

Objectives

At the end of this chapter, students should be able to:

- Define partnership;
- Identify the various types of partnership;
- Identify the various kinds of partners.

7.1 Introduction

With reference to early studies on how to prepare accounts for a sole trader; it has been clearly stated that a sole trader prepares profit and loss account to know the result of his operation for the year and the balance sheet to show the financial position of the business at a particular date. Now, students will learn about another type of business organisation called .Partnership. Its operation, method of formation and preparation of its final accounts, the legal implications and account documents needed will be discussed fully in this chapter.

7.2 Meaning of Partnership

A business organisation where two or more people, normally a maximum of twenty owners, come together for profit purposes is called partnership. It is an association of two to twenty persons embarking on a common business with the view of making profit. Partnership is a very common form of business and it can be created with very little formality. The usual practice in partnership is to enter into written agreement with one another, to set out the arrangements under which the business will operate. This agreement is called a Partnership deed or Article of Partnership.

7.3 Types of Partnership

1. Ordinary or General Partnership: This is a form of partnership in which each partner is liable to full extent(with his personal property and possessions) for all the debts of the business should the organisation be unable to meet such debts (i.e. they have unlimited liability). All the partners have equal rights, responsibilities and risks in the business.

2. Limited Partnership: This is a form of partnership in which all the partners do not equally or actively take part in the activities or management of the business and there are some partners whose liabilities are limited to the amount which they invest. Meanwhile, there must be at least one partner who has unlimited liability in a limited partnership, that is, such partners will be risk bearers or active partners.

7.4 Kinds of Partners

There are different types of partners which are:

1. Active Partners: These are partners who play the most active role in all the activities and management of the business.

2. Sleeping or Dormant Partners: These are partners who contribute to the capital formation of the partnership but does not take part in the management and running of the business.

3. Nominal Partners: These are partners who allow their name to be used for the formation of the business. They do not partake in the management of the business.

7.5 Summary

In this chapter, students have learnt that:

1. A partnership is a business organisation where two or more people (i.e minimum of 2 and maximum of 20) trade together for profit purposes.

2. A document which contains the guiding rules of the business and signed in the presence of a lawyer by each partner is termed .Partnership deed. Or Article of Partnership.

3. Ordinary partners has unlimited liability and take full share in the management of the business.
4. Limited partners have limited liabilities to the amount which they invest.
5. There are different types of partners such as active partners, sleeping partners etc.

7.6 Revision Questions

- 1a. What is Partnership?
- b. State and discuss the reasons why businessmen form partnership.
2. State five (5) rules which shall apply in partnership business in the absence of any express agreement.
3. Explain the following terms:
(a) Limited partnership (b) Deed of partnership
(c) Sleeping partners
4. Which of the following is not true of a partnership business without written agreement?
A. Interest on drawings shall be 5% per annum
B. All partners shall contribute equal amount of capital
C. No interest shall be paid on capital
D. Profit and losses shall be shared equally
5. In the absence of an agreement, partners share Profits _____.
A. based on activities of a partner
B. based on capital contribution
C. on equal basis
D. on patronage basis
6. Which of the following documents sets out the internal regulations of a partnership?
A. Law
B. Deed
C. Regulation
D. Code
7. An agreement made by partners to regulate and govern their business activities is known as _____.
A. partnership act
B. partnership co
C. partnership deed
D. memorandum
8. A partner who has full powers of participatory in the conduct of a partnership business is a _____.
A. general partner
B. sleeping partner
C. limited partner
D. nominal partner
9. In a professional partnership, membership must be from _____.
A. 2 to 8
B. 2 to 50
C. 2 to 20
D. 2 to any number.