

## FLUCTUATING CAPITAL ACCOUNT METHOD:

Only one account namely 'Capital Account' is opened for each partner. The outline of Capital Account under this method is given below:

The outline of Capital Accounts under the Fluctuating Capital Account Method

PARTNERS' CAPITAL ACCOUNTS							
Dr.	X	Y	Z	Particulars	X	Y	Z
Particulars	₹	₹	₹		₹	₹	₹
To Balance b/d (In case of debit opening balance)	...	...	...	By Balance b/d (In case of credit opening balance)	...	...	...
To Drawings A/c	...	...	...	By Cash/Bank A/c (Additional Capital)	...	...	...
To Interest on Drawings A/c	...	...	...	By Interest on Capital A/c	...	...	...
To Profit and Loss A/c (Loss)	...	...	...	By Commission A/c	...	...	...
To Balance c/d*	...	...	...	By Partner's Salary A/c	...	...	...
				By Profit and Loss App. A/c (Profit)	...	...	...
	...	...	...		...	...	...

\*The balance of all or some of the partners may be on the opposite (credit) side also.

It should be kept in mind that:

1. Capital may be contributed by a partner in cash or in kind.
2. Capitals of partners may not be equal or as per their profit-sharing ratio.
3. Total capital of the firm may increase or decrease by mutual consent.
4. A partner may withdraw capital by mutual consent.

Question:

Distinguish between Fixed Capital Account and Fluctuating Capital Account

Basis	Difference between Fixed Capital Account and Fluctuating Capital Account	
	Fixed Capital Account	Fluctuating Capital Account
1. Number of Accounts Maintained	Two accounts are maintained for each partner, i.e., Fixed Capital Account and Current Account.	Only one account (i.e., Capital Account) is maintained for each partner.
2. Frequency of Change	Balance in Fixed Capital Account does <b>not change</b> except when further capital is introduced or capital is withdrawn.	The balance <b>changes</b> with every transaction of the partner with the firm.
3. Recording the Transactions	Transactions relating to <b>Capitals</b> are recorded in Fixed Capital Accounts and transactions for drawings, interest on drawings, interest on capital, salary, commission, share of profit or loss are recorded in <b>Current Account</b> .	All transactions whether for capital, drawings, interest on drawings, interest on capital, salary, commission, share of profit or loss are recorded in <b>Capital Account</b> .
4. Balance	It always shows <b>credit balance</b> in Capital Account.	Fluctuating Capital Account can also show <b>debit balance</b> .