

Ch-6 Partnership

Good Morning Students.

This lesson is for class 9th for the subject of 'Commercial Studies'. The topic for today is 'Partnership and its types' which is covered in chapter 6 titled 'Partnership' of your book.

This lesson is being submitted to you on 6.5.24.

All the students now please open page number 33 of your book and listen carefully.

Partnership:-

A partnership is a voluntary association of two or more persons who agree to carry on some business jointly and share its profits and losses. The persons who enter into partnership are individually called 'Partners' and collectively a 'Firm'.

"Partnership is a relation between persons who have agreed to share profits of a business carried on by all or any of them acting for all."

Features of Partnership

(1) Two or more persons:-

There must be atleast two persons to form a partnership. A person cannot enter into partnership with himself. The maximum number of persons is 50. If the number of partners exceeds the prescribed maximum, it would become an illegal association of persons.

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(2) Agreement:- Partnership is the result of an agreement between persons. If a proprietor gives a share of profits to his employee, it will not be called partnership unless there is an agreement of partnership between the two. The agreement may be oral or in writing. But it must satisfy all the essentials of a valid contract.

(3) Lawful Business:-

A partnership can be formed only for the purpose of carrying on a business. If three friends purchase a house jointly and start living on different floors with their families, then it cannot be called as partnership, because there is no business. Moreover, business carried on by the partners must be lawful. A group made for illegal acts such as theft, decoity, smuggling etc. cannot be called partnership.

(4) Sharing of Profits:-

The agreement between the partners must be to share profits of a business. The profits must be shared among partners in agreed ratio. Similarly, losses should be shared among the partners.

(5) Mutual Agency:-

Partnership can be carried on by all the partners or by any of them acting on the behalf of the others. In other words, every partner is an implied agent of the other partners and of the firm. Each partner

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is liable for acts performed by other partners on behalf of the firm.

(6.) Utmost Good Faith:-

In partnership, one partner can bind the other partner by any of his act performed in the normal course of business. Therefore partners have a duty to observe utmost good faith in business dealings. They must disclose all information they possess to others and be true to each other.

(7.) Unlimited Liability:-

Like sole-proprietorship, in a partnership also, the liability of every partner is unlimited. In case assets (property) of the firm are insufficient to pay debts (loans) of the firm then the personal property of the partner can be sold for that purpose.

(8.) Restriction on Transfer of Interest:-

No partner can transfer his share without the permission of all other partners. Even new partner can be admitted only after taking permission of all the partners.

(9.) No Separate legal Entity:-

A partnership firm has no separate legal existence independent of the partners.

A firm cannot make contract with anyone in its own name.

Merits and Demerits of Partnership
are not in syllabus.

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Partnership Deed :

A partnership can be formed only through agreement between two or more persons. This agreement may be oral or writing. However, a written agreement is preferable because it serves as a record for future. It also helps to resolve any dispute among partners.

A written agreement of partnership is called Partnership Deed. It contains all the terms and conditions on which a partnership has been formed.

Types of Partnership :

1) General Partnership :

Each partner in a general partnership can take active part in the management of the firm. The liability of each partner is unlimited. It means, if the properties of business are not enough to pay the loans of the business then the personal property of partners can be sold to pay the loans of the business. Each partner will share profits and losses in an agreed ratio.

2) Limited liability Partnership :

In a limited liability partnership, the liability of all the partners is limited upto their agreed contribution. Minimum number of members is two and there is no limit on maximum number of members. Limited liability partnership must be registered

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It has a separate legal existence which means it can purchase property, make contracts in its own name.

Difference between Limited liability partnership and General Partnership

S.No.	Limited Liability Partnership	General Partnership
1.	Every partner has limited liability.	Every partner has unlimited liability.
2.	The firm has a separate legal entity.	The firm does not have a legal entity.
3.	Death, lunacy or bankruptcy of a partner does not affect continuity of the firm.	Death, lunacy or bankruptcy of a partner dissolves the firm.
4.	Must be registered.	Need not be registered.
5.	No restriction on the number of partners.	Number of partners is restricted.

(3) Partnership at Will:-

Partnership at will is formed for an indefinite period. It can continue for any length of time depending upon the will of the partners, that's why it is called 'Partnership at will'. It can be dissolved by any partner giving a notice to all other partners of his will to quit the firm.

(4) Particular Partnership:-

Particular partnership is formed for a specific time period or to achieve a specific objective. It is automatically dissolved on the expiry of specified period or on the completion of specific purpose for which it was formed.

For example if a partnership is formed for 2 years or complete a flyover. It will be automatically dissolved after 2 years if it is formed for 2 years or

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after the completion of flyover if it is formed for completion of flyover.

Students before going further, let's take a short break. Write the answers of following questions during the break.

- Ques 1. Define Partnership
2. Explain two features of Partnership.
 3. What is Particular Partnership?

Types of Partners:-

(1) Active Partner:-

Active partner is one who contributes capital. He takes an active part in the management of the firm. His liabilities are unlimited. He shares profits and bears losses. His identity is known to the public.

(2) Sleeping Partner:-

Sleeping partner contributes capital. His liabilities are unlimited. He shares profits and losses. But he does not take part in the management of the firm.

(3) Secret Partner:-

Secret partner is one who contributes capital and takes part in the management of the firm. His liability is unlimited. He shares profits and losses. But his identity is not known to the public.

(4) Limited Partner:-

Limited partner contributes capital and shares profits and losses. His liability is

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limited. Therefore he is not allowed to take part in the management of the firm.

(5) Partner in Profits Only:-

Such a partner contributes capital. His liability is unlimited. He shares only profits, but does not share losses. He is not allowed to take part in the management of the firm.

(6) Nominal Partner:-

Nominal partner is one who neither contributes capital nor takes part in the management of the firm. He does not share profits and losses, but he is liable to outsiders for the debts (loans) of the firm. Nominal Partner can be of two types:-

(a) Partner by Estoppel:-

A person who by his own words (spoken or written) or conduct represents himself as a partner becomes liable to those who advance money to the firm on the basis of such representation.

For example, Amit is a rich man and friend of Mohit. Mohit runs a partnership firm named as XYZ Enterprises. Amit went to Suresh with Mohit and tells Suresh that he is a partner in XYZ Enterprises (in which he is not a partner). On this impression Suresh sells goods worth ₹1,00,000/- to XYZ Enterprises. Later on the firm is unable to pay the amount due to Suresh. Now, Suresh can recover the amount

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from Amit. Here, Amit is partner by Estoppel. But Amit is not liable for any other debts (loans) of XYZ Enterprises.

(5) Partner by Holding Out:-

When a person is declared as a partner and he does not deny this even after becoming aware of it, he is liable to third parties who lend money to the firm on the basis of such declaration.

For Example,

Mohit tells Suresh that Amit is a ~~partner~~ partner in XYZ Enterprises (in which Amit is not a partner). But Amit does not deny the statement even after knowing this. Later on, Suresh gives loan of ₹1,00,000 to XYZ Enterprises on the basis of impression that Amit is a partner in the firm. Now when the firm fails to repay the loan to Suresh, Amit is liable to pay ₹1,00,000 to Suresh. Here, Amit is partner by Holding out.

But Amit is not liable for any other debts (loans) of XYZ Enterprises.

(7) Minor as a Partner:-

A minor is one who has not completed 18 years of age. A minor can be admitted to the benefits of partnership with the mutual consent of all the partners. A minor partner shares profits but does not bear losses. He cannot take part in the management of the firm. His liability is limited to the extent of his share of the capital in partnership. (8)

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What will happen when minor partner attains the age of 18 years.

After becoming major (18 years +), the minor partner must give a public notice within six months if he wants to break off his connections with the firm. If he does not give such notice within six months or if decides to remain in the firm, then his liability will become unlimited. He will bear losses of the business and he can also take part in the management of the firm.

(8) Sub Partner:-

Sub partner is not a partner of the firm. He is a third person with whom a partner agrees to share his profits derived from the firm. He does not take part in the management of the firm. He is not liable for the firm's debts.

Students with this, I am ending my topic here. Write the answers of the following questions in your notebook.

- Ques/.
- Who is a Nominal partner?
 - Distinguish between Active and Sleeping partner.
 - Can a limited partner take part in the management of the firm?
 - Who is partner by holding out?