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Partnership:

A partnership is a type of business entity in which partners (owners) share with each other the profits or losses of the business undertaking in which all have invested. Partnerships are often favored over corporations for taxation purposes, as the partnership structure does not generally incur a tax on profits before it is distributed to the partners (i.e. there is no dividend tax levied).. Before starting a partnership business, it is advisable that the partners draw up a legal document called a Partnership Deed of Agreement. The partnership deed will guide how profits will be shared, allocation of responsibilities, interest on capital and drawings, expiry of partnership, admission of new partners e.t.c.

Advantages of Partnership:

Easy formation:
The formation of partnership is very easy. Simply an agreement among the partners in oral or written words can bring a partnership into existence. It includes very less legal formalities and expenses.

Large resources:
A partnership is in a position to accumulate large resources as more than one contributes capital. The added financial strength of the partners can be utilized to increase the scale of operation of the business. New partners can be admitted to meet the additional requirement of fund.

Diverse skills and expertise: Partners bring new skills and ideas to a business

Flexibility of operations:
Like that of sole proprietorship the partnership can bring changes in its operation easily and quickly looking at the changing circumstances. Such changes cannot be implemented in a company with ease because of the restrictions imposed.

Sharing of risk:
The losses of the firm and other associated risk in business are shared by the partners. Hence, the share of risk of each partner is less in comparison to sole proprietorship.

Benefits of unlimited liability:
Since the liability of the partners is unlimited it acts as great check against speculative activities and partners shall not be careless in managing the business. Further, the firm enjoys good credit standing and easily obtains loans because the creditors can recover their loan amount from the private property of the partners.

Promptness in decision making:
Since the partners meet quite frequently, they can arrive at decisions promptly. Thus, business opportunities requiring quick decision shall not be lost.

Close supervision:
Partners take active part in the management of the business. The close supervision of partners eliminates wastage and leads to greater efficiency.

Reduced management cost:
Since different functional areas are managed by the partners themselves, the huge managerial expenses can be saved to a great extent.

Secrecy:
There is no statutory obligation on the part of partnership to publish the accounts of the firm. Hence, the business secrecy can be maintained to a certain extent.

Protection of minority interest:
Every partner has a right to participate in the management. All important decisions are taken unanimously by the partners. There is no scope to disregard the interest of a minority group of partners.

Partners:
Partners share responsibilities and duties of the business.

Disadvantages of Partnership:

Even though, partnership form of business is comparatively better than sole proprietorship form of business, still it is not the only best option available to an entrepreneur. The following are some of the important shortcomings of partnership form of organization which must be carefully studied before finalization of this form of business.

Limited capital:
There is a limit to the maximum number of partners in a partnership. Therefore, the capital that can be raised from the partners is limited i.e. up to twenty.. Large-scale business requires huge capital and partnership is not the proper form to meet the requirement.

Unlimited liability:
All the partners are responsible for the debts of the firm and if the business goes bankrupt, all the partners will have to clear the debts even if they have to sell of their personal belongings. The risk of loss of private property of the partnership influences the partners to avoid further risk and play safe.

Instability:
There is instability in existence because a successful firm can be dissolved on the death, insolvency or unsound mind of a partner. The difference of opinion may also bring about closure of the business. The sudden closure of a successful business is a great social loss.

Risk of implied authority:
A partner acts as an agent of the firm and his acts bind the firm and other partners. A dishonest or incompetent partner may lead the firm in difficulties because the other partners shall have to pay for the dishonesty or inefficiency of a partner(s).

Lack of harmony:
Difference of opinion is the natural consequence in partnership. The conflicts and lack of harmony among the partners may not be beneficial for the business and sometimes can lead to dissolution of the firm.

Non-transferability of interest:
No partner can transfer his interest in a firm to third partywithout the consent of the other partners. Thus, a partner does not enjoy the freedom of converting his interest in the firm into cash.

Lack of public confidence:
There is no legal binding on the firm to publish accounts. The public may suspect that the firm is earning huge profit at the cost of the consumers. Thus, the firm lacks confidence of the public.