1. Details of Module and its structure

Module Detail	
Subject Name	Accountancy
Course Name	Accountancy 03 (Class XII, Semester - 1)
Module Name/Title	Maintenance of Capital Accounts of Partners – Part 2
Module Id	leac_10202
Pre-requisites	Knowledge about preparation of Capital Account of a Sole Proprietor
Objectives	After going through this lesson, the learners will be able to understand the following: • Methods of Preparing Capital Accounts • Difference between various methods of maintaining Capital Accounts • Placement of items in Capital Accounts-Fixed Capital Method and Fluctuating Capital Method
Keywords	Fixed Capital A/c, Fluctuating Capital A/c, Current A/c

2. Development Team

Role	Name	Affiliation
National MOOC Coordinator	Prof. Amarendra P. Behera	CIET, NCERT, New Delhi
Program Coordinator	Dr. Rejaul Karim Barbhuiya	CIET, NCERT, New Delhi
Course Coordinator (CC) / PI	Prof. Shipra Vaidya	DESS, NCERT New Delhi
Course Co-Coordinator / Co-PI	Dr. Nidhi Gusain	CIET, NCERT, New Delhi
Subject Matter Expert (SME)	Mr. Vinay Setia	Indraprasth Global School, New Delhi.
Review Team	Ms. Preeti Sharma	Kendirya Vidyalaya, Sec 24, Noida
Technical Team	Mr. Shobit Saxena Ms. Khushboo Sharma	CIET, NCERT, New Delhi CIET, NCERT, New Delhi

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Partners' Capital Account

All transactions relating to partners of a firm are recorded in the books of the firm through their capital accounts. This includes the amount of money brought in as capital, withdrawal of capital, share of profit or loss, interest on capital, interest on drawings, partner's salary, commission to partners, etc.

In the books of a partnership firm, separate capital account is maintained for each partner. The Capital accounts may be maintained by any of the following two methods:

a) Fixed Capital Account Method

b) Fluctuating Capital Account Method

A) Fixed Capital Accounts Method

- Sometimes partners deicide that their capital should remain fixed and do not change due to routine transactions. For this purpose, two accounts are maintained for each partner viz. **Partner's Capital Account and Partner's Current Account.**

- All the transactions related to partners e.g. interest on capital, interest on drawings, salary or commission to partners, share in profit or losses etc. are shown in Partners' Current Account.

- But even under Fixed Capital Account method, capital may change due introduction of additional capital and permanent withdrawal of capital.

The format of two accounts maintained under Fixed Capital Accounts Method are:

Partners' Capital Accounts

Dr. Cr.

Particulars	X ₹	Y ₹	Particulars	X ₹	Y ₹
To Cash/Bank A/c (Withdrawal of capital)	xxx	xxx	By Balance b/d (Opening balance)	xxx	xxx
			By Cash/ Bank A/c	xxx	xxx
To Balance c/d(closing balance)	xxx	xxx	(Additional Capital)		
	xxx	xxx			
	xxx	xxx		xxx	xxx

Partners' Current Accounts

Dr. Cr.

Particulars	X ₹	Y ₹	Particulars	X ₹	Y ₹
To Balance b/d (*In case of debit opening balance*)	xxx	xxx	By Balance b/d (*In case of credit opening balance*)	xxx	xxx
To Drawings A/c	xxx	xxx	By Salary to Partners	xxx	xxx
To Interest on Drawings	xxx	xxx	By Commission to Partners	xxx	xxx
To Profit & Loss Appropriation A/c (Share in loss)	xxx	xxx	By Interest on Capital	xxx	xxx
To Balance c/d(In case of credit closing balance)	xxx	xxx	By Profit & Loss Appropriation A/c (Share in profits)	xxx	xxx
			By Balance c/d (In case of debit closing balance)	xxx	xxx
	xxx	xxx		xxx	xxx

- Capital Accounts will always have a credit balance and will be shown in the Liability side of the Balance Sheet.

- Current Accounts may show credit or debit balance. The credit balance of current account will be shown on the liabilities side and debit balance on the assets side of the Balance Sheet.

B) Fluctuating Capital Accounts Method

- Fluctuating Capital Accounts Method is the method of preparing capital account in which amount of capital contributed by each partner may or may not change. Under the fluctuating Capital Account Method, only one account i.e. **Capital Account is maintained for each partner.** All the adjustments such as share of profit and loss, interest on capital, drawings, interest on drawings, salary or commission to partners, etc. are recorded in the same capital account of the partner.

The format of the account maintained under Fluctuating Capital Accounts Method is:

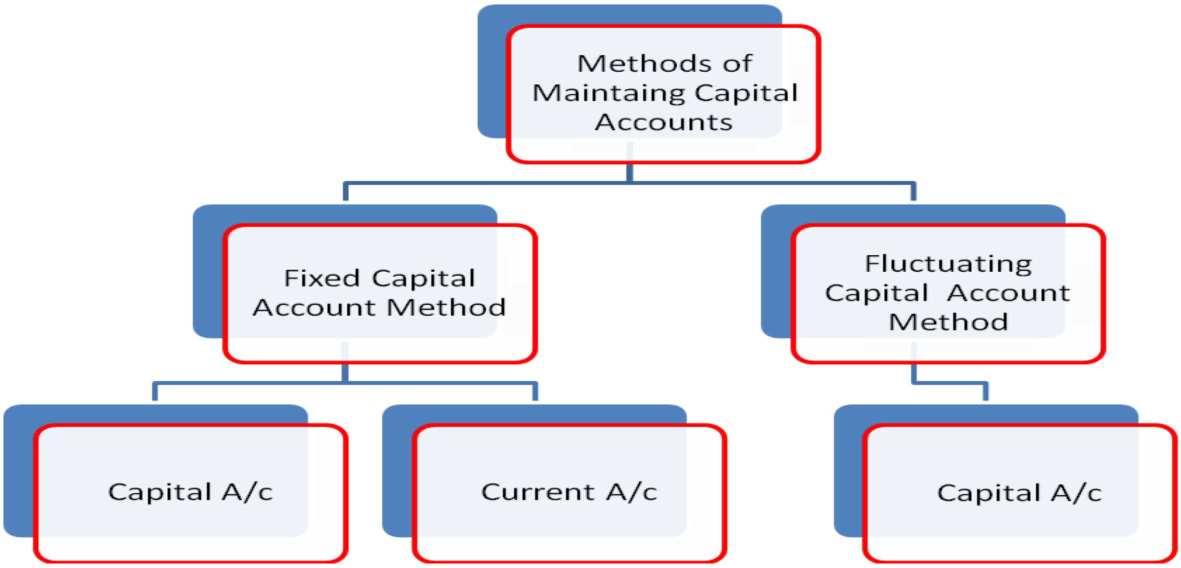
Partners' Capital Accounts

Dr. Cr.

Particulars	X ₹	Y ₹	Particulars	X ₹	Y ₹
To Balance b/d	xxx	xxx	By Balance b/d	xxx	xxx
(*In case of debit opening balance*)			(*In case of credit opening balance*)		
To Drawings A/c	xxx	xxx	By Cash/ bank A/c	xxx	xxx
To Interest on Drawings A/c	xxx	xxx	(Additional Capital)		
To Profit & Loss	xxx	xxx	By Salary to Partner	xxx	xxx
Appropriation A/c			By Commission to partner	xxx	xxx
(Share in loss)			By Interest on Capital A/c		
			By Profit & Loss Appropriation	xxx	xxx
To Balance c/d	xxx	xxx	A/c		
(In case of credit closing balance)			*(Share in Profit)*	xxx	xxx
			By Balance c/d		
			(In case of credit closing	xxx	xxx
			balance)		
	xxx	xxx		xxx	xxx

- The balances of the Capital Accounts can be either debit or credit, as the case may be.
- Capital Accounts having credit balances are shown on the liabilities side while Capital Accounts having debit balances are shown on the asset side of the Balance Sheet.

Note: Fluctuating Capital Method is normally followed for maintaining Capital Accounts, in the absence of any instructions.



Difference between Fixed Capital Accounts Method and Fluctuating Capital Accounts Method-

Basis	**Fixed Capital Method**	**Fluctuating Capital Method**
Number of Accounts Maintained	Two accounts are maintained for each partner: i. Capital Account and ii. Current account	Only one account is maintained for each partner, which is Capital account.
Frequency of Change	Balance in Fixed Capital Account does not change except under specific circumstances.	The balance changes frequently from period to period.
Treatment of Adjustments	All adjustments like interest on drawings, interest on capital, salary, share of profit/loss are made in Current Account.	All adjustments like interest on drawings, interest on capital, salary, share of profit/loss are made in Capital Account.
Balance	Capital Account always shows credit balance.	Fluctuating Capital Account can also show debit balance.

For Example:

Raghav and Rohit commenced business as partners on 01.04.2020. Raghav contributed ₹ 40,000 and Rohit ₹ 25,000 as their share of capital. Partners decided to share their profits in the ratio of 2:1. Raghav was entitled to salary of ₹ 6,000 p.a. Interest on capital was to be provided @ 6% p.a. During the year Raghav withdrew ₹ 4,000 Rohit withdrew ₹ 8,000. Profits after providing salary and interest on capital were ₹ 12,000.

Prepare the capital accounts of the partners:

i. When capitals are fluctuating
ii. When capitals are Fixed

Solution:

i) **When Capitals are Fluctuating**:

Capital Accounts of Raghav and Rohit

Dr. Cr.

Particulars	Raghav ₹	Rohit ₹	Particulars	Raghav ₹	Rohit ₹
To Drawings A/c	4,000	8,000	By Balance b/d A/c	40,000	25,000
			By Salary to Raghav	6,000	-
			By Interest on Capital A/c	2,400	1,500
To Balance c/d	52,400	22,500	By Profit and Loss Appropriation A/c (Share in profit)	8,000	4,000
	56,400	30,500		56,400	30,500

ii) **When Capitals are Fixed**

Partners' Capital Accounts

Dr. Cr.

Particulars	Raghav ₹	Rohit ₹	Particulars	Raghav ₹	Rohit ₹
			By Balance b/d	40,000	25,000
To Balance c/d	40,000	25,000			
	40,000	25,000		40,000	25,000

Partners Current Accounts

Dr. Cr.

Particulars	Raghav ₹	Rohit ₹	Particulars	Raghav ₹	Rohit ₹

To Drawing A/c	4,000	8,000	By Salary to Raghav	6,000	–
To Balance c/d	12,400	–	By Interest on capital A/c	2,400	1,500
			By Profit and Loss Appropriation A/c (Share in Profits)	8,000	4,000
			By Balance c/d (Closing Balance)	–	2,500
	16,400	8,000		16,400	8,000