

How a Partnership Agreement Helps Your Business

You and your partner(s) are in the early phases of planning your new business venture. This is a good time to start thinking about every one of your duties, rights, and responsibilities. This sample partnership agreement can assist you in making decisions such as:

- How much money is each of the partners investing at the onset?
- Is everyone contributing monetarily or will someone contribute in kind with expertise, business contacts, etc?
- Will each of you be paid a salary, and if so how much?
- How will you treat the net profit at the end of your fiscal year? Your choices are: plough it (invest it) back into the business, split it amongst yourselves (decide on the percentages now), or a combination.
- If there is a tie when a significant decision needs to be made, how will you break the tie?
How about when a dispute arises? Will you need arbitration, mediation, etc?
- Should the business be dissolved, how will you proceed?

In planning your business, you are better off thinking about what-if scenario beforehand. This is where this sample can assist you. Note, however, that it is only a guideline and not a legal document. You are encouraged to speak to a lawyer.

A Sample Partnership Agreement

Agreement made _____, 20____, between _____,
of _____,
NAME ADDRESS
and _____, of _____, hereinafter referred to as partners.
NAME ADDRESS

Item One: NAME, PURPOSE AND DOMICILE

The name of the partnership shall be _____. The partnership shall be conducted for the purpose of _____.
_____. The principal place of business shall be at _____ unless relocated by majority consent of the partners.

Item Two: DURATION OF AGREEMENT

The term of this agreement shall be for _____ years, commencing on _____, 20____, and terminating on _____, 20____, unless sooner terminated by mutual consent of the parties or by operation of the provisions of this agreement.

Item Three: CONTRIBUTION

Each partner shall contribute _____ dollars (\$_____) on or before _____, 20____, to be used by the partnership to establish its capital position. Any additional contributions required of partnership shall only be determined and established in accordance with Item Seventeen.

Item Four: BOOKS AND RECORDS

Books of accounts shall be maintained by the partners, and proper entries made therein of all sales, purchases, receipts, payments, transactions, and property of the partnership, and the books of account and all records of the partnership shall be retained at the principal place of business as in Item One herein. Each partner shall have free access at all times to all books and records maintained relative to the partnership business.

Item Five: DIVISION OF PROFITS AND LOSSES

Each partner shall be entitled to _____ percent (_____%) of the net profits of the business and all losses occurring in the course of the business shall be borne in the same proportion, unless the losses are occasioned by the willful neglect or default, and not mere mistake or error, of any of the partners, in which case the losses so incurred shall be made good by the partner through whose neglect or default the losses shall arise. Distribution of profits shall be made on the _____ day of _____ each year.

Item Six: PERFORMANCE

Each partner shall apply all of his or her experience, training and ability in discharging his or her assigned functions in the partnership and in the performance of all work that may be necessary or advantageous to further business interests of the partnership.

Item Seven: BUSINESS EXPENSES

The rent of the buildings where the partnership business shall be carried on, and the cost of the repairs and alterations, all rates, taxes, payments for insurance, and other expenses in respect to the buildings used by the partnership, and the wages for all persons employed by the partnership are all to become payable on the account of the partnership. All losses incurred shall be paid out of capital of the partnership or the profits arising from the partnership business, or, if both shall be deficient, by the partners on a pro rata basis, in proportion to their original contribution.

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Item Eight: ACCOUNTING

The fiscal year of the partnership shall be from _____ to _____ of each year. On the _____ day of _____, commencing in 20____, and on the _____ day of _____ in each succeeding year, a general accounting shall be made and taken by the partners of all sales, purchases, receipts, payments, and transaction of the partnership during the preceding fiscal year, and all the capital property and current liabilities of the partnership. The general accounting shall be written in the partnership account book and signed in each book by each partner immediately after it is completed. After the signature of each partner is entered, each partner shall keep one of the books and shall be bound by every account, except that if any manifest error is found therein by any partner and shown to the other partners within _____ months. After the error shall have been noted by all of them, the error shall be rectified.

Item Nine: SEPARATE DEBTS

No partner shall enter into any bond or become surety, security bail, or cosign for any person, partnership or corporation, knowingly condone for any person, partnership, or corporation, or knowingly condone anything whereby the partnership, property may be attached or be taken in execution, without the written consent of the other partners. Each partner shall punctually pay his or her separate debts and indemnify the other partners and the capital and property of the partnership against his or her separate debts and all expenses relating thereto.

Item Ten: AUTHORITY

No partner shall buy goods or articles into any contract exceeding the value of _____ dollars (\$_____) without the prior consent in writing of the partners; or the other partners shall have the option to take the goods or accept the contract on account of the partnership or let the goods remain the sole property of the partner who shall have obligated himself or herself.

Item Eleven: EMPLOYEE MANAGEMENT

No partner shall hire or dismiss any person in the employment of the partnership without the consent of the other partners, except in cases of gross misconduct by the employee.

Item Twelve: SALARY

No partner shall receive any salary from the partnership, and the only compensation to be paid shall be as provided in item Five and Fourteen herein.

Item Thirteen: DEATH OF PARTNER

In the event of the death of one partner, the legal representative of the deceased partner shall remain as a partner in the firm, except that the exercising of the right on the part of the representative of the deceased partner shall not continue for a period in excess of _____ months even though under the terms hereof a greater period of time is provided before the termination of this agreement. The original rights of the partnership herein shall accrue to their heirs, executors, or assigns.

Item Fourteen: ADVANCE DRAWS

Each partner shall be at liberty to draw out of the business in anticipation of the expected profits any sums that may be mutually agreed on, and the sums are to be drawn only after it has been entered in the books of the partnership the terms of agreement, giving the date, the amount to be drawn by the respective partners, the time at which the sums shall be drawn, and any other conditions or matters mutually agreed on. The signatures of each partner shall be affixed thereon. The total sum of the advance drawn for each partner shall be deducted from the sum that partner is entitled to under the distribution of profits as provided for in Item Five of this agreement.

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Item Fifteen: RETIREMENT

In the event any partner shall desire to retire from the partnership, he or she shall give _____ months notice in writing to the other partners and continuing partners shall pay to the retiring partner at the termination of the _____ months notice the value of the interest of the retiring partnership. A closing of the books and a rendition of the appropriate profit and loss, trial balance, and balance sheet statements shall determine the value. All disputes arising therefrom shall be determined as provided in Item Eighteen.

Item Sixteen: RIGHTS OF CONTINUING PARTNERS

On the retirement of any partner, the continuing partners shall be at liberty, if they so desire, to retain all trade names designating the firm name used, and each of the partners shall sign and execute assignments, instruments, or papers that shall be reasonably required for effectuating an amicable retirement.

Item Seventeen: ADDITIONAL CONTRIBUTIONS

The partners shall not have to contribute any additional capital to the partnership to that required under Item Three herein, except as follows: (1) each partner shall be required to contribute a proportionate share in additional contributions if the fiscal year closes with an insufficiency in the capital account of profits of the partnership to meet current expenses, or (2) the capital account falls below (\$_____) dollars for a period of _____ months.

Item Eighteen: ARBITRATION

If any differences shall arise between or among partners as to their rights or liabilities under this agreement, or under any instrument made in furtherance of the partnership business, the difference shall be determined and the instrument shall be settled by acting as arbitrator, and his or her decision shall be final as to the contents and interpretations of the instruments and as to the proper mode of carrying the provision into effect.

Item Nineteen: RELEASE OF DEBTS

No partner shall compound, release, or discharge any debts that shall be due or owing to the partnership, without receiving the full amount thereof, unless that partner obtains the prior written consent of the other partners to the discharge of the indebtedness.

Item Twenty: ADDITIONS, ALTERATIONS, OR MODIFICATIONS

Where it shall appear to the partners that this agreement, or any terms and conditions contained herein, are in any way ineffective or deficient, or not expressed as originally intended, and any alteration or addition shall be deemed necessary, the partners will enter into, execute, and perform all further deeds and instruments as their counsel shall advise. Any addition, alteration, or modification shall be in writing, and no oral agreement shall be effective.

In witness whereof, the parties have executed this agreement on
The day and year first above written.

Signed _____ Date ____/____/____

Signed _____ Date ____/____/____