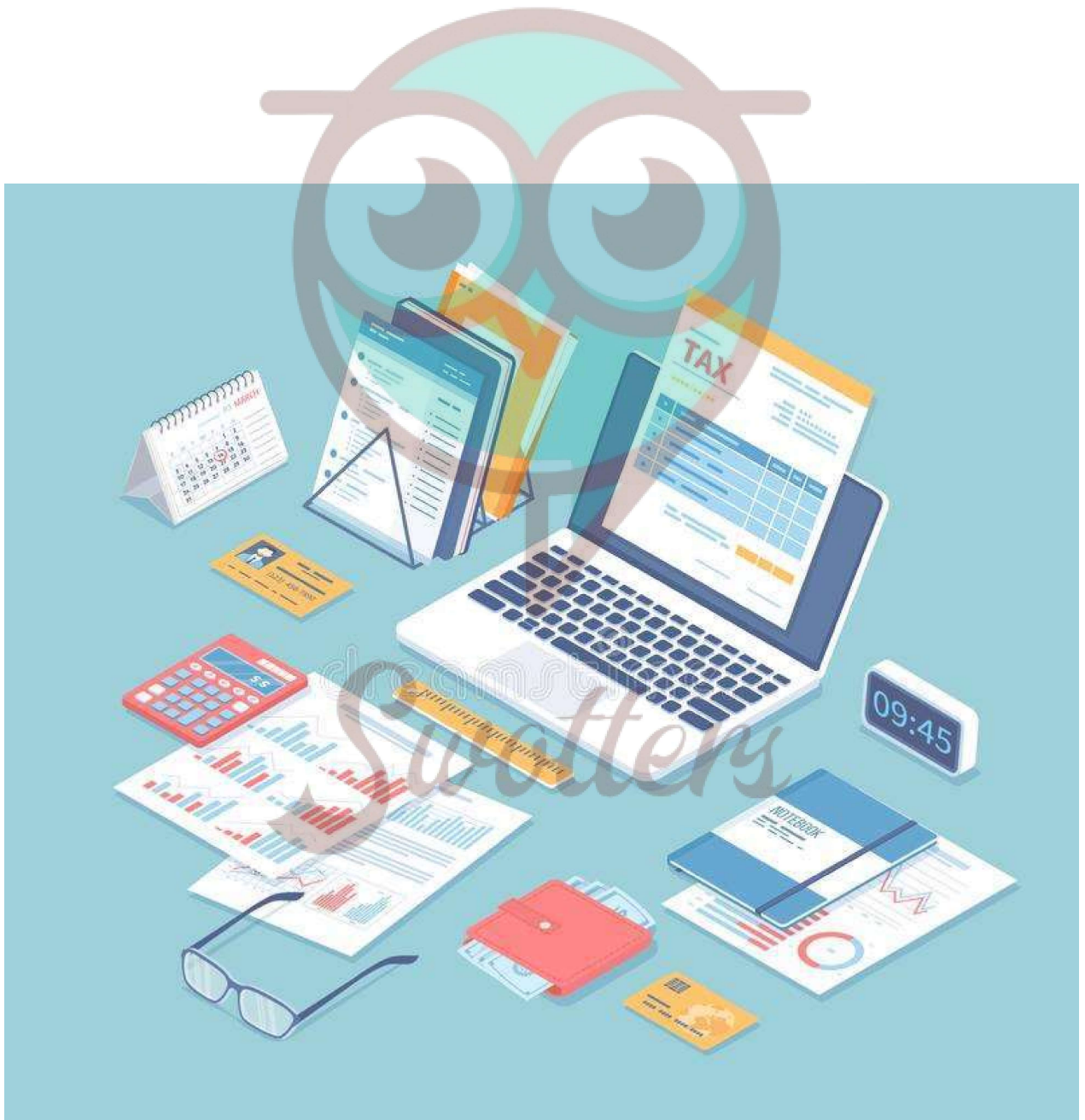


# ACCOUNTANCY



## Important Questions

### Multiple Choice questions-

Question 1. Partnership deed may be \_\_\_\_\_

- (a) oral
- (b) written
- (c) duplicate
- (d) either written or oral

Question 2. If no agreement is made by partners then interest on loan will be given @ \_\_\_\_\_

- (a) 5% p.a.
- (b) 6% p.a.
- (c) no interest
- (d) 7% p.a.

Question 3. Profit will be divided in \_\_\_\_\_ in the absence of partnership deed.

- (a) 1 : 1
- (b) 2 : 1
- (c) 1 : 2
- (d) equal ratio

Question 4. In a partnership, liability of all partners is \_\_\_\_\_

- (a) unlimited
- (b) limited
- (c) according to capital
- (d) decided by company act

Question 5. Maximum number of partners in a partnership firm can be \_\_\_\_\_

- (a) 50
- (b) 20
- (c) 100
- (d) no limit

Question 6. When there is no partnership deed then provisions of partnership act \_\_\_\_\_ will be applicable.

- (a) 1956
- (b) 1912
- (c) 1932
- (d) 1949

Question 7. Liability of a partner in LLP is \_\_\_\_\_

- (a) limited
- (b) unlimited
- (c) not defined in the law
- (d) limited to the capital only

Question 8. Provisions of Table \_\_\_\_\_ are applicable in the absence of partnership deed.

- (a) A
- (b) B
- (c) C
- (d) D

Question 9. In the absence of any provision interest on capital will be calculated for \_\_\_\_\_

- (a) 6 months
- (b) 1 year
- (c) 1 month
- (d) no interest

Question 10. Minimum number of partners in a partnership are \_\_\_\_\_

- (a) 5
- (b) 7
- (c) 2
- (d) 10

### Very Short Questions-

1. Dev withdrew ₹ 10,000 on 15th day of every month. Interest on drawings was to be charged @ 12% per annum. Calculate interest on Dev's drawings.
2. Amit, a partner in a partnership firm withdrew ₹ 7,000 at the beginning of each quarter. For how many months would interest on drawings be charged?
3. Partners of ABC Corporation have agreed that D, a minor, should be admitted as a partner in the firm. What will be the liability of D?
4. X, Y, and Z are partners in a firm. The firm had adopted the fixed capital method. Mention the account in which the interest on capital will be recorded:
5. A partnership deed provides for the payment of interest on capital but there was a loss instead of profits during the year 2010-11. Will the interest on capital be allowed?
6. Where is interest on a partner's loan debited to Profit and Loss Account or Profit and Loss Appropriation Account?
7. Is interest on a partner's loan payable even in case of loss to the firm?
8. Net profit of a firm is ₹ 30,000, partners' salary is ₹ 12,000, and interest on capital is ₹ 20,000. Mention the amount of partners' salary and interest on capital which should be debited to the Profit and Loss Appropriation Account if both items are treated as appropriation.
9. Ram and Shyam are partners sharing profits/losses equally. Ram withdrew ₹ 1,000 p.m. regularly on the first day of every month during the year 2013-14 for personal expenses. If interest on drawings is charged @ 5% p.a. Calculate interest on the drawings of Ram.
10. Himanshu withdraws ₹ 2,500 at the end of each month. The partnership deed provides for charging the interest on drawings @ 12% p.a. Calculate interest on Himanshu's

drawings for the year ending 31st December 2013.

### Short Questions-

1. Define Partnership Deed.
2. Why it is considered desirable to make the partnership agreement in writing.
3. Why is Profit and Loss Adjustment Account prepared? Explain.
4. Give two circumstances under which the fixed capitals of partners may change.
5. If a fixed amount is withdrawn on the first day of every quarter, for what period the interest on total amount withdrawn will be calculated?
6. In the absence of partnership deed, specify the rules relating to the following:
  - (i) Sharing of profits and losses.
  - (ii) Interest on partner's capital.
  - (iii) Interest on Partner's drawings.
  - (iv) Interest on Partner's loan
  - (v) Salary to a partner.

### Long Questions-

1. What is partnership? What are its chief characteristics? Explain.
2. Discuss the main provisions of the Indian Partnership Act, 1932 that are relevant to partnership accounts if there is no partnership deed.
3. Explain why it is considered better to make a partnership agreement in writing.
4. Illustrate how interest on drawings will be calculated under various situations.

### Assertion Reason Questions-

1. For two statements are given-one labelled Assertion and the other labelled Reason. Select the correct answer to these questions from the codes (a), (b), (c) and (d) as given below.
  - a. Assertion and Reason both are correct and Reason is the correct explanation of assertion
  - b. Assertion and Reason both are correct but Reason is not correct explanation of assertion
  - c. Assertion is correct but Reason is not correct.
  - d. Reason is correct but Assertion is not correct.

**Assertion:** Partners shares profit and losses equally.

**Reason (R):** 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.

2. For two statements are given-one labelled Assertion and the other labelled Reason. Select the correct answer to these questions from the codes (a), (b), (c) and (d) as given below.
- Assertion and Reason both are correct and Reason is the correct explanation of assertion
  - Assertion and Reason both are correct but Reason is not correct explanation of assertion
  - Assertion is correct but Reason is not correct.
  - Reason is correct but Assertion is not correct.

**Assertion:** Secret Partner does not participate in the affairs of the management.

**Reason (R):** The secret partner is not liable to pay debts of the firm.

### MCQ Answers-

- Answer: (d) either written or oral
- Answer: (b) 6% p.a.
- Answer: (d) equal ratio
- Answer: (a) unlimited
- Answer: (d) no limit
- Answer: (c) 1932
- Answer: (a) limited
- Answer: (a) A
- Answer: (d) no interest
- Answer: (c) 2

### Very Short Answers-

- Answer: Interest On Drawings =  $1,20,000 \times \frac{12}{100} \times 6 \times 12 = 7,200$
- Answer: 7½ months
- Answer: Limited
- Answer: Capital Account
- Answer: No
- Answer: Profit and loss Account
- Answer: Yes
- Answer: Partners' salary ₹ 11,250, Interest on capital ₹ 18,750.

Note: In the ratio of salary and interest on capital i.e. 12,000 : 20,000 = 3 : 5.

9.

$$\text{Answer: Interest on Drawings} = 12,000 \times \frac{5}{100} \times \frac{6.5}{12} = ₹ 325$$

10.

$$\text{Answer: Interest on Drawings} = 30,000 \times \frac{12}{100} \times \frac{5.5}{12} = ₹ 1650$$

### Short Answers-

1. A partnership deed also referred to as a partnership agreement, is a document of importance that contains the details of all the rights and responsibilities of the concerned parties involved in a business. It helps in preventing any kind of disputes or disagreements that can arise between partners over their role on the business and the associated benefits from the partnership in the firm.
2. According to the Partnership Act, 1932, having a Partnership deed in writing is not mandatory. However, it is a safe option to have it in writing as it helps avoid any kind of disputes that may arise between partners of a firm in future. It also helps resolution of any kind of disputes as a written partnership that is signed by all the partners is suitable for use as an evidence in the court of law.
3. **It is prepared for the following reasons:**
  - i. For recording transactions, errors or omissions which may be left while preparing the final accounts.
  - ii. To act as an account for distributing profit and loss between partners.
  - iii. To accommodate for changes in partnership deed.
4. **Following circumstances lead to change in fixed capital of partners:**
  - i. Introducing fresh capital in the firm by a partner with consent from other partners.
  - ii. When a portion of capital is withdrawn with consent of partners.
5. When there is withdrawal of money on first day of each quarter. Then the corresponding interest is calculated for a period of seven and half months on the total amount that is withdrawn.
6.
  - i. **Sharing of profits and losses:** If a partnership deed is absent, then the profit sharing ratio should be equal among all partners, as per Partnership Act, 1932.
  - ii. **Interest on Partner's capital:** If partnership deed is absent, then as per Partnership Act, 1932, the partners are not entitled to interest earned on capital.
  - iii. **Interest on Partner's drawings:** If partnership deed is absent, then as per Partnership

Act, 1932, in event of drawing money it shall be charged to the partners.

- iv. **Interest on Partner's loan:** If partnership deed is absent then the partner is eligible for a 6% interest on loan to the firm.
- v. **Salary to a partner:** In case of absence of partnership deed, the partners are not eligible for any salary, any salary whatsoever if paid will be as appropriation of profit (in case there is profit).

## Long Answers-

1. According to Section 4 of the Partnership Act, 1932 a partnership is defined as “an agreement between two or more persons who have mutually agreed to share profits or losses that will be carried by all or any one of them acting for all”. The individuals who setup the business jointly are called as partners and all the partners collectively are known as firm.

**Following are the important characteristics of a partnership firm:**

- i. **Number of partners:** The minimum number of persons to form a partnership is 2 and the maximum is 50 as per Companies Rules Act, 2014. Any more than the specified limit makes partnership illegal.
  - ii. **Partnership Deed:** A partnership deed is necessary document that contains all the terms of the partnership and the details about contribution of each partner towards the firm. It should be in written format as it helps in resolving disputes between partners and acts as evidence in deep.
  - iii. **Business:** One of the important characteristics of business is that it is formed in order to do legal business. So any kind of business that is deemed illegal makes the partnership illegal.
  - iv. **Profit/Loss Sharing:** Partners are supposed to take profit and loss as per the ratio that was agreed at the time of partnership.
  - v. **Liability:** Firm has unlimited liability and the partners of the firm need to pay from the personal asset if the firm is unable to pay to any concerned third party.
  - vi. **Mutual Agency:** The firm is an agency and all the partners are its agents. Every partner is an agent and binds other partners by his/her act while at the same time is bound by other partners actions.
2. As per the Indian Partnership Act, 1932. Here are the following provisions that stays relevant when a partnership deed is not present:
    - i. **Sharing of profits and losses:** If a partnership deed is absent, then the profit sharing ratio should be equal among all partners, as per Partnership Act, 1932.
    - ii. **Interest on Partner's capital:** If partnership deed is absent, then as per Partnership Act, 1932, the partners are not entitled to interest earned on capital.

- iii. **Interest on Partner's drawings:** If partnership deed is absent, then as per Partnership Act, 1932, no interest shall be charged to the partners in event of drawing money.
  - iv. **Interest on Partner's loan:** If partnership deed is absent then the partner is eligible for a 6% interest on loan to the firm.
  - v. **Salary to a partner:** In case of absence of partnership deed, the partners are not eligible for any salary, any salary whatsoever if paid will be as appropriation of profit (in case there is profit).
3. According to the Partnership Act, 1932, it is not mandatory to have Partnership deed in writing. However, it is a safe option to have it in writing as there are chances that the partners may have conflicts in the future that gives rise to dispute among the partners regarding the operations of the firm. A partnership deed that is documented helps in proper functioning of the firm and assists in avoiding any kind of disputes that may arise between partners of a firm in future. It also helps resolution of any kind of disputes as, a written partnership that is signed by all the partners is suitable for use as an evidence in the court of law.
  4. A partner whenever withdraws from the firm, any amount which can be in the form of cash or other forms solely for personal use is called drawings. Interest on drawings is referred to the amount that is charged by firm as interest on the total amount taken as drawings. Interest calculation is dependent on the time and the frequency in which drawing is made. Here are some situations that can be shown where calculation is done for interest charged on drawings.

### Assertion Reason Questions-

1. (d) Reason is correct but Assertion is not correct.
2. (c) Assertion is correct but Reason is not correct.

*Swotters*