BAL BHARATI PUBLIC SCHOOL, PITAMPURA

CLASS-12 (SESSION 2020-21)

ACCOUNTANCY

CHAPTER- FUNDAMENTALS OF PARTNERSHIP

Hope you have completed the required questions and illustrations from the chapter as per the last class discussion.

Please go through the following for an effective session

STEP 1: REVISE THE CONCEPT OF PROFIT AND LOSS APPROPRIATION ACCOUNT (DISCUSSED IN PREVIOUS CLASS) THROUGH THE FOLLOWING POINTS.

- A partnership firm prepares Profit and Loss Appropriation Account to which net profit or net loss as per the Profit and Loss Account is transferred to appropriate it as per the agreement among partners.
- This account, is an extension of the Profit and Loss Account, and is credited with the amount of Net Profit or debited with the amount of Net Loss (transferred from Profit and Loss Account).
- It is credited with the amount of interest on drawings of the partners (which is loss to the partners but an income for the firm) and debited with interest on the capitals of the partners, partners' salaries and commissions, etc., (which are losses for the firm and incomes for the partners).If the partners decide, an amount is transferred to Reserve and the balance profit (Divisible Profit) is distributed between/among the partners in their profit-sharing ratio.

STEP 2: READ THE TYPICAL CASE - WHEN APPROPRIATIONS ARE MORE THAN AVAILABLE PROFIT

(page no. 2.19)

It is also a possibility that total amount of appropriation as per the Deed is more than the amount of profit available for appropriation. In this situation, profit available for distribution among partners is distributed in the ratio of appropriation to be made.

Try to solve: illustration 11

STEP 3: READ THE PROVISIONS RELATING TO INTEREST ON CAPITAL (page no. 2.30)

1. When the Partnership Deed does not exist or Partnership Deed does not provide for interest on capital.

  - Interest on capital is not allowed.

2. When the Partnership Deed provides for interest on capital but is silent on the fact whether interest is a charge or an appropriation.

  - Interest on capital is accounted as appropriation of profit. There are three possible situations as follows:

- Situation 1: Loss — Interest on capital is not allowed.
- Situation 2: Adequate Profit — Interest on capital is allowed.
- Situation 3: Inadequate Profit — Interest is allowed only to the extent of profit .

3. When the Partnership Deed provides for Interest on capital as charge.

➢ Interest is allowed whether the firm has earned profit or incurred loss

Follow the given youtube link to understand the concept better :

https://youtu.be/Z2DN1-kBGe0

Try to solve : illustration no. 15, 16 and 17 and question no. 29

STEP 4: READ THE CONCEPT- REMUNERATION (SALARY, COMMISSION ETC.) PAYABLE TO PARTNERS (page no. 2.28)

- Salary or commission to partners is allowed only if the Partnership Deed allows it and also if the firm earns profit during the year.
- Salary or commission to a partner is an appropriation of profit, and not a charge against profit.
- Salary payable to each partner is normally stated as an amount.
- Commission payable to a partner is stated as percentage of profit, which may be allowed to the partners either:

(i) as a percentage of net profit or distributable profit <u>before charging commission</u>

Commission= Net Profit or Distributable Profit (before Commission) × Rate of Commission /100

Or

(ii) as a percentage of net profit or distributable profit <u>after charging commission.</u>

Commission= Net Profit or Distributable Profit (before Commission) × Rate of Commission/ (100+Rate)

Follow the given youtube links to understand the concept better:

https://www.youtube.com/watch?v=vm3l777eraY

Try to solve: illustration no.14 and question no. 31, 32, 33, 34, 35