

Written as per the revised syllabus prescribed by the Maharashtra State Board
of Secondary and Higher Secondary Education, Pune.

STD. XII Commerce

Book-Keeping & Accountancy

Salient Features

- Section of Textual Problems covered.
- Separate section of Practice Problems important from examination point of view inclusive of Board Problems (Mar 2008 – July 2017).
- Answers provided for both, Textual Problems and Practice Problems.
- Two Model Question Papers as per the latest paper pattern.
- Board Question Papers of 2016 and 2017.
- Self evaluative in nature.

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Unitwise Weightage

Sr. No.	Chapter	Marks			Marks With Option		
		Problems	Objectives	Total	Problems	Objectives	Total
1.	Introduction to Partnership (Objectives only) and Partnership Final Accounts	15	02	17	15	03	18
2.	Accounts of 'Not for Profit' Concerns	12	01	13	12	02	14
3.	Admission / Retirement / Death of Partner	10	02	12	10	02	22
	OR Admission / Retirement / Death of Partner				10		
4.	Dissolution of Partnership Firm	10	02	12	10	04	24
	OR Accounting for Shares / Accounting for Debentures				10		
5.	Bill of Exchange (Objectives include 5 marks for question on specimen)	10	06	16	10	10	20
6.	Single Entry System	08	02	10	08	04	20
	OR Analysis of Financial Statements (Theory Questions)				08		
Total		65	15	80	93	25	118

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Note: All Textual questions are represented by * mark.

01 Introduction to Partnership

Partnership

Meaning and Definition:

Partnership is an association of two or more persons who agree to combine their financial resources and managerial abilities to operate a business and share Profits and Losses in an agreed ratio.

The **definition** of Partnership as per the Indian Partnership Act, 1932 is, **“Partnership is the relation between persons who have agreed to share profit of business carried on by all or any of them acting for all.”**

Features:

- i. **Agreement:** Partnership is formed on the basis of an agreement between two or more persons to carry on business activities. Agreement may be in written or oral form. The terms and conditions of partnership are laid in a document known as Partnership Deed.
- ii. **Registration:** It is not compulsory to register a partnership firm except, in the state of Maharashtra. However, if the partners so decide, it may be registered with the Registrar of Firms.
- iii. **Lawful Business:** Illegal business activities are not permitted by law. Partnership form of business should only undertake those business activities which are permitted by law or which are legal.
- iv. **Membership:** To form a partnership firm, minimum two persons are required. The maximum limit on the number of persons is 10 for banking business and 20 for other businesses. If the number exceeds the above limit, the partnership becomes illegal.
- v. **Sharing of Profits and Losses:** There must be an agreement among the partners to share the Profits and Losses of the business in an agreed profit sharing ratio. All partners of the firm will be entitled to an equal share in Profits and Losses, if the partnership deed is silent about the ratio.
- vi. **Unlimited Liability:** The partners of the firm have Unlimited Liability. They are jointly as well as individually liable for the debts and obligations of the firms. If the Assets of the firm are insufficient to meet the firm's Liabilities, the personal properties of the partners can also be utilized for the repayment of the firm's Liabilities. However, the Liability of a Minor Partner is limited to the extent of his share in the profit.
- vii. **Management:** All the partners can participate actively in the business management depending on the agreement formed.
- viii. **Dissolution:** Dissolution means to close the business. Legally, a partnership comes to an end if any partner dies, retires or becomes insolvent.
- ix. **Relationship between the Partners:** The partnership business may be carried on by all or any of the partners acting for all. Thus, each partner is a principal and so can act in his own right. At the same time, he can act on behalf of the other partners as an agent. Thus, every partner acts as an Agent as well as Principal.

Types of Partners

Following are the various types of partners:

- i. **Active Partners:** Partners who take active part in the conduct of day-to-day transactions of the firm are called Active Partners. These partners perform the business activities on behalf of other partners.
- ii. **Sleeping Partners:** A Sleeping Partner is also known as Dormant Partner. Sleeping or Dormant Partners are those, who do not take active part in the management of the business. Such partners only contribute capital in the firm and are bound by the activities of other partners. However, they share in the profits and losses of the business.



- iii. **Nominal Partners:** Nominal partners are those who lend their name to the firm but do not have interest in the business. They do not make any capital contribution and are not entitled to take part in management, but are liable to third parties, like the other partners.
- iv. **Minor Partner:** A minor is a person who has not completed 18 years of age. A minor cannot become a partner because he is not qualified to enter into a contract. However, he may be admitted to the benefits of partnership with the mutual consent of all the partners. His liability is limited to the extent of his share in the capital and profits of the firm.
- v. **Partner in Profits only:** This type of a partner only shares in the profits of the firm. However, his liability for the firm's debts is unlimited. He is not allowed to take part in the management of the firm. A partnership firm may associate with such a partner for their money and goodwill.
- vi. **Partner by Estoppel:** A Partner by Estoppel neither contributes capital nor is entitled to any share in the profits. He is actually not a partner in the firm. However, any person who represents himself in front of a third party as a partner of the firm becomes a Partner by Estoppel. He becomes liable to the third parties that presume him to be a partner of the firm.

Partnership Deed

Partnership Deed is the written agreement between or among the partners. It is also known as Articles of Partnership. Partnership Deed lays down the terms and conditions of partnership and the rights, duties and obligations of partners for the internal management of the firm. A partnership deed is very helpful in situations of conflicts or disputes arising between partners. The relations of partners are governed by the Partnership Deed. A Partnership Deed generally contains the following important contents:

- i. Name and address of the Partnership Firm.
- ii. Nature of business to be conducted and its duration.
- iii. Names, Addresses and other information about the partners.
- iv. The total amount of Capital contributed by each partner.
- v. The amount of drawings permissible for each partner.
- vi. Rate of Interest on Capital and Drawings, if any.
- vii. Profit Sharing Ratio of the partners.
- viii. Rate of Interest on Loan given by partners to the firm.
- ix. Accounting and Audit procedures of the firm.
- x. Methods of valuation of the Goodwill of the firm.
- xi. Provisions for admission, retirement and insolvency of partners.
- xii. Provisions for Dissolution of the firm and settlement of accounts after dissolution.
- xiii. Division of work among the partners and their Remuneration / Commission, if any.
- xiv. Method of operating Bank Accounts and authority for signing the cheques.
- xv. Other terms and conditions which are agreed by all the partners.

Indian Partnership Act, 1932

The Indian Partnership Act is in force since 1932. This act is applicable in the absence of partnership deed or if the partnership deed is silent on any specific point. Stated below are the important provisions of this act:

- i. **Distribution of Profits:** In the absence of partnership deed, all the partners are treated as equal and they will be entitled to equal share in the Profits and Losses of the business. However, if profit sharing ratio is given, then Profits / Losses should be shared by partners in the agreed ratio only.
- ii. **Interest on Capital:** According to the Act, no interest is to be allowed on Partner's Capital. However, if a provision is made in the partnership deed, it should be given to the partners as per the agreement.
- iii. **Interest on Drawings:** As per the Act, there is no provision for Interest on Drawings. However, if the partnership deed states that Interest on Drawings is to be charged, then it should be charged as per the agreement. Interest on Drawings is to be charged for a period of six months in cases where the total amount of Drawings is given but the dates of withdrawals are not available.



- iv. **Interest on Partner's Loan:** Interest on Loan should be allowed at the rate of 6% per annum as per the Act. If a separate provision is made in the partnership deed then interest should be allowed as per the agreement.
- v. **Salary or Commission to Partners:** Partners are not entitled to any Salary or Commission for doing any additional or extra work for the firm. However, if any special provision is made in the partnership deed then it should be provided as per the agreement.
- vi. **Admission of a New Partner:** According to the Act, a person can be admitted into partnership only with the consent of all the existing partners.

Methods of Capital Accounts

An amount contributed by a partner either in the form of cash or kind into the business of a partnership firm is known as Partner's Capital. This amount may be equal or it may be in the profit sharing ratio or as per the common understanding among partners. Capital Accounts of partners can be maintained in two ways:

i. Fixed Capital Method:

Under the Fixed Capital Method, the amount of capital of the partners remains fixed unless some additional capital is introduced or some amount of capital is withdrawn by an agreement among the partners. Thus, under fixed capital method, two accounts are maintained for each partner namely Partners Capital Account and Partners Current Account.

a. **Partner's Capital Account:** The below items are recorded in this account:

1. Amount contributed by a partner at the beginning.
2. Additional Capital introduced by a partner during the year.
3. Part of capital amount withdrawn during the year.

Journal Entries recorded in Partners Capital Account under Fixed Capital Method:

Date	Particulars	L.F.	Debit ₹	Credit ₹
i. Additional Capital introduced by Partners in Cash				
	Cash/Bank A/c To Partner's Capital A/c (Being additional capital introduced)	Dr.	xxx	xxx
ii. Additional Capital introduced by Partners in Kind				
	Asset A/c To Partner's Capital A/c (Being capital brought in the form of asset)	Dr.	xxx	xxx
iii. Capital is Withdrawn by the Partner				
	Partner's Capital A/c To Cash/Bank A/c (Being amount of capital withdrawn by partner)	Dr.	xxx	xxx

Format for Partner's Capital Account under Fixed Capital Method:

Partner's Capital Account

Dr.			Cr.		
Particulars	X ₹	Y ₹	Particulars	X ₹	Y ₹
To Cash/Bank A/c (Amount of Capital Withdrawn)	xxx	xxx	By Balance b/d (Credit Balance)	xxx	xxx
			By Cash/Bank A/c (Additional Capital)	xxx	xxx
			By Assets A/c (Capital in Kind)	xxx	xxx
To Balance c/d (Credit Balance)	xxx	xxx	By Balance c/d (Debit Balance)	xxx	xxx
	xxx	xxx		xxx	xxx

[Note: Generally, Partner's Capital Account shows a Credit Balance and is shown on the Liability side of the Balance sheet. If the account has a Debit Balance, it is shown on the Asset side of the Balance sheet.]



b. Partner's Current Account: This account is maintained when partners adopt the Fixed Capital Method. Below items are recorded in this account:

1. Amount withdrawn by partners for their personal use.
2. Goods withdrawn by partners for their personal use.
3. Interest on Partners Capital.
4. Interest on Partners Drawings.
5. Salary or Commission to Partners.
6. Distribution of Profit or Loss of the Firm.

Journal Entries recorded in Partner's, Current Account under Fixed Capital Method:

Date	Particulars	L.F.	Debit ₹	Credit ₹
i. Interest on Capital allowed to Partners				
	Interest on Capital A/c To Partner's Current A/c (Being interest on capital allowed to partners)	Dr.	xxx	xxx
ii. Transfer of Interest on Capital to Profit & Loss Account				
	Profit & Loss A/c To Interest on Capital A/c (Being interest on capital transferred to Profit & Loss A/c)	Dr.	xxx	xxx
iii. Salary/Commission allowed to Partners				
	Salary/Commission A/c To Partner's Current A/c (Being salary or commission allowed to partners)	Dr.	xxx	xxx
iv. Transfer of Salary/Commission to Profit & Loss Account				
	Profit & Loss A/c To Salary/Commission A/c (Being salary/commission transferred to Profit & Loss A/c)	Dr.	xxx	xxx
v. Interest charged on Partners Drawings				
	Partner's Current A/c To Interest on Drawings A/c (Being interest on drawings charged)	Dr.	xxx	xxx
vi. Transfer of Interest on Drawings to Profit & Loss Account				
	Interest on Drawings A/c To Profit & Loss A/c (Being interest on drawings transferred to Profit & Loss A/c)	Dr.	xxx	xxx
vii. Drawings made by the Partners in Cash				
	Drawings A/c To Cash A/c (Being cash withdrawn for personal use)	Dr.	xxx	xxx
viii. Drawings made by the Partners in Goods				
	Drawings A/c To Goods A/c (Being goods withdrawn for personal use)	Dr.	xxx	xxx
ix. Transfer of Drawings to Partners Current Account				
	Partner's Current A/c To Drawings A/c (Being drawings transferred to Partners Current A/c)	Dr.	xxx	xxx



x. For distribution of Net Profit or Net Loss					
a. Net Profit					
	Profit & Loss A/c	Dr.		xxx	
	To Partner's Current A/c				xxx
	(Being profit transferred to Current Account)				
b. Net Loss					
	Partner's Current A/c	Dr.		xxx	
	To Profit & Loss A/c				xxx
	(Being net loss transferred to Current Account)				

Format for Partner's Current Account under Fixed Capital Method:

Partner's Current Account

Dr.			Cr.		
Particulars	X ₹	Y ₹	Particulars	X ₹	Y ₹
To Balance b/d (Debit Balance)	xxx	xxx	By Balance b/d (Credit Balance)	xxx	xxx
To Drawings A/c (Cash)	xxx	xxx	By Interest on Capital A/c	xxx	xxx
To Drawings A/c (Goods)	xxx	xxx	By Interest on Loan A/c	xxx	xxx
To Interest on Drawings A/c	xxx	xxx	By Salary to Partner A/c	xxx	xxx
To Profit and Loss A/c (Loss)	xxx	xxx	By Commission to Partner A/c	xxx	xxx
			By Profit and Loss A/c (Profit)	xxx	xxx
To Balance c/d (Credit Balance)	xxx	xxx	By Balance c/d (Debit Balance)	xxx	xxx
	xxx	xxx		xxx	xxx

[**Note:** Partner's Current Account can either have a Debit Balance or a Credit Balance. If Partner's Current Account has a Debit Balance, it should be shown on the Asset side of the Balance Sheet and if it has a Credit Balance, it should be shown on the Liability side of the Balance Sheet.]

ii. Fluctuating Capital Method:

In the Fluctuating Capital Method, only one account i.e. Partner's Capital Account is maintained for each partner. All the transactions affecting a Partner's Account like Interest on Capital, Drawings, Interest on Drawings, Salary/Commission to Partners and Share of Profit or Loss are recorded in the Partner's Capital Account. As a result of this, the Closing Balance of the Partner's Capital Account keeps fluctuating (changing). Thus, it is known as the Fluctuating Capital Method. Below transactions are recorded in the Partner's Capital Account under this method:

- | | |
|--|--|
| 1. Capital Introduced or the Opening Balance | 2. Additional Capital introduced during the year |
| 3. Interest on Capital | 4. Drawings made during the year |
| 5. Interest on Drawings | 6. Salary/ Commission to Partners |
| 7. Withdrawal of Capital | 8. Share of Profit or Loss |
| 9. Closing Balance | |

Format for Partner's Capital Account under Fluctuating Capital Method:

Partner's Capital Account

Dr.			Cr.		
Particulars	X ₹	Y ₹	Particulars	X ₹	Y ₹
To Balance b/d (Debit Balance)	xxx	xxx	By Balance b/d (Credit Balance)	xxx	xxx
To Drawings A/c (Cash)	xxx	xxx	By Cash/Bank A/c (Additional Capital)	xxx	xxx
To Drawings A/c (Goods)	xxx	xxx	By Assets A/c (Capital in Kind)	xxx	xxx
To Interest on Drawings A/c	xxx	xxx			
To Cash/Bank A/c (Withdrawal of Capital)	xxx	xxx			



To Profit and Loss A/c (Share of Loss)	xxx	xxx	By Interest on Capital A/c	xxx	xxx
			By Interest on Loan A/c	xxx	xxx
			By Salary A/c	xxx	xxx
			By Commission A/c	xxx	xxx
			By Profit and Loss A/c (Share of Profit)	xxx	xxx
To Balance c/d (Credit Balance)	xxx	xxx	By Balance c/d (Debit Balance)	xxx	xxx
	xxx	xxx		xxx	xxx

Notes:

- i. Credit Balance of Partner's Capital Account is shown on the Liability side of the Balance Sheet and Debit Balance of Partner's Capital Account is shown on the Asset side of the Balance Sheet.
- ii. In the absence of information, partners follow Fluctuating Capital Method.
- iii. Interest on Capital is paid on the Opening Balance only if date of additional capital is not given. If the date of additional capital is given, then interest on capital will be given on total capital and will be calculated as under
 - a. On Opening Balance for 12 months.
 - b. On Additional Capital from date of additional capital to date of Balance Sheet i.e., 31st Mar.
Interest on Capital is paid only if there is profit in the business.
- iv. Interest on Drawings is provided as under:
 - a. If Drawings are made at the beginning of every month, Interest is charged for 6.5 months.
 - b. If Drawings are made in the middle of every month, Interest is charged for 6 months.
 - c. If Drawings are made at the end of every month, Interest is charged for 5.5 months.
 - d. In absence of information, Interest is charged for 6 months.

Objective Type Questions

I. Answer in one sentence only:**[1 mark each]*****1. What is Partnership?**

Ans: Partnership is an association of two or more persons who agree to combine their financial resources and managerial abilities to conduct a business and share profits and losses in an agreed ratio

***2. How many persons are required to form partnership business?**

Ans: Minimum two persons are required to form partnership business.

***3. What is the liability of partners? [Mar 15]**

Ans: The Liability of Partners is Unlimited, Joint and Several.

***4. What is the relation between the partners?**

Ans: The relationship between partners is that of Principal and Agent.

***5. Who is called Nominal Partner?**

Ans: A partner who lends his name to the firm but does not have any interest in the business is known as a Nominal Partner.

***6. Who is called Minor Partner?**

Ans: A partner of less than 18 years in age is called Minor Partner.

7. What is the liability of the Partner in Profit Only?

Ans: The Liability of a Partner in Profit only is Unlimited.