

Dissolution of Partnership firm

Journal Entries

(1) Transfer each asset at Book value to realization a/c, do not transfer cash a/c, Bank a/c, P&L a/c and part. cap. a/c's

(*) Realization a/c Dr. xxx

TO Each asset a/c. xxx

(2) Transfer each liability at Book value to realization a/c, do not transfer partners loan, part. capital a/c's, and accumulated profits like Gen. reserve and P&L bal. etc.

(*) Each liability a/c Dr. xxx

TO Realization a/c xxx

(3) Realization of Assets:

Assets may be realized in cash / may be taken over by partners (at agreed value)

(*) Cash / partners cap. a/c Dr. xxx

TO Realization a/c xxx

(4) Discharge of liabilities:

Liabilities may be discharged by cash payment

(or) may be taken over by partners.

(*) Realization a/c Dr. xxx

TO cash / partners cap. a/c xxx

(5) Realisation Expenses may be paid in cash (or) may be paid by a partner on behalf of the firm.

(*) Realization a/c Dr. xxx

TO cash / part. cap. a/c xxx

(6) Realisation a/c is to be closed by transferring profit to partners cap. a/c.

(a) in case of profit

(*) Realization a/c Dr. xxx

TO partners cap. a/c. xxx

(b) in case of loss

* partners cap. alc Dr. xxx
TO Realisation alc xxx

(7) Transfer General reserve and profit & loss alc which are given on liability side to partners cap. alc's.

* Gen. reserve/profit & loss alc Dr. xxx
TO partners capital alc. xxx

(8) For payment of partners loan

* partners loan alc Dr. xxx
TO Cash alc xxx

(9) settle the partners cap. alc's either through cash payment or cash receipt.

(a) in case of payment

* partners cap. alc Dr. xxx
TO cash alc xxx

(b) in case of receipt

* cash alc Dr. xxx
TO partners cap. alc. xxx

Gamer vs Murray Decision :-

(G1) Solvent partners have to bring in cash to the extent of realisation loss and insolvent partner has to bring in what he can depending upon surplus of private assets.

* cash alc Dr. xxx
TO partners cap. alc's xxx

Insolvent partners cap deficiency

fixed capital

fluctuating (or) adjusting

(G) Insolvent partners capital deficiency is to be borne by the solvent partners (not in profit sharing ratio), if the cap. alc's are fixed, in that ratio, if the cap. alc's are fluctuated in adjusted capital ratio.

cap. alc's are adjusted with :-

- (1) Accumulated profits/losses which are given in B/s.
- (2) unadjusted drawings which are given in B/s.
- (3) After rectifying errors if there is any profit/loss.

(*) Solvent partners cap. alc Dr. xxx
 To insolvent partners cap. alc xxx

Notes :-

(1) capital ratio is not effected by assets taken over/ liabilities taken over/ realisation expenses paid. These items may change capital balance but not the cap. ratio

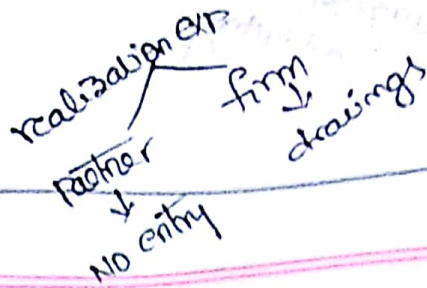
(2) unrecorded assets & liabilities :-

These are not found in balance sheet, therefore questioning of transferring to realization alc does not arise. But if an unrecorded asset is realized then (3) Journal entry is recorded, when unrecorded liability is discharged.

(4) Journal entry to be recorded.

when an asset is exchanged for a liability in full settlement, no entry can be recorded. If a part of an asset is given for a part of liability, the remaining asset to be realized and remaining liability is to be paid off.

(3) when partners cap. alc's have debit balances then they need not to take over insolvent partners capital deficiency, but he is required to bring in required cash to settle capital alc.



(4) If it is given realization exp. are to be borne personally by the partner then no entry is to be recorded, but if such expenses are paid by the firm it is considered as drawings. in such a case following entry is to be recorded

partners cap. a/c Dr. xxx
 To cash a/c xxx

(5) If deficiency a/c is required, the following entries are to be recorded.

(a) deficiency a/c Dr. xxx
 To insolvent part. cap. a/c's xxx

(b) solvent partners cap. a/c Dr. xxx
 To deficiency a/c xxx

Note :-

When all partners are insolvent, the following points are to be considered.

- ① Transfer Each asset at Book value to realization a/c.
- ② Do not transfer liab. to realization at this stage.
- ③ Realize the assets.
- ④ Do not discharge the liab. at this stage.
- ⑤ Realization Exp. to be paid.
- ⑥ close the realization a/c and transfer the profit/loss to part. capital Accounts.
- ⑦ Transfer Accumulated profits and losses to part. cap. a/c's
- ⑧ Transfer partners loan to his capital account.
- ⑨ A partner who has surplus of private assets over private liab. is to bring in cash.

cash a/c dr. xxx

to partners cap. a/c's xxx

Available cash remitted to creditors and bal. amt is transferred from creditors a/c to deficiency a/c.

- ⑩ cap. a/c's are closed by transferring the bal. to deficiency a/c by that all the accounts are closed.

Piecemeal Distribution

→ All the assets may not be realized on a single day. Therefore all liabilities may not be discharged on a single day. Therefore as and when assets are realized the liabilities are discharged. This method of distribution is called Piecemeal distribution.

→ Payments are to be made in the following order according to sec 48 of Indian Partnership Act, 1932.

1) Secured creditors :-

If the security amt. is not enough the excess amt. is transferred to unsecured creditors.

2) Preferential creditors :-

Amount payable to govt. like income tax, and amt. payable to employees like salaries & wages etc. are of preferential nature.

3) Unsecured creditors

4) partners loan &

5) partners capital ac's

For the distribution of partners capital ac's they are two methods

(1) Highest relative capital method

(2) maximum possible loss method.

(1) Highest relative capital method :-

(a) calculate adjusted capital balances i.e. capital bal. plus accumulated profits minus accumulated loss in balancesheet minus drawings given in balance sheet. and (+) current accounts.

(b) prepare statement of absolute surplus.

(c) Distribute to partners capital ac's according to statement of absolute surplus starting from the down and moving upward. The unpaid amt. on capital is loss and the excess amt. paid is the profit.

2) Maximum possible loss method :-

Adjusted capitals to be totalled and amount available for distribution to partners is deducted, the bal. is maximum possible loss. Distribute the loss to partners in profit sharing ratio and to be deducted. If there is no -ve balance to any partner distribute the amt. available. If there is a -ve balance, adjust the deficiency in to other partners in capital ratio, & distribute the amt. available, repeat the same procedure for each realization taking into account the unpaid capital balances.

NOTES :-

- i) Estimated realization expenses are to be deducted from the first available amounts and the balance amt. to be distributed.
- ii) If the expenses actually paid (or) more than the amt. deducted, deduct the excess amt. in the next realization.
- iii) If there is any saving in expenses add to the next realization.
- iv) Dist. may be either in cash (or) kind.

Amalgamation of firms

→ When two or more firms combine their businesses and carry on such businesses under a new name of the firm, it is called Amalgamation of firms.

→ Accounting procedure in the books of transferer firm

① prepare revaluation a/c and transfer the profit/loss to partners capital a/c's. Goodwill is also an asset to be taken for revaluation purpose.

② Transfer acc. profits and losses to partners cap. a/c's.

③ Transfer the assets and liabilities not taken over by the new firm to partners cap. a/c's.

④ Transfer the remaining assets at revised values to the new firm.

New firm a/c Dr. xxx

TO Assets a/c xxx

⑤ Transfer revised amt's of liabilities and part. cap. a/c to new firm.

Liabilities a/c Dr. xxx

Partners cap. a/c's Dr. xxx

TO New firm a/c xxx

By recording the above entries in each firm all the accounts are closed. Therefore these entries are called as closing entries.

Accounting procedure in the books of transferee firm

① Incorporate assets, liabilities and cap. a/c's of each firm at revised values.

Assets a/c Dr. xxx

TO liabilities a/c xxx

TO part. cap. a/c's xxx

② Treatment for goodwill :-

ignore goodwill in the books of transferer and in the books of transferee. If goodwill a/c is not to be raised in the books of transferee the goodwill a/c is adjusted through partner's cap. a/c's.

partner's cap. a/c dr. xxx

TO part. cap. a/c's. xxx

③ Eliminate interfirm indebtedness

liabilities a/c dr. xxx

TO Assets a/c. xxx

④ Adjust the cap. a/c's as required by the problem.

(Adjust in cap. a/c's can be made either through cash or current a/c's)

⑤ prepare the Balance Sheet of Amalgamated firm.