

South Tuen Mun Government Secondary School  
S3 Business, Accounting and Financial Studies (BAFS)  
Partnership #4

A partnership is an enterprise owned by at least **two** partners. **Professional** partnerships such as legal firms and accounting firms often have many partners. Most partnerships provide professional services such as medical, **accounting** and legal services.

## Types of partners

Partners are commonly classified into the following three types:

### Limited partner

- Has **limited** liability, i.e. his liability is limited to his **investment** in the business.
- He invests **money** in the business.
- He does not take part in **running** the business.

## General partner

- Has **unlimited** liability.
- He invests money in the **business**.
- He is involved in the **planning** and **management** of the business.

## Nominal partner

- Is not the **owner** of the firm. He does not invest in the business.
- He is invited to **join** the partnership because he has a **reputation** or **expertise** that the business requires.
- He usually works as a **consultant** at the firm but does not take part in running the business.
- He does not share in the **profits** of the partnership but may be paid a **fee** by the partnership.
- He is held **liable** to third parties for the acts of the partnership.

Fill in the blanks with the words provided below. Each word is used only ONCE.

unlimited	limited	consultant	reputation	money
owner	profits	investment	running	join
liable	management	expertise	planning	fee

## Characteristics of a partnership

### 1. Number of partners

- There **must** be at least two partners.
- No **new** partner may be **admitted** into the partnership without the consent of all the **existing** partners.
- **Approval** of all the partners is required before the firm can **accept** a new partner.

## 2. Unlimited liability

- A partnership is not a **legal** entity.
- This means the firm has no separate legal **existence** apart from its **partners**.
- If the business **fails**, the general partners will be **personally** liable for all the **debts**.

### 3. Small scale of business

- Since the sources of **capital** available to a partnership are quite **limited**, the scale of the **business** is usually **small**.

## 4. Bound by the decisions made by others

- All partners are legally **bound** by the decisions made in the **name** of the firm by any one of the **general** partners and are responsible for the **consequences** of those decisions.

Fill in the blanks with the words provided below. Each word is used only ONCE.

legal	capital	name	new	business
debts	small	existence	limited	admitted
approval	fails	existing	bound	Partners
consequences	must	accept	personally	general



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Advantages of partnership #5

## 1. Easy to set up

- Partners can start the business after signing a partnership **agreement** and obtaining a Business **Registration** Certification.

## 2. More sources of capital

- When compared with a sole proprietorship, more **capital** is available as there are more **owners** in a partnership. This helps the business **develop**.

### 3. Division of labour

- Each partner can **contribute** specialized **knowledge** and **ability** to the business. Division of labour can help the business run more **efficiently**.

#### 4. Easier to attract employees

- Given its small scale, a partnership can more easily attract **employees** as they may have a better chance of **promotion**, i.e. senior **partner**. Sometimes, **capable** employees may become partners.

## 5. Lower profits tax rate

- The profits tax rate for a partnership was only 15%, compared with 16.5% for a **limited** company.

## 6. Share business risk

- The business risk is **borne** by several partners.

Fill in the blanks with the words provided below. Each word is used only ONCE.

knowledge	develop	employees	owners	efficiently
borne	partner	agreement	ability	capable
capital	promotion	limited	contribute	registration

## Dictation:

1.

2.

3.

4.

5.

6.

## 1. Unlimited liability

- All **general** partners have unlimited liability.
- Only **limited** partners have limited liability.
- However, there must be at least **one** general partner in a partnership.



## 2. No separate legal existence

- A partnership has no **separate** legal existence apart from its **owners**.
- Its future may be **threatened** by their **illness** or **death**.
- A partnership would **dissolve** if a general partner **withdraws**, dies or goes **bankrupt**.

### 3. Lower operational efficiency

- Since **decisions** made by a partnership should be agreed to by **all** of the partners, there may be less **flexibility** and **efficiency** in decision-making.
- This may adversely affect the **operation** of the business.

#### 4. Bound by the decisions of others

- All **partners** are bound by the decisions made by any one of the general partners.
- Therefore, a **poor** decision made by one general partner will affect the whole **business**.

Fill in the blanks with the words provided below. Each word is used only ONCE.

threatened	operation	separate	withdraws	flexibility
decisions	general	poor	death	one
illness	partners	limited	business	owners
poor	dissolve	making	bankrupt	efficiency

## Dictation:

1.

2.

3.

4.