

BAL BHARATI PUBLIC SCHOOL, PITAMPURA

CLASS-12 (SESSION 2020-21)

ACCOUNTANCY

CHAPTER- FUNDAMENTALS OF PARTNERSHIP

TOPIC: PAST ADJUSTMENTS

Note: This topic is very important and you are requested to be punctual to the class for the thorough understanding of this particular concept.

Sometimes after closing the accounts of a partnership firm, *i.e.*, preparing the financial statements, some errors or omissions in the accounts of the earlier years are noticed.

For instance, interest on capital was to be given to a partner but was omitted to be given to him by mistake. On account of this omission, the profits divided among the partners will be more than what were due to them. Thus, to correct the error, the capital accounts of the affected partners are to be adjusted by passing an adjustment entry.

HOW TO SOLVE A QUESTION OF PAST ADJUSTMENT?

- **Prepare an analytical table** showing adjustment of omission/commission
- **Pass a rectified journal entry**(partners' capital/current accounts are to be debited/ credited as per the errors committed)

IMPORTANT POINTS TO BE CONSIDERED WHILE SOLVING A QUESTION OF PAST ADJUSTMENT:

- **Are capitals fixed or fluctuating?**
If fixed capitals are given in the question, the adjustment entry will be passed using partners' current accounts and if fluctuating capitals are given, then adjustment entry will be through partners' capital accounts.
- **Are capital balances closing or opening?**
If closing balances are given in the question, then opening capital need to be calculated in the working note for calculation of interest on capital.

VARIOUS CASES (OMISSIONS/ COMMISSIONS) UNDER PAST ADJUSTMENT:

CASE 1: PROFITS DISTRIBUTED IN WRONG RATIO

QUESTION 57, 77

CASE2: INTEREST ON CAPITAL OMITTED TO BE PROVIDED THOUGH THERE WAS A PROVISION FOR THE SAME IN THE PARTNERSHIP DEED

ILLUSTRATION 36 QUESTION 58, 59, 62, 66

CASE 3: INTEREST ON CAPITAL ALLOWED BUT AT A WRONG RATE

(A) PROVIDED AT A HIGHER RATE

ILLUSTRATION 41 QUESTION 60

(B) PROVIDED AT A LOWER RATE

ILLUSTRATION 42, 46 QUESTION 61

CASE 4: INTEREST ON CAPITAL AND INTEREST ON DRAWINGS BOTH OMITTED

ILLUSTRATION: 38, 39 QUESTION 63, 67, 70

CASE 5: COMPREHENSIVE CASE (INTEREST, SALARY, WRONG PROFITS DISTRIBUTED ETC.)

ILLUSTRATION 37, 40, 43, 44, 45 QUESTION 64, 65, 68, 69, 71, 72, 73, 74

You are requested to solve the back questions of the chapter as per the instructions given topic wise for a complete understanding of the contents taught.

Hoping to see you all in person soon!!