Vajiram & Ravi

What is a Partnership Firm?

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About Partnership Firm

- A partnership firm is a **business entity** where two or more **individuals come together** to manage and **operate a business.**
- The partners **pool their resources, knowledge**, and **skills** to achieve **common business goals.**
- It is a **widely preferred** form of business, primarily due to its simplicity and **ease of formation.**
- The partnership business includes any kind of trade, occupation, and profession.
- A partnership consists of **three essential elements.**
  - A partnership **must be the result of an agreement** between **two or more individuals.**
  - The agreement must be built **to share the profits** obtained **from the business.**
  - The business **must be run by all or any of them** representing the rest.
- All these conditions must coexist before a partnership can come into existence.
- **Indian Partnership Act, 1932**
  - A partnership firm in India is governed and regulated by the Indian Partnership Act, 1932.

    - The act **defines partnership as a profit-sharing relation** between two or more partners.
    - The duties and responsibilities of the partners, along with profit sharing, are **defined in** an agreement or deed known as **Partnership Agreement.**

There are **mainly three types of partnerships,** which are as follows:

- **General Partnership:**
    - In a general partnership, all the **partners hold equal rights** and **participate in the decision-making** and management of the firm.
    - The general partner **puts his capital, skills, and labor** to achieve the firm's financial goals.
    - In a general partnership, **apartner has unlimited liability** and has the **right to take decisions** regarding the management and operations of the firm.
- **Partnership at will:**
    - Section 7 of the Indian Partnership Act, 1932, defines partnership at will as **when there is no provision** made between the partners **for the duration of their partnership**, or for the determination of their partnership.
    - There are **two essential conditions** for partnership at will, which are as follows:
        - There is **no fixed period for the partnership** to exist
        - There is **no determination of the partnership**.
- **Particular partnership:**
    - A particular partnership is formed to **manage and run a particular business** or venture.
    - **When the particular purpose is served,** the **partnership can be dissolved**.
    - However, the partners can continue with the said partnership by making an agreement.
    - If there is no agreement, the particular partnership is dissolved.

What is a Limited Liability Partnership (LLP)?

- An LLP is a corporate business form that provides the benefits of a partnership firm and a company.
- It is a **hybrid between a company and a partnership** firm as it incorporates the properties of both structures.
- LLP is a **separate legal entity,** and it can **own properties in its own name.** It **alone will be liable** to its liabilities.
- **Partner's liability** is **limited to their contribution to the LLP**. Partners of an LLP are responsible only for their own actions.
- In other words, they are **not liable to the outside creditors personally.**
