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**Calulation of Interest on Loan**

Partner	Amount	Date	Period (Months)	Interest Rate	Interest
Loan by Firm to Pawan	500000	01-Apr-21	12	10%	50000
Loan by Nirmal to Firm	200000	01-Oct-21	6	6%	6000

**Excerpts from Profit and Loss A/c**

Particulars	Amount	Particulars	Amount
Net Loss (Before Adjustments)	10000	By Interest on loan to Pawan	50000
To Interest on Loan to Nirmal	6000		
<b>Net Loss transferred to P &amp; L Appr A/c</b>	<b>34000</b>		
<b>Total</b>	<b>50000</b>	<b>Total</b>	<b>50000</b>

**Or Can also solve directly as below**

Loss before above adjustments	10000
Less - Interest on Loan to Pawan (subtract as there is net loss and not net profit)	50000
Add - Interest on loan from Nirmal (Add as there is net loss and not net profit)	6000

Total distributable profit (Transfer to P & L Appropriation A/c)

34000

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### Calculation of Interest on Loan

Partner	Amount	Date	Period (Months)	Interest Rate	Interest
Loan by Ankit to Firm	250000	01-Oct-21	6	6%	7500
Loan by Bhanu to Firm	250000	01-Oct-21	6	6%	7500
Loan by firm to Charu	100000	01-Oct-21	6	6%	3000

### Journal Entries

S No	Date	Description	Dr	Cr
1	01-Oct-21	Bank A/c Dr.. To Ankit's Loan A/c To Bhanu's Loan A/c (Loan Taken by firm from partners)	500000	250000 250000
2	01-Oct-21	Loan to Charu A/c Dr.. To Bank A/c (Loan given to Charu by firm)	100000	100000
3	31-Mar-21	Interest on Ankit's Loan A/c Dr.. To Ankit's Loan A/c	7500	7500
4	31-Mar-21	Interest on Bhanu's Loan A/c Dr.. To Bhanu's Loan A/c	7500	7500
5	31-Mar-21	Profit & Loss A/c Dr..	15000	

		To Interest on Ankit's Loan A/c		7500
		To Interest on Bhanu's Loan A/c		7500
		(Interest transferred to Profit & Loss A/c)		
6	31-Mar-21	Charu Capital A/c Dr..	3000	
		To Interest on Loan to Charu		3000
7	31-Mar-21	Interest on Loan to Charu A/c Dr..	3000	
		To Profit & Loss A/c		3000

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Profit & Loss Appropriation A/c			
Particulars	Amount	Particulars	Amount
To Interests on Capital		By Net profit	80000
Vinod @ 6%	6000		
Mohan @ 6%	3600		9600
To Vinod Salary	36000		
To Profit Transferred :			
Vinod Capital A/c	17200		
Mohan Capital A/c	17200		34400
Total	<u>80000</u>	Total	<u>80000</u>

34400

**Working Note :**

Since profit sharing ratio is not given so we have assumed it to be equal

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Profit & Loss Appropriation A/c			
Particulars	Amount	Particulars	Amount
To Interest on Capital		By Net profit	424000
X @ 10%	50000	(Before Z Salary)	
Y @ 10%	50000		
Z @ 10%	25000		
	125000		
To Z Salary	24000		
To Profit Transferred :			
X Current A/c	110000		
Y Current A/c	110000		
Z Current A/c	55000		
	275000		275000
Total	<u>424000</u>	Total	<u>424000</u>

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Profit & Loss Appropriation A/c			
Particulars	Amount	Particulars	Amount
To Interest on Capital		By Net profit	285000
X @ 5%	40000	(See note below)	
Y @ 5%	30000		
	70000		
To Y Salary	60000		
To Profit Transferred :			

X Capital A/c	93000		
Y Capital A/c	62000	155000	
Total	<u>285000</u>	Total	<u>285000</u>

155000

**Working Note :**

Net profit (Given in question)	240000
Add - Y's Salary	60000
Net profit before Y's Salary	300000
Less - Prov for Manager's Commission (5%)	15000
<b>Net Profit transferred to P&amp;L Appr A/c</b>	<b>285000</b>

16	Profits before any adjustment	228000
	Less - Interest on Loan from Atul @ 8%	24000
	Add - Interest on Loan to Mithun @ 8%	16000
	Profit transferred to P & L Appr A/c	220000

*Alternatively, one can prepare profit and loss A/c for the above adjustment for more clarity*

Profit & Loss Appropriation A/c			
Particulars	Amount	Particulars	Amount
To Interest on Capital		By Net profit	220000
Atul @ 10%	50000		
Mithun @ 10%	60000	By Interest on Drawings	
	110000	Atul	5000

		Mithun	5000	10000	
To Profit Transferred :					
Atul Current A/c	72000				
Mithun Current A/c	48000	120000			
Total		<u>230000</u>	Total	<u>230000</u>	120000

**Note :**

Share of profit transferred to current A/c as capital A/cs are maintained on fixed basis

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Profit & Loss Appropriation A/c			
Particulars	Amount	Particulars	Amount
To Net Loss	100000		
		By Interest on Drawings	
		Reema @ 10% pa	3000 (for 6 months)
		Seema @ 10% pa	3000 6000 (for 6 months)
		To Net Loss Transferred :	
		Reema	47000
		Seema	47000 94000
Total	<u>100000</u>	Total	<u>94000</u>

**Note :**

No Interest on Capital and salary provided as firm has incurred a loss

18	Profits before any adjustment	120000
	Less - Interest on Capital to Bhanu @ 10%	80000
	Less - Interest on Capital to Pratap @ 10%	100000
	Profit transferred to P & L Appr A/c	-60000 (Loss)

Profit & Loss Appropriation A/c			
Particulars	Amount	Particulars	Amount
To Net Loss	60000		
		By Interest on Drawings	
		Bhanu (6 months)	3750
		Pratap (6 Months)	7500
			11250
		To Net Loss Transferred :	
		Bhanu Current A/c	24375
		Pratap Current A/c	24375
			48750
Total	<u>60000</u>	Total	<u>60000</u>

**Note :**

Interest on drawings charged for 6 months assuming that the drawings are made at the middle of each month  
Share of loss transferred to current A/c as capital A/cs are maintained on fixed basis

19	Interest on Capital A/c	Dr..	40000
	To Amit Current A/c		15000
	To Sumit Current A/c		25000

Profit & Loss Appropriation A/c	Dr..	40000	
To Interest on Capital A/c			40000

**Or**  
**Combined single entry can be passed**

Profit & Loss Appropriation A/c	Dr..	40000	
To Amit Current A/c			15000
To Sumit Current A/c			25000

\*\*Current A/c used as fixed capital method is followed

**Working Note**

**Interest on capital is always paid on opening capital**

Description	Amit	Sumit
Opening Capital	150000	250000
Interest rate	10%	10%
Interest	15000	25000

**Calculation of Interest on Capital**

**Interest on capital will be calculated only for the period funds are actually used**

**Kamal**

Date	Amount	Period	Rate	Interest
01-Apr-21	500000	6	10%	25000
01-Oct-21	600000	6	10%	30000

**Total            55000**

**Kapil**

Date	Amount	Period	Rate	Interest
01-Apr-21	500000	6	10%	25000
01-Oct-21	400000	6	10%	20000
		<b>Total</b>		<b>45000</b>

Interest on Capital A/c	Dr..	100000	
To Kamal Current A/c			55000
To Kapil Current A/c			45000

Profit & Loss Appropriation A/c	Dr..	100000	
To Interest on Capital A/c			100000

**Or a combined single entry can be passed**

Profit & Loss Appropriation A/c	Dr..	100000	
To Kamal Current A/c			55000
To Kapil Current A/c			45000

<b>Profit &amp; Loss Appropriation A/c</b>			
Particulars	Amount	Particulars	Amount
To Interest on Capital		By Net profit	600000
Kamal	55000		
Kapil	45000	100000	

To Profit Transferred :

Kamal Current A/c	250000		
Kapil Current A/c	250000	500000	
Total	<u>600000</u>	Total	<u>600000</u> 500000

**Note :**

In the absence of information the profit sharing ratio is assumed to be equal

Interest on capital and profit will be transferred to partners current A/c as fixed capital system is followed