

How to Calculate Interest?

Basic Formula:

We have studied in Junior class that

$$\text{Simple interest} = \frac{\text{Principal} \times \text{Rate} \times \text{Time}}{\text{Amount} \times 100}$$

Eg: amount is 10,000. Rate of interest is 10%.
P.A. Calculate interest for 6 Months.

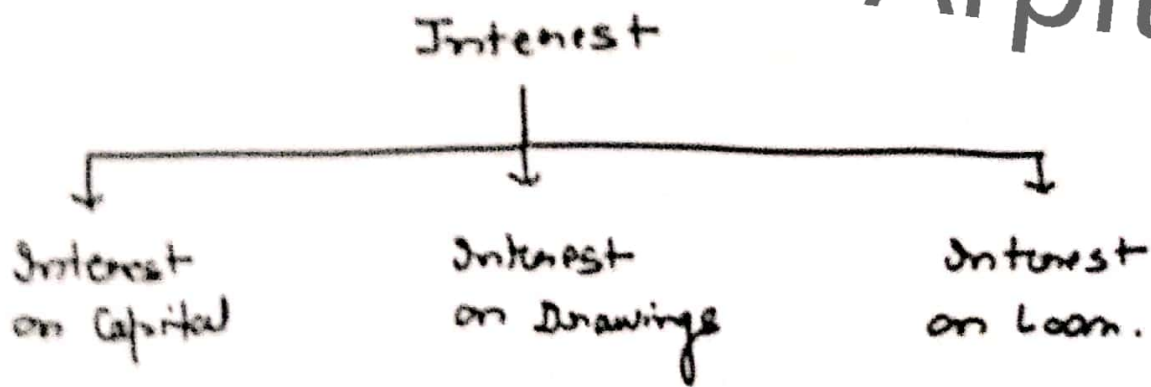
$$\text{interest} = \underset{\substack{\uparrow \\ \text{Amount}}}{10,000} \times \frac{\overset{\substack{\downarrow \\ \text{Rate}}}{10}}{100} \times \frac{\overset{\substack{\downarrow \\ \text{time}}}{6}}{12}$$

$$= \underline{\underline{₹ 500}}$$

Arpit

In Partnership you will study three types of Interest -

Arpit



whichever the interest may be, basic calculation of interest will remain same.

You have to find out in question three items -

1. Amount (i.e. Principal Amount)
2. Rate
3. Time-Period.

Profit & Loss A/c

&
Profit & Loss Appropriation A/c.

In Class 11th, you have studied 'How to prepare Profit & Loss A/c'.

In Class 12th, you will study How to prepare Profit & Loss Appropriation A/c.

See. Next Page :

Arpit

Trading & Profit & Loss A/c

Arpit CR.

DR.

To Gross Profit 10,000

To Salary 1000

To Other Exp. 2000

To Net Profit 7000

10,000

By Gross Profit 10,000

10,000

Profit & Loss App. A/c.

DR.

ये Partners को मिलेगा.

To Salary (Partners) 500

To Commission (Partners) 600

To Interest (Partners) 900
on Capital

To Profit transferred to Partners 6000

8000

CR.

By Net Profit 7000

By Int. on Drawings 1000

ये Partners से लिया जायेगा !!

8000

Profit & Loss A/c.

		By Net Profit	10,000
To Salary	1000	√ Gross	
To other Exp.	2000		
To Net Profit	7000		
	<u>10,000</u>		<u>10,000</u>

Arpit

Can you tell the impact of these on Gross Profit?

↓

These items reduce the Profit.

↓

It means these are Debit items (i.e. expenses).

↓

These are known as 'CHARGE AGAINST Profits'.

So change against Profits is -

(i). These are Expenses debited to P&L A/c.

(ii). These reduce the Profits.

(iii). It is necessary to make charges against Profits even if there is Loss

THUMB RULE

Arpit

चाहे Profit हो या Loss, Change
against Profits होगा ही होगा

⇓

i.e.

• 'Mandatory IN NATURE'.

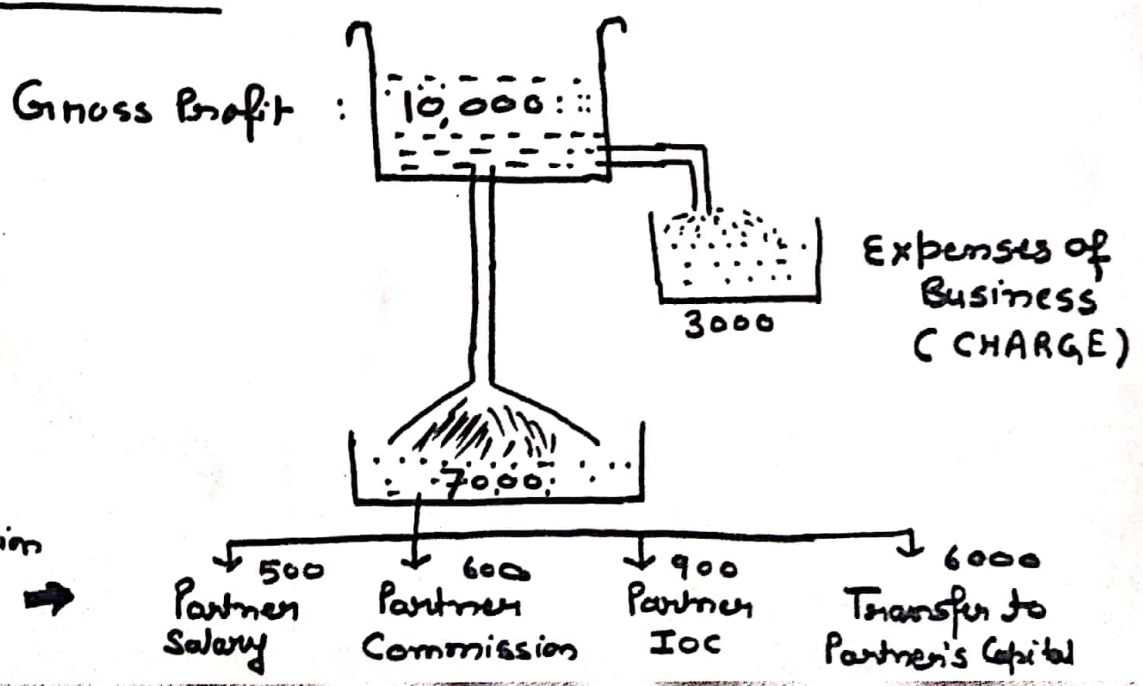
==

Profit & Loss Appropriation A/c.

DR.		CR.	
To Salary (Partner)	500	By Net Profit	7000
To Commission (Partner)	600	By Interest on Drawings (IOD)	1000
To Interest on Capital (Ioc)	900		
To Profit transferred to Capital A/c.	6000		
	8000		8000

Arpit

Understand it :



Appropriation of profits. →

Arpit

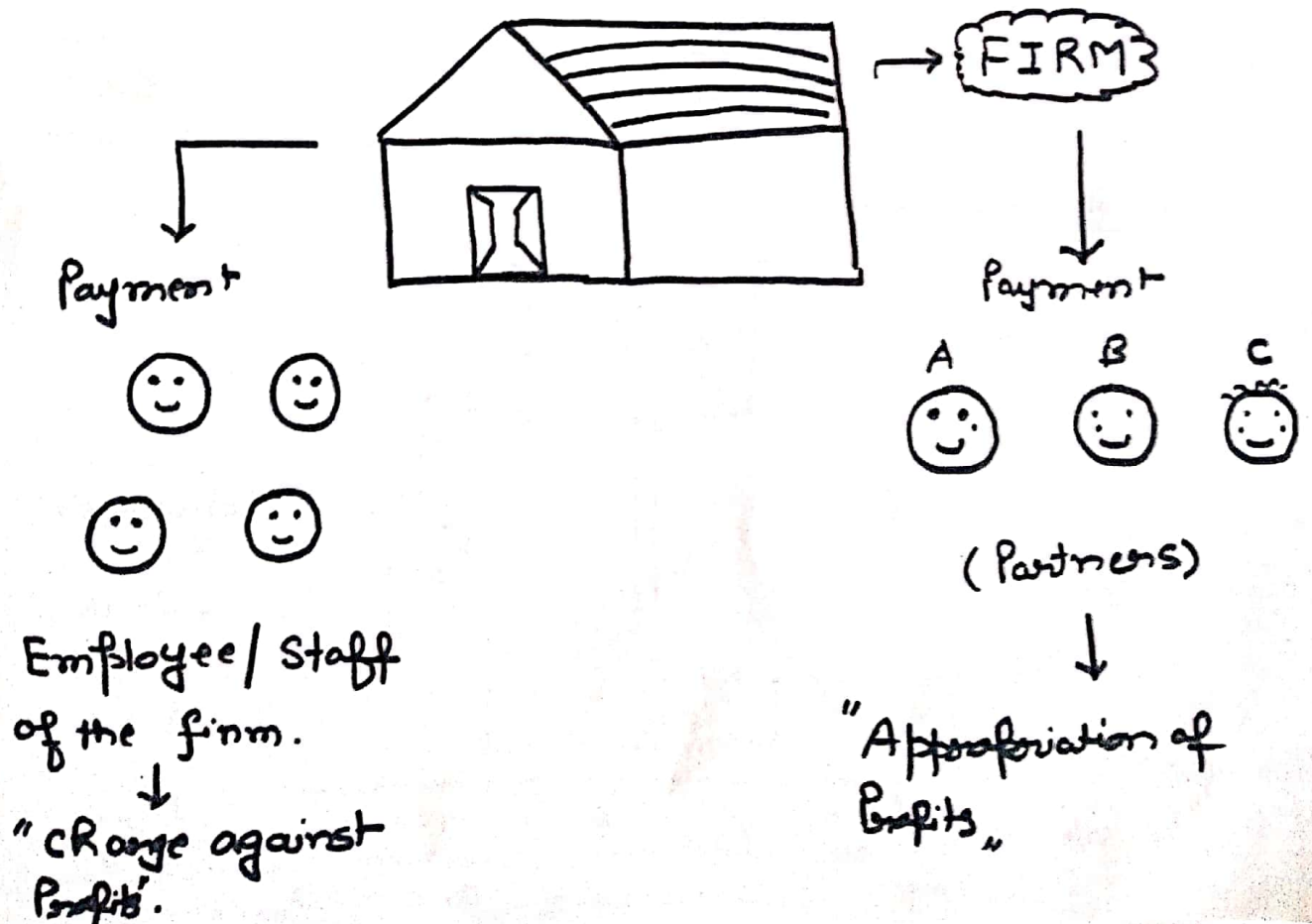
So, Basically



CHARGE : Reduce the Profit

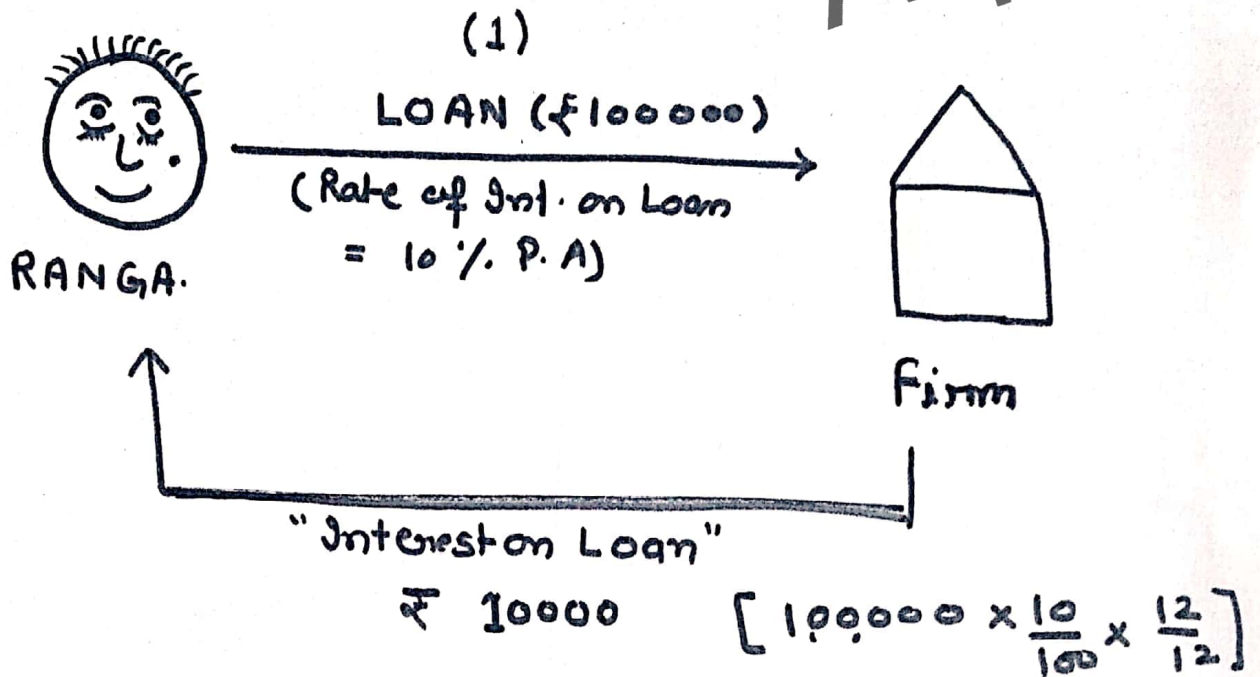
APPROPRIATION OF PROFITS : Distribute the Profit

Understand it



Special Case

Arpit



NOW FIRM IS PAYING INTEREST ON LOAN.

SO ONE QUESTION TO YOU :

INTEREST ON LOAN → CHARGE
OR
→ APPROPRIATION.

?

ANSWER : IT IS A CHARGE AGAINST PROFIT.

FIND OUT THE MISTAKE
(which figure is correct?)

DR.	Profit & Loss A/c.	CR.
To Interest on Partner's Loan.	10,000	

(Fig: A)

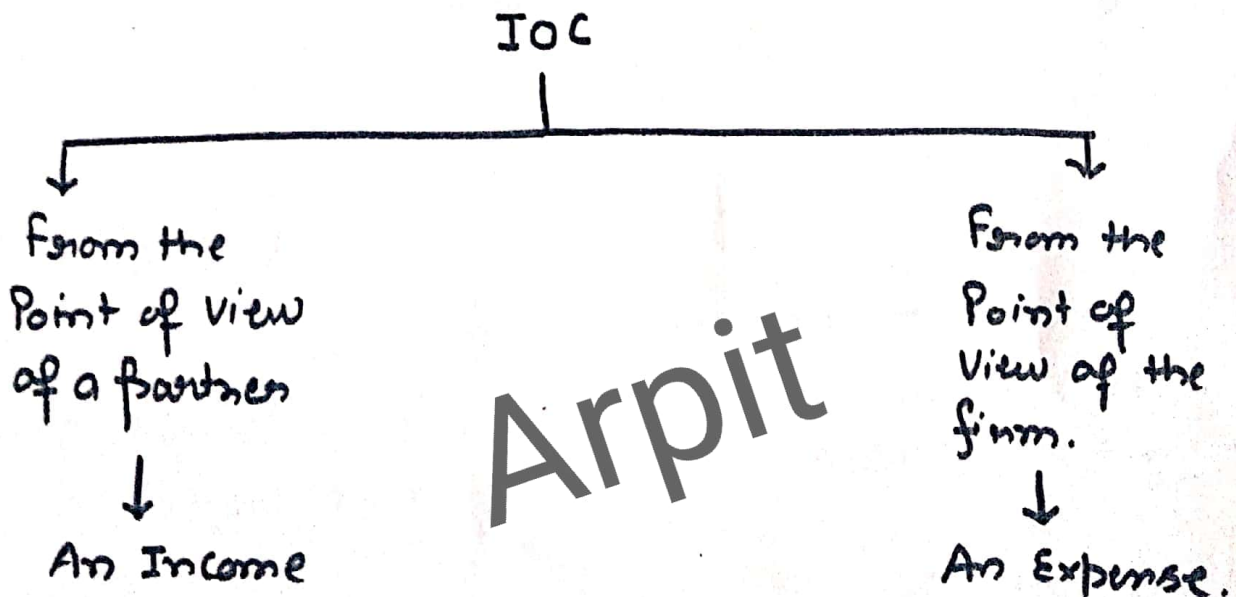
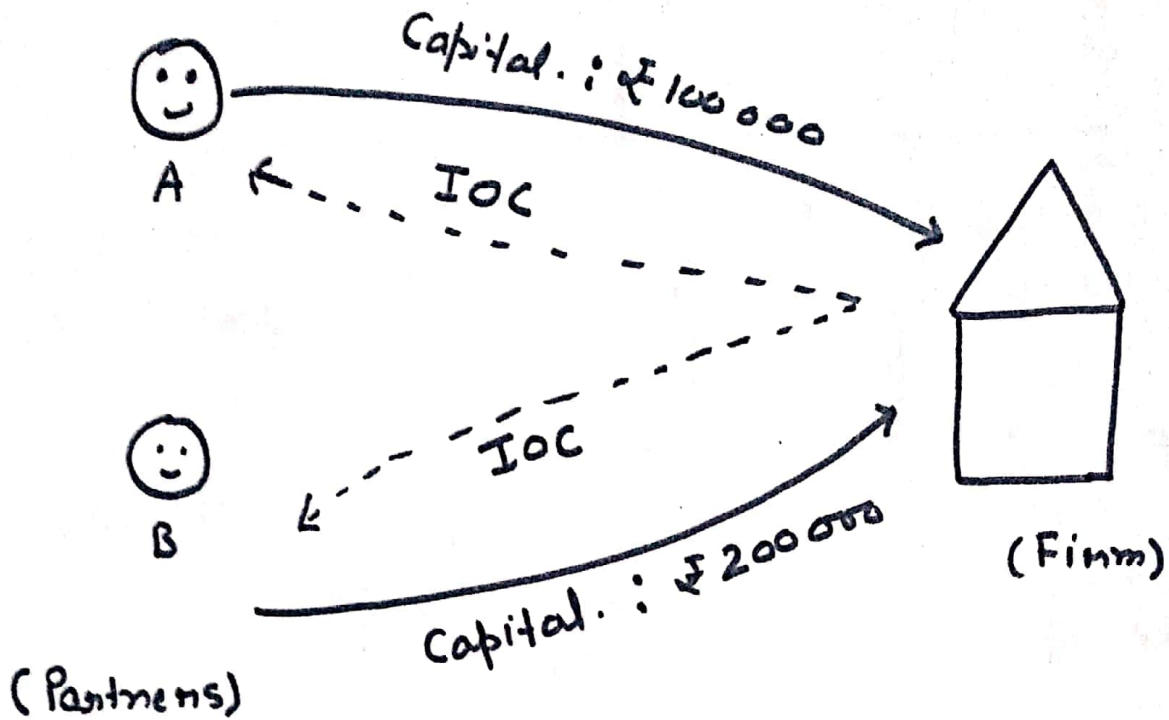
DR.	Profit & Loss Appropriation A/c.	CR.
To Interest on Partner's Loan	10,000	

(Fig: B)

Ans: Fig. A [Because Interest on Partner's Loan is a charge against Profit. It will appear in P&L A/c (Debit-side).]

BASIC MECHANISM OF IOC

*. (IOC = Interest on Capital)



Keep the chart in Mind.

Arpit

