

BOOK-1
CHAPTER – 2
ACCOUNTING FOR PARTNERSHIP : BASIC CONCEPTS

Section A: One mark questions:

I. Fill in the blank questions:

- 1.** Section _____ of Indian Partnership Act, 1932 defines Partnership.
- 2.** A partnership has no separate _____ entity.
- 3.** In order to form a partnership, there should be at least _____ persons.
- 4.** Partnership is the result of _____ between two or more persons to do business and share its profits and losses.
- 5.** It is preferred that the partners have a _____ agreement.
- 6.** The agreement should be to carry on some _____ business.
- 7.** Each partner carrying on the business is the principal as well as the for all other partners.
- 8.** The liability Of a partner for his acts is _____
- 9.** In the absence of Partnership Deed Interest on advance from Partner will be charged @ -----percentage per annum.
- 10.** Under _____ Method, the capitals of the partners shall remain fixed.
- 11.** Under Fluctuating Capital Method, the partners capital account balances _____ from time to time.
- 12.** Profit and Loss Appropriation Account is merely an extension of _____ Account of firm.
- 13.** Profit and Loss Appropriation Account Dr
To _____ account.
(Transferring int. on capital to P/L Appropriation a/c).
- 14.** _____ Account Dr
To Salary to Partners account
(Transferring partners salary to P/L Appropriation a/c)
- 15.** P/L Appropriation A/c Dr
To Partners Capital /Current A/c.
(_____)
- 16.** When fixed amounts is withdrawn at the end of every month, interest on the total amount for the year ending is calculated for _____ months.
- 17.** Under fluctuating capital method, all the transactions relating to partners are directly recorded in the _____ accounts.
- 18.** Under fixed capital method, the amount of capital remains -----

19. Under fixed capital method, all the transactions relating to a partner are recorded in a separate account called_____ Account.
20. There is not much difference in the final accounts of a sole proprietary concern and that of a_____

II. Multiple Choice Questions:

1. The agreement between the partner should be in:
a) Oral
b) Written
c) Oral or Written
d) None of the above
2. Partnership deeds contains;
a) Name of firm
b) Name and address of the partners
c) Profit and loss sharing ratio
d) All of the above
3. If any partner has advanced some money to the firm beyond the amount of his capital, he shall be entitled to get interest on the amount at the rate of :
a) 5% p.a.
b) 6% p.a.
c) 8% p.a.
d) None of the above
4. Interest on capital is generally provided for in that situations when:
a) The partners contribute unequal amounts of capital but share profits equally.
b) The capital contribution is same but profit sharing is unequal
c) Both the situations above.
d) None of the above.
5. When fixed amount is withdrawn on the first day of every month, interest on total amount for the year ending will be calculated for:
a) 2 & 1/2 months
b) 4 & 1/2 months
c) 6 & 1/2 months
d) None of the above
6. When varying amounts are withdrawn at different intervals, the int. is calculated using:
a) Simple Method
b) Average Method
c) Product Method
d) None of the above
7. Adjustment for correction of omission and commission can be made:
a) Profit and loss Adjustment account
b) Directly in the Capital Accounts of concerned partners
c) Both the situations above.
d) None of the above
8. In order to form a Partnership there should be at least:
a) One person
b) Two persons
c) Seven persons
d) None of the above

9. The business of a partnership concern may be carried on by:
 - a) All the partners
 - b) Any of them acting for all
 - c) All Partners or any of them acting for all
 - d) None of the above
10. The agreement between Partners must be to share:
 - a) Profits
 - b) Losses
 - c) Profits and losses
 - d) None of the above
11. The liability of a Partner for acts of the firm is:
 - a) Limited
 - b) Unlimited
 - c) Both the above.
 - d) None of the above
12. The partnership Deed should be properly drafted and prepared as per the provisions of the:
 - a) Partnership Act.
 - b) Stamp Act
 - c) Companies Act
 - d) None of the above
13. The clauses of Partnership Deed can be altered with the consent of:
 - a) Two Partners
 - b) Ten Partners
 - c) Twenty Partners
 - d) All the Partners

III. True or False Questions:

1. The agreement between partners must be in writing.
2. The clauses of partnership deed can be altered with the consent of all the Partners.
3. If the partnership deed is silent about the profit sharing ratio, the profit and loss of the firm is to be shared equally.
4. A partner is entitled to claim interest at the rate of 10% p.a. on the amount of capital contributed by him, if there is no agreement in the firm.
5. In the absence of Partnership Deed, no partner is entitled to get salary.
6. Under fixed capital method the Partner's Capital Accounts will always show a credit balance.
7. Under Fixed Capital Method the Partners' Capital Accounts will always show a debit balance.
8. P/L Appropriation A/c shows how the profits are appropriated among the partners.
9. When fixed amount is withdrawn during the middle of every month, interest on total amount is calculated for 6 months.
10. If there is loss, no interest on capital is to be paid to partners, even if there is a provision in Partnership Deed.
11. Accounting treatment for Partnership is similar to that of a sole Proprietorship Business.

12. There are two methods by which the capital accounts of partners can be maintained.
13. Profit and Loss appropriation account is merely an extension of the Profit and Loss Account of a firm.
14. Interest on partners capital is debited to Partners' Capital Accounts.
15. In case of Guarantee of profit to a partner, assurance may be given by only one partner.

IV. Very Short Answer Questions:

1. Who is a Partner?
2. What do you mean by Partnership Firm?
3. State any one features of Partnership.
4. What is the minimum number of partners in a firm?
5. Name any one contents of Partnership Deed.
6. Name any one method of maintaining capital accounts of Partners.
7. Name any one final accounts of partnership firm.
8. How do you distribute profit or loss among the partners in the absence of partnership deed?
9. Why the Profit and Loss Appropriation account is prepared?
10. At what rate Interest on advances by Partners is to be paid as per Partnership Act?
11. When interest is charged on partners drawings?
12. When Partners Current Accounts are prepared in partnership firms?
13. State any one special aspect of partnership accounts.
14. When the Current Accounts of Partners are opened?
15. Under fluctuating capital method, how many accounts are maintained for each partner?
16. State any one feature of fluctuating capital method.
17. State any one situation in which provision of payment of interest on capital to partner is made.
18. Find out Interest at 8% p.a. on capital of ₹50,000 for 9 months.
19. Which is the suitable method for calculation of Interest on drawings, when fixed amount is withdrawn every month?
20. Give one example for past adjustment?

Section B: Two Marks questions:

1. What is Partnership?
2. Define Partnership?
3. State any two features of Partnership.
4. What is Partnership Deed?
5. What are the methods of maintaining capital account of partners?

6. What is fixed capital method?
7. What is fluctuating capital method?
8. State any two differences between fixed and fluctuating capital methods.
9. What do you mean by Profit and Loss Appropriation Account?
10. What is guarantee of profit to a partner?
11. What do you mean by past adjustments?
12. State any two final accounts of a Partnership firm.
13. In the absence of partnership deed, specify the rules relating to the followings:
 - a) Sharing of profit and losses
 - b) Interest on partners capital
15. State the rules relating to the followings in the absence of Partnership Deed:
 - a) Interest on drawings
 - b) Interest on advances from Partners.
16. Name any two methods for calculation of Interest on drawings.
17. When the Interest on drawings is generally provided to partners?
18. How do you close Profit and Loss Appropriation Account in Partnership?
19. State any two special aspects of Partnership Accounts.
20. Name any two contents of Partnership Deed.

Section C: Six Marks questions:

Simple Problems on Preparation of P & L Appropriate A/c

1. Sachin and Pratham commenced business in partnership on 01.04.2015 with a capital of ₹1,00,000 and ₹ 80,000 respectively agreeing to Share profits and losses in the ratio of 3:2. For the year ending 31.03.2016, they earned the profits of ₹ 36,000 before allowing:
 - i) Interest on capital at 5% p.a.
 - ii) Interest on drawings: Sachin ₹600 and Pratham ₹1,000
 - iii) Yearly salary of Pratham ₹6,000 and commission to Sachin ₹4000.
 - iv) Their drawings during the year: Sachin ₹16,000 and Pratham ₹ 20,000.

Prepare Profit and Loss Appropriation Account.

(Ans: Net Profit ₹ 18,600)

2. Shiva and Basava are partners sharing profits in the ratio of 2:1 with capitals of ₹ 25,000 and 15,000 respectively. Interest on capital is agreed @6% p.a. Basava is to be allowed an annual salary of ₹ 1,500. During the year 2015-16, they earned the profits of ₹ 10,000. A provision of ₹2000 is to be made in respect of commission to the manager Interest on drawings being; Shiva-₹1,500 and Basava ₹1000.

Prepare Profit and Loss Appropriation Account.

3. X & Y are Partners commenced Partnership business on 1.1.2016 sharing profits & losses in 3:2 ratio with capitals of Rs 1,00,000 and 80,000 respectively. They earned profits of ₹ 15,000 for the year before allowing:

- a) Interest on Capitals @ 10% p.a.
- b) Interest on drawings: X ₹1,000 & Y ₹800
- c) Commission payable to X ₹2000
- d) Salary payable to Y ₹3000

Prepare P & L Appropriate A/c for the year ending 31.12.2017

4. Arun & Varun are the partners sharing profits & losses in the ratio of 2:1 Their opening capital being ₹ 80,000 & 50,000 respectively. They earned a profit of ₹ 20,000 before allowing the following:

- a) Interest on capital @ 8% p.a.
- b) Interest on drawings: Arun ₹ 2,000
Varun ₹2,500
- c) Salary to Arun ₹3,000 p.a.
- d) Commission to Varun ₹ 2,000 p.a.

Prepare P & L Appropriate A/c

Problems on Calculation of Interest on Drawings

1. Yasashvi and Tapashvi are partners in a firm. During the year ended on 31st March 2016, Yasashvi makes the drawings as under :

Date of Drawings	Amount ₹
01.08.2015	5,000
31.12.2015	10,000
31.03.2016	15,000

Partnership Deed provided that partners are to be charged interest on drawings @ 12% p.a. Calculate the interest on drawings of Yasashvi under Product Method.

(Ans: ₹ 700)

2. Sahana and Saniya are partners in firm. Sahana's drawings for the year 2016-17 are given as under:

- ₹ 4,000 on 01.06.2016
- ₹ 6,000 on 30.09.2016
- ₹ 2,000 on 30.11.2016
- ₹ 3,000 on 01.01.2017

Calculate interest on Sahan's drawings at 8% p.a. for the year ending on 31.03.2017, under product method.

(Ans: ₹ 620)

3. Murthy and Patil are partners in a firm sharing profits and losses in the ratio of 3:2. Murthy withdraw ₹ 4,000 quarterly at the beginning of each quarter. Calculate the interest on drawings at 9% p.a. for the year ending 31.03.2017, under product method.

(Ans: ₹ 900)

4. Calculate interest on drawings of Mr. Kamalakar @10% p.a if he withdrew ₹ 1,000 per month by the short cut method:

(i) At the beginning of each month

(ii) At the end of each month.

(Ans: (i) ₹650, (ii) ₹550)

5. Calculate interest on drawings of Purohit @10%p.a. if he withdrew ₹48,000 in year evenly.

(i) At beginning of each quarter.

(ii) At end of each quarter.

(Ans: i) ₹2,600, ii) ₹2,200)

Problems on Guarantee of a Profit

1. Sachin and Rahul were partners in a firm sharing profits and losses in the ratio of 3:2. They admit Dhoni for 1/6th share in profits and guaranteed that his share of profits will not be less than ₹ 25,000. Total profits of the firm were ₹ 90,000. Calculate share of profits for each partner when the Guarantee is given by a firm.

Prepare Profit and Loss Appropriation Account.

(Ans: Deficiency born by Sachin, ₹6,000 and Rahul ₹4,000)

2. Roja and Usha were partners in a firm sharing profits and losses in the ratio of 3:2. They admit Sahana for 1/6th share in profits and guaranteed that his share of profits will not be less then ₹ 25,000. Total profits of the firm were ₹ 90,000. Calculate share of profits for each partner when the Guarantee is given by Roja. Prepare Profit and Loss Appropriation Account.

(Ans: Deficiency born by Roja ₹10,000)

3. Sandya and Neela were partners in a firm sharing profits and losses in the ratio of 3:2. They admit Lalitha for 1/6th share in profits and guaranteed that his share of profits will not be less then ₹ 25,000. Total profits of the firm were ₹ 90,000. Calculate share of profits for each partner when: Guarantee is given by Sandya and Neela equally.

Prepare Profit and Loss Appropriation account.

(Ans: Deficiency born by Sandya and Neela each ₹ 5,000)

4. Aarav and Neerav share profits and losses in the ratio of 2:1. They admit Sourav as a partner with $\frac{1}{4}$ share in profits with a guarantee that his share of profit shall be at least ₹ 25,000. The net profit of the firm for the year ending March 31, 2016 was ₹ 80,000. Prepare Profit and Loss Appropriation Account.

(Ans: Deficiency Received from Aarav ₹ 3,334, Neerav ₹1,666)

5. Charan and Sharan share profits and losses in the ratio of 3:2. They admit Sachin into their firm for 1/6 share in profits. Charan personally guaranteed that Sachin's share of profit, after charging interest on capital @ 10% p.a. would not be less than ₹ 15,000 in any year. The capital provided was as follows: Charan ₹ 1,25,000, Sharan ₹ 1,00,000 and Sachin ₹ 75,000. The profit for the year ending March 31, 2016 amounted to ₹ 75,000 before providing interest on capital. Show the Profit and Loss Appropriation A/c if the new profit sharing ratio is 3:2:1

(Ans: Deficiency Received from Charan ₹ 7,500)

6. Sandesh and Kailesh share profits and losses in the ratio of 2:1. From April 01, 2015 they admit Basavesh into their firm who is to be given a share of 1/10 of the profits with a guaranteed minimum of ₹ 50,000. Sandesh and Kailesh continue to share profits as before but agree to bear any deficiency on account of guarantee to Basavesh in the ratio of 3:2 respectively. The profits of the firm for the year ending March 31, 2016 amounted to ₹ 2,40,000. Prepare Profit and Loss Appropriation Account.

(Ans: Deficiency from Sandesh ₹ 15,600, Kailesh ₹ 10,400)

Key Answers

Part A: (One mark questions)

Fill in the Blank questions:

- | | | | |
|--|----------------------------|-----------------|---------------|
| 1) 4, | 2) Legal, | 3) 2, | 4) Agreement, |
| 5) Written, | 6) Lawfull, | 7) Agent, | 8) Unlimited, |
| 9) Int. | 10) Fixed Capital, | 11) Fluctuates, | 12) P/L A/C, |
| 13) Int. on Capital, | 14) P/L Appropriation A/C, | | |
| 15) Profit T/F to Partners Capital/ Current A/C, | | | |
| 16) 5 ½, | 17) Partners Capital A/C, | 18) Fixed, | |
| 19) Partners Current A/C, | | | |
| 20) Partnership firms. | | | |

Multiple choice questions:

- | | | | | | |
|-------|-------|-------|--------|--------|--------|
| 1. C, | 2. D, | 3. B, | 4. C, | 5. C, | 6. C, |
| 7. C, | 8. B, | 9. C, | 10. C, | 11. B, | 12. A, |
| | | | | | 13. D. |

True or False questions:

- | | | | | |
|-----------|------------|-----------|------------|-----------|
| 1. False, | 2. True, | 3. True, | 4. False, | 5. False, |
| 6. True, | 7. False, | 8. True, | 9. True, | 10. True, |
| 11 True, | 12. False, | 13. True, | 14. False, | 15. True. |
