4th

Class IX
Commercial Application 4/7/2020
Class IX
Chap - 3 (Partnership)

Questions

Q.1. What is Partnership form of business?

Q2. Discuss the features of Partnership form of business.

Q3. Distinguish between Sole-proprietorship and Partnership form of business.

Q.4. Distinguish between Partnership and Joint Hindu Family firm.

Q5. Discuss the merits of ~~8~~ Partnership form of business.

Q6. Discuss the demerits of Partnership form of business.

Q7. Define the following

a) General Partnership
b) Limited Liability Partnership.
c) Partnership at will.
d) Particular Partnership.
e) Active Partner.
f) Sleeping or Dormant Partner.
g) Secret Partner
h) Limited Partner
i) Partner in Profits only
j) Nominal Partner.
k) Minor Partner.
l) Sub Partner.
m) Partner by Estoppel
n) Partner by Holding out

"Two or more persons may form a partnership by making a written or oral agreement that they will jointly assume full responsibility for the conduct of business".

— **John A. Shubins**

"Partnership is the relation which subsists between persons who have agreed to combine their property, labour or skill in some business and to share the profits therefrom between them." — **The Indian Contract Act**

"Partnership is the relation between persons who have agreed to share profits of a business carried on by all or any one of them acting for all." — **The Partnership Act**

"Partnership has two or more members, each of whom is responsible for the partnership. Each of the partners may bind the others for debts of the partnership."

— **William R. Spriegel**

"Partnership is a form of business organisation in which two or more persons upto a maximum of twenty in ordinary business and ten in banking business join together to undertake some form of business activity." — **J.L. Hansen**

3.2. FEATURES OF PARTNERSHIP

The essential characteristics of partnership are as follows :

1. Two or More Persons : Partnership is an association of two or more persons. There must be at least two persons to form a partnership. A person cannot enter into partnership with himself. The maximum number of persons is 50. If the number of partners exceeds the prescribed maximum, it would become an illegal association of persons.

2. Agreement : Partnership is the outcome of an agreement between two or more persons. The relation of partnership arises from the formation of a contract and not from status or birth. If a proprietor gives a share in profits to his employee, it will not be called a partnership unless there is an agreement of partnership between the two. The agreement may be oral in writing but it must satisfy all essentia valid contract.

3. Lawful Business : A partnershi formed only for the purpose of carryin business. An association of persons who j own a house without carrying on a busines not partnership. Moreover, the business ca on by the partners must be lawful. Illegal such as theft, dacoity, smuggling, etc., cann called partnership.

4. Sharing of Profits : The agree between the partners must be to share the of business. There can be no partnership w the intention of mutual gain. The profits m distributed among the partners in an ratio. Similarly, losses should also be among the partners.

5. Mutual Agency : Partnership can be carried on by all the partners or b them acting on behalf of the others. words, every partner is an implied age other partners and of the firm. Each liable for acts performed by other pa behalf of the firm.

In addition to the above features, p has the following characteristics.

6. Utmost Good Faith : Patnersh on mutual trust and confidence. In one partner can bind the others by actsperformed in the normal course Therefore, partners have a duty utmost good faith in business de must disclose all the information th the others and be true to each oth

7. Unlimited Liability : Ea liable to an unlimited extent f obligations towards outsiders. This the firm's assets are inadequate to in full, even the personal property can be attached to satisfy the cla

8. Restriction on Transfer o partner can transfer his share in without the prior consent of all

9. No Legal Entity : A part no separate legal existence ind partners.

3 Ownership Structures — Partnership

LEARNING OBJECTIVES

After studying this chapter, you should be able to understand :

3.1. Meaning of Partnership
3.2. Features of Partnership
3.3. Distinction between Sole Proprietorship and Partnership
3.4. Merits of Partnership
3.5. Demerits of Partnership
3.6. Suitability of Partnership
3.7. Formation of Partnership — Partnership Deed
3.8. Registration of Partnership Firm
3.9. Types of Partnership including Limited Liability Partnership (LLP)
3.10. Types of Partners.

The partnership form of business organisation was evolved to overcome the shortcomings of sole proprietorship and joint Hindu family business. As the size of business expands, one person is unable to provide the necessary capital and managerial skills. Therefore, two or more persons form a partnership to carry on business by pooling their financial resources and managerial skills. Thus, partnership is an extension of sole proprietorship.

3.1. MEANING OF PARTNERSHIP

A partnership is formed by two or more members, each of whom is liable for the firm's debts. Two or more individuals may form a partnership by making a written or oral agreement stating that they will carry on a business jointly and will share the profits therefrom. A partnership is, therefore, a group of persons who have contributed the capital for setting up some business.

A partnership is a voluntary association of two or more persons who agree to carry on some business jointly and share its profits and losses. The persons who enter into partnership are individually called 'partners' and collectively a 'firm'. The name under which they carry on business is called the 'firm name'.

Some **popular definitions** of partnership are given below.

"Partnership is the relation between persons competent to make contract, who agree to carry on a lawful business in common with a view to private gain."

— L.H. Haney

"A partnership or firm, as it is often called, is a group of men who have joined capital or services for the prosecuting of some enterprise."

— Kimball and Kimball

Credit-worthiness is also high because every partner is jointly and severally liable for all the debts of the firm.

3. Combined Abilities and Judgement : The skill and experience of all the partners are pooled together. Combined judgement of several persons helps reduce the errors of judgement. and lead to balanced decisions. The partners may be assigned duties according to their talent. Therefore, benefits of specialisation are available. Partners meet frequently and can take prompt decisions.

4. Direct Motivation : Ownership and management of business are vested in the same persons. There is direct relationship between effort and reward. Every partner is motivated to work hard and to ensure the success of the firm.

5. Close Supervision : Every partner is expected to take personal interest in the affairs of the business. Different partners can maintain personal contacts with employees and customers. Fear of unlimited liability makes the partners cautious and avoid reckless dealings. Management of partnership is cheaper when expert managers are not employed.

6. Flexibility of Operations : Partnership business is free from legal restrictions and government control. Partners can make changes in the size of business, capital and managerial structure without any approval. The activities of partnership business can be adapted easily to changing conditions in the market.

7. Secrecy : A partnership firm is not required to publish its annual accounts. Audit of accounts is not essential and no reports are to be filed with the government authorities. Therefore, the affairs of a partnership business can easily be kept secret and confidential.

8. Protection of Minority Interest : Management of partnership is democratic. Every partner has a right to be consulted and can express his opinion. All important decisions are taken with the mutual consent of all the partners. In case a partner is dissatisfied with the majority decisions, he can retire from the firm or give a notice for its dissolution.

9. Cooperation : Partnership encourages mutual cooperation and trust amongst people. Partners work in common for the benefit of all and do their level best to make the business prosperous.

10. Scope for Expansion : There are greater possibilities for the expansion and growth of business. More partners can be taken in to meet the financial and managerial requirements of growing business.

3.5. DEMERITS OF PARTNERSHIP

A partnership suffers from the following limitations.

1. Limited Resources : There is a limit to the maximum number of partners in a firm. Therefore, it is not possible to collect huge financial resources. Borrowing capacity of partners is also limited. A partnership firm may not provide the required technical and administrative skills.

2. Unlimited Liability : Every partner is fully liable for the debts of partnership business. Fear of risk may restrict initiative and growth of business. Private properties of partners can also be taken up for business liabilities.

3. Uncertain Life : Partnership business suffers from instability. Insolvency, insanity, retirement and death of a partner may cause an abrupt end to the business. Any partner can give a notice for dissolution of partnership.

4. Conflicts : Lack of confidence, unity and harmony among partners may lead to delayed decisions and inefficiency. Chances of conflict are high because every partner has an equal right to take part in the management of the firm. There may be lack of secrecy of business affairs.

5. Risk of Implied Agency : Every partner is an agent of the firm. A dishonest partner may cause a great loss to the firm. All the partners may suffer due to the negligence or dishonesty of one partner.

6. Lack of Public Confidence : A partnership does not enjoy the trust of the public. The reason for this is that the affairs of a partnership are not given publicity. No reports are published

3.3. DISTINCTION BETWEEN SOLE PROPRIETORSHIP AND PARTNERSHIP

Basis of Distinction	Sole Proprietorship	Partnership
1. Number of owners	One person.	Minimum : 2, Maximum : 50
2. Agreement	No agreement is required.	Agreement is essential.
3. Division of profits/loss	No division of profit and no sharing of risk.	Division among the partners in agreed ratio.
4. Implied agency	No implied agency.	Generally every partner is an implied agent of the firm.
5. Ownership and control	Not shared.	Shared by partners.
6. Secrecy	Complete secrecy.	Secrets known to partners.
7. Continuity of business	Life of business depends on proprietor.	Greater continuity due to two or more partners.
8. Coordination	No problem of coordination due to single owner.	Coordination between partners required.

Distinction between Partnership and Joint Hindu Family Firm

Basis of Distinction	Partnership	Joint Hindu Family Firm
1. Basis of formation	Agreement.	By birth.
2. Number of members	Two or more; maximum : 50	Two or more, no maximum limit.
3. Status of females	Equal status.	Cannot be caprcener.
4. Liability and Risk	Unlimited partners bear risks jointly and individually.	Limited except for the *Karta*.
5. Position of minor	Cannot be partner.	Can be coparcener.
6. Management	By all partners or by any one of them acting for all.	Only by the *Karta*.
7. Division of profits	Among partners in agreed ratio.	Equal share for all.
8. Legal existence	Dissolved with death, etc. of a partner.	Not dissolved by death, etc. of a member.
9. Application of law	The Partnership Act.	Hindu Succession Act.
10. Registration	Desirable but not compulsory.	Not required.

3.4. MERITS OF PARTNERSHIP

The partnership form of business organisation enjoys the following advantages.

1. Ease of Formation : Partnership is simple to form, inexpensive to establish and easy to operate. No legal formalities or formal documents are involved. Only an agreement is required. Even the registration of the firm is not compulsory. Similarly, a partnership can be dissolved easily at any time.

2. Larger Financial Resources : It is possible to collect a large amount of capital due to a number of partners. New partners can be admitted to raise further capital whenever necessary.

Limited Liability Partnership and General Partnership at a Glance

Limited Liability Partnership (LLP)	General Partnership
1. Every partner has limited liability.	Every partner has unlimited liability.
2. The firm has a separate legal entity.	The firm does not has a separate legal entity.
3. Death, lunacy or bankruptcy of a partner does not affect continuity of the firm.	Death, lunacy or bankruptcy of a partner dissolves the firm.
4. Must be registered.	Need not be registered.
5. No restriction on the number of members.	Restriction on the number of members.

(ii) There is less secrecy of business affairs as it has to fulfil legal requirements.

(iii) Credit standing of an LLP is reduced due to the limited liability of partners.

3. Partnership at Will : It is a partnership formed for an indefinite period. The time period or the purpose of the firm is not mentioned at the time of its formation. It can continue for any length of time depending upon the will of the partners. It can be dissolved by any partner by giving a notice to the other partners of his desire to quit the firm.

4. Particular Partnership : It is a partnership formed for a specific time period or to achieve a specified objective. It is automatically dissolved on the expiry of the specified period or on the completion of the specific purpose for which it was formed.

3.10. TYPES OF PARTNERS

There are four types of partners.

1. Active or Working Partner : Such a partner contributes capital and also takes active part in the management of the firm. He bears an unlimited liability for the firm's debts.

2. Sleeping or Dormant Partner : A sleeping or silent partner simply contributes capital. He does not take active part in the management of the firm. He shares in the profits or losses of the firm. His liability for the firm's debts is unlimited.

3. Secret Partner : This type of partner contributes capital and takes active part in the management of the firm's business. He shares in the profits and losses of the firm and his liability is unlimited. However, his connection with the firm is not known to the outside world.

4. Limited Partner : The liability of such a partner is limited to the extent of his share in the capital expenditure and profits of the firm. He is not entitled to take active part in the management of the firm's business. The firm is not dissolved in the event of his death, lunacy or bankruptcy.

5. Partner in Profits Only : He shares in the profits of the firm but not in the losses. His liability for the firm's debts is unlimited but he does not take part in the management of the firm.

6. Nominal or Ostensible Partner : Such a partner neither contributes capital nor takes part in the management of business. He does not share in the profits or losses of the firm. He only lends his name and reputation for the benefit of the firm. He represents himself or knowingly allows himself to be represented as a partner. He becomes liable to outsiders for the debts of the firm. A nominal partner can be of two types.

(*a*) *Partner by Estoppel* : A person who by his words (spoken or written) or conduct represents himself as a partner becomes liable to those who advance money to the firm on the basis of such representation. He cannot avoid the consequences of his previous act.

Suppose a rich man, Mohan, is not a partner but he tells Sohan that he is a partner but he tells Sohan that he is a

Advantages of Registration	Disadvantages of non registration
1. The firm can file suits aganist outsiders	1. No legal protection to the firm.
2. Partners can file suits against the firm.	2. No legal protection to outsiders.
3. Partners can file suits against each other.	3. No legal protection against third parties.
4. The liability of a partner ceases once a notice of retirement is given to the Registrar.	4. Legal action against the firm by third parties allowed.
5. Partners can claim a set-off in proceedings by third parties against the firm.	
6. Information about the firm can be obtained by a person who wants to join the firms.	

1. General Partnership : In this type of partnership the liability of every partner is unlimited. The firm's creditors can realise their test from the personal property of any partner. Every partner can take active part in the management of the firm's business; unless otherwise agreed upon between the partners.

2. Limited Liability Partnership (LLP) : Limited partnership is now allowed in India under the Limited Liability Partnership Act, 2008. The chief characteristics at a limited liability partnership are as follows:

(i) A limited liability partnership must be registered under the Act with a minimum of two partners. There is no limit on the maximum number of partners.

(ii) An LLP is a body corporate having a separate legal entity and perpetual succession.

(iii) In an LLP the liability of partners is limited to their agreed contributions to the LLP. No partner would be liable on account of any unauthorised or independent actions of other partners.

(iv) An LLP must maintain annual accounts reflecting the ture and fair view of its state of affairs.

(v) The liability of partners and the firm would become unlimited in case the firm or its partners carry out any act with the intention to defraud creditors or any other person or for any fraudulent purpose.

(vi) Thus, LLP is a hybrid form of business organisation combining features of both partnership firm and joint stock company.

(a) Advantages : Limited liability partnership offers the following benefits :

(i) An LLP is separate legal entity independent of the partners. It is capable of owning and holding property in its own name.

(ii) It is much more stable than a general partnership because it is not dissolved by the retirement, insolvency, death, etc. of a partner. It enjoys perpetual existence.

(iii) The Liability of partners in LLP is of partners limited, they have not to take unlimited risk.

(iv) As there is no limit on the number an LLP can raise huge funds for expansion and growth of business.

(b) Disadvantages : An LLP suffers from the following disadvantages:

(i) It has to be registered under the Act. It has to spend time and money in the documents and formalities of incorporation.

Commercial Studies
Class - IX 4/7/2020
Chap - 4 (Classification of Commercial Organisation)

Questions:

Q.1. Define the term Commercial Organisation.
Q2. What is Private Sector Enterprise?
Discuss the features of Private Sector Enterprise.

Q.3. What is Public Sector Enterprise?
Discuss the features of Public Sector Enterprise.

Q.4. What is Joint Sector Enterprise?
Discuss the features of Joint Sector Enterprise

financial resources and technical know-how of the State and the private individuals.

QUESTION BANK

.1 Classify commercial organisations on the basis of ownership.

ns. On the basis of ownership, commercial organisations are classified as follows :

1. Private Sector Enterprises
2. Public Sector Enterprises
3. Joint Sector Enterprises

partner in a firm called Shipra Enterprises. On this impression, Sohan sells goods worth Rs. 20,000 to the firm. Later on the firm is unable to pay the amount. Sohan can recover the amount from Mohan. Here, Mohan is a partner by estoppel.

(b) *Partner by Holding Out* : When a person is declared a partner and he does not deny this even after becoming aware of it, he becomes liable to third parties who lend money or credit to the firm on the basis of such a declaration.

Suppose, Shipra tells Sohan in the presence of Mohan that Mohan is a partner in the firm of Shipra Enterprises. Mohan does not deny it. Later on Sohan gives a loan of ₹ 20,000 to Shipra Enterprises on the basis of the impression that Mohan is a partner in the firm. The firm fails to repay the loan to Sohan. Mohan is liable to pay ₹ 20,000 to Sohan. Here, Mohan is a partner by holding out.

7. Minor as a Partner : A mionor is a person who has not completed 18 years of age. A minor cannot become a partner because he is not qualified to enter into a contract but he may be admitted to the benefits of partnership with the mutual consent of all the ... being so admitted, a minor becomes ... a share in the profits of the firm ... inspect and copy the books of acc... firm, but he cannot take active pa... firm's management. His liability is l... the extent of his share in the capital ... of the firm. He cannot file a suit again... or its partners to get his share excep... wants to disassociate himself from the ...

After becoming a major, the minor ... a public notice within six months if he ... break off his connections with the pa... firm. If he does not give such a notice wi... months or if he decides to remain in the ... becomes liable to an unlimited extent ... debts of the firm from the date he was ad... the benefits of partnership. He also ... entitled to take active part in the manage... the firm's business.

8. Sub-Partner : A partner may ... anybody in his share of the firm. Su... associate who shares a partner's profits ... sub-partner. The sub-partner is a non-en... the partnership firm. His relationship is no... the partnership firm but with a partner. Th... partner is not liable for the debit of the fi...

SUMMARY

Partnership means an agreement between two or more persons to carry on some lawful busi... and share its profits. It enjoys the merits of easy formation, larger financial and manag... resources, division of work, secrecy and flexibility. But it suffers from the disadvantages of unli... liability, risk of implied agency, lack of public confidence and restriction on transfer of interes...

A partnership is formed through an agreement between the partners. A written agreement ... partnership signed by all the partners is known as Partnership Deed. Registration of a partners... is not compulsory. But an unregistered partnership suffers from certain limitations A partnership ... be general (the liability of every partner is unlimited) or limited (the liability of all partners exc... one is limited). Partnership at will have no duration while particular partnership is formed fo... specific time period or venture.

In a partnership, there can be various types of partners ... nominal or minor partners.

2. Public Sector Enterprises : These undertakings are owned and operated by the Central and State Governments. The main features of public sector undertakings are given below :

(a) **State Ownership :** Public undertakings are fully owned by the Government or some public authority. For example, Reserve Bank of India is owned by the Central Government while Delhi Transport Corporation is owned by the Government of Delhi State.

(b) **Government Control :** The ultimate control of a public sector undertaking lies with the Government.

(c) **Service Motive :** The primary objective of a public sector undertaking is to render service to the public at large. In order to serve the public, it may even incur loss. For example, the Food Corporation of India provides foodgrains to the public at subsidised prices.

(d) **State Financing :** The Government provides the capital and funds through appropriations from its budget. The government may also provide loans from time to time from the State exchequer.

(e) **Bureaucratic Management :** The management of public sector undertakings is bureaucratic in the sense that their operations are governed by certain rules and regulations prescribed by the Government.

(f) **Public Accountability :** Public sector undertakings are accountable to the public at large for their performance and results. The annual audit of these undertakings is conducted by the Comptroller and Auditor General of India. Moreover, their annual reports are subject to discussion in the parliament or the State legislature.

3. Joint Sector Enterprises : Joint sector consists of business undertakings wherein the ownership, control and management is shared jointly by the Government, the private entrepreneurs and the public at large.

Indian Oil Corporation, Cochin Refineries and Gujarat State Fertilisers are examples of joint sector undertakings in our country.

The main features of joint sector enterprises are as follows :

(a) **Mixed Ownership :** The government, private entrepreneurs and the investing public jointly own a joint sector enterprise.

(b) **Combined management :** The management and control of a joint sector enterprise lies with the nominees or representatives of the Government, private businessmen and the public.

(c) **Share Capital :** The shares of the Government, private businessmen and the public in the capital are 26 per cent, 25 per cent and 49 per cent, respectively. The aim is to pool the financial resources and technical know-how of the State and the private individuals.

QUESTION BANK

Q.1 Classify commercial organisations on the basis of ownership.

Ans. On the basis of ownership, commercial organisations are classified as follows :

1. Private Sector Enterprises
2. Public Sector Enterprises
3. Joint Sector Enterprises

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CLASSIFICATION OF COMMERCIAL ORGANISATIONS

Learning Objectives

After studying this chapter, you should be able to :

4.1. Define commercial organisations

4.2. Classify commercial organisations on the basis of ownership.

In the earlier chapter, we have discussed profit and non-profit organisations. Commercial organisations are a type of profit organisations.

4.1 DEFINITION OF COMMERCIAL ORGNISATIONS

Organisations which undertake commercial activities are known as commercial organisations. Their main motive is to earn money. These may be owned by one or more individuals. There exists a wide variety of commercial organisations e.g. industrial, trading, transportation, warehousing, banking, insurance, advertising and others. Commercial organisations may be micro, small, medium or large.

4.2. CLASSIFICATION OF COMMERCIAL ORGANISATIONS ON THE BASIS OF OWNERSHIP

Commercial organisations can be classified as private sector, public sector and joint sector enterprises.

1. Private Sector Enterprises : These undertakings are owned, controlled and financed by private businessmen. There is no government participation in them. The main motive of private sector undertakings is to earn profits. Their main features are as under :

(a) **Private Ownership and Control :** A private sector undertaking is fully owned and controlled by the private entrepreneurs. It may be owned by one individual or by a group of individuals jointly. When owned by one person, it is called Sole Proprietorship. A group of persons may jointly own the firm in the form of joint Hindu family business, partnership, joint stock company or cooperative society.

(b) **Profit Motive :** The main objective of private sector undertakings is earning profits. Profits provide the reward for the risk assumed and the required return on capital.

(c) **No State Participation :** There is no participation by the Central or State Governments in the ownership and control of a private sector undertaking.

(d) **Private Finance :** The capital of a private sector undertaking is arranged by its owners. The sole trader contributes the capital of a sole proprietorship. In case of partnership, capital is invested by the partners. A joint stock company raises capital by the issue of shares and debentures. A private sector undertaking can also raise loans to meet its long-term and short-term needs for funds.

(e) **Independent Management :** A private sector undertaking is managed by its owners. In case of sole proprietorship and partnership, the owners directly manage the firm. The management of a joint stock company lies in the hands of directors who are the elected representatives of the shareholders.