Q3.List the items which may be debited or credited in the capital accounts of the partners when:
i.Capitals are fixed
ii. Capitals are fluctuating

Solution: i.When Capitals are fixed:
Items credited to Partner's Capital Account:
a.Opening balance of capital
b.Additional capital introduced during the year

Items debited to Partner's Capital Account:
a.Drawings made during the year
b.Closing balance of capital
ii. When Capitals are fluctuating:

Items credited to Partner's Capital Account:
a. Opening balance of capital
b. Additional capital introduced during the year
c.Salaries to partners
d.Commission to partners
e.Bonus to partners
f. Interest on capital
g .Share in profit

Items debited to Partner's Capital Account:
a.Drawings made during the year
b. Interest on drawings
c. Share in loss
d.Closing balance of capital

Q4: Why is Profit and Loss Adjustment Account prepared? Explain.
Solution: A Profit and Loss Adjustment Account is prepared:
1.To record omitted items and rectify errors, if any: If any error or omission is noticed after the Profit and Loss Account and Balance Sheet are prepared, then these adjustment are to be adjusted by preparing a Profit and Loss Adjustment Account in the succeeding accounting period without altering the old Profit and Loss Account.
2.To distribute profit or loss between partners: This account is also used for distribution of profit (or loss) between partners in addition to adjusting and rectifying errors. It acts as an alternative to the Profit and Loss Appropriation Account. The main reason for preparing a Profit and Loss Adjustment Account is to ascertain correct profit.

*********** END **********