

1. Define partnership.

**ANS.** 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. What is a profit and loss appropriation account?

**ANS.** A profit and loss appropriation account is an account which shows how the net profit earned by a firm has been distributed amongst its partners.

3. What is a partnership deed?

**ANS.** A partnership deed is an expression agreement in writing determining the rights and obligations of partners *inter se*.

4. What advantages do a firm perceive in having a partnership deed?

**ANS.** A properly drawn up partnership deed is essential for smooth and efficient running of the partnership business. As it is binding on all the partners, it helps to avoid disputes in future.

## ACCOUNTING PROBLEMS

5. A partnership deed is signed by whom and what does the signature imply?

ANS. It is signed by all the partners indicating their acceptance of the partnership terms.

6. Give any two reasons in favour of having a partnership deed.

ANS. (a) Each partner becomes aware of his partnership terms. (b) It enables the partners to avoid future disputes.

7. Is registration of a partnership firm compulsory?

ANS. No, registration is not compulsory, but it is desirable to have a firm registered because of its advantages.

8. State anyone provision of the partnership act with respect to interest on capital of partners and profit-sharing ratio between partners.

ANS. Profits and losses are to be shared equally by all the partners.

9. What is the purpose of preparing a profit and loss appropriation account of a partnership firm?

ANS. A profit and loss appropriation account is prepared to show how the profits of a firm have been distributed amongst the partners.

10. A and B are partners in a firm without any partnership deed or agreement. A, who has contributed maximum capital demands interest on capital at 10% p.a. Is the claim valid?

ANS. When there is no partnership agreement regarding the mode of appropriation of profits, partners are not entitled to any interest on capital. Hence A's claim is not admissible.

11. Can creditors recover their claims from the personal property of the partners?

ANS. If the assets of the firm are not sufficient to meet the debts of the firm, the creditors can recover their claims from the personal property of any or all of the partners.

12. Can the partners be held personally liable for the debts of the firm?

ANS. If the assets of the firm are not sufficient to meet the claims of its creditors, each partner will be personally responsible for the debts of the firm.

13. Would interest on loan paid to a partner be debited to profit and loss account or profit and loss appropriation account?

ANS. It would be debited to profit and loss account because it is an expense of the business and not an appropriation.

14. P, Q and R carry on a business partnership from a rented premises owned by Q, a partner in the firm, paying monthly rent of ₹ 5,000. Should the rent be debited to profit and loss account or profit and loss appropriation account?

ANS. It is as much an expense of the business as rent paid to an outsider. Hence it will be debited to profit and loss account.

15. Why is interest on capital debited to profit and loss appropriation account?

ANS. Interest on capital is debited to profit and loss appropriation account because it is a mode of appropriation of profit compensating a partner who has contributed more capital.

16. How will you deal with a situation where the profit earned by a firm is not enough to pay interest on capital?

ANS. The available profit will be distributed amongst the partners in their capital ratio.

17. The partnership agreement of A, B and C provided for interest on capital @ 5% p.a. After a year C wants that no interest on capital is to be provided to any partner. State how C can do this.

ANS. This can be done with the consent of all other partners, otherwise not.

18. A partnership deed provides for the payment of interest on capital but there was a loss instead of profit during the year 2015-16. At what rate will the interest on capital be allowed?

ANS. No interest on capital would be allowed.



19. What is a profit and loss appropriation account in relation to a partnership firm ?

ANS. Profit and loss appropriation account is an account which shows how the profits earned by a firm has been distributed amongst the partners.

20. What do you mean by partners ?

ANS. The persons who have entered into partnership are called individually partners.

21. What do you mean by firm ?

ANS. The persons who have entered into partnership are collectively called firm.

22. What do you mean by firm name ?

ANS. The name under which the business of a partnership firm is carried on is called the firm name.

23. State any one essential feature of partnership.

ANS. There must be an agreement entered into between two or more persons.

24. List any two important contents of partnership deed.

ANS. (a) The duties and responsibilities of each partner. (b) The proportions in which profits and losses are to be shared.

25. Do all forms of business organisations prepare a profit and loss appropriation account ?

ANS. Only partnership firms prepare a profit and loss appropriation account.

26. What is the minimum and maximum number of partners in a firm ?

ANS. The minimum number of partners is two and the maximum number is fifty.

27. List any three items appearing on the debit side of a partner's current account.

ANS. (a) Drawings, (b) Interest on drawings, (c) Share of loss.

28. When are separate capital and current accounts used by a partnership firm ?

ANS. Separate capital and current accounts are opened when capital contribution of each partner is fixed.

29. In the context of a partnership firm, what is interest on capital ?

ANS. Interest on capital is really a division of a portion of profit in the capital ratio.

30. Why is interest on capital allowed to partners ?

ANS. The practice of allowing interest on capital compensates a partner who has contributed more capital to the firm as compared to his profit-sharing ratio.

31. How is a debit balance on a partner's current account dealt with while preparing final accounts ?

ANS. The debit balance of a partner's current account which indicates the amount due by the partner to the firm, may either be shown on the liability side as a deduction from the other partners' current account totals or, on its own, on the asset side below the current assets.

32. Is interest on capital payable when a firm incurs loss in a financial year ?

ANS. If the partnership deed provides for interest on capital but does not stipulate what shall be done if the operation in a financial year results in a loss, no interest on capital for that year should be allowed.

33. Why is it necessary to make a distinction between loan account and capital account of partners ? (Give one point.)

ANS. Unless there is an agreement, partners are not entitled to any interest on capital ; but a partner is entitled to an interest @ 6% p.a. on any loan advanced by him to the firm.

34. Mention the items that may appear on the debit side of the capital account of a partner when the capitals are fluctuating.

ANS. The items that may appear on the debit side are : (a) Drawings, (b) Interest on drawings, (c) Share of loss, (d) Any permanent withdrawal of capital.



35. List any four items which can be credited to the capital account of a partner when the capitals are fluctuating.

ANS. Four items that may be credited to the capital account are : (a) Interest on capital, (b) Partner's salary, (c) Partner's commission, (d) Share of residue of profit.

36. Why is it that the capital account of a partner does not show a 'debit balance' in spite of regular and consistent losses year after year?

ANS. The capital account does not show a debit balance though there are consistent losses year after year when capital contribution of each partner is fixed as per agreement.

37. When capital accounts of partners are fixed, where will you record the following items?

(a) Salary payable to a partner. (b) Fresh capital introduced by a partner.

ANS. (a) Salary payable to a partner is credited to his current account. (b) Fresh capital introduced by a partner is credited to his capital account.

38. Give one point of distinction between interest on capital allowed to partners and interest on drawings charged to partners.

ANS. Interest on capital reduces the profit divisible in profit-sharing ratio while interest on drawings increases the profit divisible in profit-sharing ratio.

39. Where would you record 'interest on drawings' when capitals are fixed?

ANS. It will be debited to current accounts of partners.

40. In the absence of any provision in the partnership deed, what is the rate at which a working partner is entitled to get remuneration?

ANS. Unless there is a provision in the partnership deed, a working partner is not entitled to get any remuneration.

41. Would a 'charitable hospital' run by 10 members be deemed a partnership firm?

ANS. A charitable hospital cannot be treated as a partnership firm because there is no business which is an essential element of partnership.

42. Under fluctuating capital method why is it necessary to open a separate drawings account for each partner?

ANS. The main advantage of a separate drawings account is that it keeps the capital account free from being too heavy with so many entries for drawings and also shows clearly the total drawings of a partner during an accounting period.

43. In the absence of a partnership deed, what will be your decision in disputes amongst partners regarding the following matters?

(a) Profit sharing ratio. (b) The rate at which interest is to be allowed to a partner on loan given to the firm by a partner.

ANS. In the absence of a partnership deed : (a) the partners will share profits and losses equally ; and (b) interest @ 6% p.a. is to be paid on the loan advanced to the firm by a partner.

44. State the provisions of the Partnership Act, 1932 regarding interest on partners' capital and interest on partners' loan when there is no partnership deed.

ANS. If there is no partnership deed, partners are not entitled to any interest on capital but interest at 6% p.a. is payable on any loan advanced by a partner to the firm.

45. Where would you record drawings made by a partner when capitals are fixed?

ANS. Debited to partner's current account.

46. Name the accounts which are maintained for the partners when capitals of the partners are fixed.

ANS. When capitals of the partners are fixed, two accounts are maintained for each partner, viz., capital account and current account.



47. State the provisions of the Indian Partnership Act regarding the payment of remuneration to a partner for the services rendered.

ANS. If the partnership deed is silent, no remuneration is payable to a partner for the services rendered.

48. Mention the items that may appear on the debit side of the capital account of a partner when the capitals are fluctuating.

ANS. The items that may appear on the debit side are : (a) Drawings ; (b) Interest on drawings ; (c) Share of loss ; (d) Any permanent withdrawal of capital.

49. Can a partner be exempted from sharing the losses in a firm ? If so, under what circumstances ?

ANS. A partner can be exempted from sharing the losses in a firm if there is a provision in the partnership deed in this respect.

50. Why are separate capital account and current account kept for each partner ?

ANS. Separate capital and current accounts are maintained : (a) To ensure the fixed capital (per the partnership agreement) is not drawn out of the business ; and (b) To make the calculation of interest on capital straightforward.

51. If the partners cannot agree as to how net profit should be divided, what should be done ?

ANS. It must be divided equally among the partners.

52. A partner in a firm feels that he is entitled to more profit than the other partners since he has contributed more time and he invested more capital than the other partners. Is he correct ? Why or why not ?

ANS. No, not unless it was so stipulated in the deed of partnership.

53. Is a partner entitled to receive interest on his capital investment ?

ANS. No.

54. When a partner is guaranteed a fixed minimum share of profit, how will the shortfall be adjusted if the guarantee is given by one of the other partners ?

ANS. The shortfall in the guaranteed minimum is debited to a partner giving the guarantee and credited to the partner who has been guaranteed.

55. When a partner is guaranteed a fixed minimum share of profit, how will the shortfall be adjusted if the guarantee is given by all the other partners ?

ANS. The shortfall in the guaranteed minimum is debited to the partners giving the guarantee in their profit-sharing ratio and credited to the partner who has been guaranteed.

56. P and Q with capital investments of ₹ 3,00,000 and ₹ 2,00,000 respectively, rely on the Indian Partnership Act for their annual profit-sharing. If a year's net profit is ₹ 60,000, how much is the share of profit of P ?

ANS. ₹ 30,000.

57. Mention the advantages of partnership form of business.

ANS. It is possible to pool resources such as time, talent and money.

58. What are the disadvantages of the partnership form of business ?

ANS. Limited life, mutual agency, and unlimited liability.

59. What does the phrase 'mutual agency' mean ?

ANS. It means that all partners have the right to bind the partnership to contractual agreements.

60. What does unlimited liability mean to a partner ?

ANS. It means that he may be forced to use his personal assets to pay business debts.

61. When are partners charged interest on drawings ? (Give one point)

ANS. When there are no stated dates or limits fixed for drawings by partners.

62. Give one point of distinction between partners' capital accounts and current accounts.

ANS. The partners will have capital accounts whether the capitals are fixed or fluctuating. Current accounts will be opened when the capitals are regarded as fixed.

63. In what way would you deal with rent paid to a partner for the use of his premises by the firm in which he is a partner and why?

ANS. Rent paid to a partner will be treated as an usual expense of the business to be debited to profit and loss account in the same way as rent paid to an outsider.

64. Is rent paid to a partner for the use of his premises by the firm an appropriation of profits?

ANS. It is not appropriation of profits because a partner is not supposed to provide premises for the purpose of the business.

65. When are separate capital and current accounts used by a partnership firm?

ANS. Separate capital and current accounts are used when the partners agree that amount of capital contributed by them should not be allowed to be changed for recurring transactions between the partners and the firm.

66. Mention the items that may appear on the debit side of the capital account of a partner when the capitals are fluctuating.

ANS. The items that may appear on the debit side are : (a) Drawings ; (b) Interest on drawing ; (c) Share of loss ; (d) Any permanent withdrawal of capital.

67. List any four items which can be credited to the capital account of a partner when the capital account is fluctuating.

ANS. (a) Interest on capital ; (b) Partner's salary ; (c) Partner's commission ; (d) Share of residual profit.

