

## PAST ADJUSTMENTS

Sometimes after closing of partnership firm's accounts, some errors/omissions in the accounts of the earlier years are noticed.

- eg -
- \* Interest on Capital
  - \* Interest on Drawings
  - \* Allowed/charged at higher/lower rate
  - \* wrong distribution of profits/losses

These errors and omissions are rectified by adjusting the Capital Accounts of the affected partners by passing

- (a) an adjustment entry
- (b) adjustment entries

### A An adjustment entry.

Step 1 - Prepare an adjustment Table

- \* with one column for particulars
- \* one for each partner
- \* one for the firm.

Step 2 - Calculate interest on capital earlier omitted and place it

- \* in credit columns of respective partners
- \* in debit column of the firm.



Date.....

**Step 3** - Calculate interest on drawings earlier omitted and place it  
\* in debit columns of respective partners

**Step 4** - Repeat the process for any other expense or income omitted  
eg- Salary, Commission etc  
\* credit columns of the firm.

**Step 5** - Find out balance of columns of the firm. This will disclose net profit / net loss.

**Step 6** - Divide the profit / loss among partners in their profit sharing ratio.

**Step 7** - Find the balance of each partner separately.

**Step 8** - Pass an adjustment journal entry with the amount determined as per step 7.

## **B** Adjustment entries

\* Journal entries are passed for each error or omission by debiting or crediting

**PROFIT AND LOSS ADJUSTMENT ACCOUNT**



(i) Adjustment entries for the items which are to be credited to Partners' Capital / Current Accounts.

Profit & Loss Adjustment A/c — Dr
To Partners' Capital / Current A/c

(ii) Adjustment entries for the items which are to be debited to the Partners' Capital / Current Accounts.

Partners' Capital / Current A/c — Dr
To Profit & Loss Adjustment A/c

(iii) For Net Profit / Loss.

(a) Profit

Profit & Loss Adjustment A/c — Dr
To Partners' Capital / Current A/c

(b) Loss

Partners' Capital / Current A/c — Dr
To Profit & Loss Adjustment A/c



Eg - 1 -

P, Q, R are partners in a firm. Their Capitals stand at ₹ 30,000; ₹ 15,000 and ₹ 15,000 respectively on 1 April, 2018

As per Partnership deed:

- (i) R was to be allowed remuneration of ₹ 3000 p.a.
- (ii) Interest @ 5% p.a. was to be allowed on capital
- (iii) Profits were to be distributed in the ratio of 2:2:1.

Ignoring the above terms, net profit of ₹ 18,000 for the year ended 31 March 2019 was distributed among the three partners equally.

Pass an adjustment entry.

Solution - (a) Adjustment Entry.

Adjustment Entry

Date	Particulars	Dr (₹)	Cr (₹)
2019 April 1	Q's Capital A/c Dr To P's Capital A/c To R's Capital A/c (Adjustment for omission)	450	300 150

Workings -ADJUSTMENT TABLE

Particulars	P		Q		R		Firm		
	Dr	Cr	Dr	Cr	Dr	Cr	Dr	Cr	
* Profit already distributed now debited (1:1:1)	6000		6000		6000			18,000	
* Interest on Capital		1500		750		750	3000		
* Remuneration						3000	3000		
* Profit distributed (2:2:1)		4800		4800		2400	12000		
Total	6000	6300	6000	5550	6000	6150	18000	18,000	
Net Effect Dr/Cr		300 (Cr)		450 (Dr)		150 (Cr)			

Spiral



## (b) Adjustment Entries

Journal				
Date	Particulars	L.F	Dr. (₹)	Cr. (₹)
2019	P's Capital A/c — Dr		6000	
April 1	Q's Capital A/c — Dr		6000	
	R's Capital A/c — Dr		6000	
	To Profit & loss Adj. A/c (share of profit wrongly credited, now debited)			18000
	Profit & loss Adjustment A/c — Dr		3000	
	To P's Capital A/c			1500
	To Q's Capital A/c			750
	To R's Capital A/c			750
	(Interest on capital @ 5% pa credited)			
	Profit & loss Adjustment A/c — Dr		3000	
	To R's Capital A/c			3000
	(remuneration credited)			
	Profit & loss Adjustment A/c — Dr		12000	
	To P's Capital A/c			4800
	To Q's Capital A/c			4800
	To R's Capital A/c			2400
	(Divisible profit credited in 2:2:1 ratio)			