

Calculation of Interest on Drawings

Meaning:- Interest which is charged by firm on the drawings made by partners.

Why Interest on Drawings is charged by the firm?

Interest on Drawings is charged to compensate the partners with the less drawings because interest credited in Profit & loss Appropriation A/c will be distributed in Profit sharing ratio.

Methods of calculation of Drawings:

There are two methods :-

- 1:- Simple Method
- 2:- Product Method

Simple Method

Formula:- Amount of Drawings \times $\frac{\text{Rate of interest}}{100} \times \frac{\text{Months}}{12}$

Product Method

Formula :- Total of Products (sum of products) \times $\frac{\text{Rate of interest}}{100} \times \frac{1}{12}$

Ex 15 (A)

Calculation of Interest on Drawings (Simple method)

Sol :- Amount of Drawings $\times \frac{\text{Rate}}{100} \times \frac{\text{Months}}{12}$

Month	Amount of Drawings	Period	Calculation	Interest
April '30	8000	11 Months	$8000 \times \frac{9}{100} \times \frac{11}{12}$	₹ 660
June '30	6000	9 Months	$6000 \times \frac{9}{100} \times \frac{9}{12}$	₹ 405
Sept '30	5000	6 Months	$5000 \times \frac{9}{100} \times \frac{6}{12}$	₹ 225
Dec '31	12000	3 Months	$12000 \times \frac{9}{100} \times \frac{3}{12}$	₹ 270
Jan '31	10000	2 Months	$10000 \times \frac{9}{100} \times \frac{2}{12}$	₹ 150
				<u>₹ 1710</u>

\therefore Interest on Drawings \Rightarrow Amount of Drawings $\times \frac{\text{Rate of Interest}}{100} \times \frac{\text{Month}}{12}$

Calculation of Interest on Drawings (Product Method)

Month	Amount	Period	Product \Rightarrow Amount \times Period
April '30	8000	11	₹ 88000
June '30	6000	9	₹ 54000
Sept '30	5000	6	₹ 30000
Dec '31	12000	3	₹ 36000
Jan '31	10000	2	₹ 20000
			<u>₹ 228000</u>

Interest on Drawings \Rightarrow Total of Product $\times \frac{\text{Rate}}{100} \times \frac{1}{12}$

$\Rightarrow \frac{228000 \times 9}{100} \times \frac{1}{12} \Rightarrow ₹ 1710$

Simple method:- Per month \Rightarrow 100 \Rightarrow separately calculate \Rightarrow

$(\text{Drawings} \times \frac{\text{Rate}}{100} \times \frac{\text{Month}}{12}) + (\text{Drawings} \times \frac{\text{Rate}}{100} \times \frac{\text{Months}}{12}) + (\text{Drawings} \times \frac{\text{Rate}}{100} \times \frac{M}{12})$

$\Rightarrow \frac{\text{Rate}}{100} \times \frac{1}{12} ((\text{Drawings} \times \text{Months}) + (\text{Drawings} \times M) + (\text{Drawings} \times \text{Months}))$

Ex 16 (A)

Calculation of Interest on Drawings

Month	Amount	Period	Product
1 April '17	1000	12	12000
1 May '17	1000	11	11000
1 June '17	1000	10	10000
1 July '17	1000	9	9000
1 Aug '17	1000	8	8000
1 Sept '17	1000	7	7000
1 Oct '17	1000	6	6000
1 Nov '17	1000	5	5000
1 Dec '17	1000	4	4000
1 Jan '18	1000	3	3000
1 Feb '18	1000	2	2000
1 March '18	1000	1	1000
			<u>78000</u>

Interest on Drawings \Rightarrow Product's sum $\times \frac{\text{Rate}}{100} \times \frac{1}{12}$

Every month \Rightarrow Drawing amount = same $\Rightarrow 78000 \times \frac{15}{100} \times \frac{1}{12} \Rightarrow ₹ 975$

Gap b/w two drawings \Rightarrow 1 month

Average Period \Rightarrow $\frac{\text{time left after 1st drawing} + \text{time left after last drawings}}{2}$
 $\Rightarrow \frac{12 \text{ Months} + 1 \text{ Month}}{2} \Rightarrow 6.5 \text{ month}$
 Sol $\Rightarrow 78000 \times \frac{15}{100} \times \frac{6.5}{12} \Rightarrow ₹ 975$