



INTRODUCTION

THE LAW OF PARTNERSHIP IS CONTAINED IN THE INDIAN PARTNERSHIP ACT, 1932.

IT CAME INTO FORCE ON 1ST OCT 1932.

EXCEPT SECTION 69 (DEALING WITH THE EFFECT OF NON-REGISTRATION OF FIRMS).

SECTION 4 OF THE INDIAN PARTNERSHIP ACT, 1932, DEFINES PARTNERSHIP, "PARTNERSHIP IS THE RELATION BETWEEN PERSONS WHO HAVE AGREED TO SHARE THEIR BUSINESS CARRIED ON BY ALL OR ANY ONE OF THEM ACTING FOR ALL."

DEFINITIONS

BUSINESS [SECTION 2 (b)] THIS INCLUDES EVERY TRADE, OCCUPATION AND PROFESSION.

PRESCRIBES [SECTION 2(c)] THIS MEANS PRESCRIBED BY RULES MADE UNDER THIS ACT.

THIRD PARTY [2SECTION (d)]

MEANS ANY PERSON WHO IS NOT A PARTNER IN THE FIRM.

“GOODWILL “

THE TERM GOODWILL IS NOT DEFINED IN THE PARTNERSHIP ACT. GOODWILL REPRESENTS BUSINESS REPUTATION. IT IS MORE COMMERCIAL TERM RATHER LEGAL TERM.



Definition

- Sec 4 – “Partnership is the relation between persons who have agreed to share the profits of business carried on by all or any of them acting for all.



Features of Partnership Act, 1932

- Indian Partnership Act, 1932 is a Central Act. (made by Parliament)
- This Act deals with special type of contract. (contract of partnership)
- Provisions regarding contract of partnership were earlier contained in the Indian Contract Act, 1872.
- This Act extends to the whole of India except the state of Jammu and Kashmir.
- This Act came in to force on 1.10.1932, except section 69 which came into force on the 1st Day of October, 1933.

FORMATION OF PARTNERSHIP

- A PARTNERSHIP IS BASED ON AN AGREEMENT. IT IS CREATED BY CONTRACT ONLY AND NOT BY STATUS OR OPERATION OF LAW. THE AGREEMENT MAY EITHER BE EXPRESS OR IMPLIED.
- THE ESSENCE OF PARTNERSHIP IS MUTUAL TRUST AND CONFIDENCE.
- THERE MUST BE FREE AND GENUINE CONSENT OF THE PARTIES WHO MUST BE COMPETENT TO CONTRACT. WITH A VIEW TO CARRYING ON PARTNERSHIP FOR LONG TIME AND TO AVOID ANY DIFFERENCES AMONG THE PARTNERS IN FUTURE, IT IS ESSENTIAL THAT ALL THE TERMS AND CONDITIONS OF PARTNERSHIP ARE AGREED UPON.

- AN ORAL AGREEMENT MAY BE ALRIGHT TILL THE GOING IS NORMAL.
- BUT IN TERMS OF ADVERSITY THERE MAY BE DISPUTE AMONG THE PARTNERS.
- IT IS IN THE INTEREST OF THE PARTNERS THAT THE AGREEMENT MUST BE IN WRITING.

THE RIGHTS AND OBLIGATIONS OF THE MEMBERS OF A PARTNERSHIP ARE SET FORTH IS CALLED A “PARTNERSHIP DEED”.

- ❖ IT SHOULD BE DRAFTED WITH CARE AND BE SIGNED BY ALL THE PARTNERS.
- ❖ IT MUST BE STAMPED IN ACCORDANCE WITH THE INDIAN STAMP ACT.
- ❖ EACH PARTNER SHOULD BE FILED AT THE TIME OF REGISTRATION WITH THE REGISTRAR OF FIRMS BECAUSE IN THE ABSENCE OF SUCH REGISTRATION PARTNERS CANNOT ENFORCE THE CONDITIONS LAID DOWN IN THE DEED THROUGH A COURT OF LAW.

PARTNERSHIP FIRM

{ESSENTIAL ELEMENTS OF FIRM}

- 1. PARTNERSHIP IS AN ASSOCIATION OF TWO OR MORE PERSONS.**
- 2. PARTNERSHIP MUST BE AN AGREEMENT BETWEEN TWO OR MORE PERSONS.**
- 3. THE AGREEMENT MUST BE TO CARRY ON SOME BUSINESS.**
- 4. THE AGREEMENT MUST BE TO SHARE PROFITS OF THE BUSINESS.**
- 5. BUSINESS MUST BE CARRIED ON BY ALL OR ANYONE OF THEM ACTING FOR ALL.**

NAME OF THE FIRM

(SECTION 58)

MODE OF REGISTRATION

(SECTION 58)

1. THE FIRM NAME

2. THE PLACE OR PRINCIPAL PLACE OF BUSINESS OF THE FIRM

3. THE NAMES OF ANY OTHER PLACES WHERE THE FIRM CARRIES ON BUSINESS.

4. THE DATE WHEN EACH PARTNER JOINED THE FIRM.

5. THE NAMES IN FULL AND PERMANENT ADDRESSES OF THE PARTNERS AND

6. THE DURATION OF THE FIRM.

TIME OF REGISTRATION

- REGISTRATION MAY TAKE PLACE AT ANY TIME THAT IS AT THE TIME OF ITS FORMATION OR AT ANYTIME THEREAFTER.” NO SUIT TO ENFORCE A RIGHT ARISING FROM A CONTRACT SHALL BE INSTITUTED IN ANY COURT BY OR ON BEHALF OF A FIRM AGAINST ANY THIRD PARTY UNLESS THE FIRM IS REGISTERED AND THE PERSONS SUING OR HAVE BEEN

- SHOWN IN THE REGISTER OF FIRMS AS PARTNERS IN THE FIRM.
- UNDER SECTION 70, IF ANY PERSON SUPPLIES FALSE OR INCOMPLETE INFORMATION, HE IS PUNISHABLE WITH IMPRISONMENT EXTENDING TO THREE MONTHS OR WITH FINE OR WITH BOTH.

REGISTRATION OF FIRM

[SECTION 58-71]

- INDIAN PARTNERSHIP ACT, 1932 THERE WAS NO PROVISION FOR THE REGISTRATION OF PARTNERSHIP FIRM IN INDIA.
- REGISTRATION OF FIRM MEANS THE RECORDING OF FULL DETAILS OF THE FIRM IN THE REGISTER OF FIRMS, KEPT IN THE OFFICE OF THE REGISTRAR OF THE FIRM.
- PARTNERSHIP ACT HAS NOT MADE REGISTRATION OF FIRMS COMPULSORY NOR DOES IT SEEK TO IMPROVE ANY PENALTY NON-REGISTRATION.
- IT IS OPTIONAL FOR THE FIRM TO GET ITSELF REGISTRATION OR NOT .

- THE NON – REGISTRATION DOESN'T EFFECT THE PARTNERSHIP AGREEMENT IS ANY TRANSACTION BETWEEN THE PARTNERS AND THE THIRD PARTY.
- **SECTION 69** OF THE ACT DEALS WITH SUCH DISABILITIES ALMOST EVERY FIRM FIND IT NECESSARY TO GET ITSELF REGISTERED.
- **REGISTRATION DOES NOT CREATE A PARTNERSHIP . THIS IS BECAUSE PARTNERSHIP CAME INTO EXISTENCE ONLY BY AN AGREEMENT OF TWO OR MORE PERSONS.**
- **REGISTRATION PROVIDES ONLY A RELIABLE EVIDENCE AND CONCLUSIVE OF A EXISTENCE OF A PARTNERSHIP.**

EFFECTS OF NON- REGISTRATION (SECTION 69)

1) SUIT BETWEEN PARTNERS AND THE FIRM [SECTION 69(1)]

IN CASE ANY DISPUTE ARISES BETWEEN A PARTNER AND THE FIRM, OR AMONG THE PARTNERS OR BETWEEN A PARTNER AND EX-PARTNERS OR THE DISPUTE ARISES FROM PARTNERSHIP DEED.

2) SUIT BETWEEN THE FIRM AND THIRD PARTIES [SECTION 69 (2)]

NO, SUIT CAN BE FILLED ON BEHALF OF AN UNREGISTERED FIRM ANY THIRD PARTY FOR THE PURPOSE OF ENFORCING A RIGHT.

3) SET-OFF CLAIM [SEC 69(3)]

AN UNREGISTERED FIRM CANNOT CLAIM A SET OFF IN A SUIT. (SET-OFF MEANS A CLAIM BY

THE DEFENDANT WHICH WOULD REDUCE THE AMOUNT OF MONEY PAYABLE BY HIM TO THE PLAINTIFF.

TYPES OF PARTNERS

Types of Partners

IEduNote.com

Active
Partners

Dormant
Partners

Nominal
Partners

Minor as
a Partner

Partner by
Estoppels

Partner by
Holding
Out

1) ACTIVE PARTNER

A PERSON WHO BECOMES A PARTNER BY AN AGREEMENT AND IS ENGAGED IN THE ACTUAL CONDUCT OF THE BUSINESS OF THE FIRM, IS CALLED THE ACTUAL PARTNER. AN ACTIVE PARTNER HAS AUTHORITY TO BIND THE FIRM AND THE OTHER PARTNERS FOR

THE ACTS DONE BY HIM IN THE ORDINARY COURSES OF BUSINESS . IN CASE OF HIS RETIREMENT , HE MUST GIVE PUBLIC NOTICE.

2) SLEEPING OR DORMANT PARTNER

A SLEEPING OR INACTIVE PARTNER IS ONE WHO DOES NOT TAKE PART IN THE CONDUCT OF BUSINESS OF THE FIRM. HE IS A PARTNER , WHO IS NOT KNOWN TO THE OUTSIDE WORLD. HE CONTRIBUTES HIS SHARE OF CAPITAL.

HE ENJOYS HIS SHARE OF PROFITS AND ALSO BEARS LOSS. HE IS NOT REQUIRED TO GIVE PUBLIC NOTICE OF HIS RETIREMENT.

3) NOMINAL PARTNERS

- A NOMINAL PARTNER IS ONE WHO HAS NO, REAL INTEREST IN THE BUSINESS. HE LENDS HIS NAME AS ONE OF THE PARTNERS IN THE FIRM.
- HE DOES NOT CONTRIBUTE ANY CAPITAL.
- HE DOES NOT TAKE PART IN THE CONDUCT OF THE PARTNERSHIP BUSINESS.
- HE IS KNOWN TO THE PUBLIC AS A PARTNER.
- HE IS NOT ENTITLED TO SHARE THE PROFITS OF THE FIRM.
- HE IS LIABLE TO THIRD PARTIES FOR ALL ACTS OF THE FIRM.

3) PARTNERS IN PROFIT ONLY

A PARTNER IN PROFITS ONLY IS ONE WHO SHARES THE PROFIT OF THE FIRM BUT DOES NOT CONTRIBUTE TO ITS LOSSES.

HE CONTRIBUTES CAPITAL, HIS LIABILITIES FOR THE SETS OF THE FIRM IS UNLIMITED.

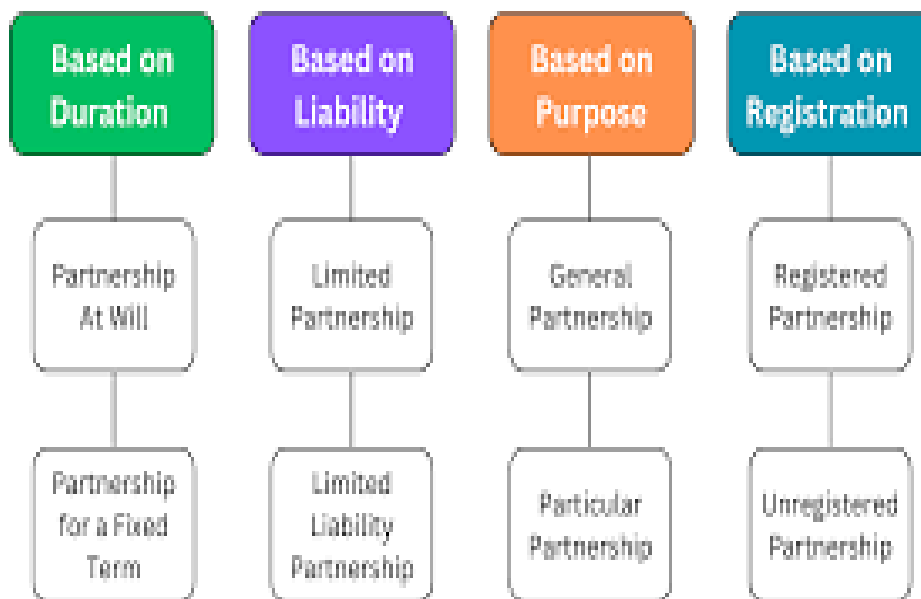
4) SUB-PARTNER

IS THE ONE WHO SHARES THE PROFITS WITH ANOTHER PARTNER. WHEN A PARTNER AGREES TO SHARE HIS PROFITS IN THE FIRM, WITH THE THIRD PERSON.

6) PARTNER BY ESTOPPEL OR HOLDING OUT (SECTION 28)

THE ONE WHO REPRESENTS HIMSELF TO BE A PARTNER IN THE FIRM, BUT IN REALITY HE IS NOT SO. A DECEASED PARTNER IS AN EXCEPTION TO THIS ROLE.

[SECTION 28(2)]



S. No.	Type of Partner	Explanation
1	Active Partner	Partners participate in daily operations and activities. Sometimes they draw remuneration as a salary for their hard work.
2	Limited Partner	Unlike an active partner, this partner's endowment becomes limited to the sum of his/her investment.
3	Secret Partner	This partner does not want to reveal himself/herself. However, the rights of these partners are equal to any other partner of the partnership.
4	Dormant Partner	These partners contribute capital to the firm and enjoy their share of the profit without participating in business affairs. However, like other partners, they have liabilities to business.
5	Partner in Profit Only	These partners venture into a partnership on the condition that they shall only get a portion of the firm's profit, but they will not be entitled to compensation for any loss. Mostly, these partners contribute their goodwill and reputation to the company.

❖ RIGHTS OF PARTNERS

Rights Of Partners

Section 12 & 13 of the partnership act.

- **Rights to take part in management**
Every partner has a right to take part in the conduct of the business.
- **Rights to inspect books**
Every partner has a right to check the books of account of the firm and to get the copies.
- **Rights to be consulted**
Every partner has a right to be consulted and heard before any matter is decided.
- **Rights to share profit**
Every partner has a right to share equally in the profits earned by the firm, irrespective of his amount of capital contribution.

RELATION OF PARTNERS TO ONE ANOTHER AND WITH THIRD PARTIES

“EVERY PARTNER IS LIABLE JOINTLY WITH ALL OTHER PARTNERS AND ALSO ACTS FOR THE FIRM DONE WHILE HE IS PARTNER”. [SEC.25]

THIS SECTION IS SUPPORTED BY SEC.43 OF THE CONTRACT ACT WHICH DECLARES THAT JOINT PROMISES OF EVERY KIND CREATE A JOINT AND SEVERAL OBLIGATIONS IN THE ABSENCE OF EXPRESS AGREEMENT TO THE CONTRACT

When a partner acts in his interest in the common goal of a firm, he is playing the role of a principal. On the other hand, when he is acting as per the interest of the co-partners, he is an agent. Relation

of partners to third parties requires them to play an agent in the firm.

RECONSTITUTION OF A FIRM



What is Reconstitution of a Partnership Firm??

Partnership is an agreement between two or more people for sharing the gains of a trade carried by all or any one of them who is acting for all. Any change in the current agreement is called as reconstitution of the partnership firm.

Reconstitution of a Partnership Firm

Reconstitution of a Partnership Firm means when with the consent of all partners they make some fundamental changes in the Partnership deed. It may be when the partners want to change their profit sharing ratio or any partner want to increase or decrease his investment as well as involvement in the business. And in the other condition like an admission of a new partner(s), the retirement/death/insolvency of existing partner(s).

Tutor's Tip

For Example: -

Old Partners X, Y, & Z in the Partnership firm sharing profit in 3:2:1 respectively



Mr. X Mrs. Y Mr. Z

New Partner Mrs. B enter in the partnership and she want 1/4th share of the profit.



Mrs. B

In this situation we have to reconstitute the Partnership firm and distribute the profit share as per requirement, So, we have to calculate New Profit sharing Ratio

The partnership is an agreement between two or more persons for sharing the profits of a business carried on by all or any one of them acting for all. Any change in the existing agreement is known as reconstitution of the partnership firm. Thus, the existing agreement ends and a new agreement is formed with the changed relationship among the members of the partnership firm and its [composition](#).

Reconstitution of a partnership firm takes [place](#) whenever there is a change in the [profit sharing ratio](#) among the partners, admission of a new partner, retirement of a partner and death or insolvency of a partner.

Forms of Reconstitution of a Partnership Firm

Forms of Reconstitution	
Change in profit-sharing ratio of the existing partners	AccountingCentral.com
Admission of a partner	
Retirement of an existing partner	
Death or Insolvency of an existent partner	
Amalgamation of two or more partnership firms	

1. Change in the profit sharing ratio among the Existing Partners

Sometimes the partners may decide to change their profit sharing ratio due to factors like change in their roles in the firm, change in their capital contribution ratio, etc. Any change in the old profit sharing ratio will amount to a reconstitution of the partnership firm.

For example, A, B, and C were partners in a firm sharing equal profits. Due to some reasons, C shifts to another [city](#) and is therefore unable to take part in the business actively. Thus, it is decided that now the new profit sharing ratio shall be 2:2:1. This amounts to the reconstitution of a firm.

2. Admission of a Partner

When a firm requires additional capital or managerial help it can admit a new partner in its business. As per the Partnership Act, 1932, a new partner can only be admitted unanimously unless otherwise provided in the [partnership deed](#). When a new partner is admitted a new agreement is formed and thus the firm is reconstituted.

The new partner acquires the right to share the assets of the firm for which he brings in the capital and the right to share the future profits of the firm for which he brings Goodwill. On admission of a new partner, the profit sharing ratio changes, the assets and liabilities are revalued and goodwill is calculated and distributed among the old partners in their sacrificing ratios.

3. The Retirement of an Existing Partner

A partner may decide to retire or withdraw from the firm [due](#) to reasons such as his age, his bad health, change in firm's nature of a business, etc. In case of [Partnership](#) at Will, a partner may retire at any time. Retirement amounts to a reconstitution of a firm where the number of partners, their capital contribution ratio and also the profit sharing ratio changes. The

retiring [partner](#) is paid his share of capital, goodwill and revaluation profit or loss.

For example, X, Y, and Z are partners in the firm sharing profits in the ratio of 3:2:1. X chooses to retire and Y and Z decide to share the future profits equally. This is a reconstitution of the firm where the number of partners and their profit sharing ratio both have changed.

4. Death or Insolvency of a Partner:

Death or insolvency of a partner also results in the reconstitution of the firm when the remaining partners wish to continue the firm. In case of insolvency, all dues are paid to the insolvent partner and partnership agreement is aborted because as per the law an insolvent is incompetent to enter into a contract or an agreement.

In case of death, all dues are paid to the legal heir of the deceased partner.

Solved Question for You

Q: A, B and C are partners sharing profits in the ratio of 2:2:1. They are having a capital of 200000, 200000 and 100000 respectively. It is decided that C should bring additional capital of 100000. And then the profit

sharing ratio should be calculated on the basis of their capitals. Is this a case of reconstitution of a firm and how?

Answer: Now, the new capitals are Rs.200000 each and thus the new profit sharing ratio is 1:1:1. As there is a change in the profit sharing ratio, this is definitely a case of reconstitution of a partnership.

100 MCQ

Q.1:- An act of a firm means:

- a. Any partner or agent of the firm which gives rise to a right enforceable by or against the firm
- b. Any act by all the partners
- c. Any omission by all the partners
- d. All of the above

Correct Option: D

Q.2:- 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. Does it mean that losses are not shared:

- a. A minor may be admitted in partnership, only for the profits, but he cannot share in losses.
- b. It also depends on the partnership agreement. A person may share the profits but may not share in losses.
- c. Sharing of profits also include losses (negative profits)
- d. All of the above.

Correct Option: D

Q.3:- Where no provision is made by contract between the partners for the duration of their partnership, or for the determination of their partnership, the partnership is called as:

- a. Particular partnership
- b. Partnership for a fixed term
- c. partnership at will
- d. None of the above

Correct Option: C

Q.4:- What information shall be given to the Registrar of Firms by a registered partnership firm:

- a. New opening/closing of the existing branch, if any.
- b. Change in the name of and address of the partner (s)/change in the constitution of the firm.
- c. What there is change in the name of the firm or in location of the principal place of business.
- d. All of the above.

Correct Option: D

Q.5:- Who can inspect the Register and filed documents at the office of the Registrar:

- a. Any Government servant
- b. The Partners of the firm
- c. The partners of the other firms
- d. Any person

Correct Option: D

Q.6:- What are the right of partners after dissolution:

- a. To have the surplus distributed among the partners or their representatives according to their rights.

- b. To have business wound up after dissolution
- c. To have the property of the firm applied in payment of the debts and liabilities of the firm.
- d. All of the above

Correct Option: D

Q.7:- The dissolution of partnership means:

- a. It means the dissolution of partnership between all the partners of a firm
- b. It means the change in the relations of the partners
- c. It means the reconstitution of the firm.
- d. None of the above.

Correct Option: B

Q.8:- In what circumstances a partner may retire:

- a. In accordance with an express agreement by the partners
- b. Where the partnership is at will, by giving notice in writing to all the other partners of his intention to retire.
- c. With the consent of all the other partners
- d. All of the above.

Correct Option: D

Q.10:- What would be the position, where a minor elects not to become a partner:

- a. He shall be entitled to sue the partners for his share of the property and profits.
- b. His rights and liabilities shall continue to be those of a minor under this section up to the date on which he gives public notice.
- c. His share shall not be liable for any acts of the firm done after the date of the notice.
- d. All of the above

Correct Option: D

Q.12:- The partners in a firm may, by contract between the partners:

- a. restrict the implied authority of any partner
- b. extend the implied authority of any partner
- c. None of the above
- d. Both A and B are correct

Correct Option: D

Q.13:- What would be the position where a minor elects to become a partner.

- a. His share in the property and profits of the firm shall be the share to which he was entitled as a minor
- b. His rights and liabilities as a minor continue up to the date on which he becomes a partner
- c. He also becomes personally liable to third parties for all acts of the firm done since he was admitted to the benefits of partnership
- d. All of the above

Correct Option: D

Q.14:- Who is not liable for the acts of the partners done after dissolution, if done before the dissolution, until public notice is given of the dissolution

- a. A partner who, not having been known to the person dealing with the firm to be a partner, retires from the firm (sleeping or dormant partner).
- b. The estate of a partner who dies
- c. Who is adjudicated an insolvent
- d. All of the above

Correct Option: D

Q.15:- Whether a partner after dissolution of the partnership firm, carry on the business in the erstwhile business name of the firm

- a. He can use the business name of the dissolved firm name, if he has brought the goodwill of the firm.
- b. He can't use the business name of the dissolved firm.
- c. He can use the business name of the dissolved firm, provided there was a contract between the partners of the dissolved firm
- d. Both the points mentioned at A and C are correct

Correct Option: D

Q.20:- The State Government may appoint Registrars of Firms for the purposes of this Act, every Registrar shall be deemed

- a. To be a Central Government Servant.
- b. To be a public servant within the meaning of section 21 of the Indian Penal Code
- c. To be State Government Servant
- d. To be a private servant

Correct Option: B

Q.21:- What is the penalty for submission of false particulars to the Registrar of Firms:

- a. He shall be punishable with imprisonment v- which may extend to three months, or with fine, or with both
- b. He shall be punishable with imprisonment which may extend to four months, or with fine, or with both.
- c. He shall be punishable with imprisonment which may extend to two months, or with fine, or with both

- d. He shall be punishable with imprisonment which may extend to one month, or with fine, or with both

Correct Option: A

Q.22:- What matters require notice to Registrar of Firms under section 63, and Public Notice by publication in the Official Gazette and in at least one vernacular newspaper circulating in the district where the firm to which it relates, has its place or principal place of business

- a. The dissolution of a registered firm
- b. The election to become or not to become a partner in a registered firm by a person attaining majority who was admitted as a minor to the benefits of partnership
- c. Retirement or expulsion of a partner from a registered firm
- d. All of the above

Correct Option: D

Q.23:- What is the amount of fee which shall accompany with the documents sent to the Registrar of Firms, or which shall be payable for the inspection of documents in the custody of the Registrar of Firms, or for copies from the Register of Firms:

- a. The fees prescribed by each of the States shall not exceed the maximum fees specified in Schedule I of the Indian Partnership Act, 1932
- b. The State Government may by notification in the Official Gazette make rules describing the schedule of fees.
- c. Both A and B are correct.
- d. None of the above.

Correct Option: C

Q.24:- Non-registration of a firm will not affect:

- a. The right of the partner to sue for the dissolution of the firm, or for the accounts of the dissolved firm, or for share of the property of the dissolved firm.
- b. All of the following
- c. The right to any suit or claim of set-off not exceeding Rs. 100 in value
- d. The right of a firm or partners of a firm having no place of business in India.

Correct Option: B

Q.25:- Where a partner has in any way transferred the whole of his interest in the firm to a third party, or has allowed his share to be charged under the provisions of rule 49 of Order XXI of the First Schedule to the Code of Civil Procedure, 190 or has allowed it to be sold in the recovery of arrears of land revenue or of any dues recoverable as arrears of land revenue due by the partner.

- a. The court may not dissolve the firm at the instance of any other partner(s).
- b. The court may direct other partners to reconstitute the firm by excluding that concerned partner
- c. The court may dissolve the firm at the instance of any other partner(s)
- d. The court may expel the concerned partner, who has done wrong, from the partnership firm

Correct Option: C

Q.26:- How a firm may be dissolved

- a. A firm may be dissolved by the Court order.
- b. A firm may be dissolved by the Court order
- c. A firm may be dissolved in accordance with a contract between the partners

d. All of the above.

Correct Option: D

Q.27:- On attaining the majority, the minor partner has to decide and give a public notice within the prescribed period, whether he will continue as partner in the firm or will quit. What is that prescribed period:

- a. Within twelve months of his attaining majority or of his obtaining knowledge that he had been admitted to the benefits of partnership, whichever date is later
- b. Within three months of his attaining majority or of his obtaining knowledge that he had been admitted to the benefits of partnership, whichever date is later
- c. Within six months of his attaining majority or of his obtaining knowledge that he had been admitted to the benefits of partnership, whichever date is later
- d. Within nine month of his attaining majority or of his obtaining knowledge that he had been admitted to the benefits of partnership, whichever date is later

Correct Option: C

Q.28:- In which conditions a person may be deemed as partner by estoppels or holding out:

- a. When he by his conduct represents himself to be a partner in a firm
- b. When knowingly permits himself to be represented, to be a partner in a firm.
- c. When he expressly by words spoken or written let the others that he is a partner in a firm.
- d. All of the above

Correct Option: D

Q.29:- M/s XYZ is partnership firm and X, Y and Z are the partners. During the course of business travel, partner X recovered a sum of Rs. 15000 in cash from the debtor of the firm and credit in his personal bank account. The act of X will amount to:

- a. After utilising the amount for few days, he returned back the money to the firm, so it will not come under the mis-appropriation of the funds.
- b. Nothing wrong in it, since he has personally made efforts in realising the dues from the debtor.
- c. Mis-appropriating the funds of the firm and utilisation of the same for the personal gain.
- d. None of the above.

Correct Option: C

Q.30:- What are the general duties of a partner:

- a. To render true accounts and full information of all things affecting the firm to any partner or his legal representative
- b. To carry on the business of the firm to the greatest common advantage
- c. To be just and faithful to each other
- d. All of the above.

Correct Option: D

Q.31:- A consideration is must for every contract. Partnership is also an agreement enforceable at law, hence it is also a contract to carry on the business for profit. Whether consideration, which is of essence for the formation of a contract, is essential for the formation of the partnership

- a. Partnership is an extension of the law of agency hence no consideration is required
- b. Yes, consideration is must for the formation of the partnership.

- c. There is no need to have consideration in formation of the partnership since no consideration is required to create an agency.
- d. Only A and C are correct.

Correct Option: D

Q.32:- After the dissolution of a firm the authority of each partner to bind the firm, and the other mutual rights and obligations of the partners shall continue:

- a. To complete transactions begun but unfinished at the time of the dissolution.
- b. To wind up the affair of the firm
- c. Both A and B are correct.
- d. None of the above.

Correct Option: C

Q.33:- What shall be the treatment of goodwill in settling the accounts of a firm after dissolution:

- a. The assessment of the amount of goodwill is a difficult task and cannot be precisely calculated, hence it should not be considered
- b. The goodwill shall, subject to contract between the partners, be included in the assets, and it may be sold either separately or along with other property of the firm.
- c. The goodwill is an intangible assets and should not be accounted for.
- d. None of the above.

Correct Option: B

Q.34:- How the settlements of debts will be made in case there are joint debts due from the firm, and also separate debts due from any partner:

- a. Debts of the firm shall be paid first out of the property of the firm, but in case of private debts of the partners, is shall be paid in last(if there is residue) after paying of all the dues of the firm
- b. Debts of the firm shall be paid first out of the property of the firm, but in case of private debts of the partners, is shall be paid in last(if there is residue) after paying of all the dues of the firm.
- c. Debts of the firm shall be paid first out of property of the firm and if there is any surplus, it shall be distributed among the partners
- d. Both A and C are correct.

Correct Option: D

Q.35:- Which is the implied authority of a partner:

- a. To carry on the business of the firm, in the usual way.
- b. Compromise or relinquish any claim or portion of a claim by the firm
- c. Submit a dispute relating to the business of the firm to arbitration
- d. Open a banking account on behalf of the firm in his own name

Correct Option: A

Q.36:- Subject to contract between the partners, the property of the firm includes:

- a. Acquired, by purchase or otherwise, by or for the firm, or for the purposes and in the course of business of the firm
- b. The goodwill of the business.
- c. All property and rights and interests in property originally brought into the stock of the firm
- d. All of the above.

Correct Option: D

Q.37:- Where partnership deed is silent, which of the following statement is NOT correct:

- a. The partners are entitled to share equally in the profits earned, and shall contribute equally to the losses sustained by the firm.
- b. A partner making, for the purposes of the business, any payment or advance beyond the amount of capital he has agreed to subscribe, is entitled to interest thereon at the rate of 18% per annum.
- c. A partner is not entitled to receive remuneration for taking part in the conduct of the business
- d. Where a partner is entitled to interest on the capital subscribed by him such interest shall be payable only out of profits

Correct Option: B

Q.38:- A transfer by a partner of his interest in the firm, either absolute or by mortgage, or by the creation by him of a charge on such interest, does entitle the transferee, during the continuance of the firm

- a. To require accounts of the firm
- b. To inspect the books of the firm
- c. Only to receive the share of profits of the transferring partner, and the transferee shall accept the account of profits agreed to by the partners
- d. To interfere in the conduct of the business of the firm

Correct Option: C

Q.39:- What is the liability of a retiring partner, after the date of his retirement'.

- a. He shall not be liable for the act done by other partners during his tenure in the partnership firm.

- b. He and the partners continue to be liable as partners to third parties for any act done by any of them which would have been an act of the firm if done before the retirement, until public notice is given of the retirement
- c. He shall be liable for the acts done by him only on behalf of the firm during his tenure, towards the third party.
- d. Only A and B are correct.

Correct Option: B

Q.40:- An outgoing partner may carry on a business competing with that of the firm and he may advertise such business, but, subject to contract to the contrary, he may not:

- a. Solicit the custom of persons who were dealing with the firm before he ceased to be a partner. Agreements in restraint of trade.
- b. Use the firm name
- c. Represent himself as carrying on the business of the firm
- d. All of the above

Correct Option: D

Q.41:- The dissolution of firm means:

- a. It means the dissolution of partnership between all the partners of a firm.
- b. It means the change in the relations of the partners.
- c. It means the reconstitution of the firm.
- d. Only B and C are correct.

Correct Option: A

Q.42:- What are certain contingencies when the firm has to be dissolved (subject to contract):

- a. By the death of a partner and by the adjudication of a partner as an insolvent.

- b. If constituted for a fixed term, by the expiry of that term
- c. If constituted to carry out one or more adventures or undertakings, by the completion thereof
- d. All of the above.

Correct Option: D

Q 43 What is the responsibility of partners in a partnership organisation?

- A. Unlimited
- B. No Liability
- C. Limited to the capital of business
- D. Limited

Answer: 1. Unlimited

Explanation:

Everyone who works for a partnership firm has a lot of responsibility for the business. Everyone who takes on any responsibilities and liabilities should pay back everyone else who took on the responsibilities and liabilities. It is everyone's responsibility to have no limits on risk in an organisation.

Q-44 When does the direct debit to partner's capital a/c entry made in accounts?

- A. Interest on Drawings is charged.
- B. Investment is made
- C. Capital is withdrawn
- D. Drawings are made

Answer:- 1. Interest on Drawings is charged

Explanation:

At this stage, the Interest on Drawings Account is credited, and the Partner's Capital Account is debited. It is referred to as a transitional area. Changing sections is usually done at the end of the year to save money on labour and costs.

Q45 What percentage of the partners' capital is charged interest on without a partnership deed?

- A. 6 % Per annum
- B. 12 % Per annum
- C. 14 % Per annum
- D. No interest is levied

Answer: 4 No interest is levied.

Explanation:

In a partnership firm without a partnership deed, no interest is charged on the partners' capital.

Q46 In the absence of a partnership agreement, how will the earnings be split among the partners?

- A. Equal
- B. Depending on the capital invested.
- C. Unequal
- D. Depending on the work experience.

Answer: 1 Equal

Explanation:

A partnership document specifies that profits and losses accrued by the company are shared among the partners. However, if the partnership deed is kept private, all partners share in the profits and losses equally.

Q47 Which of the partnership firm's accounts cannot record rent paid to partners?

- A. Depreciation Account
- B. Expenses Account
- C. Profit & Loss Account
- D. Salary Account

Answer: 3 Profit & Loss Account

Explanation:

A partnership's P&L account will not include rent paid to partners.

Q-48 What is a partner in profits only?

- A. A person who gives some money to a business but doesn't play a big role in running it.
- B. A person who has a stake in the partnership and is involved in the day-to-day running.
- C. An 18-year-old partner
- D. A partner who gets into an agreement to share only the profits of the partnership firm and not the losses.

Answer: 4 A partner who gets into an agreement to share only the profits of the partnership firm and not the losses

Explanation:

This partner will only receive a share of the company's profits; he will not be liable for any losses. He will be solely accountable for any proof of fairness when dealing with third parties, and he will bear no responsibilities whatsoever.

Q-49 To which loan account should the balance be transferred if a partner lends or advances money?

1.

- A. Partner's Liability Account
- B. Partners' Capital Account
- C. Balance Sheet Assets Side
- D. Balance Sheet Liability Side

Answer: 4 Balance Sheet Liability Side

Explanation:

Any loan or advance given by a partner will be recorded as a liability on the balance sheet.

Q-50 In what kind of relationship does one partner have known risk, and the other has limited obligation?

- A. Particular Partnership
- B. Limited Liability Partnership
- C. General Partnership
- D. Partnership At will provide no reason

Answer: 2 Limited Liability Partnership

Explanation:

A general partner in a Limited Liability Partnership (LLP) firm bears the sole and unrestricted risk of the whole LLP (s). On the other hand, restricted accomplices have limited risk, which implies their resources cannot be used to meet business commitments and liabilities. To what extent are they obligated based on their interest in the LP.

Q51 In a partnership firm, what are some of the following features?

- A. They are sharing profits and losses in a fixed ratio.
- B. Two or more persons are carrying common business under an agreement.
- C. Business is carried by all or any of them acting as an agent.
- D. All of these.

Answer: 4 All of these.

Explanation:

In India, the Indian Partnership Act 1932 governs partnership-based businesses. As defined in Section 4 of this Act, an association is a relationship between two or more people who have agreed to enjoy the benefits of the association, either as a group or individually.

Q-52 What form of relationship does not have a long-term partnership agreement?

- A. Limited Liability Partnership
- B. Particular Partnership
- C. Partnership At will
- D. General Partnership

Answer: 3 Partnership At will

Explanation:

A partnership at will is a business arrangement in which the partners are free to continue their activities at their own pace, without regard to the passage of time or any other external factors. It has no bearing on when or how the partnership will decide.

Q-53 When does the Partnership Act enter into force in a firm?

- A. Whenever there is a disagreement between the people who work for the company.
- B. If the money you put in isn't equal
- C. When interest is charged on a drawing, it is called a drawing.
- D. In the absence of Partnership Deed

Answer: 4 In the absence of Partnership Deed

Explanation:

When a firm does not have a partnership deed, the Partnership Act of 1932 kicks in.

Q-54 Exactly what is a "Personal Partnership"?

- A. Partners can act like partnerships and corporations at the same time.
- B. Partnership wherein some or all are the same.
- C. A partnership was formed for a single transaction.
- D. This is how partnerships work under the law.

Answer: 3 A partnership was formed for a single transaction

Explanation:

A partnership can be formed for a long-term business venture, or it is more likely to be formed for a single project or endeavour. Specific associations are those formed for a specific purpose, such as accomplishing a single task or goal.

Q-55 Which of the following is not included in the Partnership Act of 1932?

- A. Interest has to be charged on all drawings.
- B. All of the loans given out will have a fixed interest rate.
- C. No interest can be earned on money that is invested.
- D. In business, profit and loss are to be split evenly.

Answer: 1 Interest has to be charged on all drawings

Explanation:

Partnership Act 1932 does not comprise the term that Interest has to be charged on all drawings.

Q-56 Entering into a partnership deed in a Partnership Firm is?

- A. Necessary in Writing
- B. Necessary
- C. Verbal
- D. Not Necessary

Answer: 4 Not Necessary

Explanation:

Forming a partnership agreement in the partnership firm is not required by the Partnership Act of 1932.

Q-57 In a partnership firm, which of the following is not a feature?

- A. Mutual Consent
- B. Equal Profits
- C. Easy Formation
- D. Limited Liability

Answer: 4 Limited Liability

Explanation:

A partnership firm does not have limited liability because the partners have unlimited liability.

Q-58 Inside a partnership, each member is linked to satisfying his/her ___ in the company or organisation?

- A. Partnership Deed
- B. Meetings
- C. Rights
- D. Duties

Answer: 4 Duties

Explanation:

Every partner is obligated to carry out his or her duties to the company.

Q-59 In the lack of a partnership agreement, which of the following rules governs the partnership firm?

- A. Partner pay is determined by how much they make.
- B. Six per cent Interest on Drawings: The profit sharing ratio is the same.
- C. No interest shall be charged on capital
- D. All

Answer: 3 No interest shall be charged on capital

Explanation:

No interest will be levied on the partnership firm's capital because no partnership deed is in place.

Q-60 What is Partnership Firm Agreement?

- A. Partnership Act
- B. Partnership Deed
- C. Agreement
- D. Partnership Contract

Answer: 2 Partnership Deed

Explanation:

A partnership agreement is a written agreement between the partners of a company that outlines the terms of their partnership. It shows the distinct phrases like advantage sharing, pay, interest on capital, draws, and the affirmation of an accomplice.

Q-61 Contract in which form is required in a partnership firm?

- A. Oral
- B. Written
- C. A or B
- D. None

Answer: 3 A or B

Explanation:

A partnership act of kindness is an agreement between the people who work together in a company. It shows how the people who work together set up the company. An affiliation firm is one of the most common ways to start a new business.

Q-62 Collaborators in a company will still get Interested in Money if supplied in the partnership agreement, but just out of which account?

- A. Assets
- B. Reserves
- C. Profits
- D. Goodwill

Answer: 3 Profits

Explanation:

Interest on Capital is only paid to participants in a partnership from the profit account if it is specified in the partnership agreement.

Q-63 Section 35 of the Indian Partnership Act, 1932 deals with_____?

- A. Liability of the estate of a deceased partner
- B. Liability of the firm for misapplication by partners
- C. Expulsion of a partner.
- D. Compulsory dissolution

Ans-A. Liability of the estate of a deceased partner

Q-64 Dissolution on the happening of certain contingencies, is provided in section___ of the Indian Partnership Act, 1932.

- A. Section 41 of the Indian Partnership Act, 1932
- B. Section 11 of the Indian Partnership Act, 1932
- C. Section 42 of the Indian Partnership Act, 1932
- D. Section 21 of the Indian Partnership Act, 1932

Ans- C. Section 42 of the Indian Partnership Act, 1932

Q-65 Where a partnership firm is constituted a fixed period and after the expiration of that term the firm continues to carry business without any agreement

- A) the partnership stands extended till the new agreement is made
- B) The partnership becomes the partnership at will**
- C) The partnership becomes illegal
- D) the partnership stands dissolved on the date of the expiry of the term and no partnership can be said to be in existence

Q-66 The term notice under section 24 of the Indian Partnership Act, 1932 has a reference to:

- a. actual notice**
- b. constructive notice
- c. deemed notice
- d. none of the above

Q-67 A dissolution of a firm can be claimed Section 44(e) of the Indian Partnership where a partner has transferred his in the partnership firm to

- (a) a partner
- b) a third party**
- (c) all the partners
- d) none of the above

Q-68 Which of the following sections of the Indian Partnership Act bestows every partner with the authority of an agent?

- (a) Section 17
- (b) Section 19**
- (c) Section 18
- (d) Section 20

Q-69 When a minor, who was admitted to the benefits of Partnership becomes a partner upon attaining the age of majority, his personal liability commences from:

- (a) The date of his first admission to benefit of partnership**
- (b) The date of majority, if he continues in partnership

- (c) The date fixed by all the partners
- (d) Only his assets or contributions to the partnership is liable

Q-70 What among the following is not an essential element of partnership:

- (a) There must be an agreement entered into by all the persons concerned
- (b) The agreement must be to share the profits of a business
- (c) The business must start within six months from the date of agreement
- (d) The business must be carried on by all or any one of them acting for all.

Q-71 A Joint Hindu Family is created:

- (a) By a contract
- (b) By operation of law or status
- (c) By registration
- (d) By all the above mode

Q-72 A club is the form of:

- (a) Association not for profit
- (b) Partnership

- (c) Sole proprietorship
- (d) Public company.

Q-73 The Partnership Act, 1932

- (a) Specifies the minimum number of partners in a firm
- (b) Specifies the maximum number of partners in a firm
- (c) Both (a) and (b)
- (d) None of the above

Q-74 The ceiling on maximum number of partners in a firm is laid down in:

- (a) The Partnership Act, 1932
- (b) The Indian Contract Act, 1872
- (c) The Companies Act, 1956
- (d) Central Government notification

Q-75 The test of partnership is laid down in the following case:

- (a) *Cox v. Hickman*
- (b) *Garner v. Murray*
- (c) *Mohiribibi v. Dharmodas Ghosh*

(d) None of the above

Q-76 A partnership firm

- (a) Is a legal person
- (b) Is not a legal person
- (c) Has a distinct legal personality
- (d) None of the above

Q-77 A partnership formed for the purpose of carrying on particular venture or undertaking is known as:

- (a) Limited partnership
- (b) Special partnership
- (c) Joint Venture
- (d) Particular partnership

Q-78 The principle of _____ is applicable to partners in a partnership:

- (a) Uberrimae fidei/Utmost Good Faith
- (b) Ultimate Trust
- (c) Insurable Interest
- (d) Blind Faith

Q-80 Limited Liability partnership is a form of partnership that:

- (a) Is not possible
- (b) Is allowed in certain circumstances in the Partnership Act, 1932
- (c) Is now abolished
- (d) Can be set up by LLP Act, 2008

Q-81 A partnership for which no period or duration is fixed under the Indian Partnership Act is known as :

- (a) Unlimited partnership
- (b) Co-ownership
- (c) Particular partnership
- (d) Partnership at will

Q-82 The essential elements of partnership does not include:

- (a) Partnership should be registered
- (b) There must be an agreement to share profits of a business.
- (c) There must be mutual agency among partners.

(d) There must be an association of two or more persons.

Q-83 To form a partnership, the minimum capital contribution should be:

(a) ₹ 1 lakh

(b) ₹ 10 lakh

(c) ₹ 1 crore

(d) There is no minimum limit.