CHAPTER-1 ACCOUNTING FOR PARTNERSHIP FIRMS— FUNDAMENTALS

concept no.



Interest on Loan by Partner to the Firm

concept no.2

Interest on Loan by Partner to the Firm

If a partner has given loan or advance to the firm, **interest will be paid to the** partner at the agreed rate **as written in the Partnership Deed** or as agreed otherwise. In the **absence of an agreement**, the Indian Partnership Act, 1932 will apply and the lending partner will be paid interest **@ 6% p.a. on loan amount**

Interest on Loan by Partner=loan Amount X time X Rate

Accounting Treatment

Interest on loan by partner is credited to his Loan Account.
Journal entries passed are:

(i) On allowing Interest on Loan by Partner:
Interest on Loan by Partner A/c ...Dr.
To Loan by Partner A/c

(ii) On payment of interest:
Loan by Partner A/c ...Dr.
To Cash/Bank A/c

(iii) To close the Interest on Loan by Partner A/c:
Profit & Loss A/c ...Dr.
To Interest on Loan by Partner A/c

Loan Account and Capital Account of a partner are separately maintained in the books of account

concept no.2

Questions

Q.1) Akhil and Bharat are partners sharing profits and losses in ratio of 2 : 3 with capitals of ₹ 2,00,000 and ₹ 1,00,000 respectively. On 1st October, 2023, Akhil and Bharat gave loans of ₹ 4,00,000 and ₹ 2,00,000 respectively to the firm. The partners have not agreed to the rate of interest payable on the loan by partner. Determine the amount of profit or loss for the year ended 31st March, 2024 in each of the following cases to be distributed between the partners:
Case 1. If the Profit before interest for the year is ₹ 21,000.
Case 2. If the Profit before interest for the year is ₹ 15,000.
Case 3. If the Loss before interest for the year is ₹ 25,000
[ANS; CASE-1 Distributable Profit =3000,CASE-2 Distributable Loss = 3000 CASE-3 Distributable Loss = 43,000]

Q.2). Sita and Geeta are partners in a firm sharing profits in the ratio of 3 :2. They had given loan to the firm of ₹ 30,000 in their profit-sharing ratio on 1 st October, 2022.The Partnership Deed is silent on interest on loans from partners. Compute interest payable by the firm to the partners, assuming the firm closes its books every year on 31st March.
[Ans.: Interest payable to Sita—₹ 30,000 x 3/5 x 6/100 x 6/12 = ₹ 540; Interest payable to Geeta—₹ 30,000 x 2/5 x 6/100 x 6/12 = ₹ 360.]

Q.3) Vijay, Ajay and Suresh are partners sharing profits equally. Vijay had given loan to firm on 1st September, 2023 of ₹ 2,00,000. It was agreed that interest will be paid @ 12% p.a. Interest was paid by cheque up to February, 2024 on 1st March, 2024 and balance was paid on 5th April, 2024.Pass the Journal entries for interest on loan by partner for the year ended 31st March, 2024

{ANS :Interest from 1st September, 2023 to 31st March, 2024: Period: 7 months (September 2023 to March 2024) Interest = ₹2,00,000 × 12% × 7/12 = ₹14,000]

Q.4) Akhil, Sunil and Parvesh are partners sharing profits in the ratio of 3 : 2 :1. Sunil had given loan to firm on 1st November, 2023 of₹ 4,00,000. Interest payable was agreed @ 12% p.a. Interest was paid by cheque up to February, 2024 on 1 st March, 2024 and balance was yet to be paid.
Pass the Journal entries for interest on loan by partner.
[Ans.: Interest on Loan by Sunil up to February, 2024—₹ 16,000; Interest transferred to Profit & Loss A/c—₹ 20,000.]