Q18. The capital accounts of Moli and Golu showed balances of Rs. 40,000 and Rs.20.000 as on April 01, 2014. They shared profits in the ratio of 3:2. They allowed interest on capital @ 10% p.a. and interest on drawings, @ 12 p.a. Golu advanced a loan of Rs.10,000 to the firm on August 01, 2014.

During the year, Moli withdrew Rs.1,000 per month at the beginning of every month whereas Golu withdrew Rs.1,000 per month at the end of every month. Profit for the year, before the above mentioned adjustments was Rs.20,950. Calculate interest on drawings show distribution of profits and prepare partner's capital accounts.

Sol:

Calculation of interest on drawings:

$$\text{Interest on Drawing} = \text{Total Drawings} \times \frac{\text{Rate}}{100} \times \frac{\text{Period}}{12}$$

Interest on Moli's Drawing

$$= 12,000 \times \frac{12}{100} \times \frac{6.5}{12}$$

$$= 780$$

Drawing is made in the beginning of each month. Therefore, Period taken is 6.5 month.

Interest on Golu Drawings

$$= 12,000 \times \frac{12}{100} \times \frac{5.5}{12}$$

$$= 660$$

Drawing is made at the end of every month. Therefore, Period taken is 5.5 month.

Profit and Loss Appropriation Account					
Dr.					Cr.
Particulars		Amount Rs.	Particulars		Amount Rs.
To Interest on Capital			By Profit and Loss Account		20,550
Moli	4,000		(20,950-400*)		

Particulars	Moli	Golu	Particulars	Moli	Golu
Goli	2,000	6,000			
			By Interest on Drawings		
			Moli	780	
			Golu	660	1,440
To Profit transferred to					
Moli's Capital [15,990 × 3/5]	9,594				
Golu's Capital [15,990 × 2/5]	6,396	15,990			
		21,990			21,990

			Partner's Current Account		
Dr.					Cr
Particulars	Moli	Golu	Particulars	Moli	Golu
To Drawings	12,000	12,000	By Balance b/d	40,000	20,000
To Interest on Drawing	780	660	By Interest on Capital	4,000	2,000
To Balance c/d	40,814	15,736	By Profit and Loss Adjustment	9,544	6,396
	53,594	28,396		53,594	28,396

Note: Interest on partner's loan is a charge against profit and therefore it is

should be recorded in Profit and Loss Account. Hence, it is deducted from the profit transferred to Profit and Loss Appropriation Account.

$$\text{Interest on Golu's Loan} = 10,000 \times \frac{6}{100} \times \frac{8}{12} = 400$$

********** END *********