PARTNERSHIP

A partnership is one of the most common forms of business organisation, especially in India. It is usually formed when two or more people come together to start a business and agree to share the profits. Any small and medium-sized businesses in India work as partnerships because partners can combine their money, skills, and experience to run the business better.

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."

This means that a partnership is formed by an agreement, and every partner has the right to take part in the business. This agreement is usually written in a document called the Partnership Deed, which contains all the terms and rules of the partnership.

Partnership Firm

A partnership firm is a business organisation formed when two or more people come together by an agreement to carry on a lawful business and share its profits.

Features of Partnership Firms:



- **Two or More Persons** A partnership must have at least two partners and can have a maximum of 50 partners.
- **Agreement Among Partners** - A partnership is formed by an agreement between two or more persons. This agreement may be written or oral.
- **Lawful Business**- The business carried on must be **l**egal**.** Partnership can only be formed for carrying on a lawful business activity.
- **Profit Sharing** - The agreement between partners must include a clause for sharing the profits and losses of the business. The share of each partner is usually specified in the agreement, but if it is not mentioned, profits and losses are distributed equally. It is not compulsory for all partners to bear losses, provided this is clearly stated in the partnership agreement.
- **Mutual Agency**- The business of a partnership may be conducted by all partners together or by any one of them acting on behalf of all.
- **Unlimited Liability** - The liability of partners is unlimited, meaning they may even have to pay business debts from their personal assets.

Legal Status of a Partnership Firm:

A partnership firm does not have a separate legal identity in the eyes of law. It is simply a collection of individuals conducting business together. As a result of this:

- The firm can neither sue nor be sued in its own name.
- The firm cannot hold any property in its own name.
- Assets of the firm belong to the partners jointly.
- All partners, either jointly or individually, bear the liabilities of the firm.

Thus, a partnership firm exists and functions only through its partners, who are collectively responsible for its operations and obligations.

Rights of a Partner

Every partner in a firm is entitled to certain legal and contractual rights to ensure equality, transparency, and fair participation in the business.

- **Right to Conduct the Business**: Each partner has the right to participate in the daily operations and management of the firm. This ensures that all partners are involved in decision-making and the smooth running of the business.

- **Right to Share Profits and Losses**: Every partner has the right to share the profits and losses of the firm.
- **Right to be Consulted:** Each partner has the right to express opinions and be consulted on important matters related to the business. Major policy decisions or changes in business direction should only be made after obtaining the consent of all partners.
- **Right to Inspect the Accounts**: Partners have the right to access, inspect, and verify the books of account of the firm. This right ensures transparency and accountability in financial matters. A partner may also obtain copies of relevant records to check the firm's performance or clarify doubts regarding financial transactions.
- **Right to Deny Admission of a New Partner**: No new partner can be admitted into the firm without the consent of all existing partners. Each partner has the right to object to such admission since the addition of a new partner affects the ownership, profit-sharing ratio, and responsibilities within the firm.
- **Right to Retire:** A partner may retire from the firm with the consent of other partners, or as per the partnership deed.

Meaning of a Partner, Firm and Firm's Name:

Partner: A partner is an individual who has agreed to establish and carry on the business jointly with other persons with a motive to earn and share the profit of such business.

Firm: All the persons who have agreed to establish and carry on the business jointly with each other and enter into a partnership are collectively known as a Firm.

Firm's Name: The name under which all the partners agree to conduct the business is known as a Firm's Name.

Limited Liability Partnership:

A Limited Liability Partnership (LLP) is a type of business organisation in which the liability of partners is limited to the amount they invest in the business. This means the personal property of partners is protected from business debts.

An LLP combines the flexibility of a partnership with the benefits of a company. It has features like separate legal identity, perpetual succession, and limited liability, while allowing partners to manage the business directly.

"The concept of Limited Liability Partnership (LLP) was first introduced in India through the Limited Liability Partnership Act, 2008. The very first LLP was registered in India in April 2009. Today, LLPs are one of the most preferred forms of business for professionals and startups because they combine the flexibility of a partnership with the protection of limited liability."