

Chapter 4

DISTRIBUTION OF PROFIT OR LOSS OF PARTNERSHIP

شرائکی کاروبار کے نفع و نقصان کی تقسیم

Definition of Partnership: شراکتی کاروبار کی تعریف

Section 4 of Partnership act. 1932 defines partnership as under:

شرائکی کاروبار کے قوانین 1932 کی سیکشن چار کے مطابق شراکتی کاروبار کی درج ذیل تعریف کی گئی ہے۔

"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."

"یہ ان افراد کے درمیان تعلق ہے جو کاروبار کے منافع کو آپس میں تقسیم کرنے پر رضامند ہوتے ہیں جسے وہ تمام مل کر یا کوئی

ایک ان سب کے نمائندہ کے طور پر کام کرتا ہے"

CHARACTERISTICS OF PARTNERSHIP

شرائکی کاروبار کے خواص

- (i) There must be two or more person to form a partnership.
شرائکی کاروبار کے لئے دو یا دو سے زائد افراد کا ہونا ضروری ہے۔
- (ii) There must be a written or verbal agreement between all the concerned persons.
ان کے درمیان تحریری یا زبانی معاہدہ ہونا ضروری ہے۔
- (iii) The agreement must be for doing a business.
معاہدہ کا کاروبار ہی ہونا ضروری ہے۔
- (iv) The business may be carried on by all or any one of them acting for all.
کاروبار تمام مل کر یا کوئی ایک سب کے نمائندہ کے طور پر چلا سکتا ہے۔
- (v) The gain or loss must be shared by all.
نفع یا نقصان تمام کے درمیان تقسیم ہونا ضروری ہے۔

The persons who form a partnership are individually called partners and collective name given to them is a firm. Under the partnership Act 1932, maximum number of partners is limited to 10 in case of banking business and 20 in case of trading concern.

جو افراد شراکتی کاروبار میں شامل ہوتے ہیں انہیں ذاتی طور پر شراکت دار اور اجتماعی طور پر فرم کا نام دیا جاتا ہے۔ قوانین

شرکت 1932 کے تحت حصہ داروں کی زیادہ سے زیادہ تعداد بینکنگ کے کاروبار میں 10 اور دیگر تجارتی اداروں میں 20 ہوتی ہے۔

Though sharing of gain is very important element of a partnership business, but not a conclusive proof of being a partner. There are examples that person sharing in the gain, are not considered as partners. For example

اگرچہ شراکتی کاروبار میں منافع میں حصہ ایک اہم عنصر ہے لیکن یہ حصہ دار ہونے کا حتمی ثبوت نہیں ہے۔ ایسی مثالیں موجود ہیں کہ بعض لوگ منافع میں حصہ دار نہیں لیکن حصہ دار نہیں ہوتے۔ مثلاً

- (i) An employee paid on the basis of profit.
کوئی ملازم جس کا معاوضہ منافع کی بنیاد پر ہوتا ہے۔
- (ii) A lender receiving a rate of interest varying with the amount of profit.
ایسا قرض خواہ جس کے منافع کی شرح منافع کے ساتھ بدلتی رہتی ہے۔
- (iii) Partnership relation is based on agreement that may be written or oral one. Even oral agreement is not necessary, partnership can be implied from the acts of the persons engaged in the enterprise. It is however better that agreement be made in writing.

شراکت داری کے رشتے کی بنیاد ان کے درمیان میں ہونے والے تحریری یا زبانی معاہدے پر ہوتی ہے۔ حتیٰ کہ زبانی معاہدہ بھی ضروری نہیں یہ ان کے درمیان ہونے والے امور کی بنیاد پر بھی ہو سکتا ہے۔ تاہم تحریری شکل میں معاہدہ کرنا زیادہ بہتر ہے۔

PARTNERSHIP DEED: شراکتی عہد نامہ

The document which contains terms and conditions of partnership is known as Partnership Deed. In the absence of an agreement, the partnership Act is applied. Written agreement between partners will be helpful in case of disputes between the partners.

ایسی دستاویز جس میں حصہ داروں کے مابین کاروبار چلانے کے قواعد و ضوابط درج ہوتے ہیں اسے شراکتی عہد نامہ کہا جاتا ہے۔ کوئی معاہدہ نہ ہونے کی صورت میں شراکتی قانون کا اطلاق ہوتا ہے۔ تحریری طور پر معاہدہ حصہ داروں کے درمیان پیدا ہونے والے جھگڑوں کے تصفیہ کے لئے مفید ہوتا ہے۔

The following points are to be mentioned in partnership deed.

- (i) Name of the partners.
شراکتی عہد نامہ میں درج ذیل امور درج کئے جاتے ہیں۔
حصہ داروں کے نام
- (ii) Name and nature of the business.
کاروبار کا نام اور اس کی نوعیت
- (iii) Capital contributed by each partner.
ہر حصہ دار کا فراہم کیا گیا سرمایہ
- (iv) Ratio of Gain or Loss.
نفع یا نقصان کی نسبت
- (v) Rate of interest if allowed on partners' capital.
سرمایے پر سود کی ادائیگی کی صورت میں شرح سود
- (vi) Salary if to be paid to a partner for doing extra job.
حصہ دار کو زائد کام کرنے کے بدلہ میں دی جانے والی تنخواہ
- (vii) Maximum limit of amount of drawings of a partner during a particular period.
سال کے دوران ذاتی استعمال کے لئے نکلوائی جانے والی رقم کی زیادہ سے زیادہ حد

- (viii) Whether partners' capitals are to be maintained on fixed or fluctuating methods.
حصہ داران کے سرمایہ کا کھاتہ متعین یا قابل تبدیلی طریقہ کار کے مطابق بنایا جائے گا۔
- (ix) Duration of partnership business.
شرکتی کاروبار کا دورانیہ
- (x) Rate of interest on drawings if any to be charged.
برداشتی پر وصول کئے جانے والے سود کی شرح
- (xi) Interest on partner's loan.
حصہ داروں کے قرضہ پر سود کی شرح
- (xii) Financial period for determining Gain or Loss of the business.
حساب کتاب کے دورانیے کا عرصہ
- (xiii) Method of valuation of goodwill at the time of admission, retirement of a partner, mergers of business.
نئے حصہ دار کی شمولیت پر آنے والے حصہ دار کی علیحدگی یا کاروبار کے انضمام کی صورت میں کاروباری ساکھ کی قیمت کے تعین کا طریقہ کار
- (xiv) Method of computing the amount due to the retiring partner or to the successors of the deceased partner.
کسی حصہ دار کی کاروبار سے علیحدگی یا وفات کی صورت میں اس کو یا اس کے ورثہ کو دی جانے والی رقم کے تعین کا طریقہ کار
- (xv) The way or procedure of payment of the amount due to the retiring partner or executors of the deceased.
کسی حصہ دار کی کاروبار سے علیحدگی یا وفات کی صورت میں اس کو یا اس کے ورثہ کو اس کے سرمایے کی ادائیگی کا طریقہ کار
- (xvi) Clause regarding arbitration in case of dispute.
جھگڑے کی صورت میں تصفیہ کے متعلق وضاحت
- (xvii) Procedure of dissolution of the firm.
فرم کے اختتام کا طریقہ کار
- (xviii) Treatment of insurance policy if any.
بیمہ پالیسی ہونے کی صورت میں اس کی ادائیگی کا طریقہ کار

RULES IN THE ABSENCE OF AGREEMENT: قوائد میں صورت میں قوانین

In the absence of written agreement, following rules will be applicable.

- تحریری معاہدہ نہ ہونے کی صورت میں درج ذیل قوانین کا اطلاق ہوگا۔
- (i) Each partner will contribute equally towards the capital of the firm.
ہر حصہ دار کا سرمایہ برابر تصور کیا جائے گا۔
- (ii) Gain /Losses of the firm will be distributed equally among the partners.
نفع یا نقصان تمام حصہ داران میں برابر برابر تقسیم ہوگا۔
- (iii) No salary will be paid to partners for performing duties in the firm.
فرم میں کام کرنے کا کوئی معاوضہ یا تنخواہ حصہ داران کو ادا نہیں کی جائے گی۔

- (iv) No interest on partners' capitals will be allowed.
 سرمایہ پر کوئی سود نہیں دیا جائے گا۔
- (v) 6% interest on partners loan other than their capital will be allowed.
 حصہ داران کے سرمایہ کے علاوہ حصہ داران کے فراہم کردہ قرضہ پر 6 فی صد سود دیا جائے گا۔
- (vi) The firm will have to indemnify every partner for the expenses incurred or payment made by one on behalf of the firm.
 کسی حصہ دار کی طرف سے فرم کے لئے کئے جانے والے اخراجات یا ادائیگی کی طوائف فرم کی ذمہ داری ہوگی۔
- (vii) Without the consent of all the partners, no one can be admitted as a partner.
 تمام حصہ داران کی رضامندی کے بغیر کوئی فرد بطور حصہ دار شامل نہیں کیا جاسکتا۔
- (viii) Every partner has got the right of access to the books of accounts.
 ہر حصہ دار کو فرم کے حسابات تک رسائی کا حق حاصل ہوگا۔
- (ix) Every partner has got the right to participate in the conduct and management of the business.
 ہر حصہ دار کاروبار کے معاملات اور انتظامیہ میں شریک ہونے کا حق رکھتا ہے۔
- (x) A retiring partner or executor of the deceased partner has got the right to share in the profits, earned with the help of the assets belonging to him or interest at 6% per annum, at the option of such partner or his executors.
 کاروبار سے علیحدہ ہونے والے حصہ دار یا وفات کی صورت میں اس کے ورثہ کو حق حاصل ہے کہ وہ چاہیں تو کاروبار کے منافع میں حصہ لیں یا 6 فی صد سالانہ شرح پر سود لیں۔

KINDS OF PARTNERS: حصہ داران کی اقسام

- (i) **Active Partner:** Active partner is also named as a working partner.
 He takes active part in the management and running of the business. He also invests in the partnership business.
 کارکن حصہ دار یہ حصہ دار کاروبار کی انتظامیہ اور اسے چلانے کے لئے اہم کردار ادا کرتا ہے۔ یہ کاروبار کے لئے سرمایہ بھی فراہم کرتا ہے۔
- (ii) **Sleeping Partner:**
 Sleeping partner is one who:
 (a) Invests in the business.
 (b) Shares gains and losses of the business.
 (c) Does not participate in the conduct and management of the business.
 (d) Is known to the public as partner.
 (e) Is liable to firm's creditors.
 مستند حصہ دار:
 ایسا حصہ دار جو
 کاروبار کو سرمایہ فراہم کرتا ہے۔
 قطع نقصان میں شریک ہوتا ہے۔
 کاروبار کی انتظامیہ اور اسے چلانے میں شریک نہیں ہوتا۔
 پبلک کی نظروں میں حصہ دار شمار ہوتا ہے۔
 فرم کی ادائیگیوں کا بھی ذمہ دار ہوتا ہے۔
- (iii) **Silent Partner:** Silent partner is one who:
 غیر فعال حصہ دار: ایسا حصہ دار جو

- (a) Is known to the public as partner.
پبلک کی نظروں میں حصہ دار جانا جاتا ہے۔
- (b) Does not participate in the management and conduct of the business.
کاروبار کی انتظامیہ اور دیگر امور سرانجام دینے میں شریک نہیں ہوتا۔
- (c) Is liable to the firms' creditors as other partners.
دیگر حصہ داروں کی طرح فرم کی ذمہ داریاں ادا کرنے کا ذمہ دار ہوتا ہے۔
- (iv) **Secret Partner:** Secret partner is one who:
خفیہ حصہ دار: ایسا حصہ دار جو
- (a) Takes active part in the conduct and management of the business.
کاروبار کی انتظامیہ اور دیگر امور سرانجام دیتا ہے۔
- (b) Is not known to public as a partner.
لوگوں کی نظروں میں حصہ دار شمار نہیں ہوتا۔
- (c) Is liable to creditors like other partners.
دوسرے حصہ داران کی طرح کاروباری ادائیگیوں کا ذمہ دار ہوتا ہے۔
- (d) Need not serve notice to the creditors regarding his retirement from the business.
کاروبار سے علیحدگی کی صورت میں قرض خواہوں کو نوٹس جاری کرنے کی ضرورت نہیں ہوتی۔
- (v) **Nominal Partner:** Nominal partner is one who:
نمائشی حصہ دار: ایسا حصہ دار جو
- (a) Does not contribute towards capital.
سرمایہ فراہم نہیں کرتا۔
- (b) Does not share gains of the business.
کاروبار کے منافع میں شریک نہیں ہوتا۔
- (c) Is publicly known as a partner.
پبلک کی نظروں میں حصہ دار ہوتا ہے۔
- Actually he has allowed other partners to use his name as partner only to oblige them.
حقیقت میں دوسرے حصہ داروں کے ساتھ تعاون کے لئے انہیں اپنے نام کو بطور حصہ دار استعمال کرنے کی اجازت دیتا ہے۔
- (vi) **Minor Partner:**
نابالغ حصہ دار: ایسا حصہ دار جو
- (a) He himself can not be a partner, because he can not contract.
خود حصہ دار نہیں بن سکتا کیونکہ وہ کسی کے ساتھ معاہدہ کرنے کا اہل نہیں ہوتا۔
- (b) He can share in the gains of the firm with the consent of all partners.
تمام حصہ داروں کی رضامندی سے کاروبار کے منافع میں شریک ہو سکتا ہے۔
- (c) There should be some person to act as his guardian.
کوئی دوسرا آدمی اس کے نمائندہ کے طور پر کام کرتا ہے۔
- (d) He will not bear losses of the firm out of his private property.
اس کی ذاتی جائیداد فرم کے نقصان کی حلافی کے لئے استعمال نہیں ہوتی۔

CAPITAL:

PROCEDURE TO OPEN BOOKS OF PARTNERSHIP:

At the time of formation of partnership, each partner contributes his capital either in the form of cash or non-cash. Separate accounts of capital are opened to record the investment of each partner. The partner can invest in the business in any of the following ways:

کاروبار کی تشکیل کے موقع پر ہر حصہ دار اپنا سرمایہ نقدی یا غیر نقدی کی صورت میں ادا کرے گا۔ ہر حصہ دار کی سرمایہ کاری کے مطابق ہر ایک کا کھاتہ کھولا جائے گا۔ حصہ دار درج ذیل طریقوں سے سرمایہ کاری کر سکتا ہے۔

1. By contributing cash. نقدی فراہم کر کے
2. By contributing non-cash assets. غیر نقدی اثاثہ جات کی صورت میں
3. By combining individual business. علیحدہ علیحدہ کاروبار کو یکجا کر کے

1. By Contributing Cash:

If contribution is made in cash, cash account will be debited and respective partner's capital account will be credited with one's respective contribution. For example, A, B, form a partnership contributing Rs. 100,000 and Rs.50,000 respectively in the form of cash. The journal entry will be

Date	Description	Debit	Credit
	Cash	150,000	
	Capital - A		100,000
	Capital - B		50,000

Illustration No. 1

Muneeb and Habib agreed to form a partnership on 1st January 2018. For this purpose, Muneeb contributed Rs. 4,50,000 and Habib Rs. 1,50,000.

- Required:**
- (i) Journal entry.
 - (ii) Opening Balance Sheet of the firm.

Solution:

I - GENERAL JOURNAL

Date	Description	PR	Amount	
2018			Dr.	Cr.
Jan. 01	Cash		6,00,000	
	Capital – Muneeb			4,50,000
	Capital – Habib			1,50,000
	(Cash contributed to form a partnership)			

II - BALANCE SHEET As on (1st January, 2018)

Assets	Amount	Liabilities	Amount
Cash	6,00,000	Owner's Equity	
		Capital – Muneeb	4,50,000
		Capital – Habib	1,50,000
Total	6,00,000	Total	6,00,000

2. By contributing Non-Cash Assets:

If non-cash is invested, debit will be given to asset invested at the amount agreed by all the partners and credit to partner's respective capital.

For example, A and B form partnership. A invested Rs. 1,00,000 in the form of cash, B provides building to the partnership, the agreed value of which is Rs. 80,000 the journal entry will be as such:

Date	Description	Debit	Credit
	Cash	100,000	
	Building	80,000	
	Capital - A		100,000
	Capital - B		80,000

Illustration No. 2

Muneeb and Habib formed a partnership on 1st January 2017. Muneeb contributed Cash Rs. 3,00,000 and building Rs. 4,00,000 for the business. Habib contributed cash Rs. 4,00,000 and furniture Rs. 50,000.

- Required: (i) Journal entry.
(ii) Opening Balance Sheet of the firm.

Solution:

I - GENERAL JOURNAL

Date	Description	PR	Amount	
			DR	PR
2017				
Jan. 01	Cash (3,00,000 + 4,00,000)		7,00,000	
	Building		4,00,000	
	Furniture		50,000	
	Capital - Muneeb			7,00,000
	Capital - Habib			4,50,000
	(Business started)			

II - BALANCE SHEET

As on (1st January, 2017)

Assets	Amount	Liabilities	Amount
Cash	7,00,000	Owner's Equity	
Furniture	50,000	Capital - Muneeb	7,00,000
Building	4,00,000	Capital - Habib	4,50,000
Total	11,50,000	Total	11,50,000

3. By Combining individual business:

Sometimes partnership is formed by combination of two or more business. For this purpose the journal entry will be:

All assets _____ DR
All Liabilities _____ CR
Partner's Capital _____ CR

Illustration No. 3:

Muneeb and Habib carrying on separate business agreed to form a partnership on 1st January 2018, by combining their individual business. On this date their Balance Sheets were as under:

Balance Sheet of Muneeb

As on 1st January 2018

Assets	Amount	Liabilities	Amount
Cash	25,000	Accounts payable	15,000
Accounts receivable 45000		Salaries payable	12,000
Less: Allowances for bad debts 2000	43,000	Capital	61,000
Closing inventory	7,000		
Furniture	13,000		
Total	88,000	Total	88,000

Balance Sheet of Habib

As on 1st January 2018

Assets	Amount	Liabilities	Amount
Cash	30,000	Accounts payable	28,000
Accounts receivable	64,000	Outstanding rent	10,000
Closing inventory	19,500	Allowances for bad debts	6,500
Machinery 15000		Capital	81,000
Less. Acc. Depreciation 3000	12,000		
Total	1,25,500	Total	1,25,500

All assets and liabilities will be taken over by the firm at book value.

- Required:**
- Pass the Journal entry to form the partnership.
 - Prepare opening Balance Sheet of the firm.

Solution:

I - GENERAL JOURNAL

Date	Description	PR	Amount	
2018			DR	PR
Jan. 01	Cash (25,000 + 30,000)		55,000	
	Accounts receivable (45000+64000)		1,09,000	
	Closing inventory (7000 + 19,500)		26,500	
	Furniture		13,000	
	Machinery		15,000	
	Accounts payable (15000+28000)			43,000
	Salaries payable			12,000
	Outstanding rent			10,000
	Allowances for bad debts (2000+6500)			8,500
	Acc. Depreciation machinery			3,000
	Capital - Muneeb			61,000
	Capital - Habib,			81,000
	(Being the investment of both the partners)			

II - BALANCE SHEET OF NEW FIRM
As at 1st January, 2018

Assets		Amount	Liabilities		Amount
Cash		55,000	Accounts payable		43,000
Accounts receivable	1,09,000		Salaries payable		12,000
Less: Allowances for					
Bad debts	<u>8,500</u>	1,09,500	Outstanding rent		10,000
Closing inventory		26,500	Acc. Depreciation machinery		3,000
Furniture		13,000	Capital – Muneeb		61,000
Machinery		15,000	Capital – Habib		81,000
Total		2,10,000	Total		2,10,000

Illustration No. 4

Muneeb running a medical store, agreed to form a partnership with Habib on 1st January 2018. The book value and agreed value of his assets and liabilities is as under:

Description	Book Value	Agreed Value
Cash	29,500	29,500
Accounts receivable	14,000	12,000
Merchandise inventory	11,800	9,500
Furniture	18,000	13,000
Acc. Depreciation furniture	3,000	
Refrigerator	5,000	4,000
Accounts payable	9,600	9,600
Outstanding Rent	5,000	5,000

Habib agreed to contribute equal to net investment of Muneeb.

- Required:** (i) Journal entries
(ii) Balance sheet of new firm.

Solution:

I – General Journal

Date	Description	PR	Amount	
			DR	PR
2018				
Jan. 01	Cash		29,500	
	Accounts receivable		12,000	
	Merchandise inventory		9,500	
	Furniture		13,000	
	Refrigerator		4,000	
	Accounts payable			9,600
	Outstanding rent			5,000
	Capital – Muneeb			53,400
	(Cash invested by Muneeb)			

Cash	53,400	53,400
Capital – Habib (Cash invested by Habib)		

**II – Balance Sheet of new firm
As on 1st January 2018**

Assets	Amount	Liabilities	Amount
Cash (29500+53400)	82,900	Accounts payable	9,600
Accounts receivable	12,000	Outstanding rent	5,000
Merchandise inventory	9,500	Capital – Muneeb	53,400
Furniture	13,000	Capital – Habib	53,400
Refrigerator	4,000		
Total	1,21,400		1,21,400

Capital Accounts:

The capital accounts of partners can be kept in any of the following two ways:

ہر حصہ دار آپس میں ملے کر وہ معاہدے کے مطابق کاروبار میں سرمایہ فراہم کرتا ہے۔ حصہ داران کے سرمایہ کے کھاتے کو درج ذیل دو طریقوں کے مطابق بنایا جاسکتا ہے۔

(i) Fixed capital method

متعین سرمائے کا طریقہ

(ii) Fluctuating Capital method.

قابل تبدیلی سرمائے کا طریقہ

(i) Fixed Capital Method: متعین سرمائے کا طریقہ

Under the fixed nature of capital, the capital of each partner remains constant from the start of partnership till at the end of it. Adjustments regarding interest on capital, partner's salary, commission, drawings, profit or loss is not recorded in capital account. To have record of all such adjustments each partner's current account is opened, which is debited with drawings, share of loss sustained during a period and credit is given for partner's salary, commission, interest on capital and share of profit earned. After all the adjustments have been made in the current account, it is balanced, if it shows debit balance it will be shown in the Balance Sheet on asset side and if it shows credit balance it will be shown on the liability side. At the time of dissolution of the partnership, each partner's current account balance is transferred to capital account. The credit balance of current account will be credited to capital account and debit balance of the current account will be debited to respective partner's capital account.

اس طریقہ کار کے مطابق ہر حصہ دار کا شرائط کاروبار میں فراہم کردہ سرمایہ کاروبار کے شروع سے آخر تک متعین رہتا ہے۔ سرمایہ میں ترامیم مثلاً حصہ دار کی تنخواہ، کمیشن، برداشتگی، منافع نقصان میں حصہ کو Capital Account میں درج نہیں کیا جاتا۔ ان ترامیم کا اندراج کرنے کے لئے ہر حصہ دار کا ایک نیا اکاؤنٹ Current Account کے نام سے کھولا جاتا ہے جس کو برداشتگی، نقصان کا حصہ Debit کیا جاتا ہے اور حصے دار کی تنخواہ، کمیشن، سرمائے پر سود اور کاروبار میں منافع کا حصہ Credit کیا جاتا ہے۔ یہ تمام ترامیم کرنے کے بعد اس کا ہتایا معلوم کیا جاتا ہے۔ اگر ہتایا Debit کا ہو تو Balance Sheet میں Liability میں شامل کیا جائے گا۔ کاروبار کے اختتام پر ہر حصہ دار کے ہے اور اگر ہتایا Credit کا ہو تو Balance Sheet میں Liability میں شامل کیا جائے گا۔ کاروبار کے اختتام پر ہر حصہ دار کے

Current A/c کو Capital A/c میں منتقل کر دیا جاتا ہے۔ Current A/c کا Credit Balance Capital A/c میں Credit کیا جائے گا اور Debit Balance Current Account کو متعلقہ سرمایہ کے Account میں Debit کر دیا جائے گا۔

(II) Fluctuating Capital Method: متبادل سرمایہ کا طریقہ

Under Fluctuating Capital method, capital of each partner goes on changing from time to time. Each partner will have his separate capital account, which will be credited by his initial investment and any additional capital introduced during the year will also be credited to his capital account. All the adjustments, which result decrease in capital will be debited to partner's capital, such as drawing made by each partner, interest on drawings and share of loss. On the other hand adjustments resulting increase in capital will be credited to partner's capital, like interest on capital, partners salary and commission if any, partner's share of profit etc. Balance of each partner's capital account will be shown in the balance sheet. Debit balance of partner's capital account is shown on the asset side and credit balance is shown on the liability side.

اس طریقہ کار کے مطابق ہر حصہ دار کے سرمایہ میں وقتاً فوقتاً تبدیلیاں آتی رہتی ہیں۔ ہر حصہ دار کا اپنا اپنا Capital اکاؤنٹ ہوتا ہے جس کو ابتدائی سرمایہ سے اس اکاؤنٹ میں Credit کیا جاتا ہے اور دوران سال اضافی سرمایہ بھی اسی اکاؤنٹ میں Credit کیا جاتا ہے۔ ایسی تمام تبدیلیاں جس کے نتیجہ میں سرمایہ میں کمی ہوتی ہے وہ اس اکاؤنٹ کو Debit کی جاتی ہے۔

مثلاً سال کے دوران ذاتی استعمال کے لئے نکلوا یا سرمایہ اور اس پر سود اور اپنے حصے کا نقصان دوسری طرف ایسی تراکم جن کے نتیجہ میں سرمایہ میں اضافہ ہوتا ہے۔ اس اکاؤنٹ کو Credit کیا جاتا ہے۔ مثلاً سرمایہ پر دیا گیا سود۔ حصہ دار کو دی گئی تنخواہ کمیشن اگر ہو اور اس کے منافع کا حصہ وغیرہ۔ ہر حصہ دار کے سرمایہ کا بتایا Balance Sheet میں Capital کے طور پر ظاہر کیا جاتا ہے۔

Debit Balance کو Asset اور Credit Balance کو Liability Side میں دکھایا جاتا ہے۔

EXPLANATORY NOTE: توضیحی نوٹ

It should be noted that where nothing is specifically mentioned, the capital method to be adopted will be the fluctuating capital method.

اس بات کا خیال رکھا جائے اگر سرمایہ کے طریقہ کار کے بارے میں کوئی وضاحت نہ کی گئی ہو تو قابل تبدیل سرمایہ کا طریقہ اختیار کیا جاتا ہے۔

Partnership Account:

شرکت کا اکاؤنٹ:

Partnership account is maintained according to the general principles of

Accounting.

شرکت کا اکاؤنٹ عام اکاؤنٹنگ کے اصولوں کے مطابق بنایا جاتا ہے۔

Accounting for Partnership:

Most of the day-to-day accounting for a partnership is the same as the accounting for any others form of business organization. The journals described in the first year (I.Com Part-I) book may be employed by a partnership without alteration. The chart of accounts with the exception of separate drawing and separate capital account for each partner, does not differ from the chart of accounts similar business conducted by a single owner. It is in the areas of the formation, profit-distribution of partnership that transactions peculiar to

partnership arise. The reminder of the chapter is devoted to the accounting principles and procedures applicable in these areas.

شرکت کے کاروبار کی کتب بھی ویسے ہی لکھی جاتی ہیں جیسے کسی بھی کاروباری ادارے کی لکھی جائیں۔ جو مل لکھنے کا طریقہ کار سال اول کی کتب میں لکھا گیا ہے۔ یہی طریقہ کار شرکت کی کتب لکھنے وقت اختیار کیا جاتا ہے اس میں کسی قسم کی تبدیلی نہیں کی جاتی شرکت کے کاروبار میں سرمایہ اور برداشتگی کے الگ الگ اکاؤنٹ بنانے کے علاوہ تمام طریقہ کار وہی ہے جو فرد واحد کے کاروبار میں اپنایا جاتا ہے۔ یہ صرف شرکت میں ہوتا ہے بتایا تمام کتب اکاؤنٹس کے بنیادی اصولوں کے مطابق ہی لکھی جاتی ہیں۔

Distribution of Profits or Losses:

نفع و نقصانات کی تقسیم:

In the partnership business the net profit to be shared by all the partners in the agreed profit sharing ratio. For this purpose the net profit is transferred to an account called profit and loss appropriation account. This account is almost same to profit and loss account and prepared to show how the net profit or loss distributed among the partners. The account is created with net profit or debited with net loss. The account is further debited with Interest on capital, Partners salary or commission payable and credited with interest on drawings. After these adjustments the account shows the net profit or net-loss which shall be distributed among partners in the any of the following.

1. Profit Sharing ratio.
2. Capital Ratio

شرکت کے کاروبار میں نفع و نقصان طے شدہ نسبت سے تقسیم کیا جاتا ہے۔ اس مقصد کے حصول کے لیے نفع و نقصان کو Profit and Loss Appropriation اکاؤنٹ میں منتقل کر دیا جاتا ہے۔ یہ اکاؤنٹ بالکل نفع و نقصان کے اکاؤنٹ کی طرح کا ہوتا ہے اور یہ نفع یا نقصان کی حصہ داروں کی تقسیم کو ظاہر کرتا ہے۔ یہ اکاؤنٹ خالص نفع یا نقصان سے شروع کیا جاتا ہے۔ اس اکاؤنٹ کو سرمایہ کے سود۔ حصہ داروں کی تنخواہ اور واجب الادا کمیشن سے ڈیبٹ (Debit) کیا جاتا ہے جبکہ برداشتگی کے سود سے کریڈٹ کیا جاتا ہے۔ ان ترمیمات کے اندراج کے بعد یہ اکاؤنٹ خالص نفع یا خالص نقصان کو ظاہر کرتا ہے۔ جو حصہ داروں میں مندرجہ ذیل دو طریقوں سے تقسیم کر دیا جاتا ہے۔

- 1- نفع و نقصان تقسیم کرنے کی نسبت سے
- 2- سرمایہ کی نسبت سے

1. Profit Sharing Ratio

The following journal entries are passed for distribution of profit or loss among partners.

- (1) For interest on Capital

Profit & loss appropriation account	DR
Partners capital account	CR

- (2) For salary OR Commission Payable to partners.

Profit & Loss appropriation account	DR
Partners capital account	CR

- (3) For Interest on drawbars.

Partners capital account	DR
Profit & loss appropriation account	CR

- (4) For distribution of profit

Profit & loss appropriation account	DR
Partners capital account	CR

- (5) For distribution of loss

Partners Capital account	DR
Profit and loss apportion account	CR

Illustration No. 5

A and B enter into a partnership on 1st January 2017 by introducing Rs. 50,000 and Rs. 1,00,000 respectively. Partnership deed provides 10% interest on Capital, A is entitled to a monthly salary of Rs. 1000. Profit for the year 2017 before charging interest on capital and A's salary amounts to Rs. 57,000. They share income and expense equally. A's drawings 1500, B's drawings 2000.

Required: Show the Profit and loss appropriation account, journal entries and accounts relating to partners under:

- (i) Fluctuating nature of capital: (ii) Fixed nature of capital.

Solution:

Profit and loss Appropriation Account
For the year ended December 31, 2017

Description	Amount	Description	Amount
A's salary	12000	Profit	57,000
Interest on capital			
A's capital 5000	15000		
B's Capital 10,000			
Profit to			
A's capital 15,000	30,000		
B's capital 15,000			
	57,000		57,000

(i) **When capitals are fluctuating**

Date	Description	PR	Dr	Cr
2017	Profit & Loss appropriation a/c		12,000	
Dec.31	A's Capital			12,000
	(Salary allowed to A)			
	Profit & Loss appropriation account		15,000	
	A's Capital			5,000
	B's Capital			10,000
	(Interest allowed on capital)			
	Profit & Loss appropriation account		30,000	
	A's Capital			15,000
	B's Capital			15,000
	(Being Profit distributed)			

(ii) When capitals are fixed

Date	Description	PR	Dr	Cr
2017	Profit and Loss appropriation account		12,000	
Dec.31	A's current a/c. (Salary allowed to A)			12,000
	Profit and Loss appropriation account		15,000	
	A's current a/c. B's current a/c. (Interest allowed on capital)			5,000 10,000
	Profit and Loss appropriation account		30,000	
	A's current a/c. B's current a/c. (Profit distributed)			15,000 15,000

CAPITAL ACCOUNTS

(When capitals are fixed)

Date	Description	A	B	Date	Description	A	B
2017	Balance c/d	50,000	100,000	2017	Cash	50,000	100,000
Dec.31				Jan 1			
		50,000	100,000			50,000	100,000

PARTNERS' CURRENT ACCOUNT

Date	Description	A	B	Date	Description	A	B
2017	Cash	1,500	2,000	2017	Salary	12,000	
Dec.31	(Drawings)			Jan 1	Interest	5,000	10,000
					Profit and Loss appropriation account	15,000	15,000
	Balance c/d	30,500	23,000				
		32,000	25,000			32,000	25,000

CAPITAL ACCOUNTS

(When capitals are fluctuating)

Date	Description	A	B	Date	Description	A	B
2017	Cash			2017	Cash	50,000	1,00,000
Dec.31				Jan 1	Salary	12,000	
	Cash				Interest	5,000	10,000
	(Drawings)	1,500	2,000		Profit and Loss appropriation account	15,000	15,000
	Balance c/d	80,500	1,23,000				
		82,000	1,25,000			82,000	1,25,000

Illustration No. 6

X, Y and Z are partners in a firm. On 1st January 2017 the balance of their capital was Rs. 50,000, Rs. 75,000 and Rs. 100,000 respectively. During the year each partner drew Rs. 3,000. They share profit and loss in the ratio 1:1:2 during the year 2017, the firm earned profit of Rs. 52,050/- without having the following adjustments:

- (i) Interest on capital and drawings at the rate of 10%.
 (ii) Z is to be provided salary of Rs. 500 a month. Each partner's drawings Rs.3,000/-

Required: (i) Pass Journal Entries
 (ii) Show Profit and Loss appropriation account, Capital account under fixed and fluctuating method.

Solution:

Profit and Loss Appropriation Account

Date	Description	Amount	Date	Description	Amount
2017 Dec.31	Interest on capital		2017 Jan 1	Profit	52,050
	X Capital 5,000			Interest of Drawings (w-1)	
	Y Capital 7,500			X Capital 150	
	Z Capital 10,000	22,500		Y Capital 150	
	Z's Salary	6,000		Z Capital 150	450
	Profit transferred to				
	X 6,000				
	Y 6,000				
	Z 12,000	24,000			
		52,500			52,500

I – General Journal

Fluctuating Capital				Fixed Capital			
Date	Description	DR	CR	Date	Description	DR	CR
2017 Dec.31	Capital-X	3,000		2017 Jan 1	Current A/c-X	3,000	
	Capital-Y	3,000			Current A/c-Y	3,000	
	Capital-Z	3,000			Current A/c-Z	3,000	
	CASH		9000		CASH		9,000
	(Cash withdrawn by the partners)				(Cash withdrawn by the partners)		
	Profit and loss Appropriation a/c	22,500	5000		Profit and Appropriation	22,500	
	X Capital account		7500		Current A/c-X		5000
	Y Capital account		10000		Current A/c-Y		7500
	Z Capital account (Interest allowed on capital)				Current A/c-Z (Interest allowed on capital)		10000

Profit and loss appropriation account	6,000		Profit and Loss appropriation Current A/c-Z (Salary due to Z)	6,000	6,000
Z Capital account (Salary due to Z)		6,000			
Profit and loss Appropriation a/c	24,000		Profit and loss Appropriation a/c	24,000	
Capital-X		6000	Current A/c-X		-6,000
Capital-Y		6000	Current A/c-Y		6,000
Capital-Z		12000	Current A/c-Z		12,000
(Being income Distributed)			(Distribution of income)		
Capital-X		150	Current A/c-X		150
Capital-Y		150	Current A/c-Y		150
Capital-Z		150	Current A/c-Z		150
Profit and loss Appropriation a/c	450		Profit and loss Appropriation a/c	450	

Interest Charged on Drawings)

Interest on Drawing (w-1) 450	Interest on Drawing (w-1) 450
Capital x 150	Current A/c x 150
Capital y 150	Current A/c y 150
Capital z 150	Current A/c z 150

CAPITAL ACCOUNT

(When Capitals are Fluctuating)

Description	X	Y	Z	Description	X	Y	Z
Cash (Drawings)	3,000	3,000	3,000	Balance	50,000	75,000	100,000
Interest on Drawings	150	150	150	Interest	5,000	7,500	10,000
				Salary	—	—	6,000
Balance c/d	57,850	85,350	124,850	Profit and loss Appropriation a/c	6,000	6,600	12,000
	61,000	88,500	128,000		61,000	88,500	128,000

CAPITAL ACCOUNT

(When Capitals are Fixed)

Description	X	Y	Z	Description	X	Y	Z
Balance	50,000	75,000	100,000	Cash	50,000	75,000	100,000
	50,000	75,000	100,000		50,000	75,000	100,000

CURRENT ACCOUNT

Description	X	Y	Z	Description	X	Y	Z
Cash (Drawings)	3,000	3,000	3,000	Interest on Capital	5,000	7,500	10,000
Interest on Drawings	150	150	150	Salary			6,000
Balance c/d	7,850	10,350	24,850	Profit and loss Appropriation a/c	6,000	6,000	12,000
	11,000	13,500	28,000		11,000	13,500	28,000

Working (w-1) calculation of interest on drawings

Drawings = Rs3000

Period = $\frac{1}{2}$ year

Rate of interest = 10%

Interest on drawings $\frac{3000 \times 10}{100} \times \frac{1}{2} = \text{Rs}150/-$ **Explanatory Note:**

If the dates on which amounts are withdrawn are not given, the interest on the whole of the amount will be charged for six months on the assumption that amounts were withdrawn evenly throughout the year.

Illustration No. 7

Mr. Akbar, Ali and Ahmed formed a partnership on 1st January 2017, contributing Rs. 50,000, 70,000 and Rs. 100,000 respectively. They share profit and loss in the ratio of 5:7:10. During the year 2017, they earned profit of Rs. 49,000. They however omitted the following matters:

- (i) Interest on capital was not provided, rate being 10%.
- (ii) Salary of Mr. Ali amounting to Rs. 5,000 was not paid.
- (iii) Reserve at the rate of 5% was to be provided at the figure of net profit after all the adjustments.
- (iv) Drawings were Akbar Rs. 6,000, Ali 8,000 and Ahmed 10,000.

Required:

- (1) Profit and loss Appropriation a/c
- (2) Show, the Capital accounts of the partners if capitals are fluctuating.

Solution:

Profit & Loss Appropriation A/c
As the Period Ended on 31st December, 2017.

Description	Amount	Description	Amount
<u>Interest on capital</u>		Profit	49,000
Akber's Capital 5000			
Ali's Capital 7000			
Ahmed's Capital <u>10,000</u>	22,000		
Ali's Salary 5000			
Reserve Fund 1100			
<u>Profit (5 : 7 : 10)</u>			
Akber 4750			
Ali 6650			
Ahmed <u>7500</u>	20900		
	49,000		49,000

CAPITAL ACCOUNTS (When Capitals are Fluctuating)

Description	Akbar	Ali	Ahmed	Description	Akbar	Ali	Ahmed
Cash (Drawings)	6,000	8,000	10,000	Cash	50,000	70,000	100,000
				Interest on capital	5,000	7,000	10,000
				Salary		5,000	
				Profit & Loss			
Balance c/d	53,750	80,650	109,500	Appreciate A/c	4,750	6,650	9,500
	59,750	88,650	119,500		59,750	88,650	119,500

Illustration No. 8

M/s A and B are partners sharing profit and loss in the ratio of 1:2. Their capital were Rs. 40,000 and Rs. 60,000 respectively. Interest on capital was to be provided at the rate of 10%. The profit of the year amounting to Rs.15,000 was distributed among the partners in their agreed ratio. The interest on capital was omitted to be credited before distribution of profit. Capital was to be kept fixed. Rectify this error by Journal entry and show the change in the partner's current account after adjustment.

Solution:

Distribution of Profit before charging interest on capital

$$\text{Total Profit} = 15,000$$

$$\text{Profit ratio} = 1:2 \text{ or } \frac{1}{3} : \frac{2}{3}$$

$$\text{A's share} = 15000 \times \frac{1}{3} = \text{Rs. 5,000}$$

$$\text{B's share} = 15000 \times \frac{2}{3} = \text{Rs. 10,000}$$

Distribution of Profit after charging interest on Capital

$$\text{Interest on capital - A} = 40000 \times \frac{10}{100} = \text{Rs. 4,000}$$

$$\text{Interest on capital - B} = 60000 \times \frac{10}{100} = \text{Rs. 6,000}$$

$$\text{Profit after interest on capital} = 15000 - (4000 + 6000) = \text{Rs. 5,000}$$

$$\text{A's Share} = 5000 \times \frac{1}{3} = \text{Rs. 1666.67}$$

$$\text{B's Share} = 5000 \times \frac{2}{3} = \text{Rs. 3333.33}$$

$$\text{A's total receipt} = 4,000 + 1666.67 = 5666.67$$

$$\text{B's total receipt} = 6,000 + 3333.33 = 9333.33$$

Partners	Received	To be received	Difference
A	5,000	5,666.67	+ 666.67
B	10,000	9,333.33	- 666.67

To adjust division of profit:

A will be given a credit of = Rs. 666.67

B will be debited with = Rs. 666.67

Journal entry will be passed as under:

B's current account	Rs. 666.67 Dr.
A's current account	Rs. 666.67 Cr

PARTNERS' CURRENT ACCOUNT

Date	Description	A	B	Date	Description	A	B
	A's Current	—	666.67		B's Current	666.67	—
			666.67			666.67	

Illustration No. 9

A and B formed a partnership on 1st January 2017, by introducing capital Rs. 20,000 and Rs. 10,000 respectively. Capitals are to be kept on fluctuating basis. Interest at the rate of 10% is to be provided on capital at the end of each year. They share profit and loss in the ratio 1:2 during 2017. The profit before providing interest were Rs.12,000, profit was distributed before charging interest on capital. A and B's drawing was Rs. 5,000, Rs. 2,000. Adjust the partners account for.

Solution:

Distribution of profit of 2017 before charging interest			Distribution of profit of 2017 after charging interest	
Profit (1:2)			Interest on A's capital	2,000
A's share 1/3	4000		Interest on B's capital	1,000
B's share 2/3	8000	12000	Adjusted profit (12000-3000)=9000	
			A's share in profit 1/3	3,000
			B's share in profit 2/3	6,000
			A's Total receipt	
			Interest 2000+Profit 3000	5,000
			B's total Receipt	
			Interest 1000 + Profit 6000	7,000

Capitals Position at the end of 2017

	A	B
Balance on 1 st Dec. 2017	20,000	10,000
+ Distribution of profit i.e., 12,000	<u>4,000</u>	<u>8,000</u>
	24,000	18,000
Adjustment of profit	<u>+ 1,000</u>	<u>- 1,000</u>
	25,000	17,000
Less drawings	<u>5,000</u>	<u>2,000</u>
Capital as on 31-12-2004	<u>20,000</u>	<u>15,000</u>

Illustration No. 10

Mr. Ali and Mr. Akbar formed a partnership by investing Rs. 15,000 and Rs. 20,000 respectively. Mr. Ali, who works as manager draws Rs. 500/- p.m. as his salary. After the closing of the books, the firm's profit was Rs. 25,000. There was no partnership deed. As Mr. Akbar served as a manager in another firm so there was dispute in the distribution of profit.

Required: Prepare the adjusted Profit and Loss Profit and loss appropriation account and partner's capital accounts.

Solution:

Profit and loss Appropriation account

Date	Description	Amount	Date	Description	Amount
Dec. 31	Profit transferred to:		Dec. 31	Balance	25,000
	Ali's Capital	15,500		Ali's salary(500×12)	6,000
	Akbar's Capital	15,500			
		<u>31,000</u>			<u>31,000</u>

CAPITAL ACCOUNTS

Date	Description	Ali	Akbar	Date	Description	Ali	Akbar
Dec. 31	Salary	6,000		Dec. 31	Balance	15,000	20,000
	Balance	<u>24,500</u>	<u>35,500</u>		Profit and loss		
					Appropriation	<u>5,500</u>	<u>15,500</u>
		<u>30,500</u>	<u>35,500</u>		Account	<u>30,500</u>	<u>35,500</u>

Explanatory Note: In the absence of partnership deed salary is not allowed to any partner.

Illustration No. 11

A presents the following profit and loss appropriation account to his partner M.

Profit and Loss Appropriation Account

Description	Amount	Description	Amount
Salary to A	10,000	Profit	29,400
Salary to M	7,000		
Interest on capital @ 6%			
A $\left(50,000 \times \frac{6}{100} \right)$	3,000		

M	$\left(20,000 \times \frac{6}{100}\right)$	1,200		
Interest on A's loan @ 6%		1,200		
Share of Profit	A 5/7	5,000		
	M 2/7	2,000		
		29,400		29,400

There is no Partnership Agreement. M feels that he has not been treated fairly.

Required: Point out whether A has contravened the provisions of Law and draw out new Profit and Loss Appropriation Account on proper lines.

Solution:

Adjustment Profit and Loss Appropriation Account

Description	Amount	Description	Amount
Interest on A's Loan @ 6%	1,200	Profit earned	29,400
Share of profit			
A = $29,400 \times \frac{1}{2}$	14,100		
M = $29,400 \times \frac{1}{2}$	<u>14,100</u>		
	29,400		29,400

Explanatory Note:

In the absence of Partnership Agreement:

- No salary is allowed to partners.
- No interest on partners capitals is allowed.
- Profit of the firm is distributed equally between the partners.

But in the question salary is allowed to partners. Interest on partners' capital has also been allowed and the profit of the firm has been distributed in the ratio of 5/7 and 2/7. All these points prove that A has contravened the provisions of Law.

Illustration No. 12

Mr. Aslam, Akbar and Azhar are partners in a partnership business, contributing Rs. 40,000, Rs. 50,000 and Rs. 50,000

- Mr. Aslam is entitled to salary Rs. 3,000 per year.
- Interest of 10% is to be provided on capital of each partner.
- Akbar is entitled commission 10% of any surplus after (i) (ii) (iii)
- Remaining profit is to be distributed as 4:3:1. Profit before all the adjustment amounts to Rs. 61,000.

Required:

Prepare profit & Loss Appropriation A/c and capital accounts of the partners.

Solution:

Profit and Loss appropriation account

Description	Amount	Description	Amount
Aslam's Salary	3000	Net Profit	61000
<u>Interest on Capital</u>			
Aslam Capital	4000		
Akber Capital	5000		
Azhar Capital	5000		
	14,000		
Akber Commission	4000		
Profit (4 : 3 : 1)			
Aslam capital	20,000		
Akber Capital	15000		
Azhar Capital	5000		
	40,000		
	61,000		61,000

CAPITAL ACCOUNT

Description	Aslam	Akbar	Azhar	Description	Aslam	Akbar	Azhar
Balance				Cash	40,000	50,000	50,000
				Salary	3,000		
				Interest on Capital	4,000	5,000	5,000
				Commission		4,000	
				Profit & Loss App. A/c	20,000	15,000	5,000
Balance c/d	67,000	71,000	60,000		67,000	74,000	60,000
	67,000	74,000	60,000				

Working (w-1)

Calculation of Commission:

Formula:
$$\frac{\text{Net Profit before charging commission} \times \text{Rate of Commission}}{100 + \text{Rate of Commission}}$$

Net profit charging commission = Rs.4400

Rate of commission = 10%

Commission = $\frac{44,000 \times 10}{110}$

= **Rs.4000**

Illustration No. 13

Balances of capital of M/s Z and M on 1st Jan 2017 are Rs. 80,000 and Rs. 50,000 respectively. The partnership deed provides the following:

- Interest to be charged on capital 10% and on drawings 8% per annum.
- Mr. Z is entitled for a salary of Rs. 1,000/- per month. Each partner withdrew Rs. 400/- per month on first of each month.

Mr. Z withdrew salary for 6 month i.e. Rs. 6,000 and this was charged to income summary.

Profit for the year before charging interest on drawing in the ratio of and capital and unpaid salary amounts to Rs. 43,997. They share income and expenses in the ratio of 2:1.

Required: Prepare capital accounts in tabular form.

Solution:

M/s Z and M

Profit and Loss appropriation account

For the period ended on 31st December 2017

Description	Amount	Description	Amount
Interest on Capital		Profit	43997
Z Capital 8000	13,000	Interest on Drawing	
M Capital 5000	6000	Z Capital 208	
Salaries Z		M Capital 208	416
Profit			
Z capital 16942			
M Capital 8471	25413		
	44413		44413

PARTNERS CAPITAL ACCOUNTS (When Capitals are Fluctuating)

Description	Z	M	Description	Z	M
Interest on drawings (10-1)	208	208	Cash	80,000	50,000
Cash			Interest on capital	8,000	5,000
(drawings Rs.400×12)	4,800	4,800	Salary	6,000	
Balance c/d			Profit and loss Appropriation a/c	16,942	8,471
	105,934	59,463		110,942	63,471
	110,942	63,471			

Working (W-1)

Interest on drawing has been calculated as under:

Date	Drawings	Period	Product
Jan-1	400	12	400 × 12 = 4800
Feb-1	400	11	400 × 11 = 4400
Mar-1	400	10	400 × 10 = 4000
April-1	400	9	400 × 09 = 3600
May-1	400	8	400 × 08 = 3200
June-1	400	7	400 × 07 = 2800
July-1	400	6	400 × 06 = 2400
Aug-1	400	5	400 × 05 = 2000
Sep-1	400	4	400 × 04 = 1600
Oct-1	400	3	400 × 03 = 1200
Nov-1	400	2	400 × 02 = 800
Dec-1	400	1	400 × 01 = 400
			= 31,200

Interest on Drawings = $31200 \times \frac{8}{100} \times \frac{1}{12} = \text{Rs. } 208$

Note: If partners withdrew cash for personal use at the end of each month, then period will stated 11 instead of 12.

It means that Rs. 31,200 has been used for a month. So interest on drawings of each partner will be:

$$\text{Interest on drawings} = \frac{31,200 \times 8 \times 1}{100 \times 12} = \frac{2496}{12} = \text{Rs. 208}$$

2. Capital Ratio: سرمایہ کی نسبت ہے:

Under this system the profit or loss of the business is divided in the ratio of capital. The capital ratio may be of the following type:

- (i) Beginning capital ratio.
- (ii) Ending capital ratio
- (iii) Average capital ratio.

(i) Beginning capital ratio:

When profit or loss is to be divided according to beginning capital ratio, the capital balance on 1st day of the accounting period is taken as a base. If the capital balances of M/s A and B on 1st day of the accounting period is Rs. 30,000 and Rs. 50,000 respectively, the profit or loss will be divided among them in the ratio of 3:5.

(ii) Ending capital ratio:

When profit or loss is to be divided according to ending capital ratio, the capital balance on the last day of the accounting period is taken as a base. If the capital balance of M/s Y and Z on the last day of accounting is Rs. 70,000 and Rs. 30,000 the profit will be divided in the ratio of 7:3. If the capital at the end of a particular period is not given it will be calculated in the following way:

$$\text{Ending capital} = \text{Beginning capital} + \text{Additional investment} - \text{Drawing}$$

Illustration No. 14

Akbar, Babar and Chand started business on 1st January, 2018, with Rs. 30,000, Rs. 50,000 and Rs. 60,000 respectively. They made additional investment during the year Rs. 10,000, Rs. 4,000 and Rs. 5,000 respectively. During the year Akbar withdraw Rs. 4,000 and Chand Rs. 2,000. During the year the firm earned a profit of Rs. 21,420. Give the necessary journal entries if profit is distributed:

- (a) Beginning capital ratio.
- (b) Ending capital ratio

Solution:

Beginning Capital Ratio

Description	Akber	Babar	Chand
Capital	30,000	50,000	60,000
Profit ratio	3	5	6
or:	3/14	5/14	6/14

$$\text{Share of Akber} = \frac{3}{14} \times 21,420 = \text{Rs. 4,590}$$

$$\text{Share of Babar} = \frac{5}{14} \times 21,420 = \text{Rs. 7,650}$$

$$\text{Share of Chand} = \frac{6}{14} \times 21,420 = \text{Rs. 9,180}$$

Ending Capital Ratio

	Akber	Baber	Chand
Capital	(30000+10000-4000)	(50000+4000-0)	(60000+5000-2000)
Capital	36,000	54,000	63,000
Profit ratio	4	6	7
or.	4/17	6/17	7/17

$$\text{Share of Akber} = \frac{4}{17} \times 21420 = \text{Rs. } 5,040$$

$$\text{Share of Baber} = \frac{6}{17} \times 21420 = \text{Rs. } 7,560$$

$$\text{Share of Chand} = \frac{7}{17} \times 21420 = \text{Rs. } 8,820$$

Case (a) General Journal

Date	Description	PR	Dr	Cr
	Profit & Loss appropriation a/c		21,420	
	Capital – Akber			4,590
	Capital – Baber			7,650
	Capital – Chand			9,180
	(Profit distributed)			

Case (b) General Journal

Date	Description	PR	Dr	Cr
	Profit & Loss appropriation A/c		21,420	
	Capital – Akber			5,040
	Capital – Baber			7,560
	Capital – Chand			8,820
	(Income distributed)			

(iii) Average Capital Ratio

If the profit or loss of the business is to be divided in the ratio of average capital, the average capital is ascertained as under:

- Periodical balance of each partner's capital is ascertained.
- Periodical balance is multiplied by the unchanged period and product is calculated.
- Add the product of each period to get the total product.
- Divide the total product by total period.
- The resulting figure will be the average capital.

Illustration No. 15

Nadim, Saleem, are partners in a business. During the year 2006 they earned a profit of Rs. 25,668. The capital accounts of the partners for the period are given as under:

Capital Nadim

Date	Description	Amount	Date	Description	Amount
2006			2006		
Oct. 1	Drawing	4,000	Jan. 1	Balance	50,000
Dec 31	Balance c/d	52,000	Mar. 1	Cash (investment)	6,000
		<u>56,000</u>			<u>56,000</u>

Capital Saleem

Date	Description	Amount	Date	Description	Amount
2006			2006		
Mar. 1	Drawings	3,000	Jan. 1	Balance	60,000
Jul. 1	Drawings	3,000	May. 1	Cash (investment)	6,000
Dec. 31	Balance	60,000			<u>66,000</u>
		<u>66,000</u>			

Capital Kalim

Date	Description	Amount	Date	Description	Amount
2006			2006		
Nov. 1	Drawing	2,000	Jan. 1	Balance	70,000
Dec. 31	Balance	72,000	Jun. 1	Cash (investment)	4,000
		<u>74,000</u>			<u>74,000</u>

Required: Calculate the share of profit of each partner and pass the necessary journal entry under:
Average capital ratio.

Solution:

I- Average Capital of Nadim

Date	Capital Balance	Number of month the capital remained unchanged	Product
2006			
Jan. 1	50,000	2	$50,000 \times 2 = 100,000$
March 1	56,000	7	$56,000 \times 7 = 392,000$
Oct. 1	52,000	3	$52,000 \times 3 = 156,000$
		<u>12</u>	<u>6,48,000</u>
Average capital = $\frac{6,48,000}{12} = 54,000$			

II. Average Capital of Saleem

Date	Capital Balance	Number of month the capital remained unchanged	Product
2006			
Jan. 1	60,000	2	$60,000 \times 2 = 120,000$
Mar. 1	57,000	2	$57,000 \times 2 = 114,000$
May. 1	63,000	2	$63,000 \times 2 = 126,000$
Jul. 1	60,000	6	$60,000 \times 6 = 360,000$
		<u>12</u>	<u>7,20,000</u>
Average capital = $\frac{7,20,000}{12} = 60,000$			

(iii) Average Capital of Kalim

Date	Capital Balance	Number of month the capital remained unchanged	Product
2006			
Jan. 1	70,000	5	$70,000 \times 5 = 350,000$
Jun. 1	74,000	5	$74,000 \times 5 = 370,000$
Nov. 1	72,000	2	$72,000 \times 2 = 144,000$
		<u>12</u>	<u>8,64,000</u>
Average capital = $8,64,000 \div 12 = 72,000$			

	Nadim	Saleem	Kalim
Average capital	54,000	60,000	72,000
Profit ratio	9	10	12
OR::	9/31	10/31	12/31

$$\text{Share of Nadim} = \frac{9}{31} \times 25668 = \text{Rs. } 7,452$$

$$\text{Share of Saleem} = \frac{10}{31} \times 25668 = \text{Rs. } 8,280$$

$$\text{Share of Kalim} = \frac{12}{31} \times 25668 = \text{Rs. } 9,936$$

Date	Description	PR	Dr	Cr
2006				
Dec. 31	Profit & Loss Appropriation. A/c		25,668	
	Capital – Nadim			7,452
	Capital – Saleem			8,280
	Capital – Kalim			9,936
	(Income distributed)			

Illustration No. 16

Black and White formed a partnership with investments of Rs. 60,000 and Rs. 90,000 on 1st January 2017. On 1st April White made additional investment of Rs. 19,500 and withdrew for his personal expenses Rs. 4,500 on 1st June, 2006. Black withdrew Rs. 2,250 on 1st March and made additional investment of Rs. 8,750 on 1st July, 2006.

Determine their participation in net income of Rs. 54,943 and make necessary journal entries under each of the following assumptions:

1. No agreement regarding division of income.
2. Profit loss is to be divided in the ratio of their original investment.
3. Profit loss is to be divided in the ending capital ratio.
4. Income is to be divided in the average capital ratio.
5. Assuming that the firm had a net loss of Rs. 55,000. Salary allowed to Black Rs. 6,000 and White Rs. 9,000, balance of loss suffered in the ratio of 30% and 70%.

General Journal

Solution:

Case - 1

Case	Description	PR	Dr	Cr
Case 1	Profit loss appropriation a/c. Capital – Black Capital – White (Profit distributed equally)		54,943	27,472.50 27,472.50

Case - 2

Case 2	Profit and loss appropriation a/c Capital – Black Capital – White (Profit distributed in the ratio of original investment)		54,943	21,977.20 32,965.80
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Case 3. Ending Capital Ratio:

Black = 60,000 – 2250 + 8750 = 66,500

White = 90,000 + 19,500 – 45,000 = 1,05,000

Profit Ratio = 66,500 : 105,000

Profit Ratio = 133 : 210 or $\frac{133}{343} : \frac{210}{343}$

Share of Black = $\frac{133}{343} \times 54,943 = \text{Rs. 21,304.43}$

Share of White = $\frac{210}{343} \times 54,943 = \text{Rs. 33,638.57}$

Case	Description	PR	Dr	Cr
	Profit and loss appropriation account Capital – Black Capital – White (Profit distributed in the ending capital ratio)		54,943	21,304.43 33,638.57

Case 4. Average Capital of Black

Date	Capital Balance	Number of month the capital remained unchanged	Product
<u>2006</u>			
Jan. 1	60,000	2	60,000 × 2 = 120,000
Mar. 1	57,750	4	57,750 × 4 = 231,000
Jul. 1	66,500	6	66,500 × 6 = 399,000
		<u>12</u>	<u>7,50,000</u>
Average capital = 7,50,000 ÷ 12 = 62,500			

Average Capital of White

Date	Capital Balance	Number of month the capital remained unchanged	Product
<u>2006</u>			

Jan. 1	90,000	3	$90,000 \times 3 = 270,000$
Apr. 1	109,500	2	$109,500 \times 2 = 219,000$
Jun. 1	105,000	7	$105,000 \times 7 = 735,000$
	Total	12	1,224,000

Average capital = $12,24,000 \div 12 = 102,000$

Average capital ratio = $62,500 : 102,000$

Average capital ratio = $125 : 204$

Profit Ratio = $\frac{125}{329} : \frac{204}{329}$

Share of Black = $\frac{125}{329} \times 54,943 = \text{Rs } 20,875$

Share of White = $\frac{204}{329} \times 54,943 = \text{Rs } 34,068$

General Journal

Date	Description	PR	Amount	
			Dr	Cr
Case 5	Profit loss Appropriation Account		54,943	
	Capital – Black			20,875.00
	Capital – White			34,068.00
	(Net Income distributed in the ratio of average capital)			

Case 5 Profit and Loss Appropriation Account

Loss	55,000	Loss	21,000
Salaries		Black Capital	49,000
Black Capital	9,000	White Capital	
White Capital	6,000		
	15,000		
	70,000		70,000

General Journal

2006	Profit loss Appropriation Account		55,000	
Dec. 31	Capital – Black			12,000
	Capital – White			43,000
	(Loss Distributed)			

Illustration No. 17

A firm K.M.N. having partners Khalid, Majad and Nazir with capital balance of Rs. 25,000, Rs. 40,000 and Rs. 55,000 respectively. They agreed that active partners Majad and Nazir will be entitled salaries Rs. 800 and Rs. 600 per month respectively. 10% interest is allowed on capitals of all the partners. Remaining income divided in the ratio of 2:3:5.

Required: Prepare the statement of income distribution, if:

- (a) (i) Firm earned a profit of Rs. 30,000
(ii) Firm earned a profit of Rs. 28,800

(iii) Firm earned a profit of Rs. 25,000.

(iv) Firm suffered a loss of Rs. 15,000

(b) Make necessary journal entries in each of the above cases separately.

Solution:

Req.a-i

K. M. N & Co
Profit and Loss Appropriation Account
At the end of the year

Description	Amount	Description	Amount
Salaries		Profit	30,000
Majad Capital 9600			
Nazir Capital <u>7200</u>	16,800		
Intrest on Capital			
Khalid Capital 2500			
Majad Capital 4000			
Nazir Capital <u>5500</u>	12,000		
Profit			
Khalid Capital 240			
Majad Capital 360			
Nazir Capital <u>600</u>	1200		
	30,000		30,000

Req.a-ii

K. M. N & Co
Profit and Loss Appropriation Account
At the end of the year

Description	Amount	Description	Amount
Salaries		Profit	28,800
Majad Capital 9600			
Nazir Capital <u>7200</u>	16,800		
Intrest on Capital			
Khalid Capital 2500			
Majad Capital 4000			
Nazir Capital <u>5500</u>	12,000		
	28,800		28,800

Req.a-iii

K. M. N & Co
Profit and Loss Appropriation Account
At the end of the year

Description	Amount	Description	Amount
Salaries		Profit	25000
Majad Capital 9600		Loss	
Nazir Capital <u>7200</u>	16,800	Khalid Capital 760	
Intrest on Capital		Majad Capital <u>1140</u>	
Khalid Capital 2500		Nazir Capital <u>1900</u>	3800
Majad Capital 4000			
Nazir Capital <u>5500</u>	12,000		
	28,800		28,800

Req. a-iv

K. M. N and Co
Profit and Loss Appropriation Account
At the end of the year

Description	Amount	Description	Amount
Loss	15,000	Loss	
Salaries		Khalid Capital	8760
Majad Capital	9600	Majad Capital	<u>13140</u>
Nazir Capital	<u>7200</u>	Nazir Capital	<u>21900</u>
Interest on Capital			43,800
Khalid Capital	2500		
Majad Capital	4000		
Nazir Capital	<u>5500</u>		
	12,000		
	<u>43800</u>		<u>43800</u>

Req. b

General Journal

Date	Description	PR.	Amount	
			Dr.	Cr.
(i)	Profit loss appropriation account		16,800	
	Capital – Majad			9,600
	Capital – Nazir			7,200
	(Allowed salaries to partners)			
	Profit loss appropriation account		12,000	
	Capital – Khalid			2,500
	Capital – Majad			4,000
	Capital – Nazir			5,500
	(Allowed interest on partners)			
	Profit loss appropriation account		1,200	
	Capital – Khalid			240
	Capital – Majad			360
	Capital – Nazir			600
	(Profit distributed in the ratio of 2:3:5)			
(ii)	Profit loss appropriation account		16,800	
	Capital – Majad			9,600
	Capital – Nazir			7,200
	(Allowed salaries to partners)			
	Profit loss appropriation account		12,000	
	Capital – Khalid			2,500
	Capital – Majad			4,000
	Capital – Nazir			5,500
	(Allowed interest on partners)			
(iii)	Profit loss appropriation account		16,800	
	Capital – Majad			9,600
	Capital – Nazir			7,200
	(Allowed salaries to partners)			
	Profit loss appropriation account		12,000	

(iv)	Capital – Khalid		2,500
	Capital – Majad		4,000
	Capital – Nazir		5,500
	(Allowed interest on partners)		
	Capital – Khalid	760	
	Capital – Majad	1,140	
	Capital – Nazir	1,900	
	Profit loss appropriation account (Loss distributed)		3,800
	Profit loss appropriation account	16,800	
	Capital – Majad		9,600
	Capital – Nazir		7,200
	(Allowed salaries to partners)		
	Profit loss appropriation account	12,000	
	Capital – Khalid		2,500
	Capital – Majad		4,000
	Capital – Nazir		5,500
	(Allowed interest on partners)		
	Capital – Khalid	8,760	
	Capital – Majad	13,140	
	Capital – Nazir	21,900	
	Profit loss appropriation account (Loss distributed)		43,800

MULTIPLE CHOICE QUESTIONS

Encircle the Correct Answer.

1. **Partnership is formed by the partners by:**
(a) Written agreement (b) Oral agreement
(c) Written or oral agreement (d) None of above
2. **Investment in the partnership is made by introducing:**
(a) Cash (b) Non-cash assets
(c) Cash or non-cash assets (d) None of above
3. **Capital of the partners are maintained:**
(a) Fixed capital method (b) Fluctuating capital method
(c) By fixed or fluctuating capital method
(d) None of above
4. **Drawings of the partners are:**
(a) Debited to income summary
(b) Credited to income summary
(c) Debited to capital account
(d) Credited to partner's current account
5. **A partner who invests in the business, but does not take part in the conduct of the business is:**
(a) Secret partner (b) Sleeping partner
(c) Active partner (d) Nominal partner
6. **Investment by a partner in form of non-cash is recorded in the books:**
(a) At the market value
(b) At value purchased by the investing partner
(c) At an agreed value between partners
(d) At the depreciated value.
7. **In case of fixed nature of capital profit/gain will be credited to:**
(a) Capital account (b) Partner's drawing
(c) Partner's current account (d) None of above
8. **Under fluctuating nature of capital drawings of partners are debited to:**
(a) Capital account (b) Partner's current account
(c) Drawings account (d) None of above

9. **Balance in the partner's current account increases capital if it shows:**
(a) Credit balance (b) Debited balance
(c) Both a and b (d) None of above
10. **Additional capital introduced by a partner:**
(a) Decreases his drawings (b) Increases his investment
(c) Increases his drawings (d) Decreases capital a/c.
11. **partnership is formed under the Partnership Act:**
(a) 1948 (b) 1932
(c) 1925 (d) 1916
12. **Registration of the firm is:**
(a) Compulsory (b) Optional
(c) Depends on the will of the partners
(d) Depends upon the will of the employee
13. **Maximum number of partners in case of ordinary partnership is:**
(a) Twenty (b) Ten
(c) Thirty (d) Forty
14. **In case of banking business, the number of partners must not exceed**
(a) Ten (b) Twenty
(c) Twenty-five (d) Fifty
15. **The persons who have entered in partnership are collectively called:**
(a) Agents (b) Partners
(c) A firm (d) Promoters
16. **A partner, who has not attained the age of Maturity is called**
(a) Junior partner (b) Minor partner
(c) Nominal partner (d) Quasi partner
17. **A partner who have a major investment in the firm and receives a relatively more profit is called**
(a) Sleeping partner (b) Active partner
(c) Quasi partner (d) Senior partner
18. **If some property is owned jointly without any attention to carry on a business it is called**
(a) Partnership (b) Co-ownership
(c) Sole ownership (d) Agency

19. The minimum limit of partners in partnership is:
 (a) Two (b) Five
 (c) Ten (d) Twelve
20. The person who have entered into partnership are individually called
 (a) Agents (b) Partners
 (c) A firm (d) Vendor
21. In the absence of an agreement, interest on loan advanced by the partner to the firm is allowed at the rate of
 (a) 5 percent (b) 6 percent
 (c) 8 percent (d) 9 percent
22. In the absence of an partnership agreement the profit and losses are divided by the partners in the ratio of:
 (a) Capitals (b) Profit and loss ratios
 (c) Time devoted by each partner
 (d) Equally

ANSWERS

(c) 1.	(c) 2.	(c) 3.	(c) 4.	(b) 5.	(c) 6.	(c) 7.
(a) 8.	(a) 9.	(b) 10.	(b) 11.	(b) 12.	(a) 13.	(a) 14.
(c) 15.	(b) 16.	(d) 17.	(b) 18.	(a) 19.	(b) 20.	(b) 21.
(d) 22.						

QUESTIONS WITH SHORT ANSWERS

Write short answers to the following questions:

Q. 1. Define partnership.

Ans. According to Partnership Act 1932 Section 4 "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 is called partnership.

شرکتی ایکٹ 1932 سیکشن 4 کے مطابق: شرکتی کاروبار ان لوگوں کے درمیان تعلق کا نام ہے جو کاروبار میں منافع کی تقسیم کے لیے رضامند ہوں۔ جسے سب مل کر یا کوئی ایک سب کے نمائندے کی حیثیت سے چلاتا ہے۔

Q. 2. Write any four essential elements or characteristics of partnership.

Ans. (i) There must be at least two persons.

شرکتی کاروبار میں کم سے کم دو افراد ہونے چاہیے۔

(ii) There must be an agreement between/among the partners written or oral.

اس میں حصہ داروں کے درمیان تحریری یا زبانی معاہدہ ہونا چاہیے۔

(iii) It is created to run lawful business.

یہ قانونی کاروبار کرنے کے لیے بنائی جاتی ہے۔

(iv) The business is assumed to earn profit.

یہ کاروبار منافع کمانے کی غرض سے کیا جاتا ہے۔

Q. 3. Write any four advantages of partnership.

Ans. Following are the four important advantages of partnership:

شرکت کے درج ذیل چار فوائد ہیں:

(i) It is an easy to form. اس کی تشکیل آسان ہے۔

(ii) It has large capital as compare to sole proprietorship.

اس میں سرمایہ واحد ملکیتی کاروبار کے مقابلہ میں زیادہ ہوتا ہے۔

(iii) It has tax advantages اس سے ٹیکس میں فوائد حاصل ہوتے ہیں۔

(iv) It can easily be dissolved یہ آسانی سے ختم کی جاسکتی ہے۔

Q. 4. Who is active partner?

Ans. Partner who takes active part in the conduct of business is known as active partner.

حصہ دار جو کاروبار کو چلانے میں عملی طور پر زیادہ حصہ لیتا ہے۔ کارکن حصہ دار کہلاتا ہے۔

Q. 5: Who is sleeping partner?

Ans. A partner who does not take active part in the conduct of business but make investment in the partnership business is known as sleeping partner.

وہ حصہ دار جو کاروبار میں عملی طور پر حصہ نہیں لیتا لیکن سرمایہ لگاتا ہے۔ غیر کارکن حصہ دار کہلاتا ہے۔

Q. 6: Who is nominal partner?

Ans. One who neither contributes any capital nor takes any active part in the management, but allows firm to use his name is known as nominal partner.

یہ وہ حصہ دار ہے۔ جو نہ تو سرمایہ لگاتا ہے اور نہ ہی کاروبار میں عملی طور پر حصہ لیتا ہے۔ بلکہ کاروبار کو اپنا نام استعمال کرنے کی اجازت دیتا ہے۔ نامی حصہ دار کہلاتا ہے۔ نفع اور نقصانات میں شریک ہوگا۔

Q. 7: Explain partnership deed.

Ans. It is the most important document of the partnership which contains all the terms and conditions relating to the internal management of the business.

یہ کاروبار کی سب سے اہم دستاویز ہے۔ جس میں تمام قواعد و ضوابط اور ضروری شرائط جو شرابی کاروبار کے اندرونی معاملات کو چلانے کے لیے ضروری ہوتی ہیں۔ درج کی جاتی ہے۔

Q. 8: Write down any two rules applicable in absence of partnership deed.

Ans. In the absence of written agreement, following rules will be applicable:

(i) Gains/Losses of the firm will be distributed equally among the partners.

نفع و نقصان برابری بنیاد پر حصہ داروں میں تقسیم ہوگا۔

(ii) No salary will be paid to partners for performing duties in the firm.

فہم میں کام کرنے کے بدلے میں حصہ دار کو کوئی تنخواہ نہیں دی جائے گی۔

Q. 9: Who is silent partner?

Ans. Silent partner is one who is known to the public as partner and does not participate in the management and conduct of the business.

یہ وہ حصہ دار ہے جو کاروبار میں عملی طور پر حصہ نہیں لیتا۔ بلکہ لوگوں کی نظر میں کاروبار کا حصہ دار ہوتا ہے۔ خاموش حصہ دار کہلاتا ہے۔

Q. 10: Define secret partner.

Ans. Secret partner is one who takes active part in the conduct and management of the business and is not known to public as a partner.

یہ وہ حصہ دار ہے جو کاروبار میں عملی طور پر حصہ لیتا ہے۔ لیکن عوام کی نظر میں حصہ دار نہیں ہوتا۔ پوشیدہ حصہ دار کہلاتا ہے۔

Q. 11: Who is Minor partner?

Ans. A partner who has not attained at the age of maturity is called minor partner. He shares profits of the business and not the losses.

وہ حصہ دار جس کی عمر اٹھارہ سال سے کم ہو۔ تاہم حصہ دار کہلاتا ہے۔ وہ منافع میں شریک ہوتا ہے لیکن نقصان کی ذمہ داری اس پر نہیں ڈالی جاتی۔

Q. 12. Describe the methods of maintaining capital account in partnership business.

Ans. Following are two methods of maintaining capital account in partnership business.

شرکت میں سرمایہ کے حسابات رکھنے کے مندرجہ ذیل دو طریقہ کار ہیں۔

- (i) Fixed capital method مستقل سرمایہ کا طریقہ
- (ii) Fluctuating capital method متغیر سرمایہ کا طریقہ

Q. 13. What is meant by fixed capital method?

Ans. In this method, no adjustment is made in the capital accounts. All adjustments are made in the partner's current account. Original amount of capital invested by the partners remains the same.

اس طریقہ کار میں حصہ داروں کے سرمایہ میں کوئی تبدیلی نہیں کی جاتی۔ تمام تبدیلیاں حصہ داروں کے کرنٹ اکاؤنٹ میں درج کی جاتی ہیں۔ سرمایہ ہمیشہ مستقل رکھا جاتا ہے۔

Q. 14. What is meant by fluctuating capital method?

Ans. When all adjustments are made in capital account and every year the balance of capital of partner is changes this is called fluctuating capital method.

جب تمام تبدیلیاں سرمایہ کے اکاؤنٹ میں لکھی جائیں اور ہر سال سرمایہ کی رقم تبدیل ہو جائے تو اسے متغیر سرمایہ کا طریقہ کہا جاتا ہے۔

Q. 15. Who is senior partner?

Ans. A partner who has large capital in the business and has considerable experience is called senior partners. He has larger share in profits and loss.

وہ حصہ دار جس نے کاروبار میں دوسرے حصہ داروں کی نسبت زیادہ سرمایہ لگا رکھا ہو۔ زیادہ کاروباری تجربہ رکھتا ہو۔ اور منافع و نقصان کا تناسب سب سے زیادہ ہو۔

Q. 16. Who is junior partner?

Ans. A partner who has smaller capital in the business and who is newly included in the business is called junior partner. He has smaller share in profit of business.

وہ حصہ دار جس نے کاروبار میں دوسرے حصہ دار کی نسبت کم سرمایہ لگایا ہو۔ جس کا کاروباری مجرہ بھی کم ہو۔ اور نفع و نقصان کا تناسب بھی کم ہو۔ جو نیز حصہ دار کہلاتا ہے۔

Q. 17. Define the quasi partner?

Ans. A person who has retired from the business but has not withdrawn his capital from the business is called quasi partner.

وہ حصہ دار جو فرم کے انکوائی امور سے سکروٹل ہو گیا ہو لیکن اپنا سرمایہ کاروبار سے نہ نکلوا یا ہو۔ وہ قیاسی حصہ دار کہلاتا ہے۔ اس کا سرمایہ فرم کے لیے قرض سمجھا جاتا ہے۔ اور اس پر سود بھی ادا کیا جاتا ہے۔

Q. 18. Write three duties of partner in partnership firm?

- Ans.** (i) Partner should be faithful and honest. حصہ دار کو ایماندار اور سچا ہونا چاہیے۔
(ii) He should keep secrecy of his business. حصہ دار کو کاروبار کے راز پر خفیہ رکھنے چاہیے۔
(iii) He should not join the competing business. مقابلے کا کاروبار شروع نہیں کرنا چاہیے۔

Q. 19. What do you mean by capital ratio?

Ans. If profit or loss of partnership business is divided among the partners in the ratio of capital, it is known as capital ratio.

اگر کاروبار کا نفع و نقصان حصہ داروں کے سرمایہ کے مطابق تقسیم کیا جائے تو یہ سرمایہ کی تناسب کہلاتا ہے۔

Q. 20. How many types of a capital ratio are?

Ans. The capital ratio may be of the following types:

- (i) Beginning capital ratio ابتدائی سرمایہ کا تناسب
(ii) Ending capital ratio اختتامی سرمایہ کا تناسب
(iii) Average capital ratio اوسط سرمایہ کا تناسب

Q. 21. What is beginning capital ratio?

Ans. When profit or loss is divided among the partners according to the capital balance on 1st day of the accounting period, it is known as beginning capital ratio.

جب کاروبار کا نفع و نقصان حصہ داروں کے دو میان ابتدائی سرمایہ کے مطابق تقسیم کیا جائے۔ تو یہ ابتدائی سرمایہ کا تناسب کہلاتا ہے۔

Q. 22. What is ending capital ratio?

Ans. When profit or loss is to be divided according to the capital balance on the last day of the accounting period, it is known as ending capital ratio.

جب کاروبار کا نفع و نقصان حصہ داروں کے درمیان اختتامی سرمایہ کی بنیاد پر تقسیم کیا جائے۔ تو یہ اختتامی سرمایہ کا تناسب کہلاتا ہے۔

Q. 23. What is average capital ratio?

Ans. The capital obtained by dividing the total product by total period is called average capital. Average capital may be obtained as under:

اوسط سرمایہ معلوم کرنے کے لیے سرمایہ کی کل پراڈکٹ کو کل عرصہ سے تقسیم کیا جاتا ہے جس کو معلوم کرنے کا طریقہ درج ذیل ہے:

(a) Periodical balance of each partner's capital is ascertained.

ہر حصہ دار کا متعین عرصہ کا ہفتا یا معلوم کیا جائے گا۔

(b) Periodical balance is multiplied by the unchanged period and product is calculated.

اس ہفتا کو اس عرصے کے ساتھ ضرب دی جائے گی جسے عرصے کے لیے یہ سرمایہ استعمال کیا گیا۔

(c) Add the product of each period to get the total product:

ہر عرصے سے حاصل ہونے والے رقم کو جمع کر کے ٹوٹل پراڈکٹ معلوم کی جائے گی۔

(d) Divide the total product by total period.

ٹوٹل پراڈکٹ کو ٹوٹل عرصہ پر تقسیم کر دیا جائے گا۔

(e) The resulting figure will be the average capital.

حاصل ہونے والی رقم اوسط سرمایہ کہلائے گی۔

Q. 24. How many partners are there in case of partnership business?

Ans. Maximum twenty partners in case of any partnership business and ten partners in a banking business and minimum two.

شرکتی کاروبار میں زیادہ سے زیادہ 20 ہیں اور کم سے کم دو حصہ دار ہوتے ہیں۔ اگر بنکاری کاروبار ہے تو زیادہ سے زیادہ دس اور کم سے کم دو حصہ دار ہوتے ہیں۔

Q. 25. What will be journal entry when the capital are introduced by partners in partnership?

Ans. Cash a/c.

Partner's capital a/c.

(Capital introduced by the partner)

Q. 26. Pass the journal entry when interest is allowed to the partner:

Ans. Interest on capital a/c.

Partner's current a/c.

(Interest allowed to partners)

Q. 27. What will be the entry when salary or commission is allowed to any partner?

Ans. Profit loss appropriation account

Partner's capital a/c.

(Salaries/Commission allowed to partner).

Q. 28. What will be the entry when provision or reserve for contingency is raised or created?

Ans. Profit & Loss a/c.

Provision/Reserve for contingencies a/c.

(Provision for contingency is created).

Q.29. Write down three rights of a partner in partnership firm.

Ans. (i) The partner has the right to take part in management.

ہر حصہ دار کو کاروباری اقسام میں حصہ لینے کا حق حاصل ہوتا ہے۔

(ii) He has the right to get profit of the business.

وہ اپنے حصہ کا منافع حاصل کرنے کا حق رکھتا ہے۔

(iii) He has the right to inspect the books.

اسے کاروباری کتابوں تک رسائی کا حق حاصل ہوتا ہے۔

Q. 30. What is firm?

Ans. The persons who enter into partnership are collectively called a firm.

Q. 31. Is registration of firm is compulsory by law?

Ans. The registration of firm is not compulsory by law according to Partnership Act 1932.

Q. 32. What is goodwill?

Ans. It is the value of good reputation of an enterprise.

کسی کاروباری ادارے کی اچھی شہرت کا گول کہلاتی ہے۔

Q. 33. Pass the journal entry when any advance or loan is taken from the partner.

Ans. Cash a/c.

Partner's loan a/c.

(Loan taken from the partner.)

Q. 34. Pass the journal entry when any interest on loan or advance is allowed to the partner.

Ans. Interest on loan a/c.

Partner's loan a/c.

(Interest on loan allowed to the partner.)

Q. 35. What will be the entry when the commission is paid to the manager?

Ans. Manager's commission a/c.

Cash a/c.

(Commission paid to the manager.)

Q. 36. What will be entry for distribution of the profit among the partners?

Ans. Profit and loss a/c.

Partner's capital a/c.

(Profit distributed among the partners ratio.)

Q. 37. Pass the entry for distribution of the loss among the partners:

Ans. Partner's capital a/c.

Profit & Loss a/c.

(Loss distributed among the partners)

Q. 38. How partnership is formed?

Ans. Partnership is formed by written or oral agreement.

تحریری یا لفظی معاہدے سے شراکتی کاروبار شروع کیا جاسکتا ہے۔

Q. 39. Under what act partnership is formed?

Ans. Partnership is formed under Partnership Act 1932. All rules and regulations are mentioned in this act.

شراکتی معاہدہ 1932 کے تحت شراکتی کاروبار قائم کیا جاتا ہے۔

Q. 40. Give the kinds of partnership.

Ans. There are three main kinds of partnership:

شراکا کا دہار کی جن اقسام دست ذیل ہیں:

- (i) General partnership عام شراکت
- (ii) Limited partnership محدود شراکت
- (iii) Partnership at will مرضی کی شراکت

Q. 41. How partners share profit and loss in the absence of partnership deed?

Ans. In the absence of partnership deed partners share profit and loss equally.

شراکا کا دہار کے عدم موجودگی میں نفع و نقصان برابری کی بنیاد پر تقسیم کیا جاتا ہے۔

Q. 42. What will be status of partnership, if there is more than 20 partners?

Ans. If there is more than 20 partners partnership will be illegal.

اگر حصہ داروں کی تعداد بیس سے زیادہ ہو جائے تو شراکتی کاروبار غیر قانونی ہو جاتا ہے۔

Q. 43. How partnership differs to co-ownership.

Ans. Partnership is a business which is carrying on to earn profit while co-ownership is a joint ownership without any intention to earn profit.

شراکا کا دہار نفع کمانے کے لیے کیا جاتا ہے جبکہ مشترکہ ملکیت میں نفع کماتا مقصد نہیں ہوتا۔ مثلاً کسی مکان کی مشترکہ ملکیت۔

Q. 44. What is the difference between secret and silent partner?

Ans. Secret partner is one who takes part in management of partnership and public do not know him as a partner. Silent partner is one who does not take part in the management but is known as a partner of the firm to outsiders.

پوشیدہ حصہ دار کاروبار میں عملی طور پر حصہ لیتا ہے لیکن لوگوں کی نظر میں حصہ دار نہیں ہوتا جبکہ غیر کارکن حصہ دار کاروبار میں عملی طور پر حصہ نہیں لیتا لیکن لوگوں کی نظر میں حصہ دار ہوتا ہے۔

Q. 45. Whether a minor can be a partner?

Ans. Minor can be a partner. He can admitted to the profit of the firm only. He is not liable for any loss.

نا بالغ شراکتی کاروبار کا حصہ دار بن سکتا ہے۔ لیکن یہ صرف نفع میں شریک ہوتا ہے نقصان کی صورت میں ذمہ دار نہیں ہوتا۔

Q. 46. Whether partnership is a legal entity or not?

Ans. Partnership is not a legal entity. Because its registration is not compulsory.

شراکا کا دہار کے لئے چو کہ رجسٹریشن قانونی طور پر ضروری نہیں اس لئے اس کی قانونی حیثیت نہیں ہوتی۔

Q. 47. What is the liability of partners in general partnership?

Ans. Liability of partners in a general partnership is unlimited unless.

عام حالات میں عمومی شراکت میں حصہ داروں کی ذمہ داری غیر محدود ہوتی ہے۔

Q. 48. Whether a partner can be partner without contributing capital?

Ans. Yes, a person can be admitted as a partner without bringing capital i.e. nominal partner,

ہاں نمائشی حصہ دار یا کٹھ حصہ دار شراکتی کاروبار میں سرمایہ لگائے بغیر بھی حصہ دار بن سکتا ہے۔

Q. 49. When fixed capital method is used?

Ans. Fixed capital method is used, when partners do not want to change their capital.

جب حصہ دار اپنا سرمایہ متعین رکھنا چاہیں اور سرمایہ کوئی تبدیلی نہ کرنا چاہتے ہوں۔ تب مستقل سرمایہ کا طریقہ لاگو کیا جائے گا۔

Q. 50. How non-cash investment by partners, is recorded in the books?

Ans. Non-cash investment bringing by partners is debited to investment "at an agreed value" and credited to his capital account.

غیر نقدی سرمایہ کاری کو باہمی رضامندی سے طے شدہ قیمت پر درج کیا جاتا ہے۔

Q. 51. Why current account of partner is opened?

Ans. When partners use fixed capital method. Then current accounts are prepared to record adjustment. i.e. interest on capital, salary etc.

جب حصہ دار مستقل سرمایہ کا طریقہ لاگو کرتے ہیں۔ کرنٹ اکاؤنٹ تیار کیے جاتے ہیں۔ جس کے اندر سال کے دوران ہونے والی تبدیلیاں ریکارڈ کی جاتی ہیں

EXERCISES

No. 1 Salim and Nadim agreed to form a partnership on 1st January 2018. Salim contributed Rs. 50,000 and Nadim Rs. 75,000.

Required:

- (i) Pass Journal entry.
- (ii) Prepare opening balance sheet of the new firm.

Answer: Balance sheet Rs. 1,25,000

No. 2: Halim, Kalim and Wasim agreed to form a partnership on 1st January 2018, For this purpose

- (i) Halim contributed Cash Rs. 64,000 and transferred his land Rs. 1,60,000 and furniture Rs. 5000 to the firm.
- (ii) Kalim contributed Cash Rs. 1,00,000 and machinery Rs. 8000 for the business.
- (iii) Wasim contributed Rs. 1,50,000

Required: (i) Pass Journal entry.
(ii) Prepare opening balance sheet of the new firm.

Answer: Balance sheet Rs. 4,87,000

No. 3: Moon and Star Carrying on separate business agreed to merge their business and to form a partnership on 1st January 2018. Their separate business on that date were as under:

Balance sheet of Moon
As on 1st January 2018

Assets	Amount	Liabilities	Amount
Cash	86,000	Accounts payable	18,000
Accounts receivable 48000		Salaries payable	7,000
Less: Allowance for BD 3000	45,000	Capital – Moon	132,400
Furniture	8,000		
Closing inventory	18,400		
	157,400		157,400

Balance sheet of Star
As on 1st January 2018

Assets	Amount	Liabilities	Amount
Cash	75,000	Accounts payable	19,400
Accounts receivable	30,000	Outstanding rent	11,600
Machinery	45,000	Capital – Star	129,000
Merchandize inventory	10,000		

The partners agreed to take all assets and liabilities at book value.

Required:

- (i) Journal entries
- (ii) Opening balance sheet of new firm.

Answer: Balance sheet Rs. 3,17,400

No. 4: White and Green carrying on separate business agreed to form a partnership on 1st January, 2018. On this date their separate balance sheets were as under:

Balance Sheet of White
As on 1st January 2018

Assets		Amount	Liabilities		Amount
Cash		95,000	Accounts payable		39,600
Accounts receivable	58,600		Outstanding rent		7,400
Less: Allowance for BD	<u>2,600</u>	56,000	Capital		1,67,000
Merchandise inventory		37,800			
Equipment		18,200			
Furniture	8,700				
Less: Depreciation	<u>1,700</u>	<u>7,000</u>			
		<u>2,14,000</u>			<u>2,14,000</u>

Balance sheet of Green
As on 1st January 2018

Assets		Amount	Liabilities		Amount
Cash		78,600	Accounts payable		29,700
Accounts receivable	65,400		Salaries payable		6,800
Less: Allow for bad debt	<u>2,400</u>	63,000	Capital		1,49,100
Machinery	47,000				
Less: Depreciation	<u>3,000</u>	<u>44,000</u>			
		<u>185,600</u>			<u>185,600</u>

Assets and Liabilities of White will be taken as under:

Accounts receivable Rs. 52,000, merchandise inventory Rs. 35,000, furniture Rs. 5000 and accounts payable Rs. 38,000.

Assets and liabilities of Green will be valued as under:

Accounts receivable Rs. 60,000, machinery Rs. 40,000 and salaries payable Rs. 6,500.

- Required:**
- Pass journal entries in the book of new firm.
 - Prepare the opening balance sheet of the firm.

Answer: Balance sheet Rs. 3,83,800

No.5: M/s Aslam and Hamid are doing a partnership business with a capital investment of Rs. 25,000 each. The partnership deed provides that M/s Aslam and Hamid are entitled a monthly salary of Rs. 500 and Rs. 400 respectively. They share profit and loss in equal proportion. Income before charging the partners salary amounts to Rs. 20,000.

Required: Show partner's capital / equity account in fluctuating form and profit and loss appropriation account.

Answer: Aslam's capital Rs. 35,600. Hamid's capital Rs. 34,400.

No.6: A and B formed a partnership on 1st Jan. 2006 with capital investment of Rs. 25,000 and Rs. 30,000 respectively. The partnership deed provides that each partner will be allowed 10% interest on his capital and A is allowed monthly salary of Rs. 500 for his additional duties. Profit is to be divided in the ratio of initial

investment. Drawings amounts to A Rs. 2,000 and B Rs. 1,500. Profit before above adjustment amounts to Rs. 22,500.

Required: Show the Profit loss appropriation account and each partner's capital account under fixed method of capital.

Profit A: Rs. 5,000/-

B: Rs. 6,000/-

Answer: A's current Rs. 11,500, B's current Rs. 7,500.

No.7: Show the profit and loss appropriation account of X, Y, Z, who share profit and loss in the ratio 1:2:3. Also prepare their capital account under fluctuating method with the help of following data:

- (i) Capital Investment by X, Y, Z Rs. 20,000, Rs. 25,000 and Rs. 30,000 respectively.
- (ii) Interest on capital is to be provided at 10% and on drawings at 15% per annum. Calculate fully years interest on capital and drawing.
- (iii) X is to be provided with a salary of Rs. 600 per month. He has drawn eight months salary, while the remaining four months salary has not been charged to income summary account.
- (iv) Profit before charging interest on capital, but after crediting the interest on drawing amounts to Rs. 3,900.
- (v) Drawings amounts to X, Y, Z Rs. 4,000, Rs. 5,000, Rs. 6,000 respectively.

Answer: Loss Rs. 6,000 Capital, X Rs. 18,800, Y Rs. 19,750, Z Rs. 23,100.

No.8: Aslam, Akbar and Alam started a partnership business with a capital investment of Rs. 50,000, Rs. 75,000 and Rs. 1,00,000 respectively. The deed provides that:

- (i) Interest is to be provided @ 15% per annum on capital.
- (ii) Each partner withdraws Rs. 500 at the end of each month, on which interest @ 10% per annum is to be charged.
- (iii) Reserve of 10% is to be provided at the given balance of profit.
- (iv) Income before the above mentioned adjustments amounts to Rs.80,000.
- (v) Income is to be distributed in 3:2:5 ratio. Show each partner's capital account in tabular form.

Required: Proper capital account of the partners.

Answer: Interest on drawings of each partner = Rs. 275.

Aslam Rs. 62,947.50; Akbar Rs. 87,790; Alam Rs. 1,28,262.50.

No.9: A and B formed a partnership firm by capital investment of Rs. 1,00,000 and Rs. 50,000 respectively. They share income and expense equally. Interest at the rate of 10% is to be provided on capital. Income amounting to Rs. 48,000 before providing for interest was distributed among the partners. Afterwards A claimed that distribution of profit is not correct, which B accepted and agreed on the adjustment. Pass the necessary adjusting entry supposing Capitals are to be fixed. Also show the change in current accounts.

Answer: A Rs. + 2,500, B Rs. - 2,500

No.10: X and Y formed a partnership firm on January 1, 2005 by a capital investment of Rs. 25,000 and Rs. 40,000 respectively. Interest at the rate of 10% is to be provided. Capitals are to be kept on fluctuating basis. They share profit and loss in the ratio 2:3. Profit for the years 2005 and 2006 before charging interest on capital was Rs. 10,000 and Rs. 15,000 respectively. Each year profit was distributed among the partners before providing for interest on capital. Adjust the partners capital account for the above two years.

Answer: 2005: X = -100, Y = + 100, 2006 X = - 110, Y = +110

No.11: M/S. Akbar and Ahmad formed a partnership with initial investment of Rs. 15,000 and Rs. 20,000 respectively. Profit for the year comes to Rs. 35,940. Before distribution of profit following adjustments are to be made:

- (i) Interest of 10% on original investment.
- (ii) Akbar is to receive a salary of Rs. 10,000 for additional work done by him.
- (iii) Mr. Akbar is allowed a commission of 10% on the Net profit after all the three adjustments.

Required: Profit and loss appropriate account and Capital accounts of the partners.

Answer: Capital Akbar Rs. 38,740; Capital Ahmed Rs. 32,200. Akbar's commission Rs.2040

No.12: Distribute the profit of Rs. 31,500 between M and N after making the following adjustments:

- (i) M and N are entitled for annual salary of Rs. 5,000 and Rs. 4,000 respectively.
- (ii) Interest on capital Rs. 2,000 and Rs. 4,000 was omitted to be provide for M and N respectively.
- (iii) M was to be provided with 10% commission on net profit after charging his own commission. Remaining profit is to be distributed as such upto Rs. 10,000 equally and above that in the ratio of 3:2 respectively.

Answer: Profit M Rs. 8,000; Profit N Rs. 7,000.

No.13: X and Y started business with initial investment of Rs. 25,000 and Rs. 35,000 respectively. According to partnership deed:

- (a) Salary is allowed to X Rs. 3,000 per annum.
- (b) Interest on the beginning capitals of partners is to be charged @ 12% per annum.
- (c) Remaining profit or loss is to be shared by the partners in the ratio of their capitals at start.

Required: (i) Assuming that the partners maintain current accounts. Prepare profit and loss appropriation account of income which amounted to Rs. 12,000 before given effect to the above terms.

- (ii) Prepare partners capital and current accounts.

Answer: Profit X Rs. 750, Y Rs. 1,050, Current account balance X Rs. 6,750, Y Rs. 5,250.

No.14: M/s A, H and S are partners in a business with investment of Rs. 4000, 5000 and 5000 respectively. The partnership deed provides:

- Mr. A is entitled to a salary of Rs. 300 p.a.
- 10% interest on capital of each partner.s
- H is entitled to a 10% commission on profit remaining after a,b and c itself.
- The balance profit is to be distributed amongst the partners in ratio as 50%, 37.5% and 12.5% respectively. Profit for the year 2006 is Rs. 6,100.

Required: (i) Profit loss appropriation account.
(ii) Capital accounts of partners.

Answer:

Profit A	Rs. 2000	H	Rs. 1500	S	Rs. 500
Capital A		=	Rs. 6,700		
Capital H		=	Rs. 7,400		
Capital S		=	Rs. 6,000		

No.15: A firm K. K. & Co. having partners Khalil and Khurshid, with capital balance of Rs. 15,000 and Rs. 25,000 respectively. Khalil is to devote full time to the business and Khurshid is to devote one half time. During the year 2008, the firm earned a profit of Rs. 15,000. Make necessary journal entries in the following cases:

- Equal division.
- In the ratio of beginning capitals.
- In the ratio of time devoted to the business.
- Interest @ 10% on the capital and the balance in the ratio of 3:2
- Interest @ 10% on the capital of each partner, salaries of Rs. 8,000 to Khalil and Rs. 6,000 to Khurshid and the remaining income or loss 30% and 70%. Respectively.

Answer:

(a)	Profit Khalil	Rs. 7,500	Khurshid	Rs. 7,500
(b)	Profit Khalil	Rs. 5,625	Khurshid	Rs. 9,375
(c)	Profit Khalil	Rs. 10,000	Khurshid	Rs. 5,000
(d)	Profit Khalil	Rs. 6,600	Khurshid	Rs. 4,400
(e)	Loss Khalil	Rs. 900	Khurshid	Rs. 2,100.

No.16: Sky and Star started partnership business with initial investment of Rs. 25,000 and Rs. 15,000 respectively on 1st January 2008. On 1st March, Sky withdrew Rs. 1,500 and made additional investment of Rs. 5,000 on 1st July, 2008. On 1st May, Star made additional investment of Rs. 10,000 and withdrew for his personal use Rs. 4,000 on 1st August, 2008.

Required: Determine their participation in net profit of Rs. 31,920 and make necessary journal entries under each of the following assumptions:

- No agreement regarding distribution of profit.
- Profit is to be divided in the ratio of their original investment.
- Profit is to be divided in the ending capital ratio.

- (iv) Profit is to be divided in the average capital ratio.
(v) Sky is entitled 40% and Star 60%.

Answer:

- (i) Profit Sky Rs. 15,960, Star Rs. 15,960.
(ii) Profit Sky Rs. 19,950, Star Rs. 11,970.
(iii) Profit Sky Rs. 18,378.18, Star Rs. 13,541.82.
(iv) Profit Sky Rs. 18,116.76, Star Rs. 13,803.24.
(v) Profit Sky Rs. 12,768, Star Rs. 19,152.

No.17: Zaid, and Bakar are partners in a business. During the year 2017 the business earned Rs. 22,770. The capital accounts of the partners for the year 2018 are given below:

Capital Zaid

Date	Description	Amount	Date	Description	Amount
2018			2006		
March 1	Drawing	3,000	Jan. 1	Balance	40,000
Dec. 31	Balance	47,000	Apr 1	Cash (investment)	10,000
		<u>50,000</u>			<u>50,000</u>

Capital Bakar

Date	Description	Amount	Date	Description	Amount
2018			2006		
Aug 1	Drawing	5,000	Jan. 1	Balance	59,000
Dec. 31	Balance	65,000	Feb. 1	Cash (investment)	11,000
		<u>70,000</u>			<u>70,000</u>

Required: Distribute the profit of the firm and pass necessary journal entries as under:

- (a) Beginning capital ratio.
(b) Average capital ratio.
(c) Ending capital ratio.

Answer:

- (a) Zaid Rs.8960 Bakar Rs. 13,216
(b) Zaid Rs.8910 Bakar Rs. 13,266
(c) Zaid Rs.9306 Bakar Rs. 12,870

No.18: Salim and Nadeem formed a partnership with investment of Rs. 35,000 and Rs. 50,000 respectively. Saleem entitled salary Rs. 4,000 and Nadeem Rs. 6,000 per annum. 10% interest is allowed on capitals. Remaining profit or loss is distributed in the ratio of 7:3.

Required: Prepare the statement of income distribution and necessary journal entries if:

- (i) Firm earned a profit of Rs. 20,000.

- (ii) Firm earned a profit of Rs. 18,500.
- (iii) Firm earned a profit of Rs. 15,000
- (iv) Firm suffered a loss of Rs. 8,500.

Answer:

- (i) Profit Saleem Rs. 8,550 Profit Nadeem Rs. 11,450
- (ii) Profit Saleem Rs. 7,500 Profit Nadeem Rs. 11,000
- (iii) Profit Saleem Rs. 5,050 Profit Nadeem Rs. 9,950
- (iv) Loss of Saleem Rs. 11,400 Profit of Nadeem Rs. 2,900

No.19: Mohsin, Mumtaz and Mahmood formed a partnership on 1st January 2008 with capitals of Rs. 30,000, Rs. 40,000 and Rs. 50,000. Salary allowed to Mohsin Rs. 3,000 and Mumtaz Rs. 4,000. Interest on capital is allowed @ 10% per annum and balance in the ratio of 3:2:5.

Required: Prepare profit and loss appropriation account each partner and make journal entries if:

- (a) Firm earned a profit of Rs. 26,000.
- (b) Firm earned a profit of Rs. 19,000.
- (c) Firm earned a profit of Rs. 14,000.
- (d) Firm suffered a loss of Rs. 6,000.

Answer:

- (a) Profit Mohsin Rs. 8,100 Mumtaz Rs. 9,400 Mahmood Rs. 8,500
- (b) Profit Mohsin Rs. 6,000 Mumtaz Rs. 8,000 Mahmood Rs. 5,000
- (c) Profit Mohsin Rs. 4,500 Mumtaz Rs. 7,000 Mahmood Rs. 2,500
- (d) Loss Mohsin Rs. 1,500 Profit Mumtaz Rs. 3,000 Loss Mahmood Rs. 7,500

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