

PARTNERS' CAPITAL ACCOUNTS-

Partner's Capital Accounts: It is an account which represents the partner's interest in the business. In case of partnership business, a separate capital account is maintained for each partner. The capital accounts of partners may be maintained by following any of the following two methods:

- (1) Fixed Capital Accounts
- (2) Fluctuating Capital Accounts

1. Fixed Capital Accounts: Under this method the following two accounts are maintained:

- **Capital Account:**

This account will always show a credit balance. Balance of Capital account remains fixed and only the following two transactions are recorded in the Fixed Capital Accounts: *Additional Capital Introduced, Capital Withdrawn or Drawings out of Capital.*

Particulars	X(Rs.)	Y(Rs.)	Particulars	X(Rs.)	Y(Rs.)
To Cash/Bank A/c (Capital Withdrawn)			By Balance b/d (Opening Cr. Balance)		
To Balance c/d (Closing balance)			By Cash/Bank A/c (Additional Capital Introduced)		

- **Current Account**

The Current account may show a debit or credit balance. All the usual adjustments such as Interest on Capital, partner's salary/commission, drawings (out of profits), interest on drawings and share in profits or losses etc. are recorded in this account

Particulars	X(Rs.)	Y(Rs.)	Particulars	X(Rs.)	Y(Rs.)
To Balance b/d (Opening Dr. Balance)			By Balance b/d (Opening Cr. Balance)		
To Drawings (out of Profits)			By Interest on Capital		
To Interest on Drawings			By Partner's Salary or Commission		
To Profit and Loss A/c (Share in losses)			By Profit and Loss Appropriation A/c (Share in Profits)		
To Balance c/d (Closing credit Balance)			By Balance c/d (Closing Dr. Balance)		

Note :

- Debit balance of Current Account is shown in Assets side of Balance Sheet.
- Credit balance of Current Account is shown in Liabilities side of Balance Sheet.
- Balance of Capital Accounts are always shown in Liabilities side of Balance Sheet as this account will always show a credit balance when capital is fixed

2. Fluctuating Capital Accounts:

In this method only one account i.e., Capital Account of each and every partner is prepared and all the adjustment such as interest on capital, interest on drawings etc. are recorded in this account. Under this method, Capital account may show a debit or credit balance and the balance of this account changes frequently from time to time therefore it is called fluctuating Capital Account

Dr.	Partner's Capital A/cs				Cr.	
Particulars	X	Y	Particulars	X	Y	
To Balance b/d (Opening Dr. Balance)			By Balance b/d (Opening Cr. Balance)			
To Cash/Bank A/c (Capital Withdrawn)			By Cash/ Bank A/c (Additional Capital Introduced)			
To Drawings (out of profits)			By Interest on Capital			
To Interest on Drawings			By Partner's Salary or Commission			
To Profit and Loss A/c (Share in losses)			By Profit and Loss Appropriation A/c (Share in Profits)			
To Balance c/d (Closing credit Balance)			By Balance c/d (Closing Dr. Balance)			

Difference between Fixed and Fluctuating Capital Methods

Fixed Capital Method	Fluctuating Capital Method
Two accounts are prepared: Capital Account and Current Account	Only a single account is prepared: Capital Account
The capital balance remains unchanged	Capital balance fluctuates
Both Capital and Current Accounts appears in the Balance sheet.	Only Capital Account appears in the Balance Sheet.
If this method is used then it must be specified in the Partnership Deed.	If this method is used then it is not necessary to specify the method under the Partnership Deed