
INDIAN PARTNERSHIP ACT 1932

UNIT 1 GENERAL NATURE OF PARTNERSHIP

DEFINITION OF 'PARTNERSHIP', 'PARTNER', 'FIRM' AND 'FIRM NAME' (SECTION 4)

PARTNERSHIP:

- Partnership is the relation between persons who have agreed to share profits of a business carried on by all or any of them acting for all.

PARTNER:

- Partners are the individuals who have entered into an agreement to carry on a business together and share its profits.

FIRM:

- The collective entity of all partners carrying on the business is called a firm.

FIRM NAME:

- The name under which the partnership business is carried on is called the firm name.

ELEMENTS OF PARTNERSHIP

1.ASSOCIATION OF TWO OR MORE PERSONS:-

- Partnership involves at least two persons to run a business and share its profits.
- Only legally recognized persons can enter into a partnership agreement.
- A firm is not recognized as a legal person and therefore cannot be a partner in a partnership.
- A minor cannot become a partner but can be admitted to the benefits of partnership with the consent of all existing partners.
- While the Partnership Act does not specify a maximum number of partners, the Companies Act, 2013 (Section 464) limits the number of partners in a firm to 50.

Summary in Hinglish: Partnership do ya zyada logon ke beech hoti hai, par legal entities hi partner ban sakti hain. Ek firm partner nahi ho sakti, aur minor sirf benefits ke liye shamil ho sakta hai.

2. AGREEMENT :

- Partnership arises from an agreement between two or more persons.
- The agreement must be voluntary, indicating the contractual nature of the partnership.
- This agreement can be express (explicitly stated) or implied through actions or consistent mutual conduct.
- The agreement can be oral or written, depending on the understanding between the partners.

Summary in Hinglish: Partnership ek voluntary aur contractual agreement se hoti hai jo express ya implied ho sakti hai, aur oral ya written dono forms mein ho sakti hai.

3. BUSINESS:

- A partnership requires the existence of a business.
- The term "business" includes all forms of trade, occupation, or profession.
- The business must have the motive of earning profits ("acquisition of gains").
- Without the intent to carry on a business and share its profits, a partnership cannot exist.

Summary in Hinglish: Partnership ke liye business ka hona zaroori hai, jo profit kamane ke irade se chalaya jaye. Business aur profit-sharing ki niyat ke bina partnership nahi ho sakti.

4. AGREEMENT TO SHARE PROFITS:

- Sharing of profits is a fundamental aspect of partnership; no single partner can claim all profits.
- Partners can decide how profits will be shared among themselves through mutual agreement.
- Sharing of losses is not mandatory; partners may agree that only some of them will bear the losses.
- In the absence of an agreement, losses are distributed in the profit-sharing ratio.
- Co-ownership with profit sharing (e.g., sharing rent from land) does not

constitute a partnership if no business exists.

Summary in Hinglish: Partnership ke liye profit-sharing zaroori hai, par loss-sharing optional hai. Losses agreement ke bina profit-sharing ratio mein batte jaate hain.

5. BUSINESS CARRIED ON BY ALL OR ANY OF THEM ACTING FOR ALL:

- The business of a partnership must be conducted by all partners or by one or more partners acting on behalf of all.
- Mutual agency, where each partner can act for others, is the foundation of partnership law.
- Any act done by one partner within the scope of the firm's business binds all partners.
- A partner is both a principal (bound by others' actions) and an agent (binding others by their actions).
- Mutual agency is the definitive test for a partnership; without it, a partnership does not exist.
- **Example:** In a firm "ABC Associates," if Partner A purchases goods for business, the seller can hold A, B, or C liable, as all are collectively responsible.

Summary in Hinglish: Partnership mein mutual agency essential hai, jisme ek partner ka act sabko bind karta hai. Iske bina partnership nahi hoti.

In KD Kamath & Co.

The Supreme Court has held that the two essential conditions to be satisfied are that:

- (1) there should be an agreement to share the profits as well as the losses of business; and
- (2) the business must be carried on by all or any of them acting for all, within the meaning of the definition of 'partnership' under section 4.

The fact that the exclusive power and control, by agreement of the parties, is vested in one partner or the further circumstance that only one partner can operate the bank accounts or borrow on behalf of the firm are not destructive of the theory of partnership provided the two essential conditions, mentioned earlier, are satisfied.

TRUE TEST OF PARTNERSHIP

To determine the existence of a partnership, the **real relationship** between the parties is considered based on all relevant facts.

- Essential elements include:
 1. **Agreement among parties:** All persons involved must have agreed to form the partnership.
 2. **Profit-sharing intention:** The agreement should include the sharing of profits from a business.
 3. **Mutual agency:** The business should be conducted by all partners or by some acting on behalf of all.

Summary in Hinglish: Partnership tabhi prove hoti hai jab agreement ho, profit-share ki baat ho, aur business sab ya kisi ek ke dwara sabke liye chalaya jaye.

- **Agreement as the Basis:**
 - Partnership arises from an agreement, not status (Section 5).
 - Members of a Hindu Undivided Family or spouses in certain cultural contexts, like Burmese Buddhist couples, conducting family businesses are **not partners** by default.
 - When there is no clear agreement, **Section 6** guides the determination of partnership by examining the real relationship through facts like agreements (verbal or written), conduct, and intentions.
- **Sharing of Profits:**
 - Sharing profits is an **important but not conclusive** test for partnership.
 - **Exceptions:** Profit-sharing alone does not create a partnership when profits are shared:
 - (a) As interest by a lender.
 - (b) As remuneration for employees or agents.
 - (c) As an annuity to a deceased partner's family.
 - (d) As payment for goodwill by a previous owner.

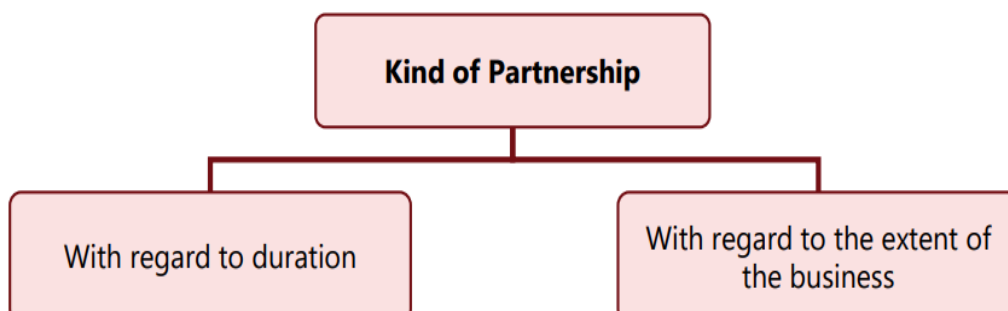
- The **entire contract** and mutual intent must be analyzed to confirm partnership, even when profit-sharing exists.
- **Mutual Agency:**
 - Mutual agency is a **key principle** of partnership law.
 - Every partner acts as both a **principal** and an **agent** for the other partners.
 - An act done by one partner on behalf of the firm legally binds all partners.
 - If mutual agency exists among individuals forming a group with the intent of earning profits through business, **partnership is presumed**.
- **Case Analysis: Santiranjana Das Gupta Vs. Dasyran Murzamull (Supreme Court)**

The Supreme Court determined no partnership existed based on these factors:

 - (a) No record of partnership terms and conditions was maintained.
 - (b) The business lacked accounts accessible to both parties.
 - (c) No separate partnership account was opened in any bank.
 - (d) There was no official intimation to authorities about the partnership's formation.

Summary in Hinglish: Mutual agency partnership ka base hai, jahan har partner principal aur agent hota hai. Agar mutual agency ke elements ho, to partnership presume hoti hai. Supreme Court ne ek case me kaha ki partnership nahi bani kyunki koi records, accounts ya official intimation nahi tha.

KINDS OF PARTNERSHIP



- **Partnership at Will (Section 7):**

No fixed duration is agreed upon, and there is no specific provision for determination.

- If a fixed-term partnership continues after expiry, it becomes a partnership at will.
- It can be dissolved by any partner through written notice to others.

- **Partnership for a Fixed Period**

- Created for a specific time period through a contract.
- Automatically ends when the fixed period expires.

- **Particular Partnership:**

- Formed for a single adventure or specific task.
- Dissolves upon completion of the task, unless stated otherwise in the agreement.

- **General Partnership:**

Formed for conducting general business activities.

- Partners' liabilities are not restricted to a specific undertaking, unlike in a particular partnership.
- It differs from a limited liability partnership where liability is restricted to agreed contributions.

Summary in Hinglish:

Partnership at will fixed period ke bina hoti hai aur notice dene par khatam ho sakti hai. Fixed period wali partnership time ke baad khatam hoti hai. Particular partnership ek specific kaam ke liye hoti hai aur kaam khatam hone par dissolve hoti hai. General partnership poori business activity ke liye hoti hai aur liability unlimited hoti hai.

- **Partnership Deed:**

Partnership arises from an agreement, which can be verbal or written.

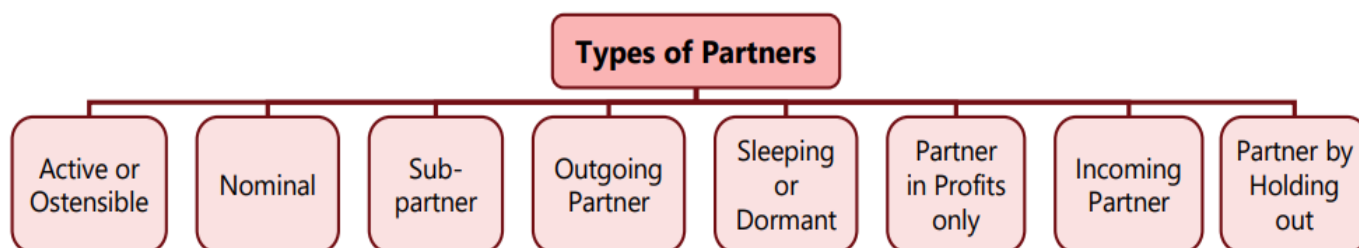
1. A **written partnership deed** is preferred to avoid future disputes.
2. It must be stamped as per the **Stamp Act, 1899**, and if immovable property is involved, it should also be **registered** under the **Registration Act**.

- **Key Contents of Partnership Deed:**

1. Name of the partnership firm.
2. Names of all partners.
3. Nature and location of the business.
4. Date of commencement of the partnership.
5. Duration of the partnership.
6. Capital contributions by each partner.
7. Profit-sharing ratio.
8. Terms for admission and retirement of partners.
9. Interest rates on capital, drawings, and loans.
10. Settlement process for accounts during dissolution.
11. Provisions for salaries or commissions to partners, if applicable.

Summary in Hinglish: Partnership deed ek written agreement hota hai jo partners ke beech ke terms define karta hai. Isme firm ka naam, partners ke naam, capital, profit-sharing, aur dissolution ke rules hote hain. Registration aur stamp duty zaroori hai agar immovable property include ho.

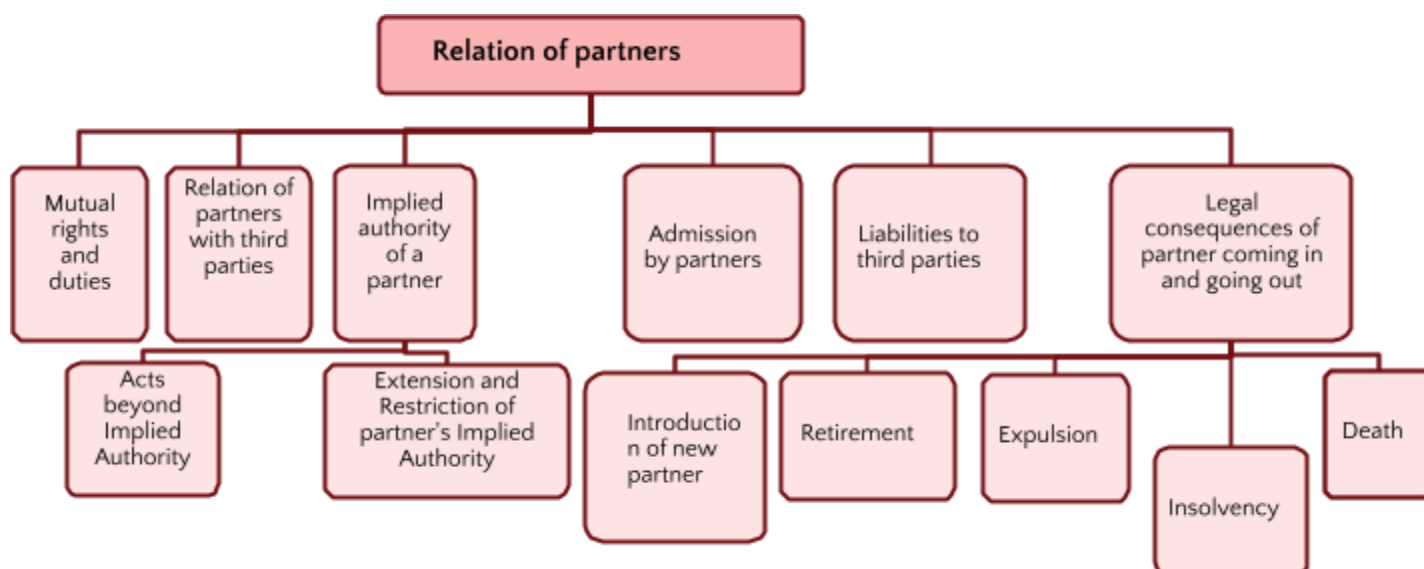
TYPES OF PARTNERS



- **Active or Ostensible Partner:**
 - Becomes a partner by agreement and actively manages the business.
 - Acts as an agent for the firm's business.
 - On retirement, must give public notice to avoid liability for future acts of the firm.
- **Sleeping or Dormant Partner:**
 - Partner by agreement but does not participate in business operations.
 - Shares profits and losses and is liable to third parties for the firm's acts.
 - Not required to give public notice upon retirement.
- **Nominal Partner:**
 - Lends their name to the firm but has no real interest in it.
 - Does not share profits, invest, or engage in business activities.
 - Liable to third parties for the firm's acts.
- **Partner in Profits Only:**
 - Shares only profits without being liable for losses.
 - Liable to third parties for acts related to profits.
- **Incoming Partner:**
 - Joins an existing firm with consent from all partners.
 - Not liable for acts of the firm prior to joining.
 - Example: Joining on September 10, 2021, excludes liability for acts before that date.
- **Outgoing Partner:**
 - Retires while other partners continue the business.
 - Remains liable to third parties until public notice of retirement is given..
- **Partner by Holding Out (Section 28):**
 - Also called "Partner by Estoppel."
 - Occurs when a person represents themselves (or allows others to represent them) as a partner, leading creditors to act on that belief.
 - Liable for firm debts based on representation, even without fraudulent intent.

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- Retired partners without public notice are liable under this principle.
 - Example: A manager represented as a partner is liable for firm debts if creditors acted on the belief.
 - **Sub Partner:**
 - When a partner agrees to share their profit share from the firm with an outsider, that outsider is called a **sub-partner**.
 - A sub-partner has **no rights** against the firm and cannot participate in its management or decision-making.
 - A sub-partner is **not liable** for the debts or liabilities of the firm.

UNIT 2 -RELATIONS OF PARTNERS



1. General Duties of Partners (Section 9)

- **Partners must conduct the business to achieve the greatest benefit** for all, ensuring collective growth and success.
- **Partners are obligated to provide complete and accurate information** about all matters affecting the firm to other partners or their legal representatives.
- **Each partner must act with integrity, fairness, and transparency** in dealings within the partnership, fostering trust and mutual respect.
- **All partners must maintain and share proper accounts**, and if certain accounts are handled by a specific partner, **that partner must provide full explanations and details.**

Summary in Hinglish: Partners ko ek dusre ke sath imaandari aur bharose ke sath kaam karna chahiye aur apni responsibility ke hisaab se accounts aur jaankari share karni chahiye.

2. Duty to Indemnify for Loss Caused by Fraud (Section 10)

- **A partner committing fraud during the conduct of the firm's business** is obligated to compensate the firm for any loss caused by their misconduct.
- **The compensation amount must be brought back into the partnership** and is then subject to division among the partners as per their agreed terms.
- **If a partner's fraudulent act impacts the firm or the co-partners**, they are entitled to hold that partner solely responsible for the consequences, based on the principles of agency.

Summary in Hinglish: Agar kisi partner ki fraud ki wajah se firm ko nuksaan hota hai, toh us partner ko us nuksaan ki bharpai karni padegi aur baaki partners ke saath woh amount share karna hoga.

3.Determination of Rights and Duties of Partners by Contract (Section 11)

- **Mutual rights and duties of partners** can be determined by a contract between the partners, either expressly stated or implied through their course of dealings.
- **The contract may be modified with the consent of all partners**, which can also be given expressly or implied by their conduct.
- **Agreements in restraint of trade** may allow a partner to agree not to carry on any other business besides that of the firm while remaining a partner, despite the general prohibition under Section 27 of the Indian Contract Act, 1872.
- **Partnership depends on the consent of the parties**, not just for its formation but also for setting its terms, which need not follow a specific format and can evolve over time based on mutual agreement.

Summary in Hinglish: Partners apne rights aur duties ko apne contract ke zariye define karte hain, aur yeh contract unki mutual consent ke basis par badla ja sakta hai, chahe woh express ho ya implied.

4.The Conduct of the Business (Section 12)

- **Every partner has the right to take part in the conduct of the business** unless restricted by a mutual agreement.
- **Each partner is duty-bound to diligently fulfill their responsibilities** related to the firm's business.

- **Differences in ordinary business matters** can be resolved by the majority of partners, with every partner having the right to express their opinion before the decision.
- **No change in the nature of the business** can be made without the unanimous consent of all partners.
- **Every partner has the right to access, inspect, and copy the books of the firm**, ensuring transparency.
- **If a partner dies, their heirs or legal representatives** also have the right to access and inspect the firm's books.

(i).Right to Take Part in the Business (Section 12(a)):

- Every partner has the inherent right to participate in the business of the firm, as the business belongs collectively to the partners.
- This provision applies unless a partnership agreement specifies otherwise, such as assigning management powers to certain partners exclusively.
- Courts generally refrain from interfering in such arrangements unless illegal actions or breaches of trust are evident.

(ii).Right to Be Consulted (Section 12(c)):

- Disputes related to the business are decided by the majority of partners.
- Each partner has the right to express their opinion before a decision is finalized.
- For routine matters, the majority's decision prevails, provided they act in good faith.
- Unanimous consent is mandatory for changes in the firm's nature or core operations.

(iii).Right of Access to Books (Section 12(d)):

- Every partner, whether actively involved in the business or not, has the right to access, inspect, and copy the books of the firm.
- This right must be exercised in good faith and for legitimate purposes.

(iv).Rights of Legal Heirs or Representatives (Section 12(e)):

- Upon the death of a partner, their heirs, legal representatives, or authorized agents have the right to inspect, access, and copy the firm's books of accounts.

Summary in Hinglish: "Section 12 ke tahat har partner ka hak hai ki woh business me hissa le, apni rai vyakt kare aur firm ke records inspect kare. Death ke case me legal heirs ko bhi books dekhne ka adhikaar hota hai."

Mutual Rights and Liabilities of Partners (Section 13 of the Indian Partnership Act, 1932)

- A partner is not entitled to receive remuneration for participating in the business of the firm unless explicitly agreed otherwise in the partnership contract.
- All partners share profits and contribute to losses equally unless the partnership agreement specifies a different arrangement.
- If a partner is entitled to interest on the capital they have contributed, such interest is payable only out of the firm's profits.
- If a partner makes a payment or advance exceeding their agreed capital contribution, they are entitled to interest on the amount at 6% per annum.
- The firm must indemnify a partner for:
 - Payments made or liabilities incurred in the ordinary and proper conduct of the business.
 - Actions taken in an emergency to prevent losses to the firm, provided these actions are reasonable and prudent.
- A partner is required to indemnify the firm for any loss caused by their willful neglect or misconduct in managing the firm's business.

(i).Right to Remuneration (Section 13(a)):

- Partners are not entitled to remuneration for participating in the business of the firm unless explicitly agreed upon in the partnership contract.
- However, remuneration may be claimed under continued usage or custom of the firm, even in the absence of a formal agreement.

(ii).Right to Share Profits (Section 13(b)):

- Partners share profits and contribute to losses equally unless a different arrangement is specified in the partnership agreement.
- The share of profits is unrelated to the proportion of capital contributed by each partner.

(iii).Interest on Capital (Section 13(c)):

- Interest on capital is payable only out of profits, provided there is:
 - An express agreement,
 - A custom in the partnership, or
 - A statutory provision allowing such payment.

(iv).Interest on Advances (Section 13(d)):

- A partner who makes an advance beyond their agreed capital contribution is entitled to interest at 6% per annum.
- Unlike interest on capital, interest on advances continues to accrue even after the dissolution of the firm until payment is made.

(v).Right to Be Indemnified by the Firm (Section 13(e)):

- Partners are entitled to indemnification for:
 - Payments made and liabilities incurred during the ordinary course of business.
 - Actions taken during emergencies to prevent losses to the firm, provided such actions are prudent and reasonable.

(vi).Obligation to Indemnify the Firm (Section 13(f)):

- A partner must indemnify the firm for any loss caused due to their willful neglect or misconduct in managing the business.

Partnership Property (Sections 14 and 15 of the Indian Partnership Act, 1932)

- **Definition of Partnership Property (Section 14):**

- Partnership property includes all property, rights, and interests contributed by the partners to the common business.
- It also includes property, rights, and interests acquired or purchased by the firm for its business purposes.
- Goodwill of the business is part of the partnership property unless agreed otherwise by the partners.

- **Determination of Partnership Property:**

- The intention or agreement of the partners determines whether a property belongs to the partnership.
- Mere use of a partner's property for business purposes does not make it partnership property unless intended or agreed.
- Partners can convert their individual property into partnership property through a mutual agreement.

- **Goodwill as Partnership Property:**

- Goodwill refers to the value of a business's reputation, leading to profits above normal levels.
- When a firm is dissolved, goodwill must be sold for the benefit of all partners unless agreed otherwise.
- Goodwill can be sold separately or with other firm properties.
- Partners can agree with the buyer of goodwill to refrain from starting a competing business, provided the restriction is reasonable (per Section 27 of the Indian Contract Act, 1872).

- **Application of Partnership Property (Section 15):**

- Partnership property must be used exclusively for the firm's business.
 - Partners do not have individual ownership rights over the firm's assets during the partnership's subsistence.
 - Every partner is entitled to their share of profits and to ensure that the assets are applied for the partnership's purposes.
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Summary in Hinglish: "Section 14 aur 15 ke mutabik, firm ki property wahi hoti hai jo partners ne milkar contribute ki ho ya business ke liye acquire ki gayi ho. Goodwill bhi firm ki property ka hissa hai, aur dissolution par ise sabhi partners ke faayde ke liye bechna hota hai. Firm ki property sirf business ke liye hi use ki jaa sakti hai."

Key Concept: Partnership property includes all jointly owned assets, which must be used for business purposes, with goodwill treated as a valuable intangible asset.

Section 16: Personal Profit Earned by Partners

This section ensures fairness in partnerships and outlines obligations when partners gain personal profit using firm resources or through competing activities.

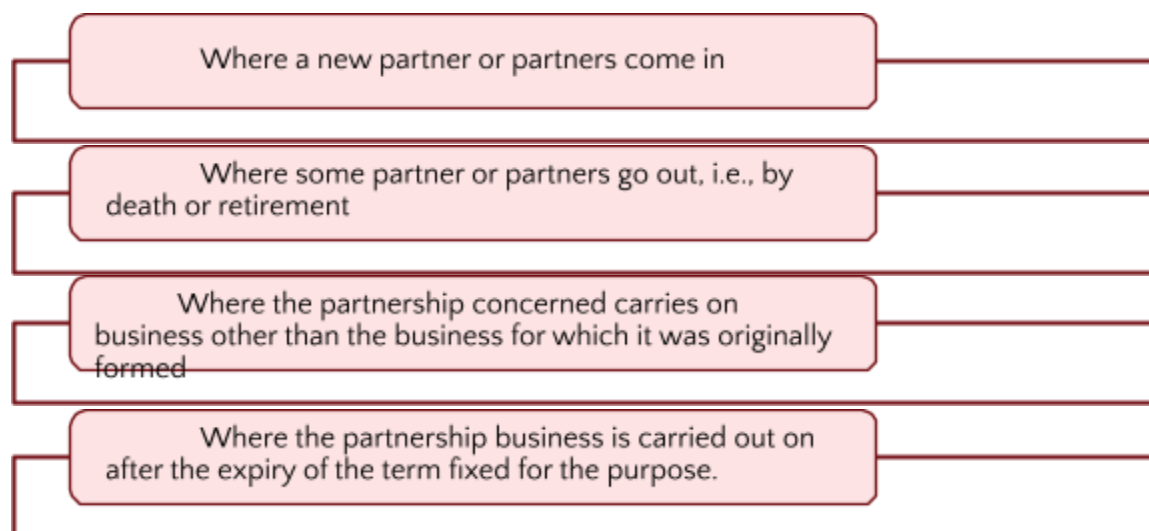
- If a partner uses the firm's property, business connections, or name for personal profit, they must disclose the profit to the firm and pay it to the firm.
- This rule applies regardless of whether the contract between partners explicitly mentions it.
- If a partner conducts a business similar to or competing with the partnership's business, any profit made from this must also be disclosed and paid to the firm.
- This prevents conflicts of interest and ensures loyalty to the partnership.

Example:

- A, B, C, and D formed a sugar refining business partnership.
- A, a wholesale grocer, was responsible for buying sugar for the firm. He had sugar in his stock (purchased earlier at a lower price) and sold it to the partnership, making a profit.
- A must disclose this profit to the firm and share it because he used his role and the firm's trust to earn the profit.

Hinglish Summary: Section 16 kehte hain ki partner agar firm ke naam ya resources se profit banaye, toh woh profit firm ko dena hoga. Agar partner same nature ka competing business kare, toh uska profit bhi firm ke liye hoga.

RIGHTS AND DUTIES OF PARTNERS AFTER A CHANGE IN THE FIRM (SECTION 17)



- **After a change in the firm:**

When the firm's constitution changes (e.g., admission or retirement of a partner), the mutual rights and duties of the partners in the reconstituted firm remain the same as they were before the change, to the extent possible.

- **After the expiry of the firm's term:**

If a firm originally formed for a fixed term continues its business beyond the term's expiry, the rights and duties of the partners remain consistent with those of the previous arrangement, adjusted to suit the nature of a partnership at will.

- **When additional undertakings are carried out:**

If a firm initially formed for specific ventures or undertakings expands into new ventures, the mutual rights and duties of the partners for these new undertakings are consistent with those of the original ones.

Hinglish Summary: Section 17 kehta hai ki firm ke constitution mein change hone par ya term expire hone ke baad bhi partners ke rights aur duties pehle jaise hi rahenge. Agar naye ventures add hote hain, toh rights aur duties original ventures jaise hi rahenge.

Relation of Partners to Third Parties

Partner to Be an Agent of the Firm (Section 18):

A partner is both a principal and an agent of the firm. This means:

- **Principal:** When a partner acts for themselves in the partnership's common business interest, they are a principal.
- **Agent:** When acting for other partners, they are an agent of the firm. This agency principle applies to the business of the firm and not to personal dealings between partners.

Implied Authority of Partner as Agent of the Firm (Section 19)

Under Section 19, a partner is considered an agent of the firm for acts done in the usual course of business. This authority to bind the firm is known as **implied authority**.

- **Acts Covered by Implied Authority:**
A partner's actions within the normal scope of the firm's business automatically bind the firm, provided they align with the usual way the firm conducts its business.
- **Limitations of Implied Authority:**
Unless there is a custom or trade usage to the contrary, a partner's implied authority does **not** include the power to:
 - Submit disputes related to the firm's business to arbitration.
 - Open a bank account in their personal name for the firm.
 - Compromise or relinquish claims belonging to the firm.
 - Withdraw lawsuits or proceedings filed on the firm's behalf.
 - Admit liabilities in lawsuits against the firm.
 - Acquire immovable property for the firm.
 - Transfer immovable property owned by the firm.
 - Enter into a partnership on behalf of the firm.

Hinglish Summary: Implied authority ka matlab hai ki partner usual business ke kaam karta hai, toh wo firm ko bind karega. Lekin, disputes settle karna, immovable property transfer karna, ya naye partnerships banana iske scope mein nahi aata.

Mode of Doing Act to Bind Firm (Section 22)

For an act to bind the firm, it must be executed in a manner that clearly indicates it is on behalf of the firm. This could be:

- **In the firm's name:** The act or document explicitly bears the firm's name.
- **Expressing or implying intent:** The act suggests an intention to bind the firm, even if not explicitly in the firm's name.

This concept ties to **implied authority**, where each partner, as an agent of the firm, can bind the firm in matters related to the partnership business. The implied authority operates between partners and the outside world, regardless of internal agreements among partners.

Hinglish Summary: Section 22 kehte hai ki partner ka act tabhi firm ko bind karega jab wo firm ke naam se ya aise tareeke se kiya jaye jo firm ko bind karne ka intention dikhaye. Har partner, firm ka agent hoke kaam karta hai.

Implied Authority of a Partner (Sections 19(1) and 22)

The implied authority of a partner allows them to bind the firm in transactions related to the firm's usual business. This authority applies to acts:

- Done to carry on business in the usual way.
- Performed in the firm's name or in a manner indicating an intention to bind the firm.

Conditions for Implied Authority:

- **Usual Business of the Firm:** The act must relate to the firm's normal business and fall within the scope of the partner's authority.
- **Firm Name:** The act must be conducted in the firm's name or imply an intention to represent the firm.

Restrictions on Implied Authority (Section 19(2)):

A partner's implied authority does **not** extend to:

- Borrowing money or issuing promissory notes for a business outside the scope of the firm's usual nature.
- Submitting disputes to arbitration.
- Opening accounts in their name for the firm.
- Compromising claims, withdrawing lawsuits, or admitting liabilities without approval.
- Acquiring or transferring immovable property.
- Entering into partnerships on the firm's behalf.

Example: A partner in a solicitor's firm (legal practice) borrows money and issues a promissory note in the firm's name without authority. This act does not bind the firm, as borrowing money is not part of a solicitor's usual business.

Implied Authority in General Commercial Businesses:

In a commercial business, a partner may:

- Pledge or sell partnership property.
- Buy goods, borrow money, and pay debts for the firm.
- Handle negotiable instruments like promissory notes and cheques in the firm's name.

Hinglish Summary: Sections 19 aur 22 kehte hain ki partner usual business ke kaam karta hai, toh firm ko bind karega. Lekin, kuch kaam jaise disputes settle karna, immovable property lena, ya naye partnership banani implied authority mein nahi aate.

Extension and Restriction of Partners' Implied Authority (Section 20)

Under Section 20, the **implied authority** of a partner can be **extended or restricted** by a contract among the partners. These restrictions or extensions are effective against third parties only under certain conditions:

- **Third Party Knowledge:** The third party must be **aware** of the restrictions placed on the partner's authority.
- **No Knowledge of Partnership:** The third party must **not** be aware that they are dealing with a partner in a firm.

Any changes to a partner's implied authority, whether extensions or restrictions, can only occur if **all the partners** agree to it. A **single partner** or a **majority of partners** cannot independently alter the implied authority.

Hinglish Summary:

Section 20 kehta hai ki partner ki implied authority ko extend ya restrict kiya ja sakta hai, lekin yeh tabhi effective hoga jab third party ko uski restriction ka pata ho aur wo partner ko nahi janta ho. Aur yeh sirf sabhi partners ki consent se ho sakta hai.

Partner's Authority in an Emergency (Section 21)

According to **Section 21**, a partner has the authority, in case of an emergency, to take all necessary actions to protect the firm from any loss. The actions taken must be what an **ordinary prudent person** would do under similar circumstances to protect their own interests. Such acts are binding on the firm.

Hinglish Summary: Section 21 kehta hai ki agar emergency ho, toh partner ko firm ko loss se bachane ke liye zaroori steps lene ka adhikar hai, jo ek samajhdar insaan apne case mein leta. Aise actions firm ko bind karte hain.

Effect of Admissions by a Partner (Section 23)

- **Binding Admissions:** Partners can make **binding admissions** as agents of each other, but only for **partnership transactions** and in the **ordinary course of business**.
- **Limited Authority:** If a partner's authority is **limited** on a particular matter, and the **other party is aware** of this restriction, the admission **will not bind** the firm.
- **Impact on Firm:** Admissions made by a partner **bind the firm** when presented to **third parties**, but may not have the same effect in **disputes** between the partners themselves.

Example: A, acting for the partnership, agrees to pay a supplier for goods, which binds the firm. But if A promises to take on extra debt, and the supplier knows A is restricted from doing so, it won't bind the firm.

Hinglish Summary: Section 23 kehta hai ki partners apni admission se firm ko bind karte hain, lekin yeh sirf tab hoga jab wo business ke normal course mein ho. Agar unki authority limited ho aur dusra party jaane, toh firm ko bind nahi karega.

Effect of Notice to Acting Partner (Section 24)

- **Notice to Active Partner:** A notice given to a **partner who regularly acts in the business** is considered as notice to the **entire firm**. This is similar to how notice to an agent is treated as notice to the principal.
- **Exception for Fraud:** The notice will not apply if the partner has committed fraud, either personally or with the firm's consent.
- **Conditions:**
 - The notice must be **actual**, not constructive.
 - It must be received by a **working partner**, not a **sleeping partner**.
 - The notice should be related to **the firm's business**.

Example: A, a working partner in a law firm, receives a notice about a legal dispute. This notice is considered received by the firm. However, if the notice involves a fraudulent action by A, it does not apply to the firm.

***Hinglish Summary:** Section 24 kehta hai ki agar acting partner ko notice diya jaye, toh wo poori firm ko notice maana jayega. Lekin agar fraud ho, toh yeh rule apply nahi karega.*

Liability to Third Parties (Sections 25 to 27)

Liability of a Partner for Acts of the Firm (Section 25)

- **Joint and Several Responsibility:** Partners are **jointly and severally** liable to third parties for all acts carried out under their **express or implied authority**. This means that partners can be held individually or together responsible for any action that falls within the scope of their partnership's business.
- **Scope of Authority:** The **acts of the firm** refer to any act or omission done by the partners or agents of the firm, which results in a **right enforceable by or against the firm**.
- **Liability in Partnership:** For liability under this section to apply, the act must have been done while the individual was still a partner in the firm.

Example: A and B are partners in a furniture business. A sells a table to a customer using the firm's name. If the customer is unhappy with the quality of the table and files a complaint, both A and B are jointly responsible for the issue, even if only A made the sale, because the act was done within the scope of their business.

Hinglish Summary: Section 25 kehta hai ki partners third parties ke liye jointly aur severally responsible hote hain agar unhone firm ke business mein koi kaam kiya ho. Agar partner kaam kar raha hai, toh usse liye sab partners zimmedar hain.

Liability of the Firm for Wrongful Acts of a Partner (Section 26)

- **Firm's Liability for Partner's Wrongful Acts:** The firm is liable to the same extent as the partner for any **loss or injury caused to a third party** by the wrongful acts of a partner, if the partner is acting:
 - In the ordinary course of the business of the firm.
 - With the authority of the partners.
- Even if the method used by the partner was **unauthorized** or wrongful, the firm can still be held liable if the act falls within the scope of the business and was authorized.
- **Negligence:** If a partner commits a negligent act in the ordinary course of business, all partners are liable.

Example: A partner in a clothing business, while selling a defective product to a customer, causes harm. Even though the product was faulty, since the act was done in the normal course of business, the firm is liable for the damage caused.

Hinglish Summary: Section 26 kehta hai ki agar partner business ke dauran galat kaam karta hai, toh firm bhi zimmedar hoti hai. Agar partner ne business ke kaam mein galti ki, toh sab partners liable hain.

Liability of Firm for Misapplication by Partners (Section 27)

- **Misapplication of Money or Property:** The firm is liable if a partner **misapplies** money or property belonging to a third party, even if:
 - The money/property **did not come into the firm's possession** but was received by the partner within their authority (Clause a).

- The money/property **came into the firm's possession** and was misapplied by a partner (Clause b).
- If a partner receives money without authority, the firm will not be liable unless the money comes into the firm's possession.

Example: If Partner A receives a payment for a product that was meant to be paid to the firm but keeps it for personal use, the firm is liable for the misapplication if the money was intended for firm business.

Hinglish Summary: Section 27 kehta hai ki agar partner kisi third party ke paise galat tarike se istemal kare, toh firm bhi liable hai. Agar paise firm ke paas aaye aur misapply hue, toh firm zimmedar hai.

Liability of Firm for Misapplication by Partners (Section 27)

Section 27 differentiates between two types of misapplication of money or property by a partner:

- **Clause (a):** This applies when a partner acts within their authority and receives money or property from a third party. Even if the money or property doesn't physically come into the firm's possession, the firm is still liable if the partner misapplies it.
- **Clause (b):** This applies when the money or property comes into the firm's custody, and any partner misapplies it. In this case, the firm is liable as well.
- If a partner receives money outside the scope of their apparent authority, it cannot be considered a receipt by the firm. The firm is only liable if the money later comes into their possession or control.

Example: Partner A receives a payment from a customer intended for the firm. Partner A uses the money for personal expenses (misapplication). In this case, the firm is liable for the misapplication, even if the money was not physically in the firm's possession initially.

Hinglish Summary: Section 27 kehta hai ki agar partner kisi third party ke paise galat tareeke se istemal kare, toh firm bhi liable hoti hai, chahe paise directly firm ke paas aaye ho ya na aaye.

Rights of Transferee of a Partner's Interest (Section 29)

A partner's share in the partnership is transferable, but due to the nature of the partnership, the transferee does not gain the full rights of a partner. The rights of a transferee are limited:

- **During the continuance of the partnership:** The transferee is not entitled to:
 - Interfere with the firm's business.
 - Require accounts from the firm.
 - Inspect the firm's books.
- The transferee can only receive the share of profits that the transferring partner was entitled to, and they must accept the profits as per the existing agreement between the partners.
- **On dissolution or retirement of the transferring partner:** The transferee is entitled to:
 - Receive the share of the firm's assets that the transferring partner would have received.
 - Entitled to an account as of the date of dissolution or the partner's retirement.
- **Limitations on the transferee's role:** The transferee cannot become a partner unless all existing partners consent. Even if a partner transfers their share, the transferee does not automatically become a partner unless accepted by the other partner

Hinglish Summary:Section 29 kehta hai ki partner apni interest transfer kar sakta hai, lekin transferee ko partner ke full rights nahi milte. Wo bas profits ka hissa paata hai aur firm ki business me interfere nahi kar sakta.

Minors Admitted to the Benefits of Partnership (Section 30)

A **minor** cannot be a full partner in a firm because a partnership is based on a contract, and a minor cannot enter into a binding contract. However, a minor can be **admitted to the benefits of partnership** under Section 30, meaning they can receive a share of the firm's profits with the consent of all partners. The rights and liabilities of such a minor are as follows:

Rights:

- The minor has the right to **receive the agreed share of profits** from the firm.
- They can **inspect and copy the firm's accounts**.
- They can **sue the partners** for accounts or payment of their share, but only when they sever their connection with the firm.
- Upon **reaching majority**, the minor must decide within **6 months** whether to continue as a partner. If they choose to become a partner, they retain their share. If not, their share is not liable for any acts of the firm after the public notice.

Liabilities:

- **Before Majority:** The minor is only liable to the extent of their share in the firm's profits and property. They are **not personally liable for the firm's debts** incurred during their minority.
- The minor **cannot be declared insolvent**. However, if the firm is declared insolvent, the minor's share will vest in the Official Receiver/Assignee.

Rights and Liabilities After Attaining Majority

Once a minor attains majority, they must decide within **6 months** whether to remain a partner in the firm or not. The process is governed by Section 30 as follows:

If the Minor Becomes a Partner:

- If the minor chooses to continue as a partner or fails to give a notice within 6 months, they **become personally liable** to third parties for all acts of the firm done since they were admitted to the benefits of the partnership.

- Their **share in the profits and property** of the firm remains the same as it was when they were a minor.

If the Minor Elects Not to Become a Partner:

- The minor's rights and liabilities will remain those of a minor until they give **public notice** of their decision not to become a partner.
- **No liability** for any acts of the firm that occur after giving the notice.
- The minor can **sue the partners** for their share of the firm's property and profits.

Example: If a minor partner, A, turns 18 and doesn't give notice within 6 months about becoming a full partner, A will automatically become a partner, with full liability for the firm's future actions. If A chooses not to continue, they can give public notice and their share will not be liable for future debts.

Hinglish Summary: Minor ko firm ke profits ka share mil sakta hai, lekin unka liability limited hota hai. Majority ke baad wo decide kar sakte hain agar wo partner banna chahte hain ya nahi. Agar minor major ho jaata hai, toh usse 6 mahine mein decide karna padta hai ki wo partner rahega ya nahi. Agar wo partner ban jaata hai, toh uski personal liability start ho jaati hai. Agar wo nahi banna chahta, toh notice de sakta hai.

Legal Consequences of Partner Coming In and Going Out (Sections 31–35):

Introduction of a Partner (Section 31):

- A new partner can only be admitted with the **consent of all existing partners** unless otherwise agreed upon.
- **Rights and Liabilities:**
 - The new partner's liabilities begin from the date of admission, unless they agree to assume prior debts.
 - Novation (creditor's consent) is required to transfer liability for old debts to the new partner.
- **Special Case:**
 - For partnerships with two partners, admission is not possible if one partner dies, as the firm dissolves automatically.

Example: If A and B are partners, and C joins with A and B's approval, C is liable for new debts unless explicitly agreeing to take old liabilities.

Hinglish Summary: Naye partner ko tabhi shamil kiya jaa sakta hai jab sabhi partners razi ho. Liability naye partner ki joining ke baad ki hoti hai.

Retirement of a Partner (Section 32):

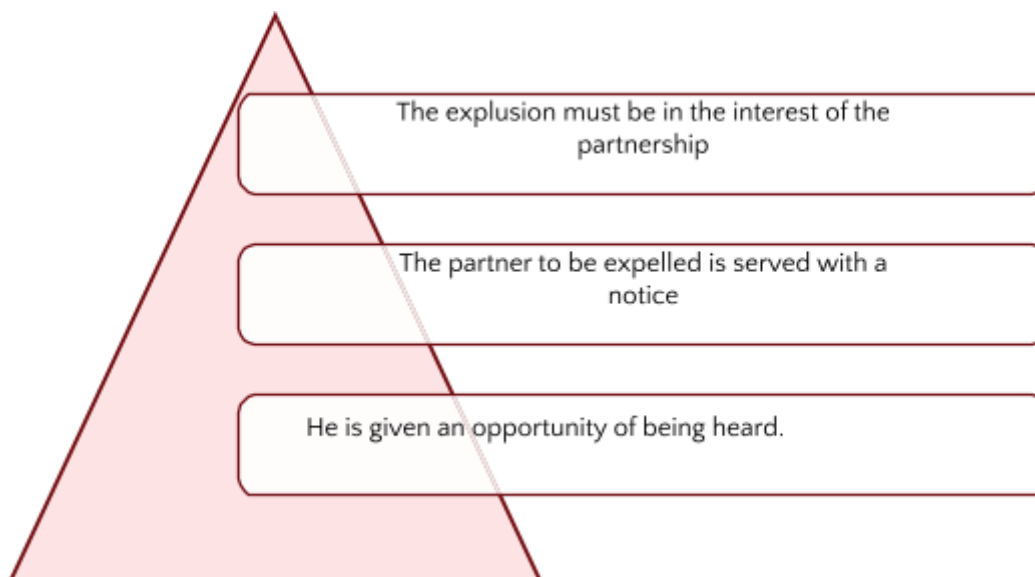
- A partner may retire:
 - With **consent of all partners**.
 - By following an **express agreement**.
 - By giving written **notice of intention**, if the partnership is at will.
- **Liability After Retirement:**
 - A retired partner is liable for firm's actions before retirement until a **public notice** is given.
 - With creditor's consent, liability may be discharged for acts before retirement.

Example: X retires from a firm but does not notify creditors. If the firm takes a loan, X may still be liable unless a public notice is issued.

Hinglish Summary: Retired partner tab tak liable hai jab tak unka retirement notice public ko na diya jaye.

Expulsion of a Partner (Section 33):

- Conditions for valid expulsion:
 - Must be allowed by the **partnership agreement**.
 - Must be exercised by a **majority** of partners.
 - Must be done **in good faith**.
- **Invalid Expulsion:**
 - If not in good faith, the expulsion is invalid, and the partnership continues as before.



Example: P is expelled by Q and R without following the agreement. The expulsion is invalid, and P remains a partner.

Hinglish Summary: Partner ko sirf agreement ke hisaab se aur good faith mein hi nikala ja sakta hai, warna expulsion valid nahi hoga.

Insolvency of a Partner (Section 34):

- A partner **ceases to be a partner** from the date of adjudication as insolvent.
- **Liabilities:**
 - The insolvent partner's estate is not liable for firm acts done after adjudication.
 - The firm is not liable for acts of the insolvent partner after adjudication.
- **Effect on Firm:**

- Insolvency usually results in dissolution unless otherwise agreed among partners.

Example: If partner Y becomes insolvent, they cease to be a partner immediately, and their estate is not responsible for future debts of the firm.

Hinglish Summary: Insolvent partner ki liability sirf adjudication ke pehle tak hoti hai, aur adjudication ke baad wo partner nahi rahta.

Liability of Estate of Deceased Partner (Section 35):

- Death of a partner generally **dissolves the firm**, unless agreed otherwise by the partners.
- **No Public Notice Required:**
 - The deceased partner's estate is not liable for future obligations of the firm, even without a public notice.

Example: If partner Z dies and the agreement states the firm will continue, Z's estate is free from future liabilities without any public notice.

Hinglish Summary: Deceased partner ke estate ki future liabilities nahi hoti, aur public notice dene ki zarurat nahi hoti.

Rights of Outgoing Partner to Carry on Competing Business (Section 36):

- **General Rule:**
An outgoing partner can engage in a competing business and advertise it unless there is a contract restricting such activity.
- **Restrictions:**
 - **Use of Firm Name:** The outgoing partner cannot use the name of the firm.
 - **Representation:** They cannot claim to carry on the firm's business.

- **Solicitation:** The outgoing partner is prohibited from soliciting customers who previously dealt with the firm.
- **Agreement in Restraint of Trade:**
 - An outgoing partner may agree with the other partners not to start a competing business within a specified period or location.
 - Such agreements are valid if the **restrictions are reasonable**, even overriding Section 27 of the Indian Contract Act, 1872.

Example: Partner A retires from Firm XYZ and starts a similar business. They cannot use "XYZ" in their business name or approach XYZ's customers unless agreed otherwise.

Hinglish Summary: Retired partner apna competing business kar sakta hai, par firm ka naam ya purane customers use nahi kar sakta, jab tak agreement mein kuch aur na ho.

Right of Outgoing Partner to Share Subsequent Profits (Section 37):

- **Entitlement:**

If a partner dies or ceases to be a partner and the remaining partners continue using the firm's property without settling accounts with the outgoing partner or their estate, the outgoing partner or their estate has two options:

 - **Share of Profits:** Claim a proportional share of the profits earned using their share of the firm's property.
 - **Interest:** Opt for 6% per annum interest on their share in the firm's property.
- **Contractual Provisions:**
 - If the partnership agreement allows the continuing partners to purchase the outgoing partner's share, and they exercise this option correctly, the outgoing partner or their estate is not entitled to subsequent profits.

- **Non-Compliance:** If the continuing partners fail to comply with the terms of the purchase option, the outgoing partner or estate can still claim a share of the profits or interest as per the earlier conditions.
-

Example: Partner A retires, and the firm continues operations without settling A's share. A can claim a proportional profit from the firm's earnings or interest at 6% per annum until their share is settled.

Hinglish Summary: Agar outgoing partner ka hisaab nahi hota aur firm uske assets use karti hai, toh usse profits ka share ya 6% interest mil sakta hai. Par agar agreement ke hisaab se uska share kharida gaya ho, toh profits ka claim nahi hoga.

Revocation of Continuing Guarantee by Change in Firm (Section 38):

- **General Rule:**
A continuing guarantee provided to a firm or a third party for the firm's transactions is revoked for future transactions when there is a change in the firm's constitution (e.g., admission, retirement, or death of a partner).
- **Exception:**
If there is an agreement stating otherwise, the guarantee will continue even after a change in the firm's constitution.

Example: Partner A provides a guarantee for Firm XYZ's debts. If a new partner joins XYZ, A's guarantee is revoked for any debts incurred after the change unless an agreement specifies otherwise.

Hinglish Summary: Firm ke constitution mein change hone par guarantee future transactions ke liye revoke ho jati hai, jab tak koi alag agreement na ho.

UNIT – 3: REGISTRATION AND DISSOLUTION OF A FIRM

Registration of Firms

Application for Registration (Section 58):

- Registration can be done at any time by submitting a statement (prescribed form) to the Registrar.
- The statement must include:
 - Firm's name.
 - Principal place of business and other locations.

HARSHIT SHARMA

- Date each partner joined the firm.
- Full names and permanent addresses of partners.
- Duration of the firm.
- Signed by all partners or their authorized agents.
- **Prohibited Words in Firm Name:**
 - Words like *Crown, Royal, Imperial*, or others implying government approval cannot be used unless approved by the State Government.

Example: Firm ABC submits its registration form with all required details, but includes *Royal* in its name. The Registrar rejects the name unless State approval is obtained.

Hinglish Summary: Firm ka registration karne ke liye specified details Registrar ko bhejni hoti hain. *Royal* jaise words bina approval use nahi kar sakte.

Registration (Section 59):

- If Section 58's requirements are met, the Registrar:
 - Records the firm's details in the Register of Firms.
 - Issues a Certificate of Registration.
- Registration is deemed complete upon submission of all required documents, even before formal entry in the register.
- A firm can register after filing a suit but must withdraw the original suit, register, and refile the case.

Example: Firm XYZ files a case but later realizes it's unregistered. The firm withdraws the case, completes its registration, and then refiles the case.

Hinglish Summary: Registrar registration approve karne ke baad certificate deta hai. Suit file karne ke liye pehle firm registered honi chahiye.

Late Registration with Penalty (Section 59A):

- A firm that misses the registration deadline can register later by paying a penalty of ₹100 per year of delay.

Example: Firm DEF delays registration by three years. It can still register after paying ₹300 as a penalty.

Hinglish Summary: Late registration ke liye ₹100 per saal ka penalty dena hota hai.

Consequences of Non-Registration (Section 69):

Disabilities Due to Non-Registration:

1. No Suit Against Third Parties:

- An unregistered firm or its partners cannot file a lawsuit in civil court against third parties for breach of contract unless the firm is registered and the suing partners are listed in the Register of Firms.
- Only a registered firm can initiate such suits.

2. No Set-Off for Claims Over ₹100:

- In cases filed by third parties against an unregistered firm, the firm or its partners cannot claim a set-off (counterclaim) for amounts exceeding ₹100.

3. No Legal Action by Partners Against the Firm:

- Partners of an unregistered firm cannot sue the firm or its other partners for disputes related to partnership.
- However, they may sue for **dissolution of the firm** or **settlement of accounts** and realization of their share in the firm's property.

4. Third Parties Can Sue the Firm:

- Despite non-registration, third parties retain the right to sue the unregistered firm or its partners.

Exceptions: Non-registration does not affect:

- **Third Party Rights:** Third parties can sue the firm or any partner.
 - **Certain Partner Rights:** Partners can sue for dissolution, settlement of accounts, or realization of property of a dissolved firm.
 - **Rights of Legal Representatives:** Legal heirs of a deceased partner can sue for firm accounts or property realization.
 - **Set-Off for Small Claims:** Set-offs under ₹100 are allowed.
-

Examples:

- **Example 1:**
A & Co. (registered in 2017) with partners A, B, and C. A dies in 2018. In 2019, B and C sue X without fresh registration.
 - The suit is maintainable as the firm was registered, and B and C were listed as partners during the original registration.
 - **Example 2:**
 - In 2019, B and C admit D as a new partner but do not notify the Registrar. If the firm sues X, the suit is not maintainable as D's name is not updated in the Register of Firms.
-

Hinglish Summary: Non-registered firms court cases file nahi kar sakti aur partners apne rights enforce nahi kar sakte, par third parties unhe sue kar sakti hain. Kuch exceptions ke andar dissolution ya small claims par actions allowed hote hain.

Dissolution of Firm (Sections 39–47):

Meaning:

- **Dissolution of Firm:** The termination of the legal relationship between all partners of the firm, ending the business entirely.
- **Dissolution of Partnership:** Occurs when one or more partners leave, but the remaining partners continue the business.

Differences Between Dissolution of Firm and Partnership:

Aspect	Dissolution of Firm	Dissolution of Partnership
Business Continuation	Business completely stops.	Business continues with remaining partners.
Winding Up	Assets realized, liabilities settled.	Only revaluation of assets and liabilities.
Court Order	Can be dissolved by court order.	Cannot be dissolved by court order.
Scope	Includes dissolution of partnership.	Does not necessarily involve firm dissolution.
Book Closure	Final closure of books required.	No final closure of books.

Modes of Dissolution of a Firm:

1. Without Court Order (Voluntary Dissolution):

- **Dissolution by Agreement (Section 40):**
 - Partners mutually agree to dissolve the firm.
 - Can be based on a pre-existing contract.

- **Compulsory Dissolution (Section 41):**
 - When all partners (except one) are declared insolvent.
 - If the firm's business becomes unlawful.
 - **On Happening of Certain Contingencies (Section 42):**
 - Death, insolvency, or expiry of the firm's duration as agreed.
 - **By Notice (Section 43):**
 - For partnerships at will, any partner can dissolve the firm by giving written notice.
-

2. Dissolution by Court (Section 44)

Grounds for Dissolution

1. Insanity/Unsound Mind

- When a partner (not a sleeping partner) becomes of unsound mind, the court can dissolve the firm.
- Temporary sickness is not a valid reason.
- **Hinglish Summary: Agar ek partner pagal ho jaye, toh court firm ko tod sakti hai.**
-

2. Permanent Incapacity

- Permanent inability of a partner to perform their duties due to disability or illness.
- **Hinglish Summary: Agar ek partner kaam karne mein asamarth ho jaye, toh firm band ho sakti hai.**

3. Misconduct

- Misconduct by a partner that adversely affects the business or its reputation.
- Misconduct need not directly relate to business activities.

- **Hinglish Summary: Ek partner ka galat vyavhaar business ko kharab kare toh firm dissolve ho sakti hai.**

4. Persistent Breach of Agreement

- A partner repeatedly violates agreements related to firm management.
- Examples of breaches:
 - Embezzlement
 - Keeping inaccurate accounts
 - Refusing to show accounts
- **Hinglish Summary: Baar-baar agreement todne par firm tod di ja sakti hai.**

5. Transfer of Interest

- A partner transfers their entire interest in the firm to a third party or their share is sold due to legal actions.
- **Hinglish Summary: Agar ek partner apna hissa kisi aur ko de de, toh firm todne ki maang ki ja sakti hai.**
-

6. Continuous/Perpetual Losses

- If the firm cannot operate without continuous losses in the future.
- **Hinglish Summary: Agar sirf loss ho raha ho, toh court firm ko band kar sakti hai.**

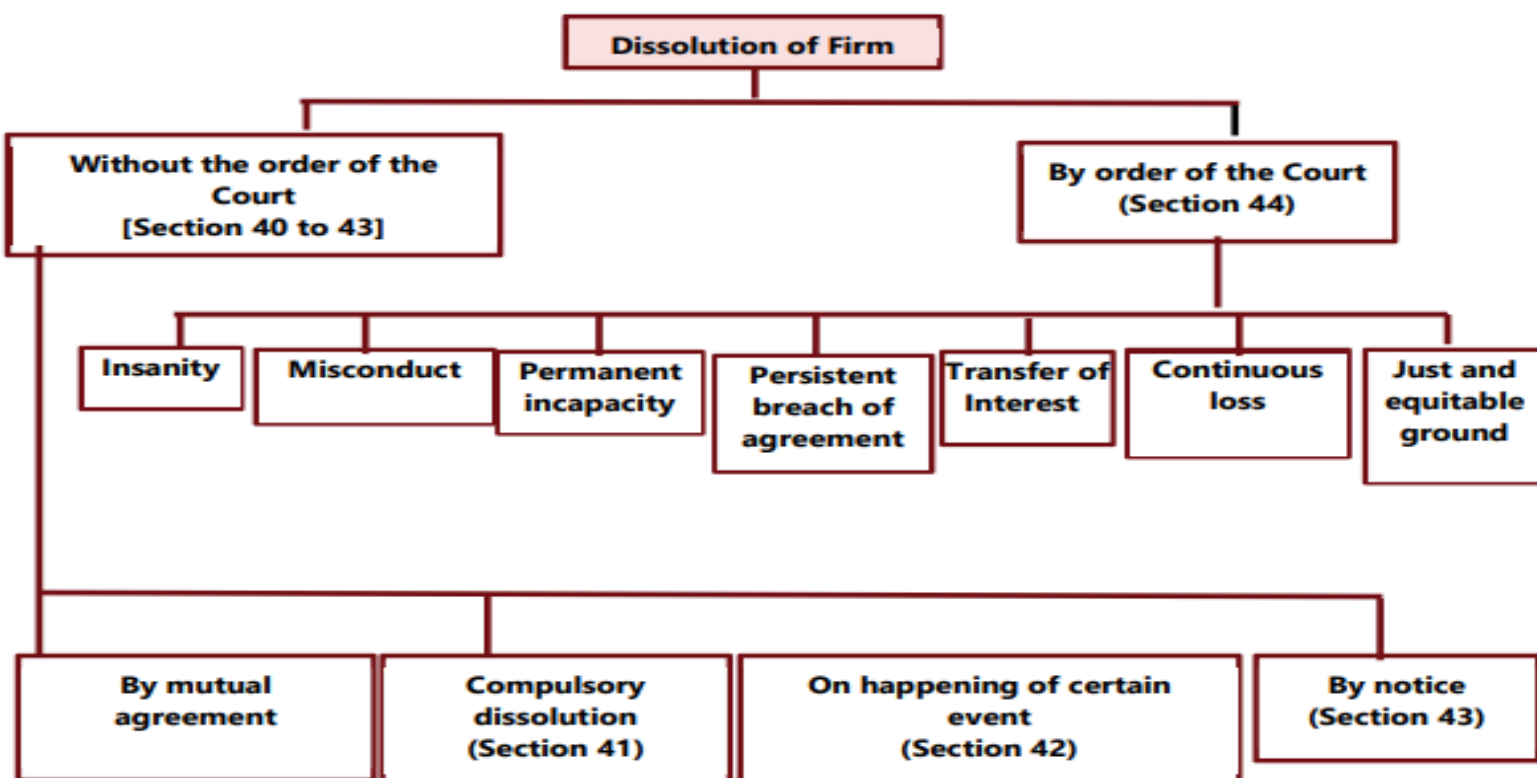
7. Just and Equitable Grounds

- Other reasons deemed fair by the court:
 - Deadlock in management.
 - Partners not on talking terms.
 - Business purpose (substratum) lost.
 - Gambling by a partner.
- **Hinglish Summary: Jab firm chalana impossible ho jaye, toh court ise tod sakti hai.**

Examples:

- **Voluntary Dissolution:** Partners in a small law firm agree to dissolve after completing a major project.
- **Court-Ordered Dissolution:** Partner A transfers their entire interest to a third party, disrupting trust, and Partner B seeks dissolution through the court.

Hinglish Summary: Firm dissolve hone par saare partners ke beech ka legal relation khatam hota hai aur business band ho jata hai. Dissolution court ke bina ya court ke order se ho sakti hai, jaise agreement, insolvency, ya perpetual losses ke cases mein.



Consequences of Dissolution (Sections 45–55)

1. Liability for Acts of Partners Post-Dissolution (Section 45)

- **Objective:**
 - Protect third parties unaware of the dissolution.
 - Safeguard partners from liabilities for post-dissolution acts.
 - **Exceptions** (No liability for subsequent acts if):
 - The partner is **deceased**.
 - The partner is **insolvent**.
 - The partner is a **dormant partner** (not known to third parties).
 - **Example:** If a partner continues to trade in the firm's name without notifying a client about the dissolution, the firm may be liable unless the partner was dormant.
 - **Hinglish Summary:** Agar dissolution ke baad kisi ne partner ke bare mein notice nahi di, toh firm liable ho sakti hai, par nahi agar partner mar gaya ho ya insolvent ho.
-

2. Right to Have Business Wound Up (Section 46)

- On dissolution, every partner or their representative can:
 - Apply the firm's property to pay **debts and liabilities**.
 - Distribute **surplus** among partners according to their rights.
 - **Example:** After clearing debts, the leftover money is shared as per agreed ratios.
 - **Hinglish Summary:** Firm ke debt clear karne ke baad bacha paisa partners mein batta diya jata hai.
-

3. Continuing Authority for Winding Up (Section 47)

- Post-dissolution, partners retain authority:
 - To **complete ongoing transactions**.
 - To settle firm's **affairs**.
 - **Limitation**: Acts of an insolvent partner don't bind the firm unless misrepresented as a partner.
 - **Example**: A partner can finish delivering goods already sold before the firm was dissolved.
 - **Hinglish Summary**: Dissolution ke baad bhi purane transactions complete karne ka adhikaar rehta hai.
-

4. Mode of Settlement of Partnership Accounts (Section 48)

- **Order of Payment**:
 - Losses are covered:
 1. **First**: Out of profits.
 2. **Next**: Out of capital.
 3. **Finally**: By partners individually (as per profit-sharing ratio).
 - Firm's assets are applied in the following order:
 1. **Pay debts** to third parties.
 2. **Pay partners' dues** from capital.
 3. Distribute **residue** among partners as per profit-sharing.
 - **Example**: If Partner A owes ₹10,000 from the firm's assets after debts, they receive it in proportion to their share.
 - **Hinglish Summary**: Pehle karz chukaya jata hai, fir bacha paisa partners mein unke share ke anusaar baanta jata hai.
-

5. Payment of Firm and Separate Debts (Section 49)

- **Application of Firm Property**:
 - **First**: Pay firm's debts.
 - **Next**: Apply surplus to partner's separate debts.

- **Application of Individual Partner's Property:**
 - **First:** Pay their personal debts.
 - **Next:** Use surplus for firm's debts.
 - **Example:** If Partner X has a separate debt of ₹5,000, their personal assets will settle it before contributing to the firm's debt.
 - **Hinglish Summary:** Partner ke personal aur firm ke karz ko alag-alag tarike se clear kiya jata hai.
-

Simplified Example

- A firm with three partners dissolves. The assets are ₹1,00,000, and liabilities are ₹80,000. After clearing debts:
 - Remaining ₹20,000 is shared as per the partners' agreed ratios.
 - If Partner B has unpaid personal loans, their share goes toward settling those debts first.



SECTION NO.	TOPIC
4	DEFINATION OF 'PARTNERSHIP', 'PARTNER', 'FIRM' AND 'FIRM NAME'
6	Mode of determining existence of partnership
7	Partnership at will
9	General duties of partners
10	Duty to indemnify for loss caused by fraud
11	Determination of rights and duties of partners by contract between the partners
12	Conduct of the business
12(a)	Right to take part in the conduct of the business
12(b)	Right to be consulted
12(c)	Right to be consulted
12(d)	Right of access to books
12(e)	Right of legal heirs/representatives/their duly authorised agents
13	Mutual rights and liabilities
13(a)	Right to remuneration
13(b)	Right to share profits
13(c)	Interest on capital
13(d)	Interest on advances
13(e)	Right to be indemnified
13(f)	Right to indemnify the firm
14	The property of firm
15	Application of the property of the firm
16	Personal profit earned by partners
17	Rights and duties of partners after a change in the firm
18	Relation of partners to third parties
19	Implied authority of partner as agent of the firm
20	Extension and restriction of partners implied authority
21	Partner's authority in an emergency
22	Mode of doing act to bind firm
23	Effect of admissions by a partner
24	Effect of notice to acting partner
25	Liability of a partner for act of the firm
26	Liability of the firm for wrongful acts of a partner
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28	Partner by holding out
29	Right of transferee of a partner's interest
30	Minors admitted to the benefit of partnership
31	Introduction of a partner
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34	Insolvency of a partner
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36	Rights of outgoing partner to carry on competing business
37	Right of outgoing partner in certain cases to share subsequent profits
38	Revocation of continuing guarantee by change in firm
39	Dissolution of firm
40	Dissolution by agreement
41	Compulsory Dissolution
42	Dissolution on the happening of certain contingencies
43	Dissolution by notice of partnership at will
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45	Liability for acts of partners done after dissolution
46	Rights of partners to have business wound up after dissolution
47	Continuing authority of partners for purposes of winding up
48	Mode of settlement of partnership accounts
49	Payment of firm debts and of separate debts
58	Application for registration
59	Registration
59A-1	Late registration on payment of penalty