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Accounting for Partnership Firm- FUNDAMENTALS



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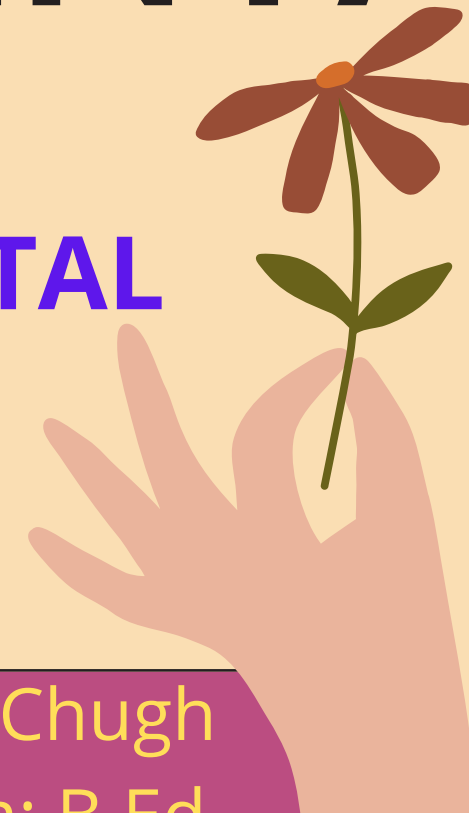
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Accounting for Partnership Firm- FUNDAMENTALS

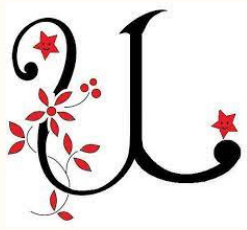
INTEREST ON CAPITAL

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M.Com; B.Ed.





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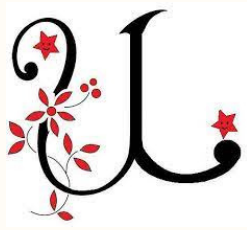
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Interest on Capital



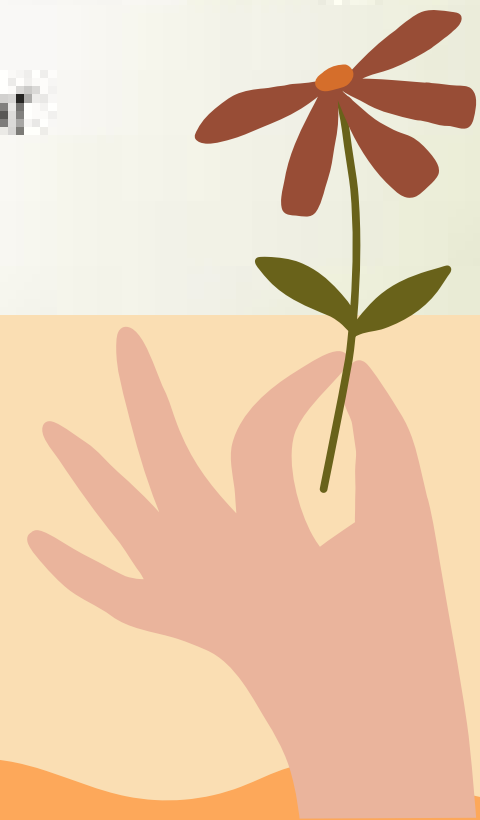
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Interest on Capital

Interest on partners' capital will be allowed only when it has been specifically mentioned in the partnership deed. Interest on Capital can be treated as either:

- a. An Appropriation of profit; or
- b. A Charge against profits





Interest on Capital



(a) For crediting interest on capital to partners' capital account :
Interest on Capital A/c Dr.
To Partners' Capital/Current A/c (Individually)

(b) For transferring interest on capital to profit and loss appropriation account
Profit and Loss Appropriation A/c Dr.
To Interest on Capital A/c

(c) Alternatively one entry can be passed
Profit and Loss Appropriation A/c Dr.
To Partner's Capital current A/c (Individually)



Calculation

Interest on Partners' Capital

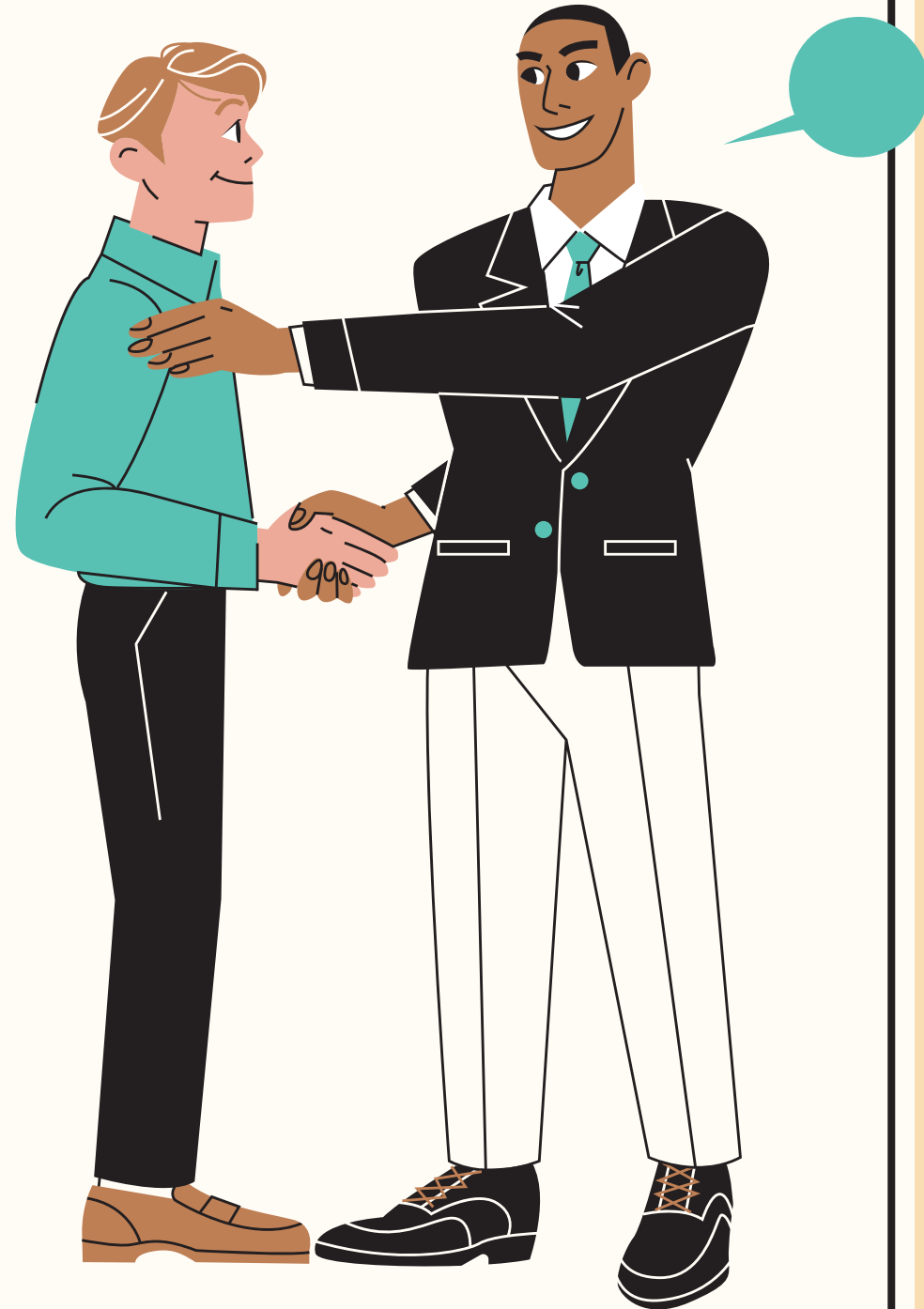


01





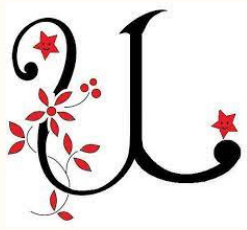
Interest on Capital



01

Interest on capital is calculated, for the period capital remain invested in the business





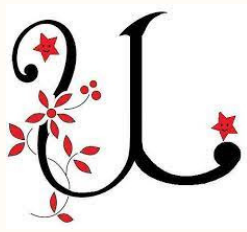
Nikunj Mani and Nitin were partners in a firm. Their capitals as on April 01, 2021 was ₹ 600,000 and ₹ 9,00,000 respectively.

On 1st July, 2021, Nikunj Mani introduced an additional capital of ₹ 1,50,000 and Nitin, ₹1,80,000.

On 1st October, 2021 Nikunj Mani withdrew ₹ 90,000.
On 1st January, 2022, Nitin withdrew, ₹ 45,000 from his capitals.

Interest is allowed @ 8%p.a.

Calculate interest that will be paid to both the partners on their capitals during the financial year 2021-2022



Interest on Capital

01

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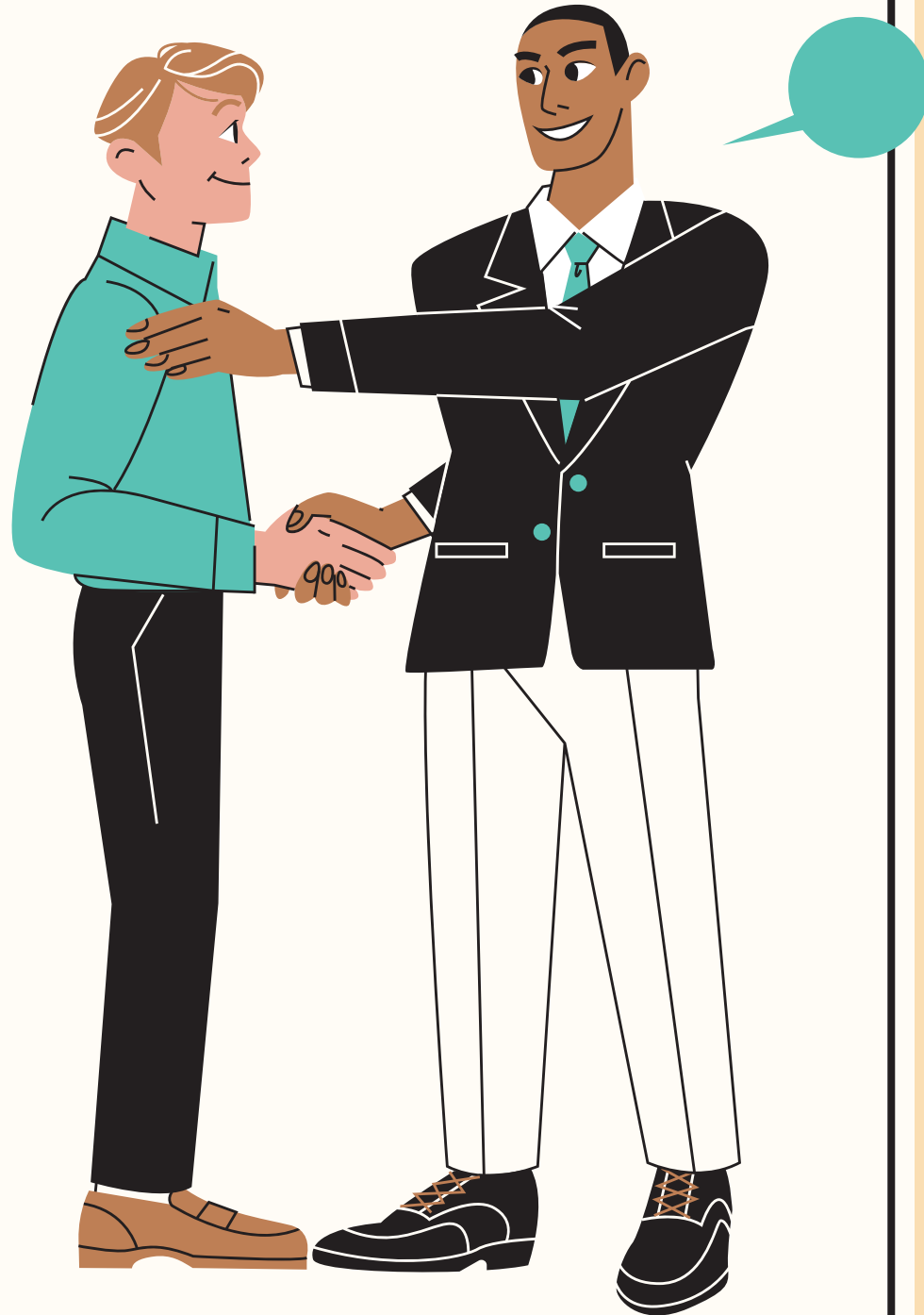
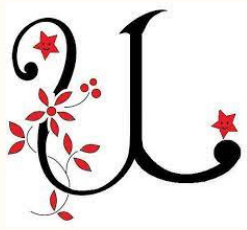
Calculation

Interest on Partners' Capital

when closing capitals are given

02

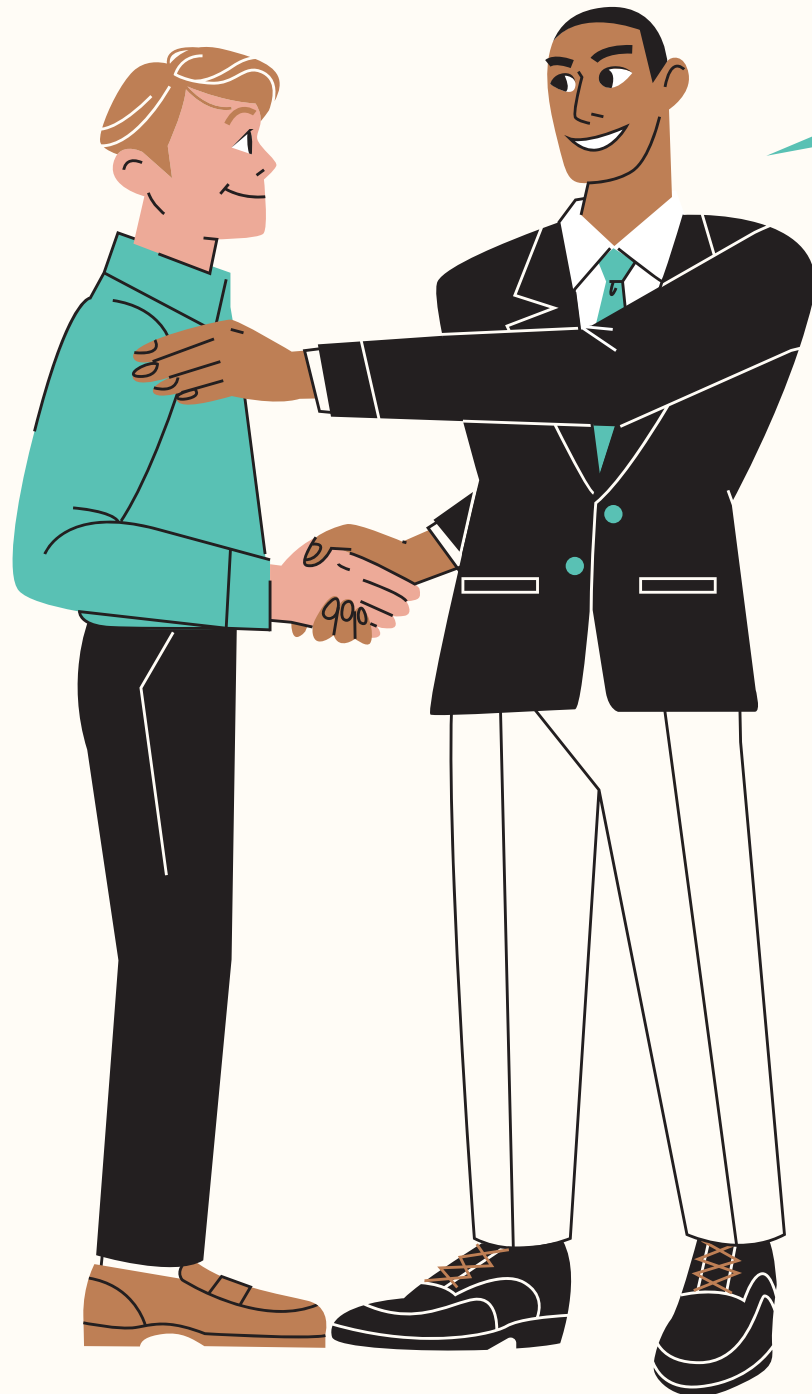
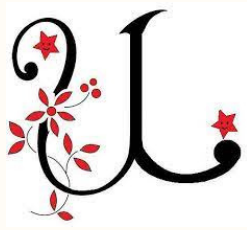




02

Interest on capital is always calculated on the opening balance of capital i.e. partners' capital at the beginning of the years.





Nikunj Mani and Nitin were partners in the ratio of 1 : 1

Their capitals at the end of the financial year 2021-2022 were ₹ 4,00,000 and ₹ 2,00,000.

During the year Nikunj Mani 's drawings were ₹ 50,000 and the drawings of Nitin were ₹ 20,000 which was duly debited to partners' capital accounts.

Profits before charging interest on capital for the year was ₹ 60,000.

Nitin bought additional capital of ₹ 40,000 on October 1, 2021.

Calculate interest on capital @ 10% p.a. for the year 2021-2022, if firm closes its books on 31st March every year





Interest on Capital

Sol

02

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Calculate interest on capital @ 10% p.a. for the year 2021-2022, if firm closes its books on 31st March every year

Calculation

Interest on Partners' Capital

Different cases related to interest on capital according to
partnership agreement.

03



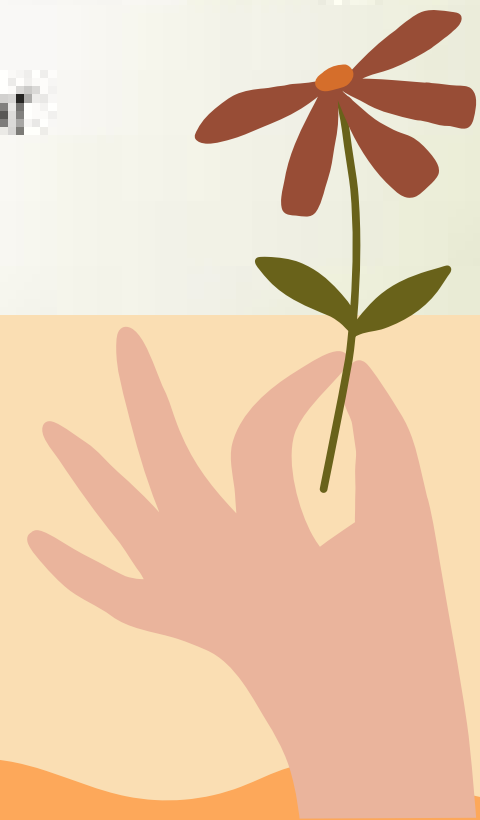


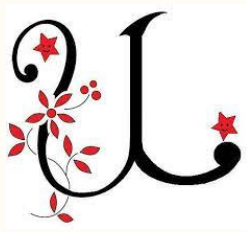
Interest on Capital

03

Interest on partners' capital will be allowed only when it has been specifically mentioned in the partnership deed. Interest on Capital can be treated as either:

- a. An Appropriation of profit; or
- b. A Charge against profits





Interest on capital is allowed only if there is a profit. But

(a) In case of profit, if profit before interest is equal or more than interest. Interest on capital is allowed at the agreed rate.

(b) In case of profit, if profit before interest is less than interest. Interest on capital will be given to the extent of profit in the ratio of interest on capital of each partner.

(c) In case of loss.

(1) Interest on capital is not allowed.

(2) When the partnership agreement provides that interest on capital will be allowed as a charge (i.e. interest will be allowed whether there is profit or loss)



Sol

Nikunj Mani and Nitin were partners in the ratio of 3 : 2. Their capital balances on 1st April, 2021 were ₹2,25,000 and ₹3,00,000 respectively. Calculate interest on capital and profit of each partner.

CASE 03 (a)

When the partnership deed is silent about the payment of interest on capital and the profit for the year was ₹75,000



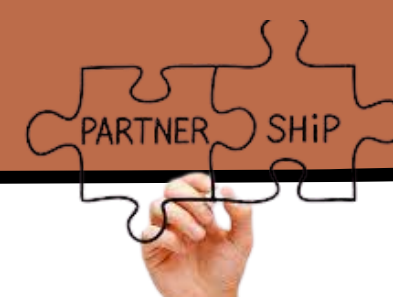


Sol

Nikunj Mani and Nitin were partners in the ratio of 3 : 2. Their capital balances on 1st April, 2021 were ₹2,25,000 and ₹3,00,000 respectively. Calculate interest on capital and profit of each partner.

CASE 03 (b)

When partnership deed provides for interest on capital @ 8% p.a. and the firm earned a profit of ₹ 75,000 during the year



Sol

Nikunj Mani and Nitin were partners in the ratio of 3 : 2. Their capital balances on 1st April, 2021 were ₹2,25,000 and ₹3,00,000 respectively. Calculate interest on capital and profit of each partner.

CASE 03 (c)

When the partnership deed provides for interest on capital @ 8% p.a. and the firm earned a profit of ₹ 21,000 during the year





Sol

Nikunj Mani and Nitin were partners in the ratio of 3 : 2. Their capital balances on 1st April, 2021 were ₹2,25,000 and ₹3,00,000 respectively. Calculate interest on capital and profit of each partner.

CASE 03 (d)

When the partnership deed provides for interest on capital @ 8% p.a. and the firm incurred a loss of ₹ 15,000 during the year



Sol



Nikunj Mani and Nitin were partners in the ratio of 3 : 2. Their capital balances on 1st April, 2021 were ₹2,25,000 and ₹3,00,000 respectively. Calculate interest on capital and profit of each partner.

CASE 03 (e)

When the partnership deed provides for interest on capital @ 8% p.a. as a *charge and the firm earned a profit of ₹ 18,000

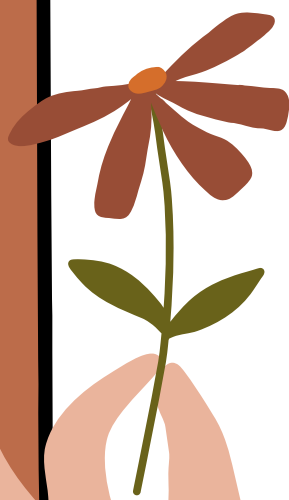


To Do:

Partner Suresh has capital of ₹10,00,000 on 1st April, 2018 against which he withdraws ₹2,00,000 on 1st July, 2018.

Partnership Deed provides interest on capital @ 10% p.a.

Calculate Interest on capital for the year ended 31st March 2019.





Excercise



1

1. On 1st April 2018, S's Capital was ₹2,00,000. On 1st October 2018, he introduces additional capital of ₹1,00,000. Interest on capital @ 6% p.a. on 31st March, 2019 will be :

(A) ₹9,000

(C) ₹10,500

(B) ₹18,000

(D) ₹15,000



Excercise



2

2. X and Y are partners in the ratio of 3 : 2. Their capitals are ₹2,00,000 and ₹1,00,000 respectively. Interest on capitals is allowed @ 8% p.a. Firm incurred a loss of ₹60,000 for the year ended 31st March 2019. Interest on Capital will be :

(A) X ₹16,000; Y ₹8,000

(C) X ₹14,400; Y ₹9,600

(B) A ₹8,000; Y ₹4,000

(D) No Interest will be allowed



Excercise



3

3. X and Y are partners in the ratio of 3 : 2. Their capitals are ₹2,00,000 and ₹1,00,000 respectively. Interest on capitals is allowed @ 8% p.a. Firm earned a profit of ₹15,000 for the year ended 31st March 2019. As per partnership agreement, interest on capital is treated a charge on profits. Interest on Capital will be :

(A) X ₹16,000; Y ₹8,000

(C) X ₹10,000; Y ₹5,000

(B) X ₹9,000; Y ₹6,000

(D) No Interest will be allowed



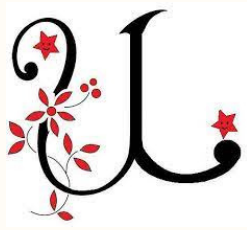
Additional Resources



<https://uniquelearning.in>



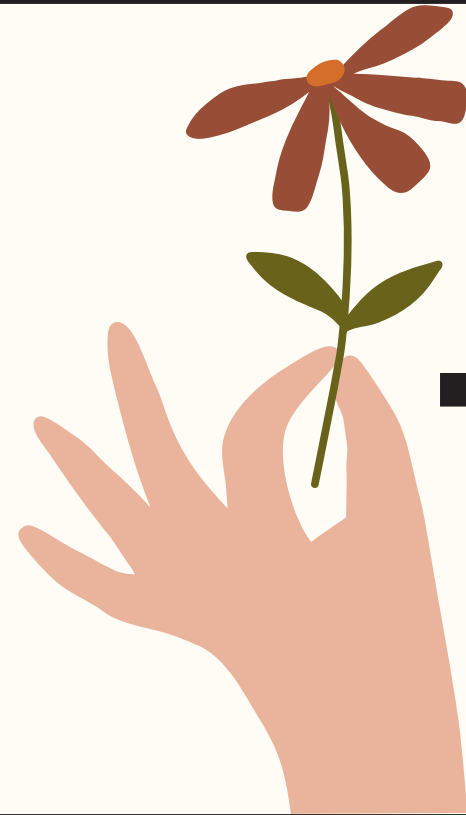
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Thank you!

Feel free to approach us
if you have any questions.
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