



Q16.

During the year Mahadev's drawings were Rs.30,000, Profits during 2014 is Rs.10, 00,000. Calculate interest on capital @ 5% p.a. for the year ending March 31,2014.

Note: There is a printing mistake in the question, it should be 2014 instead of 2007.

Following is the extract of the Balance Sheet of, Neelkant and Mahadev as on March 31,2014:

Balance Sheet as at 31st March, 2014			
Liabilities	Amount (Rs.)	Assets	Amount (Rs.)
Neelkant's Capital	10,00,000	Sundry Assets	30,00,000
Mahadev's Capital	10,00,000		
Neelkant's Current Account	1,00,000		
Mahadev's Current Account	1,00,000		
Profit and Loss Appropriation (March 2007)	8,00,000		
	30,00,000		30,00,000

Solution:

Interest On Capital

Neelkant's $10,00,000 \times 5/100 = 50,000$

Mahadev's $10,00,000 \times 5/100 = 50,000$

Note: In the question, both Partner's Capital Account and of Partner's Current Account is given, so it is clear that the capital of the partners is fixed. When capital account is fixed, interest on drawing, salary to partner, interest on capital, etc, will not affect the Partner's Capital Account. It will affect Partner's Current Account. Therefore, in this case, capital at the beginning (i.e. opening capital)

and capital at the end (i.e. closing capital) of the year would remain constant. Thus, the interest on capital is calculated on fixed capital balances (given in the Balance Sheet of the question).

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