

## Business organisation – Partnerships

A partnership is a business where there are two or more owners of the enterprise. Most partnerships are between two and twenty members though there are examples like John Lewis and some of the major world accountancy firms where there are hundreds of partners.

A partner is normally set up using a **Deed of Partnership**. This contains:

- ▶ Amount of capital each partner should provide (i.e. starting cash).
- ▶ How profits or losses should be divided.
- ▶ How many votes each partner has (usually based on proportion of capital provided).
- ▶ Rules on how to take on new partners.
- ▶ How the partnership is brought to an end, or how a partner leaves.

The advantages of a sole trader becoming a partnership are:

- Spreads the risk across more people, so if the business gets into difficulty then there are more people to share the burden of debt
- Partner may bring money and resources to the business (e.g. better premises to work from)
- Partner may bring other skills and ideas to the business, complementing the work already done by the original partner
- Increased credibility with potential customers and suppliers – who may see dealing with the business as less risky than trading with just a sole trader

For example, a builder, working originally as a sole trader, may team up with an architect or carpenter to form a partnership. Either would bring added expertise, but also might bring added capital and/or contacts. Of course the builder could team up with another builder as well – sharing the risk, and potentially the workload.

The main disadvantages of becoming a partnership are:

- Have to share the profits.
- Less control of the business for the individual.
- Disputes over workload.
- Problems if partners disagree over of direction of business.

The next step for a partnership is to move towards becoming a private limited company. However some partnerships do not want to move to this stage. The advantages of remaining a partnership rather than becoming a private limited company are:

- Costs money to set up limited company (may need to employ a solicitor to set up the paper work).
- Company accounts are filed so the public can view them (and competitors).
- May need to spend money on an auditor to check the accounts before they are filed.

When a partnership finishes then, depending on how the Deed of Partnership is set up, each partner has

# tutor2u

GCSE Business Studies

an agreed slice of the business.

## **Key Links for GCSE Business Studies**

<http://www.tutor2u.net/>

[Discussion Board for GCSE Business Studies](#)

[Other GCSE Business Studies Revision Notes and Resources from tutor2u](#)

[Tutor2u GCSE Business Online Store](#)