



CHAPTER- 03

Partnership



Topics

- **Definition of Partnership Business**
- **Features of Partnership Business**
- **Advantages of Partnership Business**
- **Disadvantages of Partnership Business**
- **How to Form a usual Partnership Business?**

Definition of Partnership Business

- “A partnership is an association of people who carry on business together for the purpose of making the profit”.
- “Partnership is the combination of two or more persons of capital or labor or skill for the purpose of business for common benefits.”.
- The term partnership, is used to mean a business structure wherein two or more individuals, come together for undertaking a lawful business and have agreed to share the profits and losses arising from it. The management and operation of the business should be performed either by all the partners or any of them, acting for all the partners.

Features of Partnership Business

- **Easy formation**
- **A number of members**
- **Contractual relation**
- **Unlimited liabilities**
- **Legal Entity**
- **Mutual trust and confidence**
- **Distribution of profit and loss**
- **Registration**
- **Stability**
- **Winding-up**

Advantages and Disadvantages of Partnership

■ Advantages of a partnership include that:

- two heads (or more) are better than one
- your business is easy to establish and start-up costs are low
- more capital is available for the business
- you'll have greater borrowing capacity
- there is opportunity for income splitting, an advantage of particular importance due to resultant tax savings
- partners' business affairs are private
- there is limited external regulation
- it's easy to change your legal structure later if circumstances change.

■ **Disadvantages of a partnership include that:**

- the liability of the partners for the debts of the business is unlimited
- each partner is 'jointly and severally' liable for the partnership's debts; that is, each partner is liable for their share of the partnership debts as well as being liable for all the debts
- there is a risk of disagreements and friction among partners and management
- each partner is an agent of the partnership and is liable for actions by other partners
- if partners join or leave, you will probably have to value all the partnership assets and this can be costly.

How to Form a usual Partnership Business?

- To form a business partnership:
 - List the amount of equity to be invested by each partner.
 - Determine how the profit or loss will be divided among the partners.
 - Establish compensation levels for each partner, including when the compensation will be given and any restrictions and might affect that compensation.
 - Set guidelines for how the business will be modified or dissolved should one or more partners wish to end the partnership.

- . Define procedures for settling any disputes which might arise.
- . Determine who has authority for which expenditures and how expenditure decisions are to be made.
- . Develop procedures to follow in case of death or incapacitation of a partner.
- . Write and sign an agreement detailing the responses to the questions above.
- . A general partnership can be formal simply by an oral agreement, but a legal partnership agreement drawn up by an authority is highly recommended.