

# ACCOUNTING FOR PARTNERSHIP FIRM - FUNDAMENTALS

## STUDY NOTES

- **Definition:** Section 4 of the Indian Partnership Act 1932 defines partnership as “the relation between persons who have agreed to share the profits of a business carried on by all or any one of them acting for all”.
- **Features:**
  - In order to form a partnership there must be at least 2 persons. Maximum limit is 50.
  - The profit should be shared by the partners in an agreed ratio. If there is no specific agreement in this regard, the partners will share the profit equally.
  - In order to form a partnership there must be an agreement. The agreement may be oral or written.
  - The agreement should be to carry on some lawful business.
  - In partnership the liability of each partner is unlimited. It is joint and several.
  - Each partner can participate in the conduct of a business and act for the firm. Similarly, each partner is bound by the acts of other partners. Thus, a partner is both an agent and a principal.
- **Partnership Deed:** Deed is a document which contains terms of the agreement between partners, about the objective of business, contribution of capital, share of profit & loss, rights and duties of partners, entitlement of interest on capital, partner’s salary etc.
- **Rules applicable in the absence of Partnership Deed:** In the absence of Partnership Deed, following provision of Indian Partnership Act, 1932 will be applicable:
  - **Interest on Capital:** No partner is entitled for interest on capital.
  - **Interest on Drawings:** No interest is to be charged on the drawings made by partners.
  - **Remuneration for Firm’s Work:** No partner is entitled to get salary or other remuneration for taking part in the business activities of the firm.
  - **Profit-Sharing Ratio:** Profits and losses of the firm are to be shared equally.
  - **Interest on Advance (Loan to the firm):** If any partner has advanced some money to the firm other than the capital, he/she is entitled for interest on the such advance amount @ 6% p.a.
- **Methods of preparing partner’s capital accounts:**
  - **Fixed Capital:** Capital of the partners remains unchanged year after year except on the following situations:
    - (a) By Additional capital introduced by partners’ as per agreement
    - (b) Excess capital withdrawn permanently, as per agreement.

In the case of Fixed Capital, two accounts of partners are prepared. They are;  
Partner’s Capital Accounts and Partner’s Current Accounts
  - **Fluctuating Capital:** In this method, capitals of the partners will change year after year due to adjustments (claims and charges of partners) relating to the current year. In this method only Partner’s Capital Accounts are prepared.
- **Profit and loss Appropriation account:** Profit and loss appropriation account is prepared for the allocation / division of profit or loss between partners after adjustments relating to – interest on capital, interest on drawings, salary etc.

- **Rent paid to partner and interest on partner's loan is charge against profits:** So, debited to profit and loss account.
- **If rate of interest is not given for partner's loan,** it is paid at 6 % p.a for the given period.
- **If profit sharing ratio is not given,** profits are shared equally among the partners.
- **If (appropriations) interest on partners' capital is more than available profit,** profit is distributed in the ratio of interest on capital.
- **Interest on capital is given to partners only if there is a profit:** This means in case of loss, no interest on capital is paid to partners even if it is mentioned in the question.
- **Guarantee of Profit to a partner:**

A partner may have a guarantee from a partner or all other partners that his/her profit will not be less than the certain amount in any year. If the actual share of profit is less than the guaranteed amount of profit then deficit profit will be compensated by guarantors' partners in their profit-sharing ratio.

- **Past Adjustment:** After the allocation of profits/losses between partners, if it is coming to know that some of the adjustments are omitted while preparing Profit and Loss Appropriation Account relating to – Salary to a partner, Interest on Capital, Interest on Drawings and not following the actual profit-sharing ratio. It is required to make an adjustment entry on the first day of next accounting year for the same. The adjustment Journal entry will be passed to adjust the partners Capital / Current Account (if capitals are fixed).
- **Interest on drawings of a partner:**

**Interest on drawing = Total drawings × Rate of interest / 100 × Average period / 12**

- **Average Period = No. of months left after first draw + No. of months left after last draw / 2**

Remember following average period for calculation of interest on partner's drawing.

#### Drawings made month-wise

- At the beginning of each month throughout the year =  $(12 + 0) / 2 = 6.5$  months
- At the beginning of each month for certain months (9) =  $(9 + 0) / 2 = 4.5$  months
- At the middle of each month throughout the year =  $(11.5 + 0.5) / 2 = 6$  months
- At the middle of each month for certain months (7) =  $(6.5 + 0.5) / 2 = 3.5$  months
- At the end of each month throughout the year =  $(11 + 0) / 2 = 5.5$  months
- At the end of each month for certain months (6) =  $(5 + 0) / 2 = 2.5$  months

#### Drawings made quarterly

- At the beginning of each quarter throughout the year =  $(12 + 3) / 2 = 7.5$  months
- At the middle of each quarter throughout the year =  $(10.5 + 1.5) / 2 = 6$  months
- At the end of each quarter throughout the year =  $(9 + 0) / 2 = 4.5$  months

#### When the date of drawing is not given:

Interest on drawings to be calculated for average period of 6 months

#### Drawings made throughout the year in different interval period with different amount:

Interest on drawings is to be calculated with Product Method as follows.

**Interest on drawing = Total product × Rate of interest / 100 × 1/12 (or 1/365)**

## QUESTION BANK

### MULTIPLE CHOICE QUESTIONS

1. A and B are partners sharing profits and losses in the ratio of 2:1 with capitals ₹1,00,000 and ₹80,000 respectively. The interest on capital has been provided to them at 8% instead of 10%. In the rectifying adjustment entry, B will be \_\_\_\_\_.  
 (a) Debited by ₹400  
 (b) Credited by ₹400  
 (c) Debited by ₹1600  
 (d) Credited by ₹1600

2. A, B, and C are partner's sharing profits in the ratio of 5:3:2. According to the partnership agreement C is to get a minimum amount of ₹ 10,000 as his share of profits every year. The net profit for the year ended 31st March, 2022 amounted to ₹ 40,000. How much amount contributed by A to C?  
 (a) ₹ 2,000                      (b) ₹ 1,250                      (c) ₹ 1,750                      (d) ₹ 1,200
3. A and B entered into partnership on 1st April, 2021 contributing ₹ 1,50,000 and ₹ 2,50,000 respectively towards capital. The Partnership Deed provided for interest on capital at 10% p.a. The firm earned net profit of ₹ 1,00,000 for the year ended 31st March 2022. What will be the interest on capital of A and B?  
 (a) 25,000; 15,000                      (b) 15,000; 25,000  
 (c) No interest will be paid                      (d) 1,500; 2,500
4. 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
5. Shyam and Ram are Partners. They do not have any Partnership agreement. Shyam spends twice the time that Ram devotes to business. Shyam claims that he should get a salary ₹ 12,000 per month for his extra time spent :  
 (a) Shyam is entitled 1/3rd salary.                      (b) Shyam is entitled to salary of ₹ 12,000 p.m.  
 (c) Shyam is entitled to half of salary                      (d) Shyam is not entitled to any salary
6. S and R are partners sharing profits in the ratio of 3 : 2. Their capitals as on 31st March, 2021 were ₹ 2,00,000 each whereas Interest is to be allowed at 5% p.a. on balances in Capital Accounts. The firm earned net profit of ₹ 4,00,000 for the year ended 31st March 2022. The divisible profit available partners will be ₹ \_\_\_\_\_  
 (a) 4,80,000                      (b) 3,80,000                      (c) 2,80,000                      (d) 2,00,000
7. Suman, Smita and Savita are partners sharing profits and losses in the ratio of 5:2:3. As per partnership Deed, Suman is entitled to a commission of 10% on the net profit after charging such commission. The net profit before charging commission is ₹ 2,20,000. The amount of commission payable to Suman is ₹ \_\_\_\_\_  
 (a) 22,000                      (b) 20,000                      (c) 11,000                      (d) 10,000
8. Profit and Losses are to be shared in \_\_\_\_\_ irrespective of their capital contribution.  
 (a) Equally                      (b) Agreed ratio  
 (c) Capital ratio                      (d) Interest on capital ratio
9. Azad and Biswash entered into partnership on 1st April, 2021 contributing ₹1,50,000 and ₹2,50,000 respectively towards capital. The Partnership Deed provided for interest on capital at the rate of 5% p.a. It also provided that Capital Accounts shall be maintained following Fluctuating Capital Accounts method. The firm earned net profit of ₹ 2,00,000 for the year ended 31st March 2022. What will be the journal entry for interest on capital?  
 (a) Profit and loss Appropriation A/ Dr.                      20,000  
     To Azad's capital A/c                      7,500  
     To Biswash's capital A/c                      12,500  
 (b) Profit and loss Appropriation A/ Dr.                      20,000  
     To Azad's current A/c                      7,500  
     To Biswash's current A/c                      12,500  
 (c) No entry will be passed  
 (d) Azad's capital A/c Dr.                      7,500  
     Biswash's capital A/c Dr.                      12,500  
     To Profit and loss Appropriation A/ Dr.                      20,000
10. Balance of Partners Current Accounts are  
 (a) Debit balance                      (b) Credit balance  
 (c) Debit or Credit balance                      (d) Neither Debit or Credit balance

11. Ravi and Mohan, two partners, drew for their personal use ₹ 1,20,000 and ₹ 80,000. Interest is chargeable 6% p.a. on the drawings. The amount of interest chargeable from each partner will be ₹ \_\_\_\_\_ and ₹ \_\_\_\_\_ respectively.
- (a) 7,200 and 4,800 (b) 3,600 and 2,400  
(c) 2,400 and 3,600 (d) 3,600 and 7,200
12. Bhole and Mohan are partners in a firm. They withdrew ₹ 48,000 and ₹ 36,000 respectively during the year evenly in the middle of every month. According to the partnership agreement, interest on drawings is to be charged at 10% p.a. Interest on drawings of the partners will be ₹ \_\_\_\_\_ and ₹ \_\_\_\_\_ respectively.
- (a) 2,400 and 1,800 (b) 1,800 and 2,400  
(c) 4,800 and 3,600 (d) 3,600 and 4,800
13. K and S are partners having fixed capitals of ₹ 5,00,000 each as on 31st March, 2021. K introduced further capital of ₹1,00,000 on 1st October, 2021 whereas L withdrew ₹ 1,00,000 on 1st October, 2021 out of capital. Interest on capital is to be allowed @10% p.a. The firm earned net profit of ₹ 6,00,000 for the year ended 31st March 2022. What will be the interest on capital of K and L?
- (a) 55,000 ; 45,000 (b) 45,000 ; 55,000  
(c) 40,000 ; 50,000 (d) 20,000 ; 25,000
14. A and B are partners sharing profits equally. A drew regularly ₹ 4,000 in the beginning of every month for six months ended 30th September, 2022. Interest on drawings @ 5% p.a. for a period of six months will be ₹ \_\_\_\_\_
- (a) 350 (b) 450 (c) 400 (d) 200
15. What will be the interest on drawings of Mr. Ashok at 10% p.a. for the year ended 31st March, 2022, If he withdrew 7,500 in the beginning of each quarter?
- (a) 1,125 (b) 1,875 (c) 1,500 (d) 1,250
16. A, B, and C are partners in 5 : 4 : 1. C is Guaranteed that his share of profit will not be less than ₹ 80,000. Any deficiency will be borne by A and B in 3 : 2. Firm's profit was ₹ 5,60,000. How much deficiency will be borne by B :
- (a) 13,400 (b) 14,600 (c) 9,600 (d) 19,600
17. What will be the interest on drawings of Ms. Prakash at 10% p.a. for the year ended 31st March, 2022, If he withdrew 7,500 at the end of each quarter?
- (a) 1,125 (b) 1,875 (c) 1,500 (d) 1,250
18. The relationship between persons who have agreed to share profits of a business carried on by all or any of them acting for all is known as :
- (a) Partnership (b) Joint Venture  
(c) Association of Persons (d) Body of Individual
19. What will be the interest on drawings of Ms. Anjali at 10% p.a. for the year ended 31st March, 2022, If she withdrew 7,500 in the middle of each quarter?
- (a) 1,500 (b) 1,875 (c) 1,125 (d) 1,250
20. Ashish, Bholanath and Chintan are partners having capital of ₹5,00,000 each. They are sharing profits and losses in the ratio of 2 : 2 : 1 respectively. Ashish is entitled to a commission of 10% on the net profit. Net profit for the year is ₹ 1,10,000. The amount of commission payable to Ashish is ₹ \_\_\_\_\_.
- (a) 61,000 (b) 12,000 (c) 11,000 (d) 50,000
21. R, M and N shared profits in the ratio of 3:2:1. The profits for the last three year were ₹1,40,000; ₹84,000 and ₹1,06,000 respectively. These profits were by mistake shared equally. What will be adjustment entry?
- (a) N's current A/c Dr ₹ 55,000 To R's current A/c 55,000  
(b) N's current A/c Dr ₹ 45,000 To R's current A/c 45,000  
(c) N's capital A/c Dr ₹ 55,000 To R's capital A/c 55,000  
(d) N's capital A/c Dr ₹ 45,000 To R's capital A/c 45,000

22. 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
23. Limited Liability Partnerships came into existence in India after the enactment of:
- (a) Indian Partnership Act, 1932 (b) Limited Liability Partnership Act, 1932  
(c) Limited Liability partnership Act, 2008 (d) Indian Companies Act, 2013
24. C and D are partners sharing profits and losses equally. They admitted E as a partner with an equal share giving him a guarantee of minimum ₹50,000 profit p.a. The profit for the year after E's admission was ₹1,20,000. The net amount that will be credited to C's Capital A/c is ₹ \_\_\_\_\_.
- (a) ₹50,000 (b) ₹40,000 (c) ₹35,000 (d) ₹80,000
25. Ravi is a partner in a firm. He withdrew regularly 1,000 at the beginning of every month for the six months ending 31st March, 2022. If interest on drawings is charged at 8% p.a. the interest charged will be :
- (a) 340 (b) 240 (c) 140 (d) 220
26. A and B are partners sharing profits equally. A drew regularly ₹ 4,000 at the end of every month for six months ended 30th September, 2021. Interest on drawings @ 5% p.a. for a period of six months will be ₹ \_\_\_\_\_
- (a) 250 (b) 350 (c) 400 (d) 200
27. R and M are partners in a business. Their capitals at the end of the year were ₹24,000 and ₹18,000 respectively. During the year, R's drawings were ₹ 4,000. Profit before charging interest on capital during the year was ₹16,000. What will be the interest on capital of R at the rate of 5% p.a?
- (a) 1,000 (b) 2,000 (c) 500 (d) 1,500
28. If a partner withdraws an equal amount in the beginning of each month for a period of 10 months, what will be the average period for calculation of Interest on Drawings?
- (a) 6.5 months (b) 7.5 months  
(c) 6 months (d) 5.5 months
29. Arjun and Bhim are partners. Bhim draws a fixed amount at the end of every month. Interest on drawings is charged at 15% p.a. At the end of the year interest on B's drawings amounted to ₹8,250. Drawings of B were:
- (a) ₹10,000 p.m. (b) ₹12,000 p.m.  
(c) ₹19,000 p.m. (d) ₹18,000 p.m.
30. Mohshin and Reema were partners in a firm with capitals of ₹1,80,000 and ₹2,40,000 respectively. The firm earned a profit of ₹40,000 during the year. Reema's share in the profit will be:
- (a) ₹ 8,000 (b) ₹ 20,000 (c) ₹ 10,000 (d) ₹ 4,000
31. Rashmi and Smitha are partners sharing profits in the ratio of 1:1. Smitha has advanced a loan of ₹1,00,000 to the firm on 1st October, 2021. The net profit earned by the firm for the year ending 31st March, 2022 is ₹ 90,000. What amount will be credited to Smitha's capital account?
- (a) ₹43,500 (b) ₹20,500 (c) ₹29,500 (d) ₹32,500
32. Interest on loan taken by a partner is recorded on \_\_\_\_\_.
- (a) Credit side of Profit and Loss Account (b) Debit side of Profit and Loss Account  
(c) Not recorded (d) Credit side of Profit and Loss Account
33. N and S are partners with capitals of ₹3,00,000 each as on 31st March, 2022. N had withdrawn ₹ 50,000 against capital on 1st October, 2021 and also ₹1,00,000 besides the drawings against capital. S also had drawings of ₹ 1,00,000. Interest on capital is to be allowed at 10% p.a. Net profit for the year was ₹ 2,00,000, which is yet to be distributed. What will be the opening capital of both the partners?
- (a) 4,50,000 ; 4,00,000 (b) 3,50,000 ; 4,00,000  
(c) 4,00,000 ; 3,00,000 (d) 3,00,000 ; 3,00,000

34. Under the Fixed Capital Account method, Interest on Capital is credited to \_\_\_\_\_.
- (a) Partner's Capital Account (b) Profit and Loss Account  
(c) Partners Current A/c (d) Profit and Loss Appropriation Account
35. Dinesh and Jagdish are equal partners. Which one of the following items will not be recorded in Profit and loss Appropriation Account of Dinesh and Jagdish?
- (a) Interest on capital of Dinesh ₹9,000 (b) Salary to Dinesh ₹60,000  
(c) Commission to Dinesh ₹5,000 (d) Interest on Dinesh's loan ₹8,000
36. Salary ₹50,000 paid to Ramesh, a partner under fixed capital account is credited to
- (a) Ramesh's Capital A/c (b) Ramesh's current A/c  
(c) Profit & Loss A/c (d) Ramesh's Loan A/c
37. Praksah and Rakesh were partners in a firm sharing profits and losses equally. Their fixed capitals were ₹2,00,000 and ₹3,00,000 respectively. The Partnership Deed provided for interest on capital at 12% per annum. For the year ended 31st March, 2021, the profits of the firm were distributed without providing interest on capital. What will be the adjustment entry to rectify the error?
- (a) Praksh's capital A/c Dr 6,000 To Rakesh's capital A/c 6,000  
(b) Praksh's current A/c Dr 6,000 To Rakesh's current A/c 6,000  
(c) Praksh's current A/c Dr 3,000 To Rakesh's current A/c 3,000  
(d) Praksh's capital A/c Dr 3,000 To Rakesh's capital A/c 3,000
38. If partner's capital is fixed interest on drawing will be recorded on \_\_\_\_\_.
- (a) Partner's capital account (b) Partner's current account  
(c) Profit and loss account (d) Balance sheet
39. In the absence of the date of withdrawal, interest should be charged for \_\_\_\_\_ month on the whole amount.
- (a) 12 (b) 5.5 (c) 6 (d) 6.5
40. Ajay a partner withdraws from firm ₹ 7,000 at the end of each month. At the rate of 6% per annum total interest will be :
- (a) 5,890 (b) 2,360 (c) 3,560 (d) 2,310
41. A and B are partners in a firm sharing profits in the ratio of 3 : 2. A had advanced to the firm a sum of ₹60,000 as a loan on 1st October, 2021. The Partnership Deed is silent on interest on loans from partners. What will the interest on loan of A, if the firm closes its books every year on 31st March 2022?
- (a) 900 (b) 450 (c) 1,800 (d) 3,000
42. A and B are partners sharing profits and losses in the ratio of 7:3 with capitals of ₹8,00,000 and ₹6,00,000 respectively. According to partnership deed interest on capital is to be provided at 8% p.a. and is to be treated as a charge. Profit for the year is ₹80, 000. A will be credited by ₹ \_\_\_\_\_.
- (a) A will be credited by ₹ 56,000. (b) A will be credited by ₹ 64,000.  
(c) A will be credited by ₹ 22,400. (d) A will be credited by ₹ 41,600.
43. Manager's commission is a \_\_\_\_\_ against \_\_\_\_\_.
- (a) Charge , divisible profit (b) Charge, profit  
(c) Charge, capital (d) Charge, drawings
44. Amar and Babar are Partners. Amar drew Rs 64,000. If the rate of Interest on Drawing is 12% per annum then \_\_\_\_\_ will amount of interest on drawing .
- (a) 3,940 (b) 2,950  
(c) 3,840 (d) 1,920
45. Akbar drew ₹ 50,000 during the year. If the rate of Interest on Drawing is 10% then \_\_\_\_\_ will be the amount of Interest on Drawing.
- (a) 10,000 (b) 5,000 (c) 2,500 (d) 3,500

46. Ragini and Smita are partners in a firm sharing profits in the ratio 7:12 having capital of ₹50,000 and ₹1,00,000 respectively. They are entitled to interest on their capital ₹ 5,000 and ₹10,000 p.a. respectively, but the net profit is only ₹7,000. The net profit will be disturbed among partner in  
 (a) 1:2 (b) 2:1 (c) 7:12 (d) 1:1
47. If drawings of equal amount are made in the beginning of every month for 9 month ending 31st March, then interest on drawing will be calculated for an average period for \_\_\_\_\_ Months.  
 (a) 6 (b) 7.5 (c) 6.5 (d) 5
48. Anil, Bimal and Champak were partner in a firm sharing Profit in the ratio of 3:2:1 during the year the firm earned profit of ₹ 84,000. Calculate the amount of Profit or Loss transferred to the capital a/c of Bimal.  
 (a) Loss ₹87,000 (b) Profit ₹87,000  
 (c) Profit ₹28,000 (d) Profit ₹14,000
49. A partnership firm of A and B earned net profit of ₹ 5,00,000, interest on capital is to be provided to partner is ₹3,50,000, interest on partner's drawing is ₹ 50,000 and profit sharing ratio of partners is 5:3 respectively. Share in profit of A will be \_\_\_\_\_.  
 (a) 1,25,000, 75,000 (b) 75,000, 1,25,000  
 (c) 1,00,000, 1,00,000 (d) 2,50,000, 2,50,000
50. Which one of the following items is recorded in the Profit and Loss appropriation account  
 (a) Interest on partner's Loan (b) Partner's Salary  
 (c) Rent paid to Partners (d) Manager's salary
51. A and B are partner's sharing profit equally. A draw regularly ₹ 4,000 at the end of every month for 6 months. On 30th September 2022, interest on drawings at the rate 5% p.a. will be \_\_\_\_\_  
 (a) ₹ 650 (b) ₹ 350 (c) ₹ 250 (d) ₹ 500
52. Which section of the partnership act defines partnership as the relation between person who have agreed to share the profit of the business carried on by all or any of them acting for all?  
 (a) Section 6 (b) Section 1 (c) Section 4 (d) Section 3
53. Interest on capital will be paid to the partners if provided for in the deed but only out of  
 (a) Profits (b) Reserves  
 (c) Accumulated Profits (d) Goodwill
54. A and B are partner's sharing profit in the ratio 2:1. On 31st March 2022, firm's net profit is ₹86,000. The partnership deed provided interest on capital A and B ; ₹5,000 to ₹6,000 respectively and Interest on drawing charged A. ₹1,000 per month. Calculate profit to be transferred to Partner's Capital A/c.  
 (a) ₹ 98,000 (b) ₹ 1,03,000  
 (c) ₹ 87,000 (d) ₹ 86,000
55. What will be the closing entry for interest on loan ₹3,000 allowed to Ajay, a partner for his loan to firm?  
 (a) Interest on Ajay's loan Dr. 3,000 ; To Profit and Loss A/c 3,000  
 (b) Interest on loan Dr. 3,000 ; To Profit and Loss Appropriation A/c 3,000  
 (c) Profit and Loss A/c Dr. 3,000 ; To interest on Ajay's loan A/c 3,000  
 (d) Profit and Loss Appropriation A/c Dr. 3,000 To interest on loan A/c 3,000
56. Arjun, Ajay and Vijay are partners in the ratio of 5 : 4 ; 3. Arjun given to Vijay a guarantee of minimum ₹10,000 profit. For the year ending 31st March, 2021, firm's profit is ₹ 28,800. Arjun's share in profit will be :  
 (a) 9,600 (b) 9,300 (c) 9,200 (d) 6,200
57. Features of a Partnership Firm are :  
 (a) Two or more persons are carrying common business under an agreement  
 (b) They are sharing profits and losses in fixed ratio  
 (c) Business is carried by all or any of them acting for all as an agent  
 (d) All of the above

58. If fixed amount is withdraw on the last day of every month and interest on drawing charged is 10% p.a. Interest on drawing amounted to ₹ 2,750, what will be drawing amount?  
 (a) ₹2,500 p.m. (b) ₹10,000 p.m. (c) ₹7,500 p.m. (d) ₹5,000 per month
59. In case of guarantee of minimum profit to a partner deficiency of guaranteed partner is shared by remaining partner in \_\_\_\_\_  
 (a) 1:1 (b) Agreed ratio (c) 2:3 (d) In capital ratio
60. Following is the difference between Partnership deed and Partnership agreement :  
 (a) Partnership deed is signed by the Partners but Partnership agreement is signed by majority of the Partners.  
 (b) Partnership deed is registered in the court of law whereas Partnership agreement is not registered.  
 (c) Partnership deed is in writing and Partnership agreement is oral.  
 (d) Partnership deed is not subject to changes unless all Partners agree to it. Partnership agreement can be amended with the consent of more than 50% Partners.
61. In the absence of Partnership deed interest on loan of a Partner is allowed:  
 (a) at 9% per annum (b) at 6% per annum  
 (c) at 10% per annum (d) no interest is allowed
62. K and L are Partners. They do not have any Partnership agreement. L has provided a Capital of ₹3,50,000 whereas K has provided ₹50,000 only as Capital. K however, has provided ₹1,00,000 as loan to the Firm. What interest will be given to K and L?  
 (a) L ₹35,000 and K ₹5000  
 (b) K is entitled to claim interest on his loan of ₹1,00,000 @ 6% p.a. and L – Nil  
 (c) L – Nil and K – ₹ 900  
 (d) L – Nil and K – Nil
63. Number of partners in a partnership firm may be maximum :  
 (a) 2 (b) 10 (c) 100 (d) 50
64. A and B are partners sharing profits and losses in the ratio of 5:2 with capitals ₹5,00,000 each. According to the partnership deed, interest on capital is allowed @ 10% p.a. The profit for the year is ₹60,000. What amount will be credited to X and Y in such a condition?  
 (a) ₹50,000 to each partner (b) ₹25,000 to each partner  
 (c) ₹30,000 to each partner (d) ₹15,000 to each partner
65. Partnership Deed is also called  
 (a) Prospectus (b) Principles of Partnership  
 (c) Articles of Association (d) Articles of Partnership
66. Sumeet is a partner in a firm. His drawings during the year ended 31st March, 2022 were ₹1,72,000. If interest on drawings is charged at 9% p.a. the interest charged will be  
 (a) ₹2,640 (b) ₹6,450 (c) ₹3,260 (d) ₹7,740
67. C and N were partners in a firm sharing profits and losses equally. C withdrew a fixed amount at the beginning of each quarter. Interest on drawings is charged @ 6% p.a. At the end of the year, interest on C's drawings amounted to ₹1,900. What will be the journal entry for charging interest on drawings?  
 (a) C's capital A/c Dr 1,900 To interest on drawings A/c 1,900  
 (b) Interest on Drawings A/c Dr 19,000 To C's capital A/c 1,900  
 (c) Profit and loss A/c Dr 1,900 To interest on drawings A/c 1,900  
 (d) Profit and loss Appropriation A/c Dr 1,900 To interest on drawings A/c 1,900
68. Rahul, Rohit and Karan started partnership business on April 1, 2021 with capitals of ₹20,00,000, ₹18,00,000 & ₹16,00,000, respectively. The profit for the year ended March 2022 amounted to ₹1,35,000 and the partner's drawings had been Rahul ₹50,000, Rohit ₹50,000 & Karan ₹40,000. The profits are distributed among partners in the ratio of 2:2:1. The interest on capital of Rahul @ 5% p.a will be ₹ \_\_\_\_\_  
 (a) 1,20,000 (b) 1,00,000 (c) 90,000 (d) 80,000



69. A, B, and C are partner's sharing profits in equal ratio. According to the partnership agreement C is to get a minimum amount of ₹15,000 as his share of profits every year. The net profit for the year ended 31st March, 2022 amounted to ₹30,000. How much amount contributed by B to C?  
 (a) ₹3,500 (b) ₹2,500 (c) ₹1,250 (d) ₹5,000
70. As per Section 30 of the Partnership Act a minor may be admitted for the benefit of a partnership if:  
 (a) One partner agree (b) Government allow  
 (c) More than one partner agree (d) All partners agree
71. Ram, Raj and George are partners sharing profits in the ratio 5 : 3 : 2. According to the partnership agreement George is to get a minimum amount of ₹ 10,000 as his share of profits every year. The net profit for the year 2022 amounted to ₹ 40,000. What amount of profit is available to Ram?  
 (a) 18,750 (b) 11,250 (c) 10,000 (d) 16,750
72. Following are the essential elements of a Partnership Firm except :  
 (a) There are 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
73. In the absence of Partnership Deed, interest is allowed on partners' capital :  
 (a) 5% p.a. (b) 12% p.a.  
 (c) 6% p.a. (d) No interest is allowed
74. S and P started partnership business on April 01, 2019 with capitals of ₹2,50,000 and ₹1,50,000, respectively. On October 01, 2019, they decided that their capitals should be ₹2,00,000 each. The necessary adjustments in the capitals are made by introducing or withdrawing cash. Interest on capital is to be allowed @ 10% p.a. The interest on capital of S as on March 31, 2020 would be ₹ \_\_\_\_\_  
 (a) 22,500 (b) 20,000 (c) 12,500 (d) 10,000
75. Which one of the following items cannot be recorded in the Profit & Loss Appropriation Account?  
 (a) Interest on capital (b) Interest on drawings  
 (c) Rent paid to partners (d) Partner's Salary
76. H withdraws ₹ 2,500 at the end of each month. The Partnership deed provides for charging interest on drawings @ 12% p.a. What will be the interest on H's drawings for the year ending March 31, 2022?  
 (a) 1,750 (b) 1,650 (c) 3,000 (d) 1,250
77. On 1st January 2022, a partner advanced a loan of ₹ 1,00,000 to the firm. In the absence of agreement, interest on loan on 31st March, 2022 will be  
 (a) 1,500 (b) 4,000 (c) 6,000 (d) 8,000
78. The relation of partner with the firm is that of :  
 (a) An Owner (b) An Agent  
 (c) An Owner and an Agent (d) Manager
79. C and M are partners in the ratio of 3 : 2. Before profit distribution, C is entitled to 5% commission of the net profit (after charging such commission). Before charging commission, firm's profit was ₹ 84,000. M's share in the profit will be  
 (a) ₹32,000 (b) ₹48,000 (c) ₹52,000 (d) ₹32,800
80. For the partnership firm interest on drawings is \_\_\_\_\_.  
 (a) Capital Payment (b) Expenses  
 (c) Capital Receipt (d) Income
81. A and V are partners in the ratio of 3 : 2. Their capitals are ₹ 2,00,000 and ₹ 1,00,000 respectively. Interest on capitals is allowed @ 8% p.a. Firm earned a profit of ₹ 60,000 for the year ended 31st March 2022. Interest on Capital will be :  
 (a) A ₹16,000; V ₹ 8,000 (b) A ₹ 8,000; V ₹ 4,000  
 (c) A ₹14,500; V ₹ 9,500 (d) No Interest will be allowed

82. Interest on drawings will be recorded on the:
- Debit side of Profit & Loss Appropriation Account
  - Credit side of Profit & Loss Account
  - Debit side of Capital/Current Account only.
  - Credit side of Profit & Loss Appropriation Account
83. In a partnership firm, a partner withdrew 15,000 per month on the first day of every month during the year for personal expenses. If interest on drawings is charged at 6% p.a. the interest charged will be :
- 3,650
  - 5,950
  - 5,850
  - 1,650
84. In the absence of agreement, Partners are entitled to :
- Salary and bonus
  - Commission
  - Interest on Loans and Advances
  - Profit share in Capital ratio
85. If fixed amount is withdrawn by a partner on the first day of each quarter, interest on the total amount is charged for \_\_\_\_\_ months.
- 4.5 months
  - 6 months
  - 7.5 months
  - 3 months
86. In the absence of partnership deed the profits of a firm are divided among the partners :
- In the ratio of their capitals
  - Equally
  - In the ratio of time devoted for the firm's business
  - According to the managerial abilities of the partners
87. If equal amount is withdrawn by a partner in the beginning of each month during a period of 6 months, interest on the total amount will be charged for:
- 2.5 months
  - 3 months
  - 3.5 months
  - 6 months
88. A partner has withdrawn ₹8,000 each on 1st April, 2021 and 1st Oct. 2021. Interest on his drawings at 6% p.a. on 31st March 2022 will be :
- 680
  - 725
  - 720
  - 660
89. The maximum numbers of partners in case of limited liability partnership is \_\_\_\_\_.
- Limited
  - Unlimited
  - 50
  - 100
90. Following are essential elements of a partnership firm except :
- Atleast two persons
  - There is an agreement between all partners
  - Equal share of profits and losses
  - Partnership agreement is for some business
91. A, K, and C are equal partners with fixed capitals of ₹ 2,00,000, ₹ 3,00,000 and ₹ 4,00,000 respectively. After closing the accounts for the year ending 31st March, 2022, it was discovered that interest on capitals at 8% p.a. was omitted to be provided. The adjusting entry will be
- Dr. A 8,000 and Cr. K 8,000
  - Cr. A 8,000 and Dr. C 8,000
  - Dr. A 8,000 and Cr. C 8,000
  - Cr. A 8,000 and Dr. K 8,000
92. Partners are entitled to interest on their capitals but the net profit was not sufficient for this interest, then the net profit will be distributed among partners in :
- Agreed Ratio
  - Profit sharing ratio
  - Interest on Capital Ratio
  - Equally
93. M and R are partners in the ratio of 3 ; 2. Their capitals are ₹ 2,00,000 and ₹ 1,00,000 respectively. Interest on capitals is allowed @ 8% p.a. Firm incurred a loss of ₹ 60,000 for the year ended 31st March 2022. Interest on Capital will be
- No Interest will be allowed
  - M ₹16,000; R ₹8,000
  - M ₹ 8,000; R ₹ 4,000
  - M ₹ 14,200; R ₹ 9,500

94. N, S and R are partners in the ratio of 4 : 3 : 2. Salary to N ₹ 15,000 and to R ₹ 3,000 omitted and profits distributed. For rectification, now N will be credited with \_\_\_\_\_  
 (a) 10,000 (b) 16,000 (c) 7,000 (d) 14,000
95. A firm maintains the capital accounts under which it prepares partners' capital account as well as partners' current accounts. The firm is using \_\_\_\_\_ method of maintaining capital accounts.  
 (a) Fixed method (b) Super profit method  
 (c) Fluctuating method (d) Capitalisation method
96. X and Y are partner's sharing profit equally. A draw regularly ₹ 8,000 at the beginning of every month for 6 months. Interest on drawings at the rate 10% p.a. will be \_\_\_\_\_  
 (a) ₹1,300 (b) ₹1,400 (c) ₹1,250 (d) ₹1,500

### INPUT-TEXT BASED MCQs

**Read the following text and answer the following questions (97 to 100) on the basis of the same:**

Hardik, Mayank and Gauransh were partners in a firm sharing profits & losses in 3:2:1. Their fixed capitals were ₹3,00,000; ₹2,00,000; ₹1,00,000 respectively. They agree to allow interest on capitals @ 5% p.a. Mayank devotes full time in the business and demands a salary of ₹6,000 p.m. Gauransh has withdrawn ₹10,000 from the firm for his personal use. Hardik gave loan of ₹1,00,000 to the firm but there is no agreement as to payment of interest on loan by partner. Profit before taking into account any of the above claims was ₹60,000 at the end of the first year of the business.

97. What % of interest will be paid to Hardik, when no provision is made pertaining to interest on loan in the partnership deed?  
 (a) 9% (b) 6% (c) 12% (d) No interest
98. Payment of interest on loan to partner is recorded in account:  
 (a) Profit & Loss A/c, Dr. side (b) Profit & Loss Appropriation A/c, Dr. side  
 (c) Profit & Loss A/c, Cr. side (d) Current A/c, Dr. side
99. Under the Fixed Capital Account method, Interest on Capital is credited to \_\_\_\_\_.  
 (a) Partner's capital account (b) Profit and loss account  
 (c) Partners Current A/c (d) Profit and loss Appropriation account
100. If partner's capital is fixed interest on drawing will be recorded on \_\_\_\_\_.  
 (a) Partner's capital account (b) Partner's current account  
 (c) Profit and loss account (d) Balance sheet

**Read the following text and answer the following questions (101 to 104) on the basis of the same:**

Ram and Mohan were partners in a building construction business sharing profits and losses in ratio 3:2. They deal in construction across East Delhi. Their initial fixed capital contribution was ₹20,00,000 and ₹8,00,000 respectively. Partners have decided to take interest on capital @ 6% p.a. At the end of first year their profit was ₹12,00,000 before allowing the commission of ₹30,000 on a deal to Ram and ₹20,000 p.m. Salary to Mohan. As their business grew, they decided to expand the area of operations. They introduced ₹13,00,000 each as an additional capital. Besides this Ram was required to provide ₹1,00,000 as loan to the firm for two years. The partnership deed is silent for Interest on Capital and Interest on Loan. The profit for the year ended 31st March, 2021 amounted to ₹13,00,000. On the basis of the above case, answer the following questions.

101. If the Partnership Deed provides for payment of interest on capital of the partners, then interest can be paid only out of  
 (a) Accumulated Profits (b) Past Profits  
 (c) Current Profits (d) Total Profits
102. Commission will be transferred to \_\_\_\_\_ of Ram at the end of the accounting period.  
 (a) Capital account (b) Loan account  
 (c) Current account (d) None of the above

103. In the absence of Partnership Deed; interest on capital of a partner is allowed  
 (a) @ 8% per annum (b) @6% per annum  
 (c) @12% per annum (d) No interest is allowed
104. In the absence of Partnership Deed; interest on loan of a partner is allowed  
 (a) @ 8% per annum (b) @6% per annum  
 (c) @12% per annum (d) No interest is allowed

## ANSWERS

### Multiple Choice Questions

- |         |         |         |         |         |         |         |         |         |         |
|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|
| 1. (b)  | 2. (b)  | 3. (b)  | 4. (a)  | 5. (d)  | 6. (b)  | 7. (b)  | 8. (b)  | 9. (a)  | 10. (c) |
| 11. (b) | 12. (a) | 13. (a) | 14. (a) | 15. (b) | 16. (c) | 17. (a) | 18. (a) | 19. (a) | 20. (c) |
| 21. (c) | 22. (a) | 23. (c) | 24. (c) | 25. (c) | 26. (a) | 27. (a) | 28. (d) | 29. (a) | 30. (b) |
| 31. (a) | 32. (a) | 33. (a) | 34. (c) | 35. (d) | 36. (b) | 37. (b) | 38. (b) | 39. (c) | 40. (d) |
| 41. (c) | 42. (d) | 43. (b) | 44. (c) | 45. (c) | 46. (a) | 47. (d) | 48. (c) | 49. (a) | 50. (b) |
| 51. (c) | 52. (c) | 53. (a) | 54. (c) | 55. (c) | 56. (c) | 57. (d) | 58. (d) | 59. (b) | 60. (b) |
| 61. (b) | 62. (b) | 63. (d) | 64. (c) | 65. (d) | 66. (d) | 67. (a) | 68. (b) | 69. (b) | 70. (d) |
| 71. (a) | 72. (c) | 73. (d) | 74. (a) | 75. (c) | 76. (b) | 77. (a) | 78. (c) | 79. (a) | 80. (d) |
| 81. (a) | 82. (d) | 83. (c) | 84. (c) | 85. (c) | 86. (b) | 87. (c) | 88. (c) | 89. (b) | 90. (c) |
| 91. (c) | 92. (c) | 93. (a) | 94. (c) | 95. (a) | 96. (b) |         |         |         |         |

### Input-Text Based MCQs

97. (b) 98. (a) 99. (c) 100. (b) 101. (c) 102. (c) 103. (d) 104. (b)

## HINTS TO SOME SELECTED QUESTIONS

- B will be credited by ₹1,600 for interest at 2% to be given to him. B will be debited by ₹1,200 for share of B in loss to the firm. So, B will be credited with ₹400.
- $C = 40,000 \times \frac{2}{10} = 8,000$ ; Deficiency =  $10,000 - 8,000 = 2,000$  shared by A and B in 5:3.  
So  $A = 2,000 \times \frac{5}{8} = 1,250$
- Interest on capital = Opening capital  $\times$  rate of interest / 100
- Divisible profit = [Net profit 400000 - Interest on capital ₹ 10,000 of S and ₹ 10,000 of R] = 3,80,000
- Interest on capital = Opening capital  $\times \frac{\text{rate of interest}}{100}$ , Azad = 7,500, Biswash = 12,500
- Interest on drawing will be charged for average of 6 months as date of drawings are not given.
- Drawings are made in the middle of each month, so average of 6 months is applicable.
- Interest on capital of K =  $5,00,000 \times \frac{10}{100} + 1,00,000 \times \frac{10}{100} \times \frac{6}{12} = 55,000$ ; L =  $4,00,000 \times \frac{10}{100} + 1,00,000 \times \frac{10}{100} \times \frac{6}{12} = 45,000$
- Take average of 3.5 months
- Total drawings =  $7500 \times 4 = 30000$ . Take average of 7.5 months.
- Total drawings =  $7500 \times 4 = 30000$ . Take average of 4.5 months.
- Total drawings =  $7500 \times 4 = 30000$ . Take average of 6 months.
- Commission = Net profit  $\times$  Rate of commission / 100

21. Total profit of 3 years = 3,30,000, wrongly credited equally as ₹1,10,000 to R, M and N respectively. Profits to be credited in 3:2:1 as R ₹1,65,000, M ₹1,10,000 and N ₹55,000. Net effect R credit ₹55,000 and N debit ₹55,000.
22. Interest on capital is an appropriation of profit.
24. Share of C in profit = ₹40,000; Deficiency paid to E = ₹5,000. So net amount received by C = ₹35,000.
25.  $6,000 \times \frac{8}{100} \times 3.5 / 12 = 140$
26. Take average of 2.5 months
27. Opening capital = Closing capital + Drawings – Share in profit. A = 24,000 + 4,000 – 8,000 = 20,000. 5% of 20,000 is 1,000.
28. Average period =  $10 + \frac{1}{2} = 5.5$
29.  $8,250 \times \frac{100}{15} \times \frac{12}{5.5} = 10,000$
30. As profit sharing ratio is not given, profits will be shared equally.
31. Net profit ₹ 90,000 – interest on loan at 6 % ₹30,000 = 87,000. Share of Smitha =  $\frac{87,000}{2} = 43,500$ .
33. Opening capital of N = 30,000 + 50,000 + 1,00,000 = 4,50,000; Opening capital of S = 3,00,000 + 1,00,000 = 4,00,000.
35. Interest on partner's loan is charge against profit. So, debited to profit and loss account.
37. Interest on capital to be credited Praksah ₹24,000 and Rakesh ₹36,000 = 60,000. Profits already credited equally Praksah ₹30,000 and Rakesh ₹30,000. Net effect Praksh 6,000 debit and Rakesh ₹6,000 credit.
40.  $84,000 \times \frac{6}{100} \times \frac{5.5}{12} = 2,310$
41.  $60,000 \times \frac{6}{100} \times \frac{6}{12} = 1,800$ . In absence of agreement, interest on loan of a partner is paid at 6% p.a.
42. Interest on capital A ₹ 64,000 and B ₹ 48,000. Total is 112,000. Loss = 1,12,000 – 80,000 = 32,000. Loss in the ratio 7:3. A =  $32,000 \times \frac{7}{10} = 22,400$  and B  $32,000 \times \frac{3}{10} = 9,600$ . Net amount to A = 64,000 – 22,400 = 41,600.
44.  $64,000 \times \frac{12}{100} \times \frac{6}{12}$
45.  $50,000 \times \frac{10}{100} \times \frac{6}{12}$
46. Ratio of interest on capital = 5,000 : 10,000 = 1:2
48.  $84,000 \times \frac{2}{6} = 28,000$
49. 5,00,000 + 50,000 – 3,50,000 = 2,00,000 distribute in 5:3
51.  $24,000 \times \frac{5}{100} \times \frac{2.5}{12} = 250$
54. 86,000 + interest on drawings ₹12,000 – interest on capital ₹ 11,000 = 87,000
58. Interest on drawings = Total drawings  $\times \frac{10}{100} \times \frac{5.5}{12}$  then per month drawing =  $\frac{\text{total drawings}}{12}$ .
64. Interest on capital is ₹ 50,000 to A and ₹ 50,000 to B. but available profit is only ₹ 60,000. So profit will be distributed in interest on capital ratio i.e equally.
66.  $1,72,000 \times \frac{9}{100} \times \frac{6}{12} = 7,740$ . When date of drawing is not given interest on drawing is calculated for average of 6 months.
68. Interest on capital = Opening capital  $\times \frac{\text{rate of interest}}{100}$ ; Rahul :  $20,00,000 \times \frac{5}{100} = 1,00,000$ .

69.  $C = 30,000 \times \frac{1}{3} = 10,000$ ; Deficiency =  $15,000 - 10,000 = 5,000$  shared by A and B in 1:1. So B =  $5,000 \times \frac{1}{2} = 2,500$ .
71. Deficiency ₹ 2000 in share of George (10,000 – 8,000) is shared in the ratio 5:3 between Ram and Raj. Ram =  $2,000 \times \frac{5}{8} = 1,250$  and Raj =  $2,000 \times \frac{3}{8} = 750$ .
74. Interest on capital = opening capital  $\times \frac{\text{rate of interest}}{100}$  ; =  $(2,50,000 \times \frac{10}{100} \times \frac{6}{12}) = 12,500$  and  $(2,00,000 \times \frac{10}{100} \times \frac{6}{12}) = 10,000$ ; Total interest on capital = 22,500.
79. Commission;  $84,000 \times \frac{5}{105} = 4,000$ . M's Profit =  $84,000 - 4,000 = 80,000 \times \frac{2}{5}$ .
81. A =  $2,00,000 \times \frac{8}{100}$  and V =  $1,00,000 \times \frac{8}{100}$ .
83.  $(15,000 \times 12 = 180,000) \times \frac{6}{100} \times \frac{6.5}{12} = 5,850$ .
88.  $16,000 \times \frac{6}{100} \times \frac{9}{12} = 720$ .
93. Interest on capital is available only in case of profit and not in loss.
96.  $48,000 \times \frac{10}{100} \times \frac{3.5}{12} = 1,400$ .

