 4 = ₹ 3,60,000. **(B)**.

CBSE 2026 · 67/3/1 Atul, Bajaj and Madan (1 : 2 : 5). Interest on drawings @ 18% p.a. Bajaj withdrew ₹ 7,000 at the end of each quarter. Interest: (A) ₹ 1,890 (B) ₹ 3,150 (C) ₹ 420 (D) ₹ 5,040 [1]

> **Ans.** 28,000 × 18% × 4.5/12 = ₹ 1,890. **(A)**.

CBSE 2026 · 67/3/1 (OR) Damodar, Rao and Shridharan (3 : 1 : 1) have fixed capitals of ₹ 4,00,000, ₹ 3,00,000 and ₹ 2,00,000; interest on capital @ 6%. The entry for allowing interest on Rao's capital: (A) P&L Appropriation Dr. 18,000, To Rao's Capital (B) P&L Appropriation Dr., To Rao's Current (C) Interest on Capital Dr. 18,000, To Rao's Current (D) Interest on Capital Dr., To Rao's Capital [1]

> **Ans.** Interest 3,00,000 × 6% = 18,000 is first credited through Interest on Capital A/c to the current account (capitals are fixed). **(C)**.

CBSE 2026 · 67/3/1 Divya and Bholi (3 : 1) had fixed capitals of ₹ 8,00,000 and ₹ 6,00,000 on 1st April, 2024; Bholi introduced ₹ 50,000 on 30th September, 2024; interest on capital @ 12% p.a. Bholi's interest: (A) ₹ 78,000 (B) ₹ 75,000 (C) ₹ 72,000 (D) ₹ 3,000 [1]

> **Ans.** 72,000 + 50,000 × 12% × 6/12 = ₹ 75,000. **(B)**.

CBSE 2026 · 67/3/1 Persons who have entered into partnership with one another are collectively called: (A) firm (B) partnership (C) partners (D) partners' firm [1]

> **Ans.** Collectively a **firm**; individually partners. **(A)**.

CBSE 2026 · 67/3/1 (OR) In the absence of a partnership deed, partners are entitled to: (A) interest on capital (B) profits in capital ratio (C) interest @ 6% p.a. on loans to the firm (D) remuneration [1]

> **Ans.** **(C)**.

CBSE 2026 · 67/3/1 When capitals are fluctuating, drawings, interest and salary are shown in the: (A) current account (B) capital account (C) drawings account (D) P&L Appropriation Account [1]

> **Ans.** **(B)**.

CBSE 2026 · 67/4/1 Reena and Teena (2 : 1). Teena withdrew ₹ 20,000 at the beginning of each month; interest on drawings @ 6% p.a. Interest for the year: (A) ₹ 7,800 (B) ₹ 7,200 (C) ₹ 9,600 (D) ₹ 6,600 [1]

> **Ans.** 2,40,000 × 6% × 6.5/12 = ₹ 7,800. **(A)**.

CBSE 2026 · 67/4/1 (OR) Rohan withdrew ₹ 15,000 at the beginning of each quarter. Interest on drawings is calculated for an average period of: (A) 6 (B) 4½ (C) 7½ (D) 6½ months [1]

Ans. (12 + 9 + 6 + 3) ÷ 4 = 7½. **(C)**.

CBSE 2026 · 67/4/1 Ankur and Angad (8 : 7). On 1st July, 2024 Angad advanced ₹ 8,00,000; there is no deed; he demands 10%. Interest due on 31st March, 2025: (A) ₹ 36,000 (B) ₹ 48,000 (C) ₹ 80,000 (D) ₹ 60,000 [1]

Ans. Without a deed only 6%: 8,00,000 × 6% × 9/12 = ₹ 36,000. **(A)**.

CBSE 2026 · 67/4/1 Anita and Priyal (3 : 2) had capitals of ₹ 3,00,000 and ₹ 4,00,000; interest on capital @ 8%; profit ₹ 28,000. Interest allowed: (A) 24,000 and 32,000 (B) 16,000 and 12,000 (C) Anita 12,000, Priyal 16,000 (D) 16,800 and 11,200 [1]

Ans. Interest due 56,000 > profit; shared 3 : 4. **(C)**.

CBSE 2026 · 67/5/1 Arora and Gurmeet (3 : 2). Starting 1st October, 2024 Arora withdrew ₹ 30,000 at the beginning of each quarter; interest on drawings @ 12% p.a. Interest for the year ended 31st March, 2025: (A) ₹ 1,800 (B) ₹ 2,700 (C) ₹ 450 (D) ₹ 3,600 [1]

Ans. Two drawings (1 Oct, 1 Jan) outstanding 6 and 3 months: 30,000 × 12% × 9/12 = ₹ 2,700. **(B)**.

CBSE 2026 · 67/5/1 Alok, Sarah and Aditya (5 : 3 : 2). On 1st January, 2025 Alok advanced ₹ 2,00,000; no agreement. Interest due on 31st March, 2025: (A) ₹ 20,000 (B) ₹ 12,000 (C) ₹ 3,000 (D) ₹ 5,000 [1]

Ans. 2,00,000 × 6% × 3/12 = ₹ 3,000. **(C)**.

CBSE 2026 · 67/5/1 Munna and Sonu (4 : 1) have fixed capitals; Munna withdrew ₹ 50,000; interest on drawings @ 6% p.a. Entry for interest on Munna's drawings: (A) Interest on Drawings Dr., To Munna's Capital (B) Munna's Capital Dr. (C) Interest on Drawings Dr., To Munna's Current (D) Munna's Current Dr. 1,500, To Interest on Drawings 1,500 [1]

Ans. 50,000 × 6% × 6/12 = 1,500, debited to the current account (fixed capitals). **(D)**.

B. Short answer (3 marks)

CBSE 2024 · 67/1/1 Mohan, Suhaan and Adit (3 : 2 : 1) have fixed capitals of ₹ 2,00,000, ₹ 1,00,000 and ₹ 1,00,000. For 2022-23 interest on capital was credited @ 8% instead of 5% p.a. Pass the adjusting entry. [3]

Ans. Excess interest @ 3%: Mohan 6,000, Suhaan 3,000, Adit 3,000 (total 12,000) must be taken back; the same ₹ 12,000 is profit to be shared 3 : 2 : 1.

Particulars	Mohan	Suhaan	Adit	Total
Excess interest to be debited	(6,000)	(3,000)	(3,000)	(12,000)
Profit to be credited (3 : 2 : 1)	6,000	4,000	2,000	12,000
Net effect	**nil**	**1,000 Cr.**	**1,000 Dr.**	**nil**

Capitals are fixed, so current accounts are used.

Particulars		Dr. (₹)	Cr. (₹)
Adit's Current A/c	Dr.	1,000	
To Suhaan's Current A/c			1,000
(Excess interest on capital adjusted)			

CBSE 2024 · 67/1/1 (OR) Manoj and Nitin (2 : 1). On 31st March, 2023 their capitals after profits and drawings were ₹ 90,000 and ₹ 80,000. Net profit ₹ 30,000; drawings Manoj ₹ 40,000, Nitin ₹ 20,000. Interest on capital @ 10% p.a. was omitted, and interest on drawings (Manoj ₹ 3,000, Nitin ₹ 2,000) was not charged. Pass the adjusting entry. [3]

Ans. Opening capital = closing + drawings − profit share: Manoj 90,000 + 40,000 − 20,000 = 1,10,000; Nitin 80,000 + 20,000 − 10,000 = 90,000.

Particulars	Manoj	Nitin	Total
Interest on capital @ 10% (credit)	11,000	9,000	20,000
Less interest on drawings (debit)	(3,000)	(2,000)	(5,000)
Net to be credited	8,000	7,000	15,000
Less profit wrongly given (2 : 1)	(10,000)	(5,000)	(15,000)
Net effect	**2,000 Dr.**	**2,000 Cr.**	**nil**

Particulars		Dr. (₹)	Cr. (₹)
Manoj's Capital A/c	Dr.	2,000	
To Nitin's Capital A/c			2,000
(Omitted interest on capital and drawings adjusted)			

CBSE 2024 · 67/2/1 (OR) Chaman, Burman and Aman shared 3 : 2 : 1. Aman was guaranteed a minimum profit of ₹ 60,000. The net profit for 2022–23 was ₹ 1,20,000. Pass journal entries for distribution of profit. [3]

Ans. Shares: Chaman 60,000; Burman 40,000; Aman 20,000. Aman's deficiency 40,000 is borne by Chaman and Burman 3 : 2 (24,000 and 16,000).

Particulars		Dr. (₹)	Cr. (₹)
Profit and Loss Appropriation A/c	Dr.	1,20,000	
To Chaman's Capital A/c			60,000
To Burman's Capital A/c			40,000
To Aman's Capital A/c			20,000
(Profit distributed)			
Chaman's Capital A/c	Dr.	24,000	
Burman's Capital A/c	Dr.	16,000	
To Aman's Capital A/c			40,000
(Deficiency of guarantee made good)			

Final shares: Chaman 36,000; Burman 24,000; Aman 60,000.

CBSE 2024 · 67/3/1 Misha and Prisha (3 : 2) had capitals of ₹ 50,000 and ₹ 30,000 on 1st April, 2022. Drawings: Misha ₹ 12,900, Prisha ₹ 9,600. Interest on capital @ 10% p.a.; interest on drawings ₹ 660 (Misha) and ₹ 540 (Prisha). Prisha advanced a loan of ₹ 20,000 on 1st August, 2022. Net profit ₹ 22,600. Prepare the Profit and Loss Appropriation Account. [3]

Ans. "Net profit" is after charging interest on the partner's loan (a charge, not an appropriation), so the loan is ignored here. Divisible profit = 22,600 + 1,200 − 8,000 = 15,800 (3 : 2).

Profit and Loss Appropriation A/c

Dr. Particulars	₹	Particulars	₹ Cr.
To Interest on Capital: Misha 5,000; Prisha 3,000	8,000	By Profit and Loss A/c (net profit)	22,600
To Profit: Misha 9,480; Prisha 6,320	15,800	By Interest on Drawings: Misha 660; Prisha 540	1,200
	23,800		**23,800**

CBSE 2024 · 67/3/1 (OR) On 31st March, 2023 the capitals of Raghav and Diya were ₹ 4,00,000 and ₹ 3,00,000 after drawings and net profit. Interest on capital @ 10% p.a. was omitted. Net profit was ₹ 1,00,000. Raghav drew ₹ 2,000 at the beginning of each month; Diya ₹ 3,000 at the beginning of each quarter. Pass the adjustment entry. [3]

Ans. No ratio given: profits shared equally (50,000 each). Drawings: Raghav 24,000; Diya 12,000. Opening capital: Raghav 4,00,000 + 24,000 − 50,000 = 3,74,000; Diya 3,00,000 + 12,000 − 50,000 = 2,62,000.

Particulars	Raghav	Diya	Total
Interest on capital (credit)	37,400	26,200	63,600
Profit wrongly given back (1 : 1)	(31,800)	(31,800)	(63,600)
Net effect	**5,600 Cr.**	**5,600 Dr.**	**nil**

Particulars		Dr. (₹)	Cr. (₹)
Diya's Capital A/c	Dr.	5,600	
To Raghav's Capital A/c			5,600
(Omitted interest on capital adjusted)			

CBSE 2024 · 67/4/1 Atul and Gita (3 : 2) have fixed capitals of ₹ 4,00,000 and ₹ 2,00,000. Interest on capital @ 6% p.a. was not credited. Pass the adjusting entry. [3]

Ans.

Particulars	Atul	Gita	Total
Interest on capital (credit)	24,000	12,000	36,000
Profit taken back (3 : 2)	(21,600)	(14,400)	(36,000)
Net effect	**2,400 Cr.**	**2,400 Dr.**	**nil**

Particulars		Dr. (₹)	Cr. (₹)
Gita's Current A/c	Dr.	2,400	
To Atul's Current A/c			2,400

CBSE 2024 · 67/5/1 Anand, Ridhi and Shyam (2 : 2 : 1) have fixed capitals of ₹ 1,00,000, ₹ 60,000 and ₹ 40,000. Interest on capital was credited @ 9% instead of 7% p.a. Pass the adjusting entry. [3]

Ans.

Particulars	Anand	Ridhi	Shyam	Total
Excess interest @ 2% (debit)	(2,000)	(1,200)	(800)	(4,000)
Profit credited back (2 : 2 : 1)	1,600	1,600	800	4,000
Net effect	**400 Dr.**	**400 Cr.**	**nil**	**nil**

Particulars		Dr. (₹)	Cr. (₹)
Anand's Current A/c	Dr.	400	
To Ridhi's Current A/c			400

CBSE 2025 · 67/1/1 Amish, Nitish and Misha share 2 : 2 : 1. They agree to share equally with retrospective effect for the last three years. Profits: 2021–22 ₹ 1,15,000; 2022–23 ₹ 1,24,000; 2023–24 ₹ 2,11,000. Pass a single adjustment entry. [3]

Ans. Total profit 4,50,000.

Partner	Given (2 : 2 : 1)	Due (1 : 1 : 1)	Effect
Amish	1,80,000	1,50,000	30,000 Dr.
Nitish	1,80,000	1,50,000	30,000 Dr.
Misha	90,000	1,50,000	60,000 Cr.

Particulars		Dr. (₹)	Cr. (₹)
Amish's Capital A/c	Dr.	30,000	
Nitish's Capital A/c	Dr.	30,000	
To Misha's Capital A/c			60,000

CBSE 2025 · 67/1/1 (OR) Vidhi, Manas and Ansh (2 : 3 : 5). Ansh is guaranteed at least ₹ 1,20,000; any deficiency is borne by Vidhi and Manas equally. Profit for 2023-24 ₹ 2,00,000. Pass journal entries. [3]

Ans. Shares 40,000; 60,000; 1,00,000. Deficiency 20,000 borne equally.

Particulars		Dr. (₹)	Cr. (₹)
Profit and Loss Appropriation A/c	Dr.	2,00,000	
To Vidhi's Capital A/c			40,000
To Manas's Capital A/c			60,000
To Ansh's Capital A/c			1,00,000
Vidhi's Capital A/c	Dr.	10,000	
Manas's Capital A/c	Dr.	10,000	
To Ansh's Capital A/c			20,000

CBSE 2025 · 67/2/1 (OR) Parul and Rajul (5 : 3) have fixed capitals of ₹ 6,00,000 and ₹ 8,00,000; interest on capital @ 12% p.a.; net profit ₹ 1,26,000. Prepare the P&L Appropriation Account. [3]

Ans. Interest due ₹2,000 + 96,000 = 1,68,000 > profit, so the profit is shared in the ratio of interest 3 : 4: Parul 54,000, Rajul ₹2,000.

Profit and Loss Appropriation A/c

Dr. Particulars	₹	Particulars	₹
To Interest on Capital: Parul 54,000; Rajul ₹2,000	1,26,000	By Profit and Loss A/c	1,26,000
	1,26,000		1,26,000

Cr.

CBSE 2025 · 67/2/1 Aakash and Baadal began on 1st October, 2023 with capitals of ₹ 80,00,000 and ₹ 60,00,000, sharing equally; interest on capital @ 10% p.a. Baadal is guaranteed that his share of profit after interest will not be less than ₹ 7,00,000 per annum, any deficiency met by Aakash. Profit for the year ended 31st March, 2024 ₹ 13,00,000. Prepare the P&L Appropriation Account. [3]

Ans. Only 6 months: interest 4,00,000 and 3,00,000; guarantee for 6 months = 3,50,000. Divisible profit 6,00,000 (3,00,000 each); deficiency 50,000 from Aakash.

Profit and Loss Appropriation A/c

Dr. Particulars	₹	Particulars	₹
To Interest on Capital: Aakash 4,00,000; Baadal 3,00,000	7,00,000	By Profit and Loss A/c	13,00,000
To Profit: Aakash 3,00,000 – 50,000 = 2,50,000	2,50,000		
To Profit: Baadal 3,00,000 + 50,000 = 3,50,000	3,50,000		
	13,00,000		13,00,000

Cr.

CBSE 2025 · 67/4/1 Abhay and Sujoy started with capitals of ₹ 80,00,000 and ₹ 60,00,000, sharing in the capital ratio. Drawings ₹ 6,00,000 and ₹ 4,00,000; interest on drawings @ 10% p.a. per the deed. Abhay's profit share is guaranteed by Sujoy at a minimum of ₹ 3,50,000. Profit for the year ₹ 6,50,000. Prepare the P&L Appropriation Account. [3]

Ans. Ratio 4 : 3. Interest on drawings (dates unknown, 6 months): 30,000 and 20,000. Divisible profit 7,00,000: Abhay 4,00,000 (above the guarantee, so no deficiency), Sujoy 3,00,000.

Profit and Loss Appropriation A/c

Dr. Particulars	₹	Particulars	₹
To Profit: Abhay 4,00,000; Sujoy 3,00,000	7,00,000	By Profit and Loss A/c	6,50,000
		By Interest on Drawings: Abhay 30,000; Sujoy 20,000	50,000
	7,00,000		7,00,000

Cr.

CBSE 2025 · 67/4/1 (OR) Sonia and Shruti (5 : 3) have fixed capitals of ₹ 25,00,000 and ₹ 15,00,000; profit ₹ 24,00,000. Calculate their share of profit if (i) the deed is silent on interest on capital (ii) the deed provides interest @ 10% p.a. [3]

Ans. (i) No interest without a deed: Sonia 5/8 × 24,00,000 = **₹ 15,00,000**; Shruti **₹ 9,00,000**.

(ii) Interest 2,50,000 + 1,50,000 = 4,00,000; remaining 20,00,000: Sonia **₹ 12,50,000**, Shruti **₹ 7,50,000** (plus their interest).

CBSE 2025 · 67/5/1 Suman and Lata (3 : 2) had capitals of ₹ 1,50,000 and ₹ 2,00,000; interest on capital @ 8% p.a. Show the treatment of interest if the profit is (i) ₹ 14,000 (ii) ₹ 60,000. [3]

Ans. Interest due 12,000 and 16,000 = 28,000.

(i) Profit 14,000 < 28,000: shared 3 : 4 ⟶ Suman 6,000, Lata 8,000; nothing left.

(ii) Full interest; balance 32,000 in 3 : 2.

Profit and Loss Appropriation A/c (case ii)

Dr. Particulars	₹	Particulars	₹
To Interest on Capital: Suman 12,000; Lata 16,000	28,000	By Profit and Loss A/c	60,000
To Profit: Suman 19,200; Lata 12,800	32,000		
	60,000		60,000

Cr.

CBSE 2025 · 67/6/1 Jain and Gupta started on 1st April, 2023 with fixed capitals of ₹ 15,00,000 and ₹ 12,00,000 (3 : 2). On 1st July, 2023 Jain withdrew ₹ 1,00,000 from capital and Gupta introduced ₹ 2,00,000. Interest on capital @ 10% p.a.; drawings Jain ₹ 50,000, Gupta ₹ 60,000; interest on drawings @ 18% p.a. Shares of divisible profit ₹ 72,000 and ₹ 48,000. Prepare the current accounts. [3]

Ans. Interest: Jain 15,00,000 × 10% × 3/12 + 14,00,000 × 10% × 9/12 = 37,500 + 1,05,000 = 1,42,500; Gupta 1,20,000 + 2,00,000 × 10% × 9/12 = 1,35,000. Interest on drawings (6 months): 4,500 and 5,400.

Partners' Current Accounts

Dr. Particulars	Jain	Gupta	Particulars	Jain	Gupta
To Drawings	50,000	60,000	By Interest on Capital	1,42,500	1,35,000
To Interest on Drawings	4,500	5,400	By P&L Appropriation	72,000	48,000
To Balance c/d	1,60,000	1,17,600			
	2,14,500	1,83,000		2,14,500	1,83,000

Cr.

CBSE 2025 · 67/6/1 Aman, Raj and Suresh (5 : 3 : 8). Suresh is guaranteed a minimum of ₹ 5,00,000; deficiency borne by Aman and Raj equally. Profit ₹ 8,00,000. Prepare the P&L Appropriation Account. [3]

Ans. Shares 2,50,000; 1,50,000; 4,00,000. Deficiency 1,00,000: 50,000 each.

Profit and Loss Appropriation A/c

Dr. Particulars	₹	Particulars	₹
To Aman (2,50,000 – 50,000)	2,00,000	By Profit and Loss A/c	8,00,000
To Raj (1,50,000 – 50,000)	1,00,000		
To Suresh (4,00,000 + 1,00,000)	5,00,000		
	8,00,000		8,00,000

Cr.

CBSE 2025 · 67/6/1 (OR) Jay and Vijay (7 : 3) have fixed capitals of ₹ 9,00,000 and ₹ 7,00,000; interest on capital was to be 8% but was allowed @ 9%. Pass the rectifying entry. [3]

Ans.

Particulars	Jay	Vijay	Total
Excess interest @ 1% taken back	(9,000)	(7,000)	(16,000)
Profit credited (7 : 3)	11,200	4,800	16,000
Net effect	2,200 Cr.	2,200 Dr.	nil

Particulars		Dr. (₹)	Cr. (₹)
Vijay's Current A/c	Dr.	2,200	
To Jay's Current A/c			2,200

CBSE 2026 · 67/1/1 Sultan, Singh and Tulsi (9 : 7 : 4) have fixed capitals of ₹ 6,00,000, ₹ 5,00,000 and ₹ 4,00,000; interest on capital was to be 10% but was allowed @ 12%. Pass the adjusting entry. [3]

Ans.

Particulars	Sultan	Singh	Tulsi	Total
Excess interest @ 2% (debit)	(12,000)	(10,000)	(8,000)	(30,000)
Profit credited (9 : 7 : 4)	13,500	10,500	6,000	30,000
Net effect	1,500 Cr.	500 Cr.	2,000 Dr.	nil

Particulars		Dr. (₹)	Cr. (₹)
Tulsi's Current A/c	Dr.	2,000	
To Sultan's Current A/c			1,500
To Singh's Current A/c			500

CBSE 2026 · 67/1/1 (OR) Sameer and Manveer (5 : 3) admitted Sandeep for 1/5th share with a guaranteed minimum of ₹ 80,000; any deficiency borne by Sameer and Manveer 3 : 5. Profit ₹ 3,20,000. Prepare the P&L Appropriation Account. [3]

Ans. Sandeep 64,000; deficiency 16,000 borne 6,000 and 10,000. Sameer 1,60,000; Manveer 96,000.

Profit and Loss Appropriation A/c

Dr. Particulars	₹	Particulars	₹
To Sameer (1,60,000 – 6,000)	1,54,000	By Profit and Loss A/c	3,20,000
To Manveer (96,000 – 10,000)	86,000		
To Sandeep (64,000 + 16,000)	80,000		
	3,20,000		3,20,000

Cr.

CBSE 2026 · 67/1/1 Shree and Hari (2 : 3) have fixed capitals; Hari is allowed a commission of 5% of net profit. Net profit ₹ 1,00,000. Pass entries (i) crediting Hari's commission to his current account (ii) transferring the commission to the P&L Appropriation Account. [3]

Ans. Commission = 5% × 1,00,000 = 5,000.

Particulars		Dr. (₹)	Cr. (₹)
(i) Partner's Commission A/c	Dr.	5,000	
To Hari's Current A/c			5,000
(ii) Profit and Loss Appropriation A/c	Dr.	5,000	
To Partner's Commission A/c			5,000

CBSE 2026 · 67/2/1 Bose withdrew ₹ 3,000 at the beginning of each of the first three months and ₹ 4,000 at the end of each of the remaining nine months; interest on drawings @ 6% p.a. Calculate interest for the year ended 31st March, 2025. [3]

Ans. First three: 9,000 for an average (12 + 10)/2 = 11 months: 9,000 × 6% × 11/12 = 495.

Remaining nine (end of month, July to March): 36,000 for an average (8 + 0)/2 = 4 months: 36,000 × 6% × 4/12 = 720.

Total = **₹ 1,215**.

CBSE 2026 · 67/2/1 Sarita and Veena (3 : 2): capitals ₹ 4,00,000 and ₹ 3,00,000; current accounts ₹ 80,000 Cr. and ₹ 60,000 Dr. on 1st April, 2024. Sarita's salary ₹ 2,000 per month; Veena's commission ₹ 30,000; interest on capital @ 8%; drawings ₹ 20,000 and ₹ 15,000; divisible profit credited ₹ 36,000 and ₹ 24,000. Prepare current accounts. [3]

Ans.

Partners' Current Accounts

Dr. Particulars	Sarita	Veena	Particulars	Sarita	Veena Cr.
To Balance b/d		60,000	By Balance b/d	80,000	
To Drawings	20,000	15,000	By Salary	24,000	
To Balance c/d	1,52,000	3,000	By Commission		30,000
			By Interest on Capital	32,000	24,000
			By P&L Appropriation	36,000	24,000
	1,72,000	**78,000**		**1,72,000**	**78,000**

CBSE 2026 · 67/3/1 Laxmi, Rani and Priya (5 : 7 : 8) have fixed capitals of ₹ 8,00,000, ₹ 7,00,000 and ₹ 5,00,000; interest on capital was to be 9% but 12% was allowed. Pass a single adjusting entry. [3]

Ans.

Particulars	Laxmi	Rani	Priya	Total
Excess interest @ 3% (debit)	(24,000)	(21,000)	(15,000)	(60,000)
Profit credited (5 : 7 : 8)	15,000	21,000	24,000	60,000
Net effect	**9,000 Dr.**	**nil**	**9,000 Cr.**	**nil**

Particulars		Dr. (₹)	Cr. (₹)
Laxmi's Current A/c	Dr.	9,000	
To Priya's Current A/c			9,000

CBSE 2026 · 67/3/1 (OR) Sukesh and Surbhi (5 : 3) admitted Suman for 1/5th share with a guaranteed minimum of ₹ 1,20,000; deficiency borne by Sukesh. Profit ₹ 5,50,000. Prepare the P&L Appropriation Account. [3]

Ans. Suman 1,10,000; deficiency 10,000. Others share 4,40,000 in 5 : 3.

Profit and Loss Appropriation A/c

Dr. Particulars	₹	Particulars	₹ Cr.
To Sukesh (2,75,000 – 10,000)	2,65,000	By Profit and Loss A/c	5,50,000
To Surbhi	1,65,000		
To Suman (1,10,000 + 10,000)	1,20,000		
	5,50,000		**5,50,000**

CBSE 2026 · 67/4/1 Rohit, Ashish and Sameer started on 1st October, 2024 with capitals of ₹ 12,00,000, ₹ 6,00,000 and ₹ 6,00,000, sharing 3 : 1 : 1; interest on capital @ 5% p.a. Sameer is guaranteed at least ₹ 1,50,000 per annum after interest, any deficiency met by Rohit. Profit for the year ended 31st March, 2025 ₹ 5,60,000. Prepare the P&L Appropriation Account. [3]

Ans. Six months: interest 30,000; 15,000; 15,000. Divisible 5,00,000 ⟶ 3,00,000; 1,00,000; 1,00,000. Sameer's guarantee for 6 months = 75,000 < 1,00,000, so no deficiency.

Profit and Loss Appropriation A/c

Dr. Particulars	₹	Particulars	₹ Cr.
To Interest on Capital: Rohit 30,000; Ashish 15,000; Sameer 15,000	60,000	By Profit and Loss A/c	5,60,000
To Profit: Rohit 3,00,000; Ashish 1,00,000; Sameer 1,00,000	5,00,000		
	5,60,000		**5,60,000**

CBSE 2026 · 67/4/1 (OR) Tara, Dev and Ishaan (4 : 3 : 1); interest on drawings @ 10% p.a. Drawings ₹ 30,000, ₹ 18,000 and ₹ 12,000 were omitted from interest. Pass the adjusting entry. [3]

Ans. Six months average: 1,500; 900; 600 = 3,000.

Particulars	Tara	Dev	Ishaan	Total
Interest on drawings (debit)	(1,500)	(900)	(600)	(3,000)
Profit credited (4 : 3 : 1)	1,500	1,125	375	3,000
Net effect	**nil**	**225 Cr.**	**225 Dr.**	**nil**

Particulars		Dr. (₹)	Cr. (₹)
Ishaan's Capital A/c	Dr.	225	
To Dev's Capital A/c			225

What the board asked (16 papers, 2024–2026)

Type	2024	2025	2026	Total
MCQs and Assertion–Reason (1 mark each)	31	26	23	80
Short answer (3 marks)	7	10	9	26

Quick-reference sheet

Item	Key fact
maximum partners	50
no deed: profit	equal
no deed: interest on loan	6% p.a. (a charge)
no deed: interest on capital, drawings, salary	none
opening capital	closing + drawings − profit − additional capital
profit < interest on capital	profit shared in ratio of interest
loss	no interest on capital, no salary
commission after charging it	NP × r/(100 + r)
beginning / end of month	6½ / 5½ months
beginning / end of quarter	7½ / 4½ months
dates not known	6 months

Case study (practice): the absent partner. Asha and Bela began a firm without any deed. Asha put in ₹ 4,00,000 and Bela ₹ 2,00,000; Asha also lent ₹ 1,00,000 to the firm on 1st October. Bela worked alone for three months while Asha was abroad and wants ₹ 5,000 a month for it. Profit for the year ₹ 1,23,000.
(i) How will profit be shared? (ii) Is Bela entitled to the salary? (iii) What interest does Asha get, and on what? (iv) Find each partner's share.

Practice set: test yourself *Exam-style*

Try every question before looking at the answers at the end of the chapter. 58 or more out of 72 means you are ready for the board.

A. Fill in the blanks (1 mark each)

1. Partnership is defined in Section _____ of the 1932 Act.
2. In the absence of a deed, interest on a partner's loan is _____.
3. Under the fixed capital method, drawings go to the _____ account.
4. Interest on drawings is _____ to the P&L Appropriation Account.
5. Rent paid to a partner is a _____ against profit.
6. Drawings at the end of each quarter carry interest for _____ months.
7. If profit is less than interest on capital, it is shared in the ratio of _____.
8. Each partner is an agent and a _____ of the firm.

B. True or false? (1 mark each)

1. A partnership deed must be registered.
2. Partners' liability is unlimited.
3. Interest on capital is allowed even in a loss, if the deed is silent.
4. A current account can show a debit balance.
5. Salary to a partner is an appropriation of profit.
6. Manager's commission is an appropriation.
7. Drawings evenly through the year carry interest for 6 months.
8. Past omissions are corrected by reopening the P&L Account.

C. Very short answer (1 mark each)

1. Minimum number of partners.
2. Name the two methods of keeping capital accounts.
3. Average period for drawings at the beginning of each month.
4. Rate of interest on drawings when the deed is silent.
5. Who bears a guarantee given by the firm?
6. Formula for commission after charging it.
7. Interest on capital for 9 months on ₹ 80,000 @ 10%.
8. Average period for drawings at the end of each half-year.
9. Which account shows the distribution of profit?
10. Name the Act that requires stamping of the deed.

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D. Short answer I (2 marks each)

1. Distinguish between a charge and an appropriation, with one example each.
2. Give two differences between fixed and fluctuating capitals.
3. State four contents of a partnership deed.
4. How is opening capital found when only closing capitals are given?
5. A partner draws ₹ 5,000 at the beginning of each quarter; rate 8%. Find interest.
6. What is mutual agency?
7. Explain 'guarantee of profit to a partner'.
8. Why is the P&L Appropriation Account prepared?

My score (fill in after checking the answers)

Section	A /8	B /8	C /10	D /16	E /18	F /12	G (bonus)	Total /72
My marks								

E. Short answer II (3 marks each)

1. X and Y (3 : 2) have capitals of ₹ 2,00,000 and ₹ 1,00,000; interest on capital 10%; profit ₹ 24,000. Show the distribution.
2. Calculate interest on drawings @ 6% when ₹ 1,500 is drawn at the beginning of each month for 6 months from 1st October.
3. A, B and C (2 : 2 : 1); C is guaranteed ₹ 30,000 by A alone; profit ₹ 1,20,000. Prepare the P&L Appropriation Account.
4. Interest on capital @ 5% on fixed capitals of ₹ 60,000 and ₹ 40,000 was omitted (ratio 1 : 1). Pass the adjusting entry.
5. State the provisions of Section 13 relevant to accounts.
6. Prepare a proforma current account of a partner.

F. Long answer (6 marks each)

1. P and Q (3 : 2): capitals ₹ 5,00,000 and ₹ 3,00,000; interest on capital 6%; P's salary ₹ 3,000 p.m.; Q's commission 5% of net profit after charging it; drawings ₹ 60,000 and ₹ 40,000 (interest 5%, dates unknown); net profit ₹ 2,10,000. Prepare the P&L Appropriation Account and current accounts.
2. R, S and T (2 : 2 : 1) have retrospectively changed to 1 : 1 : 1 for the last three years (profits ₹ 60,000, ₹ 90,000, ₹ 1,50,000). Pass a single adjusting entry with working.

G. HOTS (higher-order thinking)

1. Why is interest on a partner's loan paid even in a loss, but interest on capital is not?
2. Why does the fixed capital method give a better picture of each partner's investment?
3. Why is the average period for end-of-quarter drawings 4½ months?
4. A partner withdraws capital on 1st January. Why must interest on capital be split into two periods?

20 MCQs

1. The maximum number of partners in a firm is:
(a) 10 (b) 100 (c) 50 (d) unlimited

2. In the absence of a deed, profits are shared:
(a) equally (b) in capital ratio (c) as decided by the senior partner (d) in the ratio of experience

3. Interest on partner's loan, when the deed is silent:
(a) 5% (b) nil (c) 12% (d) 6%

4. Under the fixed capital method, salary to a partner is credited to:
(a) capital account (b) current account (c) P&L Account (d) salary payable

5. Interest on drawings is:
(a) debited to P&L Appropriation (b) credited to P&L Appropriation (c) debited to P&L Account (d) credited to capital

6. Drawings of ₹ 2,000 at the end of each month; interest 6%. Interest:
(a) ₹ 780 (b) ₹ 600 (c) ₹ 720 (d) ₹ 660

7. Drawings at the beginning of each quarter carry interest for:
(a) 7½ (b) 4½ (c) 6 (d) 6½ months

8. Rent paid to a partner is:
(a) an appropriation (b) a drawing (c) a charge against profit (d) a capital loss

9. If the firm suffers a loss, interest on capital (deed silent on charge) is:
(a) allowed in full (b) charged to partners (c) allowed in profit ratio (d) not allowed

10. Capitals ₹ 1,00,000 and ₹ 50,000; interest 10%; profit ₹ 6,000. Interest to the first partner:
(a) ₹ 10,000 (b) ₹ 4,000 (c) ₹ 3,000 (d) ₹ 6,000

11. Commission of 10% of net profit after charging it, on ₹ 55,000:
(a) ₹ 5,500 (b) ₹ 6,050 (c) ₹ 5,000 (d) ₹ 4,500

12. Mutual agency means each partner is:
(a) both agent and principal (b) only an agent (c) only a principal (d) an employee

13. A current account with a debit balance is shown:
(a) on the liabilities side (b) on the assets side (c) in the P&L Account (d) nowhere

14. Opening capital = closing capital + drawings −:
(a) loss share (b) interest on drawings (c) profit share and additional capital (d) salary

15. A guarantee given by the firm is borne by:
(a) the guaranteed partner (b) creditors (c) the senior partner (d) all other partners in their ratio

16. Drawings at the beginning of each half-year; average period:
(a) 9 (b) 3 (c) 6 (d) 12 months

17. Past omissions of interest are adjusted through:
(a) partners' capital/current accounts (b) P&L Account (c) a suspense account (d) goodwill

18. If capitals are not stated to be fixed, they are treated as:
(a) fixed (b) loan (c) current (d) fluctuating

19. A partnership deed is stamped under the:
(a) Companies Act (b) Indian Stamp Act (c) Contract Act (d) Income Tax Act

20. Interest on capital for 6 months on ₹ 1,20,000 @ 8%:
(a) ₹ 9,600 (b) ₹ 2,400 (c) ₹ 4,800 (d) ₹ 7,200

1 (c) · 2 (a) · 3 (d) · 4 (b) · 5 (b) · 6 (d) · 7 (a) · 8 (c) · 9 (d) · 10 (b) · 11 (c) · 12 (a) · 13 (b) · 14 (c) · 15 (d) · 16 (a) · 17 (a) · 18 (d) · 19 (b) · 20 (c)

Answers to the practice set

A. 1. 4 2. 6% p.a. 3. current 4. credited 5. charge 6. 4½ 7. interest (capitals × time) 8. principal

B. 1. F (desirable, not compulsory) 2. T 3. F 4. T 5. T 6. F (charge) 7. T 8. F

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C. 1. 2 2. fixed and fluctuating 3. 6½ months 4. none is charged 5. all old partners in their ratio 6. NP × r/(100 + r) 7. ₹ 6,000 8. 3 months 9. P&L Appropriation Account 10. Indian Stamp Act

D. 1. charge: allowed even in a loss (rent, interest on loan); appropriation: only from profit (salary, interest on capital) 2. two accounts vs one; capital constant vs changing 3. capital, ratio, interest, salaries, admission/retirement rules 4. closing + drawings − profit − additional capital 5. 20,000 × 8% × 7½/12 = ₹ 1,000 6. any partner can act for all and binds them 7. a minimum profit promised; deficiency borne by the guarantor(s) 8. to show distribution of profit

E. 1. interest due 30,000 > profit; shared 2 : 1: X 16,000, Y 8,000 2. 9,000 × 6% × 3½/12 = ₹ 157.50 3. A 48,000 − 6,000 = 42,000; B 48,000; C 30,000 4. interest 3,000 + 2,000; taken back 2,500 each: Second partner Dr. 500, To first 500 5, 6: see notes.

F. 1. Interest 30,000 and 18,000; salary 36,000; interest on drawings 1,500 and 1,000; profit before commission 2,10,000 + 2,500 − 84,000 = 1,28,500; commission = 1,28,500 × 5/105 = 6,119 (rounded); balance 1,22,381 shared 3 : 2 (73,429; 48,952). 2. Total 3,00,000; given 1,20,000, 1,20,000, 60,000; due 1,00,000 each: R Dr. 20,000, S Dr. 20,000, To T 40,000.

G. 1. a loan is a debt with an agreed return, so its interest is a charge; interest on capital is a reward to owners and comes out of profit 2. the capital account shows the permanent investment and the current account the year's changes 3. first drawing outstanding 9 months, last nil: (9 + 0)/2 4. different capital was used before and after the withdrawal

Case. (i) equally (no deed) (ii) no: no remuneration without a deed (iii) 6% p.a. on the loan only: 1,00,000 × 6% × 6/12 = ₹ 3,000 (iv) (1,23,000 − 3,000)/2 = ₹ 60,000 each

Last-night summary

- Partnership: 2–50 persons, agreement, business, mutual agency, profit sharing, unlimited liability; the deed and the Section 13 rules when there is none.
- Fixed capitals: capital + current accounts; fluctuating: one account for everything.
- P&L Appropriation: interest on capital, salary, commission, reserve, profit; interest on drawings credited. Charges (loan interest, rent) go to P&L.
- Interest on capital on opening capital for time used; profit short → ratio of interest; loss → none.
- Interest on drawings: 6, 6½, 5½, 7½, 4½, 9, 3 months or the product method; guarantee: deficiency borne by the guarantor; past adjustments by one entry.

Assertion–Reason (6)

(a) Both true, R explains A. (b) Both true, R does not explain A. (c) A true, R false. (d) A false, R true.

1. A: Interest on a partner's loan is debited to the P&L Account. R: It is a charge against profit.
2. A: Under fixed capitals the capital account never shows a debit balance. R: Drawings and losses are taken to the current account.
3. A: Salary to a partner is allowed even when the firm has a loss. R: Salary is an appropriation of profit.
4. A: When profit is less than interest on capital, it is shared in the ratio of interest. R: Interest on capital is an appropriation.
5. A: Drawings at the end of every month earn interest for 5½ months on average. R: The first drawing is outstanding for 11 months and the last for nil.
6. A: A partnership firm is a separate legal entity. R: The firm name is only a collective name for the partners.

Key: 1 (a) · 2 (a) · 3 (d) · 4 (a) · 5 (a) · 6 (d)