

## PARTNERS DRAWINGS AND INTEREST ON DRAWINGS

### PARTNER'S DRAWINGS

**Meaning:** When a partner withdraws money, goods, or assets from the firm for personal use, it is called Drawings.

**Example:** Cash withdrawn for personal use, goods taken from business for home use

**Journal Entry: When drawings are made**

Drawings A/c      Dr.  
    To Cash/Bank/Purchases A/c

**Note:** Capital invested in a partnership firm is internal liability for the of a partnership firm. Drawings reduce the capital of the partner. Firm's internal liabilities decreased from partners drawing.

#### CAPITAL A/C

Decrease (Dr.)	Increase (Cr.)
	

**Interest on Drawings:** When a partner withdraws money from the firm, the firm charges interest on drawings.

#### Why Interest is Charged

1. To discourage excessive withdrawals.
2. To compensate the firm for loss of funds.

#### Journal Entry

Dr. Partner's Capital A/c  
    Cr. Interest on Drawings A/c

#### INCOME A/C

Decrease (Dr.)	Increase (Cr.)
	

**Note:** Interest on drawings are income for a firm. Income credited when increases, income debited when its decreases.

## Methods of Calculating Interest on Drawings

There are three main methods:

**1-Simple Method (Single drawing/Direct Calculation)**

**2-Average Period Method (Equal drawings each month/quarter/half year)**

**3-Product Method (Different dates)**

### 1-Simple Method (Direct Calculation)

Formula: Interest = Drawing × Rate × Time / 100

**Note:** Used when one drawing is made.

### 2-Average Period Method

Formula: Interest on Drawings = Total Drawings × Rate × Average Period

#### Average Period Formula

Average Period = (Time between first and last drawing / 2) + Time from last drawing to end of year  
or

Average Period = (Time left after first drawing + Time left after last drawing) / 2

**Note:** Used when drawings are equal amounts and at regular intervals.

#### Quick Table for Average Period

Mode of drawings	Beginning of...	Middle of...	End of...
Each month drawing	6.5 months	6 months	5.5 months
Each quarter drawing	7.5 months	6 months	4.5 months
Each half year drawing	9 months	6 months	3 months

### 3-Product Method

Used when drawings are made on different dates and different amounts.

Formula: Interest on Drawings = (Total Product × Rate × 1) / (12 × 100)

**Steps:**

1. Multiply each drawing by the number of months remaining in the year.
  2. Add all products.
  3. Calculate interest.
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