

Advantages and disadvantages of being in a partnership essay sample

[Business](#), [Company](#)



The topic: Discuss the benefits and drawbacks of being in a partnership.

What is needed to make them work? What weaknesses can cause a failure within the partnership? Remember to have key terms defined, issues outlined and clearly defined points of view for each side.

A partnership is a legal business structure, which is owned and operated by two to twenty people with the aim of making a profit. Partnerships have a variety of advantages and disadvantages as a business structure. Liability issues access to capital and skills make them desirable, however, if there is no agreement in these areas and no formal agreement there can be problems. Partnerships need written agreements and careful thought as to whom would be allowed to join.

Firstly, in a partnership, unlike a sole trader liability is split between each partner. Each partner also has a share of the net profit. In a partnership there is greater access to capital and skills. More partners means more capital. The business is more likely to get a loan from the bank because there are more people to finance the loan repayments. More partners means more skills because each individual will have their own area of expertise. For example, a printer becoming involved in a partnership would have expertise in the area of graphics and presentation, which would reduce costs for advertising.

Also in a partnership the running of the business can be shared if each partner takes an active role (unless the partner is 'silent' or is a limited partnership where they contribute capital but does not actively help in the running of the business). People also have the option of forming a limited

partnership where one partner has unlimited liability, which means she/he is liable for the business debt. If the business were to become insolvent their personal as well as business assets would be used to service the debt. The other partner can have limited liability, which means their share of the debt is limited to the business.

However, the partnership structure has a number of disadvantages. Firstly, if the partners have not formed a limited partnership he / she will have unlimited liability. This means both are liable for the debt and have possibly lost some or all of their personal assets (depending on the debt).

Secondly, although there is access to greater skills, decision making can often become 'deadlocked' because the individual partners have strong views for the direction of the business. For example, partners may disagree over the way profits should be divided if they have a good year. They also have to rely on the honesty of each other in the day today operations of the business. Partnerships are the businesses, which have the highest rate of convictions within the justices system. The majority are cases, which have dishonesty and theft as their basis.

To make a partnership work the people involved should all sign a written agreement. This will set out the terms and conditions of the business such as duties and share of profits. The use of an agreement will help reduce disputes between the partners. They will not be able to argue over what their duties are, what profit they should take as it will all be outlined in the terms of the written agreement.

To ensure that a partnership works it is recommended that partnerships do not form between family and friends because personal conflicts may affect the business and cause personal animosity between family and friends.

It is also important to have a good understanding of the way the accounting system works within the business. All partners should understand their 'books' or have them explained by a professional accountant. The purpose of this is to have an understanding of cash flow and the actual net profit.

Without a good grasp of this area it is difficult to plan for the future. Lax accounting methods and lack of transparency can lead to financial disaster as they may tempt partners to dishonest acts.

There are a variety of advantages and disadvantages to being in a partnership. The sharing of skills, liability, access to capital and profit sharing are the main advantages. Dishonesty, failure to agree and the impact of unlimited liability are the major disadvantages of being in a partnership. Written agreements, avoiding partnerships with family and friends and financial openness and knowledge go a long way to make a successful partnership. A partnership agreement strengthens a good partnership and empowers a weak one.