

CUET · ACCOUNTANCY · CLASS XII · CODE 301

# Accounting for Partnership: Basic Concepts

CUET unit: Partnership Accounting → Basic Concepts (nature of partnership, deed, P&L Appropriation, interest on capital/ drawings/loan, guarantee, past adjustments)

By UniDrill · NCERT-grounded study material

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## Snapshot

- Partnership firms operate under the Indian Partnership Act, 1932 — the Section 4 definition, the six essential features, and the default rules that apply when the deed is silent (NCERT §1.1-§1.2, p. 1-4).
- Partners' capital accounts use one of two methods — **fixed** (with separate current account) or **fluctuating** (single account); the Profit and Loss Appropriation Account distributes profits after allowing for interest on capital, salary, commission and interest on drawings (NCERT §1.4-§1.5, p. 5-9).
- High-yield CUET numerical machinery: interest on capital with mid-year additions/withdrawals, interest on drawings (monthly, quarterly, product method), guarantee of minimum profit, and past-adjustment journal entries (NCERT §1.5.2-§1.7, p. 15-34).
- Admission, retirement, death and dissolution are covered in later chapters — every MCQ here stays within "basic concepts" (NCERT §1.3, p. 5).
- The deed, capital accounts and appropriation mechanics underpin every Class XII partnership chapter (leac102-leac104).

## Detailed Notes

### 2.1 Core concepts

**Definition (§ 1.1, p. 1-2).** Section 4 of the Indian Partnership Act, 1932 defines partnership as "the relation between persons who have agreed to share the profits of a business carried on by all or any of them acting for all". Individually they are called **partners**; collectively, the **firm**; the business name is the **firm's name**. A partnership firm has no separate legal entity apart from its partners. (NCERT §1.1, p. 2)

**Essential features (§ 1.1, p. 2-3).** (i) **Two or more persons** — minimum 2; maximum 50 as prescribed by the Central Government under Section 464 of the Companies Act, 2013 (the Act caps it at 100 but the prescribed limit is 50). (ii) **Agreement** — oral or written; partnership is born of contract, not status. (iii) **Business** — mere co-ownership is not partnership; the activity must be a business carried on for profit. (iv) **Mutual agency** — each partner is both principal and agent for the others; without mutual agency there is no partnership. (v) **Sharing of profit** — sharing of losses is implied; charitable activity is not partnership. (vi) **Unlimited liability** — joint and several, extending to private assets.



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**Partnership Deed (§ 1.2, p. 3).** Written document containing the terms of agreement — names/addresses, capital contributed, accounting period, profit-sharing ratio, rates of interest on capital/loan/drawings, salaries, commissions, rules on admission/retirement/death/dissolution and dispute settlement. Should be drafted as per the Stamp Act and preferably registered with the Registrar of Firms.

**Provisions of the Partnership Act applicable when the deed is silent (§ 1.2.1, p. 4).** (a) Profits and losses are shared **equally**, regardless of capital. (b) **No interest on capital** is payable. (c) **No interest on drawings** is to be charged. (d) Interest on **partner's loan** to the firm is payable @ **6% p.a.** (e) **No salary / remuneration** is allowed to any partner for conducting business.

**Special aspects of partnership accounts (§ 1.3, p. 5).** Maintenance of capital accounts; distribution of profit/loss; adjustments for past wrong appropriations; reconstitution; dissolution. The first three are covered in this chapter.

**Fixed Capital Method (§ 1.4(a), p. 5-6).** Two accounts per partner — **Capital Account** (records only additions/withdrawals of capital; always shows a credit balance and stays fixed year-to-year) and **Current Account** (records salary, commission, interest on capital, drawings, interest on drawings, share of profit/loss; may show a debit or credit balance). Capital A/c always on liabilities side; Current A/c on liabilities if credit, on assets if debit.

**Fluctuating Capital Method (§ 1.4(b), p. 6-7).** Only one Capital Account per partner; all adjustments flow through it; the balance fluctuates. In the **absence of any instruction, this is the default method.**

**Profit and Loss Appropriation Account (§ 1.5.1, p. 8-9).** An extension of the P&L Account. Debited with interest on capital, salary/commission to partners and the share of profit transferred to partners. Credited with net profit b/d, interest on drawings, and share of loss transferred. **If the firm has a loss, no interest on capital, salary or remuneration is allowed to partners.**

**Interest on Capital (§ 1.5.2, p. 15-19).** Allowed only when expressly agreed in the deed. Calculated with allowance for additions/withdrawals during the year — opening balance for the full year, additions from date of introduction, withdrawals reducing the balance prospectively. Interest on capital is allowed **only out of profits** — in a year of net loss, no interest is allowed; if profit is less than the agreed interest, the available profit is distributed in the ratio of interest on capital, not in the profit-sharing ratio.

**Interest on Drawings (§ 1.5.3, p. 20-26).** Charged only if the deed provides. Time-period rules for fixed monthly drawings — beginning of each month: 6½ months average; end: 5½ months; middle: 6 months. For quarterly drawings — beginning of each quarter: 7½ months; end: 4½ months. When dates differ, use the **product method**: Sum of Products × Rate × (1/12). If total drawings are given without dates, assume evenly throughout the year and take 6 months.

**Interest on Partner's Loan (§ 1.2.1 (d), p. 4 + Illustration 4, p. 13-15).** Where the deed is silent, the Act allows 6% p.a. Interest on partner's loan is a **charge against profit** (debited to the Profit and Loss Account itself, not to the Appropriation Account) — visible in Illustration 4 where Amitabh's loan interest of ₹3,000 is charged to P&L before arriving at the net profit of ₹14,250.

**Guarantee of Profit (§ 1.6, p. 26-31).** A partner may be guaranteed a minimum share. If his profit-share by ratio falls short of the guaranteed amount, the deficiency is borne by the guaranteeing partners in the agreed (usually profit-sharing) ratio; if only one partner gives the guarantee, he alone bears the full deficiency.

**Past Adjustments (§ 1.7, p. 32-34).** Errors/omissions (interest on capital, drawings, salary, commission, outstanding expenses) detected after final accounts are corrected either (a) through a **Profit and Loss Adjustment Account** or (b) by a single adjustment entry directly between partners' capital accounts, using a statement that compares "what should have been credited/debited" against "what was actually credited/debited".

## 2.2 Definitions to memorise

Term	Definition	Page
Partnership	"The relation between persons who have agreed to share the profits of a business carried on by all or any of them acting for all" — Section 4, Indian Partnership Act, 1932 (NCERT §1.1).	2
Firm / Firm's name	Collective name of the partners; the name under which the partnership business is carried on (NCERT §1.1).	2
Partnership Deed	Written document containing the terms of agreement between partners (NCERT §1.2).	3
Mutual Agency	Each partner is both principal and agent for the others — can bind, and is bound by, the others' acts in the firm's business (NCERT §1.1).	2
Unlimited Liability	Joint and several liability of partners extending to private assets (NCERT §1.1).	3
Fixed Capital Method	Two accounts per partner — Capital A/c (fixed; only capital additions/withdrawals) and Current A/c (all other adjustments) (NCERT §1.4(a)).	5
Fluctuating Capital Method	Single Capital A/c per partner; all adjustments routed through it; default when no instruction given (NCERT §1.4(b)).	6
Profit and Loss Appropriation Account	Extension of the P&L Account showing how net profit is appropriated among partners after interest on capital, salary, commission and interest on drawings (NCERT §1.5.1).	8
Interest on Capital		15

Term	Definition	Page
	Interest credited to partners on the amount of their capital; allowed only if deed provides and out of profits (NCERT §1.5.2).	
Interest on Drawings	Interest charged from partners on amounts withdrawn during the year; computed by time-period or product method (NCERT §1.5.3).	20
Average Period (for loD)	Single time-multiplier for equal periodic drawings ( $6\frac{1}{2}$ / $5\frac{1}{2}$ / $6$ / $7\frac{1}{2}$ / $4\frac{1}{2}$ months as applicable) (NCERT §1.5.3).	20-23
Product Method	Method of computing loD when drawings amounts/dates vary — $\Sigma(\text{Drawing} \times \text{Months}) \times \text{Rate} \times 1/12$ (NCERT §1.5.3).	24
Interest on Partner's Loan	Interest paid to a partner on loans advanced to the firm — @ 6% p.a. if deed is silent; charge against profit (NCERT §1.2.1 (d), Illus. 4).	4, 15
Guarantee of Profit	Assurance to a partner of a minimum share; deficiency borne by guaranteeing partners in agreed ratio (NCERT §1.6).	26
Past Adjustment	Correction of omissions/errors after final accounts are closed, via P&L Adjustment A/c or direct entry between partners (NCERT §1.7).	32
Profit-Sharing Ratio	The agreed ratio in which partners share profits and losses (equal if deed silent) (NCERT §1.2.1).	4
Charge against Profit	Item deducted in the P&L A/c itself before arriving at net profit (e.g., interest on partner's loan, rent paid to a partner) (NCERT Illus. 4).	15
Appropriation of Profit	Item deducted in the P&L Appropriation A/c after net profit is determined (e.g., interest on capital, partner's salary) (NCERT §1.5.1).	8
Section 4, Partnership Act	Statutory definition of partnership cited at NCERT §1.1.	2
Section 464, Companies Act 2013	Empowers Central Government to prescribe maximum number of partners — actually fixed at 50 (NCERT §1.1).	2
Drawings against Capital	Withdrawals treated as reduction of capital — no loD charged on these (NCERT §1.5.3).	20
Drawings against Profit	Withdrawals in anticipation of profit — loD charged on these per the deed (NCERT §1.5.3).	20
Rent paid to Partner	Charge against profit (P&L Dr, not Appropriation) (NCERT Illus. 4).	15
Commission to Partner	Appropriation of profit; debited to P&L Appropriation A/c (NCERT §1.5.1).	8
Salary to Partner		4, 8

Term	Definition	Page
	Appropriation of profit; allowed only if deed provides (NCERT §1.2.1, §1.5.1).	
Limit of profit available for appropriation	The available profit is the cap; if appropriations exceed it, prorated in the ratio of appropriations (NCERT §1.5.2).	18

## 2.3 Diagrams / processes to remember

**Fig. 1.1 — Capital and Current Accounts under Fixed Capital Method (NCERT p. 6).** Capital A/c records only Bank (introduction), Balance c/d, Balance b/d. Current A/c records Drawings, Interest on Drawings, share of loss on the Dr side vs Salary, Commission, Interest on Capital, share of profit on the Cr side.

**Fig. 1.2 — Capital Account under Fluctuating Capital Method (NCERT p. 7).** All adjustments — Drawings, IoD, share of loss vs introduction, Salary, Commission, IoC, share of profit — flow through a single column; the closing balance reflects the cumulative effect of all transactions.

**Distinction Table — Fixed vs Fluctuating (NCERT p. 7).** Four bases: number of accounts, treatment of deed items, whether balance stays fixed, possibility of debit balance.

**Fig. 1.3 — Profit and Loss Appropriation A/c (NCERT p. 9).** Dr: net loss b/d (if any), Interest on Capital, Salary, Commission, profit distributed to partners. Cr: net profit b/d, Interest on Drawings, loss distributed to partners.

**Illustration 5 — Interest on Capital with mid-year additions and withdrawals (NCERT p. 17).** Saloni's interest computed as ₹17,800 — opening balance for full year + additions for actual period + reductions for actual period.

**Illustration 8 — Monthly drawings (NCERT p. 24).** ₹1,755 ( $₹3,000 \times 12 \times 6.5/12 \times 9\%$ ) for beginning-of-month drawings vs ₹1,485 for end-of-month — the canonical  $6\frac{1}{2}$  vs  $5\frac{1}{2}$  months illustration.

**Illustration 10 — Guarantee of Profit (NCERT p. 27).** Rahul guaranteed ₹50,000; firm profit ₹1,60,000 shared 2:1:1 → Rahul's share ₹40,000 → deficiency ₹10,000 borne by Mohit and Rohan in old ratio 2:1.

**Illustration 14 — Past Adjustment via single entry (NCERT p. 33-34).** Omitted interest on drawings rectified by a single direct entry between partners' capital accounts using "should have been" vs "actually credited" comparison.

**Process — Computing Interest on Capital with Additions/Withdrawals.** (i) Opening balance  $\times$  Rate  $\times$  12/12. (ii) For each addition, addition  $\times$  Rate  $\times$  (months from date of introduction)/12. (iii) For each withdrawal, withdrawal  $\times$  Rate  $\times$  (months remaining)/12, deducted from the running total. (iv) Sum is total interest on capital for the partner.

**Process — Computing Interest on Drawings.** (i) Determine the pattern (uniform monthly / quarterly, irregular dates, lump-sum total). (ii) Apply the average-period rule for uniform periodic drawings. (iii) For irregular drawings, use the product method:  $\Sigma (\text{Drawing} \times \text{Months from date to year-end}) \times \text{Rate} \times 1/12$ .

**Process — Applying a Guarantee of Profit.** (i) Compute profit share by normal ratio. (ii) If short of the guarantee, compute deficiency. (iii) Deduct deficiency from the guaranteeing partner(s) in the agreed ratio. (iv) The other partners' shares fall by their share of the deficiency; the guaranteed partner's share rises to the guaranteed amount.

**Process — Past Adjustment via single entry (NCERT § 1.7, p. 32).** (i) Tabulate what each partner should have been credited/debited (correct figures). (ii) Tabulate what each was actually credited/debited (existing figures). (iii) Compute the differences. (iv) Partners with net excess credit are debited; partners with net short credit are credited; the entry passes directly between the partners' capital accounts without using P&L A/c.

## 2.4 Common confusions / NTA trap points

1. **Loan-interest treatment.** Interest on partner's loan is a **charge against profit** (P&L A/c), not an appropriation (P&L Appropriation A/c). NTA flags this (NCERT §1.2.1(d), Illus. 4, p. 4, 15).
2. **Silent-deed default rate.** If the deed is silent, partner's loan attracts **6% p.a.** — students often misremember it as 12% or NIL. Equally, interest on drawings and on capital are **NIL** when silent (NCERT §1.2.1, p. 4).
3. **Maximum number of partners.** Section 464 caps at 100 but the prescribed limit is **50**. NTA offers both as distractors (NCERT §1.1, p. 2).
4. **Loss year — no interest on capital.** No interest is paid; if profit is less than interest, profit is distributed in ratio of interest on capital, not profit-sharing ratio (NCERT §1.5.2, p. 18).
5. **Average period for periodic drawings.** Beginning of month →  $6\frac{1}{2}$ ; end →  $5\frac{1}{2}$ ; middle → 6; beginning of quarter →  $7\frac{1}{2}$ ; end of quarter →  $4\frac{1}{2}$ . Swapping these is the single most common trap (NCERT §1.5.3, p. 20-23).
6. **Fixed-capital current account.** Capital A/c always shows credit; Current A/c can show debit (asset side) (NCERT §1.4(a), p. 6).
7. **Salary to partner is NOT an expense.** It is an appropriation of profit, not a charge against profit (NCERT §1.5.1, p. 8).
8. **Rent to partner IS a charge against profit.** Goes through P&L, not P&L Appropriation. The distinction with partner's salary is exam fodder (NCERT Illus. 4).
9. **Guarantee deficiency direction.** Guaranteed partner's share rises; guaranteeing partners' shares fall — not the reverse (NCERT §1.6, p. 27).
10. **Drawings against capital vs against profit.** No IoD on drawings against capital; IoD on drawings against profit (NCERT §1.5.3, p. 20).

11. **Profit appropriation ceiling.** Total of loC + salary + commission cannot exceed available profit; if it does, prorate in the ratio of appropriations (NCERT §1.5.2, p. 18).

12. **Default profit-sharing ratio.** Equal — not in the ratio of capital. CUET often gives unequal capitals to set up this trap (NCERT §1.2.1, p. 4).

## 2.5 Journal entry templates

### (a) Transfer of net profit to P&L Appropriation A/c (NCERT § 1.5.1, p. 8)

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
Mar 31	Profit and Loss A/c .....Dr.		1,00,000	
	To Profit and Loss Appropriation A/c			1,00,000
	(Being net profit transferred to P&L Appropriation A/c)			

### (b) Interest on capital (NCERT § 1.5.2, p. 15)

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
Mar 31	Interest on Capital A/c .....Dr.		50,000	
	To A's Capital A/c			30,000
	To B's Capital A/c			20,000
	(Being interest @10% on opening capitals of A ₹3,00,000 and B ₹2,00,000)			
	Profit and Loss Appropriation A/c .....Dr.		50,000	
	To Interest on Capital A/c			50,000
	(Being interest on capital transferred to Appropriation A/c)			

### (c) Partner's salary (NCERT § 1.5.1, p. 8)

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
Mar 31	Profit and Loss Appropriation A/c .....Dr.		24,000	
	To A's Capital A/c			24,000
	(Being salary @ ₹2,000 p.m. for 12 months credited to A's capital)			

### (d) Interest on drawings — average period (NCERT § 1.5.3, p. 21)

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
Mar 31	A's Capital A/c .....Dr.		4,400	
	To Interest on Drawings A/c			4,400
	(Being IoD on monthly drawings ₹10,000 × 12 × 8% × 5.5/12 — end of month)			
	Interest on Drawings A/c .....Dr.		4,400	
	To Profit and Loss Appropriation A/c			4,400
	(Being IoD credited to Appropriation A/c)			

**(e) Interest on partner's loan — charge against profit (NCERT § 1.2.1 (d), Illus. 4, p. 15)**

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
Mar 31	Interest on Partner's Loan A/c .....Dr.		3,000	
	To Amitabh's Loan A/c			3,000
	(Being interest @6% p.a. on partner's loan of ₹50,000 — charge against profit; debited to P&L, not Appropriation)			

**(f) Distribution of net profit to partners (NCERT § 1.5.1, p. 9)**

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
Mar 31	Profit and Loss Appropriation A/c .....Dr.		30,000	
	To A's Capital A/c			18,000
	To B's Capital A/c			12,000
	(Being residual profit ₹30,000 distributed 3:2 between A and B)			

**(g) Guarantee of profit — deficiency borne by guarantor (NCERT § 1.6, p. 27)**

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
Mar 31	Mohit's Capital A/c .....Dr.		6,667	
	Rohan's Capital A/c .....Dr.		3,333	

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
	To Rahul's Capital A/c			10,000
	(Being deficiency of ₹10,000 in Rahul's guaranteed share of ₹50,000 borne by Mohit and Rohan in 2:1)			

#### (h) Past adjustment via single entry (NCERT § 1.7 Illus. 14, p. 33-34)

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
Apr 1	Rameez's Capital A/c .....Dr.		1,500	
	To Zaheer's Capital A/c			1,500
	(Being IoC of ₹3,000 to Rameez and ₹6,000 to Zaheer omitted last year — single direct adjustment entry, no P&L touched)			

### Practice MCQs

**Q1.** As per Section 4 of the Indian Partnership Act, 1932, partnership is the relation between persons who have agreed to share the profits of a business carried on by:

- A. All of them acting jointly only
- B. Any one of them as the managing partner only
- C. All or any of them acting for all
- D. A nominated representative of the partners

**Q2.** The Central Government, by virtue of Section 464 of the Companies Act, 2013, has prescribed the maximum number of partners in a firm to be:

- A. 20
- B. 50
- C. 100
- D. Unlimited

**Q3. In the absence of a partnership deed, which of the following statements is correct?**

- A. loC @ 6% p.a. and loD @ 6% p.a.
- B. Profits shared in ratio of capitals; interest on partner's loan @ 6% p.a.
- C. Profits shared equally; no loC; no loD; interest on partner's loan @ 6% p.a.; no salary to partner
- D. Profits shared equally; loC @ 6% p.a. only if profits permit

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## PYQ Alignment

This is one of the highest-yielding chapters in CUET Accountancy — roughly 12–15 MCQs each year are drawn directly from it. The favourite recurring formats are: (a) silent-deed factual questions (profit-sharing, loC, loD, loan-interest rates), (b) one or two short numerical MCQs on interest on capital or drawings (the  $6\frac{1}{2}$  /  $5\frac{1}{2}$  / 6 months trap is almost mandatory), (c) one P&L Appropriation computation testing whether the student excludes loan-interest from appropriations, and (d) at least one assertion–reason or match-the-following on fixed vs fluctuating capital or guarantee of profit. See [/pyq/accountancy](#) for drill sets.

### CUET 2025 — Actual PYQs from this chapter

**Q.21 (CUET 2025)** Which of the following is correct if there is no partnership deed?

- A) Profit sharing in capital ratio B) Interest on capital allowed @ 6% C) Interest on drawings not charged D) Interest on loan allowed @ 16% **Tests:** §2 Provisions Relevant in the Absence of Partnership Deed (silent-deed defaults). **Answer:** Not in extracted key

**Q.33 (CUET 2025)** Arrange the following in sequence in which they will be utilized for payment of losses: (A) Out of capital of partners (B) Out of profits (C) By partners individually in their profit-sharing ratio

- A) (A), (B), (C) B) (A), (C), (B) C) (B), (A), (C) D) (B), (C), (A) **Tests:** §3 Distribution of profits and losses among partners — order in which losses are absorbed (profits → capital → personal). **Answer:** Not in extracted key

## CUET 2023 — Actual PYQs from this chapter

**Q.1 (CUET 2023)** Partnership deed should be drafted and prepared as per:

- A) Provision of Partnership Act B) Companies Act C) Registrar of Firms D) Provisions of the Stamp Act Tests: §1 Partnership Deed — statutory basis and stamping requirement. Answer: Not in extracted key

**Q.29 (CUET 2023)** Steps in preparing Profit & Loss Appropriation Account: (A) Transfer net profit (B) Divide profit among partners (C) Ascertain net profit (D) Debit appropriations (E) Interest on drawings / guarantee adjustments

- A) A, B, C, D, E B) C, A, D, E, B C) B, C, E, A, D D) B, C, D, A, E Tests: §5 Profit and Loss Appropriation Account — sequence of preparation. Answer: Not in extracted key

