

## TEST YOUR UNDERSTANDING

Select the Best Alternate and tally your answer with the Answers given at the end of the book :

**Q. 1.** Following are essential elements of a partnership firm except :

- (A) Atleast two persons
- (B) There is an agreement between all partners
- (C) Equal share of profits and losses
- (D) Partnership agreement is for some business. *(CPT; June 2012)*

**Q. 2.** In case of partnership the act of any partner is :

- (A) Binding on all partners
- (B) Binding on that partner only
- (C) Binding on all partners except that particular partner
- (D) None of the above *(C.S. Foundation Dec. 2012)*

**Q. 3.** Which of the following statement is true?

- (A) a minor cannot be admitted as a partner
- (B) a minor can be admitted as a partner, only into the benefits of the partnership
- (C) a minor can be admitted as a partner but his rights and liabilities are same of adult partner
- (D) none of the above

**Q. 4.** Oustensible partners are those who

- (A) do not contribute any capital but get some share of profit for lending their name to the business
- (B) contribute very less capital but get equal profit
- (C) do not contribute any capital and without having any interest in the business, lend their name to the business
- (D) contribute maximum capital of the business

**Q. 5.** Sleeping partners are those who

- (A) take active part in the conduct of the business but provide no capital. However, salary is paid to them.
- (B) do not take any part in the conduct of the business but provide capital and share profits and losses in the agreed ratio
- (C) take active part in the conduct of the business but provide no capital. However, share profits and losses in the agreed ratio.
- (D) do not take any part in the conduct of the business and contribute no capital. However, share profits and losses in the agreed ratio.

**Q. 6.** The relation of partner with the firm is that of :

- (A) An Owner (B) An Agent  
(C) An Owner and an Agent (D) Manager

**Q. 7.** Which one of the following is NOT an essential feature of a partnership?

- (A) There must be an agreement  
(B) There must be a business  
(C) The business must be carried on for profits  
(D) The business must be carried on by all the partners

**Q. 8.** X, Y and Z are partners sharing profits and losses equally. Their capital balances on March, 31, 2012 are ₹80,000, ₹60,000 and ₹40,000 respectively. Their personal assets are worth as follows : X — ₹20,000, Y — ₹15,000 and Z — ₹10,000. The extent of their liability in the firm would be :

- (A) X — ₹80,000 : Y — ₹60,000 : and Z — ₹40,000  
(B) X — ₹20,000 : Y — ₹15,000 : and Z — ₹10,000  
(C) X — ₹1,00,000 : Y — ₹75,000 : and Z — ₹50,000  
(D) Equal (C.S. Foundation; June 2013)

**Q. 9.** Interest on capital will be paid to the partners if provided for in the partnership deed but only out of :

- (A) Profits (B) Reserves  
(C) Accumulated Profits (D) Goodwill  
(C.S. Foundation; December, 2012)

**Q. 10.** Which one of the following items cannot be recorded in the profit and loss appropriation account?

- (A) Interest on capital (B) Interest on drawings  
(C) Rent paid to partners (D) Partner's salary

**Q. 11.** P and Q are partners sharing profits in the ratio of 1 : 2. R was manager who received the salary of ₹10,000 p.m. in addition to commission of 10% on net profits after charging such commission. Total remuneration to R amounted to ₹1,80,000. Profit for the year before charging salary and commission was :

- (A) ₹7,20,000 (B) ₹6,00,000  
(C) ₹7,80,000 (D) ₹6,60,000

**Q. 12.** A and B are partners. B draws a fixed amount at the end of every month. Interest on drawings is charged @15% p.a. At the end of the year interest on B's drawings amounts to ₹8,250. Drawings of B were :

- (A) ₹12,000 p.m. (B) ₹10,000 p.m.  
(C) ₹9,000 p.m. (D) ₹8,000 p.m.

# SHORT ANSWER QUESTIONS

(Questions Carrying 3 Marks)

## Remembering (Knowledge based)

**Q. 1.** Mention any four provisions of the Partnership Act, in the absence of Partnership Deed.

**Q. 2.** State four important points which must be incorporated in a Partnership Deed.

**Q. 3.** Name any six items which are shown in 'Profit and Loss Appropriation Account'.

**Q. 4.** Mention differences between the following :—

(a) Fixed Capitals and Fluctuating Capitals.

(b) Partner's Capital Accounts and Current Accounts.

**Q. 5.** In the absence of Partnership Deed what are the rules relating to :—

(a) Salaries of Partners; (b) Interest on Partner's capitals; (c) Interest on loan given by a partner; (d) Profit sharing ratio; and (e) Interest on Partner's drawings.

**Q. 6.** If the Partner's Capital Accounts are fixed, where will you record the following items :—

(a) Drawings made by a partner.

(b) Salary payable to a partner.

(c) Fresh capital introduced by a partner.

(d) Share of Profit.

(e) Interest on Drawings.

[Ans. (a) Debit of Current A/c (b) Credit of Current A/c (c) Credit of Capital A/c (d) Credit of Current A/c (e) Debit of Current A/c.]

**Q. 7.** Mention the items that may appear on the debit side of the Capital Account of a partner when the capitals are fluctuating.

[Ans. (i) Drawings; (ii) Interest on Drawings; (iii) Share of loss; (iv) Loss on revaluation; (v) Any assets taken by partner. (vi) Closing Cr. balance of the Capital.]

**Q. 8.** Mention the items that may appear on the credit side of the Capital Account of a partner when the capitals are fluctuating.

[Ans. Opening credit balance of Capital, Additional Capital introduced, Share of profit, Interest on capital, Salary to a partner.]

**Q. 9.** In the absence of a partnership deed, how are mutual relations of partners governed?

[Ans. In the absence of any partnership deed, the undermentioned provisions of the Partnership Act, 1932 will be applicable :

- (i) Profits and losses are to be shared equally.
- (ii) No interest is to be allowed on capitals.
- (iii) No interest is to be charged on drawings.
- (iv) No partner is entitled to any salary or commission for taking part in running the firm's business.
- (v) A partner is entitled to interest at the rate of 6% per annum on the loan given by him to the firm.
- (vi) Each partner can participate in the conduct of business.]

**Q. 10.** How would you calculate interest on drawings of equal amounts drawn on the first day of every month?

[**Ans.** When drawings of equal amounts are made on the first day of every month, interest would be calculated on the total amount of drawings for  $6\frac{1}{2}$  months. Thus, Interest on Drawings = Total Amount of Drawings  $\times \frac{\text{Rate of Interest}}{100} \times \frac{6.5}{12}$ .]

**Q. 11.** How would you calculate interest on drawings of equal amounts drawn on the last day of every month?

[**Ans.** When drawings of equal amounts are made on the last day of every month, interest would be calculated on the total amount of drawings for  $5\frac{1}{2}$  months. Thus, Interest on Drawings = Total Amount of Drawings  $\times \frac{\text{Rate of Interest}}{100} \times \frac{5.5}{12}$ .]

**Q. 12.** How would you calculate interest on drawings of equal amounts drawn in the middle of every month?

[**Ans.** When drawings of equal amounts are made in the middle of every month, interest would be calculated on the total amount of drawings for 6 months. Thus, Interest on Drawings = Total Amount of Drawings  $\times \frac{\text{Rate of Interest}}{100} \times \frac{6}{12}$ .]

### ----- Application based

**Q. 13.** A and B are partners but they do not have any partnership agreement. How will they solve the following disputes between them?

- (i) A wants that profits should be shared in the capital ratio.
- (ii) B wants that he should be paid salary for devoting more time for the business of the firm.

[**Ans.** (i) Profits will be shared equally. (ii) B will not get the salary.]

**Q. 14.** A and B are partners in a firm. State by giving reasons whether their claims are valid if partnership deed is silent in the following matters :—

- (i) B had advanced a loan to the firm. He claims interest at the usual interest rate charged by banks. The rate of interest is 13% p.a.
- (ii) A has contributed ₹1,00,000 and B ₹50,000 as capital. B wants profits to be shared equally.

[Ans. (i) B will be given interest on his loan @ 6% per annum.

(ii) In the absence of any agreement to the contrary, profits will be shared equally, irrespective of their capitals.]

**Q. 15.** X and Y are partners in a firm. They do not have any partnership deed. What should be done in the following cases :—

- (a) X has invested ₹1,00,000 and Y only ₹50,000 as capital. X wants interest on capital @ 12% p.a.
- (b) X spends twice the time that Y devotes to the business. He wants a salary of ₹2,000 per month for the extra time spent by him.
- (c) X wants to introduce his son Rajesh into the business. Y objects it.
- (d) X has given a loan of ₹20,000 to the firm. He wants interest on it @ 8% p.a.

[Ans. (a) No interest on capital will be allowed. (b) X is not entitled to any salary. (c) X's son cannot be admitted as a partner, if Y objects it. (d) X is entitled to claim interest on his loan @ 6% p.a.]

**Q. 16.** The following differences have arisen among A, B and C. Give your decision regarding the same :—

- (a) A used ₹1,00,000 belonging to the firm and made a profit of ₹75,000 in speculation. B and C want that A should return ₹1,75,000 to the firm, while A wants to return ₹1,00,000 only.
- (b) A used ₹50,000 belonging to the firm and suffered a loss of ₹20,000 in speculation. He wants to return only ₹30,000.
- (c) A and B want to admit Mohan as a new partner, but C does not agree.
- (d) A and B want to purchase goods from Raghubir for the firm but C does not agree.

[Ans. (a) A must return ₹1,75,000; (b) A must return ₹50,000; (c) Mohan cannot be admitted; (d) Goods may be purchased from Raghubir.]

## TEST YOUR UNDERSTANDING

State whether each of the following statements is true or false?

- (i) It is compulsory to have a partnership agreement in writing.
- (ii) The business of the firm can be conducted even by one partner.
- (iii) Current accounts of partners are maintained under the fluctuating capital method.
- (iv) Unless otherwise specified, the partners have to share profits or losses in proportion to the capital contributed by them.
- (v) In the absence of any agreement to the contrary, the partners are entitled to interest on capital.
- (vi) Interest on loan advanced by a partner to the firm shall be paid even if there are losses in the business.
- (vii) Under fixed capital method, any addition to capital will be shown in partner's capital account.