

IMPORTANCE OF A PARTNERSHIP AGREEMENT

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A partnership is a relationship or association between two or more persons with a view to profit and may comprise of individuals and/or companies. Parties in a partnership should strongly consider creating and signing a partnership agreement in order to avoid miscommunication and potential legal problems arising out of disputes over ownership division, the roles and responsibilities of the partners, and the division of assets upon termination of the partnership.

In the absence of a written agreement, disputes will often result in costly legal proceedings and unnecessary financial loss for all parties.

A partnership agreement is a legally binding document and allows the partners to structure the relationship in a way that suits their particular business needs and requirements.

The following are the main areas that should be covered in a partnership agreement:-

- Name of the Partnership and the details of each partner
- Business activities of the partnership are the Partnerships aim
- Management obligations and responsibilities of partners
- When meetings of the Partnership are to take place and how the meetings are to be conducted
- Capital contribution which sets out the percentage ownerships of each partner
- How profits are to be distributed
- The responsibilities and procedures for preparing and maintaining proper books of accounts for the Partnership
- How a partner may sell-out/transfer their interest and what restraints may be placed on an outgoing partner
- How the Partnership may be terminated and the procedures that are required to be followed
- How disputes are to be resolved

Given the above and the number of risks involved in not having a written partnership agreement, it is strongly advised that persons in a partnership already or contemplating becoming involved in a partnership seek legal advice as to drafting a partnership agreement to suit that particular partnerships expectations and to avoid miscommunication and problems in the future.