ST. LAWRENCE HIGH SCHOOL

A Jesuit Christian Minority Institution

Study Materials 5

Sub: Accountancy **Class: XII**

Chapter: Unit I: Introduction to Partnership

Topic: SAQ **Date: 20/06/2020**

Short Answer Questions:

1. Define Partnership.

Section 4 of the Indian Partnership Act, 1932 states, "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.

2. What is Partnership Deed?

Partnership Deed is a memorandum of agreement among the partners which includes in detailed information regarding rights, duties, power etc of the partners. It can be registered or unregistered.

3. State three essential characteristics of Partnership.

- At least two persons are required to form a partnership business.
- Each Partner acts as the agent of other partners.
- Partnership has no separate legal entity.

4. **Name two methods of maintaining Partners' Capital Accounts.**

Two methods of maintaining Partners' Capital Accounts are : Fixed Capital Method and Fluctuating Capital Method.

5. What do you mean by Fixed Capital System of maintaining Partners' Capital Accounts?

Under Fixed Capital System of maintaining Partners' Capital Accounts, two accounts are opened, viz., Partners' Capital Account and Partners' Current Account. All appropriation entries are posted in Partners' Current Account, only capital introduction and capital withdrawal are posted in the Partners' Current Account.

6. What do you mean by Fluctuating Capital System of maintaining Partners' Capital Accounts?

Under Fluctuating Capital System of maintaining Partners' Capital Accounts, only one account is prepared i.e. Partners' Capital Account. All entries relating to appropriation; and introduction and withdrawal of partners capital are posted in partners' capital account.

7. Give two circumstances in which the fixed capital of partners may change.

- For introduction of capital by the partners
- For withdrawal of capital by the partners.

8. What is Partners Current Account?
It is a personal account. The partners' current account is prepared when capitals are fixed. It may have debit or credit balance.

9. Why is the Profit & Loss Appropriation Account prepared?
Profit & Loss Appropriation Account is the extension of the Profit & Loss Account. It is prepared by the Partnership firm to accommodate appropriation items and to show distributable or divisible profit.

10. Name four items which are appearing on the debit side of the Profit & Loss Appropriation Account.

- Interest on Partners' Capital
- Partners' Salary
- Partners' Commission
- Share of Partners Profit

11. How partners share profits and losses in the absence of an agreement?
In absence of an agreement among the partners, they share profits equally. It is the custom to share losses in the same ratio in which they share profits.

12. What do you understand by the term 'sleeping partner'?
The partner who contributes capital into the business, but not participates into the proceeding of the business actively is known as Sleeping or Dormant Partner.

13. Who is an active partner?
The partner who takes active part in the proceedings of a partnership firm is called active or working partner. He may or may not contribute capital into the business.

14. State any two differences between Fixed and Fluctuating Capital.

	Fixed Capital		Fluctuating Capital
1.	If the balances of partners capital remain fixed or unaltered during the life time of a Partnership business due to drawings and appropriations, it is known as Fixed Capital.	1.	If the balances of partners capital change or altered due to drawings, appropriations etc. is known as Fluctuating Capital.
2.	Two accounts are maintained: Partners' Capital A/c and Partners' Current A/c.	2.	Only one A/c is maintained, i.e., Partners' Capital A/c.

15. In absence of an agreement, how would you treat salary payable to a partner?
Partners are not entitled to get any salary from the partnership firm if there is no agreement among themselves.