Unit -1

Accounting For Partnership Firm

The partnership is **an agreement between two or more persons who decided to do business and share its profits and losses**. To have a legal relationship between the partners, the partnership agreement becomes the basis. The agreement can be in written form or oral form. An oral agreement is equally valid.

What are 5 characteristics of a partnership?

n conclusion, every partnership is unique, but all partnerships should include the above qualities to ensure mutual success. Remember both parties should be **communicative, accessible, flexible, provide mutual, and have measurable results**. These qualities are crucial in optimizing your partnership agreements.07-Nov-2019

**Partnership Firm: Nine Characteristics of Partnership Firm!**

* Existence of an agreement: ...
* Existence of business: ...
* Sharing of profits: ...
* Agency relationship: ...
* Membership: ...
* Nature of liability: ...
* Fusion of ownership and control: ...
* Non-transferability of interest:

Bottom of Form

Important Announcement



**Nature of Partnership Firms**

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**INTRODUCTION**

The concept of partnership arises from the limitation of sole tradership like limited resources, limited life of a business, limited managerial activities, unlimited liability, difficulties in raising capital.

For example- there are two friends and they made an agreement to start a lawful business (legal business) with a motive of earning a profit which will be shared according to the agreement. That business can be managed by anyone of the partners or by all the partners.

**Definition of a partnership firm**– A partnership firm is a voluntary association of two or more persons who agrees to carry on a lawful business jointly and share its profit and losses according to the agreement, they combine their funds and skills to carry on the business together.

According to the section 4 of the Indian partnership act, “Partnership is a relation between persons who have agreed to share profits of a business carried on by all or any one of them acting for all”.

Partnership act also states the meaning of a partner and meaning of firm which is given below  i.e. the person who enters into a partnership with one another are individually called partners and collectively called as a firm.

**Features of Partnership Firm**

Now we will discuss some important features of a partnership firm

1. Agreement- A partnership is formed by an agreement, the agreement can be oral or written. It defines the relationship between persons who agree to carry on a business. The written agreement is also known as partnership deed.
2. Number of persons- there must be at least two persons to form a partnership. The maximum numbers of partnership in a partnership firm can be 50 as per the section 464(1) of The Companies Act 2013. Indian Partnership Act, 1932 has put no limitations on maximum numbers of partners in a partnership firm. But however, Indian Companies Act, 2013 puts a limit on variety of the partners in the partnership firm as follow:
3. For Banking Business, Partners must not be more than 10.
4. For the other Business, must not be more than 20.
5. If the amount of partners exceeds the boundaries, the partnership becomes illegal.
6. Legal Business- In the partnership, the source of earning profit must be legal and the business must be legal. If two or more persons agree to carry on an unlawful activity then it will not be termed as a partnership.
7. Profit sharing- The partners in the partnership firm agrees to share profit in the ratio which is decided at the time of the agreement. In the case of loss, all the partners have to bear the loss in the same agreed ratio.
8. Mutual agency- Every partner is an agent of another partner and each partner will be responsible and liable for the act of all other partners.
9. Unlimited liability- Liability of each partner except that of a minor is unlimited. Their liability extends to their personal assets also. For example, is the assets of the firm are insufficient to pay off its debts then the personal property of the partners can be used for paying the debts.
10. Management – All the partners have the right to manage the partnership firm however they may authorize one or more partner to manage the affairs of the firm.

**Partnership Deed**

A partnership deed is a written agreement among the partners for managing the affairs of the partnership firm. In other words, the written document which contains the terms of the agreement is known as partnership deed.

Every firm can frame its own partnership deed in which the objective of business, contribution of amount of capital, ratio of sharing profit and loss, rights, duties and liabilities of the partners are stated in details.

**Key Points of Partnership Deed**

1. It is an agreement
2. It can be oral or written
3. It contains the terms of agreement
4. It contains the details of objective of the business
5. Partnership deed is also called, ‘Article of partnership’.

Partnership deed generally contains the following details:

1. Names and Addresses of the firm and its main business;
2. Names and Addresses of all partners;
3. A contribution of the quantity of capital by each partner;
4. The accounting period of the firm;
5. The date of commencement of partnership;
6. Rules regarding an operation of Bank Accounts;
7. Profit and loss sharing ratio;
8. the speed of interest on capital, loan, drawings, etc;
9. Mode of auditor’s appointment, if any;
10. Salaries, commission, etc, if payable to any partner;
11. The rights, duties, and liabilities of every partner;
12. Treatment of loss arising out of insolvency of one or more partners;
13. Settlement of accounts on the dissolution of the firm;
14. Method of a settlement of disputes among the partners;
15. Rules to be followed in case of admission, retirement, a death of a partner; and
16. Any other matter relating to the conduct of business. Normally, all the matters affecting the connection of partners amongst themselves are covered in partnership deed.

Normally, the partnership deed covers all the matters affecting relationship of partners among themselves. However is there is no expressed agreement on certain matters, the provision of section 13(b) of the Indian partnership act 1932 shall apply.

**CONCLUSION**

Thus we will conclude that “Partnership is a relation which subsists between persons who have agreed to put their property, labour, skill in some business, and to share the profits thereof between them”. The 1932 definition of the partnership added the concept of mutual agency. Partners have to continue the business of the firm to the greatest common advantage, to be just and faithful to every other, and to render true accounts and full information of all things affecting the firm to any partner, his heir or representative.