In continuation of the previous concepts, we take the following topics and expect you to go through them thoroughly before we have our next class.

TOPIC 1: COMPUTATION OF INTEREST ON CAPITAL: (PAGE 2.34)

Read the following important points:

- Interest on partners' capital is an <u>appropriation</u> of profit.

- Interest on capital is to be calculated on the <u>opening capital.</u>

- It is to be carefully checked <u>if the closing capital is given</u>, then <u>opening capital has to be calculated</u>. It is determined by adding the items which have already been deducted and by deducting the items which have already been added to the capital.

COMPUTATION OF OPENING CAPITALS:

In case of fixed capital	In case of fluctuating capital
Closing capital Add: withdrawal of capital Subtract: additional capital	Closing capital <u>Add:</u> • withdrawal of capital • drawings • share of loss • interest on drawings <u>Subtract:</u> • additional capital

	- share of profit - interest on capital - partners remuneration
Opening capital	Opening capital

ASSIGNMENT:

- Refer to illustration 19 and then try solving illustration 20, 21, 22

- Please understand and mark illustration 23 as important and try working .We will solve the same in the class as well. For that, first revise the concept of fixed and fluctuating capital accounts through the given link https://youtu.be/CIsFsbapHIU

-

TOPIC 2: INTEREST ON PARTNER'S DRAWINGS:

The difference between drawings against capital and drawings profits to be understood. (page 2.41)

Read the following important points:

- Interest is charged on drawings only if there is a provision for the same in the Partnership Deed. In the absence of partnership deed, no interest will be charged on drawings.

- Interest charged on drawings is transferred to credit side of Profit and Loss Appropriation Account as it is an income for the firm.

- Also, interest on drawings is debited to Partners' Capital Accounts (in case of Fluctuating Capital Accounts Method) or Partners' Current Accounts (in case of Fixed Capital Accounts Method).

Now, let us understand the calculation of interest on drawings: (page 2.42 to 2.46)

The partners may withdraw:

CASE I: WHEN UNEQUAL AMOUNT IS WITHDRAWN AT DIFFERENT DATES OR WHEN THERE IS IRREGULAR DRAWINGS

CASE II: WHEN EQUAL AMOUNTS ARE WITHDRAWN AT REGULAR INTERVALS OF TIME i.e THE AMOUNT OF DRAWINGS IS UNIFORM AND THE TIME INTERVAL BETWEEN THE TWO

DRAWINGS IS ALSO UNIFORM

The computation of interest on drawings will vary accordingly.

CASE I:

INTEREST ON DRAWINGS IS CALCULATED WITH THE HELP OF <u>PRODUCT METHOD</u>.

A table showing product of amount of drawings and period of use(in months) is prepared.

The formula for calculating interest on drawings under this method is:

Interest on drawings= Total Drawings x Rate/100 x 1/12

Follow the given YouTube link for understanding the calculation: https://youtu.be/QrO4fdBEH1U

ASSIGNMENT: Solve Illustration 27 (ii) , Question no. 43

CASE II:

INTEREST ON DRAWINGS IS CALCULATED WITH THE HELP OF <u>AVERAGE METHOD.</u>

The formula for calculating interest on drawings under this method is:

Interest on Drawings = Total Drawings X Rate of Interest/100 X Average Period/12
*Average Period = <u>Months Left after First Drawing + Months Left after Last Drawing</u>
2

The partner may withdraw equal amounts monthly, six monthly or quarterly The YouTube links provided below will help you understand the computation of interest on drawings for the various cases.

https://youtu.be/cyoPO07zkf4

https://youtu.be/6P6S4X3P7H8

https://youtu.be/OmjWw3eo_X4

https://Youtu.be/S4w34zBUwnA

NOTE:

- When <u>time/date of drawings is not given</u>, Interest on drawings will be charged for 6 months.

- When <u>per annum</u> is not given with rate of interest, interest on drawings will be charged without considering time period.

ASSIGNMENT: Solve Illustration 28, 29,30, 31, 32 and Question no.36 to 42