

Part III:- The Indian

Partnership Act 1932

CHAPTER 17: GENERAL

NATURE OF PARTNERSHIP

17.1: INTRODUCTION AND DEFINITION OF PARTNERSHIP

1. The legal provision relating to partnerships are contained in
 - a) The partnership act, 1930
 - b) The Indian partnership act, 1930
 - c) The partnership act, 1932
 - d) The Indian partnership act, 1932.
2. The Indian partnership act, 1932 extends to
 - a) The companies act
 - b) The Indian contract act, 1872
 - c) The sale of goods act, 1930
 - d) The Indian partnership act, 1872.
3. Prior to the passing of the Indian partnership act, 1932, the provisions relating to the partnerships were contained in
 - a) The companies act
 - b) The Indian contract act, 1872
 - c) The sale of goods act, 1930
 - d) The Indian partnership act, 1872
4. The legal definition of the 'partnership' is given in which of the following section of the Indian partnership act, 1932?
 - a) Section 2
 - b) Section 3
 - c) Section 4
 - d) Section 5

5. Partnership is the relation between persons who have agreed to share the profits of a business carried on by
 - a) All of them jointly
 - b) All of them or any of them acting for all.
 - c) Any of the partners acting on his own behalf
 - d) A manager appointed to carry on the business.

17.2: ESSENTIAL FEATURES OF PARTNERSHIP

1. Which of the following is an essential feature of a partnership?
 - a) Result of an agreement
 - b) Sharing of profits
 - c) Mutual agency between partners
 - d) All of these
2. Which of the following is not an essential feature of partnership?
 - i. Association of two or more persons
 - ii. Separate legal entity
 - iii. Organized to carry on business
 - iv. Registration.
 - a) (i), (ii)
 - b) (ii), (iii)
 - c) (iii), (iv)
 - d) (ii), (iv)
3. The minimum number of persons required to form a partnership is _____
 - a) Two persons
 - b) Five persons
 - c) Seven persons
 - d) Eleven persons

4. The maximum number of person in a firm carrying on the banking business, should not exceed_____
- Five persons
 - Seven persons
 - Ten persons
 - Twenty persons
5. The maximum number of persons in a firm carrying on any business, other than banking business, should not exceed_____
- Five persons
 - Seven persons
 - Ten persons
 - Twenty persons
6. The limit for maximum number of partners in a firm is provided in
- Section 11 of the Indian partnership act, 1932
 - Section 11 of the companies act, 1956
 - Section 11 of the Indian contract act, 1872
 - None of these
7. Where the maximum number of partners in a firm carrying on banking business exceeds ten and in any other firm exceeds twenty, then the partnership becomes a _____
- Company
 - Illegal association
 - Corporation
 - Legal association.
8. Where in an existing partnership firm, the number of partners is reduced to one, the firm is compulsorily dissolved.
- True, as there must be at least two persons in a partnership firm.
 - False, as once a partnership firm is formed, it continues to exist till it dissolved by a court order.
9. Two partnership firms can enter into an agreement to form a partnership firm between them.
- True, as a firm is legally regarded as a person and can enter into a partnership agreement with another firm.
 - False, as firm is not regarded as a person in legal sense of the term.
10. Can a company become a partner in a firm?
- Yes, as the company is regarded as person in a legal sense of the term
 - No, as the partnership is a association of natural persons only
11. The relation of partnership arises from
- Agreement
 - status
 - Feelings
 - none of these
12. A partnership firm comes into existence by
- Operation of law
 - Agreement
 - Status
 - None of these
13. A partnership firm comes into existence by agreement between all the partners, and such agreement should be
- Express agreement only
 - Implied agreement only
 - Either express or implied
 - Registered.

14. A written agreement by which a partnership firm is created is known as
- Partnership deed
 - Deed document
 - License agreement
 - None of these
15. A partnership can be created only by a partnership deed.
- True, as it is the requirement of law.
 - False, as it can also be created by an oral agreement.
16. A partnership deed usually contain the particulars relating to
- Name of firm and partners
 - Nature of business and duration of firm
 - Capital contribution, profit/loss sharing ratio and other agreed terms
 - All of these
17. A partnership deed is necessary for getting the firm registered under the Indian partnership act, 1932, with the registrar of firms.
- True, as it is the requirement of law.
 - False, as there is no such requirement for registration.
18. A partnership firm is formed to carry on some joint business and such business should consist of a
- Long and permanent undertaking
 - Single business venture or undertaking
 - Any of these two, as the only requirement is that there has to be some business
 - None of these, as the requirement is of joint property and not of joint business.
19. A and B agreed to produce a film and share the profit of hiring it out. In this case, there is
- Partnership
 - Co-ownership
 - Joint-ownership
 - None of these
20. A and B agreed to buy 100 bags of rice and share the same between them equally. In this case there is no partnership.
- True, as there is no business between them.
 - False, as single transaction results in partnership.
21. An agreement to carry on business at some future time does not result in partnership unless that time arrives and the business started.
- True
 - False
22. A partnership to be valid, there must be the sharing of profits of some business amount all the partners. This means that all the partners should share the profits.
- Equally
 - In any ratio
 - Either a or b
 - As per court directions
23. The sharing of profits of partnership business also means to include the sharing of losses in case of loss.
- True
 - False.
24. Which of the following statement is incorrect?
- All the partners must be entitled to profits in case of profits

- b) All the partners must agree to share the loss in case of losses.
- c) Partners may agree that one or more of them shall not be liable for losses
- d) No partner can be excluded from sharing the profits of a firm.

25. In a partnership firm, each partner is considered as an

- a) Employee of the firm
- b) Officer of the firm
- c) Agent of the firm
- d) Both a and b

26. One of the important features of a firm, which distinguishes it from other similar associations, is the

- a) Sharing of profit
- b) Mutual agency
- c) Joint business
- d) None of these.

27. A partner is the agent of the firm for the business of the firm.

- a) True, as the mutual agency relationship is the foundation of law of partnership
- b) False, as in that case a firm is reduced to the status of a mere agency.

17.3: TEST OF PARTNERSHIP AND NON-PARTNERSHIP INTERESTS

1. The important case of Cox v. Hickman, (1860) HCL 268 lays down the principle of
- a) Registration of firm
 - b) Test of partnership
 - c) Dissolution of the firm
 - d) Express authority of partners.

2. The true test of the existence of partnership is the

- a) Agency relationship
- b) Sharing of profits
- c) Number of partners
- d) Registration.

3. Which of the following statement is incorrect?

- a) A person who receives the profits is always a partner
- b) A person who receives the profits is not necessarily a partner.
- c) The true test of partnership is the mutual agency i.e. agency relationship among partners
- d) The partnership comes into existence only by an agreement.

4. The persons who receive profits but are not the partners, are specified in which of the following section of the Indian partnership act, 192?

- a) Section 4 b) section 6
- c) Section 10 d) section 11.

5. Which of the following persons, though receive profits, are not the partners in a firm?

- a) Joint owners sharing profits
- b) Money-lenders receiving profits
- c) Seller of goodwill receiving profits
- d) All of these

6. A money-lender who, in addition to or in place of interest on money lent to a firm, also receives a portion of profit of business, is regarded as

- a) Partner in firm
- b) Not a partner in firm
- c) Co-over of firm

d) None of these

7. Which of the following statement is correct?

- a) A servant or an agent who agrees to receive, in addition to or in place of his regular remuneration, a portion of profits of business, is considered to be a partner.
- b) A widow or child of a deceased partner, who receives a portion of profits as annuity, is considered to be a partner.
- c) A seller of goodwill, who is given a share in the profits of a business he has sold, is considered to be a partner.
- d) A joint-owner of property who receives a share of profit arising from the property, is not considered to be a partner.

8. A, a contractor, appointed B to manage his entire work. It was agreed that B would receive 50% of the profits as his remuneration and would bear all the losses, if any. Here, B is

- a) A's partner
- b) A's agent
- c) Sole proprietor
- d) None of these

9. The person who receive the profits but are not the partners, fall in the category of

- a) Non-partnership interests
- b) Limited partners
- c) Profit-sharing partners
- d) Dormant partners

10. The 'non-partnership interests' can in no case become the partners in a firm.

- a) True, as they are barred from becoming partners under Section 6

b) False, as they can be partners if essentials of a firm are satisfied.

11. When the co-owners of a joint property agree to start a joint business and share the profits, they

- a) Remain co-owners only
- b) Become partners
- c) Become agents of each other
- d) Both b and c

17.4: PARTNERS, FIRM, FIRM NAME AND LEGAL STATUS OF A FIRM

1. Persons who have entered into partnership with one another are collectively called

- a) Partners b) firm
- c) Business d) either a or b

2. Persons who have entered into partnership with one another are individually called

- a) Partners b) firm
- c) Business d) agent

3. The name under which the partnership business is carried on is called

- a) Business name
- b) Regular name
- c) Firm name
- d) None of these

4. The partners may carry on their business under any name and style of their choice.

- a) True, as there is no legal restriction on the selection of a firm name.
- b) False, as certain names with words like Crown, Emperor, King, Empire etc. can be used with the consent of the state government.

5. A partnership firm
 - a) Is a legal person
 - b) Is not a legal person
 - c) Has a legal status of its own
 - d) Has separate legal entity apart from its partners.

6. The legal position (status) of a firm is that it has no independent existence apart from its partners.
 - a) True b) False

7. Which of the following statement is incorrect?
 - a) A firm has no separate legal entity.
 - b) Same partners may constitute different firms
 - c) Partners of a firm are considered its employees.
 - d) A firm cannot enter into partnership with another firm

8. A company can become a partner in a partnership firm.
 - a) True, as the company is a legal person and has an independent existence.
 - b) False, as a partnership is recognized among natural persons only.

9. As a company can become a partner in a firm, there can also be partnership between two firms.
 - a) True, as there is no such restriction on firms.
 - b) False, as the partnership firm is not a legal person.

17.5: CLASSIFICATION OF PARTNERS AND PARTNERSHIP

1. A partner who becomes a partner by agreement and takes active part in the conduct of partnership business is known as
 - a) Active or ostensible partner
 - b) Nominal partner
 - c) Dormant or sleeping partner
 - d) None of these

2. A dormant partner is one who is
 - a) Not interested in the business of the firm
 - b) Entitled to share profits only
 - c) Neither active nor known to outsiders
 - d) Not liable to outsiders

3. An active partner continues to be liable for the acts of the firm even after his retirement if he does not give a public notice of his retirement.
 - a) True b) False

4. A dormant partner is liable to third parties for the acts of the firm
 - a) Only if his existence is known to third parties
 - b) Whether or not his existence is known to third parties
 - c) Only if he undertakes to be liable to third parties
 - d) Only if the other partners so desire.

5. A dormant or sleeping partner is not liable for the acts of the firm after his retirement even if he does not give a public notice of his retirement.
 - a) True b) False

6. Which of the following statements is incorrect?
- An active partner's insanity or permanent incapacity is the ground for dissolution of the firm
 - A dormant partner's insanity or permanent incapacity is not a ground for dissolution of the firm
 - Both of these
 - None of these
7. A partner in profit is one who is
- Entitled to share only business profits
 - Not liable for any business losses
 - Not liable for acts of the firm
 - Both a and b
8. Which of the following statement about a minor partner is incorrect?
- A minor can be admitted only to the benefits of an existing firm.
 - A minor cannot be admitted to the benefits of a new firm taking minor as partner.
 - A minor cannot be a full-fledged partner in a firm
 - A minor can be a full-fledged partner in a firm
9. A person who represents himself to be a partner but in reality he is not so, is known as a
- Partner by holding out
 - Partner by default
 - Inactive partner
 - Legal partner.
10. A partnership is known as partnership at will where
- Its duration is not fixed
 - Its duration is fixed
 - It can be dissolved at any time
 - Mode of dissolution is specified.
- (i), (ii)
 - (ii), (iii)
 - (iii), (iv)
 - (i), (iii)
11. Where there is no provision in the partnership deed regarding the dissolution of partnership, the firm is known as
- Indefinite partnership
 - Partnership at will
 - General partnership
 - Contingent partnership
12. A partnership at will can be dissolved by any partner at any time by giving a notice, in writing, of his intention to dissolve the firm.
- True
 - False
13. A partnership where its duration is fixed and cannot be dissolved by any partner at his will, is known as
- Particular partnership
 - General partnership
 - Partnership for fixed period
 - Partnership at will
14. Which of the following statement about 'partnership for a fixed period' is incorrect?
- It is dissolved on the expiry of fixed period.
 - It can also be dissolved before fixed period by adopting modes of dissolution.
 - Both of these
 - None of these

15. Where a 'partnership for a fixed period' continues to carry on business even after the expiry of fixed period, then it becomes a
 - a) Partnership at will
 - b) Illegal association
 - c) Void partnership
 - d) Renewed partnership.

16. A partnership formed for the purpose of carrying on particular adventure or undertaking is known as
 - a) Specified partnership
 - b) Particular partnership
 - c) Limited partnership
 - d) None of these

17. A particular partnership comes to an end on the completion of particular adventure or undertaking.
 - a) True b) False

18. If after the completion of particular adventure or undertaking, the firm continues to carry on some other adventure, then it becomes a
 - a) Void partnership
 - b) Renewed partnership
 - c) Illegal association
 - d) Partnership at will

19. A partnership formed for the purposes of carrying on business in general, is known as
 - a) General partnership
 - b) Special partnership
 - c) Permanent partnership
 - d) None of these

FILL IN THE BLANKS AND PAIR MATCHING QUESTIONS

Choose the appropriate option to fill in the blank in question 1 to 4:

1. The maximum number of partners should not exceed _____ if it is formed to carry on banking business.
 - a) Ten b) twenty
 - b) Twenty five d) fifty

2. A partnership comes into existence by _____ between the partners.
 - a) Express agreement only
 - b) Implied agreement only
 - c) Either express or implied agreement
 - d) Registered agreement.

3. _____ is the partnership where duration of the firm is not fixed.
 - a) Registration of firm
 - b) Mutual agency
 - c) Sharing of profits
 - d) Sharing of losses

4. _____ is the partnership where duration of the firm is not fixed.
 - a) General partnership
 - b) Particular partnership
 - c) Uncertain partnership
 - d) Partnership at will

5. Match the following:

i) Illegal association	a) Partnership of fixed duration
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ii)Dormant partner	b)True test of partnership
iii)Mutual agency	c)Partner not known to outsiders
iv)Particular partnership	d)Partnership with number of partners exceeding the permissible limit

6. Match the following:

i)Company	a)Comes into existence by operation of law
ii)Partnership	b)Comes into existence by registration only
iii)Partnership deed	c)Comes into existence by agreement only
iv)Hindu undivided family	d)Written partnership agreement

OBJECTIVE TYPE QUESTIONS

(With correct/ incorrect options and hints)

1. The partnership arises by operation of law.
a) Correct b) Incorrect

2. There must be at least two persons to form the partnership.
a) Correct b) Incorrect

3. A major and a minor can create partnership.
a) Correct b) Incorrect.

4. A partnership may be formed with two partnership firms as partners.
a) Correct b) Incorrect

5. A company can become a partner in a firm
a) Correct b) Incorrect

6. A contract for partnership should always be in writing
a) Correct b) Incorrect

7. A sub-partner is not a partner in the original firm.
a) Correct b) Incorrect

8. A partnership which is not for a fixed period is known as uncertain partnership.
a) Correct b) Incorrect

9. A partnership in which no provision is made for the duration of the firm, is known as a 'partnership at will'
a) Correct b) Incorrect.

10. The concept of Hindu Undivided Family, for the purpose of business, is created by an agreement of the members.
a) Correct b) Incorrect

11. The concept of Hindu Undivided Family, for the purpose of business, is created by an agreement of the members.
a) Correct b) Incorrect.