

1. Details of Module and its structure

Module Detail	
Subject Name	Accountancy
Course Name	Accountancy 03 (Class XII, Semester - 1)
Module Name/Title	Nature of Partnership, Partnership Deed and Special Aspects of Partnership Accounts – Part 1
Module Id	leac_10201
Pre-requisites	Knowledge about Partnership form of Business Organisation.
Objectives	After going through this lesson, the learners will be able to understand the following: <ul style="list-style-type: none">• Meaning• Features• Rights of a Partner• Partnership Deed- Meaning and importance• Provision affecting Accounting treatment in the absence of Partnership Deed• Special aspects of Partnership Account
Keywords	Partnership, Partners, Firm, Firm's Name, Partnership deed

2. Development Team

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1. Partnership-Meaning:

There are many different forms in which a business can be organised, viz. Sole Proprietorship, Partnership, Joint Hindu Family Business, Co-operative Organisation, One Person Company (OPC), Private Limited Company or Joint Stock Company.

When the business is owned and controlled by one person, it is called **Sole Proprietorship** but when there are two or more persons who share profits and losses of the business, it is called **Partnership**.

According to Section 4 of The Indian Partnership Act, 1932, “**Partnership is 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.**”

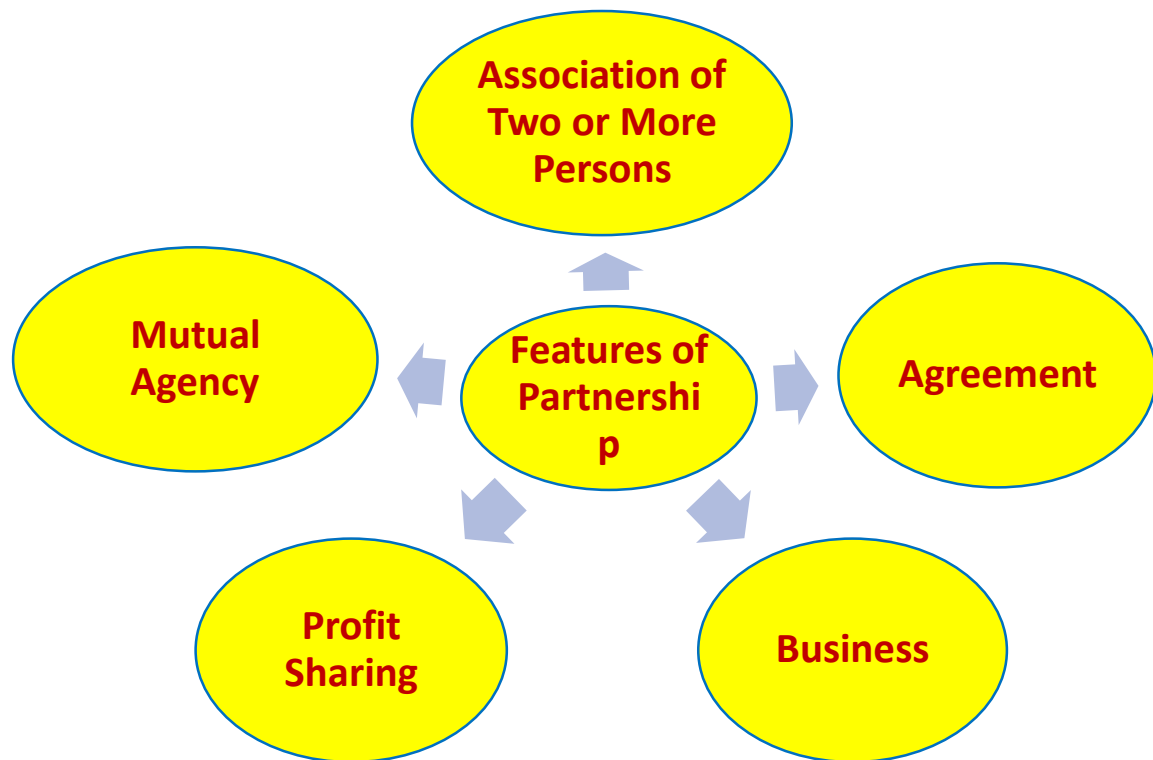


The persons who have entered into partnership are called **Partners** and they are known as **Firm**.

collectively

2. Features of Partnership:

The essential characteristics of partnership are:



a. **Association of Two or More persons** :

- For partnership, there must be atleast two persons.
- According to Rule 10 of Companies (Misc.) Rules, 2014 Central Government has prescribed the maximum number of partners to be 50. (Companies Act 2013 has put a limit of 100) According to Indian Contract Act,1872 every person except the following is competent to contract
 - a) A Minor
 - b) A Person of unsound mind and
 - c) Persons disqualified by any law



b. **Agreement:**

- Partnership comes into existence by an agreement.
- The agreement can be oral or written.
- The agreement forms the basis of their relationship.



c. **Business:**

- Partnership can be formed only for the purpose of carrying lawful business.
- Business includes trade, profession and vocation.



- Any association formed for Charity or Social Work or Leisure cannot be termed as partnership.

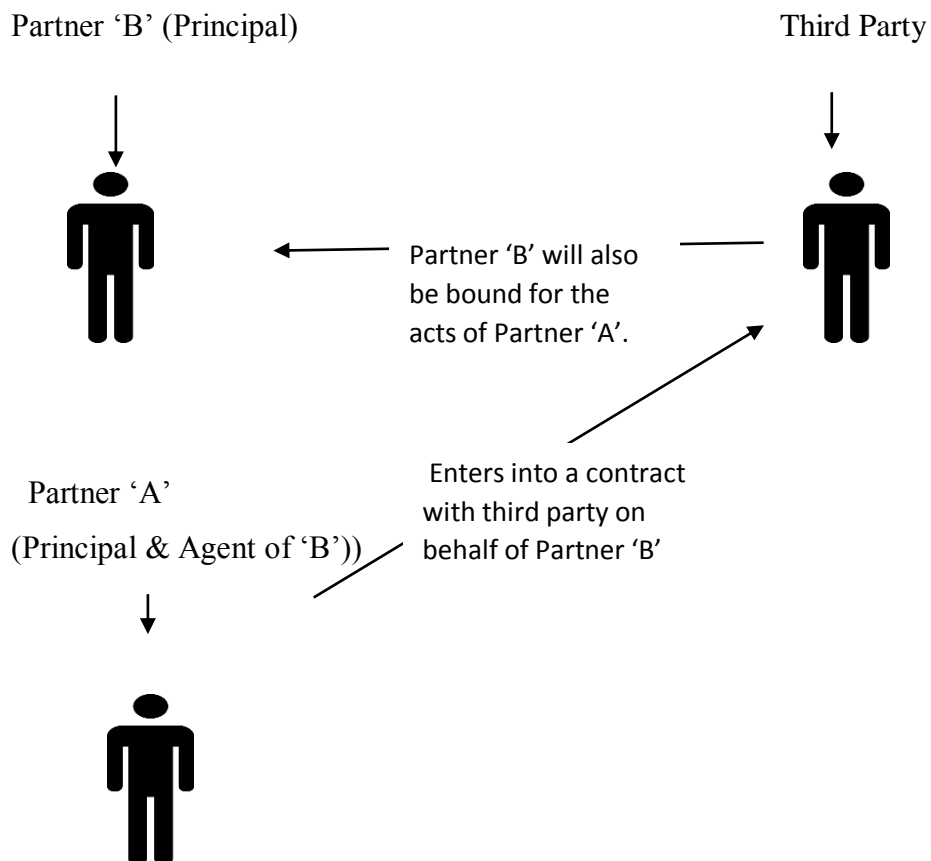
d. **Profit Sharing:**

- The agreement between the partners must be to share the profits or losses.
- It is not essential for all the partners to share losses. (It should be mentioned in the Partnership Deed).



e. **Mutual Agency:**

- Business of the partnership concern can be carried on by all the partners or any of them acting for all.
 - Partners are agents as well as the principals.
 - As an agent, a partner represents other partners and thereby bounds them through his act and as a principal, he is bound by the act of other partners.
- For example, Suppose, A and B are partners. If 'A' enters into a business agreement, 'B' will also be bound by this. Here, 'A' has acted as an agent of 'B'.





Limited Liability Partnership-

- With the enactment of Limited Liability Partnership Act 2008, a new type of partnership has come into existence which is known as Limited **Liability Partnership (LLP)**.
- Under this type of partnership, liability of the partners is limited to the extent of their capital contribution & there is no upper limit of partners.
- **The main features of LLP are:**
 - a) The name of the LLP must be approved by the Registrar of Companies (RoC).
 - b) The agreement of the LLP is to be filed with the Registrar of Companies.

3. Rights of a partner:

Right to participate in the management of the business

Right to be consulted about the affairs of the business

Right to inspect the books or accounts and have a copy of it

Right to share profits and losses with others in the agreed ratio

Right to receive interest on loan advanced by him at an agreed rate

Right to not allow the admission of a new partner

To retire from the firm after giving proper notice

To get indemnified from firm against payments made by the partner on behalf of the firm



4. Partnership Deed-

4.1 Meaning:

- The partnership comes into existence as a result of an agreement, which can be oral or written.

The written document is known as Partnership Deed.

- It contains the terms and conditions of partnership.
- It is signed by all the partners.
- Not compulsory but it is better to have the agreement in writing to avoid the future disputes. It is also a good evidence in the Court of Law.

4.2 Contents of Partnership Deed:

- i. Name, description and address of the partners;
- ii. Name, nature and address of the partnership firm (head office);
- iii. Duration of partnership (if any);
- iv. Date of commencement of business;
- v. Amount of capital contributed by each partner;
- vi. Profit sharing ratio;
- vii. Rate of Interest on capital, on drawings; and on partner's loan;
- viii. Method of settling disputes amongst the partners;
- ix. The rights and duties of partners;
- x. Settlement of accounts in case of retirement or death of a partner and at the time of dissolution of the firm;
- xi. Amount of salary or commission to be paid to partners (if agreed);
- xii. The manner in which assets of the firm shall be valued in the case of its reconstitution; and any other issues relating to the conduction of business.

5. Accounting Treatment of some important items in the absence of the Partnership Deed:

In the absence of Partnership Deed or if the partnership deed is silent i.e. it does not specify anything about the following items than the provision of the Indian Partnership act 1932 applies:

Items	Provisions of the Indian Partnership Act, 1932
Sharing of Profits/ losses	Profit and losses are to be shared equally
Interest of Capital	No interest on capital is to be allowed to the partners
Interest on Drawings	No interest on drawings is to be charged from partners

Interest on loans/advances by partner	Interest on loan is to be allowed at 6% p.a.
Remuneration/Salary/commission to the Partners	No remuneration/salary or commission to be allowed to the partners

Some other important provisions of Partnership Act, 1932

- A person can be admitted as a partner either with the consent of all the existing partners or in accordance with the agreement between the partners.
- A person can retire from the firm either with the consent of all the existing partners or in accordance with the agreement between the partners.
- A minor can be admitted but only for the benefit of the partnership with the consent of all the partners.
- The firm is dissolved on the death of a partner, unless otherwise agreed upon by the partners.

6. Special aspects of Partnership Accounts

The accounts of partnership firm are prepared following the same principles as are followed in Sole Proprietorship. Besides that, following are some additional aspects:

- a) Partner's Capital Accounts;
- b) Distribution of Profits or Losses among the partners (Interest on partner's capital, interest on partners' drawings, salary or commission to partners);
- c) Interest on partner's loan to the firm;
- d) Adjustments for Wrong Appropriation of Profits in the Past;
- e) Guarantee of Profit;
- f) Reconstitution of a Partnership Firm;
- g) Dissolution of a Partnership Firm;