Collegedunia NCERT Notes

The Ultimate NCERT Revision Guide for Class 12 Accountancy

Chapter 1: Accounting for Partnership: Basic Concepts

What this chapter covers: the legal basis of a partnership under the Indian Partnership Act, 1932; the Partnership Deed; fixed vs. fluctuating capital methods; the Profit & Loss Appropriation Account; interest on capital and drawings (direct, product, and average-period methods); guarantee of minimum profit; and past adjustment entries. Session 2026-27.

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1 Introduction: Why Partnership Accounting Differs from Sole Proprietorship

A **sole proprietorship** has one owner, so all profit goes to one capital account. A **partnership firm** has two or more co-owners, each contributing capital, sharing risk, and entitled to a share of profit. This creates four accounting questions that the sole-proprietor never faces:

1. In what ratio is profit divided?
2. Does each partner earn interest on his capital? On his drawings?
3. Is a working partner entitled to salary or commission?
4. How are these computed and recorded?

The Indian Partnership Act, 1932 and the Partnership Deed answer the first three. The Profit & Loss Appropriation Account answers the fourth. Together, they form the heart of Class 12 partnership accounting.

2 Partnership: Definition and Characteristics

Statutory Definition (Sec. 4, Indian Partnership Act, 1932)

"Partnership is 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." Persons who enter into the relation are called **partners**; collectively they form a **firm**; and the name under which they trade is the **firm name**.

2.1 Eight chief characteristics

1. **Two or more persons.** Minimum 2; maximum 50 (Rule 10 of the Companies (Misc.) Rules, 2014 under the Companies Act, 2013).
2. **Agreement.** Arises from a contract (written, oral, or implied), not from status.
3. **Lawful business.** Must be a business, manufacturing, trade, profession, or services. Mere co-ownership of property is not partnership.
4. **Sharing of profits.** Profit must be shared in the agreed ratio; if no agreement, then equally.
5. **Mutual agency.** Every partner is both a principal and an agent of the firm; this is the *true test* of partnership.

6. **Unlimited liability.** Joint and several; personal assets can be used for firm debts.
7. **Non-transferable interest.** A partner cannot transfer his share without unanimous consent.
8. **No separate legal entity.** The firm is not a separate legal person (unlike a company), though it is a separate *assessable entity* for income tax.

> **Memory aid – "TALPM-UNS"**
>
> **T**wo persons, **A**greement, **L**awful business, **P**rofit-sharing, **M**utual agency, **U**nlimited liability, **N**on-transferable, **S**eparate legal entity (absent).

2.2 Quick visual: four pillars of the Indian Partnership Act, 1932

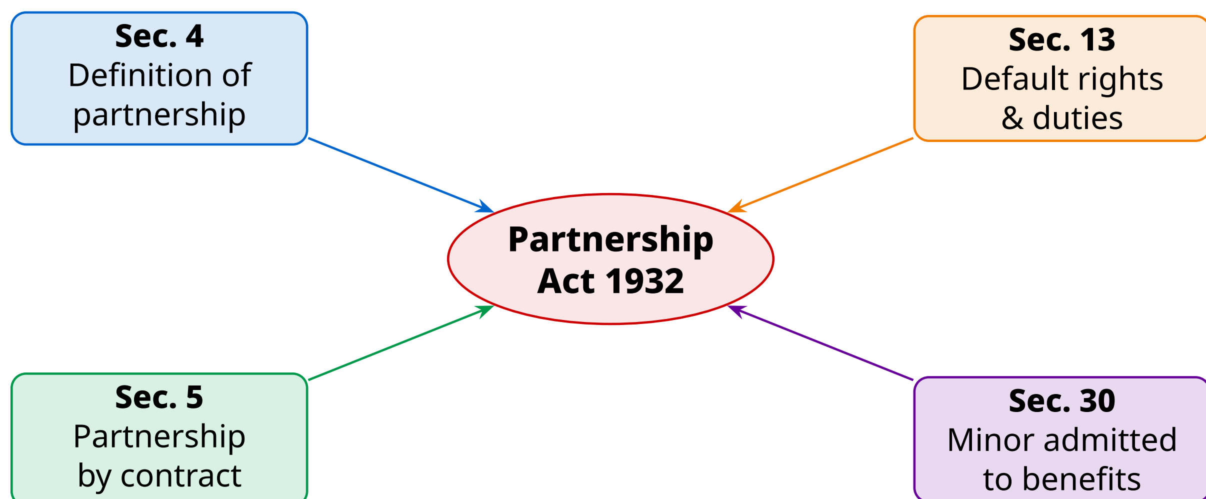

Figure 1: Four most-tested sections of the Indian Partnership Act, 1932. Sec. 4 supplies the definition, Sec. 13 the silent-deed defaults, Sec. 5 the contractual basis, and Sec. 30 the minor's position.

> **Real-World Application**
>
> Most Indian Chartered Accountancy firms (PwC India, Deloitte India, S. R. Batliboi, Lodha & Co., Khimji Kunverji) are constituted as registered partnerships under this Act. The ICAI partnership-firm register lists more than 80,000 active CA firms; every one of them turns to Sec. 13 whenever a deed clause is missing.

3 The Partnership Deed

A **Partnership Deed** is the written, signed and stamped agreement that codifies the terms among partners. Section 5 of the Indian Partnership Act, 1932 *permits* oral partnerships, but a written deed is strongly preferred.

3.1 Why writing is preferred

- **Commercial:** prevents disputes; serves as a single reference for the accountant.
- **Legal:** primary evidence under the Indian Evidence Act, 1872; right to sue third parties requires registration (Sec. 69), which requires a written deed.
- **Tax:** Section 184 of the Income-tax Act, 1961 mandates a written, signed deed for the firm to be assessed as "firm" and to claim the Sec. 40(b) deduction for partner's salary and interest.

3.2 Standard contents of a Partnership Deed

1. Name and address of the firm and of each partner.
2. Nature, place and duration of business.
3. Capital contributions by each partner.
4. Profit-sharing ratio.
5. Rate of interest on capital, drawings, and partner's loan.
6. Salary or commission to working partners.
7. Rights and duties of partners.
8. Procedure for admission, retirement, death, dissolution.
9. Method of settling accounts on dissolution.
10. Arbitration clause.

4 In the Absence of a Deed: Section 13 Defaults

When the deed is silent (or no deed exists), Section 13 of the Indian Partnership Act, 1932 applies.

Five default rules every Class 12 student must memorise

Matter	Default rule
(i) Sharing of profits and losses	Equally [Sec. 13(b)]
(ii) Interest on capital	None [Sec. 13(c)]
(iii) Interest on drawings	None
(iv) Interest on partner's loan	6% p.a. as a *charge* [Sec. 13(d)]
(v) Salary / commission to a partner	None

Quick Tip

When the question says "no partnership agreement was made", think **Section 13**. Profits split equally, no interest on capital or drawings, no salary; only 6%

on the partner's loan (and that is a charge, not an appropriation).

5 Capital Accounts: Fixed vs. Fluctuating Method

5.1 Fluctuating Capital Method (default)

A single Capital A/c per partner absorbs every entry. Its balance changes annually.

Items in a Fluctuating Capital A/c

Debit Side	Credit Side
Drawings	Opening capital
Interest on Drawings	Additional capital introduced
Share of Loss	Interest on Capital
Permanent withdrawal of capital	Salary
Closing balance c/d	Commission
	Share of Profit

5.2 Fixed Capital Method

Two accounts per partner, a Capital A/c and a Current A/c.

- **Capital A/c** holds only the opening capital, any additional capital, and any permanent withdrawal. Closing balance is normally unchanged.
- **Current A/c** absorbs all annual appropriations and drawings.

Common Mistake

Under the *fixed* capital method, do **not** post interest on capital, salary, commission, or share of profit to the Capital A/c. These belong in the Current A/c. Mixing the two is the single most-penalised error in CBSE board scripts.

5.3 Side-by-side visual: where each item lands

Fluctuating Method
+ Opening Capital
+ Additional capital
+ Interest on Capital
+ Salary / Commission
+ Share of Profit
- Drawings
- Interest on Drawings
- Share of Loss
= one Capital A/c

Fixed Method – Capital A/c
+ Opening Capital
+ Additional capital
- Permanent withdrawal
(no other entries)
= Capital balance

Fixed Method – Current A/c
+ Interest on Capital
+ Salary / Commission
+ Share of Profit
- Drawings
- Interest on Drawings
- Share of Loss
= Current A/c balance

Figure 2: Three columns, one rule. Under the fluctuating method every entry hits the single Capital A/c. Under the fixed method only opening, additions and permanent withdrawals stay in the Capital A/c; all annual items move to the Current A/c.

6 The Profit & Loss Appropriation Account

The P&L App A/c is a nominal account prepared *after* the Profit & Loss A/c. It distributes net profit among the partners.

T-format of P&L Appropriation A/c

Dr.	Rs.	Cr.	Rs.
Interest on Capital	xxx	Net Profit b/d	xxx
Salary to Partners	xxx	Interest on Drawings	xxx
Commission to Partners	xxx		
Profit transferred to Capital A/cs	xxx		

6.1 Charge vs. Appropriation – the cardinal distinction

The Cardinal Distinction

- **Charge against profit** (in P&L A/c, deducted before profit is computed): rent paid to a partner, interest on partner's loan, manager's commission (if not a partner).
- **Appropriation of profit** (in P&L App A/c, made out of profit): interest on capital, partner's salary, partner's commission, share of profit.

A charge is allowed even when the firm makes a loss; an appropriation can

be made only out of available profit (unless the deed specifically treats it as a charge).

6.2 End-to-end profit distribution flow

Figure 3: Charges leave through the P&L A/c; appropriations leave through the P&L Appropriation A/c. Both ultimately credit (or debit) the partners' Capital/Current accounts. Tag every adjustment as a charge or an appropriation before drafting the answer.

Real-World Application

The split between charges and appropriations is exactly how tax auditors compute Sec. 40(b) deductible partner remuneration when filing ITR-5 for a partnership firm. A firm that misclassifies a partner's salary as a charge can lose the Sec. 184 deduction altogether, so the boundary is more than an accounting nicety.

7 Interest on Capital

Interest on Capital

$$\text{IOC} = \text{Capital} \times \frac{R}{100} \times \frac{T}{12}$$

where R is the rate per annum and T is the period in months for which the capital was used.

If a partner introduces additional capital mid-year, interest is computed on the opening capital for the full year plus on the additional capital for its actual period. Permanent withdrawal of capital reverses this.

7.1 Partner's Capital A/c – T-format visual

Dr. side (debits to capital)	Cr. side (credits to capital)
To Drawings	By Balance b/d (opening)
To Interest on Drawings	By Additional capital
To Share of Loss	By Interest on Capital
To Permanent withdrawal	By Salary / Commission
To Balance c/d	By Share of Profit

Figure 7: T-format of a partner's Capital A/c under the fluctuating method. Debits reduce the balance, credits increase it. Under the fixed method only rows 4 (permanent withdrawal) and 5 (balance c/d) stay on the Dr. side and only row 1 (opening) and 2 (additional capital) on the Cr. side; every other entry moves to the Current A/c.

> **Quick Tip**
>
> For a quick mental cross-check, every entry into a partner's Capital A/c should map to a partner item, never to an external item. If you find "creditors" or "rent" on a partner's Capital A/c, you have routed the entry wrongly.

Worked illustration. A's opening capital Rs. 60,000 on 1 April; he introduces Rs. 20,000 on 1 October; rate 10% p.a.

$$\text{IOC} = 60{,}000 \times 10\% \times 12/12 \; + \; 20{,}000 \times 10\% \times 6/12 = 6{,}000 + 1{,}000 = \text{Rs. } 7{,}000.$$

8 Interest on Drawings – Three Methods

8.1 Method 1 – Direct (Simple Interest)

For a single irregular withdrawal:

$$\text{Interest} = \text{Drawing} \times \frac{R}{100} \times \frac{t}{12}$$

where t = months from date of withdrawal to year-end.

8.2 Method 2 – Product Method

For multiple unequal drawings on different dates:

$$\text{Interest} = \frac{\sum(\text{Drawing} \times t)}{1} \times \frac{R}{100} \times \frac{1}{12}$$

The numerator $\sum(\text{D} \times t)$ is the *Sum of Products*.

8.3 Method 3 – Average Period (Shortcut)

For equal amounts drawn at regular intervals:

$$\text{Interest} = \text{Total Drawings} \times \frac{R}{100} \times \frac{\text{Avg Period}}{12}$$

Six Standard Average Periods

Pattern	Avg Period (months)
Beginning of every month	$6\frac{1}{2}$
Middle of every month	6
End of every month	$5\frac{1}{2}$
Beginning of every quarter	$7\frac{1}{2}$
Middle of every quarter	6
End of every quarter	$4\frac{1}{2}$

Quick Tip

The average periods come from arithmetic-progression sums. Beginning-of-month: $(12+11+\cdots+1)/12 = 78/12 = 6.5$. End-of-month: $(11+10+\cdots+0)/12 = 66/12 = 5.5$. Beginning-of-quarter: $(12+9+6+3)/4 = 30/4 = 7.5$. End-of-quarter: $(9+6+3+0)/4 = 18/4 = 4.5$.

8.4 Decision tree: which IOD method should I use?

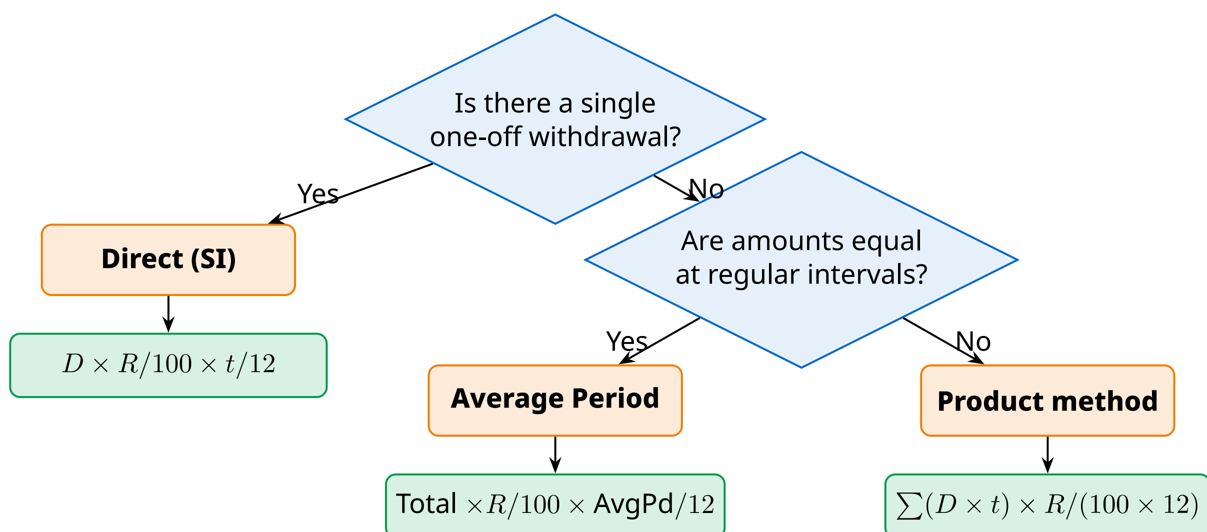

Figure 4: Choose the method by inspecting the drawings pattern. A single irregular withdrawal ⇒ direct simple-interest formula; equal monthly or quarterly amounts ⇒ average-period shortcut; mixed amounts on mixed dates ⇒ Sum-of-Products method.

9 Salary and Commission to Partners

If the deed allows:

- **Salary** is paid on a per-month basis (e.g. Rs. 2,000 p.m. ⇒ Rs. 24,000 p.a.).
- **Commission** can be:

- *On net profit before charging commission:* $C = \text{Profit} \times \dfrac{r\%}{100}$.
- *On net profit after charging commission:* $C = \text{Profit} \times \dfrac{r\%}{100 + r\%}$.

10 Guarantee of Minimum Profit

A **guarantee of minimum profit** is a clause in the deed (or a separate agreement) under which one or more partners promise that a particular partner will not earn less than a stipulated amount from the firm. The clause is common when an experienced senior partner is bringing in a junior one and wants to make the offer attractive. Whenever the guaranteed partner's PSR share falls short of the promised amount, the gap (the **deficiency**) is met by the guaranteeing partner or partners.

Guarantee of Minimum Profit – Rule

A guaranteed partner is entitled to at least the guaranteed amount. If his ratio share is less, the **deficiency** is borne by the guaranteeing partner(s) in their agreed ratio (default: their inter-se profit-sharing ratio).

10.1 Decision tree for guarantee questions

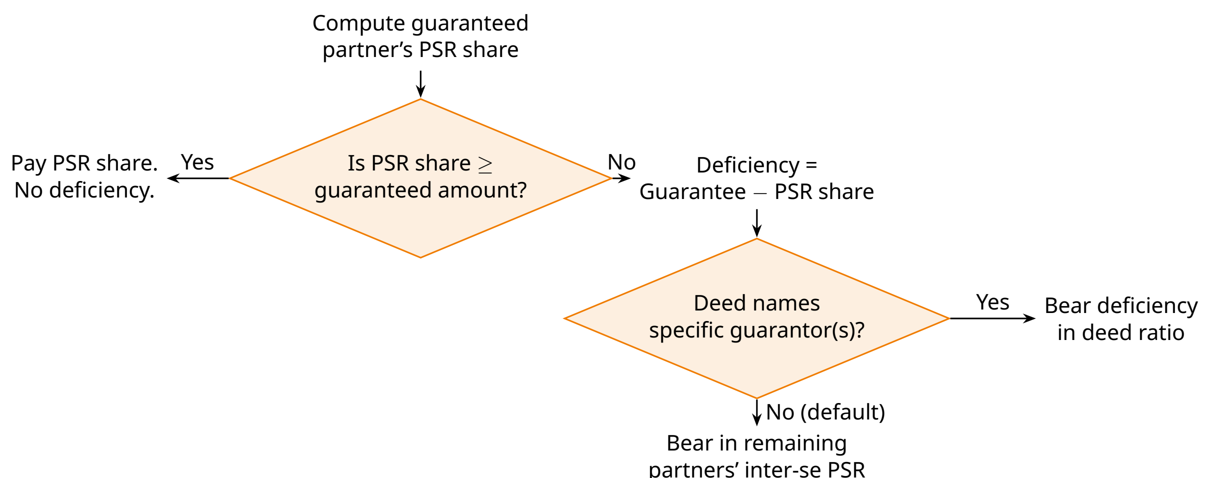

Figure 5: Two questions decide every guarantee numerical: (i) is there even a deficiency, and (ii) who pays it. The default for question (ii) is the remaining partners' inter-se PSR.

Common Mistake

"Borne by A only" versus "borne by A and B" versus silent: students often assume the deed-silent default is equal sharing. It is **not**. The default is the guaranteeing partners' *inter-se PSR*, not 1:1. Mis-reading this loses 2 marks on every guarantee numerical.

Three steps:

1. Compute guaranteed partner's share by ratio.
2. If $<$ guarantee, find deficiency $=$ guarantee $-$ ratio share.
3. Debit deficiency to guaranteeing partner(s) in agreed ratio; credit it to guaranteed partner.

Worked illustration. Ram, Raj, George share 5:3:2. George guaranteed Rs. 10,000. Profit Rs. 40,000.

- George's ratio share $= 40{,}000 \times 2/10 =$ Rs. $8{,}000$.
- Deficiency $= 10{,}000 - 8{,}000 =$ Rs. $2{,}000$.
- Ram bears $2{,}000 \times 5/8 =$ Rs. $1{,}250$; Raj bears $2{,}000 \times 3/8 =$ Rs. 750.
- Final: Ram Rs. 18,750; Raj Rs. 11,250; George Rs. 10,000. Sum $= 40{,}000$. ✓

11 Past Adjustments – Single Combined Journal Entry

When omissions (interest on capital, drawings, salary, etc.) are noticed *after* profit has been distributed, a single combined journal entry corrects the partners' capital balances.

11.1 Five-step procedure

1. Compute the *correct* entitlement per partner (IOC + Salary + Commission $-$ IOD + revised profit share).
2. Note the *original* credit (= old PSR share of original net profit).
3. Net effect per partner $=$ correct $-$ original.
4. Negative net = Debit; Positive net = Credit. Sum across partners must be zero.
5. Pass the single combined entry.

Common Mistake

Forgetting to subtract the original profit credit (in the old PSR) before computing net effect is the most common slip. Always show the column sums to zero as a final check.

11.2 Five-step adjustment waterfall (visual)

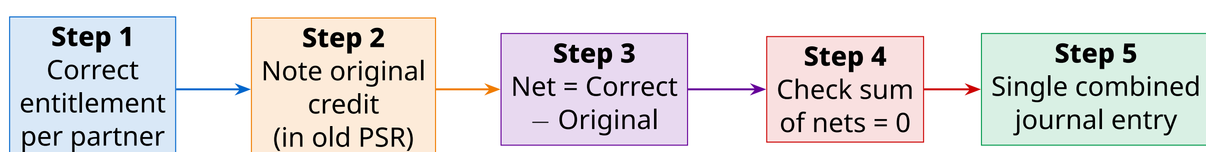

Figure 6: The past-adjustments waterfall. Each step feeds the next, and Step 4 is the audit gate, if column sums do not zero out, an arithmetic slip lurks upstream.

12 Detailed Worked Examples

12.1 Visual recap: how appropriations stack inside the P&L App A/c

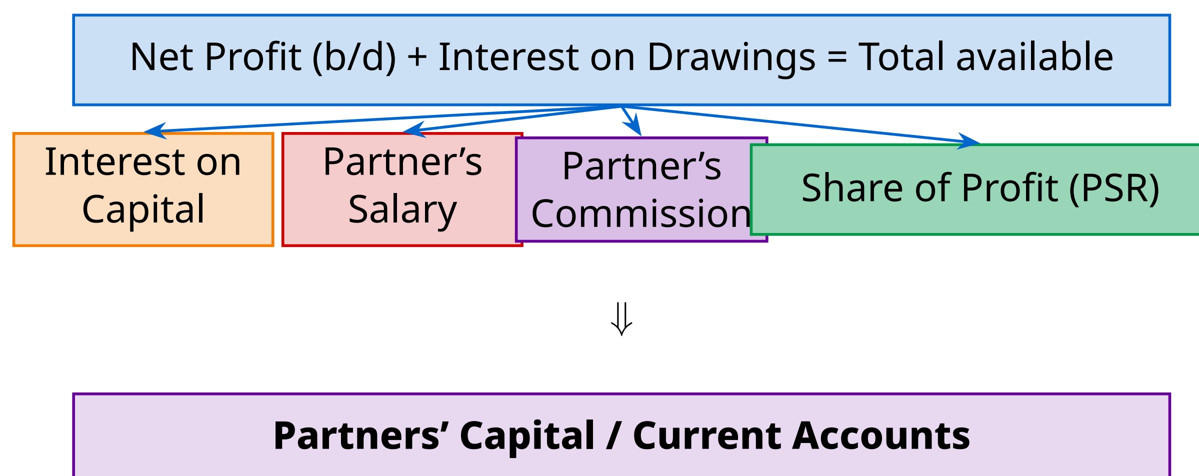

Figure 8: Inside the P&L Appropriation A/c the available pool (Net Profit + IOD) splits into four named appropriations. IOC, Salary, Commission are fixed amounts taken first; whatever remains forms the residue that is split in PSR. If the available pool is smaller than the fixed appropriations, every appropriation is scaled down proportionately (see Practice 2).

Real-World Application

At a typical Indian CA or law firm, junior partners often draw fixed monthly salaries and senior partners take the residue in PSR. The salary plus residue together make up the partner's share of book profit, which is then capped by Sec. 40(b) of the Income-tax Act before it becomes the firm's tax deduction.

12.2 Worked Example 1 – P&L Appropriation A/c (CBSE 6-mark format)

Question. A and B are partners sharing 3:2. Capitals on 1 April are Rs. 4,00,000 and Rs. 2,00,000. Net profit Rs. 1,20,000. Deed allows: IOC @ 8% p.a. Salary to A Rs. 3,000 p.m. IOD A Rs. 3,600 and B Rs. 2,400.

Solution.

Interest on Capital: A = $4{,}00{,}000 \times 8\% =$ Rs. $32{,}000$; B = $2{,}00{,}000 \times 8\% =$ Rs. $16{,}000$.

Salary: $3{,}000 \times 12 =$ Rs. $36{,}000$.

Divisible profit:

$$1{,}20{,}000 + 6{,}000 - 32{,}000 - 16{,}000 - 36{,}000 = \text{Rs. } 42{,}000.$$

$$\text{Split 3:2:} \quad A = 42{,}000 \times 3/5 = \text{Rs. } 25{,}200; \quad B = 42{,}000 \times 2/5 = \text{Rs. } 16{,}800.$$

12.3 Worked Example 2 – Past Adjustment (3-partner)

Question. P, Q, R sharing 2:2:1. Profit for the year Rs. 50,000 was distributed in PSR. Later it was found that interest on capital @ 6% p.a. was omitted on capitals Rs. 1,00,000; Rs. 80,000; Rs. 60,000.

Solution.

Correct IOC: P = 6,000; Q = 4,800; R = 3,600. Total = Rs. 14,400.

Revised divisible profit: $50{,}000 - 14{,}400 =$ Rs. $35{,}600$. Split 2:2:1:

$$P = 35{,}600 \times 2/5 = 14{,}240; \quad Q = 14{,}240; \quad R = 35{,}600 \times 1/5 = 7{,}120.$$

Net effect per partner:

- P: $+6{,}000 + 14{,}240 - (50{,}000 \times 2/5) = 6{,}000 + 14{,}240 - 20{,}000 = +240$.
- Q: $+4{,}800 + 14{,}240 - 20{,}000 = -960$.
- R: $+3{,}600 + 7{,}120 - 10{,}000 = +720$.

Check: $240 - 960 + 720 = 0$. ✓

Adjustment Entry:

	Dr. (Rs.)	Cr. (Rs.)
Q's Capital A/c Dr.	960	
To P's Capital A/c		240
To R's Capital A/c		720

12.4 Worked Example 3 – Interest on Drawings (Product)

Question. Mr. X withdrew Rs. 5,000 on 1 May 2025, Rs. 7,000 on 30 September 2025, and Rs. 4,000 on 1 February 2026. Year ends 31 March 2026; rate of interest 8% p.a.

Solution. Periods (in months) from date of drawing to year-end:

- 1 May 2025 → 31 Mar 2026 = 11 months.
- 30 Sept 2025 → 31 Mar 2026 = 6 months.
- 1 Feb 2026 → 31 Mar 2026 = 2 months.

Products:

$$5{,}000 \times 11 + 7{,}000 \times 6 + 4{,}000 \times 2 = 55{,}000 + 42{,}000 + 8{,}000 = 1{,}05{,}000.$$

Interest:

$$\frac{1{,}05{,}000}{12} \times \frac{8}{100} = 8{,}750 \times 0.08 = \text{Rs. } 700.$$

12.5 Worked Example 4 – Guarantee with Multi-Partner Burden

Question. A, B, C sharing 3:2:1. C guaranteed Rs. 20,000; deficiency to be borne by A and B in 2:1 ratio. Profit Rs. 60,000.

Solution.

$$C\text{'s ratio share} = 60{,}000 \times 1/6 = \text{Rs. } 10{,}000.$$

$$\text{Deficiency} = 20{,}000 - 10{,}000 = \text{Rs. } 10{,}000.$$

$$A\text{'s burden} = 10{,}000 \times 2/3 = \text{Rs. } 6{,}666.67, \quad B\text{'s} = \text{Rs. } 3{,}333.33.$$

Final: $A = 30{,}000 - 6{,}666.67 = 23{,}333.33$; $B = 20{,}000 - 3{,}333.33 = 16{,}666.67$; $C = 20{,}000$. Sum $= 60{,}000$. ✓

12.6 Worked Example 5 – Manager's Commission (Charge before partner appropriations)

Question. Profit before any appropriation Rs. 1,00,000. Manager (a non-partner) is entitled to 10% commission on profit *before* charging his commission. Compute commission and profit available for distribution to partners.

Solution.

$$C = 1{,}00{,}000 \times \frac{10}{100} = \text{Rs. } 10{,}000.$$

Profit available for distribution to partners $= 1{,}00{,}000 - 10{,}000 = \text{Rs. } 90{,}000.$

12.7 Worked Example 6 – Manager's Commission (after charging commission)

Same data, except commission is 10% on profit *after* charging commission.

$$C = 1{,}00{,}000 \times \frac{10}{100 + 10} = 1{,}00{,}000 \times \frac{10}{110} = \text{Rs. } 9{,}091.$$

Verification: Profit after commission $= 1{,}00{,}000 - 9{,}091 = 90{,}909$. Check: $90{,}909 \times 10\% = 9{,}091$. ✓

13 Journal Entries – Quick Reference

13.1 For Interest on Capital

- Interest on Capital A/c Dr.
  To Partners' Capital / Current A/c
  (Allowed)
- P&L Appropriation A/c Dr.
  To Interest on Capital A/c
  (Transferred to P&L App A/c)

13.2 For Salary to Partner

- Salary to Partner A/c Dr.
  To Partner's Capital / Current A/c
- P&L Appropriation A/c Dr.
  To Salary to Partner A/c

13.3 For Interest on Drawings

- Partner's Capital / Current A/c Dr.
  To Interest on Drawings A/c
- Interest on Drawings A/c Dr.
  To P&L Appropriation A/c

13.4 For Share of Profit / Loss

- Profit: P&L Appropriation A/c Dr.
  To Partners' Capital / Current A/c (in PSR)
- Loss: Partners' Capital / Current A/c Dr.
  To P&L Appropriation A/c

13.5 For Interest on Partner's Loan (Charge)

- Interest on Partner's Loan A/c Dr.
  To Partner's Loan A/c
  (Charged to P&L A/c, not P&L App A/c)

14 Five Tested Topic-Type Patterns – CBSE Question Bank

14.1 Pattern 1: "No deed exists" – apply Section 13

Distribution: equal profit-share; no IOC/IOD/salary; 6% on loan as charge.

14.2 Pattern 2: P&L Appropriation – multiple appropriations

Sequence: take Net Profit + IOD; subtract IOC, Salary, Commission; split residue in PSR. Always begin with the P&L App A/c T-format.

14.3 Pattern 3: Capital A/c – fixed vs. fluctuating

Verify the method specified, then route each entry to Capital A/c (permanent items) or Current A/c (appropriations + drawings).

14.4 Pattern 4: Interest on drawings – pick the right method

Equal regular drawings ⇒ average-period shortcut. Multiple irregular drawings ⇒ product method. Single one-off withdrawal ⇒ direct (SI) method.

14.5 Pattern 5: Guarantee – read who bears the deficiency

"Borne by A and B" ⇒ in their inter-se PSR unless otherwise specified. "Borne by A alone" ⇒ entire deficiency from A's share.

15 JEE / CUET / Commerce-Stream Extensions

Class 12 Accountancy is not a JEE subject, but the partnership-accounting blocks taught in NCERT chapter 1 are heavily reused in CUET-UG, the CA Foundation Principles of Accounting paper, and entry-level commerce internships. The two sub-sections below highlight the most-tested "stretch" items: manager's commission (commonly an MCQ trap) and the Sec. 40(b) ceiling on partner remuneration (asked verbatim in CMA Foundation and CS Executive papers).

Real-World Application

The same five-step sequence (entitlements − original credits = net effect) is used by Chartered Accountants whenever a partnership's books are reopened to correct an omission spotted during audit. It also underlies the Sec. 40(b) deduction working that tax auditors do for every partnership's ITR-5.

15.1 Manager's Commission

If a non-partner manager is to get r% commission, two sub-cases:

$$C_{\text{before}} = \text{Profit} \times \frac{r}{100}, \qquad C_{\text{after}} = \text{Profit} \times \frac{r}{100 + r}.$$

Note: Manager's commission is a *charge* (in P&L A/c), not an appropriation.

15.2 Income-tax view of partnership accounting

Under Sec. 40(b) of the Income-tax Act, 1961, the maximum allowable partner's salary deduction is:

$$\text{Book Profit up to Rs. 6,00,000:} \quad \max(\text{Rs. 3,00,000},\ 90\% \text{ of book profit});$$

$$\text{Book Profit above Rs. 6,00,000:} \quad 60\% \text{ of book profit}.$$

(Updated rates from FY 2024-25 onwards.)

Memory aid – "CASD" for past adjustments

C = compute Correct entitlement; **A** = note the Allocated original credit (old PSR); **S** = Subtract original from correct to get the net; **D** = Debit losers, credit gainers in one combined entry. Sum must be zero.

Time-saver in the exam

Before drafting the full P&L Appropriation A/c, jot down a 3-line scratchpad: (i) Net Profit, (ii) total of fixed appropriations (IOC + Salary + Commission), (iii) residue. If (iii) is negative the question is a proportionate-distribution variant; if positive, split the residue in PSR. This catches the "insufficient profit" trap before you waste two minutes on the wrong format.

16 Common Mistakes Summary

1. Mixing capital and current account entries under fixed-capital method.
2. Treating interest on partner's loan as an appropriation (it is a *charge*).
3. Forgetting to apply Section 13 defaults when the question says "no deed".
4. Computing the wrong average period (e.g. using 6 instead of 6.5 for beginning-of-month).
5. Splitting guarantee deficiency in the *wrong* ratio, read the question carefully.
6. In past adjustment, forgetting to subtract the original profit credit.

17 Important CBSE Previous-Year Questions – Solved

17.1 CBSE 2024 (6-mark numerical)

Q. A and B are partners sharing 3:2 with capitals Rs. 5,00,000 and Rs. 3,00,000. Net profit Rs. 1,50,000. Deed allows: IOC @ 10% p.a. Salary to B Rs. 4,000 p.m. IOD A Rs. 4,500 and B Rs. 3,000. Prepare P&L App A/c.

Solution.

- IOC: A = 50,000; B = 30,000. Salary B = 48,000.
- Net profit + IOD = $1{,}50{,}000 + 7{,}500 = 1{,}57{,}500$.
- Less appropriations = $50{,}000 + 30{,}000 + 48{,}000 = 1{,}28{,}000$.
- Divisible profit = $1{,}57{,}500 - 1{,}28{,}000 = 29{,}500$.
- A's share = $29{,}500 \times 3/5 = 17{,}700$; B's share = $11{,}800$.

17.2 CBSE 2023 (6-mark)

Q. L, M, N share profits 2:2:1. N's share is guaranteed at Rs. 25,000 by L and M equally. Profit Rs. 90,000. Distribute.

Solution.

- N's ratio share = $90{,}000 \times 1/5 = 18{,}000$. Deficiency = $25{,}000 - 18{,}000 = 7{,}000$.
- L and M each bear Rs. 3,500.
- L = $36{,}000 - 3{,}500 = 32{,}500$; M = $36{,}000 - 3{,}500 = 32{,}500$; N = $25{,}000$. Sum = $90{,}000$. ✓

17.3 CBSE 2022 (3-mark conceptual)

Q. State any three differences between Profit & Loss A/c and Profit & Loss Appropriation A/c.

Answer.

1. P&L A/c is prepared by every business; P&L App A/c only by partnership firms.
2. P&L A/c records charges against profit (interest on loan, manager's commission); P&L App A/c records appropriations (IOC, salary, commission to partners, share of profit).
3. P&L A/c balance is the net profit; P&L App A/c distributes that net profit among partners.

17.4 CBSE 2021 (4-mark)

Q. A withdraws Rs. 1,500 at the beginning of each month, B Rs. 1,500 at the end of each month, and C Rs. 4,500 at the beginning of each quarter for the year ending 31 March 2026. Calculate interest on drawings @ 10% p.a. for each.

Solution.

- A: Total $= 18{,}000$; avg period 6.5 months. Interest $= 18{,}000 \times 10\% \times 6.5/12 = 975$.
- B: Total $= 18{,}000$; avg period 5.5 months. Interest $= 18{,}000 \times 10\% \times 5.5/12 = 825$.
- C: Total $= 18{,}000$; avg period 7.5 months. Interest $= 18{,}000 \times 10\% \times 7.5/12 = 1{,}125$.

18 Topic-Wise Mind Map of the Chapter

High-yield topics ranked by CBSE marks-per-chapter (last 5 years)

1. Profit & Loss Appropriation A/c — 6 marks
2. Past Adjustment (single combined entry) — 4–6 marks
3. Guarantee of minimum profit — 4 marks

4. Interest on Drawings (any method) 3 marks
5. Section 13 defaults / Partnership Deed contents 3 marks
6. Fixed vs. Fluctuating capital – distinguishing items 3 marks

19 Frequently Asked Conceptual Questions

19.1 Q1. Why is the P&L Appropriation A/c prepared separately from the P&L A/c?

Because it segregates *charges* against profit (which reduce profit before sharing) from *appropriations* of profit (which are made out of computed profit). This is important for: (a) computing taxable book profit (Sec. 40(b) Income-tax Act 1961); (b) showing partners clearly what they have received; (c) compliance with disclosure standards.

19.2 Q2. Can a partner be guaranteed a profit even if the firm makes a loss?

Only if the guarantee is given by other partners personally. The firm cannot guarantee out of profits that do not exist; in that case the guaranteeing partner(s) must contribute the deficiency from their own pockets (capital A/c).

19.3 Q3. What is the difference between salary and commission to a partner?

Salary is a fixed monthly amount; commission is a percentage of (net profit or sales). Both are appropriations, not charges. Both are journalised through the P&L App A/c.

19.4 Q4. Why is partner's loan interest treated as a charge?

Because Section 13(d) of the Indian Partnership Act, 1932 treats the partner as a *creditor* for the loan amount. Just like any other lender's interest, this interest is paid even if the firm has a loss; it is not a distribution of profit.

19.5 Q5. What happens if a partner introduces additional capital during the year?

Interest on capital is computed on the opening balance for the full year plus on the additional capital for its actual outstanding period. Worked example: opening

Rs. 50,000, additional Rs. 30,000 on 1 October, rate 10%:

$$\text{IOC} = 50{,}000 \times 10\% \times 12/12 + 30{,}000 \times 10\% \times 6/12 = 5{,}000 + 1{,}500 = 6{,}500.$$

19.6 Q6. Can a partnership exist between two minors?

No. A minor can only be *admitted to the benefits* of an existing partnership (Sec. 30, Indian Partnership Act, 1932). He cannot be a full partner since he cannot contract.

19.7 Q7. What is the maximum number of partners?

50, as prescribed by Rule 10 of the Companies (Misc.) Rules, 2014 under the Companies Act, 2013.

20 Additional Practice Problems with Hints

20.1 Practice 1

Q. P and Q are partners with capitals Rs. 2,00,000 and Rs. 1,00,000 sharing profits 3:2. No deed exists. The firm earned Rs. 80,000 during the year. How will it be distributed?

Hint. "No deed" ⇒ Section 13 defaults ⇒ equal sharing irrespective of capital. So P = Rs. 40,000; Q = Rs. 40,000.

20.2 Practice 2

Q. Akhil and Bharat are partners sharing 7:3. Akhil's capital is Rs. 80,000 and Bharat's is Rs. 60,000. Profit before interest and salary is Rs. 30,000. IOC @ 10% and salary to Bharat Rs. 1,500 p.m. Profit is to be distributed as appropriations only *out of available profit*. Distribute.

Hint. Required appropriations $= (8{,}000 + 6{,}000) + 18{,}000 = 32{,}000 > 30{,}000$. Therefore, appropriate *in proportion* to the entitlements:

- Total of IOC + Salary = $32{,}000$.
- Ratio of appropriations: A : B = $8{,}000 : (6{,}000 + 18{,}000) = 8{,}000 : 24{,}000 = 1 : 3$.
- Available profit $30{,}000$ split in $1 : 3$ ⇒ A = $7{,}500$; B = $22{,}500$.

20.3 Practice 3

Q. Anu, Bina and Chitra share profits in ratio 4:3:3. Chitra is guaranteed Rs. 30,000 minimum. Deficiency to be borne by Anu and Bina in the ratio 3:1. Profit Rs. 80,000. Distribute.

Hint.

- Chitra's ratio share = $80{,}000 \times 3/10 = 24{,}000$. Deficiency = $6{,}000$.
- Anu bears $6{,}000 \times 3/4 = 4{,}500$; Bina bears $6{,}000 \times 1/4 = 1{,}500$.
- Final: Anu $= 32{,}000 - 4{,}500 = 27{,}500$; Bina $= 24{,}000 - 1{,}500 = 22{,}500$; Chitra $= 30{,}000$. Sum = $80{,}000$. ✓

20.4 Practice 4

Q. Vikas withdrew Rs. 2,000 on the first day of every alternate month (April, June, August, October, December, February) during the year ending 31 March 2026. Rate of interest 12% p.a. Compute interest.

Hint. Six drawings; periods from each drawing to year-end: 12, 10, 8, 6, 4, 2 months. Total $= 12{,}000$. Sum of products $= 2{,}000 \times (12 + 10 + 8 + 6 + 4 + 2) = 2{,}000 \times 42 = 84{,}000$.

$$\text{Interest} = \frac{84{,}000}{12} \times \frac{12}{100} = 7{,}000 \times 0.12 = \text{Rs. } 840.$$

21 Chapter Summary – One-Page Revision

Quick Revision Map

1. **Definition.** Partnership = relation among ≥ 2 persons to share profits of a lawful business.
2. **Deed.** Written agreement; preferred for commercial, legal (Sec. 69), and tax (Sec. 184) reasons.
3. **Without deed.** Sec. 13: equal share; no IOC/IOD/salary; 6% on partner's loan (charge).
4. **Capital methods.** Fixed = Capital + Current; Fluctuating = single Capital A/c.
5. **P&L App A/c.** Records IOC, salary, commission, share of profit; not loan interest.
6. **IOC formula.** Capital $\times$ R/100 $\times$ T/12.
7. **IOD methods.** Direct, Product, Average-Period (memorise 6 standard periods).
8. **Guarantee.** Ratio share $\rightarrow$ deficiency $\rightarrow$ debit guaranteeing partner(s).
9. **Past adjustment.** Net = correct $-$ original; column sum $= 0$; single journal entry.

End of Notes – Class 12 Accountancy Chapter 1