BLOGS

MCQs on Indian Partnership Act- Part II

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1. Which of the following best explains the legal status of a firm under the Indian Partnership Act, 1932?

A. The firm is a legal person distinct from its partners

B. The firm is a corporate body

C. The firm is not a legal entity separate from its partners

D. The firm is a juristic person

Answer: C. The firm is not a legal entity separate from its partners

Explanation:
Under Section 4 of the Indian Partnership Act, a firm is merely a collective name for all partners. It has **no separate legal personality** unlike a company. The partners are collectively and individually liable for the firm's acts.

2. Which of the following statements about mutual agency is *incorrect*?

A. Every partner is an agent of the firm and other partners

B. A partner can bind the firm by his acts done in the course of business

C. Mutual agency is the true test of partnership

D. A sleeping partner is not bound by acts of active partners

Answer: D. A sleeping partner is not bound by acts of active partners

Explanation:
A **sleeping partner**, though inactive in management, is still **liable** for the acts of other partners done in the ordinary course of business due to **mutual agency**, which is the hallmark of a partnership.

3. Under the Indian Partnership Act, 1932, a minor:

A. Can become a full-fledged partner

B. Cannot be admitted to benefits of partnership

C. Can be admitted to benefits of partnership with consent of all partners

D. Can bind the firm by his actions

Answer: C. Can be admitted to benefits of partnership with consent of all partners

Explanation:

As per **Section 30**, a **minor** cannot become a partner but can be **admitted to the benefits** of partnership **with the consent of all partners**. He has limited rights and is not personally liable for firm debts.

4. Which of the following *does not* constitute a dissolution of partnership firm?

A. Dissolution by agreement

B. Death of a partner

C. Retirement of a partner

D. Admission of a new partner

Answer: D. Admission of a new partner

Explanation:

Admission of a new partner constitutes a **reconstitution**, not dissolution. Dissolution involves complete termination of partnership **between all partners**, whereas admission alters the existing agreement without dissolving the firm.

5. The maximum number of partners in a partnership firm carrying on a banking business is:

A. 10

B. 20

C. 50

D. As per the Partnership Act

Answer: A. 10

Explanation:

As per **Rule 10 of Companies (Miscellaneous) Rules, 2014**, the maximum number of partners in a **banking partnership** is **10**. For other businesses, it is **50**. This overrides the old limit of 20.

6. Which of the following is *not* a ground for compulsory dissolution under Section 41 of the Act?

A. All partners becoming insolvent

B. Completion of the partnership term

C. Business becoming unlawful

D. Death of all partners

Answer: B. Completion of the partnership term

Explanation:

Completion of the term is a ground for **dissolution by agreement or expiry**, not **compulsory dissolution** under Section 41. Compulsory dissolution arises from **illegality** or **insolvency**.

7. The liability of a retired partner continues until:

A. The end of the financial year

B. The firm files its returns

C. Notice of retirement is given to third parties

D. Six months after retirement

Answer: C. Notice of retirement is given to third parties

Explanation:

As per **Section 32(3)**, a retired partner remains liable for firm acts until **notice is given** to third parties or the registrar. Without such notice, third parties may assume the retired partner is still liable.

8. Under the Indian Partnership Act, a partner has an implied authority to:

A. Admit liability in a suit

B. Submit disputes to arbitration

C. Borrow money for firm's business

D. Transfer firm property

Answer: C. Borrow money for firm's business

Explanation:

Section 19 outlines **implied authority**, which includes borrowing money in the usual course of business. However, acts like submitting disputes to arbitration or admitting liability in suits require **express authority**.

9. Which of the following does *not* require registration of a partnership firm?

A. Suing a third party

B. Enforcing rights against a partner

C. Filing for winding up

D. Defending a suit by a third party

Answer: D. Defending a suit by a third party

Explanation:

An **unregistered firm cannot sue** to enforce contractual rights against third parties or partners, but it **can defend itself** in a suit. This is laid out in **Section 69** of the Act.

10. When a firm is dissolved, the authority of partners:

A. Continues indefinitely

B. Ceases completely

C. Continues to wind up affairs

D. Shifts to the Registrar

Answer: C. Continues to wind up affairs

Explanation:

Section 47 states that the partners' authority continues **only for the purpose of winding up** the firm's affairs and completing unfinished transactions unless expressly agreed otherwise.

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