

## Introduction:

Dissolution means winding up or shut down of Bus. Organisation. It means complete closure of Business Activities of Partnership and the relationship among all partners.

Definition: According to Indian Partnership Act 1932 <sup>{U/s 39}</sup> the Dissolution of Partnership between all partners of Firm is called the Dissolution of a Firm.

It is the process of ending an official Organisation

## Reasons for Dissolution:

- 1) Voluntary Decision of Partners to Dissolve
- 2) Expiry of Duration (period) of Partnership Firm
- 3) Completion of Specific Venture for which partnership was formed.
- 4) Insolvency of all partners
- 5) Partnership at will can be dissolved by giving Notice of 14 Days.
- 6) Order of Court of Law to Dissolve the Firm.

Distinguish between Dissolution of Partnership & Dissolution of Firm

# Distinguish between Dissolution of Partnership & Dissolution of Firm

Sr No	Basis	Dissolution of Partnership	Dissolution of Firm
1)	Meaning	It may or maynot involve Dissolution of Firm.	It implies Dissolution of Partnership
2)	Nature	The Nature of Dissolution of Partnership is voluntary.	The Nature of Dissolution of Firm is either voluntary or compulsory
3)	Continuation of Business	The Business continues. However the partnership is reconstituted.	The Business discontinues completely.
4)	Requirement :	It requires revaluation of Assets & liabilities for reconstitution of the Firm.	It requires realisation of Assets & liabilities for closure of the Firm.
5)	Final closure of Books :	It does not require final closure of the Books of Accounts	It necessitates final closure of the Books of Accounts.
6)	Court order :	A court order cannot Dissolve a Partnership	A court order can Dissolve a Firm.

## Settlement of Accounts on Dissolution of Firm

When the Firm is Dissolved all **Assets** are **Realised** & the **proceeds** from it are to be **paid** for

**Liabilities**

According to Indian Partnership Act 1932 **U/s 48** the liabilities are to be paid as per the priority given below

- 1) Payment of Realisation/Dissolution Exp
- 2) Payment of Outside liabilities [Bank OD, Crs, B/P O/Exp]
- 3) Payment of loan given by partners.
- 4) Surplus Cash if any should be distributed to partners.

### Types of Dissolution

- 1) Simple Dissolution
- 2) Dissolution under Insolvency situation.

Simple Dissolution: It is the situation where all partners are solvent & they decided to dissolve their firm due to any reason.

Following Accounts are to be maintained under Simple Dissolution

1) Realisation A/c

It is the process of converting Assets into Cash. Realisation A/c is opened to find out profit or loss made from sale of Assets & discharge of liabilities of Partnership Firm

It is a Nominal A/c

Realisation Profit: Credit Balance of Realisation A/c

Realisation Loss: Debit Balance of Realisation A/c

2) Partners Capital A/c

Capital A/c includes op Bal of Cap, transfer of Accumulated Profit/Loss A/c

Profit or loss on Realisation is transferred to Partners Capital A/c

After making all Adjustments the balance of Capital A/c represents amount due to or amount due from Partners.

3) Partners Current A/c:

### 3) Partners Current A/c:

When Fixed Capital method is given then Partners Current A/c is maintained.

Current A/c may show debit or credit balance.  
It records the transfer of Accumulated Profit/Loss the Real<sup>n</sup> Profit/Loss etc.  
At the end the Balance of Current A/c is transferred to Capital A/c

### 4) Partners Loan A/c

Partners loan A/c is paid after the payment of outside liability of the Firm.  
Any Difference in Partners loan should be transferred to Realisation A/c.

\* However Loan Given by Firm to Partner [Asset side] should be debited to Partners Capital/Current A/c directly.

### 5) Cash/Bank A/c:

It is opened to record all cash receipts & cash payments.  
All Cash Inflows are debited & All Cash Outflows are credited.

# ACCOUNTING ENTRIES

The Process of Simple Dissolution may be divided into the following 3 stages

- a) Transfer stage
- b) Realisation stage
- c) Distribution stage.

a) Transfer stage: Under this stage all Assets & Liabilities are transferred to Realisation A/c

(except)

Cash / Bank Bal  
Fictitious Assets  
Partners Capital  
Partners Loan  
Reserves

Transaction

Journal Entry

1) For Transfer of Assets

Realisation A/c Dr } Book Value  
To Sundry Assets } (B/s value)

## Transaction

1) For Transfer of Assets

Journal Entry  
Realisation A/c Dr } Book Value  
To Sundry Assets } (B/s value)

2) For Transfer of liabilities

Sundry liabilities A/c Dr } Book Value  
To Realisation A/c }

3) For Transfer of Provisions against Assets

Provision for doubtful debts A/c Dr } Book Value  
Provision for Depn A/c Dr }  
To Realisation A/c }

4) For Transfer of Provision against liabilities

Realisation A/c Dr } Book Value  
To Prov for Discounted Creditors A/c }

5) For Transfer of Accumulated Profit/Reserves

Gen Res A/c Dr } Book Value  
P/L A/c Dr }  
To Part Cap A/c / Curr A/c } in PSR

6) For Transfer of Accumulated loss

Partner Cap A/c / Curr A/c } Book Value  
To P/L A/c } in PSR

b) Realisation stage:

Under this stage all Assets are realised

Realisation stage: Under this stage all Assets are realised

Payment of Dissolutions exp, outside liabilities & Partloan is carried out.

Transaction	Journal Entry
1) Assets are sold	Cash/Bank A/c Dr } To Real <sup>n</sup> A/c } Agreed Value
2) Assets are taken over by Partners	Partners Cap/ Curr A/c Dr } To Real <sup>n</sup> A/c } Agreed value
3) Asset taken over by Creditors	No Entry    Real <sup>n</sup> A/c Dr To Real <sup>n</sup> A/c

Note: If any Asset is taken over by any Creditor for the Amt Due then the Value of Assets is deducted from Amt Due from Creditor and afterwards Net Amt will be paid to Creditor.



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4) Payment of Outside liabilities

Real<sup>n</sup> A/c Dr }  
To Cash/Bank A/c } Agreed  
Value

5) Discharge of Outside liabilities  
by any Partner

Real<sup>n</sup> A/c Dr }  
To Part<sup>n</sup> A/c/Curr A/c } Agreed  
Value

6) Payment of Real<sup>n</sup> Exp

Real<sup>n</sup> A/c Dr }  
To Cash/Bank A/c } Agreed  
Value

7) Real<sup>n</sup> Exp borne by any Partner

Real<sup>n</sup> A/c Dr }  
To Part<sup>n</sup> A/c/Curr A/c } Agreed  
Value

8) Commission given to Any Partner  
for Realising Assets

Real<sup>n</sup> A/c Dr }  
To Partners Cap/Curr A/c } Agreed  
Value

9) Payment of Contingent liability

Real<sup>n</sup> A/c Dr }  
To Cash/Bank A/c } Agreed  
Value

10) Payment of Partners loan

Partners loan A/c Dr }  
To Cash/Bank A/c } Book Value or  
Agreed Value  
as the case  
may be

c) Distribution stage

Under this stage Profit/Loss on Real<sup>n</sup>  
is transferred to Capital A/c/ Current A/c & thereafter they are closed.

Transaction

Journal Entry

1) Tr<sub>f</sub> of Real<sup>n</sup> Profit

Real<sup>n</sup> A/c Dr  
To Part Cap/Curr A/c

1) Trf of Real<sup>n</sup> Profit

Real<sup>n</sup> A/c Dr  
To Partcap/Curr A/c

2) Trf of Real<sup>n</sup> loss

Partcap/Curr A/c  
To Real<sup>n</sup> A/c

3) Trf of Cr Bal of Curr A/c

Part Curr A/c Dr  
To Partcap A/c

4) Trf of Dr Bal of Curr A/c

Partcap A/c Dr  
To Part Curr A/c

5) Closing of Capital A/c's

a) If P. Cap A/c shows a debit Bal then partners should bring cash to settle the accounts

Cash/Bank A/c Dr  
To Partcap A/c

b) If P. Cap A/c shows a credit

Partners Capital A/c Dr

a) If P.Cap A/c shows a debit Bal then Partners should bring cash to settle the Accounts

Cash/Bank A/c Dr  
To Part Cap A/c

b) If P.Cap A/c shows a Credit Bal then Partners should be paid cash to settle the Accounts

Partners Capital A/c Dr  
To Cash/Bank A/c

Decision under Garner Vs Murray

## Decision under Garner Vs Murray

- 1) The Solvent Partners will bring Cash to make good their share of loss on Realisation.
- 2) The Insolvency loss of the Insolvent partner will be borne by Solvent Partners in their Fixed Capital Ratio
- 3) The Insolvency loss of the Insolvent Partner will be borne by Solvent Partner having Credit Balance in Capital Ratio