CHAPTER-1 ACCOUNTING FOR PARTNERSHIP FIRMS— FUNDAMENTALS

concept no.



Interest on Loan by the Firm to Partner

concept no.3

Interest on Loan by the Firm to Partner

A firm may give loan to a partner. Interest on Loan by the firm to a partner is charged if it is agreed by the partners to charge interest. It is charged at the **agreed rate of interest.**
Thus, if the Partnership **Deed does not provide** for charging interest on loan given or agreement to charge **interest does not exist,** interest is not charged on the loan given by the firm to a partner

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

Accounting Treatment

(i) For Charging Interest on Loan to Partner:

Partner's Capital/Current A/c ...Dr.
To Interest on Loan to Partner A/c (Given)

(ii) If Interest on Loan to Partner is received:

Cash/Bank A/c ...Dr.
To Partner's Capital/Current A/c

(iii) For Transfer of Interest on Loan to Partner Account to Profit & Loss A/c:

Interest on Loan to Partner A/c ...Dr.
To Profit & Loss A/c



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Questions

Q.1) Dev, Jaspal and Prem are partners sharing profits equally. Prem had taken loan from the firm on 1st January, 2024 of ₹ 5,00,000. What Journal entries will be passed if Books are closed on 31st March
(a) Rate of interest is not agreed; and
(b) Rate of interest to be charged is agreed @ 10% p.a.?
[ANS: (a) In the absence of agreement, interest will not be charged on Loan to Partner. (b) Interest on Loan to Partner A/c 12,500

Q.2). Atul, Jetha and Tarak are partners sharing profits equally. Jetha was given loan by the firm on 1st July, 2023 of ₹ 6,00,000. Books are closed on 31st March. What Journal entries will be passed if
(a) Rate of interest is not agreed; and
(b) Rate of interest to be charged is agreed @ 10% p.a ?
[Ans.: (a) Interest will not be charged. Hence, no Journal entry will be passed; (b) Interest on Loan to Jetha (up to 31st March, 2024)–₹ 45,000.]

Q.3) Parul, Paresh and Rahul are partners in a firm. Firm gave loan to Rahul on 1st February, 2023 of ₹ 6,00,000. Interest was agreed to be charged @ 6% p.a. Interest was paid by cheque up to February, 2024 by Rahul on 5th March, 2024 and balance was yet to be paid by him.
Pass the Journal entries for interest on loan to partner.
[Ans.: Interest on Loan to Rahul (for February, 2024)–₹ 3,000; Interest transferred to Profit & Loss A/c (up to 31st March, 2024)–₹ 6,000.]