

21	Interest on Capital A/c	Dr..	20000		
	To Simran Current A/c			10000	(200000 X 5%)
	To Reema Current A/c			10000	(200000 X 5%)

(Interest on Capital)

*** In case fixed capital method is followed, interest on capital is calculated on fixed capital
Any balance in current A/c will be ignored*

Profit & Loss Appropriation A/c	Dr..	20000		
To Interest on Capital A/c			20000	

(Interest on Capital)

Profit & Loss Appropriation A/c	Dr..	280000		
To Simran Current A/c			168000	
To Reema Current A/c			112000	

(Share of Profits)

Profit & Loss Appropriation A/c			
Particulars	Amount	Particulars	Amount
To Interest on Capital		By Net profit	300000
Simran	10000		
Reema	10000	20000	

To Profit Transferred :

Simran Current A/c	168000
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Reema Current A/c	112000	280000		
Total		<u>300000</u>	Total	<u>300000</u>
				280000

Note :

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

22	Description	Anita	Ankita
	Capital as on 31-Mar-2021 (Opening)	500000	400000
	Interest @ 10%	50000	40000
	Interest on Capital A/c Dr..	90000	
	To Anita Current A/c	50000	
	To Ankita Current A/c	40000	
	(Interest on Capital)		
	Profit & Loss Appropriation A/c Dr..	90000	
	To Interest on Capital A/c	90000	
	(Interest on Capital)		

Note : The capital balance as on 31-Mar-2021 is given and Interest to be calculated for year ended 31-Mar-2022
So the capital balance as on 31-Mar-2021 is the opening capital on which interest to be calculated

- 23 **First we will calculate opening capital as closing capital after drawings is given in question**
Please note that here only drawings is adjusted in closing capital as per question

Description	Ashish	Aakash
Capital as on 31-Mar-2022 (Closing)	500000	600000
Add - Drawings	150000	100000
Opening Capital	650000	700000

Calculation of interest on capital

Interest @ 10%	65000	70000
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Interest on Capital A/c	Dr..	135000	
To Ashish Current A/c			65000
To Aakash Current A/c			70000
(Interest on Capital)			

Profit & Loss Appropriation A/c	Dr..	135000	
To Interest on Capital A/c			135000
(Interest on Capital)			

Alternately one single entry can be passed

Note:Capital given in question is only after drawings. Int on capital and profits are not yet adjusted as per language

Profit & Loss Appropriation A/c			
Particulars	Amount	Particulars	Amount
To Interest on Capital		By Net profit	500000
Ashish	65000		
Aakash	70000	135000	

To Profit Transferred :

Ashish Current A/c	219000			
Aakash Current A/c	146000	365000		
Total	<u>500000</u>	Total	<u>500000</u>	365000

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In this question nothing is mentioned whether fixed or fluctuating method is followed
In the absence of instructions fluctuating method is considered

Calculation of opening capital

Description	Naresh	Sukesh
Closing Balance	300000	300000
Add - Drawings against capital	50000	
Add - Drawings against Profits	100000	100000
Opening Capital	450000	400000

Calculation of interest on capital**Naresh**

Date	Amount	Period	Rate	Interest
01-Apr-21	450000	6	10%	22500
01-Oct-21	400000	6	10%	20000
		Total		42500

Sukesh

Date	Amount	Period	Rate	Interest
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01-Apr-21	400000	12	10%	40000
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Total	40000
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Journal Entries

Interest on Capital A/c	Dr..	82500	
To Naresh Capital A/c			42500
To Suresh Capital A/c			40000
(Interest on Capital)			

Profit & Loss Appropriation A/c	Dr..	82500	
To Interest on Capital A/c			82500
(Interest on Capital)			

Profit & Loss Appropriation A/c	Dr..	117500	
To Naresh Capital A/c			58750
To Suresh Capital A/c			58750

Note :

Partners profit sharing ratio is assumed to be equal

Concept :

Fixed or fluctuating capital method decides where you write the transactions.

So under fixed capital method opening capital, any additional capital, drawings against capital are written on capital A/c. All the rest of the transactions are written in current account

But if fluctuating capital method is followed then all transactions are written in capital A/c

Whereas

Drawings against capital and drawings against profits decides on which amount the interest on capital is paid
 So while calculating interest on capital drawings against capital is subtracted but drawings against profit is not subtracted

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In this question the total Interest on Capital > Available profits
So profits distributed in the ratio of interest on Capital

Profit & Loss Appropriation A/c			
Particulars	Amount	Particulars	Amount
To Interest on Capital		By Net profit	7800
Jay	4800		
Vijay	3000		
	7800		
Total	<u>7800</u>	Total	<u>7800</u>

Working Note :

Calculation of Interest on capital

Description	Jay	Vijay
Capital Contribution	80000	50000
Interest @ 9% pa	7200	4500
Total Interest on capital	11700	
Profit for the year	7800	

Here the profits for the year < total appropriations (i.e. interest on capital)
 So profit will be distributed in the ratio of total appropriations and not in profit sharing ratio

Calculation of ratio of total appropriations

Total Interest on capital	7200	4500
Ratio	8	5
Thus profits will be distributed in the ratio of Jay : Vijay = 8 : 5		
Distribution of profits	4800	3000

26	Description	A	B	Total
	Closing Balance	160000	140000	300000
	Add - Drawings	30000	30000	60000
	Balance opening capital (Inc Interest + Profit share)	190000	170000	360000
	Less - Profit share (Working Note)	37800	25200	63000
	Balance opening capital (Inc Interest)	152200	144800	
	Opening Capital (without Interest)	138364	131636	
	Working Note :			
	Calculation of Profit share			
	Total openig capital (Inc Interest + Profit share)	360000		
	Less - Profit during the year (Inc Interest)	90000		
	Total Opening Capital (Exc int and profit share)	270000		
	Total Interest on Capital @ 10%	27000		
	Now			
	Total Profits during the year	90000		

Less - Interest on Capital	27000
Divisible Profits	63000
A's share	37800
B's share	25200

Calculation of Interest on Capital

Let the opening capital be Rs 100

Then Interest on Capital will be Rs 10

Then Opening capital before Interest will be Rs 110

Now , if Opening Capital with interest is Rs 110 then Opening capital without interest is Rs 100

If it is Rs 1 then opening capital without interest is Rs 100 / 110

If it is Rs AAAAA then opening capital without interest is $(100/110 \times AAAAA)$

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In this question lot of information is given which is not relevant

When we see the balance sheet it shows that fixed capital method is followed

So ignore everything else and simply calculate interest on capital at the given rate

Description	Neelkant	Mahadev
Capital Balance	1000000	1000000
Interest @ 5%	50000	50000

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The balance sheet in the question shows that fluctuating method is followed

Description	Long	Short
Closing Balance	120000	140000
Add - Drawings	40000	50000
Less - Share of Profit	25000	25000
Opening Balance	135000	165000
Interest on Capital @ 8%	10800	13200

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Amit

Date	Amount	Period	Rate	Interest	
01-Apr-21	1500000	6	8%	60000	$1500000 \times 8/100 \times 6/12$
01-Oct-21	1200000	6	8%	48000	$1200000 \times 8/100 \times 6/12$
Total				108000	

Bramit

Date	Amount	Period	Rate	Interest	
01-Apr-21	900000	6	8%	36000	$900000 \times 8/100 \times 6/12$
01-Oct-21	1200000	6	8%	48000	$1200000 \times 8/100 \times 6/12$
Total				84000	

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Description	Moli	Bholi	Total
Capital	20000	10000	
Interest @ 6%	1200	600	1800
Ratio	2	1	3
Interest on Capital provided	1000	500	

In this case Total Interest > available profits so profits distributed in the ratio of interest on capital
Rs 1500 distributed in the ratio of 2:1

ii)	Total Profits available	1500
	Less - Interest on Capital as a charge	1800

Balance Loss	300
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Description	Moli	Bholi
Interest on Capital	1000	500
Less - Share in Loss (2:3)	120	180 (In the normal profit sharing ratio)