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PARTNERSHIP

A form of business which enables two or more persons to collectively run an organization, and they agree to share the profits and losses of the company. Each member of such a business is called a Partner and together they are known as a partnership firm.
Partners in Partnership Firm share profits and losses in proportion to their respective investments. These firms are regulated by Section 4 of the Indian Parliament Act of 1932.

Features of a Partnership Firm

Partnership firm has a distinct entity from the sole proprietorship. Following are major features of partnership firms which make it distinct from other forms of organisations:

- **Based on Agreement-** partnership is an agreement between two or more persons called partners, who decide to start this business, have to make a formal mutual contract between them. This agreement is normally written and is called Partnership Deed.
- **Number of Partners-** There is restriction on the number of partners that can be the part of a partnership firm. As per section 11 of Indian Partnership Act 1932, the maximum number would be 10 for a banking Partnership business and for other than banking businesses it is restricted to 20 for other Partnership businesses. Minimum number of partners required for the firm is two in number.
- **Liabilities-** In general partnerships, all the partners are subjected to liabilities which are not limited and hence they are responsible to cover whole debt of the firm. But in the case of limited liability partnership the liability is limited.
- **Profit sharing-** in partnership firm, partners share profits and losses in the predetermined ratio as per their partnership deed. If partnership deed is not signed or there's no clause mentioned in the agreement about the same than the income will be distributed equally.
- **Non-Transferability of Interest-** A partner cannot shift his/her interest from existing firm to others. There is a stringent restriction upon inclusion and retirement of the partners without earlier permission. For every change there needs to have consent of all the partners in the firm.

Types of Partnership

Partnership firm can be classified into different types based on their characteristics. These types are discussed in detail below:

1. **General Partnership-** the Partnership in which the partners equally participate in the regular activities and decision-making prospects of a firm. Here the partners are equally responsible for all profits, liabilities and debts of the company. The liability for all the partners in this firm is unlimited.
2. **Limited Partnership-** A Limited Partnership is one in which the liability of one or more partners are limited. A limited partner usually takes his/her share of profit without having daily managerial activities and decision making. Because of the limited liabilities, they don't have to bear the loss incurred more than the liability limited.
3. **Partnership at Will-** Such kind of Partnership depends on the will of a partner. Here a partner can break the bond anytime when they need to. This type of Partnership is normally created for lawful business which usually lasts for an indefinite time until the partners are ready to break the bond.

Kinds of partners:

In a partnership firm, there can be several types of partners, including:

- **General Partners**: These partners have unlimited liability and are actively involved in the management and decision-making of the business.

- **Limited Partners**: These partners have limited liability and do not participate in the day-to-day management of the business. They are passive investors and their liability is limited to the extent of their investment.

- **Sleeping Partners**: These partners do not participate in the management of the business but have unlimited liability for the debts and obligations of the firm.

- **Nominal Partners**: These partners lend their name to the business but do not contribute capital or participate in the management of the business.

- **Active Partners**: These partners actively participate in the management of the business and share in the profits and losses.

- **Partner in Profit Only**: These partners are entitled to a share of the profits but do not share in the losses.

The exact types of partners in a partnership firm can vary depending on the specific partnership agreement and the needs of the business.

Advantages of partnership:

Partnerships have several advantages. The members forming the part of partnership firm will get following advantages including:

- **Shared resources:** Partnerships allow for the sharing of resources, including financial, managerial, and operational resources. This can help reduce costs and increase efficiency.

- **Complementary skills and knowledge**: Partnerships allow for the pooling of skills, knowledge, and expertise from different individuals or companies. This can lead to more innovative solutions and better decision-making.

- **Shared risk**: In a partnership, risk is shared among the partners, which can help reduce the individual risk for each partner.

- **Increased credibility**: A partnership can help increase the credibility of the partners in the eyes of customers, suppliers, and other stakeholders.

- **Access to new markets**: Partnerships can help open up new markets and customers for the partners, which can lead to increased revenue and growth.

- **Flexibility:** Partnerships can be structured in a flexible manner, allowing for different levels of involvement and commitment from each partner.

- **Tax benefits**: Depending on the structure of the partnership, there may be tax benefits for the partners.

Overall, partnerships can be a powerful tool for achieving shared goals and objectives, and can offer several advantages over operating independently.

Disadvantages of partnership:

Inspite of having several advantages, A Partnership form of organisation has disadvantages too. These are stated as follows:

- **Unlimited liability:** The partners in the partnership firm agree to share all the losses and profits between them. The liability of all the partners is not limited. There is usually a burden on the personal properties and money held with the partners.

- **Capital Blocking:** Neither a partner in the firm can withdraw his/ her capital without the consent of other partners nor he/ she can transfer his/ her share to anyone. This is one of the significant reasons that discourage people from investing in a partnership firm.
- **Uncertainty:** A partnership business suffers from uncertainty. It arises from the events like insanity, insolvency, retirement, and the death of a partner. This may result in the sudden end of the business.
- **Difficulty in decision making:** The consent of every partner is needed in partnership business before making a decision. Every decision requires the approval of all partners. Policy-making choices also needs consent of all as well. Hence, the partners are unable to make spontaneous or quick decisions on right time.

In nutshell, partnership is a form of organisation that has composite features of sole proprietorship as well as company form of organisation. Here, the members are having unlimited liability and are collectively responsible for each other deeds. Partnership is suitable for businesses which are not enough to be managed by a single owner.