CHAPTER-1 ACCOUNTING FOR PARTNERSHIP FIRMS— FUNDAMENTALS

concept no.



Fixed Capital & Fluctuating Capital

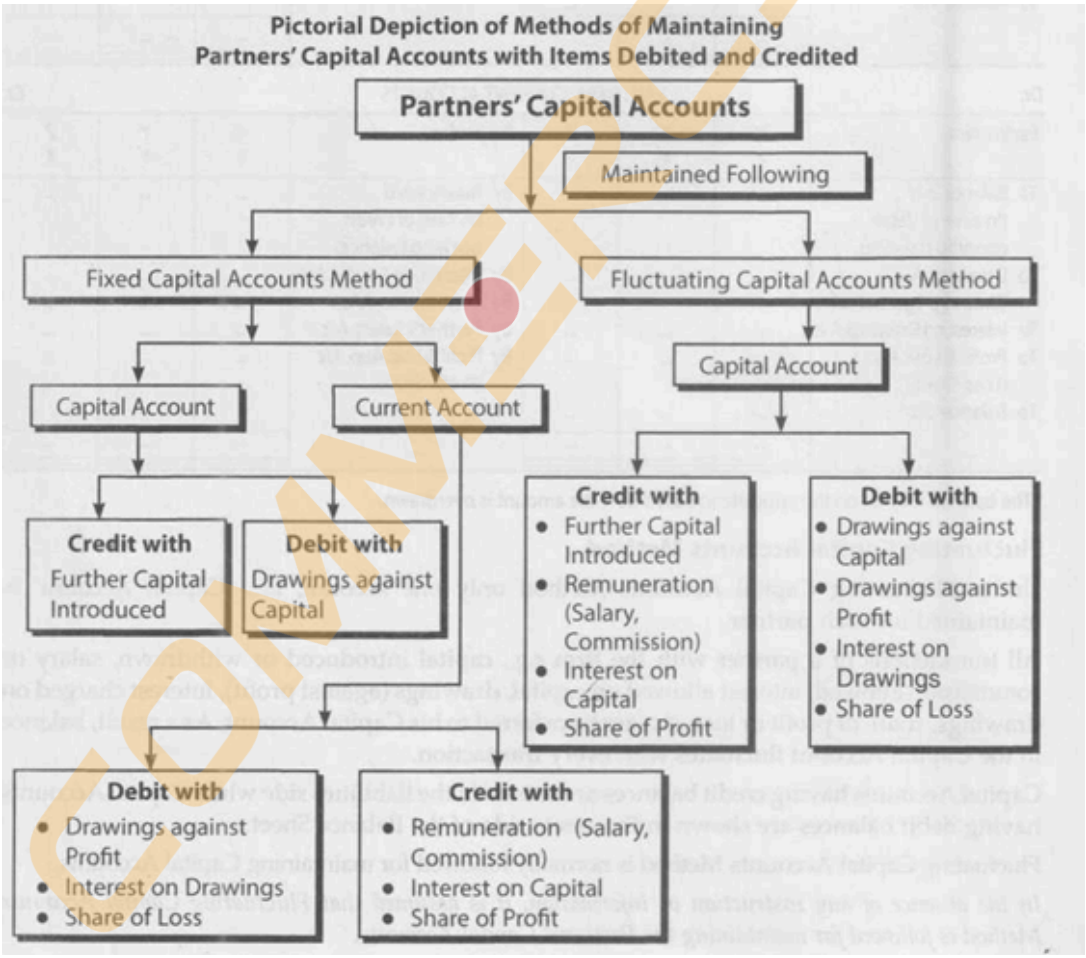
concept no.4

Fixed Capital & Fluctuating Capital

Difference between Fixed Capital Account and Fluctuating Capital Account

1. FIXED CAPITAL A/C : Two accounts are maintained for each partner, i.e., Fixed Capital Account and Current Account. Frequency of Change Balance in Fixed Capital Account does not change except when further capital is introduced or capital is withdrawn

2.**Fluctuating Capital Account:** One account (i.e., Capital Account) is maintained for each partner. . Balance changes with every transaction of the partner with the firm.



concept no.4

Questions

Q.1) Kamal and Kapil are partners having fixed capitals of ₹ 5,00,000 each as on 31st March, 2023. Kamal introduced further captial of ₹ 1,00,000 on 1st October, 2023 whereas Kapil withdrew ₹ 1,00,000 on 1 st October, 2023 out of capital. Interest on capital is to be allowed @ 10% p.a.
The firm earned net profit of₹ 6,00,000 for the year ended 31st March, 2023.
Pass the Journal entry for interest on capital and prepare Profit & Loss Appropriation Account.
[Ans.: Dr. Profit & Loss Appropriation A/c by ₹ 1,00,000;
Cr. Kamal's Current A/c by ₹ 55,000 and Kapil's Current A/c by ₹ 45,000;

Q.2) Simran and Reema are partners sharing profits in the ratio of 3 : 2. Their capitals as on 1st April, 2023 were ₹ 2,00,000 each whereas Current Accounts had balances of ₹ 50,000 and ₹ 25,000 respectively. Interest on capital is to be allowed @ 5% p.a. Net profit of the firm for the year ended 31st March, 2024 was ₹ 3,00,000.
Pass the Journal entries for interest on capital and distribution of profit. Also prepare Profit & Loss Appropriation Account for the year.
[Ans.: (i) Dr. Profit & Loss Appropriation A/c by ₹ 20,000;
Cr. Simran's Current AJc by ₹ 10,000 and Reema's Current AJc by ₹ 10,000;
(ii) Dr. Profit & Loss Appropriation A/c by ₹ 2,80,000;
Cr. Simran's Current A/c by ₹ 1,68,000 and Reema's Current A/c by ₹ 1,12,000.]
[Hint: Interest will not be allowed on Current Account balances.]

Q.3) Naresh and Sukesh are partners with capitals of ₹ 3,00,000 each as on 31st March, 2024. Naresh had withdrawn ₹ 50,000 against capital on 1st October, 2023 and ₹ 1,00,000 drawings against profit. Sukesh also had drawings of ₹ 1,00,000.Interest on capital is to be allowed @ 10% p.a.
Net profit for the year was ₹ 2,00,000, which is yet to be distributed.
Pass the Journal entries for interest on capital and distribution of profit.
[Ans.: For Interest on Capital: Dr. Profit & Loss Appropriation A/c by ₹ 82,500;
Cr. Naresh's Capital A/c by ₹ 42,500 & Sukesh's Capital A/c by ₹ 40,000;
For Profit distribution: Dr. Profit & Loss Appropriation A/c by ₹ 1,17,500;
Cr. Naresh's Capital A/c by ₹ 58,750 and Sukesh's Capital A/c by ₹ 58,750]