

## PAST ADJUSTMENTS

Before understanding the past adjustment, we must know the approach of items

I.e. on which side they are shown in the partners' capital account

Particulars	A	B	Particulars	A	B
Drawings			By balance b/d		
Interest on drawings			Interest on capital		
			Salary		
			Bonus		
			Commission		
			Profit share		
	Xxxx	Xxxx		Xxxx	xxxx

**Case 1<sup>st</sup>: When interest on capital is not taken**

Q1: A, B, C and D are partners. Their capital accounts on 1<sup>st</sup> January 2016 were: A 3000, B 5000; C 8000; and D 10 000. After the accounts for the year 2016 have been prepared, it is discovered that interest at 5% P.A., as provided in the partnership agreement has not been credited to the partners' capital accounts before distributing profits. Instead of altering the balance sheet, it is decided to make an adjusting entry at the beginning of the next year. Give necessary journal entry.

Solution:

Since interest on capital is not taken, we will show it on **credit side**

Particulars	A	B	C	D
Interest on capital now credited A= 5% on 3000 B= 5% on 5000 C= 5% on 8000 D= 5% on 10 000	150 Cr	250 Cr	400 Cr	500 Cr
Profit now debited (150+250+400+500)= 1300 equally A=1/4 *1300 B=1/4 *1300 C= 1/4 *1300 D= 1/4 *1300	325 Dr	325Dr	325Dr	325Dr
Net effect	175dr	75dr	75cr	175cr

Adjustment entry

A's capital a/c.....dr 175  
 B's capital a/c.....dr 75  
     To C's capital a/c.....175  
     To D's capital a/c.....75

Being adjusting entry passed

### Case 2nd: when interest on drawing is not taken:

Q2A, B and C are partners in 3:2:1. After the final accounts have been prepared, it was discovered that interest on drawing had not been taken into consideration. The interest on drawing of the partners amounted to X 250: Y 180: Z 100. Give adjusting entry

SOLUTION: Since interest on drawings are not taken, it will be shown on **debit side**

Particulars	A	B	C	D
Interest on drawing now debited				
A=	250DR			
B=		180DR		
C=			100DR	
Profit now CREDITED (250+180+100)= 530 IN 3:2:1				
A=3/6 *530	265CR			
B=2/6 *530		177CR		
C= 1/6 *530			88CR	
Net effect	15CR	3DR	12DR	★

Q3: Q54; A,B and C were partners in a firm. On 1<sup>st</sup> January 2015, their capitals stood at 50 000, 25 000 and 25 000 respectively. As per the provision of the partnership deed

- a) C is entitled a salary of 1500 per month
- b) Partners were entitled to interest on capital at 5% P.A
- c) Profits were to be shared in the ratio of capitals.

The net profit for the year 2015 of 45 000 was divided equally without providing for the above terms. Pass an adjustment entry to rectify the above error

SOLUTION:

In this question we have already distributed profit of 45000 equally without considering {A} & {B} points, so we will pass a reverse entry for profit 45000

Point 2: since interest on capital and salary is not taken, it will be credited.

Particulars	A	B	C
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Profit already distributed now debited {equally} <i>Reverse entry</i> A=1/3*45000 B=1/3*45000 C=1/3*45000	15000DR	15000DR	15000DR
Salary to C credited now			18000CR
Interest on capital credited now A=5% on 50 000 B= 5% on 25 000 C= 5% on 25000	2500CR	1250CR	1250CR
New profit to be credited in capital ratio 45000-(18000+5000) A=2/4*22000 B=1/4*22000 C =1/4*22000	11000CR	5500CR	5500CR
NET EFFECT	1500DR	8250DR	9750CR

Q: X, Y and Z are partners in 3:2:1. Their fixed capital were 40 000, 30 000 and 20 000. As per deed they are to get interest on capital @ 10% P. A

The interest on capital could not be provided and the profits for the year 45 000 to them equally.

show by means of one adjustment entry, how the corrections will be made.

SOLUTION:

In this question we have already distributed a profit of 45 000 equally without considering interest on capital.

2) we will pass reverse entry to profit

3) since interest on capital is not taken, it will be credited

4) Remaining profit( 45000 – interest on capital) will be credited in 3:2:1

	X	Y	Z
Profit 45000 debited now equally <b>(Reverse entry)</b>	15000dr	15000dr	15000dr
Interest on capital credited A= 10% on 40 000 B= 10% on 30 000 C= 10% on 20 000	4000CR	3000CR	2000CR
Remaining profit 45000- 9000 36000 credited in 3:2:1 A= $\frac{3}{6} * 36000$ B= $\frac{2}{6} * 36000$ C= $\frac{1}{6} * 36000$	18000CR	12000CR	6000CR
Net effect	7000CR	NIL	7000DR

Interest on capital is provided More than actual

{ MDR }

Q: Arif, Bilal and zubair are partners in 7:6:4 having capitals of 80 000, 40 000 and 50 000 respectively. **For the year ended 2016 interest on capital was credited to them@ 12% instead of 10%.** The profit for the year were 50 000. Pass adjustment entry.

SOLUTION: Since interest on capital is provided more than actual, it will be Debited.

Particulars	A	B	C
Excess interest on capital debited now			
A= 2% on 80 000	1600DR		
B= 2% on 40 000		800DR	
C= 2% on 50 000			1000DR
Profit (1600+800+1000) 3400 to be credited in 7:6:4			
A= $7/17 \times 3400$	1400CR		
B= $6/17 \times 3400$		1200CR	
C= $4/17 \times 3400$			800CR
NET EFFECT	200DR	400CR	200DR

Interest on capital is provided less than actual

{LCR}

Q50: A, B and C are partners in 2:2:1 having capitals of 1 00 000, 80 000 and 70 000 respectively. For the year ended 2016 interest on capital was credited to them@ 9% instead of 10%. The profit for the year were 50 000. Pass adjustment entry.

ANS: B's a/c is debited with 200 and C's a/c is credited with 200.

SOLUTION:

Since interest on capital is provided less than actual, it will be credited

Particulars	A	B	C
Deficit interest on capital debited now			
A= 1% on 1 00 000	1000DR		
B= 1% on 80 000		800DR	
C= 1% on 70 000			700DR
Profit (1000+800+700)			
2500 to be credited in 2:2:1			
A= $\frac{2}{5} * 2500$	1000CR		
B= $\frac{2}{5} * 2500$		1000CR	
C= $\frac{1}{5} * 2500$			500CR
NET EFFECT	NIL	200 CR	200DR

Other questions:

Sachin, Kapil and Rashmi have been sharing profits in the ratio of 3: 2:1 respectively. Rashmi wants that she would share equally in profits with Sachin and Kapil. She further wants that change in profit sharing ratio would be applicable for the last three years. Other partners have no objection to this. The profit of the last three years were 60 000; 47 000 and 55 000. record the adjustment by means of a journal entry

SOLUTION:

In this question we have distributed profit of last 3 years as per respective ratios i.e., 3:2:1.

Now partners have decided to distribute last 3 years profit equally

1: we will pass reverse entry of profit already distributed

	SACHIN	KAPIL	Rashmi
Profit already distributed debited now in 3:2:1 <b>(Reverse entry)</b>			
SACHIN= $3/6 * 162000$	81000DR	54000DR	
KAPIL= $2/6 * 162000$			
RASHMI= $1/6 * 162000$			27000DR
Profit 162000 now credited			
SACHIN= $1/3 * 162000$	54000CR		
KAPIL= $1/3 * 162000$		54000CR	
RASHMI= $1/3 * 162000$			54000CR
NET EFFECT	27000DR	NIL	27000CR

