

1. Details of Module and its structure

Module Detail	
Subject Name	Accountancy
Course Name	Accountancy 03 (Class XII, Semester - 1)
Module Name/Title	Pass Adjustments and Final Accounts – Part 4
Module Id	leac_10204
Pre-requisites	Knowledge about calculation of interest on capital, Interest on drawings and preparation of Profit and Loss Appropriation Account
Objectives	After going through this lesson, the learners will be able to understand the following: <ul style="list-style-type: none">• To correct the errors by passing single adjustment entry• Final Accounts of the Partnership.
Keywords	Adjustment Entry

2. Development Team

Role	Name	Affiliation
National MOOC Coordinator	Prof. Amarendra P. Behera	CIET, NCERT, New Delhi
Program Coordinator	Dr. Rejaul Karim Barbhuiya	CIET, NCERT, New Delhi
Course Coordinator (CC) / PI	Prof. Shipra Vaidya	DESS, NCERT New Delhi
Course Co-Coordinator / Co-PI	Dr. Nidhi Gusain	CIET, NCERT, New Delhi
Subject Matter Expert (SME)	Mr. Vinay Setia	Indraprasth Global School, New Delhi.
Review Team	Ms. Preeti Sharma	Kendirya Vidyalaya, Sec 24, Noida
Technical Team	Mr. Shobit Saxena Ms. Khushboo Sharma	CIET, NCERT, New Delhi CIET, NCERT, New Delhi

Table of Contents:

1. Meaning of Adjustment Entry
2. Various types of Adjustments
3. Accounting Treatment of Errors
4. Final Accounts of Partnership

1. Meaning of Adjustment Entry

Sometimes a few omissions or errors in the recording of transactions are discovered after the final accounts have been prepared and the profits/losses are distributed. The omission may be in respect of interest on capitals, interest on drawings, salary/commission to partners or division of profit/loss. There may also be some change in the provisions of partnership deed having retrospective effect. All these acts of omission and commission need adjustment. Instead of altering old accounts, necessary adjustments are made by adjusting the Capital Accounts of the affected partners by passing a single **adjusting entry**.

Accounting Treatment of Errors:

A statement is prepared to ascertain the net effect of such errors or omissions on partner's capital/current accounts in the following manner.

Statement showing past adjustments

Particulars	A (₹)	B (₹)	C (₹)	Firm (₹)
Profit already distributed (now, reversed)	(xxx)	(xxx)	(xxx)	xxx
Interest on Capital (Omitted, now credited)	xxx	xxx	xxx	(xxx)
Interest on Drawings (Omitted, now debited)	(xxx)	(xxx)	(xxx)	xxx
Salary to partners (Omitted, now credited)	xxx	xxx	xxx	(xxx)
Commission to partners (Omitted, now credited)	xxx	xxx	xxx	(xxx)
				yyy
Adjusted Profit distributed in correct ratio	yyy	yyy	yyy	(yyy)
Net effect +/-	xxx	(xxx)	(xxx)	nil

Adjusting Journal Entry

Date	Particulars	L.F	Debit (₹)	Credit (₹)
	B's Capital/Current A/c Dr. C's Capital/Current A/c Dr. To A's Capital/Current A/c (Being the adjustment entry passed)		XXX XXX	XXX

Example-1

Moni, Soni and Tony are partners in a firm sharing profits and losses equally. They have omitted interest on Capital @ 10% per annum for three years ended on 31st March, 2020. Their fixed Capitals on which interest was to be computed throughout were : Moni ₹ 3,00,000; Tony ₹ 2,00,000; and Soni ₹ 1,00,000. Give the necessary adjusting journal entry with working notes.

Solution:

Adjusting Journal Entry

Date	Particulars	L.F	Debit ₹	Credit ₹
	Tony's Current A/c Dr. To Moni's Current A/c (Being the adjustment entry passed)		30,000	30,000

Working Notes:

Statement showing Past Adjustments

Particulars	Moni ₹	Soni ₹	Tony ₹	Firm ₹
Interest on Capital (Omitted, now allowed)	90,000	60,000	30,000	(1,80,000)
Share in loss due to Interest on Capital (1:1:1)	(60,000)	(60,000)	(60,000)	1,80,000
Net Effect	30,000	Nil	(30,000)	Nil
	Cr.		Dr.	

Example-2

Sia, Sonam & Shagun are partners in a firm sharing profits & losses in the ratio of 2:1:2. Their fixed capitals were ₹ 3,00,000, ₹ 1,00,000 and ₹ 2,00,000 respectively. Interest on capital

for the year ending 31st March, 2020 was credited to them @ 9% p.a. instead of 10% p.a. Prepare necessary adjustment entry.

Solution:

Adjusting Journal Entry

Date	Particulars	L.F	Debit ₹	Credit ₹
	Sonam's Current A/c Dr.		200	
	Shagun's Current A/c Dr.		400	
	To Sia's Current A/c			600
	(Being the adjustment entry passed)			

Statement showing past adjustment

Particulars	Sia (₹)	Sonam (₹)	Shagun(₹)	Firm (₹)
Interest on Capital to be reversed @ 9%	(27,000)	(9,000)	(18,000)	54,000
Interest on Capital to be provided @ 10%	30,000	10,000	20,000	(60,000)
				(6,000)
Share in loss due to past adjustment	(2,400)	(1,200)	(2,400)	6,000
	600	(200)	(400)	Nil
Net Effect	Cr.	Dr.	Dr.	

Example-3

Raju, Balraj & Chauhan are partners in a firm sharing profits & losses in ratio of 2:3:5. Their capitals were ₹ 15,00,000, ₹ 30,00,000 & ₹ 60,00,000 respectively.. For the year ended 31st March 2020, Interest on capital was credited @12% instead of @10%. Pass the necessary adjustment entry.

Solution:

Adjusting Journal Entry

Date	Particulars	L.F	Debit ₹	Credit ₹
	Chauhan's Capital A/c Dr.		15,000	
	To Raju's Capital A/c			12,000
	To Balraj's Capital A/c			3,000
	(Being the adjustment entry passed)			

Statement showing past adjustment

Particulars	Raju (₹)	Balraj (₹)	Chauhan(₹)	Firm (₹)
Interest on Capital to be reversed @ 12%	(1,80,000)	(3,60,000)	(7,20,000)	12,60,000
Interest on Capital to be provided @ 10%	1,50,000	3,00,000	6,00,000	(10,50,000)
Share in profits due to past adjustment	42,000	63,000	1,05,000	2,10,000
Net Effect	2,250			(2,10,000)
	12,000	3,000	(15,000)	Nil
	Cr.	Cr.	Dr.	

Example-4

Raj, Rahul and Sahil were partners in a firm. On 1st April, 2019 their capitals stood at ₹ 6,00,000, ₹ 4,00,000 and ₹ 2,00,000 respectively. As per provisions of the partnership deed:

- i) Rahul was entitled for commission of ₹ 12,000 p.a.
- ii) Raj was entitled for a salary of ₹ 1,200 per month.
- iii) Partners were entitled to interest on capital @ 8% p.a.
- iv) Profits were to be shared in the ratio of capitals.

Net profit for the year ended 31st March 2020 was ₹ 4,22,400 which was distributed equally, without taking into considerations the above provisions. Showing your working clearly. Pass necessary adjustment entry for the above.

Solution:

Adjusting Journal Entry

Date	Particulars	L.F	Debit ₹	Credit ₹
	Sahil's Capital A/c Dr.		74,800	
	To Raj's Capital A/c			71,600
	To Rahul's Capital A/c			3,200
	(Being the adjustment entry passed)			

Statement showing past adjustment

Particulars	Raj (₹)	Rahul (₹)	Sahil (₹)	Firm (₹)
Profit credited equally, now reversed	(1,40,800)	(1,40,800)	(1,40,800)	4,22,400
Commission to be credited to Rahul	-	12,000	-	(12,000)
Salary to be credited to Raj	14,400	-		(14,400)
Interest on Capital to be credited	48,000	32,000	-16,000	(96,000)
				3,00,000
Share in adjusted profits in the ratio 3:2:1	1,50,000	1,00,000	50,000	(3,00,000)
Net Effect	2,250			
	71,600	3,200	(74,800)	Nil
	Cr.	Cr.	Dr.	

Example-5

Raj and Rajiv are partners in a firm sharing profits and losses in the ratio of 3:2. Following was the Balance sheet of the firm as at 31st March, 2020:

Liabilities	Amt (in ₹)	Assets	₹
Capital Accounts:		Sundry Assets	80,000
Raj	60,000		
Rajiv	20,000		
	80,000		80,000

Profit ₹ 30,000 for the year ended 31st March, 2020 was divided between the partners without allowing interest on capital @12% p.a. and salary to Raj @ ₹ 1,000 per month. During the year, Raj withdrew ₹ 10,000 and Rajiv ₹ 20,000.

Pass the necessary adjustment entry and show your working clearly.

Solution: Adjusting Journal Entry

Date	Particulars	L.F	Debit ₹	Credit ₹
	Rajiv's Capital A/c Dr.		5,280	
	To Raj's Capital A/c			5,280
	(Being the adjustment entry passed)			

Working Notes:**Calculation of Opening capital**

Particulars	Raj (Amt. in ₹)	Rajiv (Amt. in ₹)
Capital at the end	60,000	20,000
Less: Profit Already Credited (3:2)	18,000	12,000
Add: Drawings	10,000	20,000
Capital in the beginning	52,000	28,000

Statement showing past adjustment

Particulars	Raj (₹)	Rajiv (₹)	Firm (₹)
Profit credited equally, now reversed	(18,000)	(12,000)	30,000
Salary to be credited to Raj	12,000	-	(12,000)
Interest on Capital to be credited	6,240	3,360	(9,600)
			8,400
Share in adjusted profits in the ratio 3:2:1	5,040	3,360	(8,400)
Net Effect	2,250		
	(1,40,800)		
	12,000		
	-		
	32,000		
	1,00,000		
	5,280	(5,280)	Nil
	3,200		
	Cr.	Dr.	

Final Accounts

Final Accounts of a partnership firm are prepared in the same way as those prepared for a sole trading concern with just one difference which relates to the distribution of profit among the partners. After preparing the Trading and Profit and Loss Account, the net profit is transferred to an account called Profit and Loss Appropriation Account as discussed earlier in this chapter. As you know, all adjustments in respect of interest on capital, interest on drawings, partner's salary, and partners' share of profit and loss are made through the Profit and Loss Appropriation Account. This is done in order to distinguish between the results of operations of business and the distribution of the profit among the owners. Preparation of final accounts and the Profit & Loss Appropriation Account is clarified with the help of following example:

Example-6

Manish and Satyam were partners sharing profits and losses in the ratio of 3:2. The following balances were extracted from the books of account for the year ended March 31, 2020:

Particulars	Dr. Amt. (₹)	Cr. Amt. (₹)
Partners' Capital Account:	-	-
Manish	-	60,000
Satyam	-	50,000
Partners Current Account: (as on 1.04.2019)	-	-
Manish	-	2,800
Satyam	-	1,600
Drawings:		
Manish	12,000	-
Satyam	8,000	-
Stock as on 1.4.2019	11,000	-
Purchases and Sales	54,000	80,000
Returns	2,000	1,500
Wages	2,500	—
Salaries	4,000	—
Printing and Stationery	500	—
Bills receivables/Bills payables	12,000	2,000
Debtors and Creditors	36,000	8,000
Discounts	1,200	1,500
Rent and Rates	800	—
Bad debts	1,400	—
Insurance	400	—
Postage and Telegrams	300	—
Salesman's commission	3,400	—
Land and Building	24,000	—
Plant and Machinery	20,000	—
Furniture	13,500	—
Bank Overdraft	—	2,000
Trade expenses	400	—
Cash in hand	500	—
Cash at bank	1,500	—
	2,09,400	2,09,400

Prepare the final accounts for the year ended March 31, 2020 firm taking into consideration the following:

- (i) Stock on March 31, 2020 was ₹ 18,000;
- (ii) Provision for doubtful debts is to be provided at 5% on debtors;
- (iii) Outstanding salaries were ₹ 1,000;
- (iv) Goods worth ₹ 8,000 were destroyed by fire on December 10, 2019. The Insurance Company agreed to pay ₹ 7,000 in full settlement of the claim;
- (v) Interest on capitals is allowed at 6% per annum and interest on drawings is also charged at 6% per annum;
- (vi) Manish is entitled to a Salary of ₹ 1,200 per annum;
- (vii) Write-off Land and buildings at 5%, Furniture at 10% and Plant and Machinery at 15%.

Solution -

Trading and Profit & Loss Account
for the year ending March 31, 2020

Dr.		Cr.	
Particulars	Amt. (in ₹)	Particulars	Amt. (in ₹)
Opening stock	11,000	Sales	80,000
Purchases	54,000	Less: Returns	<u>2,000</u>
Less: Returns	<u>1,500</u>	Closing stock	18,000
Wages	2,500	Goods destroyed by fire	8,000
Gross Profit transferred to P & L A/c	38,000		
	1,04,000		1,04,000

Salaries	4,000			
Add: Outstanding	<u>1,000</u>	5,000	Gross Profit transferred from Trading A/c	38,000
Printing and Stationery		500		
Rent and Rates		800	Discount received	1,500
Insurance		400		
Discount allowed		1,200		
Trade expenses		400		
Postage and Telegrams		300		
Bad debts	1,400			
Add: Provision for DD	<u>1,800</u>	3,200		
Salesman's commission		3,400		
Loss due to fire (Rs. 8000–Rs. 7000)		1,000		
Depreciation:				
Land and Buildings	1,200			
Furniture	1,350			
Plant and Machinery	<u>3,000</u>	5,550		
Net Profit transferred to Profit and Loss Appropriation		17,750		
		<u>39,500</u>		<u>39,500</u>

Profit and Loss Appropriation Account
for the year ending March 31, 2020

Dr.		Cr.	
Particulars	Amt. (in ₹)	Particulars	Amt. (in ₹)
Interest on capital:		Profit and Loss A/c	17,750
Manish	3,600	Interest on drawings:	
Satyam	<u>3,000</u>	(for 6 months)	
Salary to Manish	1,200	Manish	360
Net profit (transferred to capital accounts)		Satyam	<u>240</u>
Manish	6,330		600
Satyam	<u>4,220</u>		
	<u>18,350</u>		<u>18,350</u>

Partners Current Accounts

Dr.				Cr.			
Date	Particulars	Manish (₹)	Satya m (₹)	Date	Particulars	Manish (₹)	Satya m (₹)
	Drawings	12,000	8,000		Balance b/d	2,800	1,600
	Interest on drawings	360	240		Interest on capital	3,600	3,000
	Balance c/d	1,570	580		Salary to Manish	1,200	—
					Share of profit	6,330	4,220
		<u>13,930</u>	<u>8,820</u>			<u>13,930</u>	<u>8,820</u>
					Balance b/d	1,570	580

Balance Sheet of M/s as at 31st March, 2020

Liabilities	Amt. (in ₹)	Assets	Amt. (in ₹)
Overdraft	2,000	Land and Building	24,000
Bill payables	2,000	Less: Dep. @ 5%	<u>1,200</u>
Creditors	8,000		22,800
Outstanding salaries	1,000	Plant and Machinery	20,000
Partners' Capital Account:		Less: Dep. @ 15%	<u>3,000</u>
Manish	60,000		17,000
Satyam	<u>50,000</u>	Furniture	13,500
Partners Current Account:	1,10,000	Less: Dep. @ 10%	<u>1,350</u>
Manish	1,570		12,150
Satyam	<u>580</u>	Stock	18,000
	2,150	Debtors	36,000
		Less: Prov. for DD	<u>1,800</u>
			34,200
		Insurance Company (Claim)	7,000
		Bill receivables	12,000
		Cash at bank	1,500
		Cash in hand	500
	<u>1,25,150</u>		<u>1,25,150</u>