

# Different Cases of IOC

## Case 1:

R & S are two partners. Their Profit Sharing Ratio is 3:1 with Capitals of ₹ 2,00,000 & ₹ 1,00,000 respectively.

Partnership deed is silent as to interest on Capitals. Profits for the year are ₹ 50,000. Show the Distribution of Profits.

## Explanatory Note

IOC (R) = Nil

IOC (S) = Nil

Reason: P/D is silent.

DR. Profit & Loss A/c. CR.

To Net Profit 50,000

DR. Profit & Loss Appropriation A/c. CR.

To Profit transf. to Cap A/c  
R (50,000 × 3/5) 30,000  
S (50,000 × 2/5) 20,000

By P&L (Net Profit) 50,000

50,000

50,000

## Case: 2 (IOC)

R & S are two partners. Their PSR is 3:2 with capitals of ₹ 200,000 & ₹ 1,00,000 respectively. Show the distribution of profits in following case -

Partnership deed provides for interest on capital @ 8% P.A. and the losses for the year ₹ 50,000.

—: Explanatory Note :-

- No doubt P/D provides for IOC.
- BUT Firm has loss.
- ⇒ No IOC shall be given

### Loss Distribution

In Some Books

Profit & Loss A/c.	
DR.	CR.
-	By Net loss 50,000
To Net loss 50k	By loss trf. to Capital A/c.
	R : 30k
	S : <u>20k</u>
<u>50k</u>	50k
	<u>50k.</u>

In Some Books

Profit & Loss A/c.	
DR.	CR.
	By Net Loss. 50k.
.....	
Profit & Loss App. A/c.	
DR.	CR.
To Net loss 50k	By loss trf.
	R : 30k
	S : <u>20k</u>
<u>50k</u>	50k
	<u>50k.</u>

### Case 3

R & S partners with a PSR of 3:2. Their capitals are ₹ 200,000 & ₹ 100,000 respectively. Show the distribution of Profits if - P/D provides for interest on Capital @ 8% P.A & Profits for the year ₹ 50,000.

: Explanatory Note:

$$\text{IOC : (R)} = 200000 \times \frac{8}{100} \times \frac{12}{12} = 16,000$$

$$\text{IOC : (S)} = 100000 \times \frac{8}{100} \times \frac{12}{12} = 8000$$

$$\text{Total IOC} = \underline{\underline{24000}}$$

IOC & Profits Analysis:

IOC		Profits
24000	<	50000

⇒ (It implies that) ⇒ Profits are sufficient

Note: we made such calculation and analysis because P/D provides for IOC & there is Profit & Profits are adequate (i.e. sufficient).

## Profit & Loss A/c.

DR.

CR.

To Net Profit 50,000

## Profit & Loss Appropriation A/c.

DR.

CR.

To Interest on Capitals

R : 16000

S : 8000                      24000

To Profit transferred to  
Capital A/c.

R :  $26000 \times \frac{3}{5} = 15600$

S :  $26000 \times \frac{2}{5} = \underline{10400}$       26000

50,000

By Profit & Loss A/c. 50,000

50,000

### Case: 4

R & S are partners. Their PSR is 3:2 with Capitals of ₹ 200000 & ₹ 100000 respectively. Show the distribution of Profits in following case:

P/D Provides for Interest on Capital @ 8% P.A & Profit for the year is ₹ 15000.

### Explanatory Note

\*. P/D Provides for IOC

\*. There is Profit.

Make Calculation & Analysis.

$$\text{IOC (R)} = 200000 \times \frac{8}{100} \times \frac{12}{120} = 16000$$

$$\text{IOC (S)} = 100000 \times \frac{8}{100} \times \frac{12}{100} = \frac{8000}{100}$$

$$\text{Total IOC} = \underline{\underline{24000}}$$

Analysis :-

IOC

24,000

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Profits

15000

⇒ Profit is not sufficient (i.e. inadequate).

⇒ It means that we have to calculate Ratio. (See Next Page).

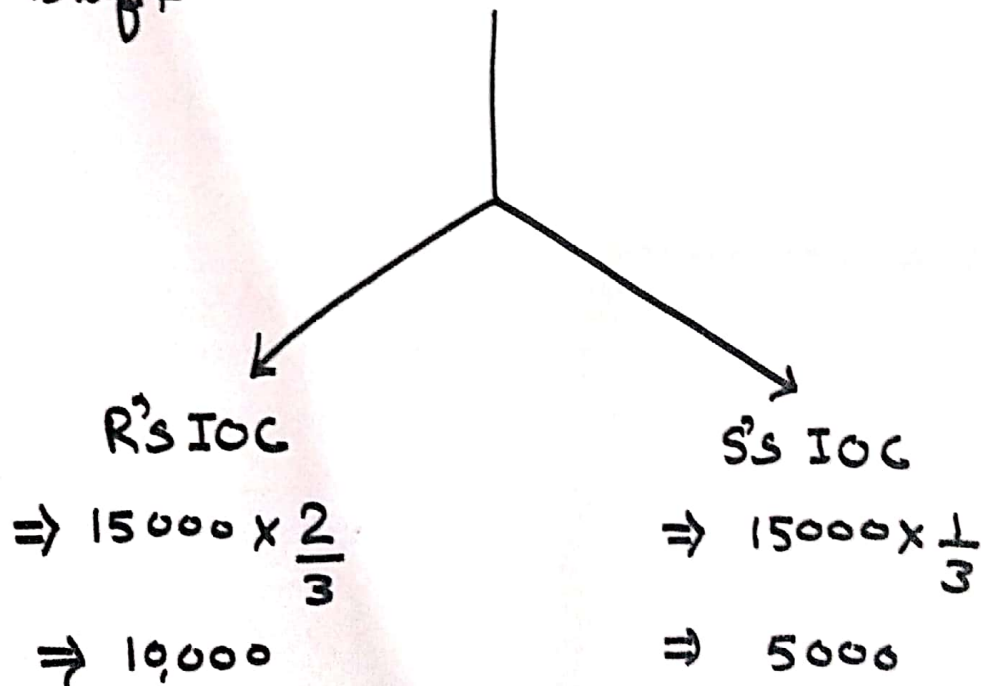
Ratio Calculation :

R's Capital : 200,000

S's Capital : 100,000

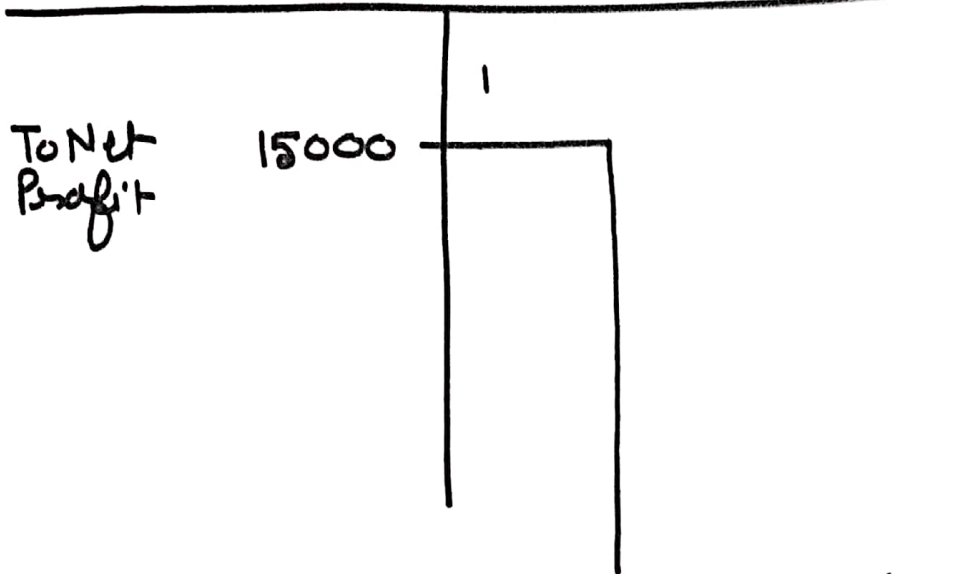
Ratio of Capitals :  $\frac{200000}{100000} = \frac{2}{1} \Rightarrow 2:1$

Available Profit = 15000

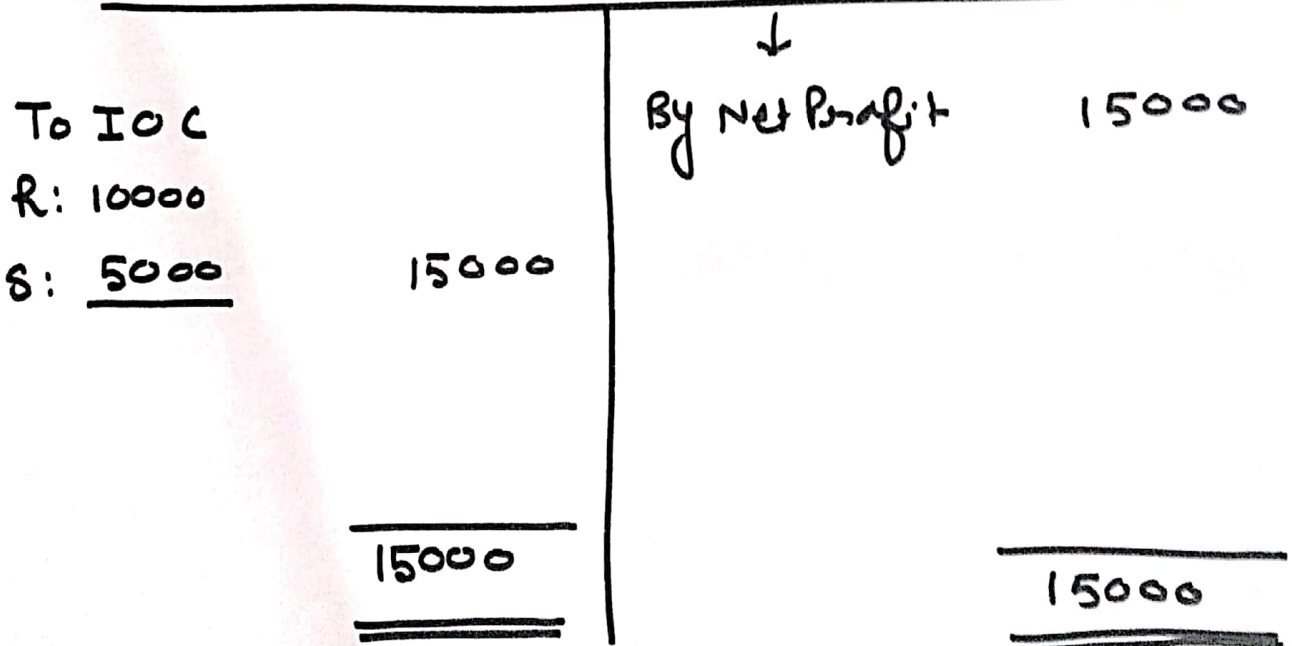


Profit Distribution: See Next Page :

DR. Profit & Loss A/c. CR.



DR. Profit & Loss Appropriation A/c. CR.



THUMB RULE:

" Appropriation Can not Exceed  
available profits. "

## Case : 5 (दिमाग का दही) 😊 !!

(Most Imp. & Expected Question)

R & S are two partners. Their PSR is 3 : 2.  
Their Capitals are ₹ 200000 & ₹ 100000 respectively.  
Show the distribution of Profits:

Partners provided for Interest on Capital @ 8%.  
P.A. even if it involves the firm in Loss and  
Profit for the year is ₹ 15000.

### Explanatory Note

The expression "EVEN IF" is very important.



This makes the IOC  
a charge against Profit.



if you focus on the dotted lines -  
it clearly states, Profit OR Loss, the  
firm has to provide IOC ⇒ i.e. it is  
**MANDATORY.**

## Profit & Loss A/c.

<p>To N.P (before IOC)      15000</p> <hr style="border: 1px solid black;"/> <p>To IOC</p> <p>R: <math>200000 \times \frac{8}{100} \times \frac{12}{12}</math>      16000</p> <p>S: <math>100000 \times \frac{8}{100} \times \frac{12}{12}</math>      8000</p> <hr style="border: 1px solid black;"/> <p style="text-align: right;"><u>24000</u></p>	<p style="text-align: center;">→</p> <p>By N.P (before IOC)      15000</p> <p>By N.L      9000</p> <hr style="border: 1px solid black;"/> <p style="text-align: right;"><u>24000</u></p>
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<p>DR.      <u>Profit &amp; Loss Appropriation A/c.</u>      CR</p> <hr style="border: 1px solid black;"/> <p style="text-align: center;">↓</p> <p>To N.L Loss      9000</p> <hr style="border: 1px solid black;"/> <p style="text-align: right;"><u>9000</u></p>	<p>By loss transferred</p> <p>R: <math>9000 \times \frac{3}{5}</math>      5400</p> <p>S: <math>9000 \times \frac{2}{5}</math>      3600</p> <hr style="border: 1px solid black;"/> <p style="text-align: right;"><u>9000</u></p>
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