

ANSWERS

1. MULTIPLE CHOICE QUESTIONS

1. (3) **Explanation:** As per Section 69 of the Indian Partnership Act, 1932, registration of the partnership firm is optional and not mandatory. Remaining three given features, *i.e.*, association of two or more persons, mutual agency and business activity are essential features of the partnership firm.
2. (2) **Explanation:** Partnership is governed by the Indian Partnership Act, 1932. In case Partnership Deed or agreement is not entered into or the Partnership Deed or agreement entered is silent on a matter (say profit sharing ratio is not stated), provisions of the Indian Partnership Act, 1932 become applicable.
3. (2) **Explanation:** The partners have entered into a contract with the other partner assuring him minimum profit. The deficiency thus, will be borne by the guaranteeing partners in the ratio in which they have guaranteed the minimum profit, *i.e.*, agreed ratio. In the absence of such ratio, the deficiency is met by them in their profit-sharing ratio.
4. (1) **Explanation:** In case the partners are having fixed capitals, interest on capital as agreed among them will be allowed on the balances of their Capital Accounts only and not on the balances of Current Accounts because the two accounts are of different nature.
5. (3) **Explanation:** If Partnership Deed provides for the payment of interest on capital of the partners, interest can be paid out of current year's profit only, and not from the past profits or accumulated profits because interest is for the current year and it is an appropriation of current year's profit.
6. (3) **Explanation:** Salary to a partner is debited to Profit and Loss Appropriation Account because it is an appropriation of profit.
7. (4) **Explanation:** The Partnership Act, 1932 provides that if the Partnership Deed does not exist or is silent on the particular matter, provisions of the Partnership Act, 1932 applies. The Partnership Act, 1932 provides for sharing of profits equally in this situation.
8. (2) **Explanation:** According to the Indian Partnership Act, 1932, the partners are agents as well as the principals. It is because as an agent, a partner represents other partners and thereby binds them through his acts and as principal, he is bound by the acts of other partners. It flows from the definition of partnership as given in the Partnership Act, 1932 (Section 4), which is as follows:

"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.

9. (3) **Explanation:** Goodwill written off will be debited to Partners' Capital Accounts. Loss as per Profit & Loss Account is transferred to the debit of Partners' Capital Accounts and so is the loss on revaluation of assets and reassessment of liabilities.

Profit as per Profit & Loss Appropriation Account is transferred to the credit of Partners' Capital Accounts.

10. (3) **Explanation:** In case of a partnership firm, each partner has implied authority of buying and selling goods. This authority is implied authority as per the definition of partnership as is given in the Partnership Act, 1932 (Section 4) which is as follows:

"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.

11. (2) **Explanation:** Capital Accounts of partners can be maintained following either Fixed Capital Accounts Method or Fluctuating Capital Accounts Method. If Fixed Capital Accounts Method is followed, two accounts are opened for each partner, *i.e.*, Capital Account and Current Account.
12. (2) **Explanation:** Drawing is the amount withdrawn by the partners for their personal use against anticipated profit for the year. If the firm charges interest on the drawings by a partner, it will be a gain to the business and expense or loss to the respective partner.
13. (4) **Explanation:** Amount invested in the business by partners is termed as capital. Interest on capital is allowed only if the Partnership Deed allows it and the firm has profit for the year. It is thus an appropriation of profit. Profit is distributed among the partners as is agreed among them in the form of salary and interest on capital. Thus, it is a gain to partner who is getting interest on capital.

It is not a loss for the firm because otherwise the profit would have been distributed in profit-sharing ratio of the partners.

14. (4) **Explanation:** In the absence of an agreement or Partnership Deed, provisions of the Indian Partnership Act, 1932 apply, which does not provide for allowance of interest on capital unless agreed among the partners. Thus, interest on capitals is not payable to partners in the absence of agreement or partnership deed.
15. (2) **Explanation:** D's share of profit comes to ₹ 20,000 (*i.e.*, ₹ 80,000 × 1/4) for the previous year but he is guaranteed minimum profit of ₹ 25,000 per annum. Thus, D's Capital Account will get ₹ 25,000 as his share of profit.
16. (2) **Explanation:** A has guaranteed minimum share of profit to D. Therefore, A will bear the deficiency out of his profit. Total profit will be distributed in the profit-sharing ratio as given, thereafter the deficiency of the guaranteed profit of D will be charged from A. Profit shares of A and D before adjustment is ₹ 20,000 each. Deficiency in D's profit share is ₹ 5,000 (*i.e.*, ₹ 25,000 – ₹ 20,000) which will be borne by A. Therefore, A's share of profit is ₹ 15,000 (*i.e.*, ₹ 20,000 – ₹ 5,000).
- Note:** Since profit-sharing ratio is not given, profit-sharing ratio of the partners will be equal, *i.e.*, 1/4th each.
17. (3) **Explanation:** The deficiency in D's share of profit is to be borne by the firm, the amount of ₹ 23,000 (Minimum Guaranteed Profit) will be deducted from the total Profit of ₹ 80,000 and the balance profit ₹ 57,000 will be distributed among A, B and C in their profit-sharing ratio (*i.e.*, equally). Thus, A, B and C each will get ₹ 19,000 (*i.e.*, ₹ 57,000/3) each.
18. (1) **Explanation:** The Companies Act, 2013 (Section 464 of the Companies Act, 2013 read along with Rule 10 of the Companies (Miscellaneous) Rules, 2014) restricts the maximum number of partners to 50. Since the firm has 45 partners, it can admit 5 more partners.
19. (2) **Explanation:** Z's share of profit comes to ₹ 7,000 (*i.e.*, ₹ 42,000 × 1/6) but he is guaranteed minimum profit of ₹ 10,000 p.a. Thus, Z's Capital Account will be credited by ₹ 10,000 as his share of profit and the balance profit of ₹ 32,000 will be distributed between X and Y in their profit sharing ratio of 3 : 2. In effect, X, Y and Z will get ₹ 19,200, ₹ 12,800 and ₹ 10,000 respectively.
20. (1) **Explanation:** When Capital Accounts of partners are maintained following Fixed Capital Accounts Method, two Accounts are maintained for each partner, *i.e.*, Capital Account and Current Account. In that case Partner's Current Account can have debit or credit or zero balance. Besides, Partner's Capital Account may show zero balance or credit balance. But it cannot have debit balance.
21. (1) **Explanation:** Total amount withdrawn = ₹ 12,000
Rate of interest is 6% p.a.
Therefore, interest on X's Drawings = ₹ 12,000 × 6/100 × 8.5/12 = ₹ 510
Note: Interest on Drawings has been calculated for average period of 8.5 [*i.e.*, (11 + 6)/2] months.
22. (1) **Explanation:** Total amount withdrawn = ₹ 60,000
Rate of interest is 8% p.a.
Therefore, interest on Y's Drawings for a period of six months = ₹ 60,000 × 8/100 × 3.5/12 = ₹ 1,400.
Note: Interest on Drawings has been calculated for average period of 3.5 [*i.e.*, (6 + 1)/2] months.
23. (3) **Explanation:** Total amount withdrawn = ₹ 48,000
Rate of interest is 6% p.a.
Therefore, Interest on Drawings = ₹ 48,000 × 6/100 × 4.5/12 = ₹ 1,080.
Note: Interest on Drawings has been calculated for average period of 4.5 [*i.e.*, (9 + 0)/2] months.
24. (4) **Explanation:** Total amount withdrawn = ₹ 48,000
Rate of interest is 6% p.a.
Therefore, Interest on Ram's Drawings = ₹ 48,000 × 6/100 × 7.5/12 = ₹ 1,800.
Note: Interest on Drawings has been calculated for average period of 7.5 [*i.e.*, (12 + 3)/2] months.
25. (2) **Explanation:** Total amount withdrawn = ₹ 50,000
Rate of interest is 6% p.a.
Therefore, Interest on Drawings = ₹ 50,000 × 6/100 × 6/12 = ₹ 1,500.
Note: Interest on Drawings has been calculated for average period of 6 [*i.e.*, (10.5 + 1.5)/2] months.

26. (2) **Explanation:** Interest allowed to P = ₹ 30,000 × 10/100 = ₹ 3,000;
Interest allowed to Q = ₹ 20,000 × 10/100 = ₹ 2,000.
27. (3) **Explanation:** Interest on P's Capital and Q's Capital are ₹ 3,000 and ₹ 2,000 respectively. Thus, total interest on capital is ₹ 5,000. While Distributable Profit (before interest) is ₹ 4,000.
Therefore, Interest on capital will be allowed to each partner as follows:
 $P = ₹ 4,000 \times ₹ 3,000 / ₹ 5,000 = ₹ 2,400$;
 $Q = ₹ 4,000 \times ₹ 2,000 / ₹ 5,000 = ₹ 1,600$.
28. (1) **Explanation:** Interest allowed to P = ₹ 30,000 × 10/100 = ₹ 3,000;
Interest allowed to Q = ₹ 20,000 × 10/100 = ₹ 2,000;
Divisible Profit = ₹ 6,000 – ₹ 3,000 – ₹ 2,000 = ₹ 1,000 which is distributed between partners in their profit sharing ratio, i.e., 1 : 1 (Since profit-sharing ratio is not given in the question). Thus, profit share of each partner is ₹ 500.
29. (2) **Explanation:** Interest on A's Drawings is calculated as follows:
- On ₹ 30,000 withdrawn on 30th June, 2021 interest is charged for 9 months, i.e., ₹ 1,350 (₹ 30,000 × 6/100 × 9/12).
 - On ₹ 20,000 withdrawn on 31st August, 2021 interest is charged for 7 months, i.e., ₹ 700 (₹ 20,000 × 6/100 × 7/12).
 - On ₹ 20,000 withdrawn on 30th November, 2021 interest is charged for 4 months, i.e., ₹ 400 (₹ 20,000 × 6/100 × 4/12).
 - On ₹ 10,000 withdrawn on 28th February, 2022 interest is charged for 1 month, i.e., ₹ 50. (₹ 10,000 × 6/100 × 1/12).
- Therefore, the total interest will be ₹ 2,500 (i.e., ₹ 1,350 + ₹ 700 + ₹ 400 + ₹ 50).
30. (2) **Explanation:** Interest allowed to P's Capital is calculated as follows:
- On Opening Capital of ₹ 3,00,000 interest is allowed for 5 months, i.e., ₹ 7,500 (₹ 3,00,000 × 6/100 × 5/12).
 - On ₹ 3,40,000 (₹ 3,00,000 + ₹ 40,000 additional Capital introduced on 1st September, 2021) interest is allowed for 3 months, i.e., ₹ 5,100 (₹ 3,40,000 × 6/100 × 3/12).
 - On ₹ 3,10,000 (₹ 3,40,000 – ₹ 30,000 withdrawal of Capital on 1st December, 2021) interest is allowed for 3 months, i.e., ₹ 4,650 (₹ 3,10,000 × 6/100 × 3/12).
 - ₹ 2,80,000 (₹ 3,10,000 – ₹ 30,000 withdrawal of Capital on 1st March, 2022) interest is allowed for 1 month, i.e., ₹ 1,400 (₹ 2,80,000 × 6/100 × 1/12).
- Therefore, the total interest allowed to P will be ₹ 18,650 (i.e., ₹ 7,500 + ₹ 5,100 + ₹ 4,650 + ₹ 1,400).
31. (2) **Explanation:** As per Section 30 of the Indian Partnership Act, 1932 if all the partners agree, a minor may be admitted as a partner for the benefits of partnership.
32. (1) **Explanation:** The minimum number of persons to form a partnership is 2 because partnership is an agreement between/among person. Therefore, at least two persons are necessary to form a partnership.
33. (4) **Explanation:** The business may be carried on by one partner or any of them acting for all. This flows from the definition of partnership as given in the Partnership Act, 1932 (Section 4) which is as follows:
"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.
34. (4) **Explanation:** In the absence of Partnership Deed or Partnership Deed exists but it does not have a clause on a particular matter, Indian Partnership Act, 1932 will be enforced.
35. (4) **Explanation:** In the absence of Partnership Deed, provisions of Partnership Act, 1932 apply. The Partnership Act, 1932 does not provide to allow interest on Capital.
36. (1) **Explanation:** In the absence of an agreement, partners are not entitled to remuneration, but are entitled to interest @6% on loans advanced by them (provision of Partnership Act, 1932), share profits equally (provision of Partnership Act, 1932) and to get indemnified for payments made by them on firm's behalf.
37. (3) **Explanation:** Rent paid to Partner, being charge against profit, will not be known from Profit & Loss Appropriation Account as it is transferred to the debit of Profit & Loss Account, being a charge.

38. (2) **Explanation:** In the absence of Partnership Deed, provisions of Partnership Act, 1932 apply. The Act does not provide for allowing interest on Capital in the absence of Partnership Deed.
39. (3) **Explanation:** In the absence of Partnership Deed, provisions of Partnership Act, 1932 apply. It allows interest on loan by partner @ 6% p.a. in the absence of Partnership Deed. Loan by Partner = ₹ 1,00,000, Date of Loan is 1st April, 2021.
Thus, Interest on loan = ₹ 1,00,000 × 6/100 = ₹ 6,000.
40. (1) **Explanation:** In the absence of Partnership Deed, provisions of Partnership Act, 1932 apply. It does not have a provision to charge interest on loan to partner. Hence, interest on loan to partner is not charged, if the Partnership Deed does not exist.
41. (1) **Explanation:** In the absence of Partnership Deed, provisions of Partnership Act, 1932 apply. Therefore, interest will not be charged on partner's drawings.
42. (4) **Explanation:** Transfer to Reserve, being an appropriation of profit, is shown in the Profit & Loss Appropriation Account. Drawings are reduced from the capital of the partner when Financial Statements are prepared while Manager's Commission and Rent Paid are transferred to Profit & Loss Account.
43. (4) **Explanation:** Divisible Profit = Net Profit as per Profit & Loss Account + Interest on Drawings (Appropriation) – Interest on Capital (Appropriation) = ₹ 1,50,000 + ₹ 2,000 – ₹ 18,000 = ₹ 1,34,000.
44. (1) **Explanation:** Divisible Profit = Net Profit as per Profit & Loss Account + Interest on Drawings (Appropriation) – Salary – Commission = ₹ 4,20,000 + ₹ 5,400 + ₹ 4,600 – ₹ 60,000 – ₹ 10,000 = ₹ 3,60,000.
45. (1) **Explanation:** Net Profit = ₹ 1,32,000; Arun's Commission = ₹ 1,32,000 × 10/110 = ₹ 12,000.
Note: Commission is payable on net profit @ 10% means net profit should be after allowing commission to Arun.
46. (4) **Explanation:** In the absence of Partnership Deed or where it is silent, *i.e.*, it does not have a clause of profit-sharing ratio, profit is shared equally by the partners. It means each partner will get ₹ 50,000 as profit. C will not get salary because it is not in accordance with the Partnership Deed, which is apparent from the words "C wants ₹ 30,000 as salary."
47. (2) **Explanation:** Drawings against profit is transferred to Partners' Current Account while loan taken by the partner or given to the partner are posted in their respective loan accounts. Drawings against capital means withdrawal of capital and hence it is written in the debit of Capital Account.
48. (2) **Explanation:** Provisions of the Indian Partnership Act, 1932 are applied when Partnership Deed does not exist or where it exists but does not have a clause in respect of a certain provision. It means provisions of Indian Partnership Act, 1932 are applied only in the absence of Partnership Deed, *i.e.*, the written contract among the partners. Thus, partnership is primarily guided by the Partnership Deed and it may have clauses that can override the provisions of Indian Partnership Act, 1932.
49. (3) **Explanation:** The guaranteeing partners enter into a contract with the guaranteed partner by assuring him minimum profit. If they have not decided any new ratio in which the deficiency in the profit share of guaranteed partner will be contributed, it will be met by them in their profit-sharing ratio.
50. (2) **Explanation:** As per Business Entity Concept of Accounting, entries are recorded in the books of account from the point of view of business. Thus, partnership firm is a separate business entity from the accounting viewpoint.
51. (2) **Explanation:** D's share of loss comes to ₹ 20,000 (*i.e.*, ₹ 80,000 × 1/4) for the previous period but he has been guaranteed minimum profit of ₹ 30,000 per annum or ₹ 15,000 (*i.e.*, ₹ 30,000 × 6/12) for 6 months ended 31st March, 2022. As a result, deficiency in his minimum guaranteed profit will be met by other partners. However, his Capital Account will be credited by the profit of ₹ 15,000 as his share of profit.
52. (2) **Explanation:** Profit before Commission is ₹ 3,60,000 (₹ 4,20,000 – ₹ 60,000). Commission allowable to A will be ₹ 36,000 (10% of ₹ 3,60,000).
53. (1) **Explanation:** Profit before Rent is ₹ 6,60,000 (₹ 7,44,000 – ₹ 84,000). Commission allowable to A will be ₹ 60,000 (₹ 6,60,000 × 10/110).
54. (2) **Explanation:** Profit before providing for rent = ₹ 40,000
Rent to B = ₹ 60,000
Net Profit/(Loss) for the year = ₹ 40,000 – ₹ 60,000 = (₹ 20,000)
A's Commission = Nil.
Note: As commission to A is calculated on Net Profit and firm has incurred loss, A is not entitled to commission.

55. (4) **Explanation:** Profit before adjustments = ₹ 1,16,000
 Interest on Loan to Ajay = ₹ 48,000
 Manager's Commission = ₹ 10,000
 Net Profit for the year = ₹ 1,16,000 + ₹ 48,000 – ₹ 10,000 = ₹ 1,54,000
 Vijay's Commission = ₹ 1,54,000 × 10/100 = ₹ 15,400.
56. (3) **Explanation:** Profit before adjustments = ₹ 1,05,600
 Interest on Loan to Ved = ₹ 36,000
 Manager's Commission = ₹ 12,000
 Net Profit for the year = ₹ 1,05,600 + ₹ 36,000 – ₹ 12,000 = ₹ 1,29,600
 Jas's Commission = ₹ 1,29,600 × 8/108 = ₹ 9,600.
57. (1) **Explanation:** When Partnership Deed provides for interest on capital as a charge on profit, it means it is accounted as an expense whether the firms earn profit or incurs loss. Thus, it is debited to Profit & Loss Account.
58. (3) **Explanation:** Amount of Loss transferred to Profit Loss Appropriation Account = ₹ 20,000
 Interest on Drawings charged from Partners = ₹ 4,000 (*i.e.*, ₹ 2,500 + ₹ 1,500)
 Net Loss transferred to Capital Accounts of:
 Ravi = ₹ 16,000 × 5/8 = ₹ 10,000;
 Bhuvi = ₹ 16,000 × 3/8 = ₹ 6,000.
- Note:** After transfer of net loss and credit of interest charged on drawings to Profit Loss Appropriation Account, the balance is loss, thus, appropriation is not made but loss is distributed between partners.
59. (1) **Explanation:** Average period for charging interest, if drawings are made in beginning of every quarter, shall be as follows: (12 months + 3 months)/2 = 7.5 months.
60. (4) **Explanation:** Personal Bank account details of individual partners is not included in the Partnership Deed being not that of business.

2. CASE STUDY BASED MCQS

1. A. 4. **Explanation:** The Capital Accounts of the Partners are fixed, which is known from the given information being balances in Capital Accounts and Current Accounts. When Partners are having fixed capitals, all other adjustments except additional capital and drawings out of capital, are shown in Partners' Current Accounts.
- B. 1. **Explanation:** Interest on capital will be paid to the Partners if provided for in the Partnership Deed, but only out of current year's profit earned by the firm because Interest on Capital for the year is an appropriation of profit and is to be paid out only if the firm earns profit during the year.
- C. 1. **Explanation:** Maximum number of partners in a firm can be 50 and is prescribed in the Companies Act, 2013 in Section 464 read along with Rule 10 of the Companies (Miscellaneous) Rules, 2014.
- D. 1. **Explanation:** In case Partners' capitals are fixed, interest on capital as agreed among them will be allowed on the balances of their Capital Accounts only and not on the balances of Current Accounts.
2. A. 1. **Explanation:** The partnership is without a Partnership Deed. In this situation, the provisions of Partnership Act, 1932 will apply which provides that if the Partnership Deed does not exist, the Partners are entitled to share profits equally, *i.e.*, 1 : 1.
- B. 1. **Explanation:** In the absence of an agreement or Partnership Deed, provisions of the Indian Partnership Act, 1932 apply. The Partnership Act, 1932 does not provide for charging interest on Loan to Partner. Thus, interest will not be charged on loan given to Srivalli (partner).
- C. 3. **Explanation:** Interest On Pushpa's Loan = ₹ 4,00,000 × 6/100 × 4/12 = ₹ 8,000.

- D. 2. **Explanation:** Divisible Profit = Net Profit ₹ 3,00,000 – Interest on Pushpa's Loan ₹ 8,000 = ₹ 2,92,000
Profit share:
Pushpa = ₹ 2,92,000 × 1/2 = ₹ 1,46,000;
Srivalli = ₹ 2,92,000 × 1/2 = ₹ 1,46,000.
3. A. 1. **Explanation:** Interest on Loan charged from Sampriti = ₹ 6,00,000 × 10/100 × 4/12 = ₹ 20,000 Interest is calculated from December to March (4 months). Interest is charged @ 10% as it has been mutually agreed by the partners.
- B. 1. **Explanation:** Interest on Loan given by Ahana = ₹ 3,00,000 × 10/100 = ₹ 30,000 Interest is calculated for 12 months since loan was advanced on 1st April, 2020.
- C. 3. **Explanation:** Interest charged on loan taken by Sampriti from the firm is an indirect income for the firm. Hence it will be credited to Profit & Loss Account.
- D. 2. **Explanation:** Net Profit = Profit + Interest on Sampriti's Loan – Interest on Ahana's Loan
= ₹ 5,30,000 + ₹ 20,000 – ₹ 30,000 = ₹ 5,20,000
Ahana's share of profit = ₹ 5,20,000/2 = ₹ 2,60,000;
Sampriti's share of profit = ₹ 5,20,000/2 = ₹ 2,60,000.
4. A. 4. **Explanation:** Interest on Capital is allowed if the firm has adequate profit for allowing interest on capital, it being an appropriation of profit. In the present question, interest on capital will not be allowed to Partners due to net loss.
Net Loss is ₹ 12,000 calculated as follows:
Net Loss = Profit – Interest paid on J's loan – Rent paid to C
= ₹ 21,000 – ₹ 6,000 – ₹ 27,000 = ₹ 12,000 (Net Loss)
- B. 3. **Explanation:** Salaries to Partners is allowed if the Partnership Deed provides it to be allowed and the firm has profit to meet the salaries, it being an appropriation of profit. In the present question, Salaries will not be allowed to Partners due to net loss.
Net Loss is ₹ 12,000 calculated as follows:
Net loss = Profit – Interest paid on J's loan – Rent paid to C
= ₹ 21,000 – ₹ 6,000 – ₹ 27,000 = ₹ 12,000 (Net Loss)
- C. 1. **Explanation:** Rent paid to C = ₹ 3,000 per month × 9 months = ₹ 27,000.
Rent to partner for his premises is a charge against Profit and hence is debited to Profit & Loss Account.
- D. 2. **Explanation:** Net Loss = Profit – Interest paid on J's loan – Rent paid to C
= ₹ 21,000 – ₹ 6,000 – ₹ 27,000 = ₹ 12,000 (Net Loss)
Share of Loss:
J = ₹ 12,000 × 3/6 = ₹ 6,000;
C = ₹ 12,000 × 2/6 = ₹ 4,000;
B = ₹ 12,000 × 1/6 = ₹ 2,000.
5. A. 2. **Explanation:** Interest paid on Z's loan = ₹ 3,00,000 × 10/100 × 4/12 = ₹ 10,000
Rent paid to Z = ₹ 2,000 × 12 months = ₹ 24,000
Interest on Capital =
X: ₹ 12,00,000 × 10/100 = ₹ 1,20,000;
Y: ₹ 10,00,000 × 10/100 = ₹ 1,00,000;
Z: ₹ 8,00,000 × 10/100 = ₹ 80,000;
Total of interest on Capitals of Partners = ₹ 3,00,000.
Profit = Profit – Interest paid on Z's loan – Rent paid to Z – Interest on Capitals (as it is a charge)
= ₹ 5,23,200 – ₹ 10,000 – ₹ 24,000 – ₹ 3,00,000 = ₹ 1,89,200
Manager's commission = Profit × 10/110
= ₹ 1,89,200 × 10/110 = ₹ 17,200.
- B. 1. **Explanation:** Interest on capital is debited to Profit & Loss Account if it is a charge against Profits. It means it is considered as an expense irrespective of the fact whether the firm earns profit or incurs loss.

- C. 3. **Explanation:** 10% of Divisible Profit is transferred to General Reserve.

Partner's salaries:

$$X: ₹ 5,000 \times 12 \text{ months} = ₹ 60,000$$

$$Y: ₹ 3,000 \times 4 \text{ months} = ₹ 12,000$$

Total Partners' salaries = ₹ 72,000

Divisible Profits = Net Profit (After Manager's Commission and Interest on Capital) – Partner's Salaries

$$= ₹ 1,89,200 - ₹ 72,000 - ₹ 17,200 = ₹ 1,00,000$$

Transfer to General Reserve = ₹ 1,00,000 \times 10/100 = ₹ 10,000

Note: Calculations of Net Profit and Manager's Commission may be referred to in Question (A) above.

- D. 3. **Explanation:** Net Divisible profits = ₹ 1,00,000 – ₹ 10,000 = ₹ 90,000

$$X's \text{ share} = ₹ 90,000 \times 3/6 = ₹ 45,000$$

$$Y's \text{ share} = ₹ 90,000 \times 2/6 = ₹ 30,000$$

$$Z's \text{ share} = ₹ 90,000 \times 1/6 = ₹ 15,000$$

6. A. 4. **Explanation:** Interest on Capital will not be given to partners as the firm has incurred net loss during the year and interest on capital is an appropriation of profits.

- B. 4. **Explanation:** Interest on partners' drawings is an income for the firm since the partners pay interest to the firm on the drawings made by them.

- C. 1. **Explanation:** Divisible Loss = Net Loss – Interest on Drawings = ₹ 60,000 – ₹ 4,000 = ₹ 56,000.

- D. 3. **Explanation:** Share of losses:

$$\text{Ravi} = ₹ 56,000 \times 5/8 = ₹ 35,000;$$

$$\text{Bhava} = ₹ 56,000 \times 3/8 = ₹ 21,000.$$

7. A. 2. **Explanation:** Interest on partner's drawings being an income for the firm, is credited to Profit & Loss Appropriation Account.

- B. 1. **Explanation:** When Partnership Deed provides for interest on capital as a charge on profit, it means it is considered as an expense irrespective of the fact whether the firms earn profit or incurs loss. Thus, it is debited to Profit & Loss Account.

- C. 2. **Explanation:** Net Loss incurred by the firm for the year ended 31st March, 2021 = Loss + Interest on partners' capitals (being a charge) – Interest on partners' drawings

$$= ₹ 41,000 + ₹ 18,000 - ₹ 4,000 = ₹ 55,000.$$

- D. 3. **Explanation:** Share of losses:

$$\text{Venkat} = ₹ 55,000 \times 3/5 = ₹ 33,000;$$

$$\text{Jayram} = ₹ 55,000 \times 2/5 = ₹ 22,000.$$

3. SEQUENCE BASED MCQS

1. 4. 2. 1. 3. 2. 4. 4. 5. 4.

4. MATCHING QUESTIONS

1. 2. **Explanation:**

A. Interest on Capital is an appropriation of profit and hence, is transferred to the debit of Profit & Loss Appropriation A/c.

B. Interest on Drawings by partners is an income for the firm. Hence, it is transferred to the credit of Profit & Loss Appropriation A/c.

C. Interest on Partner's Loan is a charge against profits. Hence, it is transferred to the debit of Profit & Loss A/c.

2. 3. Explanation:

- A. Interest on Capital as a charge against profit hence, is transferred to the debit of Profit & Loss A/c.
- B. Interest on Drawings by partners is an income for the firm and is transferred to the credit of Profit & Loss Appropriation A/c.
- C. Rent earned is an income for the firm. Hence, it is transferred to the credit of Profit & Loss A/c.
- D. Transfer to Reserve is an appropriation of profit. Hence, is debited to Profit & Loss Appropriation A/c.

3. 4. Explanation:

- A. Partner's Salary is an appropriation of profit. Hence it is debited to Profit & Loss Appropriation A/c
- B. Interest on Drawings by partners is an income for the firm. It is credited to Profit & Loss Appropriation A/c.
- C. Interest on Loan given to partner is an indirect income hence is credited to Profit & Loss A/c.
- D. Manager's commission is an expense for the firm and charge against profit. Hence, it is debited to Profit and Loss A/c.

4. 1. Explanation: Average period for charging interest,

- A. If drawings are made at beginning of every quarter, shall be as follows:
 $(12 \text{ months} + 3 \text{ months})/2 = 7.5 \text{ months}.$
- B. Drawings in the beginning of each month, shall be as follows:
 $(12 \text{ months} + 1 \text{ months})/2 = 6.5 \text{ months}.$
- C. Drawings in the middle of each quarter, shall be as follows:
 $(10.5 \text{ months} + 1.5 \text{ months})/2 = 6 \text{ months}.$
- D. Drawings at the end of each quarter, shall be as follows:
 $(9 \text{ months} + 0 \text{ months})/2 = 4.5 \text{ months}.$

5. 3. Explanation:

- A. In the absence of Partnership Deed or a clause on a particular matter is not existing, provisions of the Partnership Act, 1932 apply. The Partnership Act, 1932 does not allow interest on capital unless Partnership Deed allows it.
- B. In case the Partnership Deed does not specify whether interest on capital is a charge or appropriation, it is taken as an appropriation.
- C. If Divisible Profit is not adequate to meet all appropriations, divisible profit is distributed among partners in the ratio of total appropriations for each partner.

6. 1. Explanation:

- A. Under Fixed Capital, additional capital introduced is credited to Capital Account.
- B. Interest on Drawings is transferred to the credit of Capital Account, if Capital Accounts are maintained following Fluctuating Capital Accounts Method.
- C. Interest is allowed @ 6% p.a. on Loan by Partners.
- D. Rent Paid to the Partner is a charge against profits. Hence, it is transferred to the debit of Profit & Loss A/c.

7. 2. Explanation:

Manager's Commission is a charge against profit, hence is transferred to the debit of Profit & Loss Account. Interest on Capital is transferred to the debit of Profit & Loss Appropriation Account.

Drawings out of Capital is debited to Capital Account when Fixed Capital Accounts Method is followed. Interest on Drawings is transferred to the debit of Capital Account when Fluctuating Capital Accounts Method is followed.

8. 4. Explanation:

Drawing against Profit means drawing by a partner out of his/her expected share in the profit of the current year and is Debited to Drawing Account. It is deducted from Capital in the Balance Sheet when financial statements are prepared.

Drawing against Capital means drawing by a partner against his/her capital. It is debited to his/her capital account as it reduces capital.

5. COMBINATION WITH SINGLE ANSWER QUESTIONS

1. 2. **Explanation:** Registration of a partnership firm is optional while remaining are the feature of a partnership firm.
2. 4. **Explanation:** Except for Partners' Capital Accounts, all accounts are either Expense or Income Accounts being associated with expenses or incomes resulting into profit or loss and distribution among partners. Profit & Loss Appropriation Account is an extension of Profit & Loss Account and hence is of the same category.
3. 3. **Explanation:** Entries (Items) at serial (A) and (D) will be transferred to the debit of Partners' Capital Accounts because these accounts have debit balances while entries (items) at serial (B) and (C) will be transferred to the credit of Partners' Capital Accounts because these accounts have credit balances.
4. 2. **Explanation:** Credit balance of Profit & Loss Account is accumulated profits. Since, it has credit balance, it is transferred to the credit of Partners' Capital Account in their profit-sharing ratio. Remaining entries (items) have debit balances and hence, will be transferred to the debit of Partners' Capital Accounts.
5. 1. **Explanation:** When capitals are fixed only Capital Introduced is credited to capital account, remaining items are shown in Current account.
6. 4. **Explanation:** If capitals are fixed only Withdrawal of Capital is debited to capital account, remaining items are shown in Current Account of the partner.
7. 4. **Explanation:** Maintaining Current Account means Capital Accounts are maintained following Fixed Capital Accounts Method. Under Fixed Capital Accounts Method, Capital Account of a partner is credited with further capital introduced and debited with capital withdrawn. Out of the above entries (items) no entry is for capital being introduced or withdrawn.
8. 3. **Explanation:** When capitals are fixed, share of profit for the year is credited to Partners' Current Accounts and withdrawal of Capital is debited to Capital Account, remaining two entries (items) are transferred to the debit of Current account.
9. 2. **Explanation:** In the absence of Partnership Deed, provisions of the Partnership Act, 1932 apply. It provides that interest on capital will not be allowed, and profits will be shared equally.