Q3. Explain why it is considered better to make a partnership agreement in writing
Answers: A partnership deed is a legal written agreement between partners containing the terms and conditions of the partnership which is agreed by all partners.
It incorporates the following clauses:
I.Names and addresses of all partners
ii. Name and address of the firm
iii. Type and nature of the business
iv. Principal place of the firm
v. Date of commencement and duration of partnership
vi. Contribution of capital by each partner
vii. Profit-sharing ratio of partners
viii. Method of calculation of goodwill
ix. Salary, commission, if any, payable to partners
x. Rights and duties of partners
xi. Rules in respect to admission, retirement and death of the partner and dissolution of the firm
xii.Dispute settlement between partners

A partnership can come into existence by an agreement which may be oral or written. The Partnership Act, 1932, has not made it mandatory to draft a partnership agreement in writing. The partnership deed in writing is better than an oral agreement as it ensures smooth functioning of business. It also helps avoid disputes and conflicts between partners. In addition, it helps in settling disputes as a written partnership deed can be called anytime. If the written partnership agreement is registered under the Partnership Act and is duly signed by all partners, then it can be used as evidence in court.

Q4. Illustrate how interest on drawings will be calculated under various situations.
Solution: Withdrawal made by the partner either in the form of cash or in any other form from the firm for his/her personal use is termed drawings. Interest on drawings is an interest charged by the firm on the amount of drawings made by the partner. Interest on drawings can be calculated by different methods depending on the time and frequency of drawings made by the partner. The calculation of interest on drawings charged by the firm in different situations is explained with the illustration below:

Situation 1: When amount, date and rate of interest on drawings are given
A partner withdrew Rs.10,000 on 1st August, and the interest on drawings is charged at 10% p.a. If the firm closes its books on 31st December every year, then the interest on drawings will be Rs.417.

$$\text{Interest on drawings} = \text{Total Amount} \times \frac{\text{Rate of Interest}}{100} \times \frac{\text{Period}}{12}$$

$$\text{Interest on drawings} = 10{,}000 \times \frac{10}{100} \times \frac{5}{12} = 417$$

Situation 2: When amount and rate of interest on drawings are

given
Case 1: Amount and rate of interest on drawings (p.a.) are given, but date of drawings is not mentioned
In such a case, the period of drawings will be taken as 6 months.
Example: When a partner withdraws Rs.20,000 and the rate of interest on drawings is 10% p.a., the interest of drawings will be Rs.1,000.

$$\text{Interest on drawings} = \text{Total Amount} \times \frac{\text{Rate of Interest}}{100} \times \frac{\text{Period}}{12}$$

$$\text{Interest on drawings} = 20,000 \times \frac{10}{100} \times \frac{6}{12} = 1,000$$

Case 2: Amount and rate of interest on drawings are given, but date and per annum rate of interest are not mentioned
In such a case, the interest will be charged annually.
Example: When a partner withdraws Rs.20,000 and the rate of interest on drawings is 10%, the interest on drawings will be Rs.2000.

$$\text{Interest on drawings} = \text{Total Amount} \times \frac{\text{Rate of Interest}}{100} \times \frac{\text{Period}}{12}$$

$$\text{Interest on drawings} = 20,000 \times \frac{10}{100} = 2,000$$

Situation 3: Fixed amount is withdrawn at regular intervals
Case 1: Fixed amount withdrawn at the beginning of each month
In this case, interest will be calculated for 6.5 months.
Example: When a partner withdraws Rs.500 in the beginning of each month and the interest on drawings is 10% p.a., the interest on drawings will be Rs.325.

$$\text{Interest on drawings} = \text{Total Amount} \times \frac{\text{Rate of Interest}}{100} \times \frac{\text{Period}}{12}$$

$$\text{Interest on drawings} = 6,000 \times \frac{10}{100} \times \frac{6.5}{12} = 325$$

Case 2: Fixed amount is withdrawn at the end of each month
In this case, the interest will be calculated for 5.5 months.
Example: When a partner withdraws Rs.500 at the end of each month and the rate of interest is 10% p.a., the interest on drawings amount to Rs.275.

$$\text{Interest on drawings} = \text{Total Amount} \times \frac{\text{Rate of Interest}}{100} \times \frac{\text{Period}}{12}$$

$$\text{Interest on drawings} = 6,000 \times \frac{10}{100} \times \frac{5.5}{12} = 275$$

Case 3: Fixed amount is withdrawn in the middle of every month
In this case, assume drawings are made on the 15th of every month and the interest on drawings is calculated for 6 months.
Example: When a partner withdraws Rs.500 on the 15th of every month and the rate of interest is 10% p.a., the interest on drawings amount to Rs.300.

$$\text{Interest on drawings} = \text{Total Amount} \times \frac{\text{Rate of Interest}}{100} \times \frac{\text{Period}}{12}$$

$$\text{Interest on drawings} = 6,000 \times \frac{10}{100} \times \frac{6}{12} = 300$$

Case 4: Fixed amount is withdrawn at the beginning of every quarter
In this case, the interest will be calculated for 7.5 months.
Example: When a partner withdraws Rs.500 at the beginning of every quarter and the rate of interest is 10% p.a., the interest on drawings will be Rs.375.

$$\text{Interest on drawings} = \text{Total Amount} \times \frac{\text{Rate of Interest}}{100} \times \frac{\text{Period}}{12}$$

$$\text{Interest on drawings} = 6{,}000 \times \frac{10}{100} \times \frac{7.5}{12} = 375$$

Case 5: Fixed amount is withdrawn at the end of every quarter
In this case, the interest on drawings will be calculated for 4.5 months.
Example: When a partner withdraws Rs.500 at the end of every quarter and the rate of interest is 10% p.a., the interest on drawings will be Rs.225.

$$\text{Interest on drawings} = \text{Total Amount} \times \frac{\text{Rate of Interest}}{100} \times \frac{\text{Period}}{12}$$

$$\text{Interest on drawings} = 6{,}000 \times \frac{10}{100} \times \frac{4.5}{12} = 225$$

Situation 4: Different amount is withdrawn at different intervals
When a different amount is withdrawn at different intervals of time by a partner, the interest on drawings will be calculated by the product method. The period of drawings is calculated from the date of withdrawal to the last date of the accounting year.
Example: A partner withdraws Rs.3,000 on 1 March, Rs.2,000 on 1 June, Rs.5,000 on 31 October and Rs.8,000 on 31 December, and the rate of interest on drawings is 10% p.a. The firm closes its books on 31 December.
Calculation of Interest on Drawings by Product Method

Interest on Drawings			
Date	**Amount ₹**	**Outstanding Period**	**Product**
1 Mar.	3,000	10	3,000 × 10 = 30,000
1 Jun.	2,000	7	2,000 × 7 = 14,000
1 Oct.	5,000	2	5,000 × 2 = 10,000
31 Dec.	8,000	0	8,000 × 0 = 0
			54,000

$$\text{Interest on drawings} = \text{Sum of Product} \times \frac{\text{Rate}}{100} \times \frac{1}{12}$$

$$\text{Interest on drawings} = 54{,}000 \times \frac{10}{100} \times \frac{1}{12} = 450$$

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