BLOGS

Multiple Choice Questions on Indian Partnership Act- PART II

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1. Under the Indian Partnership Act, 1932, which of the following is NOT an essential element for the existence of a partnership?

a. Agreement between persons

b. Sharing of profits of a business

c. Mutual agency

d. Registration with the Registrar of Firms

Correct Answer: d. Registration with the Registrar of Firms

Explanation: Registration of a firm is optional, not compulsory, under the Indian Partnership Act, 1932. The essentials are: (1) agreement between persons, (2) business carried on, (3) sharing of profits, and (4) mutual agency.

2. A partner secretly uses the partnership property to carry on a competing business and earns profits. According to the Act, he is:

a. Entitled to retain the profits as long as he compensates the firm for using its property

b. Bound to account for the profits and compensate the firm for any loss

c. Only liable if other partners give notice of objection

d. Not liable if the competing business is in a different locality

Correct Answer: b. Bound to account for the profits and compensate the firm for any loss

Explanation: Section 16(b) of the Act provides that if a partner carries on any business competing with that of the firm, he must account for and pay to the firm all profits made by him in that business, irrespective of locality.

3. Which of the following is a consequence of non-registration of a partnership firm under the Act?

a. The firm cannot be dissolved by agreement

b. Partners cannot file a suit against each other for enforcement of rights arising from the contract

c. The firm ceases to exist in the eyes of law

d. The firm is barred from maintaining accounts

Correct Answer: b. Partners cannot file a suit against each other for enforcement of rights arising from the contract

Explanation: Under Section 69, an unregistered firm or its partners cannot sue each other or third parties to enforce contractual rights. However, the firm continues to exist; dissolution and accounting are not affected.

4. X and Y are partners without any agreement regarding profit sharing. X contributes 70% of the capital and Y contributes 30%. Profits must be shared:

a. 70:30, in proportion to capital

b. Equally, i.e., 50:50

c. 60:40, considering the majority contribution

d. As decided by the senior partner

Correct Answer: b. Equally, i.e., 50:50

Explanation: In absence of an agreement, Section 13(b) states that partners share profits (and losses) equally, irrespective of capital contribution.

5. Which of the following does not by itself dissolve a partnership firm?

a. Insolvency of all partners

b. Expiry of the fixed term of partnership

c. Death of a partner in a two-member firm

d. Transfer of interest by a partner to a third party

Correct Answer: d. Transfer of interest by a partner to a third party

Explanation: Transfer of a partner’s interest does not dissolve the firm; the transferee only gets the right to receive the transferring partner’s share of profits (Section 29). Dissolution occurs in other cases mentioned.

6. When does a partnership at will dissolve under the Act?

a. On expiry of six months from notice of intention by any partner

b. Immediately upon insolvency of one partner

c. When any partner gives notice in writing to all other partners expressing intention to dissolve

d. Only by court order

Correct Answer: c. When any partner gives notice in writing to all other partners expressing intention to dissolve

Explanation: Section 43 states that a partnership at will may be dissolved by notice in writing by any partner to the others, effective from the date mentioned or, if none, from the date of communication.

7. Which of the following acts of a partner is NOT within his implied authority, unless usage or custom permits?

a. Buying goods on behalf of the firm

b. Borrowing money for the business

c. Compromising or relinquishing claims against third parties

d. Purchasing immovable property for the firm's business

Correct Answer: d. Purchasing immovable property for the firm's business

Explanation: Section 19(2) lists acts beyond implied authority, including acquisition of immovable property, submission of disputes to arbitration, etc., unless expressly authorized.

8. A minor is admitted to the benefits of a partnership. Which of the following is NOT true regarding his position?

a. He is entitled to his agreed share of profits

b. His liability is limited to his share in the firm

c. He cannot inspect the firm's accounts

d. He may choose to become a full partner upon attaining majority

Correct Answer: c. He cannot inspect the firm's accounts

Explanation: Under Section 30, a minor admitted to benefits can inspect and copy accounts of the firm, though he is not personally liable for losses beyond his share.

9. Under Section 48, which of the following is the correct order of application of firm's assets upon dissolution?

a. Losses → Outside liabilities → Partners’ advances → Partners’ capital → Surplus distribution

b. Outside liabilities → Losses → Partners’ advances → Partners’ capital → Surplus distribution

c. Losses → Partners’ advances → Outside liabilities → Partners’ capital → Surplus distribution

d. Outside liabilities → Partners’ capital → Partners’ advances → Surplus

Correct Answer: a. Losses → Outside liabilities → Partners’ advances → Partners’ capital → Surplus distribution

Explanation: Section 48 provides: (1) losses (including deficiencies of capital) are paid first out of profits, then capital, and lastly by partners individually; (2) assets are applied in this order: (i) to pay debts of third parties, (ii) partners’ advances, (iii) partners’ capital, (iv) surplus to partners.

10. Which statement is most accurate regarding the liability of partners for the acts of the firm?

a. Partners are jointly liable, but not severally, for debts of the firm

b. Partners are jointly and severally liable for acts of the firm done while they are partners

c. Partners are severally liable only for their own share of debts

d. Liability ceases once a partner gives oral notice of retirement

Correct Answer: b. Partners are jointly and severally liable for acts of the firm done while they are partners

Explanation: Section 25 makes all partners jointly and severally liable for all acts of the firm done while they are partners. Retirement must be by proper notice, and liability continues for prior acts.