ST. LAWRENCE HIGH SCHOOL

A Jesuit Christian Minority Institution

Study Materials 1

Sub: Accountancy **Class: XII**

Chapter: Unit I: Introduction to Partnership **F.M.: 15**

Topic: Meaning and Concept **Date: 16/06/2020**

DEFINITION AND MEANING OF PARTNERSHIP

" Partnership is the relation between persons who have agreed to share the profits of a business carried on by all or any of them acting for all." **- Section 4 of the Indian Partnership Act, 1932**

MEANING OF PARTNERS

Partners are the persons who have agreed to do business and share its profits and losses.

MEANING OF FIRM

Partners carrying on the business are collectively known as firm. The name under which the business is carried on is called firm name.

MEANING OF PARTNERSHIP DEED

Partnership Deed is a written agreement among the partners detailing the terms and conditions of the partnership. Though the Indian Partnership Act, 1932 does not make it obligatory that a firm must have a Partnership Deed in writing, yet it is better to have written deed to avoid conflict in future. Partnership Deed must be signed by all the partners.

PROVISION OF THE INDIAN PARTNERSHIP ACT, 1932 APPLICABLE IN THE ABSENCE OF PARTNERSHIP DEED

1. Sharing of Profits / Losses	Profits / Losses are shared equally.
2. Interest on Capital	Interest on Capital is not allowed.
3. Interest on Drawings	Interest is not to be charged on Drawings.
4. Interest on Loans or Advances by the partners	Interest on loan is allowed @ 6% p.a.
5. Remuneration (Salary and Commission) to partners	Remuneration is not to be paid to any partner.

DIFFERENCE BETWEEN PROFIT & LOSS A/C AND PROFIT & LOSS APPROPRIATION A/C

Profit & Loss Account	Profit & Loss Appropriation Account
1.It is prepared after Trading A/C.	1. It is prepared after Profit & Loss A/C.
2. It is prepared to determine net profit.	2. It is prepared to show appropriation of net profit.
3. The preparation of this account is not guided by the Partnership Deed or agreement.	3. The preparation of this account is guided by the Partnership Deed or agreement or provision of Indian Partnership Act, 1932.
4. While preparing this account, matching principle is followed.	4. . While preparing this account, matching principle is not followed.
5. Charge against profit is possible in Profit & Loss A/C.	5. Appropriation of profit is possible in Profit & Loss Appropriation A/C.

PARTNERS' CAPITAL ACCOUNT

Capital Account of each partner may be maintained under the following methods.

1. Fixed Capital Method
2. Fluctuating Capital Method

Fixed Capital Method: Fixed capital means capital invested by each partner remains fixed or unaltered, unless the partner introduces further capital or withdraws out of his or her capital. Under Fixed Method we need to maintain two accounts such as

(a) Partners Capital Account
(b) Partners Current Account

Fluctuating Capital Method: Under this method only one account is maintained i.e. Partners Capital Account.

DIFFERENCE BETWEEN FIXED CAPITAL ACCOUNT AND FLUCTUATING CAPITAL ACCOUNT

Fixed Capital Account	Fluctuating Capital Account
1. Two accounts are maintained such as Partners Capital Account & Partners Current Account. 2. Balances of Fixed Capital Account does not change except when further capital is introduced or withdrawn. 3. Transactions relating to capital are recorded in fixed capital account and transactions for drawings, interest on drawings, interest on capital, salary, commission, share of profit or loss are recorded in current account.	1. Only one account is maintained i.e. Partners Capital Account. 2. The balance change with every transaction of the partner with the firm. 3. All transactions are recorded in Partners Capital Account.