FUNDAMENTALS OF PARTNERSHIP

As per Section 4 of the Indian Partnership Act 1932
'Partnership is relation between persons who have agreed to share the profits of a business carried on by all or any of them acting for all'
Persons who have entered into partnership with one another are individually called 'partners' and collectively called '**firm**'. The name under which the business is carried called the '**firm's name'.**

FEATURES OF PARTNERSHIP

Two or More Persons
In order to form partnership, there should be at least two persons.
Maximum = 50

Agreement
There must be agreement between two or more persons
It may be written or Oral.
Written agreement is called **Partnership Deed**

Legal Business
The agreement should be to carry on some **Legal business.**

Sharing of Profit
The agreement between partners must be to share profits and losses of a business

Liability of Partnership
Each partner is liable jointly with all the other partners and also severally to the third party for all the acts of the firm done while he is a partner

Mutual Agency
- Partnership business may be **carried on by all** the partners **or by any of them acting for all.**
- **Each partner** whether participating in management or not , will be held **liable for the acts of other partners** in ordinary course of business.
- So, **every partner** plays a double role as **an agent as well as principal** at the same time.

RIGHTS OF PARTNER

- **Share Profits or Losses**
- Take part in the **Conduct of the Business**
- **Inspect** and have a copy of **Accounts**
- **Disallow the Admission** of a new partner
- **Joint Owner of** the partnership **Property**
- **Right to Retire** by giving a proper notice

RIGHTS OF PARTNER

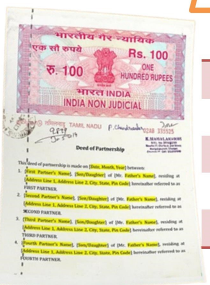
- To carry business for **Common Advantage.**
- must be **Faithful** to the other partners
- Bound to keep & render **Correct Accounts**
- **Must Not Carry On Competing Business**
- Can't Use Firm's Property for pvt purposes.
- Every partner is **Bound to Indemnify** the firm for any loss caused by his willful neglect or fraud in the conduct of the business.

PARTNERSHIP DEED

The document, which contains terms of the agreement, is called 'Partnership Deed'. It generally contains the details about all the aspects affecting the relationship between the partners. **Normally,** the partnership deed covers all matters affecting relationship of partners amongst themselves.

Agreement may be in written or oral, In order to avoid disputes, it is preferred that the partners have a written Agreement

PROVISIONS IN ABSENCE OF PARTNERSHIP DEED



(a) Profit Sharing Ratio	**Equal Proportion**
(b) Interest on Capital	**Not Allowed**
(c) Interest on Drawings	**Not Charged**
(d) Interest on Advances(loan) by Partner	**6%**
(e) Remuneration for Firm's Work	**Not Allowed**
(f) Interest on Loan to Partners	**Not Charged**

IMPORTANCE OF PARTNERSHIP DEED

Partnership deed is important legal document , which define relationship among partner. It is important to have a written partnership deed to avoid settle possible dispute. It is also a good evidence of court.

PROFIT AND LOSS APPROPRIATION ACCOUNT

Profit and Loss Appropriation Account is merely an extension of the Profit and Loss Account of the firm. It shows how the profits are appropriated or distributed **Account** among the partners.

Profit & Loss Appropriation Account

Dr. **For The Year Ending ....** Cr.

Particulars	**Rs.**	**Particulars**	**Rs.**
To Interest on Capital		**By Profit and Loss Account**	xxx
Partners' Capital/Current A/c	xxx	*(Profit – Interest on Partner's Loan – Manager commission - Rent to Partner)*	
To Salary/ Commission			
Partners' Capital/Current A/c	xxx		
To Transfer to Reserve	xxx	**By Interest on Drawings**	xxx
To Profit Transfer to		Partners' Capital/Current A/c	
Partners' Capital/Current A/c	xxx		
	xxx		xxx

Charge Against Profit	**Appropriation of Profit**
Deduction of Expenses shall be made out of profit, It will be provided in all circumstances even in case of losses. It be recorded to P&L Account.	In implies distribution of profit among partners after deducting all expenses from it. Appropriation are provided only in case of profit to the firm.

Profit & Loss Appropriation Account (In Case of Loss)

Dr. **For The Year Ending ....** Cr.

Particulars	Rs.	Particulars	Rs.
To Profit and Loss Account (Net Loss)	xxx	**By Interest on Drawings** Partners' Capital/Current A/c **By Profit Transfer to** Partners' Capital/Current A/c	 xxx xxx
	xxx		xxx

JOURNAL ENTRIES RELATING TO THE PROFIT & LOSS

Transfer Of Net **Profit**	**Transfer Of** Net Loss
Profit and Loss A/c ……. Dr. **To Profit and Loss Appropriation A/c** (Being transfer of net profit to Profit & Loss Appropriation A/c)	Profit and Loss Appropriation A/c Dr. To Profit and Loss A/c **(Being transfer of net loss to Profit & Loss Appropriation A/c)**
Interest On Capitals	**Partners' Remuneration (Salary /Commission)**
Profit and Loss Appropriation A/c Dr. **To Partners' Capital/Current A/c** **(Being Interest on Capital allowed to partners)**	Profit and Loss Appropriation A/c Dr. To Partners' Capital/Current A/c **(Being Salary/Commission allowed to partners)**
Transfer Of Reserve	**Share Of Profit**
Profit & Loss Appropriation A/c……….Dr. **To Reserve A/c** (Being transfer of profit to reserve)	Profit and Loss Appropriation A/c….Dr. To Partners' Capital/Current A/c **(Being distribution of profit among partners)**
Interest On Drawings	**Share Of Loss**
Partners' Capital/Current A/c **Dr.** **To Profit and Loss Appropriation A/c** (Being interest on drawings charged)	Partners' Capital/Current A/c….Dr. To Profit and Loss Appropriation A/c **(Being distribution of profit among partners)**

Distinction between Profit and Loss & Profit and Loss Appropriation Account

Profit and Loss Account	Profit and Loss Appropriation Account
It is prepared after trading account	It is prepared after profit and loss a/c
It shows the profit earned or loss incurred. These account has neither opening nor closing balances	It shows appropriation of net profit These account may have opening and closing balances
Items debited to this account are expense and charge against profit	Items debited to this account are appropriation against profit
The preparations of this account are not based on partnership agreement except interest on partner loan.	The preparations of this account are based on partnership agreement.
While preparing this account, matching principle is followed.	While preparing this account, matching principle not is followed.

Distinction between charge against profit and appropriation of profit

Basis	Charge against profit	Appropriation out of profit
Nature	It includes expanses to be deducted from profit while calculating net profit or loss.	It includes distribution of profit against in different heads.
Recording	It is debited to profit and loss account	It is debited to profit and loss appropriation account.
Necessary or not	It is necessary to make charge against profit even if there is loss.	Appropriation is made only in case of profit.
example	Interest on partner loan, rent paid to partner	Interest on capital and partners' salary.

DRAWINGS

The amount withdrawn by partners from firm in cash or kind for their personal use is called Drawings.

Drawings Against Profit

These are the part of profit which are drawn for the personal use. These drawings are made out of profit hence it does not affect Capital of firm, Interest on Drawings Is Charged on this kind of Drawings

Drawings against capital

these are the withdrawal of capital for the personal use. These drawings are made out of capital hence it affect Capital of firm, Interest on Drawings Is not Charged on this kind of Drawings.

CAPITAL ACCOUNTS OF PARTNERS

There are two methods by which the capital accounts of partners can be maintained.
These are:
(i) Fixed capital method, and
(ii) Fluctuating capital method.

(a) Fixed Capital Method: Under this method, two accounts are maintained for each partner viz., Fixed capital account and current account,

(b) Fluctuating Capital Method: Under the fluctuating capital method, only one account, i.e. capital account is maintained for each partner.

(i)Fixed capital A/c Remain unchanged until unless
- Further capital is introduced or
- Capital withdrawn from firm

(ii) In the absence of any instruction, the capital account should be prepared by fluctuating method.

Calculation of Opening Capital

	Partner2	Partner3
Closing Capital	xxxx	xxxx
Add: Drawings	xxxx	xxxx
Add: Withdrawal of Capital	xxxx	xxxx
Less: Profit (including all appropriation except reserve)	xxxx	xxxx
Less: Further Capital	xxxx	xxxx
Opening Capital	xxxx	xxxx

Fixed Capital Method

Dr. Partners' Fixed Capital Account Cr.

Particular	P1	P2	Particular	P1	P2
To Bank (permanent withdrawal of capital)	xxx	xxx	By Balance b/d *(opening balance)*	xxx	xxx
To Balance c/d (closing balance)	xxx	xxx	By Bank *(fresh capital introduced)*	xxx	xxx
	xxx	xxx		xxx	xxx

Dr. Partners' Current Account Cr.

Particular	P1	P2	Particular	P1	P2
To Balance b/d *(in case of debit balance)*	xxx	xxx	By Balance b/d *(in case of credit balance)*	xxx	xxx
To Drawings	xxx	xxx	By Salary	xxx	xxx
To Interest on drawings	xxx	xxx	By Commission	xxx	xxx
To Balance c/d (in case of credit closing bal.)	xxx	xxx	By Interest on capital	xxx	xxx
			By Profit & Loss Appropriation *(share of profit)*	xxx	xxx
			By Balance c/d	xxx	xxx
	xxx	xxx	(in case of debit closing bal.)	xxx	xxx

Fluctuating Capital Method

Dr. Partners' Capital Account Cr.

Particular	P1	P2	Particular	P1	P2
To Bank (permanent withdrawal of capital)	xxx	xxx	By Balance b/d *(opening balance)*	xxx	xxx
To Drawings	xxx	xxx	By Bank *(fresh capital)*	xxx	xxx
To Interest on drawings	xxx	xxx	By Salary	xxx	xxx
To Balance c/d (closing balance)	xxx	xxx	By Commission	xxx	xxx
			By Interest on capital	xxx	xxx
			By P&L Appropriation *(share of profit)*	xxx	xxx
	xxx	xxx		xxx	xxx

Distinction between Fixed Capital Account and Fluctuating Capital Account

Basis	Fixed Capital Account	Fluctuating Capital Account
(i) Number of Accounts	Under this method, two separate accounts are maintained for each partner viz. 'capital account' and 'current account'.	Each partner has one account, i.e. capital account, under this method
(ii) Adjustments	All adjustments for drawings, salary, interest on capital, etc. are made in the current accounts and not in the capital accounts.	All adjustments for drawings, salary interest on capital, etc., are made in the capital accounts,
(iii) Fixed balance	The capital account balance remains unchanged unless there is addition to or withdrawal of capital.	The balance of the capital account fluctuates from year to year
(iv) Credit balance	The capital accounts always show a credit balance.	The capital account may sometimes show a debit balance.

GUARANTEE OF PROFIT BY FIRM TO PARTNER

Guarantee means assurance to give a minimum amount of profit to partner. If any deficiency is arise then Guaranteeing partner or firm will born the deficiency

Partner to whom Guarantee of minimum profit is given is called ***guaranteed partner***

Partner who give Guarantee of minimum profit is given is called ***Guaranteeing partner***

GUARANTEE OF PROFIT BY PARTNER TO FIRM

A Partner may Guarantee the firm to earn a minimum amount of profit on his behalf. If he/she fails to earn such guaranteed amount then he will born deficiency.

LIMITED LIABILITY PARTNERSHIP

"LLP shall be a body corporate and a legal entity separate from its partners. It will have perpetual succession. While the LLP will be a separate legal entity liable to the full extent of its assets, the liability of partners would be limited to their agreed contribution."

MCQs