

***SOLE PROPRIETORSHIP &
PARTNERSHIPS***

SOLE PROPRIETORSHIPS

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- A sole proprietor (or sole trader) is a **natural person**, who engages in commercial activity for his or her own account.
- To be licensed as a sole proprietor, the person **should apply to the competent Commercial Registration Office** for registration in the Commercial Register.

Formation Requirements

- **The important requirements for this registration are:**
 - a. The **applicant** should be of at least **21 years** old
 - b. The applicant should be of **Egyptian** nationality **unless**
- he or she will carry out his or her activity under the **Investment Law or**
- will engage in **exporting activity**.

Formation Requirements

c. **The applicant** should use his or her own **name as a trade name**. This trade name should appear on his or her business **firm or shop** and its branches (if any), and in all his or her **business correspondence**;

d. The **applicant should provide the Commercial Registration Office** with other relevant important data such as the activity of his or her trade or business, the trade capital (**no minimum capital is required**), the addresses of the main firm, shop or branches (if any) and details of trademarks or copyrights (if any).

Formation Requirements

- Financial Requirements: the sole proprietor whose trade capital is L.E. 20,000 or more has to keep proper accounting books.

SOLE PROPRIETORSHIPS : Owner is the business

Advantages

- All profits belong to the owner.
- The Owner is free to make any decision.

Disadvantages

- **unlimited liability:** proprietor alone bears the burden of any losses or liabilities incurred by the business.
- **lacking continuity** on the **death** of the proprietor.

PARTNERSHIPS

Features of partnerships

- a **partnership** is “an association of two or more persons to carry on as co-owners a business for profit”
 1. A **joint ownership** of the business.
 2. An **equal right** to be involved in the **management** of the business.
 3. A **sharing** of **profits** and **losses**.

Formation of Partnerships

- **By Agreement:** Written/ oral / conduct
- **Duration:** for a term/at will
- **Articles of Partnership Agreement = The rights and duties of partners**

(Names/Capital Contribution/Sharing of Profits and Losses/ Management and Control/ Dissociation and Dissolution/ Arbitration...)

Agency Concept in Partnerships

- each partner is the agent of the other partners and of the partnership.
- the partnership is legally bound to honor the partner's commitments to third parties.
- **FIDUCIARY DUTIES:** *duty of care / duty of loyalty*

Case

- Patricia, a partner in Cairo music partnership, applies for the purchase of a new business place on behalf of the partnership without authorization from the other partners. **Who will be liable to pay the price of the business place? What if the seller of the business place knows that Patricia has no authority to do so and nonetheless sold her the place?**

Answer

- The partnership will be liable to pay because partners in partnership are agents for the partnership and for each other. The seller made the contract with her based on her appearance as partner and agent of the partnership.
- **if** the seller of the business place knows that Patricia has no authority to do so and nonetheless sold her the place, Patricia will be personally bound and the partnership will not be liable for the payment because the seller knows about the express agency scope between Patricia and the partnership and cannot rely on the appearance of the partnership.

Rights of Partners

Rights of Partners in Partnerships

1. Sharing of Profits and Losses

- **As per the partnership agreement “ PA”.**
 1. If the agreement does **not apportion profits**, it will be **shared equally**.
 2. If the agreement does **not apportion losses**, losses will be **shared in the same ratio as profits**.

Case

- Rico and Brett form a partnership. The partnership agreement provides for capital contributions of \$60,000 from Rico and \$40,000 from Brett, but it is silent as to how they will share profits or losses. **How they will share profits or losses? What will be the answer, if their partnership agreement had provided that they would share profits in the same ratio as capital contributions and this agreement was silent as to losses?**

Answer

- they will share both profits and losses equally.
- If their partnership agreement had provided that they would share profits in the same ratio as capital contributions, however, 60 percent of the profits would go to Rico, and 40 percent would go to Brett. If this agreement was silent as to losses, losses would be shared in the same ratio as profits (60 percent and 40 percent, respectively).

Rights of Partners in Partnerships

2. Management

- An **equal** Right Unless otherwise stipulated in the **partnership Agreement**.
- **Majority rule**: controls decisions on **ordinary matters** connected with **partnership business**, unless otherwise specified in the agreement. Ex: daily management operations.
- **Unanimous rule** :Decisions that significantly **affect the nature of the partnership**.

Ex: To alter the firm's business as expressed in the partnership agreement **or to alter the capital structure** of the partnership, to admit **new partners**, to **assign partnership property**.

Rights of Partners in Partnerships

3. Accounting

- **Access to books**

Partnership books and records must be kept **accessible to all partners.**

- **Right to accounting**

Each partner has the right to **receive** (and the corresponding duty to produce) **full and complete information** concerning the conduct of all aspects of partnership business

Rights of Partners in Partnerships

4. Property Rights

- **Partnership property** includes all property that was **originally contributed** to the partnership and **anything later** purchased by the partnership.
- **Property of Assets** is in the name of the **Partnership**, not the partners individually.
- A partner has **no right to sell, mortgage, or transfer partnership property to another** unless authorized by the other partners.

LIABILITY OF PARTNERS

LIABILITY OF PARTNERS:

1.Scope of Liability

- **All Partners are liable for the partnership Debts to the extent of their personal assets.**
- **the partnership's assets must be exhausted before creditors can reach the partners' individual assets.**

LIABILITY OF PARTNERS:

2. Joint and Several Liability

- **Joint liability** means that a **third party must sue all** of the partners as a group, **but each partner can be held liable for the full amount.**
- **Joint and several liability** means that a third party has the option of suing **all** of the partners **together (jointly)** or **one or more** of the partners **separately (severally)**
- **All & each** is liable for the Partnership Debts

LIABILITY OF PARTNERS:

Incoming Partner

- **Past debts:** only to his capital contributions **NOT to his personal assets**
- **Future debts:** Same rules as other partners in his personal assets.

Dissociation Of a Partner

- **Dissociation** occurs when a partner ceases to be associated in the carrying on of the partnership business.
- **How?** By will ,By Agreement , Bankruptcy / Death / Insanity of the partner.
- A partner who **wrongfully dissociates** (breaching the PA) is **liable to the partnership and to the other partners for damages** caused by the dissociation.

Effects of Dissociation

1. End of Duties & Rights
2. A **partner's duty of care** continues only with respect to **events that occurred before dissociation**.
3. For **2 years**, the partnership may be bound by the **acts of the dissociated partner** based on **apparent authority**
 - To **avoid** this possible liability, a partnership should **notify** its creditors, customers, and clients of a partner's dissociation.

Termination of Partnership : Dissolution

- **Dissolution** means the commencement of the winding-up process. **Winding up** is the actual process of **collecting, liquidating, and distributing the partnership assets**.
- **Dissolution may be** By partners, operation of law or By court
- No new Obligations / Finish present Obligations
- **A partnership's assets are distributed according to the following priorities :**
 - Paying Debts
 - Return of capital contributions
 - distribution of profits to partners
- If the partnership's **liabilities** are **greater than its assets**, the partners bear the **losses**—in the absence of a contrary agreement—in the **same proportion** in which they shared the **profits**.

LIMITED LIABILITY PARTNERSHIPS LLP

- Same rules as Partnerships

Unless

partners are **exempted** from **personal liability**
for any partnership obligation

- The LLP is especially **attractive** for two categories of businesses: **professional service firms and family businesses.**

LIMITED PARTNERSHIP LP

- consists of at least **one general partner** and one or more **limited partners**.
- **General Partner:** management responsibility and unlimited liability for debts
- **Limited partner :**
 1. No management responsibilities
 2. **Not personally liable** for partnership **debts beyond** the amount of his or her contribution in the capital **unless involved in the management**