

VAISHALI EDUCATION POINT

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Question and Answers

Topic– Nature of Partnership Firm

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1. What is Partnership?

- According to Section 4 of the Indian Partnership Act, 1932 :

"Partnership is the relationship between persons who have agreed to the share the profits of a business carried on by all or any one of them acting for all"

2. What are the Features of Partnership?

- **Features of Partnership**

a) Association of two or more persons :

There must be at least two persons to form a valid partnership. Section 11 of The Indian Partnership Act, 1932 restrict the **(maximum) number of partners to 10 for carrying on banking business and 20 for other kind of business.**

b) Agreement:

Partnership comes into existence after an agreement has been entered into by two separate entities who are competent to enter into a contract. The written agreement among the partners is called **Partnership Deed**.

c) Carrying on a business:

A Partnership agreement can be framed for the purpose of carrying on a business intending to earn profits.

d) Legal Business:

A Partnership can be framed for the purpose of carrying lawful business. An illegal business, can't be given protection under the provision of Section 4 of the Partnership Act 1932. So such businesses do not constitute partnership.

e) Profit Sharing:

The agreement between the partners must be to share the profits of the business. The sharing of profits also includes sharing of losses.

f) Mutual Agency:

A partnership can be carried on by all the partners or any one of them acting for all. Partnership business may be carried on by all or any of them acting for all. Each partner acts as an agent of other partners every partner whether participating in management or not will be held liable for the acts of other partners in ordinary course of business.

3. What is meant by the term partners firm and firm name?

- The persons who have entered into partnership are known individually as **partners** and collectively as firm. The name in which the partnership business is carried on is called **firm name**.

4. What is the minimum and maximum number of partners in all partnership?

- There should be **at least two persons** to form a Partnership. The maximum number of Partners in a firm carrying a banking business should not exceed ten and in any other business should not exceed twenty.

5. What is the status of partnership from an accounting viewpoint?

- From an accounting viewpoint, partnership is a separate business entity. From legal viewpoints, however, a Partnership, like a sole proprietorship, is not separate from the owners.

6. What is Partnership Deed?

- **Partnership deed is an agreement.** It contains terms and conditions, which are agreed upon by all the partners. So, an agreement may be written or oral. But when its written, it's called a **deed**.

3. What is the importance of a written partnership deed?/Why it is necessary to have a partnership deed in writing?

- According to the Partnership Act, it is not necessary that it must be written, i.e. it may be oral or written. However, to avoid all kinds of misunderstanding and disputes among the partners, it must be a written agreement duly signed by all the respective partners and registered under the Act. In case of any dispute among partners, it can be produced as evidence in the court.

8. List any four contents of a partnership deed.

- The partnership deed usually includes the following:
 - Name and address of the firm.
 - Name and addresses of all partners.
 - Duration of partnership.
 - Amount of Capital to be contributed by each partner.
 - Whether interest is to be allowed on capital.
 - Whether any partner is to be allowed salary.
 - The profit sharing ratio.
 - The duties of each partner.
 - Modes of settlement of accounts in case of retirement/death of a partner.
 - Accounting period.

9. What are the rules/ provision applicable in the absence of partnership deed?

Sl.No.	ACCOUNTING ISSUES	RULES APPLY
1.	Interest on Capital	No Interest on Capital is to be allowed
2.	Interest on Drawings	No interest on Drawings is to be charged
3.	Salary or Remuneration	No Salary or Remuneration is to be allowed to any partner.
4.	Commission	No Commission is to be allowed to any partner.
5.	Profit sharing ratio	Profit or losses are to be share equally by all partners.
6.	Interest on loan	Interest is allowed @6% per annum

10. State the provision of 'Indian partnership Act 1932' relating to sharing of profits in absence of any provision in the partnership deed.

- In the absence of any provision in the Partnership deed, profit or losses are share by the Partners equally.