

## **Ex-Partner Bound by Partnership Accounts**

In a partnership, the investment capital on which the business is founded is normally supplied (at least in part) by the partners. Their earnings are credited to their individual accounts in the business and the money withdrawn by each is deducted from their individual account.

When a partner retires, there will almost always be an amount due from the partnership to the partner or vice versa. A partnership agreement therefore normally contains a provision that the final partnership accounts for any period will bind the partners, so that there is agreement over the amount due to or from the retiring partner.

It is not unusual for figures in the firm's accounts to be disputed. What is less common, however, is the situation in which partners claim that the accounts do not bind them. A recent case dealt with precisely such a claim. An ex-partner contended that he was not bound by partnership accounts that covered the year during which he left the partnership because he was not a partner at the end of the year for which the accounts were prepared.

The argument was that the relevant clause of the partnership agreement, which contained a procedure for contesting accounts and which bound 'all partners', did not apply to the retired partner because he was no longer a partner.

The Court of Appeal made short shrift of the claim, deciding that the point of such a clause was to bind anyone who had been a partner in the business for any part of the year in question. It was clearly not intended to create a situation in which some of the partners during the year would be bound by the accounts and others not.

"In this case, it needed the Court of Appeal to give the clarity to the legal relations which the partnership agreement did not. A well-drafted partnership agreement is a very sensible precaution, no matter how well you think you know your partners, or your prospective partners, and no matter how well you get along."

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