

### **1. What is the primary purpose of a partnership deed?**

- a) To determine the capital of the partnership
  - b) To establish the rights and duties of the partners
  - c) To fix the salaries of the partners
  - d) To divide the profits of the partnership
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### **2. Which of the following statements is correct about a partnership deed?**

- a) It is not required by law to form a partnership firm
  - b) It can be verbal, as long as both partners agree
  - c) It legally binds the partners to the terms agreed upon
  - d) It only specifies the amount of capital each partner contributes
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### **3. What is meant by the "fixed capital" method in partnership accounting?**

- a) Partners' capital accounts are adjusted to reflect their share of profits and losses
  - b) The capital balance remains unchanged except for additional contributions or withdrawals
  - c) Partners' capitals are fluctuating according to their drawings and profits
  - d) There is no capital account maintained for the partners
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### **4. In the fluctuating capital method, how are profits and losses recorded?**

- a) In a separate current account
- b) In the capital account directly

- c) In the drawing account
  - d) In a revaluation account
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**5. What is the main difference between the fixed capital method and the fluctuating capital method?**

- a) The method of profit-sharing
  - b) The way capital accounts are maintained
  - c) The distribution of salaries and interest
  - d) The accounting for drawings
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**6. In the profit and loss appropriation account, which of the following is typically credited?**

- a) Interest on capital
  - b) Salary to partners
  - c) Commission to partners
  - d) All of the above
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**7. How is the division of profits made among partners in a partnership?**

- a) Based on their initial capital contributions
  - b) As per the agreement in the partnership deed
  - c) Based on the time spent working for the firm
  - d) According to the business's total revenue
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**8. What is the main objective of preparing the profit and loss appropriation account?**

- a) To determine the overall profit of the business
  - b) To distribute the net profit among the partners
  - c) To calculate the tax liability of the partnership
  - d) To adjust partners' capital accounts
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**9. Which of the following is not a typical feature of a partnership firm?**

- a) Limited liability
  - b) Shared profits and losses
  - c) Mutual agency
  - d) Joint decision-making
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**10. How are partner's drawings recorded in the accounts of a partnership?**

- a) As a liability in the balance sheet
  - b) As an expense in the profit and loss account
  - c) As a reduction in the capital account
  - d) As a revenue receipt
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**11. How is the interest on capital treated in the partnership accounts?**

- a) It is charged to the profit and loss account
  - b) It is credited to the partners' capital accounts
  - c) It is paid out of the firm's profit before distributing any profit
  - d) It is treated as a fixed expense
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**12. If a partnership has no agreement regarding the division of profits, how will the profits be divided?**

- a) Equally among the partners
- b) In proportion to their capital contributions
- c) Based on their time spent working in the firm
- d) As decided by the manager of the firm

**13. What happens when a partner's capital account has a credit balance?**

- a) The partner has withdrawn more than their share of profits
  - b) The partner has invested more capital than the others
  - c) The partner has earned an income from the partnership
  - d) The partner's share in the profits is increased
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**14. How is a partner's salary recorded in the partnership books?**

- a) As an expense in the profit and loss account
  - b) As a liability in the balance sheet
  - c) As an appropriation from profit in the profit and loss appropriation account
  - d) As a capital account transaction
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**15. In which of the following cases will a partnership firm be required to dissolve?**

- a) If there is a disagreement between the partners about profits
- b) If one of the partners withdraws their capital
- c) If the partnership firm is carrying on a business that violates the law
- d) If the partnership firm makes a loss for three consecutive years

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**16. How is a partner's share in the profit and loss appropriation account calculated?**

- a) Based on their capital contribution
- b) Based on the number of hours worked
- c) According to the partnership agreement
- d) By dividing the profit equally among all partners

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**17. What is the treatment of a partner's commission in the partnership accounts?**

- a) It is charged to the profit and loss account as an expense
- b) It is recorded as an appropriation in the profit and loss appropriation account
- c) It is added to the partner's capital account
- d) It is recorded as a liability

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**18. Which of the following items is deducted from the profits in the profit and loss appropriation account?**

- a) Interest on capital
- b) Partner's salary
- c) Commission to partners
- d) All of the above

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**19. In the case of a partnership dissolution, what happens to the partnership's liabilities?**

- a) They are canceled immediately

- b) They must be settled before distributing any remaining assets
  - c) They are transferred to a new partner
  - d) They are divided equally among the partners
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**20. What is the accounting treatment of a partner's loan to the firm?**

- a) It is treated as an expense in the profit and loss account
  - b) It is recorded as a liability in the balance sheet
  - c) It is deducted from the partner's capital account
  - d) It is credited to the profit and loss appropriation account
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**21. What is the role of "interest on capital" in the partnership firm's profit-sharing arrangement?**

- a) It is charged as an expense to the firm
- b) It is paid before profit distribution
- c) It is paid out of the capital of the firm
- d) It is deducted from the profit in the profit and loss appropriation account

**22. Which of the following is an incorrect statement regarding the profit-sharing ratio in a partnership?**

- a) The profit-sharing ratio can be changed with mutual consent of the partners
  - b) The profit-sharing ratio is determined by the capital contribution of each partner
  - c) The profit-sharing ratio is fixed in the partnership deed
  - d) The profit-sharing ratio cannot be altered once the partnership is formed
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**23. What happens if a partner's capital account has a debit balance?**

- a) The partner has invested more than their share of profits
  - b) The partner has withdrawn more than their capital contribution
  - c) The partner is entitled to more profits
  - d) The firm owes money to the partner
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**24. When a partnership firm is dissolved, what happens to the partner's current accounts?**

- a) Current accounts are transferred to the capital account
  - b) Current accounts are settled before the capital accounts
  - c) Current accounts are ignored during the dissolution process
  - d) Current accounts are treated as loans to the firm
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**25. What is the term "mutual agency" in the context of a partnership?**

- a) Partners share profits equally
  - b) Partners act on behalf of the partnership firm
  - c) The partnership firm is a separate legal entity
  - d) Partners contribute equally to capital
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**26. In which of the following cases can a partnership firm continue its business?**

- a) If one of the partners becomes insolvent
- b) If the partnership deed specifies the continuation after dissolution
- c) If one of the partners dies
- d) If there is a disagreement about profit-sharing ratios

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**27. How is the interest on drawings treated in a partnership?**

- a) It is charged to the capital account
- b) It is charged to the profit and loss account
- c) It is deducted from the profits of the firm
- d) It is added to the interest on capital

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**28. What is the treatment of goodwill when a partnership is dissolved?**

- a) It is distributed among the partners
- b) It is written off to the capital accounts
- c) It is sold to a third party
- d) It is transferred to a revaluation account

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**29. Which of the following is not typically part of the final accounts of a partnership?**

- a) Income and expenditure account
- b) Profit and loss appropriation account
- c) Balance sheet
- d) Capital accounts

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**30. What is the importance of maintaining a partnership deed?**

- a) It ensures that the partnership will never dissolve
- b) It establishes clear terms for profit-sharing and other partner responsibilities

- c) It allows for unlimited liabilities for partners
- d) It gives the firm the right to sue third parties

**31. What happens to the profit and loss appropriation account if a partner withdraws more than their share of profits?**

- a) It is treated as a loan from the firm to the partner
  - b) It is added back to the firm's profits
  - c) It is treated as an adjustment to the partner's capital account
  - d) It is recorded as an expense in the income statement
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**32. How are the losses of a partnership firm typically distributed among the partners?**

- a) According to their capital contributions
  - b) In equal shares among all partners
  - c) Based on their profit-sharing ratio
  - d) Based on the amount of work done by each partner
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**33. When is the fixed capital method used in a partnership?**

- a) When there is a significant fluctuation in capital
  - b) When the partners do not wish to keep a separate capital account
  - c) When the partners' capital contributions are not fixed
  - d) When partners' capital accounts are fixed, and drawings are adjusted separately
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**34. What does the profit and loss appropriation account show in a partnership?**

- a) The revenue and expenses of the partnership firm
  - b) The distribution of profits among partners
  - c) The capital contributions of each partner
  - d) The assets and liabilities of the partnership
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**35. In case of a dispute between partners, what document can be referred to for resolving the issues?**

- a) The partnership balance sheet
  - b) The partnership deed
  - c) The profit and loss account
  - d) The income statement
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**36. How is the division of profit calculated when partners have different roles in a partnership?**

- a) According to their capital contributions
  - b) According to their agreement in the partnership deed
  - c) Based on the number of hours worked by each partner
  - d) Based on the value of the firm's assets
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**37. What happens to the capital accounts of the partners when the partnership is dissolved?**

- a) They are not affected
- b) They are settled before distributing the firm's assets
- c) They are merged into one account

- d) They are closed without settlement
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**38. What is the primary purpose of preparing a partnership's balance sheet?**

- a) To determine the amount of profit or loss made
  - b) To assess the liabilities and capital of the firm
  - c) To allocate the profits between partners
  - d) To calculate the interest on capital
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**39. How are drawings by a partner accounted for in the partnership's books?**

- a) As a liability
  - b) As an expense
  - c) As a reduction in the capital account
  - d) As part of the firm's income
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**40. What is the effect of a partner's retirement on the profit-sharing ratio?**

- a) The ratio remains the same if a new partner is admitted
- b) The ratio automatically adjusts to equal distribution
- c) The remaining partners' ratio may change
- d) The retiring partner retains their share of the profits

**41. How is goodwill treated when a new partner is admitted to the partnership?**

- a) It is paid entirely by the new partner

- b) It is shared equally among all partners
  - c) It is written off to the capital accounts of the existing partners
  - d) It is added to the partnership's assets
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**42. What is the role of the profit and loss appropriation account in partnership accounting?**

- a) To show the net profit of the firm
  - b) To allocate the net profit to the partners based on the agreed profit-sharing ratio
  - c) To track the income and expenses of the firm
  - d) To calculate the interest on loans and capital
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**43. What is the main difference between the fixed and fluctuating capital methods in partnership accounting?**

- a) The fixed capital method is more flexible in managing capital
  - b) The fluctuating capital method tracks changes in capital due to withdrawals and additional investments
  - c) The fixed capital method involves detailed calculations of interest on capital
  - d) The fluctuating capital method is used to settle disputes between partners
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**44. How is the capital introduced by a new partner treated in a partnership?**

- a) It is added to the capital accounts of the existing partners
- b) It is recorded as an external liability for the firm
- c) It is added to the firm's cash or bank account as additional funds
- d) It is considered a loan from the new partner to the firm

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**45. What is the purpose of preparing a partnership's balance sheet at the end of an accounting period?**

- a) To record all the drawings made by the partners
- b) To show the amount of profit or loss made by the firm
- c) To provide a financial snapshot of the firm's assets and liabilities
- d) To determine the interest on capital

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**46. How are profits shared among partners when the profit-sharing ratio is not specified in the partnership deed?**

- a) Profits are shared equally among the partners
- b) Profits are shared based on the capital contribution of each partner
- c) Profits are shared based on the work done by each partner
- d) Profits are allocated at the discretion of the managing partner

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**47. What is the treatment of a partner's share of profits after their death?**

- a) It is divided equally among the surviving partners
- b) It is transferred to the deceased partner's heirs
- c) It is written off to the capital account
- d) It is distributed among the partners based on the original profit-sharing ratio

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**48. How is a partner's salary treated in the profit and loss appropriation account?**

- a) It is deducted from the firm's profits

- b) It is added to the partner's capital account
  - c) It is added to the firm's expenses
  - d) It is paid directly from the partner's capital account
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**49. What is the effect of an incorrect profit-sharing ratio on the partnership's financial records?**

- a) It affects the accuracy of the capital accounts
  - b) It leads to incorrect allocation of expenses
  - c) It has no effect on the partnership's financial records
  - d) It results in disputes but does not impact the financial records
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**50. When a partner's capital account has a credit balance, it indicates that:**

- a) The partner has made withdrawals greater than their capital
- b) The partner's share of the profits is higher than their capital contribution
- c) The partner has contributed more capital than initially agreed
- d) The partner is owed money by the firm