

## TOPIC: PARTNERSHIP ACCOUNTS

Prepared by: Manish Kukreja

### UNIT – 1 INTRODUCTION TO PARTNERSHIP ACCOUNTS



#### LEARNING OBJECTIVE OF THIS UNIT:

- A. Understand the provisions of the Indian Partnership Act, 1932
- B. Understand the provisions of the Limited Liability Partnership Act, 2008
- C. Understand the features of a partnership firm.
- D. Partnership Deed: Need, points to be covered in the Deed.
- E. Profit and Loss Appropriation Account.
- F. Two methods of maintaining Partners' Capital Accounts, namely Fixed Capital Method and Fluctuating Capital Method.
- G. Learn how to arrive at the corrected net profit figure and pass necessary journal entry for it.
- H. Calculation of Interest on capital and Interest on Drawings.

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# PARTNERSHIP

## Meaning features and definitions



### 1.1 DEFINITION OF PARTNERSHIP:

As per Section 4 of the Partnership Act, 1932: “Partnership is the relation between persons who have agreed to share the profit of a business carried on by all or any of them acting for all.”

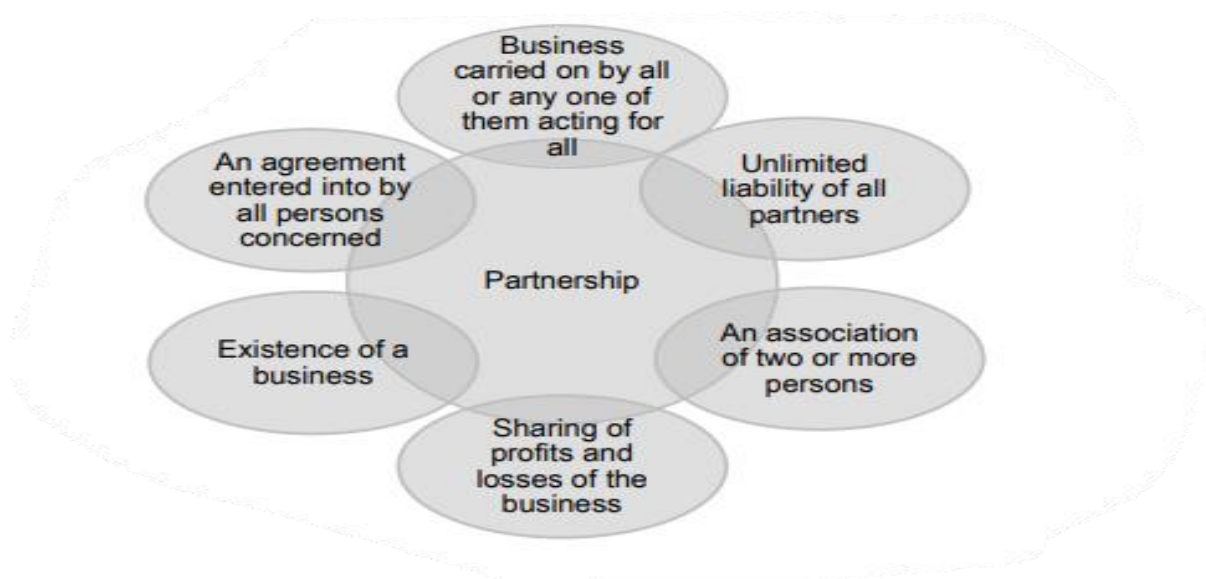
### 1.2 WHY PARTNERSHIP?

An individual i.e., a sole proprietor may not be in a position to cope with the financial and managerial demands of the present-day business world. As a result, two or more individuals may decide to pool their financial and nonfinancial resources to carry on a business. The final accounts of partnership firms including basic concepts of accounting for admission of a partner, retirement and death of a partner have been discussed in succeeding units of this chapter.

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### 1.3 FEATURES OF PARTNERSHIP:



Features of a partnership,

- (i) **Existence of an agreement:** As per section 5 of the Indian Partnership Act, 1932, The relation of partnership arises from contract between parties and not from status as it happens in case of HUF (Hindu Undivided Family). **A formal or written agreement is not necessary to create a partnership.**
- (ii) **Business:** A partnership can exist only in business. Thus, it is not the agreement alone which creates a partnership. A partnership comes into existence only when partners begin to carry on business in accordance with their agreement. Section 2 (b) of Indian Partnership Act, 1932 only states that business includes every trade, occupation and profession.

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- (iii) **Sharing of profit:** The persons concerned must agree to share the profits of the business. Because no person is a partner unless he or she has the right to share the profits of the business. Section 4 of Indian Partnership Act, 1932 does not insist upon sharing of losses. Thus, a provision for sharing of loss is not necessary. To constitute a partnership, it is not essential that the partners should agree to share the losses (Raghuandan vs Harmasjee). It is open to one or more partners to agree to bear all the losses of the business.
  
- (iv) **Mutual agency:** It means that the business is to be carried on by all or any of them acting for all. Thus, if the person carrying on the business acts not only for himself but for others also so that they stand in the positions of principals and agents, they are partners. **Therefore, if he acts for himself and in his own interest in the common concern of the partnership, then he is acting as a principal. On the other hand, if he acts for and in the interest of his partners, then he is acting as an agent.**
  
- (v) **Minor as a partner:** A minor can be added in partnership firm. **But the condition is that he can be admitted to share profit only.** He cannot be made to share losses of the firm. If the partnership firm suffers loss than it will be borne by other major partners in their profit-sharing ratio.

**Number of Partners: Minimum Partners: Two**

**Maximum Partners:** As per Section 464 of the Companies Act, 2013, maximum no. of partners is 100 but as per Rule 10 of Companies (incorporation) Rules 2014 specifies the limit as 50.

**In exam if asked just about no. of partners then 100 but if asked as per rules then it is 50.**

### 1.4 LIMITED LIABILITY PARTNERSHIP

**Partnership firm registered under** Indian Partnership Act of 1932 has inherent shortcoming of **unlimited liability of all partners** for business debts and legal

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consequences, regardless of their holding or profit-sharing ratio, as the firm is not a legal entity.

General partners are also jointly and severally liable for tortuous (\* complicated, not clear and simple) acts of co-partners.

In case of liquidation personal assets of partners can be liquidated to meet liabilities of the firm.

The LLP will be a **separate legal entity**, liable to the full extent of its assets, with the **liability of the partners being limited to their agreed contribution** in the LLP which may be of tangible or intangible nature or both tangible and intangible in nature. No partner would be liable on account of the independent or un-authorized actions of other partners or their misconduct. The liabilities of the LLP and partners who are found to have acted with intent to defraud Creditors or for any fraudulent purpose shall be unlimited for all or any of the debts or other liabilities of the LLP.

The LLP is a **body corporate** in nature, since it itself is a body corporate **any body corporate can be its partner** also and an individual too of course.

The Limited Liability Partnerships (LLPs) in India were introduced by Limited Liability Partnership Act, 2008.

### SUMMARY:

LLP (Limited Liability Partnership) –

- (i) A body corporate
- (ii) Separate legal existence ( It has its own legal existence as it is created by Law by applying on MCA portal, It can do contracts in its own name)
- (iii) Perpetual succession (whether partners live or die, LLP will keep in existence unless you apply for its closure on MCA portal)

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### 1.4.1 Minimum number of partners in case of LLP

Minimum - 2

Maximum – No Limit

No individual shall be capable of becoming a partner of a limited liability partnership, if:

- a) Unsound Mind
- b) Undischarged insolvent
- c) Applied to be adjudicated as an insolvent

### 1.5 DISTINCTION BETWEEN AN ORDINARY PARTNERSHIP FIRM AND AN LLP:



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	Key Elements	Partnerships	LLPs
1	Applicable Law	Indian Partnership Act 1932	The Limited Liability Partnerships Act, 2008
2	Registration	Optional	Compulsory with ROC
3	Creation	Created by an Agreement *	Created by Law **
4	Body Corporate	No	Yes
5	Separate Legal Entity	No	Yes
6	Perpetual Succession	Partnerships do not have perpetual succession	It has perpetual succession and individual partners may come and go
7	Number of Partners	Minimum 2 and Maximum 50	Minimum 2 but no maximum limit
8	Ownership of Assets	Firm cannot own any assets. The partners own the assets of the firm	The LLP as an independent entity can own assets
9	Liability of Partners / Members	Unlimited: Partners are severally and jointly liable for actions of other partners and the firm and their liability extends to personal assets	Limited to the extent of their contribution towards LLP except in case of intentional fraud or wrongful act of omission or commission by a partner. ***
10	Principal Agent Relationship	Partners are the agents of the firm and of each other	Partners are agents of the firm only and not of other partners

\* Agreement sample shown below

\*\* Created by law means by registering it in ROC by filing application forms (image attached for your reference)

\*\*\* Then that partner would be jointly and severally liable, not others.

**PARTNERSHIP FIRM AGREEMENT/ DEED sample:**

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तमिलनाडु TAMIL NADU

P. Chandrasekar

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**K. MAHALAKSHMI**  
S.V.L. No. 3016/2/95  
New No.11, Old No.8, 2nd Street  
Mangalapuram, Chetpet,  
Chennai-31 Cell: 9362895090

### 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.




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### LLP registration at MCA portal:

← → ↻ ⌂ mca.gov.in/content/mca/global/en/mca/llp-e-filing/Fillip.html ☆

CA 2013 IT 1961 Zamzar Magzter First India India News News 18 Wion Webcast https://nacin.online... MAX Meditation for Begi... How To Get Started... Watch Introduction...



**FiLLiP**  
Form for Incorporation of Limited Liability Partnership  
[Pursuant to Rule 8, Rule 11 and Rule 18 of Limited Liability Partnership Rules, 2009]

सत्यमेव जयते

Form language  
 English  Hindi  
[Refer instruction kit for filing the form](#)

Form FiLLiP LLP Details Designated Partners Details Other Partners Details Attachment & Declaration Review & Proceed

All fields marked in \* are mandatory

LLP Information

**Part A: Incorporation document**

**1 Purpose of filing the form**

(a) \*Whether name is already approved by Registrar of Companies  
 Yes  No

(b) Service Request Number (SRN) of RUN-LLP  
Enter here

(c) \*Type of incorporation  
 New Incorporation  Conversion of firm into LLP  Conversion of private company/unlisted public company into LLP

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### Rules in the absence of Partnership Deed

In the absence of any agreement to the contrary;

1. No partner has the right to a salary,
2. No interest is to be allowed on capital,
3. No interest is to be charged on the drawings,
4. Interest at the rate of 6%.p.a is to be allowed on a partner's loan to the firm, and
5. Profits and losses are to be shared equally.

In short, if partnership deed is not available or do not contain clauses regarding to the above mentioned points, as per relevant provisions of the Act **only interest on loan @ 6% is to be given** to partner on partner loan, nothing else.

Accounts of Partnership firm		
Trading and Profit and Loss Account and Balance Sheet	Profit and Loss Appropriation Account	Capital accounts of partners (fixed capital method or fluctuating capital method)

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# TYPES OF PARTNERS

