

Class 11th | Business Studies



Forms of Business Organisations

LECTURE - 3

Ans 1] Mr. Raman Sharma - Unlimited liability

Ans 2] yes.

PARTNERSHIP

-ve points - Sole Proprietorship & HUF

- The limitations of Sole Proprietorship and Hindu Undivided Family business gave birth to partnership.
- Lack of finance and managerial capabilities under sole proprietorship paved the way for partnership as a viable option.
- Partnership serves as an answer to the needs of greater capital investment, varied skills and sharing of risks.
- **According to Indian Partnership Act, 1932, Partnership is the relation between persons who have agreed to share the profit of the business carried on by all or any one of them acting for all.**



50 - 50

Q. Which act governs HUF?
A → Hindu Succession Act, 1956 establish

Mnemonic

Funny
F

Lions
L

Run
R

During
D

Mornings
M

Meetings
M

PARTNERSHIP

Features of Partnership

- **Formation:** → *Establishment*
Partnership is governed by the Indian Partnership Act, 1932. It comes into existence through a legal agreement among the partners, in which terms and conditions governing the relationship, sharing of profits and losses and the manner of conducting the business are specified.

3 partners
15 lakh.
5l 85l + 5l



PARTNERSHIP

- **Liability:**

The partners of a firm have unlimited liability, i.e. their personal assets may be used to pay off debts of the business in case of insufficiency of business assets.

Further, the partners are 'jointly' and 'individually' liable for payment of debts.

- Jointly, all the partners are responsible for the debts and they contribute in proportion to their share in business and as such are liable to that extent.
- Individually, each partner can be held responsible to repay the debts of the business. However, such a partner has the right to recover the proportionate contribution from other partners.



Saala Ye Dukh Kaahe Khatam Nahi
Hota Hai Be

20 Lakhs - loss

4

- No. of partners

$\frac{1}{4} | 25 |$

- Profit/loss sharing ratio.

→

A	B	C	D
5 lakhs	5 lakhs	5 lakhs	5 lakhs.

→

B
20 lakhs → A & B & C

✓

PARTNERSHIP

- Risk Bearing:**

The partners bear the risks involved in running a business as a team. The reward for risk bearing comes in the form of profits, which are shared by the partners in an agreed ratio. However, in the event of losses, they also share the losses in the same ratio.

20 lakhs - Profit				
A	B	C	D	
5	5	5	5	



PARTNERSHIP

- **Decision-Making and Control:**

In a partnership firm, partners share amongst themselves the responsibility of decision-making and control of day-to-day activities. Decisions are generally taken with mutual consent. Thus, the activities are managed through the joint efforts of all the partners.



PARTNERSHIP

- **Membership:** / No. of members.

There should be minimum of 2 persons to form a partnership firm. Section 464 of the Companies Act, 2013 provides that number of persons in any partnership shall not exceed 100 subject to the limit prescribed in Rules.

Rule 10 of the Companies (Miscellaneous) Rules, 2014 provides that no partnership shall be formed, consisting of more than 50 persons. So, limit as of now is 50 partners.

Minimum - 2 persons



PARTNERSHIP

- **Mutual Agency:**

According to Indian Partnership Act, 1932, partnership business is carried on by all or any one of the partners acting for all. It means, every partner acts in the capacity of an 'agent' as well as a 'principal'.

- As an agent, he represents other partners and thereby binds them through his acts.
- As a principal, he is bound by the acts of other partners.



Continuity → The partnership firm continues till when the partners desire for it.

PARTNERSHIP

Merits of Partnership

- **Ease of formation and closure:**

A partnership firm can be easily formed and dissolved. It comes into existence through an agreement between the partners and they can start a lawful business even without registration.

Agreement is necessary

PARTNERSHIP

- **Balanced Decision-Making:**

Two heads are always better than one. The specialised knowledge, skills and experience of different partners are available to the firm. The partners can oversee different functions according to their areas of expertise. It not only reduces the burden of work but also leads to more balanced decisions.

PARTNERSHIP

- **More Funds:**

In partnership firm, capital is contributed by a number of partners. As a result, the business has got large resources as compared to sole proprietorship and firm can undertake additional operations when needed.

PARTNERSHIP

- **Sharing of Risks:**

Business risks are shared by all the partners under the principle of unlimited liability. This reduces the anxiety, burden and stress on individual partners.

Profit
{ Loss }

PARTNERSHIP

- **Secrecy:**

A partnership firm can easily keep its secrets as it is not required to publish its accounts. Partners are not likely to leak out the secrets as their own future is linked with the success of the firm.

Company forms
↓
Publish Accounts

1

PARTNERSHIP

Limitations of Partnership

- **Unlimited Liability:**

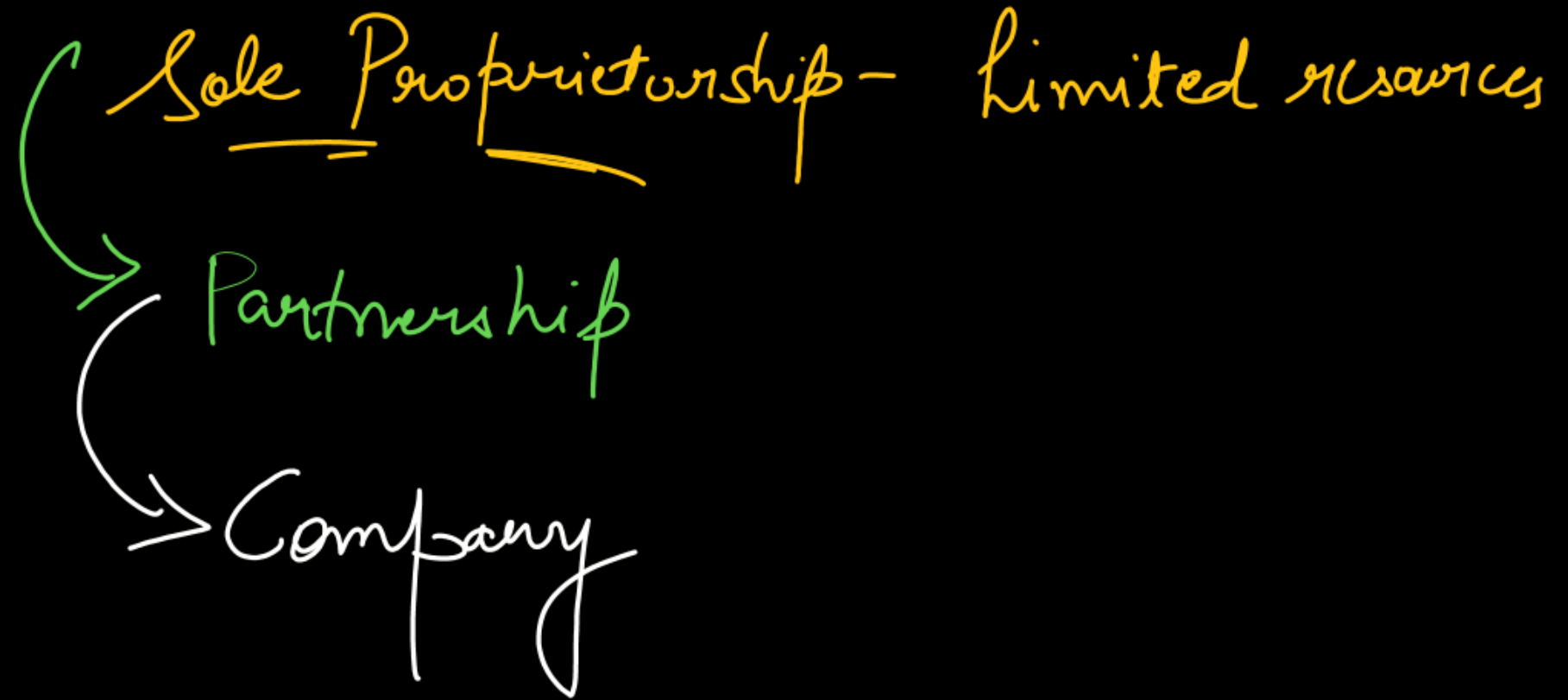
The liability of the partners is unlimited, jointly as well as individually.

- Partners are liable to pay off business debts from their personal property if the business assets are not sufficient to meet its debts.
- It is a drawback for those partners who have greater personal wealth as they will have to repay the entire debt in case the other partners are unable to do so.

PARTNERSHIP

- **Limited Resources:**

A partnership firm cannot raise huge financial resources to support large scale business operations due to legal ceiling on number of partners. As a result, partnership firms face problems in expansion and growth beyond a certain size.



PARTNERSHIP

- **Possibility of Conflicts:**

In a partnership firm, every partner enjoys the right to participate in the affairs of the firm.

- Any difference in opinion on some issues may lead to disputes between the partners. Decisions of one partner are binding on others.
- Any wrong decision by one partner may result in financial ruin of all other partners.
- Further, if a partner desires to leave the firm, then it will lead to termination of partnership as there is restriction on transfer of ownership.

$$\begin{array}{cccc}
 A & \& B & \& C & \& D \\
 100 = 25\% & & 25\% & & 25\% & & 25\%
 \end{array}$$

$$100 = A \& B \& C$$

PARTNERSHIP

- **Lack of Continuity:**

The life of a partnership firm is highly uncertain and unstable. It can come to an end by agreement, insolvency, death or insanity of any of the partners. However, the remaining partners can enter into a fresh agreement and continue to run the business.

PARTNERSHIP

- **Lack of Public Confidence:**

As the partnership firm is not legally required to publish its accounts, public is not aware of its true financial status. As a result, the partnership firm enjoys less confidence of the public.

QUESTIONS

- 1.** A, B, and C are partners in a firm manufacturing antoparts. Their firm is not registered. In order to increase the earnings of the firm. B decided to use low quality raw materials without the knowledge of A and C. As a result many accidents were reportedly by the consumers and a case has been filed against the firm.
- a.** Is this worng act of B binding on the A and C.
- b.** State the features related to this.

H.W.

antoparts

MADE BY:
PARI JAIN

CHANGA JI

ALWAYS KEEP WORKING HARD



STAY TUNED



BYE BYE "POOKIES"



BST QUEEN

