



# CHAPTER- 03

## Partnership



# Topics

- **Types of Partnership**
- **Partnership Deed**
- **Contents of Partnership Deeds**
- **Rights and Duties of Partners**

# Types of Partnership

- **By duration:**
  - **Partnership at will:** Partnership existing as per the will of the partners.
  - **Particular partnership:** When the partnership is created, to carry on a certain project, for a specified time.
- **By liability:**
  - **General Partnership:** Partnership in which partners have unlimited and joint liabilities. All the partners can take part in the management, and they are bound by the acts of one another as well as of the firm.
  - **Limited Partnership:** The type of partnership in which except one partner all the partners have limited liability.

## Partnership Deed

- The document on which the respective rights and obligations of the members of a partnership are created is called a partnership deed. It should be drafted with care and signed by all the partners. Partnership deed plays a vital role in identifying duties and responsibilities and saving rights of all partners with regard to any subject.
- Partnership deeds, in very simple words, are an agreement between partners of a firm. This agreement defines details like the nature of the firm, duties, and rights of partners, their liabilities and the ratio in which they will divide profits or losses of the firm.

## Contents of Partnership Deeds

Although there is no specific format prescribed for drafting a partnership deed, a typical deed contains the below mentioned clauses.

- The name of the firm
- Name and details of all partners
- Date of commencement of business
- Duration of the firm's existence
- Capital contributed by each partner
- Profit/loss sharing ratio

- Interest on capital payable to partners
- The extent of borrowings each partner can draw
- Salary payable to partners, if any
- The procedure of admission or retirement of a partner
- The method used for calculating goodwill
- Preparation of accounts of the firm
- Mode of settlement of dues with a deceased partner's executors
- The procedure followed in case disputes arise between partners

# Rights and Duties of Partners

The rights of partners are given below:

- Every partner has the right to participate in the conduct and management of the business.
- Every partner has the right to have access to and to inspect and copy any of the books of accounts of the partnership firm.
- Every partner has the right to be consulted and heard in all matters affecting the business of the firm.
- The partners have the right to share equally in the profits earned and shall contribute equally to the losses sustained by the partnership firm.
- No person can be taken as a partner in the partnership firm without the consent of all the existing partners.

- Every partner has the right to be indemnified by the firm in respect of payments made and liabilities incurred by him in the ordinary and proper conduct of the business.
- A partner has the right to retire from the firm with consent of all the existing partners or in accordance with agreement among the partners.
- A partner making for the purpose of partnership, any payment or advance, beyond of capital which he has agreed to subscribe, is entitled to interest at the rate of 6 per cent per annum.
- Any difference arising as to ordinary matters connected with the business of firm may be decided by a majority of the partners.
- An outgoing partner is entitled to claim a share in the profits as may be attributable to the use of his share of the property of the partnership firm.



## **The duties of partners are given below:**

- Every partner of the firm is bound to attend diligently to his duties in conducting the partnership business.
- Partners are bound to carry on the business of the firm to the greatest common advantage.
- Every partner is liable to the partnership firm for any loss caused to it by his willful neglect in the conduct of the business of the firm.
- A partner is not entitled to get any remuneration for taking part in the conduct of the business.
- No partner can assign or transfer his partnership interest to any other person so as to make him a partner in the partnership.

- Partners are bound to be just and faithful to each other.
- Partners are bound to render true accounts and full information of all things affecting the firm to any partner or his legal representative.
- A partner shall be liable to account for and pay to the firm any private gains derived from the transactions of the firm or from the use of the property of the firm.
- A partner is bound to work within the scope of the actual or implied authority.
- A partner cannot carry on any business of the same nature as and competing with that of the firm. If he does so, he shall account for and pay to the firm all profits made by him in that business.