

CHAPTER-2

FORMS OF BUSINESS ORGANISATION



Partnership

Partnership

Partnership form of business organisations emerged to overcome the difficulties of sole proprietorship business



Partnership

Definition

The Indian Partnership Act, 1932



“The relation between persons who have agreed to share the profits of a business carried on by all or any of them acting for all”

Features of Partnership



Features of Partnership

a

Formation

Formation is based on the legal agreement among the partners to run a lawful business
It may be either oral or written



But two people coming together for charitable purpose is not a partnership

Features of Partnership

b

Liability

The liability of each partner is unlimited



Even their personal properties are held liable for the debts of the partnership firm

The partners are jointly and individually liable for payment of debt.

Features of Partnership

C

Risk bearing

All the risk of loss is shared by the partners as they share profits of the firm



Features of Partnership

d

Decision making and control

Decisions are generally taken with mutual consent

Activities of the partnership firm are managed through joint efforts of all the partners



Features of Partnership

e

Continuity

A partnership is purely a personal organization and it has no separate legal existence apart from its members, hence it lacks continuity



Death, insanity etc. of a partner bring an end to the business

Features of Partnership



Number of Partners



Minimum number of members is 2

According to Section 464 of Companies Act 2013 maximum number of partners can be 100, subject the number prescribed by the government

At present it is limited to 50 by Govt. of India (As per Rule 10 of The Companies(miscellaneous) Rules 2014)

Features of Partnership

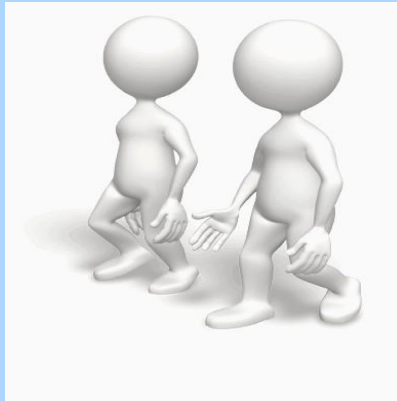
g

Mutual agency

Every partner is both an agent and principal. He is an agent of other partners as he represents them and thereby binds them through his acts. He is a principal as he too can be bound by the acts of other partners.



Merits of Partnership



Merits of Partnership

a

Easy formation and closure



Less formalities only

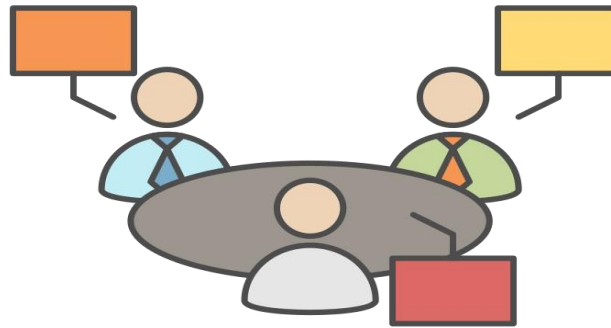
There is no compulsion with respect to registration of the firm.

Closure of the firm too is an easy task.

Merits of Partnership

b

Balanced decision making



Because of the involvement of more than one person partners can oversee different functions according to their areas of expertise

This helps in reducing the burden of work, leads to fewer errors in judgements, as a result the decisions are likely to be more balanced.

Merits of Partnership

C

More funds

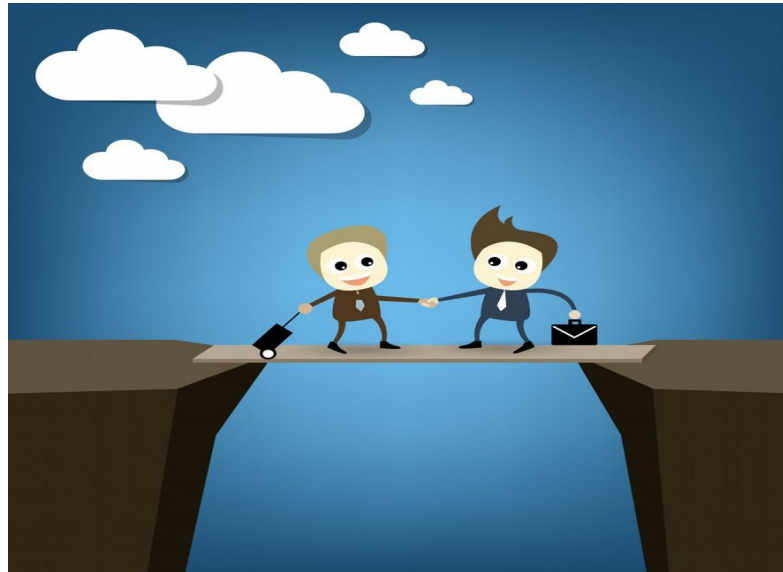


Large capital can be accumulated as capital is contributed by a number of partners. This makes it possible to raise larger amount of funds as compared to a sole proprietor and undertake additional operations when needed.

Merits of Partnership

d

Sharing of risk



Risk is shared by all the partners.

This reduces the anxiety, burden and stress on individual partners

Merits of Partnership

e

Secrecy can be maintained



No legal requirements to publish its accounts and reports

Hence it is able to maintain confidentiality of information relating to its operations.

Limitations of Partnership



Limitations of Partnership

a

Unlimited liability



Partners are liable to repay debts even from their personal resources in case the business assets are not sufficient to meet its debts. The liability of partners is both joint and several

Limitations of Partnership

b

Limited resources



Unable to run large scale business organizations because there is a restriction on the number of partners, and hence contribution in terms of capital investment is usually not sufficient.

Limitations of Partnership

C

Possibility of Conflicts



Difference in opinion on some issues may lead to disputes between partners.

Disagreement between partners leads to dissolution of firms

Limitations of Partnership

C

Lack of continuity



Partnership comes to an end with the death, retirement, insolvency or lunacy of any partner. It may result in lack of continuity.

However, the remaining partners can enter into a fresh agreement and continue to run the business.

Limitations of Partnership

d

Lack of public confidence



A partnership firm is not legally required to publish its financial reports or make other related information public.

The confidence of the public in partnership firms is generally low.

Types of Partners

Types of Partners

1

Active or Working Partner



Take actual part in carrying out business of the firm on behalf of other partners.

Contributes capital ,shares its profits and losses, and is liable to an unlimited extent

Types of Partners

2

Sleeping or Dormant Partner



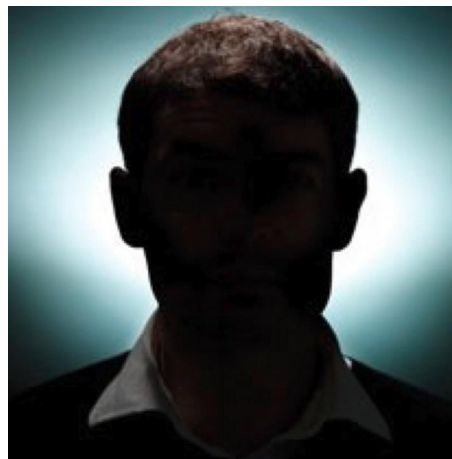
Do not take part in the day to day activities of the business, contributes capital, shares profit or loss and has unlimited liability

Types of Partners

3

Secret Partner

His connection with the firm is unknown to the public



Contributes capital
Participates in management
Unlimited liability

Types of Partners

4

Nominal Partner

Lends his name and reputation for the benefit of the firm



Does not contributes capital
No participation in management
No share in profit
But liable to outsiders

Types of Partners

5

Partner by Estoppel

If a person acts as a partner of a firm through his/her own initiative, conduct or behaviour, he/she gives an impression to others that he/she is a partner of the firm, he can be called as partner by estoppel.



Even though he is not an actual partner, he is liable for the debts of the firm as he makes himself as a partner in front of the public

Types of Partners

6

Partner by holding out

A person may be declared as a partner in a firm by the outsiders and does not deny this even after becoming aware of it



He is also liable for the debts of the firm although he is not an actual partner

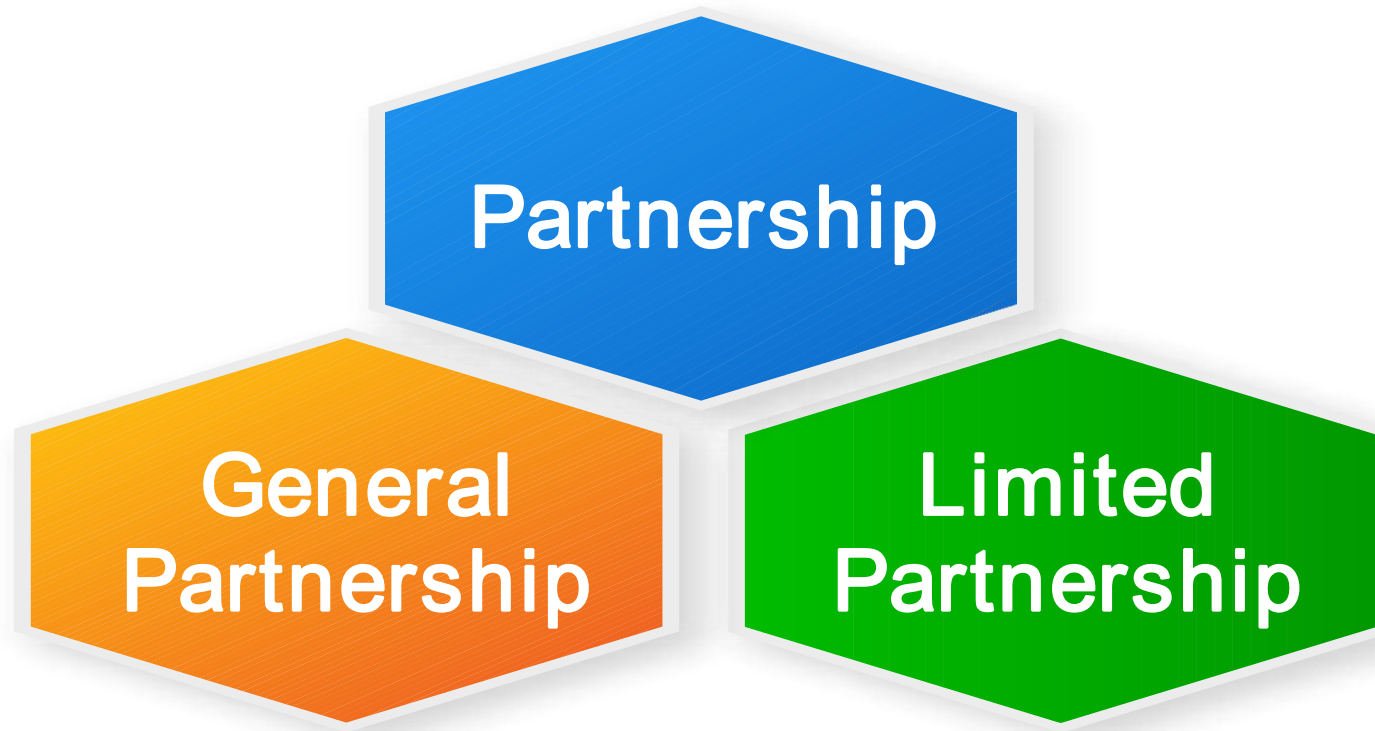
Types of Partners

Type	Capital	Management	Share in Profits/Losses	Liability
Active Partner	Contributes Capital	Participates in Management	Shares Profits/Losses	Unlimited
Sleeping Partner	Contributes Capital	Does not Participate in Management	Shares Profits/Losses	Unlimited
Secret Partner	Contributes Capital	Participates in Management	Shares Profits/Losses	Unlimited
Nominal Partner	Does not Contributes Capital	Does not Participate in Management	Generally does not Share Profits/Losses	Unlimited
Partner by Estoppel	Does not Contributes Capital	Does not Participate in Management	Does not Share Profits/Losses	Unlimited
Partner by Holding out	Does not Contributes Capital	Does not Participate in Management	Does not Share Profits/Losses	Unlimited

Types of Partnership



Types of Partnership (on the basis of Liability)





General Partnership

General Partnership

Also known as ordinary partnership
Unlimited liability to partners
Usually found in India

GENERAL PARTNERSHIP





Limited Partnership

Limited / Special Partnership

Two types of partners in Limited Partnership

Unlimited
Liability



General
Partners

Limited
Liability

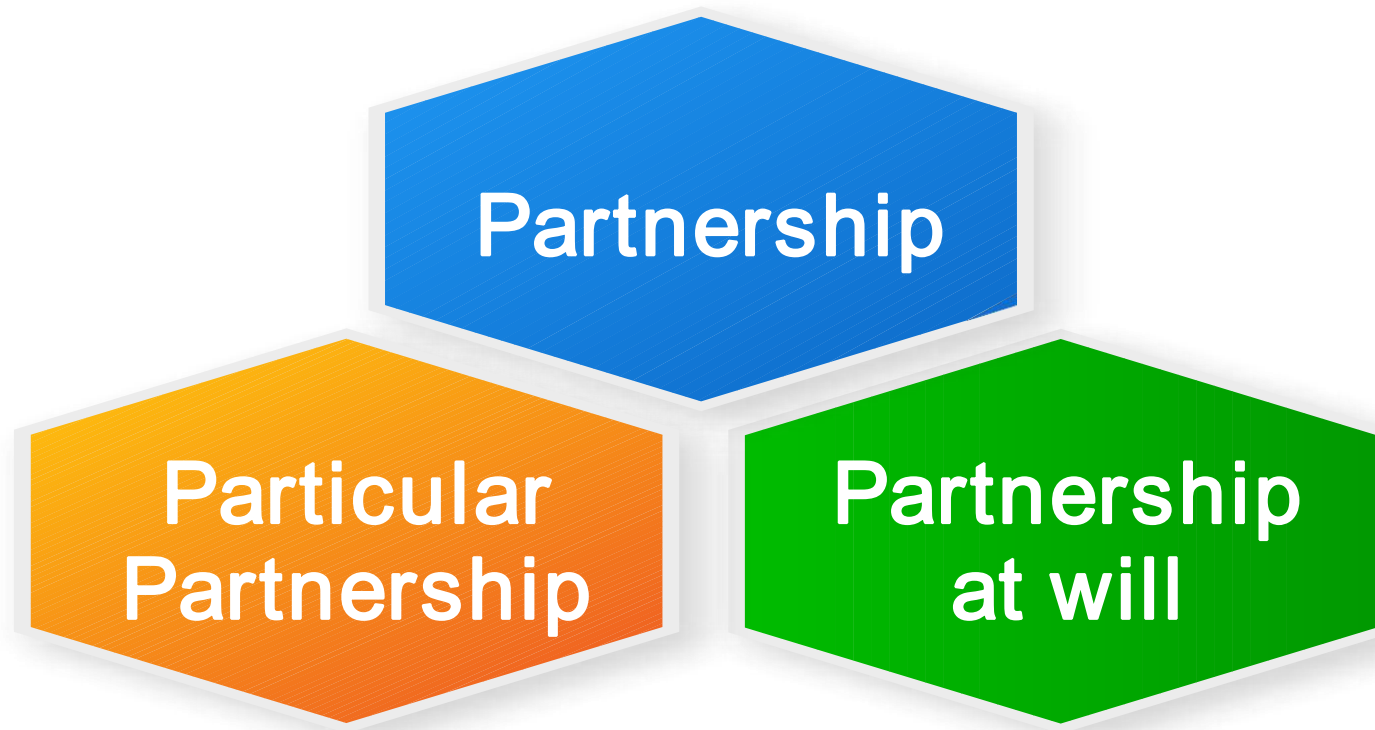


Special
Partners

Limited Partnership

- In limited partnership, the liability of at least one partner is unlimited whereas the rest may have limited liability.
- Such partnership does not get terminated with the death, lunacy or insolvency of the limited partners.
- The limited partners do not enjoy the right of management and their acts do not bind the firm or the other partners.
- Registration of such partnership is compulsory.
- their acts do not bind the firm or the other partners.

Types of Partnership (on the basis of Duration)



An orange hexagon with a white border and a subtle drop shadow, centered on a white background. The text "Particular Partnership" is written in black, sans-serif font inside the hexagon.

Particular
Partnership

Particular Partnership

- a Formed for a particular purpose or for a particular period**

Dissolved automatically after the expiry of the time or the completion of the project



E.g. If a partnership is formed for two years, or for the construction of a house



Partnership
at will

Partnership at Will

b

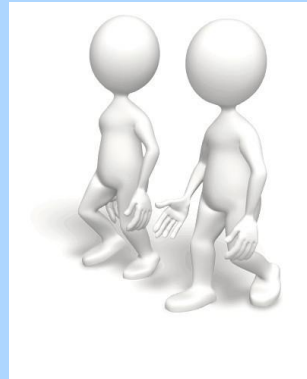
Duration of partnership is not specified in the agreement

It will be continued for an indefinite period



It can be dissolved at any time as it is decided by all or any of the partners

Partnership Deed



Partnership Deed



This deed of partnership executed on this 9th day of May 2002 between 10 AM and 11 AM.

1. I, N.K. PURUSHOTHAMAN S/o. KUNHUKUTTAN aged 55 years residing at Purakkadi Village, Bathery Taluk, Wayanad District (hereinafter called partner of the 1st Part)
2. I, P.P.Ajith S/o. N.K. Purushothaman aged 31 years residing at Purakkadi Village, Bathery Taluk, Wayanad District (hereinafter called Partner of the Second Part)

NOW THIS DEED OF PARTNERSHIP WITNESSTH AS FOLLOWS:-

1. The Name Style of the partnership shall be 'Kanthi Textiles', Meenangadi.
2. The Duration of partnership shall be one at 'At Will'.
3. The Principal place of business shall be at Door No.530& 531 Meenangadi Panchayat, Wayanad District .
4. The Object of partnership are :
 - (i) To carry on the business of Textiles and readymade garments.
 - (ii) To do any other business or businesses as the partners may decided from time to time.
5. The Capital of the firm is for the time being fixing at Rs. 3,77,387/- (Rupees Three Lakh Seventy Seven Thousand Three Hundred and Eighty Seven only) which shall be contributed by the first partner of Rs.1,88,693.5 and Second partner for Rs.1,88,693.5 . The additional capital if any required shall also be contributed by the partners in such proportion as may be decided up on time to time.

Partnership Deed

भारतीय गैर न्यायिक
एक सौ रुपये
रु. 100
भारत INDIA
INDIA NON JUDICIAL
Rs. 100
ONE
HUNDRED RUPEES

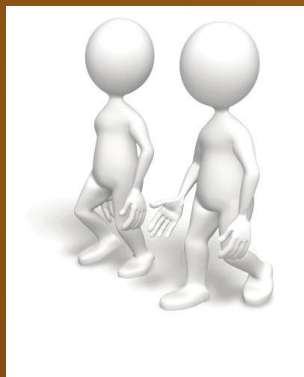
तमिलनाडु TAMIL NADU
9899
Do 5/2/14
p. Chandrasekar
K. MAHALAKSHMI
S.V.L. No. 3815/2013
Bharati, 71, Old No. 1, 2nd Street
Kongichampatti, Chennai
Chennai-600 014

Deed of Partnership

This deed of partnership is made on [Date, Month, Year] between:

1. [First Partner's Name], [Son/Daughter] of [Mr. Father's Name], residing at [Address Line 1, Address Line 2, City, State, Pin Code] hereinafter referred to as FIRST PARTNER.
2. [Second Partner's Name], [Son/Daughter] of [Mr. Father's Name], residing at [Address Line 1, Address Line 2, City, State, Pin Code] hereinafter referred to as SECOND PARTNER.
3. [Third Partner's Name], [Son/Daughter] of [Mr. Father's Name], residing at [Address Line 1, Address Line 2, City, State, Pin Code] hereinafter referred to as THIRD PARTNER.
4. [Fourth Partner's Name], [Son/Daughter] of [Mr. Father's Name], residing at [Address Line 1, Address Line 2, City, State, Pin Code] hereinafter referred to as FOURTH PARTNER.

Articles of Partnership





Partnership Deed

Partnership is established by an agreement which may be oral or in writing

It is always better to have the agreement in writing to avoid any dispute

The document, containing the agreement in writing among the partners is called Partnership Deed

Contents of Partnership Deed

Contents of Partnership Deed

1. Name of the firm



Contents of Partnership Deed

2. Names and addresses of all partners



A photograph of a white form with horizontal lines. The form has two main sections: 'Name:' followed by a line, and 'Address:' followed by a line. A silver and black pen is positioned diagonally across the bottom right of the form, pointing towards the 'Address:' field. The form is set against a light gray background.

Contents of Partnership Deed

3. Nature and place of business



Contents of Partnership Deed

4. Date of Commencement of partnership



Contents of Partnership Deed

5. Duration of partnership, if any



Contents of Partnership Deed

6. Capital contribution by the partners



Contents of Partnership Deed

7. The amount that can be withdrawn by each partner



Rs. 20,000

Contents of Partnership Deed

8. Rules regarding operation of bank accounts



Contents of Partnership Deed

9. Division of profits or losses



Contents of Partnership Deed

10. Interest on capital or drawings, if any



Contents of Partnership Deed

11. Interest on partner's loan to the firm



Contents of Partnership Deed

12. Salaries, commission, etc. if payable to any partner



Contents of Partnership Deed

13. Details of division of work among the partners

Purchase Manager

Production Manager

Sales Manager



Contents of Partnership Deed

14. Ascertainment of goodwill



On admission, retirement and death of a partner

Contents of Partnership Deed

15. Settlement of accounts



In the event of retirement or death of partners

Contents of Partnership Deed

16. Settlement of accounts



On dissolution of the firm

Contents of Partnership Deed

17. Provisions relating to the maintenance and audit of accounts



Contents of Partnership Deed

18. Provisions for arbitration in the event of disputes



Contents of Partnership Deed

19. Provisions regarding borrowings of the firm

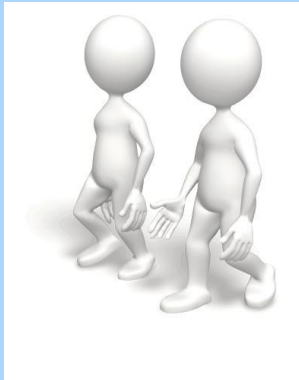


Contents of Partnership Deed

20. Rights, duties and liabilities of partners



Registration of Partnership



Registration of Partnership

Registration of partnership is not compulsory



But it can be registered with the Registrar of Firms as per the Partnership Act 1932

Procedure for Registration



a

Submit an application in prescribed form with the following details:

- a) Name of the firm.
- b) Location of the firm.
- c) Names of other places where the firm carries on business.
- d) The date of joining of each partner.
- e) Names and addresses of partners.
- f) Duration of partnership.
- g) This application should be signed by all the partners.

Procedure for Registration

b

Remitting the fees for registration



Procedure for Registration

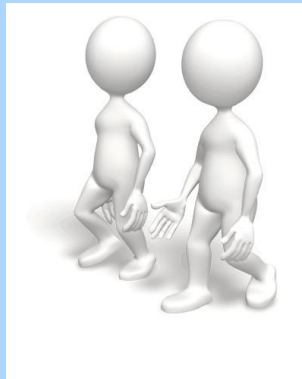
C

Issue of Registration Certificate



After approval, the Registrar should enter the name of the firm in his register and issues a certificate of registration

Effects of Non-Registration



Effects of Non-Registration

1

Cannot sue against third parties



An unregistered firm cannot sue against a third party for the recovery of claims

Effects of Non-Registration

2

Cannot sue against its partners



An unregistered firm cannot sue against its partners

Effects of Non-Registration

3

A partner cannot enforce his claims



A partner of an unregistered firm cannot enforce his claims against outsiders or against his co-partners or the firm

Now revise the topic using the link given below:

<https://youtu.be/M2nniT1FMxA>