Profit and Loss Allocation in Partnerships: An Analysis of Concepts, Methods, and Practical Implementation in Accounting

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ABSTRACT
A partnership is a form of business organization that requires special arrangements for distributing business results to the partners. This study aims to analyze the concepts, methods, and implementation of accounting practices in the distribution of partnership profits and losses. The distribution of partnership profits and losses is a crucial aspect that affects the fairness of profit allocation and the sustainability of relationships among partners. This article examines various profit and loss distribution methods, including: distribution with a fixed ratio, distribution based on capital comparison (initial capital, ending capital, and weighted average capital), distribution considering partners' salaries, interest on capital, and bonuses, as well as combinations of these methods. Conceptual analysis shows that the choice of profit and loss distribution method must take into account each partner's contribution in terms of capital, time, expertise, and managerial responsibility. The implementation of accounting practices includes the recording of closing journal entries to distribute profits or losses to each partner's capital account in accordance with the agreement outlined in the partnership agreement. The findings indicate that clarity in the profit and loss sharing agreement from the outset of the partnership is crucial to avoid conflicts and ensure fairness for all parties. This article provides both theoretical and practical contributions to the understanding of partnership accounting, particularly in the aspect of business result allocation.

Keywords: *Partnership, Profit and Loss Sharing, Advanced Financial Accounting, Profit Allocation, Business Revenue Sharing Methods.*

1. INTRODUCTION

A partnership is a popular form of business organization in Indonesia, particularly for medium-sized businesses. This business structure is chosen for its ease of formation, flexibility in decision-making, and the ability to combine the various resources and expertise of the partners. According to the Commercial Code (KUHD), a partnership is defined as an agreement between two or more persons who bind themselves to contribute something to the partnership with the intention of sharing the profits obtained.

One of the fundamental characteristics of a partnership is participation in partnership profit, which is the right of each partner to receive a share of the profits or bear a portion of the losses generated by the partnership. This characteristic underscores that each partner has a direct stake in the partnership's operational results. Unlike other business entities such as limited liability companies, partnerships offer greater flexibility in determining profit-sharing mechanisms according to the partners' agreement [1].

The allocation of a partnership's profits and losses is not merely a technical accounting issue, but a strategic aspect that affects motivation, fairness, and the sustainability of business relationships among partners. Proper profit allocation must take into account various factors such as capital contributions, time invested, specialized expertise, and the managerial responsibilities of each partner [2]. Inequity in the distribution of business profits can lead to conflicts that have the potential to damage the partnership and even cause its dissolution.

1.1. Definition and Characteristics of a Partnership

A partnership is a form of business organization established by two or more individuals through an agreement to conduct business activities jointly with the aim of generating profits, which are subsequently distributed in accordance with the partners' agreement. This business structure is based on the principles of cooperation and trust, as well as the division of tasks, roles, and responsibilities among the partners in managing business operations.

Under Indonesian law, partnerships are regulated in the Civil Code (KUH Perdata), specifically Article 1618, which states that a civil partnership is an agreement between two or more persons who agree to contribute assets to the partnership with the aim of generating and sharing the profits arising from such activities. This provision

indicates that a partnership has key elements consisting of an agreement, contributions from each party whether in the form of capital, labor, or expertise and a focus on the distribution of business profits [3]
In addition to the provisions of the Civil Code, the operation of partnerships in business activities is also governed by the Commercial Code (KUHD), particularly for partnerships engaged in commercial activities such as general partnerships and limited partnerships (CV). In principle, partners have equal standing, unless the partnership agreement stipulates otherwise, and each partner bears reciprocal rights and obligations in the conduct of the business.

From an accounting perspective, a partnership is treated as a separate business entity for the purposes of record-keeping and the preparation of financial statements. All transactions are recorded in the partnership's name, while profits or losses are allocated to the partners according to the previously agreed-upon distribution ratio [4]. Therefore, the existence of a clear and detailed partnership agreement is crucial to prevent disputes, particularly those related to profit and loss distribution as well as liability for business obligations.

1.2. Key Characteristics of a Partnership

1.2.1. Mutual Agency

One of the key characteristics of a partnership is the principle of mutual agency, whereby each partner acts as a representative or agent of the partnership. Under this principle, actions taken by a partner within the scope of their authority and within the scope of the partnership's business activities are binding on the partnership as a whole. Consequently, all partners share the legal consequences of decisions or transactions made by any one partner, making trust and good coordination among partners essential in conducting business.

1.2.2. Limited Life

A partnership is essentially of limited duration because its continued existence depends entirely on the presence and agreement of the partners. A partnership may terminate or be dissolved upon the occurrence of certain events, such as the death of a partner, a partner's resignation, bankruptcy, or a mutual agreement to dissolve the partnership. Nevertheless, the partners may agree on specific provisions in the partnership agreement to ensure the business continues even if there are changes in membership.

1.2.3. Unlimited Liability

Another characteristic inherent to a partnership is the partners' unlimited liability. Each partner is personally liable for all the partnership's obligations and debts. If the partnership's assets are insufficient to settle obligations to third parties, creditors are entitled to seek repayment from the partners' personal assets. This condition indicates that business risk in a partnership is relatively higher compared to a corporate entity.

1.2.4. Co-Ownership of Partnership Property (Joint Ownership)

All assets contributed or acquired during the existence of the partnership become the joint property of the partners. These assets cannot be treated as the personal property of any single partner but must be used for the business interests of the partnership. This joint ownership requires transparent and accountable asset management.

1.3. Legal Basis for Profit and Loss Distribution

The distribution of a partnership's profits and losses is based on:

1.3.1. Partnership Agreement

The partnership agreement serves as the primary basis for governing the relationship among partners, including the mechanism for distributing profits and losses. This agreement details the rights, obligations, and contributions of each partner, as well as the method for allocating business results. As long as it does not conflict with statutory provisions, the contents of the agreement are binding on all partners.

1.3.2. Commercial Code (KUHD)

The Commercial Code (KUHD), specifically Article 1633, stipulates that if the partnership agreement does not specifically determine the method of profit and loss distribution, such distribution shall be made proportionally based on the amount of capital contributed by each partner. This provision serves as a supplementary rule in the event the agreement does not provide detailed provisions.

1.3.3. The Principle of Equity

In addition to being based on written regulations, the distribution of profits and losses must also take into account the principle of equity. A fair distribution is not based solely on the amount of capital but also considers non-financial contributions such as time, effort, expertise, and the managerial roles performed by each partner.

1.4. Principles of Profit and Loss Distribution

1.4.1. Principle of Fairness and Reasonableness

The principle of fairness and reasonableness in the distribution of profits and losses emphasizes that the distribution of business results must reflect each party's contribution in a proportional and fair manner. This principle ensures that no party is unduly disadvantaged or unduly benefited. In the context of a musyarakah agreement, for example, profit sharing is typically adjusted according to each party's capital contribution. The valuation of capital must be approved by all parties to ensure a fair value and compliance with the principle of fairness.

Fairness also means that losses are shared proportionally in accordance with the initial agreement, so as not to unfairly burden one party. Distribution is carried out fairly according to the contributions of the members, where the greater a member's contribution, the larger the share they can receive.

1.4.2. The Principle of Agreement

The principle of agreement requires that the distribution of profits and losses be based on an agreement reached at the time the partnership is formed. This agreement includes a full understanding of the partnership's objectives, the responsibilities of each party, and the rights and obligations to be assumed, typically expressed through the exchange of offers and acceptances by all parties involved.

This principle provides legal certainty for all parties involved and minimizes the potential for future conflicts. The profit-sharing ratio must be agreed upon before the contract is signed to provide transparency and certainty for both parties. The agreement must be made consciously, without coercion, and with a full understanding by all parties of the consequences of the agreed-upon distribution.

1.4.3. Principle of Consistency

The principle of consistency stipulates that the agreed-upon method for allocating profits and losses must be applied consistently over time. Each company has its own calculation method, and if that method changes, adjustments are usually necessary to arrive at the correct calculation.

Changes to the allocation method must not be made unilaterally or arbitrarily, unless there is a new agreement involving all parties. This consistency is crucial for maintaining trust among parties and facilitating long-term financial planning. Companies must consistently apply policies for recognizing revenue and expenses as standard guidelines for implementing accounting policies.

1.4.4. Principle of Transparency

The principle of transparency emphasizes the importance of honesty, openness, and fairness in profit distribution. All parties entitled to profit distribution must have access to accurate and complete financial information. Transparency and openness are crucial in carrying out a partnership agreement, where all business-related decisions must be made jointly.

As a form of transparency, the presentation of profit-sharing data is generally conducted by holding a Members' Meeting prior to the official distribution. Transparency prevents the manipulation of financial data and builds trust among the parties. In practice, this principle is realized through independent audits and the periodic submission of financial reports.

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