

## PARTNERSHIP



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Minimum 2 members / partners

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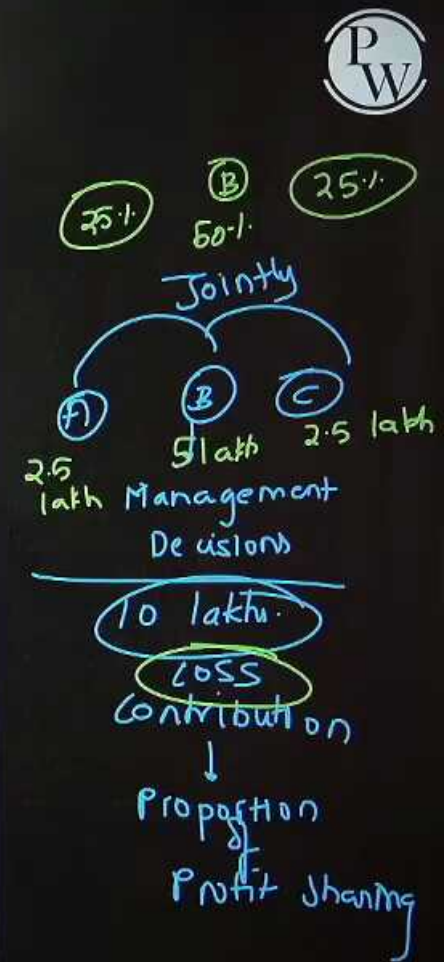
minimum 2 members / partners

Profit Sharing  
Equal X

## Features

(i) **Formation:** The partnership form of business organisation is governed by the Indian Partnership Act, 1932. It may be pointed out that the business must be lawful and run with the motive of profit. Thus, two people coming together for charitable purposes will not constitute a partnership.

(ii) **Liability:** The partners of a firm have unlimited liability. Personal assets may be used for repaying debts. Further, the partners are jointly and individually liable for payment of debts. Jointly, all the partners are responsible for the debts and they contribute in proportion to their share in business and as such are liable to that extent. Individually too, each partner can be held responsible repaying the debts of the business.





(iii) **Risk bearing:** The partners bear the risks involved in running a business as a team. The reward comes in the form of profits which are shared by the partners in an agreed ratio.

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(v) **Continuity:** Partnership is characterised by lack of continuity of business since the death, retirement, insolvency or insanity of any partner can bring an end to the business

(A) Finance  
B Product  
C Marketing

(vi) **Number of Partners:** The minimum number of partners needed to start a partnership firm is two. Maximum number of partners in a partnership firm can be 100. The Companies (miscellaneous) Rules 2014, at present the maximum number of members can be 50.

*Currently what is the max. No. of partners in Partnership firm?*

(iv) **Mutual agency:** Every partner is both an agent and a principal. He is an agent of other partners as he represents them and thereby binds them through his acts. He is a principal as he too can be bound by the acts of other partners.



## Merits

- (i) **Ease of formation and closure:** A partnership firm can be formed easily by putting an agreement between the prospective partners into place whereby they agree to carry out the business of the firm and share risks. There is no compulsion with respect to registration of the firm.
- (ii) **Balanced decision making:** An individual is not forced to handle different activities, this not only reduces the burden of work but also leads to fewer errors in judgements.

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(iii) **More funds:** In a partnership, the capital is contributed by a number of partners. This makes it possible to raise larger amount of funds

(iv) **Sharing of risks:** The risks involved in running a partnership firm are shared by all the partners.

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## Limitations

- (i) **Unlimited liability:** Partners are liable to repay debts even from their personal resources in case the business assets are not sufficient to meet its debts.
- (ii) **Limited resources:** There is a restriction on the number of partners, and hence contribution in terms of capital investment is usually not sufficient to support large scale business operations.



(iii) **Possibility of conflicts:** Partnership is run by a group of persons wherein decision making authority is shared.

(iv) **Lack of continuity:** Partnership comes to an end with the death, retirement, insolvency or lunacy of any partner.

(v) **Lack of public confidence:** A partnership firm is not legally required to publish its financial reports or make other related information public.

## Types of Partners

- ▶ (i) **Active partner:** An active partner is one who contributes capital, participates in the management of the firm, shares its profits and losses, and is liable to an unlimited extent to the creditors of the firm.
- ⋮
- ▶ (ii) **Sleeping or dormant partner:** Partners who do not take part in the day to day activities of the business are called sleeping partners. A sleeping partner, however, contributes capital to the firm, shares its profits and losses, and has unlimited liability.

(iii) **Secret partner:** A secret partner is one whose association with the firm is unknown to the general public.

(iv) **Nominal partner:** A nominal partner is one who allows the use of his/her name by a firm, but does not contribute to its capital.

(v) **Partner by estoppel:** A person is considered a partner by estoppel if, through his/her own initiative, conduct or behaviour, he/she gives an impression to others that he/she is a partner of the firm.



(vi) Partner by holding out: A partner by 'holding out' is a person who though is not a partner in a firm but knowingly allows himself/herself to be represented as a partner in a firm.

Nominal Partner  
is liable the outside world  
if the partnership firm  
has received loan/credit  
by using his/her name

## Types of Partnerships

Classification on the basis of duration *Time.*

- ① (i) **Partnership at will:** This type of partnership exists at the will of the partners. It can continue as long as the partners want and is terminated when any partner gives a notice of withdrawal from partnership to the firm
- ② (ii) **Particular partnership:** Partnership formed for the accomplishment of a particular project say construction of a building or an activity to be carried on for a specified time period is called particular partnership

## Classification on the basis of liability



(i) **General Partnership:** In general partnership, the liability of partners is unlimited and joint. Registration of the firm is optional.

(ii) **Limited Partnership:** In limited partnership, the liability of at least one partner is unlimited whereas the rest may have limited liability. The limited partners do not enjoy the right of management and their acts do not bind the firm or the other partners. Registration of such partnership is compulsory.



## Partnership Deed



- A partnership is a voluntary association of people who come together for achieving common objectives.
- In order to enter into partnership, a clear agreement with respect to the terms, conditions and all aspects concerning the partners is essential so that there is no misunderstanding later among the partners. Such an agreement can be oral or written

## Registration



- Registration of a partnership firm means the entering of the firm's name, along with the relevant prescribed particulars, in the Register of firms kept with the Registrar of Firms.
- It is optional for a partnership firm to get registered. In case a firm does not get registered,

It is advisable to Register  
Partnership Firm