

YEAR 13 – ACCOUNTING

WEEK 3 – SUMMARISED NOTES AND WORKSHEET

STRAND TWO: PARTNERSHIP ACCOUNTING

STRAND OUTCOME: Describe and apply accounting procedures for the partnership entities.

SUBSTRAND: NATURE OF PARTNERSHIP BUSINESS

ACHIEVEMENT INDICATOR: Define partnership business and state the reasons for forming a partnership business.

DEFINITION OF PARTNERSHIP

According to the Partnership Act of Fiji (Cap 248), partnership is defined as “the relation which exists between persons carrying on a business in common view to make profit”.

REASONS FOR FORMING A PARTNERSHIP?

Some of the reasons for sole traders to form partnership:

- Improves financial stability.
- Rise in cash flow leading to expansion and purchase of assets.
- Combining two or more existing businesses reduces competition and increases market share.
- Sharing risk of decision making.

ACHIEVEMENT INDICATOR: List the advantages and disadvantages of partnership business.

ADVANTAGES OF PARTNERSHIP

- More capital is contributed than sole trader business.
- Business run by two or more people will bring more specialised skills.
- Easy to manage the business in case of absence of partners due to sickness or holidays.
- It is possible to share workloads between the partners.
- It is less expensive to form than a company.
- The business is not liable to pay tax on its profit. Partners are taxed personally.

DISADVANTAGES OF PARTNERSHIP

- Partnership has limited life, i.e. it is dissolved on the death of a partner .
- The business has unlimited liability. As the partnership is not a separate legal entity, the owners are liable for partnership debts. In the event of bankruptcy of the partnership, the partner’s private assets can be used to settle debts.
- Conflicts and disagreements can arise between the partners.
- Profits are shared between the partners unlike sole trader.

ACHIEVEMENT INDICATOR: Outline the legal requirements for forming a partnership business.

PARTNERSHIP ACT

It is a legal document passed by the parliament that sets out the rules, obligations and duties of partners.

Where a partnership agreement is not drawn up, the partnership is governed by the Partnership Act.

PARTNERSHIP AGREEMENT

An agreement to form a partnership may be expressed in a written form.

Partnership agreement is a written agreement drawn by the partners themselves setting out their rights, liabilities and duties.

ACHIEVEMENT INDICATOR: List the clauses included in the Partnership Act and Partnership Agreement.

The **Partnership Act** consists of the following clauses:

- a) Partners will share equally in profits and losses of the business.
- b) A partner is not entitled to remuneration for working in the business.
- c) All partners must consent before a new partner is introduced.
- d) A majority decision by partners is required on ordinary business matters.
- e) Partners are entitled to interest on advances (other than capital) to the partnership.
- f) Mutual agency exists, i.e. each partner can act on behalf of the firm in normal business transactions.
- g) On the death of the partner the partnership is dissolved.
- h) A partner is not entitled to interest on capital subscribed to the partnership.
- i) All partners may take part in the management of the partnership.

The **Partnership Agreement** should contain clauses which includes the following:

- a. Names of partners.
- b. Name of firm.
- c. Objectives of the partnership.
- d. Rights, duties and liabilities of partners.
- e. Capital introduced by each partner.
- f. How profits and losses are to be divided.
- g. Whether drawings, salaries to partners, interest on drawings, interest on capital and interest on advances are to be allowed.
- h. Voting and decision making procedures to be followed.
- i. Procedures to be followed on death or retirement of partners.

Activities

1. Define Partnership.
 2. Identify two reasons for forming a partnership.
 3. List the two advantages and two disadvantages of a Partnership business.
 4. Explain why a partnership is a separate accounting entity and not a separate legal entity.
 5. What are the legal documents required to form a partnership?
 6. What rules need to be followed, if there is no partnership agreement?
 7. What factors have to be considered when setting up a partnership business?
- 