

Introduction to Partnership Accounts

1. Meaning :

When two or more persons come together to do a business and agree to share the profits it is known as partnership.

2. Number of persons :

Minimum number of persons required to form a partnership is 2 and maximum number in case of banking business is 10 & for general business is 20.

3. Partnership deed :

It is an agreement between the partners which controls or governs the partnership business. Partnership agreement when registered is known as partnership deed.

4. Profit & Loss Appropriation A/c :

It is prepared to show the distribution of profit among the partners. Profit can be appropriated among the partners in 4 ways.

1) Salary 2) Commission 3) Interest on capital 4) Divisible profit .

Salary, Commission & Interest on capital can be given to the partners only when it is mentioned in the partnership deed.

5. Interest on capital :

a) Interest on Capital is to be given out of profit only. So if there is a net loss interest on capital should not be provided for .

b) If case net profit is insufficient i.e. interest on capital > Net profit, then no interest should be provided on capital but net profit should be distributed among the partners in their capital ratio.

6. Interest on Drawings:

a) If the drawings are made evenly (equally) in the **beginning of each month** then interest should be calculated on the whole amount of drawings for **6½ months**.

b) If the drawings are made evenly at the **end of each month** then interest on Drawings should be calculated on the whole amount for **5 ½ months**.

c) If the date of drawings is not given then interest should be calculated for **half the period**.

7. Partners loan

If a partner has given a loan to the firm then interest on such loan is to be provided for. If the rate of interest is not given then as per the Partnership Act interest should be calculated at 6% p.a.

8. Guarantee of Minimum profit :

Some partner may be guaranteed the minimum profit to be earned by him. If the guaranteed partners share of profit is less than the minimum guarantee then he should be compensated for the difference by the guarantor partner. While showing the distribution of

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profits first give the profit to uninterested partner, then the guaranteed partner & balance to guarantor partner.

9. Methods of maintaining Capital A/c:

There are two methods of maintaining Capital A/c.

- a) **Fixed capital Method:** In this method the actual capital brought by the partner is shown in the capital A/c. A separate Current A/c is maintained for recording all the adjustments related to the partners. Capital A/c will always have a credit balance whereas the current A/c may have either a debit balance or a credit balance.
- b) **Fluctuating capital method:** In this method the capital balance of the partners keep on changing as all adjustments related to the partners are done in the same account.

MULTIPLE CHOICE QUESTIONS

1. Following are the 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
2. Following is the difference between partnership deed and partnership agreement
 - (a) Partnership deed is in writing and partnership agreement is oral
 - (b) Partnership deed is signed by all the partners but partnership agreement is signed by majority of the partners
 - (c) Partnership deed is registered in the court of law whereas partnership agreement is not registered
 - (d) Partnership deed is not subject to changes unless all partners agree to itPartnership agreement can be amended with the consent of more than 50% partners.
3. Partners current accounts are opened when their capital accounts are
 - (a) Fixed
 - (b) Fluctuating
 - (c) Equal
 - (d) None of these
4. The interest on the capital accounts of partners is credited to
 - (a) Interest a/c
 - (b) Partners capital a/c
 - (c) Profit & Loss a/c
 - (d) P & L Apprn. A/c
5. The partnership deed provides for a salary of ₹700 per month to partner X. If X withdraws only ₹500 in a month, the remaining ₹200 is
 - (a) credited to profit and loss (adjustment) account
 - (b) credited to the current account of partner
 - (c) credited to Salary Payable account
 - (d) debited to his capital account

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15. When a partner is given Guarantee by the other partners, loss on such guarantee will be borne by :
- (a) Partnership firm (b) All the other partners
(c) Partners who gave the guarantee (d) Partners with highest profit sharing ratio
16. Active partner is one who:
- (a) Takes part in the business of the firm
(b) Actively participates in co-curricular activities
(c) Actively shares the profits
(d) Makes a show of authority
17. In the absence of any provision in the partnership deed, interest on partner's loan/advance _____
- (a) will not be allowed (b) will be allowed @ 6% p.a.
(c) will be allowed only out of profit (d) will be allowed even if there are no profits
18. Which of the following is provided even if there is no provision in the partnership deed and there are no profits:
- (a) Interest on partner's capital (b) Interest on partner's loan/advance
(c) Interest on partner's drawings (d) Remuneration to a partner
19. If a fixed amount is withdrawn on the last day of every month of a calendar year, the interest on total amount of drawings will be calculated for:
- (a) 4.5 months (b) 5.5 months (c) 6 months (d) 6.5 months
20. Which of the following does not appear in the Profit & Loss Appropriation Account
- (a) Salary/Commission to a partner (b) Salary/Commission to a manager
(c) Interest on capital of a partner (d) Interest on loan of a partner
21. Is rent paid to a partner an appropriation of profits:
- (a) Yes (b) No
(c) If partner's contribution as capital is maximum (d) If partner is a working partner
22. X and Y are partners sharing profits and losses in the ratio of 3 : 2 having the capital of ₹1,60,000 and ₹1,00,000 respectively. They are entitled to 9% p.a. interest on capital before distributing the profits. During the year firm earned Profit of ₹15,600 before allowing any interest on capital. Profits apportioned among X and Y is:
- (a) ₹9,360 and ₹6,240 (b) ₹9,600 and ₹6,000
(c) ₹10,000 and ₹5,600 (d) None of these
23. X and Y are partners sharing profits and losses in the ratio 4 : 1. Z was manager who received the salary of ₹8,000 p.m. in addition to a commission of 5% on net profits after charging such commission. Profits for the year is ₹13,56,000 before charging salary. Find the total remuneration of Z.
- (a) ₹1,56,000 (b) ₹1,76,000 (c) ₹1,74,000 (d) ₹1,52,000

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24. X, Y and Z are partners in a firm. At the time of division of profit for the year there was dispute between the partners. Profits before interest on partner's loan was ₹12,000 and Y determined interest @ 24% p.a. on his loan of ₹1,60,000. There was no agreement on this point. Calculate the amount payable to X, Y and Z respectively.
- (a) ₹4,000 to each partner
(b) Loss of ₹8,800 for X and Z & Y will take home ₹25,600
(c) ₹800 for X, ₹10,400 for Y and ₹800 for Z
(d) ₹4,800 to each partner
25. A and B are partners sharing profits and losses in the ratio of 4 : 1. C was a manager who received the salary of ₹2000 p.m. in addition to a commission of 5% on net profits after charging such commission. Profits for the year is ₹3,39,000 before charging salary. Find total remuneration of C :
- (a) ₹39,000 (b) ₹44,000 (c) ₹43,500 (d) ₹38,000
26. Ram and Mohan, are partner's. They draw for private use ₹6,000 & ₹4,000 respectively. Interest is chargeable @ 6 percent per annum on drawings. What is the interest ?
- (a) Ram ₹180 and Mohan ₹120 (b) Ram ₹360 and Mohan ₹240
(c) Ram ₹30 and Mohan ₹20 (d) None
27. X, Y and Z are partners in a firm. At the time of division of profit for the year there was dispute between the partners. Profits before interest on partner's capital was ₹6,000 and Y determined interest @ 24% p.a. on his loan of ₹80,000. There was no agreement on this point. Calculate the amount payable to X, Y and Z respectively.
- (a) ₹2,000 to each partner
(b) Loss of ₹4,400 for X and Z & Y will take home ₹14,800
(c) ₹400 for X, ₹5,200 for Y and ₹400 for Z
(d) ₹2,400 to each partner
28. A partner's capital at the end was ₹20,000. His share of profits for the year amounted to ₹10,000 and he has drawn ₹5,000 during the year. Then his capital at the beginning was _____.
- (a) 10000 (b) 15000 (c) 20000 (d) None
29. The year end capital balance of a partner after adjusting for drawings ₹2,000 and his share in the profit ₹1,000 is ₹10,000. Interest on capital payable to him at 5% p.a. on the opening balance is
- (a) ₹500 (b) ₹550 (c) ₹450 (d) ₹350
30. A, B and C are partners and decided to share profits and losses in the ratio of their capitals. The capital on 1st Jan, 1979 are ₹10,000, ₹15,000 and ₹17,000 for A, B and C respectively. The current account balances on that date are ₹2,000 (Cr.), ₹3,000 (Cr.) and ₹1,000 (Cr.) for A, B and C respectively. The profit sharing ratio for A, B and C will be
- (a) 10 : 15 : 17 (b) 12 : 18 : 18 (c) 12 : 12 : 18 (d) 2 : 3 : 1

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31. Ram and Shyam are partners with the capital of ₹25,000 and 15,000 respectively. Interest payable on capital is 10% p.a. Find the interest on capital for both the partners when the profits earned by the firm is ₹2,400.
(a) ₹2,500 and ₹1,500 (b) ₹1,500 and ₹900
(c) No interest will be paid to the partners (d) None of the above
32. Seeta and Geeta are partners sharing profits and losses in the ratio 4 : 1. Meeta was manager who received the salary of ₹4,000 p.m. in addition to a commission of 5% after charging such commission. Profits for the year is ₹6,78,000 before charging salary. Find the total remuneration of Meeta ?
(a) ₹78,000 (b) ₹88,000 (c) ₹87,000 (d) ₹76,000
33. A, B and C were Partners with capitals of ₹50,000; ₹40,000 and ₹30,000 respectively carrying on business in partnership. The firm reported profit for the year was ₹80,000. As per provisions of the Indian Partnership Act, 1932, find out the share of each partner in the above amount after taking into account that no interest has been provided on an advance by A of ₹20,000, in addition to his capital contribution.
(a) ₹26,267 for Partner B and C & ₹27,466 for partner A.
(b) ₹26,667 each partner
(c) ₹33,333 for A. ₹26,667 and ₹20,000 for C.
(d) ₹30,000 each partner
34. X, Y and Z are partners in a firm. At the time of division of profit for the year there was dispute between the partners. Profit before interest on partner's capital was ₹6,000 and X wanted interest on capital @ 20% as his capital contributions was ₹1,00,000 as compared to that of Y and Z which was ₹75,000 and ₹50,000 respectively
(a) Profits of ₹6,000 will be distributed equally
(b) X will get the interest of ₹20,000 and the loss of ₹14,000 will be shared equally.
(c) All the partners will get interest on capital & the loss of ₹39,000 will be shared equally
(d) None of the above
35. A, B and C are partners sharing profits in equal ratio. Capital balances on 1st July are A- ₹40,000, B ₹30,000 and C ₹20,000. Their private properties are : A - ₹15,000, B - ₹7,000 and C- ₹1,500. What is the extent of their liability in the firm.
(a) A - ₹40,000; B ₹30,000; C - ₹20,000.
(b) A - ₹15,000; B - ₹22,000; C - ₹20,000.
(c) A - ₹55,000 B - ₹37,000; C - ₹21,500.
(d) equal.
36. X and Y are partners with the capital of ₹50,000 and ₹30,000 respectively. Interest payable on capital is 10% p.a. Find the interest on capital for both the partners when the profits earned by the firm is ₹4,800
(a) ₹5,000 and ₹3,000 (b) ₹3,000 and ₹1,800
(c) No interest will be paid to the partners (d) None of the above

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37. X, Y and Z are partners in a firm. At the time of division of profit for the year there was dispute between the partners. Profits before interest on partner's capital was ₹12,000. X wanted interest on capital @ 20% as his capital contributions was ₹2,00,000 as compared to that of Y and Z which was ₹1,50,000 and ₹1,00,000 respectively
- (a) Profits of ₹12,000 will be distributed equally
(b) X will get the interest of ₹40,000 and loss of ₹28,000 will be shared equally
(c) All the partners will get interest on capital and the loss of ₹78,000 will be shared equally
(d) None of these
38. A and B are partners A's capital is ₹10,000 and B's Capital is ₹6,000. Interest is payable @ 6% p.a. B is entitled to a salary of ₹300 per month. Profit to the year before interest and salary to B is ₹8,000. Profits between A and B will be divided :
- (a) ₹1,720 to A and ₹1,720 to B (b) ₹2,000 to A and ₹1,440 to B
(c) ₹1,440 to A and ₹2,000 to B (d) None
39. Bill and Monica are partners sharing profits and losses in the ratio of 3 : 2 having the capital of ₹80,000 and ₹50,000 respectively. They are entitled to 9% p.a. interest on capital before distributing the profits. During the year firm earned ₹7,800 before allowing any interest on capital. Profits apportioned among Bill and Monica is :
- (a) 4,680 and 3,120 (b) 4,800 and 3,000
(c) 5,000 and 2,800 (d) None of the above
40. Ram is a partner. He made drawings as follows :
- | | |
|-------------|------|
| July 1 | ₹200 |
| August 1 | ₹200 |
| September 1 | ₹300 |
| November 1 | ₹50 |
| February 1 | ₹100 |
- If the rate of interest on drawings is 6% and accounts are closed on March 31st the interest on drawing is :
- (a) ₹29.75 (b) ₹35 (c) ₹30 (d) ₹40
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