

Essay Question No. 6

Answer this question in booklet #6

One year ago, Randy and Sandy formed a partnership to manufacture widgets. They did not enter into a written partnership agreement. Randy contributed \$10,000, and Sandy contributed \$5,000 to the partnership. They participated equally in the management of the partnership and shared the profits equally.

The widget market has since declined, and business has been slow. Last Monday, Randy told Sandy, "I don't want to do this anymore. I am quitting this partnership." Randy then left town on an extended vacation. At that time, the partnership still had some short-term widget contracts to fulfill and owed trade creditors \$30,000.

The next day, Barney, a widget broker, met with Sandy at the widget factory. Barney knew about Randy and Sandy's partnership but had not previously done business with the partnership. For over a month, Sandy had been soliciting a long-term contract to produce widgets for Barney. Without telling Barney about Randy's statement the previous day, Sandy, on behalf of the partnership, entered into a contract with Barney to produce 500,000 widgets a year for three years.

After Randy's departure, Sandy, using her own funds, paid the \$30,000 owed to trade creditors.

1. What is the effect of Randy's statement, "I don't want to do this anymore. I am quitting this partnership"? Explain.
2. Is the partnership bound by the contract with Barney? Explain.
3. What contribution, if any, can Sandy claim from Randy for Sandy's \$30,000 payment to trade creditors? Explain.