CHAPTER-1 ACCOUNTING FOR PARTNERSHIP FIRMS— FUNDAMENTALS

concept no.



Calculation of Interest on Partners' Drawings

concept no.6

Calculation of Interest on Partners' Drawings

1. Average Period Method: This method is used when there is regular drawings or when:
(a) the amount of drawings is uniform; and
(b) the time interval between the two drawings is also uniform.
The formula for calculating interest on drawings under this method is:

Interest on Drawings =

↓

Total Drawings × (Rate of Interest)/100 × (Average Period*)/12

* Average Period =

↓

(Months Left after First Drawing + Months Left after Last Drawing)/2

2

Frequency of withdrawal	Average period (in months)		
	Time of withdrawal		
	At the beginning	In the middle	At the end
Monthly	$\frac{(12+1)}{2} = 6.5$	$\frac{(11.5+0.5)}{2} = 6$	$\frac{(11+0)}{2} = 5.5$
Quarterly	$\frac{(12+3)}{2} = 7.5$	$\frac{(10.5+1.5)}{2} = 6$	$\frac{(9+0)}{2} = 4.5$
Half-yearly	$\frac{(12+6)}{2} = 9$	$\frac{(9+3)}{2} = 6$	$\frac{(6+0)}{2} = 3$

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Calculation of Interest on Partners' Drawings

Journal entries passed for interest on drawings are:

1) Partner's Capital/Current A/c ...Dr.
To Interest on Drawings A/c
(Interest charged on drawings)

2) Interest on Drawings A/c ...Dr.
To Profit & Loss Appropriation A/c
(Interest on Drawings transferred)

Calculation of Interest on Drawings

Drawings by a partner may be broadly divided into:

(i) Irregular Drawings: It means drawings of same amount or different amounts at irregular intervals; and

(ii) Regular Drawings: It means drawings of same amount at regular intervals.

Interest on Drawings when drawings are made at irregular period or of different amounts, **Product Method of calculating interest is followed.**

when drawings are made of same amount at **regular intervals**, interest on drawings is calculated using **Average Period Method**. The two methods of calculating interest on drawings are:

I. Product Method; and

II. Average Period Method.

I-Product Method;

Simple Method: Under this method, interest on drawings is calculated for the period the amount is drawn.

Product Method: Under this method, the amount of drawings is multiplied with the number of months or number of days (as the case is) it is drawn. Formula: Interest on Drawings = Total of Product x (Rate of Interest)/100 x 1/12

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Calculation of Interest on Partners' Drawings

Drawings mean the amount withdrawn, in cash or in kind, by partners for their personal use. Drawings may be out of **capital or against profit** for the year. Both are discussed below:

Drawings against Capital

Drawings against capital means withdrawal of capital and is debited to Partner's Capital Account. As a result, capital is reduced by the amount withdrawn.

Interest on capital is allowed on capital for the period capital remains in business. Thus, **interest is not allowed on withdrawn capital.**

Drawings against Profit for the Year

Drawings against profit for the year means drawings by a partner against his or her expected share of profit for the year. Drawings against profit is debited to Drawings Account and **not to the Capital Account of the partner.** Actual share of profit of a partner is known at the end of the year and is the date when it becomes due to the partner. Since, **withdrawal is earlier than it is due, the firm charges interest for the period amount is withdrawn by the partner,** if it is provided to be charged in the Partnership Deed



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Questions

Q.1) A, B and C are partners in a firm. You are informed that:
(i) A draws ₹ 10,000 from the firm in the beginning of every month,
(ii) B draws ₹ 10,000 from the firm at the end of every month, and
(ii) C draws ₹ 10,000 from the firm in the middle of every month.
Interest on drawings is to be charged @ 8% p.a. Calculate interest on partner's drawings.**[ANS: i) ₹5,200 (ii) ₹4,400 (iii) ₹4,800.]**

Q.2) Calculate the interest on drawings of Mr. Navdeep @ 10% p.a. for the year ended 31st March, 2024 in each of the following alternative cases :
Case (a) If he withdrew ₹20,000 in the beginning of each quarter.
Case (b) If he withdrew ₹ 20,000 at the end of each quarter.
Case (c) If he withdrew ₹20,000 during the middle of each quarter.
[ANS: a) ₹5,000 (ii) ₹3,000 (iii) ₹4,000.]

Q.3). A and B are partners sharing profits equally. A drew regularly ₹ 4,000 in the beginning of every month for six months ended 30th September, 2022. Calculate interest on drawings @ 5% p.a. for a period of six months.
[Ans.: Interest on Drawings—₹ 350.]
[Hint: Interest on drawings will be charged for average period of 3.5 months on total drawings.]

Q.4). A and B are partners sharing profits equally. A drew regularly ₹ 4,000 at the end of every month for six months ended 30th September, 2022. Calculate interest on drawings @ 5% p.a. for a period of six months.
[Ans.: Interest on Drawings—₹ 250.] [Hint: Interest on drawings will be charged for average period of 2.5 months on total drawings.]

Q.5) A Charu is a partner in a firm. She withdrew the following amounts during the year ended on 31st March, 2024 :—

		₹
May	1	20,000
July	31	10,000
September	30	30,000
November	30	40,000
January	1	20,000
March	31	25,000

Interest on drawings is to be charged @ 9% p.a. Calculate interest on drawings.
[ANS: Interest ON drawings ₹5,250]