What is Partnership Capital Account? A partnership capital account is **an account that contains all the transactions occurring between the partners and the partnership firm**, such as the initial contribution of capital in partnership, the interest of capital paid, drawings, the share of profit, and other adjustments.

What are the types of partners capital account?

There are two ways of maintaining a capital account in a partnership form of business organisation which are

1) **Fixed Capital Account and**

**2) Fluctuating Capital Account**.

**Difference between Fixed Capital Account and Fluctuating Capital Account**

There are two ways of maintaining a capital account in a partnership form of business organisation which are 1) Fixed Capital Account and 2) Fluctuating Capital Account.

Fixed capital account is that form of capital account where the business maintains two different accounts which are related to the different kinds of transactions that take place in the capital of the partners. These two accounts are 1) Capital account and 2) Current account

Capital account is related to the basic transactions related to the partners capital whereas the current account is related to all the other capital related transactions like interest on drawings, interest on capital, salary to employees apart from initial investment, addition of new capital and withdrawal of capital.

Fluctuating means one that is not stable or one that is changing frequently. The same can be said about the fluctuating capital account. Under the fluctuating capital account, the capital of the partners keeps on fluctuating.

The partners of the firm will have separate capital accounts and the capital accounts of each partner will be credited with the initial capital investment that is made individually by them and any additional capital investment done by them during the accounting period.

There will be increase or decrease in the capital of the partners which is associated with the activities such as interest received and drawings by partners.

Let us look at some of the points of difference between the Fixed Capital Account and Fluctuating Capital Account.

|  |  |
| --- | --- |
| Fixed Capital Account | Fluctuating Capital Account |
| Definition |
| Fixed capital account is that form of capital account where the business maintains two different accounts which are related to the different kinds of transactions that take place in the capital of the partners | Fluctuating capital account is that form of capital account where the capital of the partners keep on fluctuating |
| Number of Accounts |
| Fixed capital account has two accounts which are capital account and current account | Only one account that is capital account |
| Capital Account status |
| This type of capital account remains constant | This type of capital account fluctuates |
| Partnership Deed |
| Needs to be mentioned specifically in partnership deed | No need to be mentioned in partnership deed |

This article was all about the topic of Difference between Fixed Capital Account and Fluctuating Capital Account, which is an important topic for Commerce students. For more such interesting articles,

What is partners capital account in simple words?

A Partnership Capital Account is **an account shown in the Balance Sheet of a company under the Equity section and could be a single account for all the partners, or separate accounts for each partner**.

What are the 3 types of capital?



When budgeting, businesses of all kinds typically focus on three types of capital: **working capital, equity capital, and debt capital**.

s capital a debit or credit?

|  |  |  |
| --- | --- | --- |
| **Accounting Element** | **Normal Balance** | **To Decrease** |
| 1. Assets | Debit | Credit |
| 2. Liabilities | Credit | Debit |
| 3. Capital | **Credit** | **Debit** |
| 4. Withdrawal | Debit | Credit |

Let us recall what an **"account"** is first. In accounting, an account is a specific asset, liability, or equity unit in the ledger that is used to store similar transactions.

**Examples of accounts are:** Cash, Accounts Receivable, Office Equipment, Accounts Payable, Service Income, Rent Expense, and so on.

Let's take "Cash", for example. The Cash account stores all transactions that involve cash receipts and cash disbursements. By storing these, accountants are able to monitor the movements in cash as well as it's current balance.

## Debit and Credit

Next, let us define "debit" and "credit". Debit means left and credit means right. Do not associate any of them with plus or minus yet. Debit simply means left and credit means right – that's just it! "Debit" is abbreviated as "Dr." and "credit", "Cr.".

The terms originated from the Latin terms "debere" or "debitum" which means "what is due", and "credere" or "creditum" which means "something entrusted or loaned".

## Normal Balance

And finally, we define what we call "normal balance". Each account has a debit and a credit side. You could picture that as a big letter T, hence the term "T-account". Again, debit is on the left side and credit on the right. Normal balance, as the term suggests, is simply the side where the balance of the account is normally found.

Asset accounts normally have debit balances, while liabilities and capital normally have credit balances. Income has a normal credit balance since it increases capital. On the other hand, expenses and withdrawals decrease capital, hence they normally have debit balances.

Now what is the significance of the "normal balance"?

When you place an amount on the normal balance side, you are increasing the account. If you put an amount on the opposite side, you are decreasing that account. Therefore, to increase an asset, you debit it. To decrease an asset, you credit it. To increase liability and capital accounts, credit. To decrease them, debit.

## Example

Let us take Cash. Cash is an asset account. Again, asset accounts normally have debit balances. Therefore, to increase Cash you debit it. To decrease Cash, you credit it.

Another example – let's take Accounts Payable. It is a liability account. Liability accounts normally have credit balances. Thus, if you want to increase Accounts Payable, you credit it. If you want to decrease Accounts Payable, you debit it.

The same rules apply to all asset, liability, and capital accounts.

## To Sum It Up

Here's a table summarizing the normal balances of the accounting elements, and the actions to increase or decrease them. Notice that the normal balance is the same as the action to increase the account.

| **Accounting Element** | **Normal Balance** | **To Increase** | **To Decrease** |
| --- | --- | --- | --- |
| **1. Assets** | Debit | Debit | Credit |
| **2. Liabilities** | Credit | Credit | Debit |
| **3. Capital** | Credit | Credit | Debit |
| **4. Withdrawal** | Debit | Debit | Credit |
| **5. Income** | Credit | Credit | Debit |
| **6. Expense** | Debit | Debit | Credit |

**Tip:** You don't need to memorize the whole table. Just be familiar with the normal balance portion and you'll be fine. The normal balance is the same as the action to increase the account. The action to decrease the account is simply the opposite.

### Done? Now try these:

1. To increase Office Equipment, debit or credit?
2. To increase Rent Payable
3. To record/increase Rent Expense
4. To decrease Accounts Payable
5. To record/increase Service Revenue
6. To decrease Cash
7. To record/increase Loss from Fire
8. To decrease Delivery Equipment
9. To increase Accumulated Depreciation

Answers:
1. Debit; 2. Credit; 3. Debit; 4. Debit; 5. Credit; 6. Credit; 7. Debit; 8. Credit.

What about item #9? How do you increase Accumulated Depreciation?

Accumulated Depreciation is a **contra-asset account** (deducted from an asset account). For contra-asset accounts, the rule is simply the opposite of the rule for assets. Therefore, to increase Accumulated Depreciation, you credit it.

We will apply these rules and practice some more when we get to the actual recording process in later lessons.

Key Takeaways

Each account has a debit and credit side. Debit pertains to the left side of an account, while credit refers to the right.

Asset accounts normally have debit balances. Hence, to increase an asset account, we debit it. To decrease an asset account, we credit.

Liability and capital accounts normally have credit balances. To increase them, we credit. To decrease, we debit.

Expense accounts normally have debit balances, while income accounts have credit balances.

## What is Partnership Capital Account?

A partnership capital account is an account that contains all the transactions occurring between the partners and the partnership firm, such as the initial contribution of capital in partnership, the interest of capital paid, drawings, the share of profit, and other adjustments. It is required to maintain proper accountability and transparency between the partners and the firm.

### Explanation

A [business entity](https://www.wallstreetmojo.com/types-of-business-entities/) in which two or more persons doing business together agree to share the profits arising from business in the pre-defined profit ratio as partners is called the partnership firm. The partnership agreement can be oral as well as written. The profit-sharing can also be based on capital contribution or mutually decided.

The accounts of the partnership firm differ from that of the proprietorship. It also contains the partners’ capital account in which the capital contributed by partners and all the transactions between the firm and partners are to be recorded. The partner’s capital account can be of two types, i.e., current and [fixed capital](https://www.wallstreetmojo.com/fixed-capital/). If the account is a fixed capital account, then the only capital contribution is to be credited, and all other transactions are to be recorded in the current account.

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### How to Calculate?

Usually the [capital contribution](https://www.wallstreetmojo.com/contributed-capital/) depends upon the share of profits like if business of partnership firm requires the investment of $ 1,000,000 and there are four partners in the partnership firm and profit sharing ratio is equal then each partner’s contribution will be $ 250,000 ($ 1,000,000 /4) whereas if the profit sharing ratio is 2:5:1:2 then the capital contribution of partner A will be $ 200,000 ($ 1,000,000 \* 2/10), partner B will be $ 500,000 ($ 1,000,000 \* 5/10), partner C will be $ 100,000 ($ 1,000,000 \* 1/10) and partner D will be $ 200,000 ($ 1,000,000 \* 2/10).

By the mutual decision, Partners can contribute more or less, which may not be as per the profit sharing ratio, and sometimes, in partnership, one should contribute the capital. Others will invest the time and talent.

The steps for calculating the partnership capital account are as under:

* **Step #1 –** Credit the capital account with the capital contributed by partners, the share of profit, remuneration of partners, interest on capital, and any receipt or asset directly associated with the partner.
* **Step #2 –** Debit the [capital account](https://www.wallstreetmojo.com/capital-account/) by drawings, any liability directly related to the partner, etc.
* **Step #3 –** Share of profit is distributed in the profit-sharing ratio before calculating closing capital.
* **Step #4 –** Closing capital is calculated by reducing the debits from the credits to calculate the effective capital contribution.
* **Step #5 –** The closing capital is transferred to the [balance sheet](https://www.wallstreetmojo.com/balance-sheet/) as a partner capital account.

### Example

ABC and Co are a partnership firm with the three partners, A, B, and C. Profit sharing ratio o