

THE INDIAN PARTNERSHIP ACT, 1932

Unit 1 - General Nature of Partnership

* Section 4:-

Partnership - Relation between persons who agree to share profits of a business carried on by all
OR
any of them acting for all.

Partners/
Firm/
Firm Name - Persons who have entered into partnership with one another are called individually "partners" and collectively a "firm" and Name under which their business carried on is called "firm name."

* Act of firm [Section 2(a)] - means any act or omission by all partners, or by any partner, or agent of firm which gives rise to right enforceable by or against firm.

* Who can become a Partner?

- Person competent to enter into valid contract
- Minor cannot become partner but can be a beneficiary.
- Company can become a partner.
- Two partnership firms cannot enter into partnership.

* Essential Elements of Partnership

1. Association of Two or More Persons.

Firm cannot be a partner in partnership firm.

Minor cannot be partner but with consent of all partners, can be beneficiary.

Max. No. of Partners as per Sec 464 of Companies Act 2013 - 50.

2. Agreement - Must be voluntary & contractual.
- May be oral or in writing.
- May be express or implied

3. Business $\left\{ \begin{array}{l} \rightarrow \text{includes trade, occupation, profession} \\ \rightarrow \text{Motive} \Rightarrow \text{Acquisition of gains.} \end{array} \right.$

4. Agreement to share Profits. - Must be sharing of profits.

If no profit sharing, then no Partnership.

Profit Sharing Ratio = Loss Sharing Ratio (unless otherwise agreed)

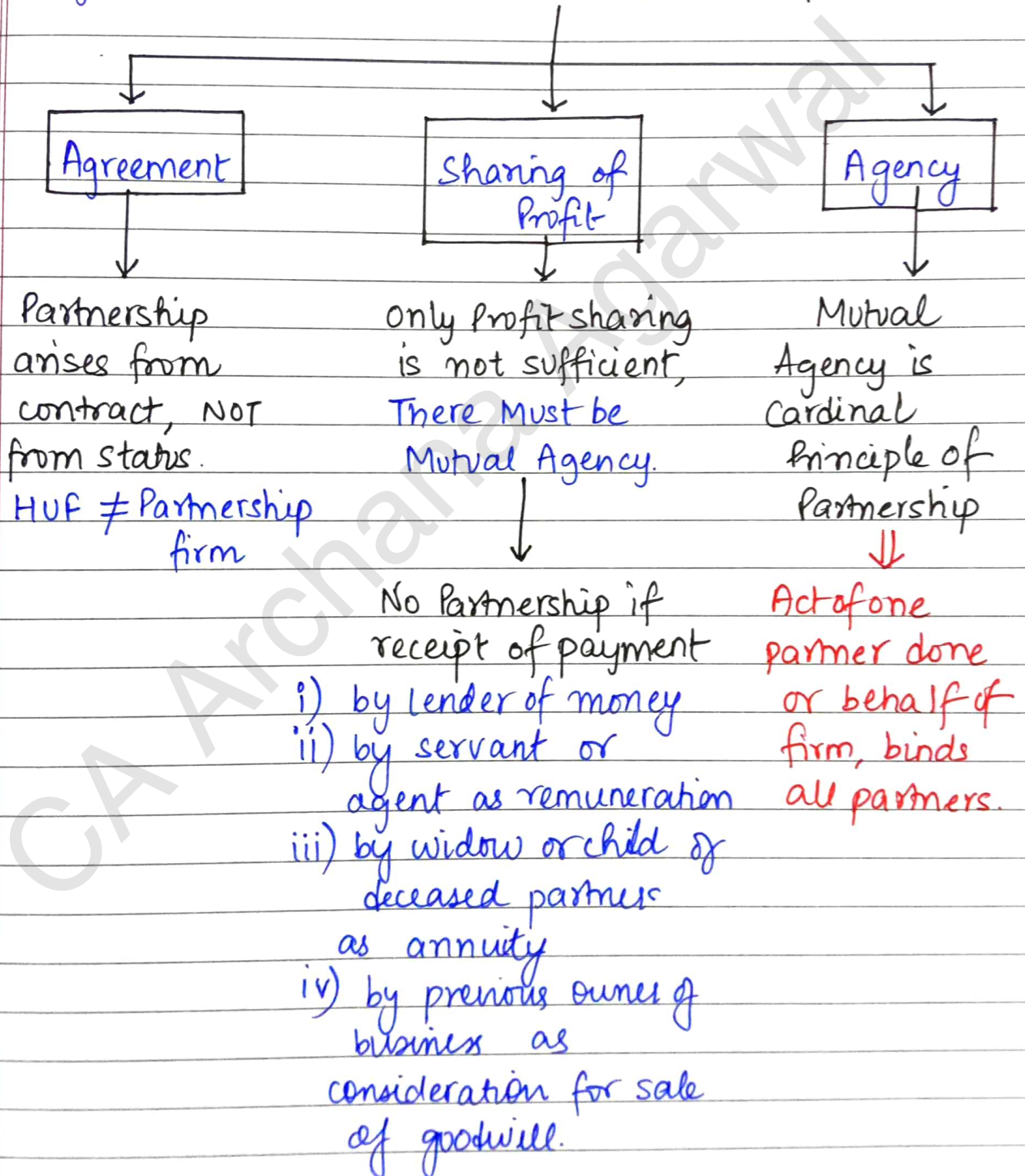
No Partnership if $\left\{ \begin{array}{l} \rightarrow \text{Co owners share rent from property.} \\ \rightarrow \text{Charitable institution.} \end{array} \right.$

5. Business carried on by all or any of them acting for all.

Cardinal Principle of Partnership \downarrow (also called Mutual Agency)
Partner = Principal = Agent

* True Test of Partnership, [OR] Mode of Determining Existence of Partnership [Section 6]

Whether group of persons is firm [OR] partners of firm, regard shall be had to Real Relation b/w them.



* D/b	Partnership	Joint Stock Company.
→ Legal Status	No legal entity i.e. not distinct from partners.	Separate legal entity. (Saloman vs. Saloman)
→ Governed by	Indian Partnership Act, 1932	Companies Act, 2013
→ Members	Min: 2 Max: 50	Min: Private co: 2 Public co: 7 Max: Private co: 200 Public co: Unlimited
→ Registration	Not compulsory.	Compulsory (Companies Act, 2013)
→ Winding up	Can be dissolved anytime if all partners agree	Either wind up by NCLT or name struck off by ROC.
→ Management	Partners.	Directors (Board)
→ Transfer of shares	Share cannot be transferred without consent of all partners.	Shareholder can transfer his shares. shares of Public Co → traded on stock exchange.
→ Agency	Partner = Agent of other partners.	Member # agent of other partners.
→ Distribution of Profits	As per Partnership Deed.	Through dividends.
→ Liability	Unlimited	Limited.

* D/b	Partnership	Club.
→ Meaning	Association of persons formed for profit earning motive.	Association of persons formed for NOT earning profits BUT promoting beneficial purpose i.e health, improvement etc.
→ Relationship	Partners = Agent of other partners	Member ≠ Agent of other members.
→ Interest in property	Partner has interest in firm's property	Member has no interest.
→ Dissolution	Change affects existence	change does not affect existence of club

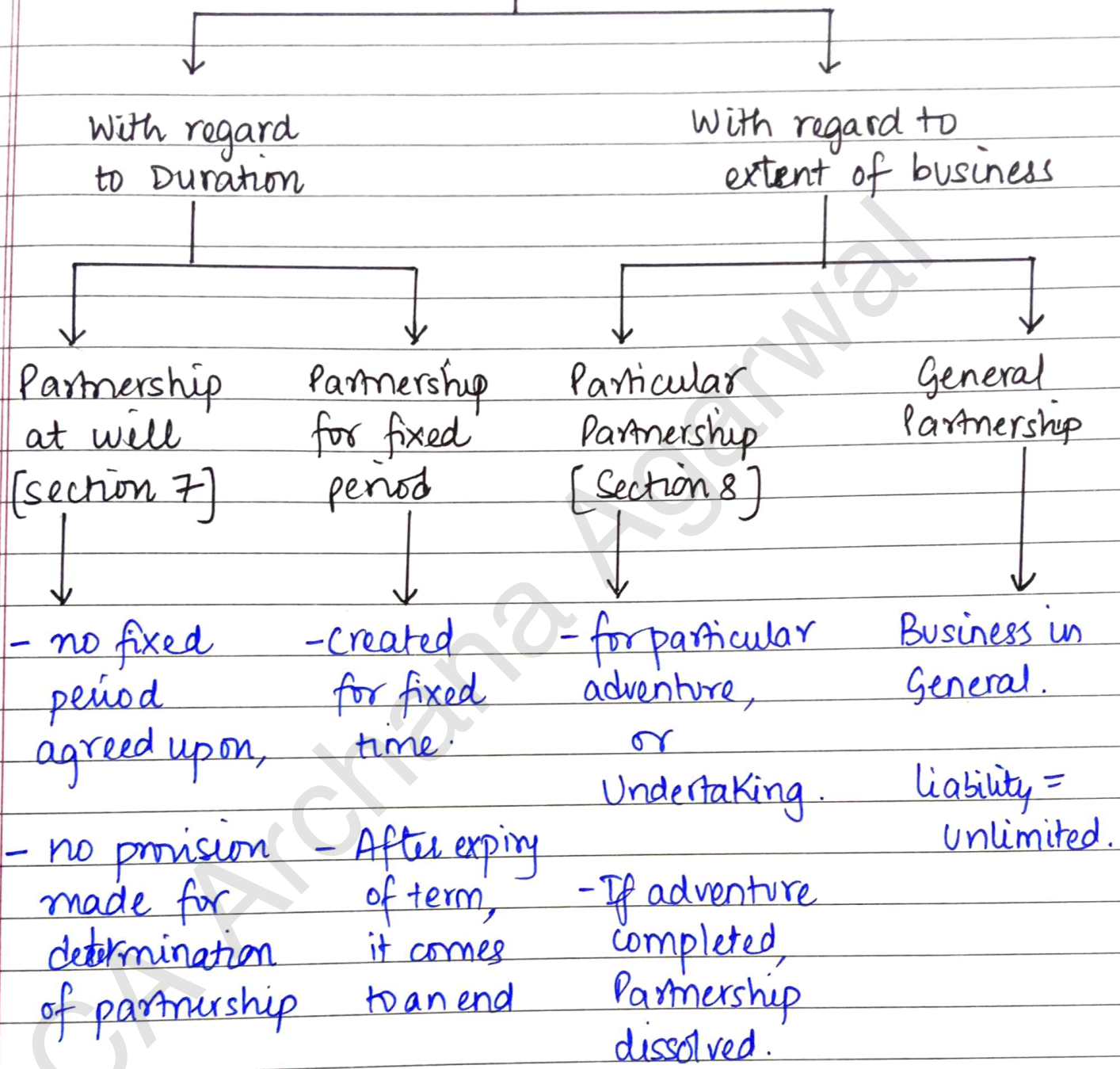
* D/b	Partnership	Co-ownership
→ Formation	Arises out of contract.	Arises out of operation of law i.e. inheritance.
→ Implied agency	Partner = Agent of other partners.	Co-owner ≠ Agent of other co-owners
→ Nature of Interest	Profits/ losses must be shared.	Not necessarily involves sharing of profits/ losses
→ Transfer of interest	Share can be transferred with consent of others.	Share can be transferred without consent

* D/b	Partnership	Association
→ Meaning	Setting up of relation of agency b/w 2 or more partners who entered for sharing profits.	Evolves out of social cause; no motive to earn profits.
→ Examples	Partnership → To run business & earn profit.	Members of charitable institution / religious association.

* D/b	Partnership	Hindu Undivided Family
→ Creation	Created by agreement	Created by status (creation by birth)
→ Death of Member	Ordinarily leads to dissolution of firm.	Death of member — not results in dissolution
→ Management	Partners	Karta.
→ Authority to bind	Partner can bind firm.	Karta / manager has authority to contract for family business & other members.
→ Liability	Liability of Partner is unlimited.	Liability of Karta is unlimited. Other copartner liable to extent of their share

* D/b	Partnership	Hindu Undivided Family
→ Law	Indian Partnership Act, 1932	Hindu Law
→ Continuity	Subject to contract, dissolved by death or insolvency of partner.	Continued till divided. Not affected by death of member.
→ Max. No. of Members	50.	Unlimited.
→ Share in business	By virtue of agreement, if agreement is silent then equal.	No coparcener has definite share, his share/interest is fluctuating. due to deaths or births in family.

* Kinds / Types of Partnerships.



May be dissolved by any partner by giving notice in writing to all others

- liability \Rightarrow only with that of particular adventure.

If Partnership for fixed period continues after expiry of term, it is 'Partnership at will'.

* Partnership Deed \leftarrow oral writing. | Suggested to have it in writing.

- | | |
|-------------------------------------|---|
| 1. Name of firm | 8. Admission/Retirement |
| 2. Names of all partners. | 9. Rate of interest on Capital, Drawings, loans |
| 3. Nature & place of business | 10. Provision for settlement of a/cs, Salaries, Commission. |
| 4. Date of commencement | 11. Provision for expulsion of partner. |
| 5. Duration of firm. | |
| 6. Capital Contribution. | |
| 7. Profit sharing Ratio of Partners | |

* Types of Partners.



1. Active Partner \rightarrow Becomes partner by agreement

or

Ostensible Partner

 - \rightarrow Actively takes part in conduct of business
 - \rightarrow Agent of other partners.
 - \rightarrow If Retiring, must give public notice.
 - \rightarrow liable to third parties.
2. Sleeping or Dormant Partner \rightarrow Becomes partner by agreement

 - \rightarrow Does not actively participate in business.
 - \rightarrow Not required \rightarrow Public Notice.
 - \rightarrow liable to third parties

3. Nominal Partner → Lends his name to firm, with no interest in firm
 → Not entitled to share profits.
 → Don't take part in business
 → Liable to third parties.
 → Does not contribute / invest in firm.

4. Partner in Profits only → Shares profit only, not losses.
 → Liable to third parties for acts of profit only.

5. Incoming Partner → New partner admitted only with consent of all partners.
 → Not liable for acts done before admission.
 (Refer sec 31)

6. Outgoing Partner → Partner leaves firm.
 → Liable to third parties for acts of firm until public notice given
 (Refer sec 32, 36, 37)

7. Partner by Holding out / Partner by Estoppel. (Section 28) → Person represents himself as partner or knowingly permitted himself to be represented as partner.

Representation → words
 → conduct;

Other party on faith of representation gives credit to firm.



Then he is liable to anyone who believes that he is partner & gives credit to firm.

Unit 2 - Relations of Partners.

* [Section 9] - General Duties of Partners

Partners are bound to

- carry on business of firm to Greatest common advantage
- be just & faithful to each other,
- render true a/c & full infoⁿ of things affecting firm to partner / legal representative

* Duty to indemnify for loss caused by fraud [Section 10]

Partner to indemnify firm for loss caused by fraud in conduct of business of firm.

* Determination of Rights & Duties of Partners by contract b/w partners [Section 11]

→ Mutual Rights & Duties → determined by contract b/w them.

Contract ← Express
Implied.

Contract → may be varied by consent of all partners.

Consent ← Express
Implied.

→ Partners shall not carry on any other business while he's partner in firm & such contract is valid. (Section 27 of Indian Contract Act, 1872)

↓
If restraint of trade.

* Conduct of business [Section 12]: Subject to contract between partners.

Sec 12(a) - Partner has Right to take part in conduct of business.

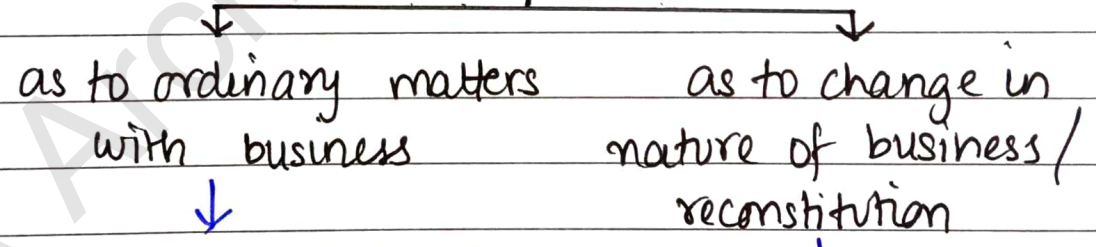
If partners stopped from participating \Rightarrow court can interfere.

Partner can suit for dissolution, suit for a/cs.

But if contract restricts participation of partners then court cannot interfere.

Sec 12(b) - Partner bound to attend diligently to his duties in conduct of business.

Section 12(c) - Any difference arising



Decided by majority of partners;
Every partner has right to express opinion

Decided by consent of all partners

Section 12(d) - Partner has right to
(sleeping or Active) or otherwise.

- to have access to,
- to inspect,
- copy any books of a/cs of firm

Section 12(e) - In event of death of partner,

- his heir, or
- his legal representative, or
- his duly authorised agent

shall have right of } access to
 } to inspect
 } copy } books
 } of
 } a/cs of
 } firm

* Mutual Rights & Duties & liabilities [Section 13]:
 Subject to contract between partners;

Section 13(a) - Partner → Not entitled to remuneration for taking part in conduct of business

But if contract provides otherwise then remuneration can be given to partners.

Partner can claim remuneration even if contract is absent, if remuneration payable under continued usage of firm.

Section 13(b) - Partner entitled to share profits equally & contribute to losses equally.

If agreement provides PSR, then follow that ratio.

If no agreement, then shared equally.

No connection between capital contribution & Profit sharing.

Section 13(c) - Where partner entitled to interest on capital, such interest to be payable only out of profits.

following elements must be present if partner is entitled to interest on capital! →

- a) express agreement.
- b) trade custom.
- c) statutory provision which entitles him to interest.

If losses then no interest on capital.

Section 13(d) - Where partner advanced any amount or payment beyond capital, he's entitled to interest @ 6% p.a. (unless otherwise agreed)

Interest on capital a/c ceases to run on dissolution, BUT Interest on advances keep running even after dissolution upto payment.

Section 13(e) - Firm shall indemnify partner for payments & liabilities incurred:

- i) in ordinary course of business / proper conduct,
- ii) in doing act of emergency for protecting firm from loss, as a man of ordinary prudence would do.

Section 13(f) - Partner to indemnify firm for loss caused to it by his wilful neglect in conduct of business.

* Property of firm [Section 14]

Subject to contract between partners,
Property of firm includes

- all property, rights, & interests in property originally brought into common stock of firm,
- all property, rights, & interests acquired by purchase, or otherwise by or for firm or for purposes & in course of business of firm, and
- Goodwill of business

If partner permitted his property for being used in partnership business DOES NOT mean that is property of partnership.

Unless contrary intention appears, Property / Rights / Interest in property acquired with money belonging to firm Deemed to have been acquired for firm.

* Section 15 → Application of Property of firm

Subject to contract between partners, property of firm shall be held & used by partners exclusively for purposes of business.

This means assets of partnership must be used for business of partnership & not for personal use of partners.

* Personal Profit Earned By Partners [Section 16]

Subject to contract between partners,

a) if partner derives profit for himself

- from any transaction of firm, or
- from use of property, or
- business connection of firm / firm name

He shall pay the profits earned to firm.

b) if partner carries business of same nature or of competing nature

He shall pay profits earned to firm

* Rights & Duties of Partners after change in firm [Section 17]

Rights / Duties / liabilities of Partners of firm \Rightarrow To Remain same as they were in beginning (unless otherwise agreed) even after :-

- a) after change in constitution of firm,
- b) after expiry of term of firm,
- c) additional undertakings are carried out.

* Partner to be agent of firm [Section 18]

Every Partner = Agent of firm for purpose of business of firm.

Partner = Principal = Agent.		} only for purpose of business of firm,
↓	↓	
Act for himself	Act for other partners	

* Implied authority of partner as agent of firm [Section 19]

(1) Act of partner done to carry on in usual way, business of kind carried on by firm → binds firm.

Authority of partner to bind firm → Implied authority.

(2) In absence of any usage or custom of trade to contrary, Implied authority of partner does not allow him to: (Acts outside Implied Authority)

- a) Submit dispute to arbitration relating to business
- b) open bank a/c on behalf of firm in own name
- c) compromise / relinquish claim or portion of claim
- d) withdraw suit / proceeding filed on behalf of firm
- e) admit liability, in suit / proceeding against firm
- f) acquire immovable property on behalf of firm
- g) transfer immovable property belonging to firm
- h) enter into partnership on behalf of firm.

* Mode of Doing Act To Bind firm [Section 22]

To bind firm, an act or instrument done or executed by partner or other person on behalf of firm shall be done or executed in firm name, or implying an intention to bind firm.

Conditions for Partner's act to bind firm → Implied Authority :->

1) Act must relate to usual business of firm, within his authority & relate to business of firm.

2) Act done for normal conduct of firm.

Normal conduct depends on nature / circumstances of each case.

3) Act to be done in firm's name & implying an intention to bind firm.

* If Partnership is of general commercial nature, then Partner may. (i.e. Acts within Implied authority)

→ pledge / sell partnership property.

→ buy goods on a/c of partnership

→ borrow money, contract debts & pay debts on a/c of partnership

→ Draw / make / sign / endorse / transfer, Promissory Note, BoE, cheques, in name & a/c of partnership

* Extension & Restriction of Partners' Implied Authority [Section 20]

Partners may, by contract extend or restrict implied authority of any partner(s). [Consent of all required]

Notwithstanding any such restriction, an act done by partner on behalf of firm binds firm which falls within his implied authority unless.

- a) the person he's dealing with knows of restriction
- b) the person does not know that he's dealing with partner in firm.

* Partner's Authority in an Emergency [Section 21]

In case of Emergency, A Partner has authority



to do all such acts for purpose of protecting from loss,

as would be done by person of ordinary prudence in own case.



and these acts binds firm.

* Effect of Admissions by Partner [Section 23]

An admission OR Representation made by partner concerning the affairs of firm is evidence against firm.

if it's made in ordinary course of business.

Means admission by partner
↓
binds firm.

An admission or representation by partner will not bind firm if his authority is limited AND other party knows of this restriction.

* Effect of Notice to Acting Partner [Section 24]

Notice to partner who habitually acts in business of firm of matters relating to affairs of firm operates as Notice to firm.

this implies;

Notice to Active Partner = Notice to all partners

Notice must be actual & not constructive.

It must be received by Active partner, not sleeping.

Exception: → In case of fraud on firm committed by or with consent of partner,
Notice to Active partner ≠ Notice to all partners.

* Liability of Partner for Acts of firm [Section 25]

Every partner is liable, jointly & severally with all partners, for all acts of firm done while he's partner.

* Liability of firm for wrongful acts of partner [Section 26]

Firm is liable to same extent as partner for any loss or injury caused to third party by wrongful acts of partner, if they are done by partner while acting:

- in ordinary course of business
- with authority of partners.

* Liability of firm for Misapplication by partners [Section 27]

a) Partner received ← from Third party
Money/property

and misapplies it

b) Firm in ordinary course of business received ← from Third party
money/property

and partner misapplied it

Then, firm is liable to make good the loss

Note - If money received by partner is outside his authority Then its not regarded as receipt by firm AND other partners are not liable.

* Rights of Transferee of Partner's Interest [Section 29]

Transfer by partner of his interest in firm either by way

- of absolute transfer, or
- mortgage, or
- by creation by him of charge



Transferee not entitled to. [During continuance of partnership]

- interfere with conduct of business
- require accounts
- inspect books of firm.

Transferee entitled to .

- During continuance of partnership
- On dissolution of firm [or] retirement of transferring partner

- | | |
|---|---|
| a) To receive share of profits of transferring partner. | a) To receive share of assets of firm to which transferring partner entitled, & |
| b) Bound to accept a/c.s of profits agreed by partners | b) entitled to a/c from date of dissolution |

* Minors Admitted to Benefits of Partnership [Section 30]

1. Minor cannot be partner in firm BUT with consent of all partners → he may be admitted to benefits of partnership.

2. Rights of minor in firm.

a) share profits & property of firm.

b) to have access to, } a/cs of firm.
to inspect,
to copy

c) to file suit for a/cs or for payment of share only if severing connection with firm.

d) to opt to become partner on attaining majority
He may choose to become partner within 6 months of attaining majority.

If elects to become partner → Entitled to same share

If does not elect to be partner → Not liable

for acts of firm after public notice served.

3. Liabilities of Minor in firm

I. Before attaining majority

a) liability confined only to extent of share in profits/property

b) Minor → not personally liable for debts incurred during minority.

c) Minor → cannot be declared insolvent but if firm declared insolvent his share vests with official Receiver/Assignee

II. Minor's Position on Attaining Majority

Decide → Within 6 months of attaining majority, or his obtaining knowledge that he had been admitted to benefits of firm, whichever date is later, whether remain partner or leave firm.

Notice → Give public notice of his intention → whether remaining or leaving firm

Deemed Partner → If failed to give notice.

↓
then deemed partner on 6 months expiration

III On attaining Majority if he

Elects to become Partner

↓
(By willingness or failure to give notice)
↓

Elects Not to become Partner.

↓

a) Becomes personally liable to third parties for all acts of firm done since he was admitted to benefits of partnership

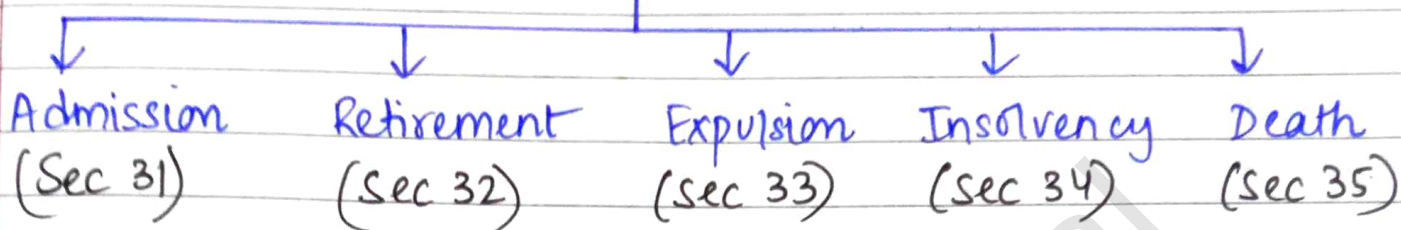
b) His share in property & profits of firm remain same as before.

a) Rights & liabilities continue to be those of minor up to date of giving public notice.

b) His share not liable for acts done after notice

c) Entitled to sue partners for his share of profits/property.

* Reconstitution of firm / Legal consequences of partner coming in & going out



1. Admission (Introduction of Partner) [Section 31]

- Consent of all partners required if a new person is entering in firm as partner.
- New Partner not liable for acts done by firm before his admission.

But he will be liable for past acts if he especially agreed to be liable for them.

- Creditor cannot hold new partner liable for past acts as there is no privity of contract b/w new partner & creditors.
- Creditor may agree to accept new firm as debtor & discharge old partners. → Novation is required.

Sec 31 does not apply in case of partnership of 2 partners, if its dissolved by death of one of them.

2. Retirement of Partner [Section 32]

(1) → Partner may retire!

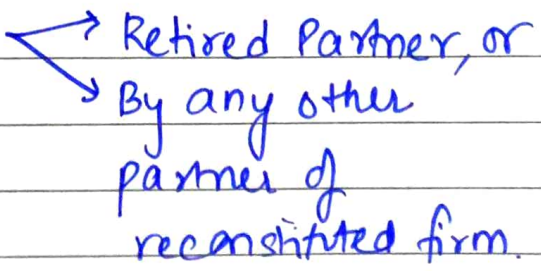
- with consent of all other partners,
- if there's express agreement,
- where partnership at will, by giving notice in writing to other partners.

(2) → Retiring partner may be discharged from liability to third party for acts of firm done before retirement by:

- a) agreement made with third party & partners of reconstituted firm,
- b) agreement may be implied from course of dealing b/w third party & partners of reconstituted firm.

(3) → Retired partner & other partners remain liable as partners to third parties for acts of any of them in firm name before retirement, until public notice is given of retirement.

Retired partner not liable to third party who deals with firm without knowledge that he was partner.

(4) Public Notice may be given by 

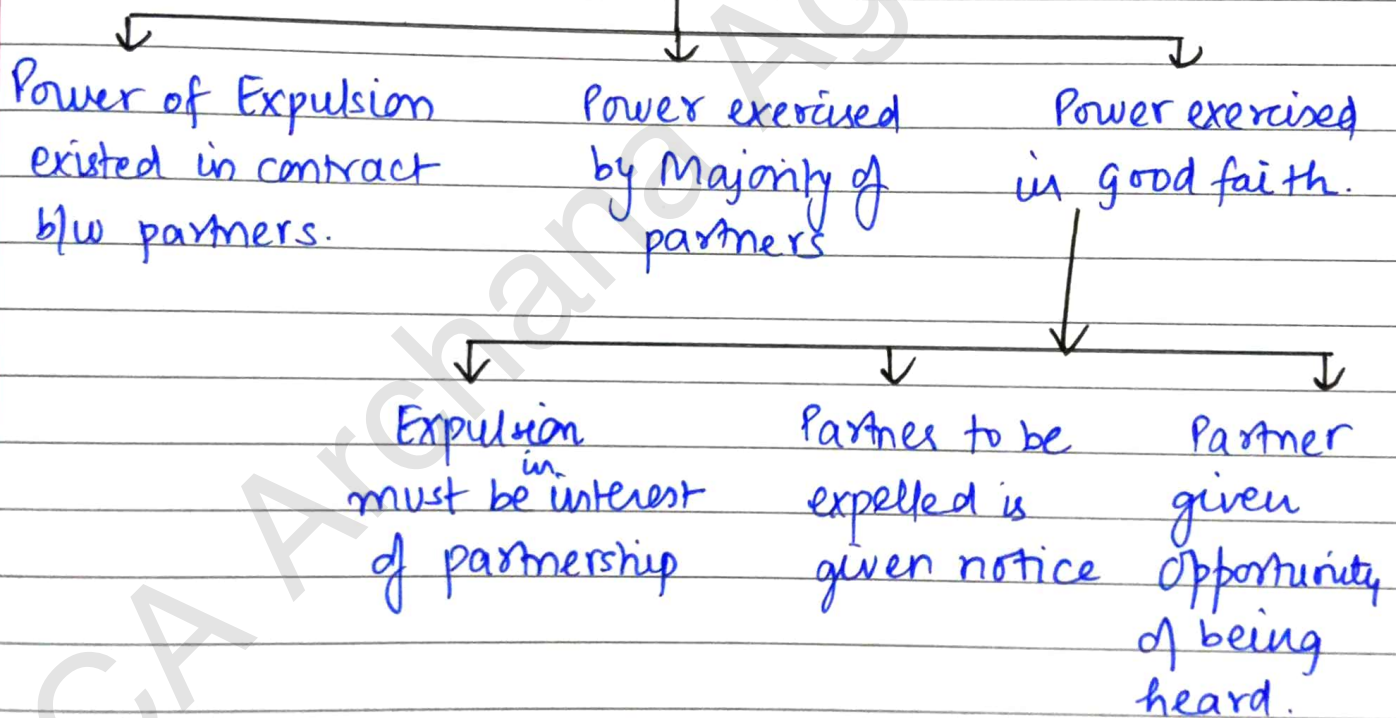
- Retired Partner, or
- By any other partner of reconstituted firm.

3. Expulsion of Partner [Section 33]

Partner cannot be expelled from firm by majority of partners except in good faith of powers conferred by contract between partners

Sec 32 (2), (3), (4) apply here also.

For Expulsion of partner, it's necessary.*



Expulsion does not result in dissolution of firm.

* Expulsion not in bonafide interest if these conditions not present.

4. Insolvency of Partner [Section 34]

Insolvent Partner ceases to be partner



from date on which order of adjudication made.

Estate of Insolvent Partner → Not liable for acts of firm done after date of order of adjudication.

Firm → Not liable for acts of insolvent partner after date of order of adjudication

5. Liability of Estate of Deceased Partner [Section 35]

Where under contract b/w partners,
firm is Not dissolved by death of partner,



Estate of Deceased Partner is not liable for acts of firm done after his death.

Public Notice is not required in case of death of partner.

* Rights of outgoing Partner to carry on competing Business [Section 36]

Outgoing Partner may carry on business competing with that of firm & also advertise such business,

But subject to contrary to contract, he can not:

- a) use firm's name,
- b) represent himself as carrying on business of firm,
- c) solicit custom of persons dealing with firm before he ceased to be partner.

Partner may agree with partners that on cessation of him as partner, he will not carry on similar business / competing business within specified period, or within specified local limits, &

such agreement will be valid Notwithstanding Section 27 of ICA, 1872

→ Similar rule applies

in case of agreement of sale of firm's goodwill.

Outgoing Partner has right to receive his share of property of firm including goodwill.

* Rights of Outgoing Partner in certain cases to share subsequent profits [section 37]

Where partner died or ceases to be partner, & surviving or continuing partners carry on business of firm with property of firm without final settlement of accounts, then outgoing partner, or his estate \Rightarrow Entitled at his option or representatives to such share of profits made since he ceased to be partner as may be attributable to his share of property.

OR

Interest @ 6% p.a on amt of his share of property.

But, where by contract between partners, an option is given to surviving/continuing partners to purchase interest of deceased/outgoing partner, & its exercised \Rightarrow Then outgoing partner is not entitled to any former share of profits.

* Revocation of Continuing Guarantee by change in firm [section 38]

Continuing guarantee given to firm or third party

in respect of transaction of firm.

is revoked as to future transactions

from date of any change in constitution of firm.

Unit 3 - Registration & Dissolution of a firm

* Application for Registration [Section 58]

Time - Registration of firm can be done ANYTIME during continuance of Partnership

Application - By Sending Post or delivering to Registrar of area in which place business is situated or Proposed to be situated.

Form - in prescribed form with fees.

Contents -

- a) Firm's name
- b) Place of business / Principal place of business
- c) Names of any other places where firm carries on business
- d) Date when partner joined
- e) Names in full & Addresses of Partners
- f) Duration of firm.

Signing & verification form | Statement signed by All Partners / Agents of them. authorised. Person shall also verify.

Prohibition on certain words in firm's name 'Crown', 'Emperor', 'Empire', 'Imperial', 'King', 'Queen', 'Royal', or words implying sanction / approval / patronage of Govt.
Exception: If state Govt consents then these words can be used.

Note: Not compulsory for firm to be registered.

* Registration [Section 59]

If Registrar satisfied → that provisions of Sec 58 complied with.



He shall record entry of statement in register called Register of Firms & shall file statement



Registrar to issue Certificate of Registration & Registered firm to use (Registered) after its name.

Registration - Effective from when Registrar files statement & makes entries in Register of firms.

Registration - can be done after suit filed by firm, BUT



Necessary to withdraw suit first & Then file fresh suit.

* Consequences of Non Registration of Partnership Firm [Section 69] → Regⁿ Not Compulsory but suggested.



1. No suit in civil court by firm co-partners against 3rd party.
2. No relief to partners for set-off of claim (Exception: ^{upto} ₹100)
3. Aggrieved Partner cannot bring legal action against other partner or firm. (Exception: can sue for dissolution or for a/c or realization of his share)
4. Third party can sue the firm.

Exceptions: Non Registration does not affect following rights:
↓

1. Right of 3rd party to sue firm or partner
 2. Right of Partners to sue for dissolution of firm [or] for settlement of a/c [or] realization of his share in case of dissolved firm.
 3. Power of official Assignees, Receiver of Court to release property of insolvent partner & to bring an action.
 4. Right to sue or claim set off of more than £100.
 5. Right to suit & proceeding instituted by legal representative or heir of deceased partner of firm for a/c of firm or to realise property of firm.
- * Whether suit is maintainable without fresh registration in case a partner died or new partner entered:

Test 2 things:

- ① Suit instituted by / ^{or} behalf of firm which is registered,
- ② Person suing shown as partner of firm.

If both satisfied then maintainable. [Refer Example 1 of unit 3]

* Dissolution of Firm

Dissolution of Partnership

Continuation of business in partnership.

Does not affect continuation of business,
Only Reconstitution of firm.

Winding up
Winding up of firm & Realization of Assets & Settlement of liabilities

Reconstitution & Revaluation of assets & liabilities of firm.

Order of court
May be by order of court

Not ordered by court.

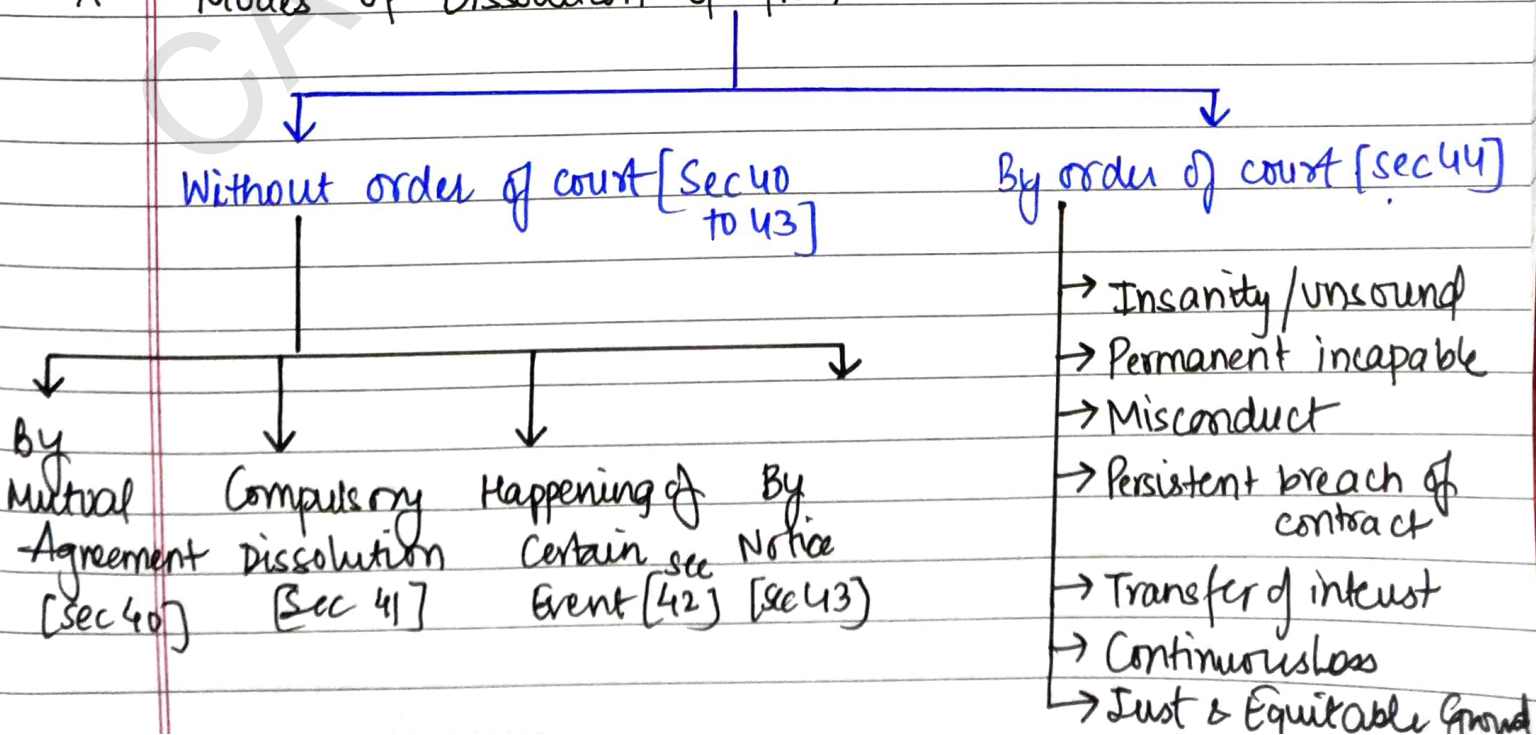
Scope
Involves Dissolution of Partnership

May or may not involve dissolution of firm.

Final closure of books of firm
Final closure of books of firm

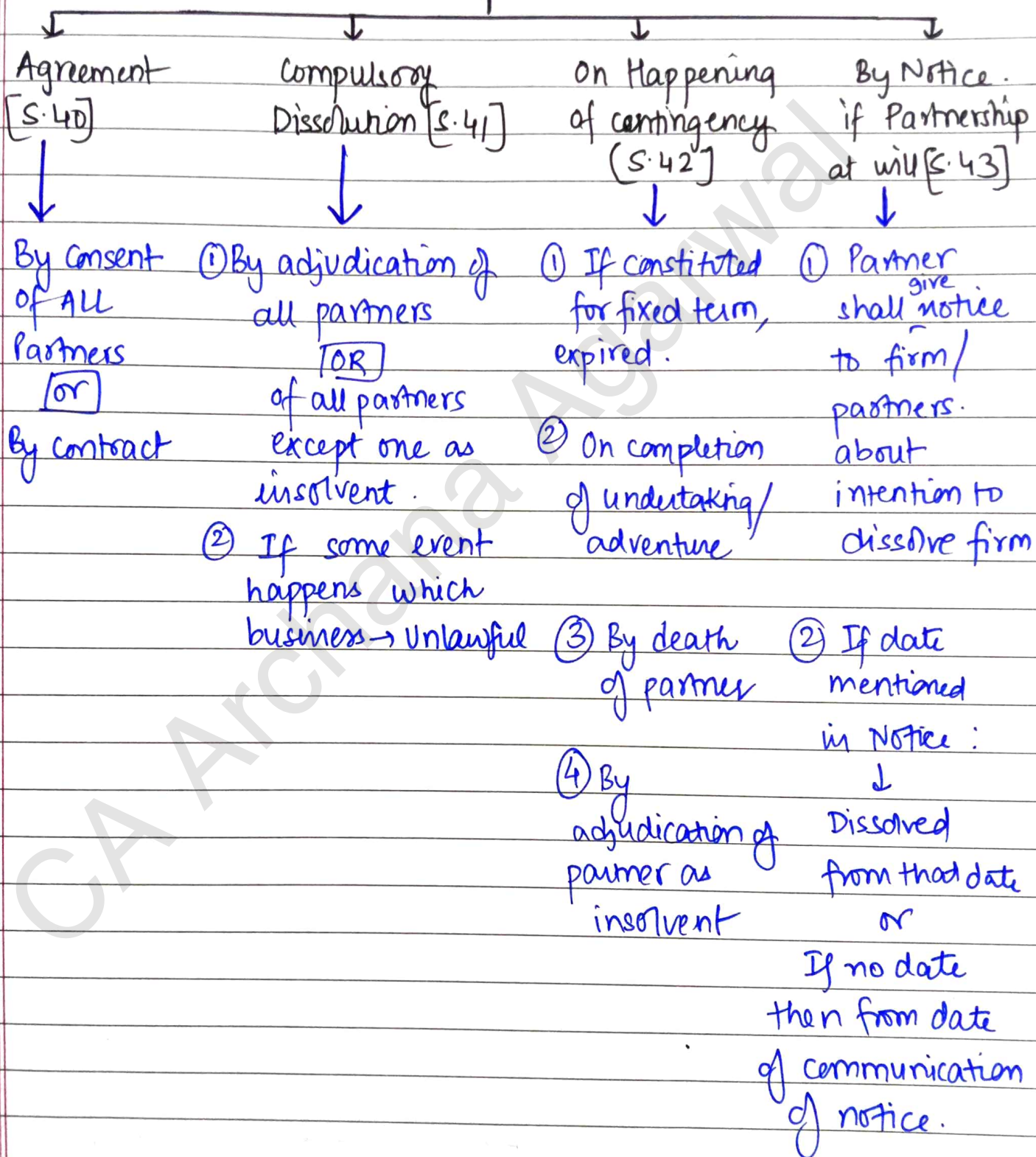
No final closure of books of firm.

* Modes of Dissolution of firm



Without

* Dissolution ~ By court's order. / Dissolution without court order.



* Dissolution By order of Court. [sec 44]

1. Insanity / unsound mind : Partner → unsound mind.
other partners / Next friend may file suit for dissolution.

If Temporary sick then no dissolution.

2. Permanent Incapacity : Physical disability / illness Etc.

3. Misconduct : Not necessary that it must relate to conduct of business.
Important - Adverse effect on business due to misconduct.

Nature of business decides whether Misconduct or Not.

4. Persistent Breach of Agreement :
 - Embezzlement
 - Keeping erroneous A/cs
 - Holding more cash than allowed
 - Refusal to show a/cs despite requests.

5. Transfer of interest.

6. Continuous / perpetual losses

7. Just & Equitable grounds :
 - Deadlock in Mgt.
 - Partners not in talking terms.
 - Loss of substratum.
 - Gambling by partner on stock Exchange.

* Consequences of Dissolution

1. Liability for acts of partners done after dissolution [Sec 45]

Partners continue to be liable to third party for acts done until public notice given.

But Estate of partner → who dies.
not liable → who is adjudicated insolvent
 → who not have been known to person dealing with firm to be partner (dormant partner)

Objective of Sec 45:

- ① Protects third parties who deal with firm & have no notice of dissolution.
- ② Protects partners of dissolved firm from liability towards third parties.

2. Right of partners to have business wound up after dissolution [Sec 46].

Every partner / Representative entitled to have property of firm

↓
 Applied in payment of debts & liabilities of firm,
 &
 Surplus → distributed among partners / representatives as per their rights.

3. Continuing authority of partners for purposes of winding up [Sec 47]

Authority of each partner to bind firm & other rights & duties of partners continue

- to wind up affairs of firm, &
- to complete transactions begun but unfinished

Firm NOT bound by acts of Partner who is declared insolvent

But person who represented himself or permitted himself as partner of insolvent → is liable for his acts.

4. Mode of Settlement of Partnership Accounts [Sec 48]

Losses including deficiencies of capital, paid in following order:

- ① out of profits,
- ② next out of capital,
- ③ by partners individually in their P.S.R

Assets including sums by partners in case of deficiency of capital, applied in following order:

- ① for paying debts of firm to third parties
- ② for paying to each partner what is due to him from capital
- ③ for paying to each partner what is due to him on account of capital
- ④ Residue, be divided in P.S.R.

5. Payment of firm debts & of separate debts [Sec 49]

In case of Joint debts due from firm & also separate debts due from partner :

- i) Firm's property → Applied first → for payment of debts of firm, if surplus then share of partner → Applied to payment of his separate debts or paid to him,
- ii) Separate property of partner → Applied first → for payment of his separate debts. if surplus then in payment of debts of firm.