BLOGS

Multiple Choice Questions on Indian Partnership Act- PART I

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1. Which of the following is NOT an act binding the firm when done by a partner in the usual course of business?

a. Sale of goods belonging to the firm

b. Opening a bank account in the firm's name

c. Admitting liability in a legal proceeding without consent of other partners

d. Issuing receipts for payments received

Correct Answer: c. Admitting liability in a legal proceeding without the consent of other partners

Explanation: Under Section 19(2), admitting liability in a suit is beyond a partner's implied authority unless authorized. Other listed acts fall within implied authority.

2. Under the Indian Partnership Act, 1932, a firm is said to be reconstituted when:

a. The firm is dissolved and a new firm is formed

b. There is a change in the constitution of partners without dissolution

c. The firm changes its business location only

d. Partners alter the ratio of profit sharing only

Correct Answer: b. There is a change in the constitution of partners without dissolution

Explanation: Reconstitution occurs when partners are added, retire, or die (but not all), and the business continues. Dissolution means complete termination.

3. A partner retires from a firm without giving public notice. Which of the following is true regarding his liability?

a. He is not liable to anyone after retirement

b. He is liable to third parties who dealt with the firm before and after retirement

c. He is liable only to new customers of the firm

d. He is liable only to the extent of his capital

Correct Answer: b. He is liable to third parties who dealt with the firm before and after retirement

Explanation: Section 72 and Section 32(3) state that unless public notice is given, the retiring partner remains liable to third parties who had prior dealings and continue to act on apparent authority.

4. Which of the following statements is true regarding a "Partnership by holding out"?

a. It arises only when a written agreement exists

b. It makes a person liable as partner if he represents himself as a partner and third parties rely on it

c. It requires at least one registered partner

d. It applies only if profits are actually shared

Correct Answer: b. It makes a person liable as partner if he represents himself as a partner and third parties rely on it

Explanation: Section 28 describes "holding out." A person who by words or conduct represents himself (or knowingly allows others to represent him) as a partner is liable to anyone giving credit to the firm based on that representation.

5. Under Section 42, which of the following does not automatically dissolve a firm?

a. Expiry of the term of partnership

b. Completion of the specific venture

c. Insolvency of all partners but one

d. Death of a partner in a firm of three partners

Correct Answer: d. Death of a partner in a firm of three partners

Explanation: Death of a partner in a firm of two partners causes dissolution automatically. In a larger firm, it does not automatically dissolve unless the agreement provides otherwise.

6. Which is not a right of a partner under the Act unless expressly agreed?

a. Right to participate in business

b. Right to be indemnified for expenses in ordinary conduct of business

c. Right to claim interest on capital at 6% p.a. even when there are no profits

d. Right to have access to books of accounts

Correct Answer: c. Right to claim interest on capital at 6% p.a. even when there are no profits

Explanation: Interest on capital is payable only out of profits (Section 13(c)), unless there is an agreement to the contrary.

7. If a firm is not registered, which of the following suits is maintainable?

a. By the firm against a third party for recovery of debt

b. By a partner against the firm for enforcement of a contract

c. By a partner for dissolution and realization of property

d. By the firm against an outsider for breach of contract

Correct Answer: c. By a partner for dissolution and realization of property

Explanation: Section 69 bars suits by an unregistered firm or its partners to enforce contractual rights, but allows suits for dissolution, settlement of accounts, or realization of property.

8. In the absence of an agreement, which remuneration is a partner entitled to for managing the affairs of the firm?

a. Remuneration proportionate to work done

b. 6% of profits as management fee

c. No remuneration, only share of profits

d. Fixed salary as per Schedule II of the Act

Correct Answer: c. No remuneration, only share of profits

Explanation: Section 13(a) provides that a partner is not entitled to remuneration for taking part in business unless there is a contract allowing it.

9. The liability of a minor admitted to the benefits of partnership on attaining majority and electing to become a partner is:

a. Prospective only, for acts after majority

b. Retrospective, for all acts since his admission as minor

c. Limited to profits he has received

d. Determined by the court on case-to-case basis

Correct Answer: b. Retrospective, for all acts since his admission as minor

Explanation: Section 30(7) provides that if a minor, after attaining majority, elects to become a partner, his liability becomes personal and unlimited for all acts of the firm since his admission.

10. Under the Act, when a partnership firm is dissolved, goodwill:

a. Cannot be sold separately

b. Must be sold along with other assets only

c. May be sold separately or along with the firm’s assets

d. Reverts automatically to the founding partner

Correct Answer: c. May be sold separately or along with the firm’s assets

Explanation: Section 55 allows goodwill to be sold independently or with the firm’s assets on dissolution. Buyers can use the firm’s name and solicit customers, unless restricted by agreement.