Commerce-Edu-Hub
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UNIT-2

ACCOUNTING OF PARTNERSHIP

What is Partnership? What are the features of Partnership?

A partnership is a kind of business organisation where a formal agreement between two or more people is made who agree to be the partner, distribute responsibilities for running an organization and share the profit or losses from that business.

In India, all the aspects and functions of the partnership are administered under Indian Partnership Act 1932. Sec.4 of Indian Partnership Act defines Partnership as "The relation between persons who have agreed to share the profits of a business carried on by all or any of them acting for all."

Following are the few features of a partnership:

Agreement between Partners: It is an association of two or more individuals, and a partnership arises from an agreement or a contract. The agreement becomes the basis of the association between the partners. Such an agreement may be written or oral.

Two or More Persons: In order to manifest a partnership, there should be at least two . However, there is a constraint on their maximum number of people.

Sharing of Profit: Another significant component of the partnership is the agreement between partners to share profits and losses of a trading concern.

Motive: It is important for a firm to carry some kind of business and should have a profit gaining motive.

Mutual Business: The partners are the owners as well as the agent of their firm. Any act performed by one partner can affect other partners and the firm.

Unlimited Liability: Every partner in a partnership has unlimited liability.

Advantages of Partnership:

- Easy Formation : A Partnership Firm is easy to form. It is mere based on and registration is also not compulsory.
- Large Resources : Unlike sole proprietor where every contribution is made by one person, in partnership, partners of the firm can contribute more capital and other resources as required.
- Flexibility : The partners can initiate any changes if they think it is required to meet the desired result.
- Sharing Risk : All loss incurred by the firm is distributed amongst each partner.
- Combination of different skills : The partnership firm has the advantage of knowledge, skill, experience and talents of different partners.

Rights of Partners in a Partnership Firm

- Right to take Part in the Conduct of the Business.
- Right to be Consulted.
- Right to have Access to Books of account
- Right to Share Profits.
- Right to Interest on Capital.
- Right to Interest on Advance.
- Right to be Indemnified any loss or expenses
- Right to the Use of the Partnership Property.

What is a Partnership Deed? What are its contents?

Partnership deed is a partnership agreement between the partners of the firm which outlines the terms and conditions of the partnership between the partners. The purpose of a partnership deed is to provide clear understanding of the roles of each partner, which ensures smooth running of the operations of the firm.

Partnership Deed Contents :

While making a partnership deed, all the provisions and the legal points of the partnership deed are included. For a general partnership deed, the below mentioned information should be included.

- Name of the firm as determined by all partners.
- Name and details of all the partners of the firm.
- The date on which business commenced.
- Firm's existence duration.
- Amount of capital contributed by each partner.
- Profit sharing ratio between the partners.
- Duties, obligations and power of each partner of the firm.
- The salary and commission if applicable that is payable to partners.
- The process of admission or retirement of a partner.
- The method used for calculating goodwill.
- Procedure for settlement of accounts in the event of dissolution of a firm.

Rules applicable in the absence of a Partnership Deed

- The partners will share profits and losses equally.
- Partners will not get any salary or commission.
- Interest on capital will not be payable.
- Drawings will not be chargeable with interest.
- Partners will get 6% p.a. interest on loans to the firm if they mutually agree.

Difference between the Fixed Capital Account and Fluctuating Capital Account.

Basis of Difference	Fixed Capital Account	Fluctuating Capital Account
Definition	Fixed capital account is that form of capital account where the business maintains two different accounts which are related to the different kinds of transactions that take place in the capital of the partners.	Fluctuating capital account is that form of capital account where the capital of the partners keep on fluctuating.
No. of Accounts	Fixed capital account has two accounts which are capital account and current account	Only one account that is capital account
Capital Account status	This type of capital account remains constant.	This type of capital account fluctuates.
Partnership Deed	Needs to be mentioned specifically in partnership deed	No need to be mentioned in partnership deed.
Adjustment	Adjustment for interest on drawings, interest on capital, salaries etc. are not made in capital account.	All adjustments are made in the capital account.