



CAIIB PAPER-4

Module-D Unit-14

**BANKING REGULATIONS AND
BUSINESS LAWS (BRBL)**



CAIIB Paper 4 (BRBL) Module D Unit 14- Dissolution Of Firm

Dissolution

- When there is a “**Dissolution of a Firm**” there would be termination of the firm and end of business relationship among all the partners.
- When there is a “**Dissolution of a Partnership**” there is only a change in the business relationship among all the partners and the firm continues to run.
- ‘**Dissolution of a firm**’ means that there is a breakdown in the relationship between all the partners in the firm. However where there is a breakdown of relationship or understanding/ faith between a few and not all partners usually allowing the remaining partners to reconstitute the firm, **it is called reconstitution (dissolution) of a partnership.**

Modes of Dissolution

Dissolution by Agreement:

In terms of Section 40 of the Indian Partnership Act 1932, a firm may be dissolved with the consent of all the partners or in accordance with a contract between the partners.

Compulsory Dissolution:

A firm is dissolved:

- if all the partners (except one) are adjudicated insolvent; or
- by the happening of any event which makes it unlawful for the business itself to be carried on or the event makes the business unlawful if it carried on in partnership.
- However, if the partnership firm is carrying on more than one separate businesses, the illegality of one or more does not cause the dissolution of the firm. The firm can continue to carry on its lawful adventures and undertakings. (Section 41)

Dissolution on the Happening of Certain Contingencies

A firm is also dissolved under the statute (Sec. 42) under certain circumstances. To avoid dissolution in these cases, the partners should have expressly agreed/or should expressly agree that the firm shall not be dissolved in these circumstances

- if the partnership is constituted for a fixed term, then by the expiry of that term
- if the partnership is constituted to carry out one or more adventures or undertaking, then by the completion thereof;
- by the death of a partner; and
- by the adjudication of a partner as an insolvent.

Dissolution By The Court

Section 44 of the Act states that on the filing of a suit by a partner, the court may dissolve a firm on any of the following grounds:

- That a partner has become of unsound mind
- That a partner has become permanently incapable of performing his duties as partner.
- That a partner is guilty of conduct which is likely to affect prejudicially the carrying on of the business
- That a partner wilfully or persistently commits breach of agreements in relation to the management of the affairs of the firm or the conduct of its business or it is not reasonably practicable for the other partners to carry on the business in partnership with him because of his conduct with respect to the business
- That a partner has transferred the whole of his interest in the firm to a third party,
- That the business of the firm cannot be carried on except at a loss
- On any other ground which renders it just and equitable that the firm should be dissolved. (Section 44)

Liability For Acts Of Partners Done After Dissolution

- Any or all partner of the firm must give a public notice to the effect that the firm is dissolved.
- This is because even after the dissolution of a firm, the partners continue to be liable to third parties for any act done by any of them, until such public notice is given. This has been provided in **Section 45 of the statute.**

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