

Accounting for Partnership

An introduction to partnership accounting

The law relating to partnership in Sri Lanka is contained in the English Partnership Ordinance of 1890. The Ordinance has defined a partnership as follows.

“The relationship which subsists between persons carrying on a business in common with a view of profits.”

According to the above definition for a partnership to be in existence following conditions must be satisfied which are called as elements of partnership.

1. There has to be either two or more than two persons
2. The main purpose should be to earn profit
3. The business must be carried on in common
4. There has to be a relationship between persons carrying out a partnership between persons

Special features in partnership business

Partnership are different in many ways from other forms of business organizations. Such as,

- a) Every partner act as an agent for each and every other partner
- b) Each partner is personally liable for all obligation of the partnership (unlimited liability)
- c) Profit and loss should be shared according to partnership agreement
- d) No separate legal entity

Important Acts and Ordinances governing partnership

1. Partnership Ordinance of 1890

Where a partnership is created by a mutual or implied agreement or it is created by created by a written agreement. Under this Ordinance section 24, 42 and 44 of 1890 will apply.

Section 24

Section 24 of the Partnership Ordinance of 1890 provides following provisions for the partnership.

- a) All the partners are entitle to share equally in the capital profits in the business and must contribute equally towards the losses.
- b) A partner is not entitled to interest on the capital subscribed by the partner.
- c) Every partner may take in the management of the partnership business.
- d) No partner shall be entitled to receive remuneration.
- e) If any partner makes advance payment of the partnership capital is entitled to interest at 5%.

Section 42

5% interest rate is entitled to a retired partners, if his/her balance has been transferred to a loan account.

Section 44

Section 44 describes how to distribute the assets, when liquidation takes place.

2. The Prevention of Frauds Ordinance No. 07 of 1840.
3. The Registration of Business Names Ordinance No.06 of 1918.
4. The Companies Act No.07 of 2007.
5. The Inland Revenue Act No.28 of 1978.



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