LARGE ANSWERS

Q1. What is partnership? What are its chief characteristics? Explain.
Solution: According to the Partnership Act, 1932 (Sec 4), a partnership is an agreement between two or more persons who have agreed to share profits or losses of business which are to be borne by all or any one of them acting for all. Persons who come together to set up the business are called 'partners' individually and 'firm' collectively, and the name under which the business is carried on is termed 'firm name'.

Important characteristics of a partnership:
1.Two or more persons: A partnership is an agreement between two or more persons coming together for a common purpose. There should be at least two persons to begin a partnership firm. In a partnership firm, there is no maximum limit according to the Partnership Act, 1932, on the number of partners, but according to Rule 10 of the Companies (Miscellaneous) Rules, 2014, the maximum number of partners cannot exceed 50. In case the number of partners exceeds the aforesaid limit, then the concerned partnership is considered illegal. In concern to this, it must be noted that in Sec 464 of the Companies Act, 2013, the maximum number of partners cannot exceed 100. However, the maximum number of partners is not limited in case an association or partnership is formed by professionals such as doctors, lawyers, chartered accountants and company secretaries. These professionals are governed by their special laws as formed by their respective professional institutions. Before the enforcement of the Companies Act, 2013, the earlier act of 1956, imposed restrictions on the maximum number of partners to 10 in case of banking business and 20 in case of any other kind of business. However, with effect from 1 April 2014, the Companies Act, 1956, has been replaced by the Companies Act, 2013.
2.Partnership Deed: A partnership among partners should be supported by a partnership deed. A partnership deed is an agreement between partners governing them in carrying out the business. The deed may be oral or written.
3.Business: The business carried out by the partnership firm should be legal. Activities such as smuggling and black marketing are illegal business activities, and hence, the partnership is also illegal.
4.Sharing of profit: The profit or loss earned by a partnership firm must be shared according to the partnership deed. If there is no partnership deed between partners, then the profit will be shared equally by them. It is an important feature of partnership. If a group is formed for charitable purpose or not to earn profit, then this group will not be regarded as a partnership.
5.Liability: Liability of a partnership firm is unlimited. Each partner is liable for a firm's liabilities jointly and severally with other partners to outsiders. Furthermore, each partner along with his/her co-partners is responsible for all the acts of the partnership firm.
6.Mutual agency: A partnership may be carried on by all or any one of them acting for all. It means that all partners of a firm are entitled to participate equally in the activities of the business or any one of them acting on behalf of all. Every partner acts as an agent for others and binds others by his/her act and in turn is bound by

others by their acts.

Q2: Discuss the main provisions of the Indian Partnership Act, 1932 that are relevant to partnership accounts if there is no partnership deed.
Solution: In the absence of a partnership deed, the main provisions according to the Indian Partnership Act, 1932, which are relevant to partnership accounts are
1.Sharing of profits and losses: Profits and losses are to be shared equally by all partners of the firm.
Interest on partner's capital: No interest on capital should be given to partners in the firm. However, it is to be given only out of the profits, if agreed.
Interest on partner's drawings: No interest on drawings is to be charged from the partner of the firm for the amount of capital withdrawn by them by the way of drawings.
Interest on partner's loan: Partners are entitled to 6% p.a. interest on the loan lent to the firm by them.
5.Salary to a partner: No salary should be given to any partner.

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