

**CHAPTER 2 –ACCOUNTING FOR PARTNERSHIP: FUNDAMENTALS**

**I.MULTIPLE CHOICE QUESTIONS**

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| Sr.No | Question: |
| 1. | For which one of the following, the balance in the Securities premium Reserve Account cannot be used?   1. To write off the preliminary expenses of the company 2. To pay a premium on the redemption of preference shares of the company. 3. To pay interest on the debentures of the company 4. To pay for buyback of its own shares. |
| 2. | Capital employed in a business is Rs. 2,00,000. Normal Rate of Return on capital employed is 15%. During the year, the firm earned a profit of Rs. 48,000. Calculate goodwill on the basis of 3 years’ purchase of Supper Profit.  (A) Rs. 54,000  (B) Rs. 60,000  (C) Rs. 50,000  (D) None of these |
| 3. | Galib&Jakib are partners in a firm. Galib is to get commission of 10% of net profit before charging any commission. Jakib is to get a commission of 10% on net profit after charging all commissions. Net Profit for the year ended 31st March, 2021 was Rs 55,000. What will be amount of Profit to be distributed to each?  (A) Rs. 5,500 to Galib& Rs. 4,500 to Jakib.  (B) Rs. 27,500 each.  (C) Rs. 22,500 each.  (D) None of the above |
| 4. | If the guarantee is given to the partner by some partners, deficiency on such will be borne by  (A) Partnership firm.  (D) All of the other partners. |

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|  | (C) Partners who had given the guarantee.  (D) None of the above |
| 5. | If the Partners are maintaining the capital account on Fixed basis, partner’s capital account will have:  (A) Credit balance.  (B) Debit balance.  (C) Credit or Debit balance.  (D) May have Nil balance |
| 6. | If the partnership deed is silent interest on drawings will be charged @  (A) 6% P.a  (B) 6% P.m  (C) Any other Rate.  (D) Will not be charged |
| 7. | Which is not the clause of the Partnership Deed?  (A) Business can be carried on by all or any of the partner’s acting for all.  (B) Commencement of business.  (C) Rights & Duties of Partner.  (D) None of the above |
| 8. | The Net profits of Kamini were Rs. 20,000. Gulafsa the manager was to be given the commission of Rs 6,000; the distribution of profits will be done as:  (A) Rs. 10,000 to each.  (B) Rs. 7,000 to each.  (C) Rs. 13,000 to each.  (D) None of the above |
| 9. | Shalu, Shan& Julie are partners sharing profits in the ratio of 6 : 4 : 1. Julie is guaranteed a minimum profit of Rs. 20,000. The firm incurred a loss of Rs.  2,20,000 for the year ended 31st March, 2021. What amount of deficiency will be borne by Shaluand Shan.  (A) Rs. 10,000 each. |

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|  | 1. Rs. 20,000 each. 2. Rs. 24,000 by Shalu& Rs. 16,000 by Shan. 3. Rs. 12,000 by Shalu& Rs. 8,000 by Shan. |
| 10. | Om& Prakash were partner’s without any deed where Prakash invested the total capital and Om had the complete hold on the business as Prakash was the sleeping partner, but as Prakash invested complete capital demanded to share the profits in the Ratio of 5 : 1 and Om object’s to this.   1. Om’s objection is correct. 2. Prakash’s demand is correct. 3. Both are wrong. 4. As investment is of Prakash he should be given interest on capital. |
| 11. | Following are essential elements of a partnership firm except:   1. At least two persons. 2. There is an agreement between all partners. 3. Equal share of profits and losses. 4. Partnership agreement is for some business. |
| 12. | Which of the following items is not dealt through Profit and Loss Appropriation Account?   1. Interest on Partner’s Loan 2. Partner’s Salary 3. Interest on Partner’s Capital 4. Partner’s Commission |
| 13. | A partner withdrew Rs. 4,000 per month from 1st July, 2016, on beginning of every month. Accounts are closed at 31st March, 2017. Calculate interest on drawings while rate of interest is 10% per annum.   1. Rs. 1,600 2. Rs. 1,800 3. Rs. 1,500 |

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|  | | (D) Rs. 2,200 | |  |
| 14. | | A, B and C sharing profits in the ratio of 2: 2: 1 have fixed capitals of Rs. 3,00,000, Rs. 2,00,000 and Rs. 1,00,000 respectively. After closing the accounts for the year ending 31st March 2019 it was discovered that interest on capitals was provided @ 12% instead of 10% p.a. In the adjusting entry:  (A) Cr. A Rs. 1,200; Dr. B Rs. 800 and Dr. C Rs. 400  (B) Dr. A Rs. 1,200; Cr. B Rs. 800 and Cr. C Rs. 400  (C) Cr. A Rs. 800; Cr. B Rs. 400 and Dr. C Rs. 1,200  (D) Dr. A Rs. 800; Dr. B Rs. 400 and Cr. C Rs. 1,200 | |
| 15. | | A partner withdraws Rs.8,000 each on 1st April and 1st Oct. Interest on his  drawings @ 6% p.a. on 31st March will be: | |
|  | | (A) Rs. 480 | |
|  | | (B) Rs.720 | |
|  | | (C) Rs. 240 | |
|  | | (D) Rs. 960 | |
|  | 16 | | [ A&E] If Goodwill is Rs. 1,20,000, Average Profit is Rs. 60,000 Normal. Rate of Return is10% on Capital Employed Rs. 4,80,000. Calculate capitalized value of the firm:-   1. Rs. 6,00,000 2. Rs. 5,00,000 3. Rs. 4,00,000 4. Rs. 7,00,000 | |
| 17 | | [ A ] A business has earned Super profit of Rs. 1,00,000during the last few years | |
|  | | and Normal rate of returns in 10% Calculate goodwill | |
|  | | a. Rs. 10,00,000 | |
|  | | b. Rs. 54,000 | |
|  | | C. 20,000 | |
|  | | d. 36,000 | |
| 18 | | (U)Rani and Shyam is partner in a firm. They are entitled to interest on their | |
|  | | capital but the net profit was not sufficient for paying his interest, then the net | |
|  | | profit will be disturbed among partner in | |

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|  | 1. 1:2 2. profit sharing ratio 3. capital ratio 4. equally |
| 19 | [ U ] Which one of the following items is recorded in the Profit and Loss appropriation account   1. Interest on loan 2. Partner Salary 3. Rent paid to Partner 4. Managers commission |
| 20 | [ R ] Salary to a partner under fixed capital account is credited to   1. Partner’s Capital A/c 2. Partner’s current A/c 3. Profit & Loss A/c 4. Partner’s Loan A/c |
| 21 | In the absence of partnership deed partner share profit and loss in   1. Ratio of Capital Employed 2. Equal ratio 3. 2:1 4. 1:2 |
| 22 | (A&E) A, B, and C are partner’s sharing profits in the ratio of 5:3:2According to the partnership agreement C is to get a minimum amount of Rs. 10,000 as his share of profits every year. The net profit for the year ended 31st March, 2019 amounted to Rs. 40,000. How much amount contributed by A?   1. Rs. 1.350 2. Rs . 1,250 3. Rs. 750 4. Rs. 1,225 |
| 23 | [ R ] The relation of the partner with the firm is that of   1. An owner 2. An agent and A Principal 3. An agent 4. Manager |
| 24 | [ R ] If the partner carries on the business that is similar to firm competition with the firm and profit earned from it, the profit   1. Shall be retained by the partner 2. Shall be paid to firm 3. Can be retained or gained to the firm 4. Both (A) and (B). |

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| 25 | [U ] Closing entry for interest on loan allowed to partners   1. Interest on partner’s loan …Dr.   To Profit and Loss A/c   1. Interest on loan …Dr.   To Profit and Loss Appropriation A/c   1. Profit and Loss Appropriation A/c …Dr.   To interest on partner’s loan A/c   1. Profit and Loss Appropriation A/c …Dr. To interest on loan A/c |
| 26 | Features of a partnership firm are :   1. Two or more persons are carrying common business under an agreement. 2. They are sharing profits and losses in the fixed ratio. 3. Business is carried by all or any of them acting tor all as an agent. 4. All of the above. |
| 27 | Which of the following statement is true?   1. a minor cannot be admitted as a partner 2. a minor can be admitted as a partner, only into the benefits of the partnership 3. a minor can be admitted as a partner but his rights and liabilities are same of adult partner 4. none of the above |
| 28 | The relation of partner with the firm is that of:   1. An Owner 2. An Agent 3. An Owner and an Agent 4. Manager |
| 29 | What should be the minimum number of persons to form a Partnership :   1. 2 2. 7 3. 10 4. 20 |
| 30 | Number of partners in a partnership firm may be :   1. Maximum Two 2. Maximum Ten 3. Maximum One Hundred 4. Maximum Fifty |

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| 31 | Liability of partner is :   1. Limited 2. Unlimited 3. Determined by Court 4. Determined by Partnership Act |
| 32 | In the absence of Partnership Deed, the interest is allowed on partner’s capital:   1. @ 5% p.a. 2. @ 6% p.a. 3. @ 12% p.a. 4. No interest is allowed |
| 33 | In the absence of a partnership deed, the allowable rate of interest on partner’s loan account will be :   1. 6% Simple Interest 2. 6% p.a. Simple Interest 3. 12% Simple Interest 4. 12% Compounded Annually |
| 34 | A and B are partners in partnership firm without any agreement. A has given a loan of ₹50,000 to the firm. At the end of year loss was incurred in the business. Following interest may be paid to A by the firm :   1. @5% Per Annum 2. @ 6% Per Annum 3. @ 6% Per Month 4. As there is a loss in the business, interest can’t be paid |
| 35 | A and B are partners in a partnership firm without any agreement. A has withdrawn Rs.50,000 out of his Capital as drawings. Interest on drawings may be charged from A by the firm :   1. @ 5% Per Annum 2. @ 6% Per Annum 3. @ 6% Per Month 4. No interest can be charged |
| 36 | Capital employed by a partnership firm is Rs10,00,000. Its average profit is Rs 1,20,000. The normal rate of return in similar type of business is 10%. What is the amount of super profits?   1. Rs 12,000 2. Rs 20,000 3. Rs 1,00,000 4. Rs 1,12,000   Ans:- Rs 20,000 |
| 37 | Naman Enterprises earn a profit of Rs. 90,000 with a capital of Rs. 4,00,000. The  normal rate of return in the business is 15%. Use Capitalization of super profit |

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|  | method to value the goodwill.   1. Rs.1,50,000 2. Rs. 2,00,000 3. Rs.2,25,000 4. Rs.2,50,000   Ans:- (b) Rs. 2,00,000 |
| 38 | Super Profit means   1. Excess of average profit over normal profit 2. Average profit 3. None of these 4. Normal profit   Ans:- (a) Excess of average profit over normal profit |
| 39 | X and Y shared profits and losses in the ratio of 3:2 with effect from 1st April, 2019; they decided to share profits equally. Goodwill of the firm was valued at Rs.60,000. The adjustment entry for Goodwill will be:   1. Dr. Y’s Capital A/c and Cr. X’s Capital A/c with Rs.6,000. 2. Dr. X’s Capital A/c and Cr. Y’s Capital A/c with Rs.6,000. 3. Dr. X’s Capital A/c and Cr. Y’s Capital A/c with Rs.600. 4. Dr. Y’s Capital A/c and Cr. X’s Capital A/c with Rs.600.   Ans:- a) Dr. Y’s Capital A/c and Cr. X’s Capital A/c with Rs.6,000 |
| 40 | What are super profits   1. Actual profit – Normal Profit 2. Normal Profit - Actual profit 3. Actual profit + Normal Profit 4. )None of the above 5. Ans:- (a) Actual profit – Normal Profit |
| 41 | Capital employed in the firm is Rs. 15,00,000 and normal rate of return in similar businesses is 10%. What is the amount of Actual Average Profit?   1. Rs. 2,50,000 2. Rs. 1,20,000 3. Rs. 2,17,000 4. None of the above Ans:- (c) Rs. 2,17,000 |
| 42 | Following are the factors affecting goodwill except:  (a) Efficiency of Management |

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|  | 1. Location of the Customers 2. Technical Knowledge 3. Nature of business   Ans:- (c) Technical Knowledge. |
| 43 | 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 Rs. 6,00,000 and Z demanded minimum profit of Rs. 5,00,000 as his financial position was not good. However, there was no written agreement on this point. How will the profit be distributed?   1. Other partners will pay Z the minimum profit and will share the loss equally 2. Other partners will pay Z the minimum profit and will share the loss in capital ratio. 3. X and Y will take Rs. 50,000 each and Z will take Rs. 5,00,000. 4. Rs. 2,00,000 to each of the partners. Ans:- (d) Rs. 2,00,000 to each of the partners. |
| 44 | Which of the following is not a method of valuing goodwill?   1. Discounted Cash Flow Method 2. Average Profit Method 3. Super Profit Method 4. Capitalisation Method   Ans:- (a) Discounted Cash Flow Method |
| 45 | A, B and C are partners sharing profits in the ratio of capitals (old 5:3:2 and new 2:3:5). Their capital after adjustment in the new capital ratio is Rs 20,000, Rs 30000, Rs 50000. Who will bring the amount of actual cash for adjustment?  (a) None of these  (b) C  (c) B  (d) A  Ans:- (b) C |
| 46 | In absence of partnership deed, partners are entitled to:  a) Salary b) Commission c) Interest on capital d) None of the above |
| 47 | If drawings are made at the beginning of each month , then interest is calculated for:  a) 6 months b) 5.5 months c) 6.5 months d) 12 months |

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| 48 | In the absence of partnership deed, interest on loan of a partner is allowed:  a) At 8% p.a b) At 6% p.a c) No interest is allowed  d) At 12% p.a |
| 49 | Which of the following is not an appropriation of profits?  a) Interest on capital b) Interest on loan c) Commission of partner d) None of the above |
| 50 | Interest on partners loan is treated as:  a) Charge against profit b) Appropriation out of profits  c) Either (a) or (b) d) None of the above |
| 51 | Which of the following can be claimed by a partner even in case of no partnership deed?  a) Profit in equal ratio b) Commission c) Salary  d)Interest on loan |
| 52 | In case of fixed capital, interest on drawings:  a) Debited to partners capital account b)Debited to partners current account  c)Either (a) or (b) d) None of the above |
| 53 | A firm has earned average profit of Rs 60,000. Rate of return on capital employed is 12.5% p.a. Total capital employed in the firm is Rs 4, 00,000. Goodwill on the basis of two years purchase of super profits is:  a) 20,000 b) 15,000 c) 10,000 d) 25,000 |
| 54 | In order to calculate normal profit for valuation of goodwill:  a)Abnormal losses are added b) Abnormal gain are deducted  c) Both (a) or (b) d) None of the above |
| 55 | Interest on capital is allowed on the:  a) Capital at the end of the year b) Opening capital c) Average capital d) Capital employed |

**ANSWER KEY**

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| Q.NO. | ANSWER |
| 1. | C |
| 2. | A |
| 3. | C |
| 4. | C |
| 5. | A |
| 6. | D |
| 7. | A |
| 8. | B |
| 9. | C |
| 10. | A |
| 11. | C |
| 12. | A |
| 13. | C |
| 14. | B |
| 15. | B |
| 16 | A |
| 17 | A |
| 18 | C |
| 19 | A |
| 20 | B |
| 21 | B |
| 22 | A |

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| 23 | B |
| 24 | B |
| 25 | C |
| 26 | D |
| 27 | B |
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| 29 | A |
| 30 | D |
| 31 | B |
| 32 | D |
| 33 | B |
| 34 | B |
| 35 | D |
| 36 | B |
| 37 | B |
| 38 | A |
| 39 | A |
| 40 | A |
| 41 | C |
| 42 | C |
| 43 | D |
| 44 | A |
| 45 | B |
| 46 | d)None of the above |

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| 47 | c)6.5 months |
| 48 | b) At 6% p.a |
| 49 | b) Interest on loan |
| 50 | a)Charge against profit |
| 51 | a)Profit in equal ratio |
| 52 | b)Debited to partners current account |
| 53 | a) 20,000 |
| 54 | c) Both (a) or (b) |
| 55 | b) Opening capital |

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