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Description	Azad	Benny	Total
Fixed Capital	40000	80000	
Interest @ 5%	2000	4000	6000

Total Interest on Capital is Rs 6000

This Rs 6K was wrongly distributed equally in profit sharing ratio

Description	Azad	Benny
Incorrect Distribution of Profits (Equally)	3000	3000
Correct (Interest on Capital)	2000	4000

Description	Azad Cap A/c		Benny Cap A/c		Firm (P&L Appr)	
	Dr	Cr	Dr	Cr	Dr	Cr
Interest on Capital		2000		4000	6000	
	3000		3000			6000
Balance	3000	2000	3000	4000	6000	6000
	1000 Dr		1000 Cr		0	

Azad Capital A/c	Dr..	1000	
	To Benny Capital A/c		1000

62	Description	Ram	Mohan	Sohan	Total
	Capital	120000	90000	60000	
	Interest @ 6%	7200	5400	3600	16200
	Interest @ 5%	6000	4500	3000	13500

Description	Ram		Mohan		Sohan		Firm	
	Dr	Cr	Dr	Cr	Dr	Cr	Dr	Cr
InCorrect Interest on Capital	7200		5400		3600			16200
Should be distributed as :								
Correct Interest on Capital		6000		4500		3000	13500	
Balance Profits (In profit ratio)		900		900		900	2700	
Total	7200	6900	5400	5400	3600	3900	16200	16200
	300 Dr		0		300 Cr		0	

Ram's Capital A/c Dr.. 300
 To Sohan's Capital A/c 300

Note :

Total Rs 16200 were distributed incorrectly. Out of that Rs 13500 distributed correctly as interest on capital
 The balance (Rs 16200 - Rs 13500) = Rs 2700 to be distributed in profit sharing ratio

63	Description	Ram	Shyam	Mohan	Total
	Capital	300000	100000	200000	
	Interest @ 9%	27000	9000	18000	54000
	Interest @ 10%	30000	10000	20000	60000

Description	Ram		Shyam		Moham		Firm	
	Dr	Cr	Dr	Cr	Dr	Cr	Dr	Cr
InCorrect Interest on Capital@9%	27000		9000		18000			54000
Should be distributed as :								
Correct Interest on Capital		30000		10000		20000	60000	
Excess Profits Distributed (In profit ratio)	2400		1200		2400			6000
Total	29400	30000	10200	10000	20400	20000	60000	60000
	600 Cr		200 Dr		400 Dr		0	

OR (Simply reverse all incorrect entries and make correct entries as total profits are given)

Description	Ram Cap A/c		Shyam Cap A/c		Moham Cap A/c		Firm	
	Dr	Cr	Dr	Cr	Dr	Cr	Dr	Cr
InCorrect Interest on Capital@9%	27000		9000		18000			54000
InCorrect profit distribution	78400		39200		78400			196000
Should be distributed as :								
Correct Interest on Capital		30000		10000		20000	60000	
Correct Profit distribution		76000		38000		76000	190000	
Total	105400	106000	48200	48000	96400	96000	250000	250000
	600 Cr		200 Dr		400 Dr		0	

Shyam's Current A/c Dr.. 200
 Mohan's Current A/c Dr.. 400
 To Ram's Current A/c 600

**** Due to fixed capitals the entry to be passed in current a/c**

64 Note : In this question some more amount over and above profits has now come to firm in the form of interest on drawings

Description	Pankaj	Anu
Interest on Drawings	3000	1000 (First we take amount as interest on drawings, Capital A/c debited)
To be Distributed equally	2000	2000 (Then we distribute this amount in profit sharing ratio)

Description	Pankaj		Anu		Firm	
	Dr	Cr	Dr	Cr	Dr	Cr
Interest on Drawings omitted	3000		1000			4000
Distribution as Profits (1:1)		2000		2000	4000	
Balance	3000	2000	1000	2000	4000	4000
	1000 Dr		1000 Cr		0	

Pankaj Capital A/c	1000
To Anu Capital A/c	1000

65 Calculation of Interest on Drawings

Description	Ram	Mohan	Total
Drawings per month	3000	4000	
No of months	12	12	
Total Drawings	36000	48000	1440
Rate of Interest	6%	6%	
Interest period (months)	6	6 (Assuming drawings at middle of each month)	

Note : No adjustment for interest on capital required as it was omitted. This has made the question more simple.

Calculation of Interest on Capital

Simrat

Date	Amount	Period	Rate	Interest	
1-Apr-22	576000	1	6%	2880	576000X6/100X1/12
1-May-22	696000	5	6%	17400	576000+120000
1-Oct-22	456000	6	6%	13680	696000-240000
Total				33960	

Bir

Date	Amount	Period	Rate	Interest	
1-Apr-22	324000	1	6%	1620	
1-May-22	264000	5	6%	6600	324000-60000
1-Oct-22	564000	6	6%	16920	264000+300000
Total				25140	

Here question has not asked for adjustment entry. It is give here only for knowledge

Description	Simrat		Bir		Firm	
	Dr	Cr	Dr	Cr	Dr	Cr
Interest on Capital		33960		25140	59100	
Incorrect Distribution as Profits (3:2)	35460		23640			59100
Balance	35460	33960	23640	25140	59100	59100
	1500 Dr		1500 Cr		0	

OR (Simply reverse all incorrect entries and make correct entries as total profits are given)

1-Apr-22	600000	1	6%	3000
1-May-22	720000	5	6%	18000
1-Oct-22	480000	6	6%	14400
		Total		35400

Bir

Date	Amount	Period	Rate	Interest
1-Apr-22	360000	1	6%	1800
1-May-22	300000	5	6%	7500
1-Oct-22	600000	6	6%	18000
		Total		27300

Here question has not asked for adjustment entry. It is give here only for knowledge

Description	Simrat		Bir		Firm	
	Dr	Cr	Dr	Cr	Dr	Cr
Interest on Capital		35400		27300	62700	
Incorrect Distribution as Profits (3:2)	37620		25080			62700
Balance	37620	35400	25080	27300	62700	62700
	2220 Dr		2220 Cr		0	

OR (Simply reverse all incorrect entries and make correct entries as total profits are given)

Description	Simrat		Bir		Firm	
	Dr	Cr	Dr	Cr	Dr	Cr
Interest on Capital		35400		27300	62700	
Correct distribution of profits		112380		74920	187300	

To Profit Transferred :

A	20920		52300
B	20920		
C	10460	52300	
Total	<u>80000</u>	Total	<u>80000</u>

Incorrect Profit & Loss Appropriation A/c

Particulars	Amount	Particulars	Amount
		By Net profit	80000

To Profit Transferred : (Capital ratio)

A	40000		
B	26667		
C	13333	80000	
Total	<u>80000</u>	Total	<u>80000</u>

P& L Appr

Description	A Cap A/c		B Cap A/c		C Cap A/c		Firm	
	Dr	Cr	Dr	Cr	Dr	Cr	Dr	Cr
Correct Items								
Interest on Capital		3000		2000		1000	6000	
Salary				18000			18000	
Commission						3700	3700	
Profits		20920		20920		10460	52300	
Incorrect Items								
Profits	40000		26667		13333			80000
Total	40000	23920	26667	40920	13333	15160	80000	80000

16080	14253	1827	0
Dr	Cr	Cr	Cr

A's Current A/c	Dr..	16080	
	To B's Current A/c		14253
	To C's Current A/c		1827

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Description	Pranav		Karan		Rahim		Firm	
	Dr	Cr	Dr	Cr	Dr	Cr	Dr	Cr
Correct Items								
Interest on Capital		39000		23400		15600	78000	
Incorrect Items								
Profit distribution	39000		26000		13000			78000
Total	39000	39000	26000	23400	13000	15600	78000	78000
	0		-2600		2600		0	
	Dr		Dr		Cr		Cr	

Working Note :

Calculation of Interest on Capital	Pranav	Karan	Rahim	Total
Capital	500000	300000	200000	
Interest @ 10%	50000	30000	20000	100000
Total Profits				78000

Here total appropriation are higher than available profits

Ratio of Appropriations	5	3	2	10
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Interest on Capital	39000	23400	15600
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Journal Entry :

Karan Capital A/c	Dr..	2600	
	To Rahim Capital A/c		2600

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Here first we have to find the opening capital as the closing capital is given in question

Description	P	Q	R
Closing Capital	40000	30000	20000
Less - Profits distributed	30000	20000	10000
Add - Drawings	10000	7500	4500
Opening Capital	20000	17500	14500
Interest on Capital @ 5%	1000	875	725
Incorrect profit Distribution	1300	867	433
Difference	-300	8	292

Description	P		Q		R		Firm	
	Dr	Cr	Dr	Cr	Dr	Cr	Dr	Cr
Correct Items								
Interest on Capital		1000		875		725	2600	
Incorrect Items								
Profit distribution	1300		867		433			2600

Total	1300	1000	867	875	433	725	2600	2600
	300		8		292		0	
	Dr		Cr		Cr		Cr	

OR (Simply reverse all incorrect entries and make correct entries as total profits are given)

Description	P		Q		R		Firm	
	Dr	Cr	Dr	Cr	Dr	Cr	Dr	Cr
Correct Items								
Interest on Capital		1000		875		725	2600	
Correct profits		28700		19133		9567	57400	
Incorrect Items								
Profit distribution	30000		20000		10000			60000
Total	30000	29700	20000	20008	10000	10292	60000	60000
	300		8		292		0	
	Dr		Cr		Cr		Cr	

P's Capital A/c Dr..
 To Q's Capital A/c
 To R's Capital A/c

300
 8
 292