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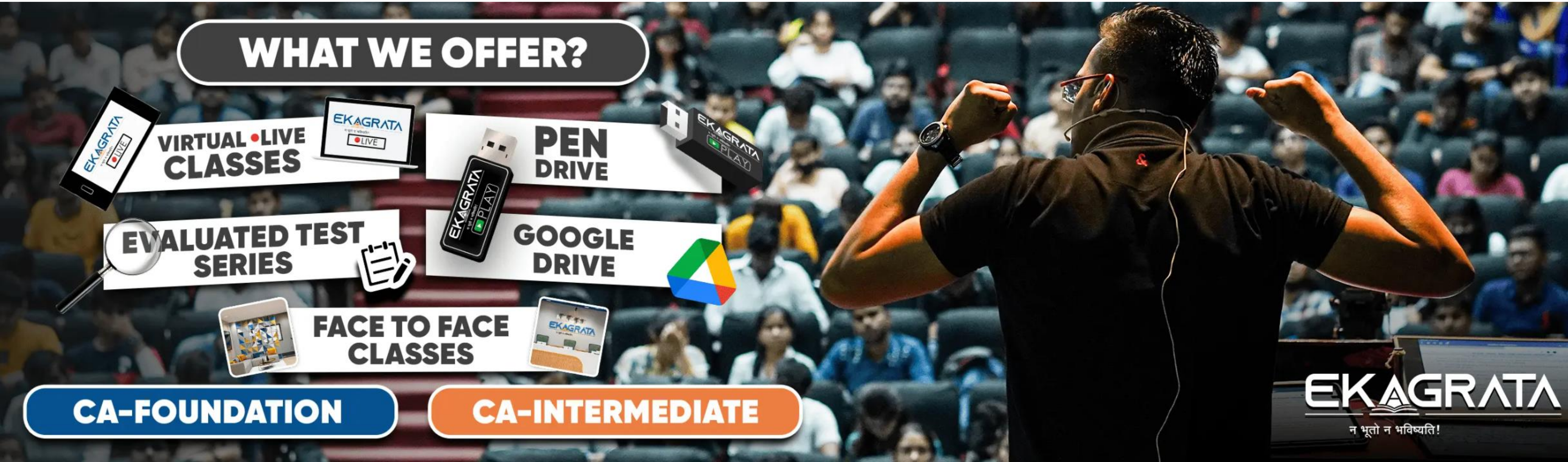


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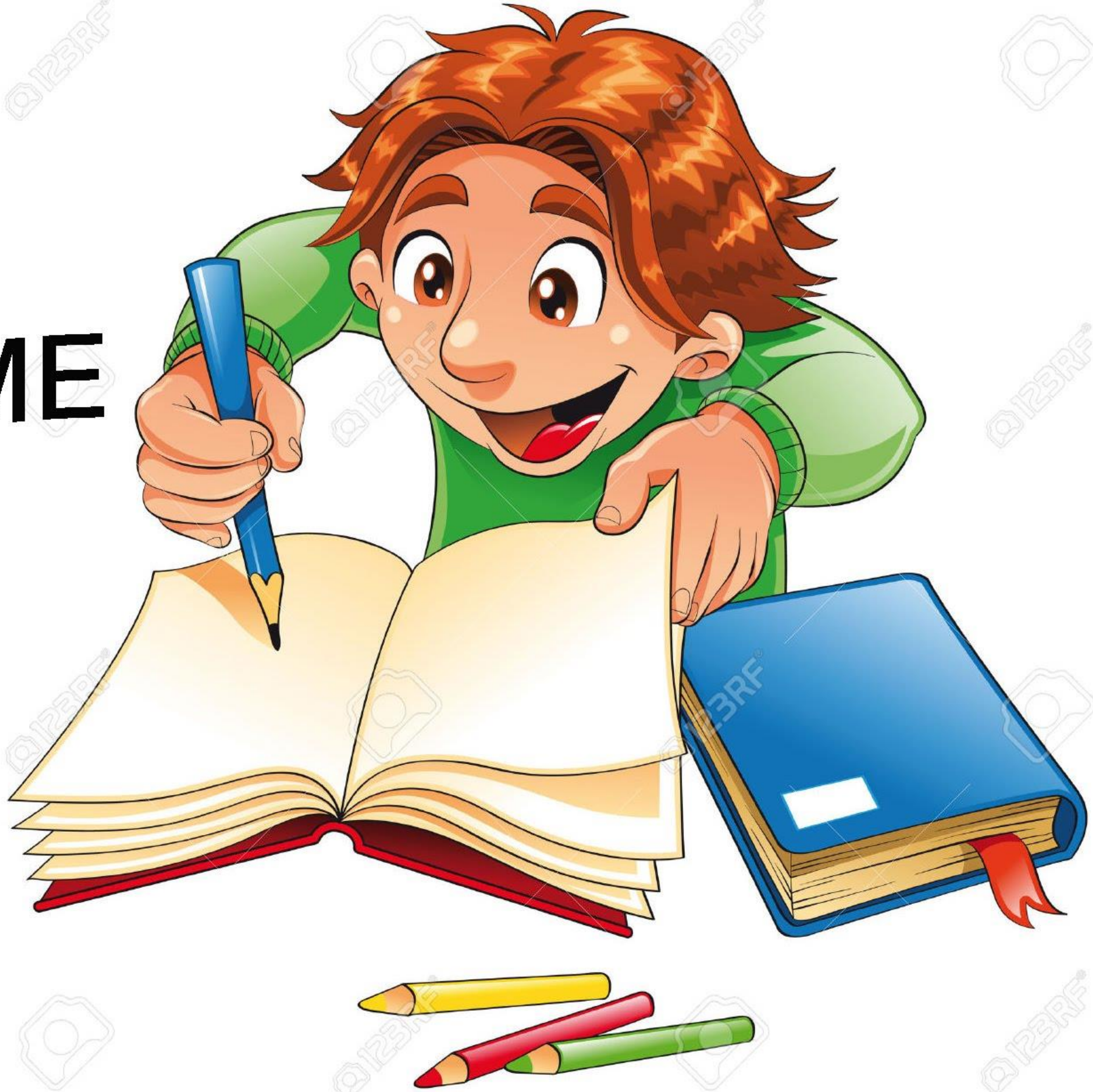


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MIDNIGHT REVISION SERIES SCHEDULE

DATE	DAY	TOPIC
20-05-2024	MONDAY	INTRODUCTION TO MIDNIGHT REVISION SERIES & LAST 30 DAYS REVISION STRATEGY
21-05-2024	TUESDAY	BASICS OF ACCOUNTS
22-05-2024	WEDNESDAY	RECTIFICATION OF ERRORS
23-05-2024	THURSDAY	BANK RECONCILIATION STATEMENT
24-05-2024	FRIDAY	BILLS OF EXCHANGE
28-05-2024	TUESDAY	INVENTORY VALUATION
29-05-2024	WEDNESDAY	DEPRECIATION & AMORTISATION
30-05-2024	THURSDAY	PARTNERSHIP BASICS & VALUATION OF GOODWILL
31-05-2024	FRIDAY	ADMISSION OF PARTNER
03-06-2024	MONDAY	RETIREMENT OF PARTNER & CHANGE IN PROFIT SHARING RATIO
04-06-2024	TUESDAY	DEATH OF PARTNER
05-06-2024	WEDNESDAY	DISSOLUTION OF PARTNERSHIP FIRM
06-06-2024	THURSDAY	FINANCIAL STATEMENTS OF NOT FOR PROFIT ORGANISATION
07-06-2024	FRIDAY	ACCOUNTS FROM INCOMPLETE RECORDS (SINGLE ENTRY SYSTEM)
08-06-2024	SATURDAY	FINAL ACCOUNTS OF NON MANUFACTURING ENTITY
09-06-2024	SUNDAY	FINAL ACCOUNTS OF MANUFACTURING ENTITY
10-06-2024	MONDAY	ISSUE FORFIETURE & REISSUE OF SHARES
11-06-2024	TUESDAY	ISSUE OF DEBENTURES
12-06-2024	WEDNESDAY	ISSUE OF BONUS SHARES & RIGHT SHARES
13-06-2024	THURSDAY	REDEMPTION OF DEBENTURES
14-06-2024	FRIDAY	REDEMPTION OF PREFERENCE SHARES
15-06-2024	SATURDAY	TIPS & TRICKS TO CRACK CA FOUNDATION ACCOUNTS
16-06-2024	SUNDAY	IMPORTANT THEORY QUESTIONS
17-06-2024	MONDAY	TRUE OR FALSE - PART I
18-06-2024	TUESDAY	TRUE OR FALSE - PART II

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PARTNERSHIP
DISSOLUTION OF PARTNERSHIP FIRMS & LLP

BIRDS EYE VIEW

- Circumstances Leading To Dissolution of Partnership
- Circumstances Leading To Dissolution of Partnership Firm
- Distinguish Between Dissolution of Partnership & Dissolution of Partnership Firm
- Dissolution Of Firm Before The Expiry of Fixed Term
- Settlement of Accounts on Dissolution
- Accounting Entries on Dissolution of Firm
- Treatment of Goodwill on Dissolution of Firm
- Consequences of insolvency of Partner
- Treatment of Loss Arising From Insolvency of a Partner
- Insolvency of All partners
- Piecemeal Payments (Maximum loss Method , Highest Relative Capital Method)
- Winding up of LLP

CICUMSTANCES LEADING TO DISSOLUTION OF PARTNERSHIP

A partnership is dissolved or comes to an end on:

(a) the expiry of the term for which it was formed;

(b) completion of the venture for which it was entered into;

(c) death of a partner;

(d) insolvency of a partner.

However, the partners or remaining partners (in case of death or insolvency) may continue to do the business. In such a case there will be a new partnership but the firm will continue. When the business comes to an end then only it will be said that the firm has been dissolved.

CICUMSTANCES LEADING TO DISSOLUTION OF PARTNERSHIP FIRM

A firm stands dissolved in the following cases:

(i) The partners agree that the firm should be dissolved;	(ii) All partners except one become insolvent;	(iii) The business becomes illegal;	(iv) In case of partnership at will, a partner gives notice of dissolution; and	(v) The court orders dissolution.

The court has the option to order dissolution of a firm in the following circumstances :	(a)	Where a partner has become of unsound mind;
	(b)	Where a partner suffers from permanent incapacity;
	(c)	Where a partner is guilty of misconduct of the business;
	(d)	Where a partner persistently disregards the partnership agreement;
	(e)	Where a partner transfers his interest or share to a third party;
	(f)	Where the business cannot be carried on except at a loss; and
	(g)	Where it appears to be just and equitable.

DISTINCTION BETWEEN DISSOLUTION OF PARTNERSHIP AND DISSOLUTION OF FIRM

Dissolution of Partnership	Dissolution of Partnership Firm
Dissolution of a partnership refers to the discontinuance of the relation between the partners of the firm.	Dissolution of the firm implies that the entire firm ceases to exist, including the relation among all the partners.
There can be change in profit sharing ratio or admission/death/retirement of a partner.	Dissolution of partnership firm occurs.
In event of dissolution of the partnership, the business continues as usual, but the partnership is reconstituted.	In event of the dissolution of the firm, the business ceases to end.
There is no intervention by the court.	Court has the inherent power to intervene. By its order, a firm can be dissolved.
Economic relationships among partners may remain same or change.	Economic relationship among partners comes to an end.
Assets and liabilities are revalued. New balance sheet is prepared.	Assets are sold and realized. Liabilities are paid off.
Revaluation account is prepared.	Realization account is prepared.
Assets and liabilities are revalued after winding up of the existing partnership.	Assets and liabilities are settled on winding up of a firm.
Books of accounts are not closed.	Books of accounts are closed.

DISSOLUTION OF FIRM BEFORE THE EXPIRY OF FIXED TERM

A partner who, on admission, pays a premium to the other partners with a stipulation that the firm will not be dissolved before the expiry of a certain term, will be entitled to a suitable refund of premium or of such part as may be reasonable, if the firm is dissolved before the term has expired.

No claim in this respect will arise if:	(1)	the firm is dissolved due to the death of a partner;
	(2)	the dissolution is mainly due to the partner's (claiming refund) own misconduct; and
	(3)	the dissolution is in pursuance of an agreement containing no provision for the return of the premium or any part of it.

The amount to be repaid will be such as is reasonable having regard to the terms upon which the admission was made and to the length of the period agreed upon and that already expired. Any amount that becomes due will be borne by other partners in their profit- sharing ratio.

SETTLEMENT OF ACCOUNTS ON DISSOLUTION

On the dissolution of a partnership, firstly, the assets of the firm, including goodwill, are realized. Then the amount realized, is applied first towards repayment of liabilities to outsiders and loans taken from partners; afterwards, the capital contributed by partners is repaid and, if there is still a surplus, it is distributed among the partners in their profit-sharing ratio.

Conversely, after payment of liabilities of the firm and repayment of loans from partners, if the assets of the firm leftover are insufficient to repay in full the capital contributed by each partner, the deficiency is borne by the partners in their profit-sharing ratio.

According to the provisions contained in section 48 of the Partnership Act, upon dissolution of the partnership, the mutual rights of the partners, unless otherwise agreed upon, are settled in the following manner:

a) Losses including deficiencies of capital are paid, first out of profits, next out of capital, and, lastly, if necessary, by the partners individually in the proportion in which they are entitled to share profits.

b) The assets of the firm, including any sums contributed by the partners to make up deficiencies of capital have to be applied in the following manner and order:

   i. in paying the debts of the firm to third parties;
   ii. in paying to each partner rateably what is due to him from the firm in respect of advances as distinguished from capital;
   iii. in paying to each partner what is due to him on account of capital; and
   iv. the residue, if any, to be divided among the partners in the proportion in which they are entitled to share profits.

ACCOUNTING ENTRIES ON DISSOLUTION OF FIRM

1. **Transfer of book value of assets:**

   Realisation A/c...............Dr.

   To Respective Assets A/c

2. **Transfer of third-party liabilities / provisions**

   Respective Liability/Provision A/c......... Dr.

   To Realisation A/c

3. **Sale/Disposal / Realisation of Assets**

   Cash/Bank A/c.................. Dr.

   To Realisation A/c

4. **Asset taken over by the partner at an agreed value**

   Partner's Capital A/c................... Dr.

   To Realisation A/c

5. **Expenses of dissolution**

Realisation A/c.......... Dr.

To cash/bank A/c

6. **Discharge of third-party Liabilities**

Realisation A/c............ Dr.

To Cash/Bank A/c

7. **Partner agreeing to discharge a liability**

Realisation A/c................... Dr.

To Respective Partners Capital A/c

8. **Profit/loss on realisation**

PROFIT: Realisation A/c............ Dr.

To Partners' Capital A/c

(in profit sharing ratio)

LOSS: Partners' capital A/c............ Dr.

To Realisation A/c

(in profit sharing ratio)

9. Discharge of partner's loan / advance

Partner's Loan / Advances A/c .... Dr.

To Cash/Bank A/c

10. Transfer of accumulated Profits, Reserve etc.

Reserve A/c.............. Dr.

Profit and Loss A/c.............. Dr.

To Partners' Capital A/c

(in profit sharing ratio)

11. Settlement of Partners' Accounts

DEBIT BALANCE: Cash / Bank A/c........Dr.

To Respective Partner's Capital A/c

CREDIT BALANCE: Partners' Capital A/c......... Dr.

To Cash/Bank A/c

Specimen of Realization Account

Particulars	₹	Particulars	₹
To Sundry Assets (Excluding Cash/Bank, Debit Balance of P&L A/c, Partners' Current, Capital, and Loan A/cs)		By Sundry Liabilities (Excluding Credit Balance of P&L A/c, Partners' Current, Capital, and Loan A/c)	
To Bank/Cash (expenses for realization)		By Provision on Assets	
To Bank/Cash A/c (Amount paid for liabilities and unrecorded liabilities)		By Bank/Cash A/c (Amount realized from assets and unrecorded assets)	
To Partners' Capital A/cs (Expenses or Liabilities paid by partners)		By Partners' Capital A/cs (Assets taken over by partners)	
To Partners' Capital A/cs (Profit on realization distributed among partners in profit sharing ratio)		By Partners' Capital A/cs (Loss on realization distributed among partners in profit sharing ratio)	

TREATMENT OF GOODWILL ON DISSOLUTION OF FIRM

1. **If Goodwill appears in the Balance Sheet, it is considered as purchased Goodwill and is treated like any other asset and is transferred to realization account.**

2. **If Goodwill does not appear in the balance sheet, no entry is required for this.**

3. **If something is realized or Goodwill is purchased by any one of the partners, then either Cash Account is debited or Partner's Capital A/c is debited and Realization Account is credited.**

ILLUSTRATION 1

X, Y, and Z are partners of the firm XYZ and Co., sharing Profits and Losses in the ratio of 4: 3: 2. Following is the Balance Sheet of the firm as on 31st March, 2022:

Balance Sheet as on 31st March, 2022

Liabilities	**₹**	***Assets***	**₹**
Partners' Capitals:		Fixed Assets	5,00,000
X	4,00,000	Stock in trade	3,00,000
Y	3,00,000	Sundry debtors	5,00,000
Z	2,00,000	Cash in hand	10,000
General Reserve	90,000		
Sundry Creditors	3,20,000		
	13,10,000		13,10,000

Partners of the firm decided to dissolve the firm on the above-said date.

Fixed assets realized ₹5,20,000 and book debts ₹4,40,000.

Stocks were valued at ₹2,50,000 and it was taken over by partner Y.

Creditors allowed discount of 5% and the expenses of realization amounted to ₹6,000.

You are required to prepare:

(i) Realization account;

(ii) Partners capital account; and

(iii) Cash account.

Realisation A/c

Particulars	Amount	Particulars		Amount
To Fixed Assets A/c	5,00,000	By Sundry creditors A/c		3,20,000
To Stock in Trade	3,00,000	By Cash A/c (FA + Debtors)		9,60,000
To Debtors	5,00,000	By Y A/c (stock)		2,50,000
To Cash A/c (creditors) (3,20,000 x 95%)	3,04,000	By Loss Transferred		
		By Partner's capital A/c		
To Cash A/c (exp)	6,000	X	35,555	
		Y	26,667	
		Z	17,778	80,000
	16,10,000			**16,10,000**

Partners Capital A/c

Particulars	X	Y	Z	Particulars	X	Y	Z
To Realisation A/c (Stock)		2,50,000		By balance b/d	4,00,000	3,00,000	2,00,000
To realisation A/c (loss)	35,555	26,667	17,778	By General Reserve A/c	40,000	30,000	20,000
To cash A/c (BF)	4,04,445	53,333	2,02,222				
	4,40,000	**3,30,000**	**2,20,000**		**4,40,000**	**3,30,000**	**2,20,000**

Cash A/c

Particulars	Amount	Particulars	Amount
To Balance b/d	10,000	By Realisation A/c (creditors)	3,04,000
To Realisation A/c (fixed assets + debtors)	9,60,000	By Realisation A/c	6,000
		By X’s Capital A/c	4,04,445
		By Y’s Capital A/c	53,333
		By Z’s Capital A/c	2,02,222
	9,70,000		**9,70,000**

ILLUSTRATION 2

P, Q, and R are partners sharing profits and losses as to 2:2:1. Their Balance Sheet as on 31st March, 2022 is as follows:

Liabilities		₹	Assets	₹
Capital accounts			Plant and Machinery	1,08,000
P	1,20,000		Fixtures	24,000
Q	48,000		Stock	60,000
R	24,000	1,92,000	Sundry debtors	48,000
Reserve Fund		60,000	Cash	60,000
Creditors		48,000		
		3,00,000		3,00,000

They decided to dissolve the business. The following are the amounts realized:

Particulars	**₹**
Plant and Machinery	*1,02,000*
Fixtures	*18,000*
Stock	*84,000*
Sundry debtors	*44,400*

Creditors allowed a discount of 5% and realization expenses amounted to ₹ 1,500. There was an unrecorded asset of ₹ 6,000 which was taken over by Q at ₹ 4,800. An amount of ₹ 4,200 due for GST had come to notice during the course of realization and this was also paid.

You are required to prepare:

(i) Realization account.

(ii) Partners' capital accounts.

(iii) Cash account.

Realisation A/c

Particulars		Amount	Particulars		Amount
To Plant & Machinery A/c		1,08,000	By Creditor's A/c		48,000
To Fixtures A/c		24,000	**By Cash A/c**		
To Stock A/c		60,000	Plant & Machinery	1,02,000	
To Sundry Debtors A/c		48,000	Fixtures	18,000	
To Cash A/c (creditors)		45,600	Stock	84,000	
To Cash A/c (exp.)		1,500	Sundry Debtors	44,400	2,48,400
To Cash A/c (GST)		4,200	By Q A/c		4,800
To Profit Transferred to Partners Capital A/c					
P	3,960				
Q	3,960				
R	1,980	9,900			
		3,01,200			**3,01,200**

Partners Capital A/c

Particulars	P	Q	R	Particulars	P	Q	R
To Realisation A/c		4,800		By Balance b/d	1,20,000	48,000	24,000
To Cash A/c (BF)	1,47,960	71,160	37,980	By Reserve fund A/c	24,000	24,000	12,000
				By Realisation A/c	3,960	3,960	1,980
	1,47,960	**75,960**	**37,980**		**1,47,960**	**75,960**	**37,980**

Cash A/c

Particulars	Amount	Particulars	Amount
To Balance b/d	60,000	By Realisation A/c (creditors)	45,600
To Realisation A/c	2,48,400	By Realisation A/c (GST)	4,200
		By P's Capital A/c	1,47,960
		By Q's Capital A/c	71,160
		By R's Capital A/c	37,980
		By Realisation A/c (exp)	1,500
	3,08,400		**3,08,400**

ILLUSTRATION 3

Amit, Sumit, and Kumar are partners sharing profit and losses in the ratio 2:2:1. The partners decided to dissolve the partnership on 31st March 2022 when their Balance Sheet was as under:

Liabilities	***Amount***	***Assets***		***Amount***
Capital Accounts:		*Land & Building*		*1,35,000*
Amit	*55,200*	*Plant & Machinery*		*45,000*
Sumit	*55,200*	*Furniture*		*25,500*
General Reserve	*61,500*	*Investments*		*15,000*
Kumar's Loan A/c	*15,000*	*Book Debts*	*60,000*	
Loan from D	*1,20,000*	*Less: Prov. for bad debts*	*(6,000)*	*54,000*
Trade Creditors	*30,000*	*Stock*		*36,000*
Bills Payable	*12,000*	*Bank*		*13,500*
Outstanding Salary	*7,500*	*Capital Withdrawn:*		
		Kumar		*32,400*
	3,56,400			*3,56,400*

The following information is given to you:

(i) Realization expenses amounted to ₹ 18,000 out of which ₹ 3,000 was borne by Amit.

(ii) A creditor agreed to takeover furniture of book value ₹ 12,000 at ₹ 10,800. The rest of the creditors were paid off at a discount of 6.25%.

(iii) The other assets realized as follows:

Furniture	*- Remaining taken over by Kumar at 90% of book value*
Stock	*- Realized 120% of book value*
Book Debts	*- ₹ 12,000 of debts proved bad, remaining were fully realized*
Land & Building	*- Realized ₹ 1,65,000*
Investments	*-Taken over by Amit at 15% discount*

(iv) For half of his loan, D accepted Plant & Machinery and ₹ 7,500 cash. The remaining amount was paid at a discount of 10%.

(v) Bills payable were due on an average basis of one month after 31st March 2022, but they were paid immediately on 31st March @ 6% discount "per annum".

Prepare the Realization Account, Bank Account and Partners' Capital Accounts in the books of Partnership firm.

Realisation A/c

Particulars	Amount	Particulars	Amount
To Land & Building A/c	1,35,000	By Loan From D A/c	1,20,000
To Plant & Machinery A/c	45,000	By Trade creditors A/c	30,000
To Furniture A/c	25,500	By Bills payable A/c	12,000
To Investment A/c	15,000	By O/S Salary A/c	7,500
To Book Debts A/c	60,000	By Provision for Doubtful Debts A/c	6,000
To Stock A/c	36,000	By Kumar A/c (furniture) [(25,500-12000) X 90%]	12,150
To Cash A/c (exp)	15,000	By Cash A/c (Stock)	43,200
To Amit A/c (exp)	3,000	By Cash A/c (Debtors)	48,000
To Cash A/c (creditor) [(30,000-10,800)-6.25%]	18,000	By Cash A/c (land & Building)	1,65,000

Particulars		Amount	Particulars	Amount
To Cash A/c (Loan to D) [7500+(6,000 x 90%)		61,500	By Amit Capital A/c (Investment)	12,750
To Cash A/c (BP) $[12{,}000-(\frac{12{,}000 \times 6\%}{12} \times 1)]$		11,940		
To Cash A/c (salary)		7,500		
To Profit Transferred to Capital A/c				
Amit	9,264			
Sumit	9,264			
Kumar	4,632	23,160		
		4,56,600		**4,56,600**

Partners Capital A/c

Particulars	Amit	Sumit	Kumar	Particulars	Amit	Sumit	Kumar
To Balance B/d			32,400	By Balance b/d	55,200	55,200	
To Realisation A/c			12,150	By General Reserve A/c	24,600	24,600	12,300
To Realisation A/c	12,750			By Kumar loan A/c			15,000
				By Realisation A/c	3,000		
				By Realisation A/c	9,264	9,264	4,632
To Bank (BF)	79,314	89,064		By Bank A/c (BF)			12,618
	92,064	**89,064**	**44,550**		**92,064**	**89,064**	**44,550**

Cash A/c

Particulars	Amount	Particulars	Amount
To Balance b/d	13,500	By Realisation A/c (exp)	15,000
To Realisation A/c (stock)	43,200	By Realisation A/c (creditors)	18,000
To Realisation A/c (Debtors)	48,000	By Realisation A/c (D's loan)	61,500
To Realisation A/c (Land & Building)	1,65,000	By Realisation A/c (salary)	7,500
To Kumar's capital A/c	12,618	By Amit's capital A/c	79,314
		By Sumit's capital A/c	89,064
		By Realisation A/c (BP)	11,940
	2,82,318		**2,82,318**

CONSEQUENCES OF INSOLVENCY OF A PARTNER

If the capital account of a partner is in debit, after his share of loss or profit has been adjusted therein, the firm will not have sufficient cash or assets to pay off the amounts due to the other partners, until the amount is repaid by the partner whose account is in debit. If however, the partner is insolvent, the amount will not be realized. In such a case, the deficiency may be borne by the solvent partners in their profit-sharing ratio or according to the principle settled in the well-known case of *Garner* vs. *Murray*. In the latter case, the deficiency would be borne by the solvent partners in proportion to their capitals and not in the proportion in which they share profits and losses.

If a partner goes insolvent then the following are the consequences:

1. The partner adjudicated as insolvent ceases to be a partner on the date on which the order of adjudication is made.
2. The firm is dissolved on the date of the order of adjudication unless there is a contract to the contrary.
3. The estate of the insolvent partner is not liable for any act of the firm after the date of the order of adjudication, and
4. The firm cannot be held liable for any acts of the insolvent partner after the date of the order of adjudication.

TREATMENT OF LOSS ARISING FROM A INSOLVENCY OF A PARTNER

When a partner is unable to pay his debt due to the firm, he is said to be insolvent and the share of loss is to be borne by other solvent partners following the decision in the English case of Garner vs. Murray.

According to this decision, solvent partners have to bear the loss due to insolvency of a partner and have to categorically put that the normal loss on realization of assets to be borne by all partners (including insolvent partner) in the profit-sharing ratio but a loss due to insolvency of a partner has to be borne by the solvent partners in the capital ratio.

The determination of capital ratio for this has been explained below. The provisions of the Indian Partnership Act are not contrary to Garner vs. Murray rule. However, if the partnership deed provides for a specific method to be followed in case of insolvency of a partner, the provisions as per the deed should be applied.

Capital Ratio on Insolvency

- The partners are free to have either fixed or fluctuating capitals in the firm.

- If they are maintaining capitals at fixed amounts then all adjustments regarding their share of profits, interest on capitals, drawings, interest on drawings, salary, etc. are done through Current Accounts, which may have debit or credit balances, and insolvency loss is distributed in the ratio of fixed capitals.

- But if capitals are not fixed and all transactions relating to drawings, profits, interest, etc., are passed through Capital Accounts then Balance Sheet of the business should not exhibit Current Accounts of the partners and capital ratio will be determined after adjusting all the reserves and accumulated profits to the date of dissolution, all drawings to the date of dissolution, all interest on capitals and drawings to the date of dissolution but before adjusting profit or loss on Realization Account.

- If some partner is having a debit balance in his Capital Account and is not insolvent then he cannot be called upon to bear the loss on account of the insolvency of other partner.

INSOLVENCY OF ALL PARTNERS

- When the liabilities of the firm cannot be paid in full out of the firm's assets as well as personal assets of the partners, then all the partners of the firm are said to be insolvent. Under such circumstances, it is better not to transfer the amount of creditors to Realization Account. The balance of the creditors' accounts is transferred to Deficiency Account.

- Creditors may be paid the amount available including the amount contributed by the partners.

- The unsatisfied portion of the creditor account is transferred to the Capital Accounts of the partners in the profit-sharing ratio. Then Capital Accounts are closed. In doing so first close the Partners’ Capital Account which is having the worst position. The last account will be automatically closed.

ILLUSTRATION 4

P, Q, and R were partners sharing profits and losses in the ratio of 3: 2: 1, no partnership salary or interest on capital being allowed. Their balance sheet on 30th June, 2022 is as follows:

Liabilities		₹	**Assets**		₹
Fixed Capital			Fixed Assets:		
P	20,000		Trademark		40,000
Q	20,000		Freehold Property		8,000
R	10,000	50,000	Plant and Equipment		12,800
Current Accounts:			Motor Vehicle		700
P	500		Current Assets		
Q	9,000	9,500	Stock		3,900
Loan from P		8,000	Trade Debtors	2,000	
Trade Creditors		12,400	Less: Provision	(100)	1,900
			Cash at Bank		200
			Miscellaneous losses		
			R's Current Account		400
			Profit and Loss Account		12,000
		79,900			79,900

On 1st July, 2022 the partnership was dissolved. Motor Vehicle was taken over by Q at a value of ₹ 500 but no cash passed specifically in respect of this transaction. Sale of other assets realized the following amounts:

	₹
Trademark	Nil
Freehold Property	7,000
Plant and Equipment	5,000
Stock	3,000
Trade Debtors	1,600

Trade Creditors were paid ₹ 11,700 in full settlement of their debts. The costs of dissolution amounted to ₹ 1,500. The loan from P was repaid, P and Q were both fully solvent and able to bring in any cash required but R was forced into bankruptcy and was only able to bring 1/3 of the amount due.

Required

(a) Cash and Bank Account,

(b) Realization Account, and

(c) Partners Fixed Capital Accounts (after transferring Current Accounts' balances).

Cash A/c

Particulars	Amount	Particulars	Amount
To Balance b/d	200	By Realisation A/c (creditors)	11,700
To Realisation A/c	16,600	By Realisation A/c (Dissolution exp)	1,500
To R's capital A/c	300	By Loan from P A/c	8,000
To P's capital A/c	11,300	By Q A/c	7,200
	28,400		**28,400**

Realisation A/c

Particulars	Amount	Particulars		Amount
To Trademark A/c	40,000	By Creditors A/c		12,400
To Freehold property A/c	8,000	By Provision for doubtful debts A/c		100
To Plant & Equipment A/c	12,800	By Q A/c (motor vehicle)		500
To Motor Vehicle A/c	700	By Bank A/c		
To Stock	3,900	Freehold property	7,000	
To Trade debtors	2,000	Plant & equipment	5,000	
To Cash A/c (creditors)	11,700	Stock	3,000	
To Cash A/c (exp)	1,500	Trade Debtors	1,600	16,600

Particulars	Amount	Particulars	Amount
		By Loss Transferred to Capital A/c	
		P 25,500	
		Q 17,000	
		R 8,500	51,000
	80,600		**80,600**

Partners Capital A/c

Particulars	P	Q	R	Particulars	P	Q	R
To R Current A/c			10,900	By Balance b/d	20,000	20,000	10,000
To Q Current A/c		12,500		By Cash A/c (900x1/3)			300
To P Current A/c	31,000			By P & Q A/c			600
To R A/c	300	300					
To Cash/ Bank A/c (BF)		7,200		By Cash / Bank A/c (BF)	11,300		
	31,300	**20,000**	**10,900**		**31,300**	**20,000**	**10,900**

WN 1 - Partners Current A/c

Particulars	P	Q	R	Particulars	P	Q	R
To Balance b/d			400	By Balance b/d	500	9000	
To Profit & loss A/c	6,000	4,000	2,000				
To Realisation A/c (motor vehicle)		500		By R's Capital A/c (BF)			10,900
To realisation A/c (loss)	25,500	17,000	8,500	By Q's Capital A/c (BF)		12,500	
				By P's Capital A/c (BF)	31,000		
	31,500	**21,500**	**1,0900**		**31,500**	**21,500**	**1,0900**

ILLUSTRATION 5

Amal and Bimal are in equal partnership. Their Balance Sheet stood as under on 31st March, 2021 when the firm was dissolved:

Liabilities	₹	Assets	₹
Creditors A/c	4,800	Plant & Machinery	2,500
Amal's Capital A/c	750	Furniture	500
		Debtors	1,000
		Stock	800
		Cash	200
		Bimal's drawings	550
	5,550		5,550

The assets realized as under:

Particulars	**₹**
Plant & Machinery	*1,250*
Furniture	*150*
Debtors	*400*
Stock	*500*

The expenses of realization amounted to ₹ 175. Amal's private estate is not sufficient even to pay his private debts, whereas Bimal's private estate has a surplus of ₹ 200 only.

Show necessary ledger accounts to close the books of the firm.

Realisation A/c

Particulars	Amount	Particulars		Amount
To Plant & Machinery A/c	2,500	**By Cash A/c**		
To Furniture A/c	500	Plant & Machinery	1,250	
To Debtors A/c	1,000	Furniture	150	
To Stock A/c	800	Debtors	400	
To Cash A/c (exp)	175	Stock	500	2,300
		By Loss Transferred to Capital A/c		
		Amol	1,338	
		Bemal	1,337	2,675
	4,975			**4,975**

Cash A/c

Particulars	Amount	Particulars	Amount
To Balance b/d	200	By Realisation A/c	175
To Realisation A/c	2,300		
To Bimal’s capital A/c	200		
		By Creditors A/c (BF)	2,525
	2,700		**2,700**

Sundry Creditors A/c

Particulars	Amount	Particulars	Amount
To Cash A/c	2,525	By Balance b/d	4,800
To Deficiency A/c (BF)	2,275		
	4,800		**4,800**

Partners Capital A/c

Particulars	Amal	Bimal	Particulars	Amal	Bimal
To Balance b/d		550	By Balance b/d	750	
To Realisation A/c	1,338	1,337	By Cash A/c		200
			By Deficiency A/c (BF)	588	1,687
	1,338	**1,887**		**1,338**	**1,887**

Deficiency A/c

Particulars	Amount	Particulars	Amount
To Amol's Capital A/c	588	By Creditors A/c	2,275
To Bimal's Capital A/c	1,687		
	2,275		**2,275**

ILLUSTRATION 6

A, B, C, and D sharing profits in the ratio of 4:3:2:1 decided to dissolve their partnership on 31st March 2022 when their balance sheet was as under:

Liabilities		**₹**	**Assets**	**₹**
Creditors		*15,700*	*Bank*	*535*
Employees Provident Fund		*6,300*	*Debtors*	*15,850*
Capital Accounts:			*Stock*	*25,200*
A	*40,000*		*Prepaid Expenses*	*800*
B	*20,000*	*60,000*	*Plant & Machinery*	*20,000*
			Patents	*8,000*
			C's Capital A/c	*3,200*
			D's Capital A/c	*8,415*
		82,000		*82,000*

Following information is given to you: -

1. *One of the creditors took some of the patents whose book value was ₹ 5,000 at a valuation of ₹ 3,200. Balance of the creditors were paid at a discount of ₹ 400.*
2. *There was a joint life policy of ₹ 20,000 (not mentioned in the balance sheet) and this was surrendered for ₹ 4,500.*
3. *The remaining assets were realized at the following values: - Debtors ₹ 10,800; Stock ₹ 15,600; Plant and Machinery ₹ 12,000; and Patents at 60% of their book-values. Expenses of realization amounted to ₹ 1,500.*

D became insolvent and a dividend of 25 paise in a rupee was received in respect of the firm's claim against his estate. Prepare necessary ledger accounts.

Realisation A/c

Particulars	Amount	Particulars		Amount
To Debtor's A/c	15,850	By Sundry Creditors A/c		15,700
To Stock A/c	25,200	By Employee's provident Fund A/c		6,300
To Prepaid Exp A/c	800	By Bank A/c (JLP)		4,500
To Plant & Machinery A/c	20,000	<u>By Bank A/c</u>		
To Patents A/c	8,000	Debtors	10,800	
To Cash A/c (Creditors) (15700-3200-400)	12,100	Stock	15,600	
To Cash A/c (EPF)	6,300	Plant & Machinery	1,200	
		Patent (8000-5000=3000 x 60%)	<u>1,800</u>	40,200

Particulars	Amount	Particulars		Amount
		By Loss Transferred to capital A/c		
		A	9,220	
		B	6,195	
		C	4,610	
		D	2,305	23,050
	89,750			**89,750**

Partners Capital A/c

Particulars	A	B	C	D	Particulars	A	B	C	D
To Balance b/d			3,200	8,415	By Balance b/d	40,000	20,000		
To Realisation A/c	9,220	6,915	4,610	2,305	By Cash A/c (25% of to 720)				2,680
To D's Capital A/c	5,360	2,680			By A & B Capital A/c				8,040
To Bank A/c (BF)	25,420	10,405			By Cash A/c (BF)			7,810	
	40,000	**20,000**	**7,810**	**10,720**		**40,000**	**20,000**	**7,810**	**10,720**

Bank A/c

Particulars	Amount	Particulars	Amount
To Balance b/d	535	By Creditors A/c	12,100
To Realisation A/c (JLP)	4,500	By Realisation A/c (exp)	1,500
To Realisation A/c	40,200	By Realisation A/c (EPF)	6,300
To D Capital A/c	2,680	By A’s capital A/c	25,420
To C Capital A/c	7,810	By B’s capital A/c	10,405
	55,725		**55,725**

ILLUSTRATION 7

M/s X, Y, and Z who were in partnership sharing profits and losses in the ratio of 2:2:1 respectively, had the following Balance Sheet as on December 31, 2022:

Liabilities		₹	₹	**Assets**	₹	₹
Capital:	X	29,200		Fixed Assets		40,000
	Y	10,800		Stock		25,000
	Z	10,000	50,000	Book Debts	25,000	
Z's Loan			5,000	Less: Provision	(5,000)	20,000
Loan from Mrs. X			10,000	Cash		1,000
Sundry Trade Creditors			25,000	Advance to Y		4,000
			90,000			90,000

The firm was dissolved on the date mentioned above due to continued losses. After drawing up the balance sheet given above, it was discovered that goods amounting to ₹ 4,000 have been purchased in November, 2022 and had been received but the purchase was not recorded in books.

Fixed assets realized ₹ 20,000; Stock ₹ 21,000 and Book Debt ₹ 20,500. Similarly, the creditors allowed a discount of 2% on average. The expenses of realization come to ₹ 1,080. X agreed to take over the loan of Mrs. X. Y is insolvent, and his estate is unable to contribute anything.

Give accounts to close the books; work according to the decision in Garner vs. Murray.

Realisation A/c

Particulars	Amount	Particulars		Amount
To Fixed Assets A/c	40000	By Sundry Creditors a/c		25,000
To Stock	25000	By Provision for book debts		5,000
To Book Debts	25000	By Sundry Creditors A/c (unrecorded purchase)		4,000
To Cash A/c (creditors) [(25000+4000)x 98%]	28420	By Cash A/c		
To Cash A/c (exp)	1080	Fixed Assets	20,000	
		Stock	21,000	
		Book Debts	20,500	61,500

Particulars	Amount	Particulars		Amount
		By Loss Transferred to Capital A/c		
		X	9,600	
		Y	9,600	
		Z	4,800	24,000
	1,19,500			**1,19,500**

Z's Loan A/c

Particulars	Amount	Particulars	Amount
To Cash A/c	5,000	By Balance B/d	5,000
	5,000		**5,000**

Mrs. X's Loan A/c

Particulars	Amount	Particulars	Amount
To X capital A/c	10,000	By Balance b/d	10,000
	10,000		**10,000**

Cash A/c

Particulars	Amount	Particulars	Amount
To Balance b/d	1,000	By Realisation A/c (creditors)	28,420
To Realisation A/c	61,500	By Realisation A/c (exp)	1,080
		By Z’s Loan A/c	5,000
		By X’s Capital A/c	24,700
		By Z’s Capital A/c	3,300
	62,500		**62,500**

Partners Capital A/c

Particulars	X	Y	Z	Particulars	X	Y	Z
To Creditors	1,600	1,600	800	By Balance b/d	29,200	10,800	10,000
To Balance c/d (BF)	27,600	9,200	9,200				
	29,200	**10,800**	**10,000**		**29,200**	**10,800**	**10,000**
				By Balance b/d	27,600	9,200	9,200
To Advance to Y		4,000					
To Realisation A/c (Loss)	9,600	9,600	4,800	By Mrs. X loan A/c	10,000		
To Y Capital A/c (in ratio of 8:1)	3,300		1,100	By X & Z capital A/c (BF)		4,400	
To Cash A/c (BF)	24,700		3,300				
	37,600	**13,600**	**9,200**		**37,600**	**13,600**	**9,200**

ILLUSTRATION 8

'Thin', 'Short' and 'Fat' were in partnership sharing profits and losses in the ratio of 2:2:1.

On 30th September, 2022 their Balance Sheet was as follows:

Liabilities		₹	**Assets**	₹
Capital Accounts:			Premises	50,000
Thin	80,000		Fixtures	1,25,000
Short	50,000		Plant	32,500
Fat	20,000	1,50,000	Stock	43,200
Current Accounts:			Debtors	54,780
Thin	29,700			
Short	11,300			
Fat (Dr.)	(14,500)	26,500		
Sundry Creditors		84,650		
Bank Overdraft		44,330		
		3,05,480		3,05,480

'Thin' decides to retire on 30th September, 2022 and as 'Fat' appears to be short of private assets, 'Short' decides that he does not wish to take over Thin's share of partnership, so all three partners decide to dissolve the partnership with effect from 30th September, 2022. It then transpires that 'Fat' has no private assets whatsoever.

The premises are sold for ₹ 60,000 and the plant for ₹ 1,07,500. The fixtures realize ₹ 20,000 and the stock is acquired by another firm at a book value less 5%. Debtors realize ₹ 45,900. Realization expenses amount to ₹ 4,500.

The bank overdraft is discharged and the creditors are also paid in full.

You are required to write up the following ledger accounts in the partnership books following the rules in Garner vs. Murray:

(i) Realization Account;

(ii) Partners' Current Accounts;

(iii) Partners' Capital Accounts showing the closing of the firm's books.

Realisation A/c

Particulars	Amount	Particulars		Amount
To Premises A/c	50,000	By Sundry Creditors A/c		84,650
To Fixtures A/c	1,25,000	**By Cash A/c**		
To Plant A/c	32,500	Premises	60,000	
To Stock A/c	43,200	Plant	1,07,500	
To Debtors A/c	54,780	Fixture	20,000	
To Cash A/c (exp)	4,500	Stock	41,040	
To Cash a/c (crs)	84,650	Debtors	45,900	2,74,440
		By Loss transferred to Current A/c		
		Then	14,216	
		Short	14,216	
		Fat	7,108	35,540
	3,94,630			**3,94,630**

Partners Current A/c

Particulars	Thin	Short	Fat	Particulars	Thin	Short	Fat
To Balance b/d			14,500	By Balance b/d	29,700	11,300	
To Realisation A/c (loss)	14,216	14,216	7,108				
To Thin Capital A/c (BF)	15,484			By Short Capital A/c (BF)		2,916	
				By Fat Capital A/c (BF)			21,608
	29,700	**14,216**	**21,608**		**29,700**	**14,216**	**21,608**

Partners Capital A/c

Particulars	Thin	Short	Fat	Particulars	Thin	Short	Fat
To Short Current A/c		2,916		By Balance b/d	80,000	50,000	20,000
To Fat current A/c			21,608	By Thin Current A/c	15,484		
To Fat capital A/c	990	618		By Thin & Short Capital A/c (deficiency)			1,608
To Bank A/c (BF)	94,494	46,466					
	95,484	**50,000**	**21,608**		**95,484**	**50,000**	**21,608**

WN 1 - Bank A/c

Particulars	Amount	Particulars	Amount
To Realisation A/c	2,74,440	By Bank Overdraft A/c	44,330
		By Realisation A/c (exp)	4,500
		By Realisation A/c (crs)	84,650
		By Thin Capital A/c	94,494
		By Short capital A/c	46,466
	2,74,440		**2,74,440**

PIECEMEAL PAYMENTS

Generally, the assets sold upon dissolution of partnership are realized only in small instalments over a period of time. In such circumstances, the choice is either to distribute whatever is collected or to wait till the whole amount is collected. Usually, the first course is adopted. In order to ensure that the distribution of cash among the partners is in proportion to their interest in the partnership concern either of the two methods described below may be followed for determining the order in which the payment should be made.

1. Maximum Loss Method
2. Highest relative Capital Method

MAXIMUM LOSS METHOD

Each installment realized is considered to be the final payment *i.e.,* outstanding assets and claims are considered worthless and partners' accounts are adjusted on that basis each time when a distribution is made, following either *Garner* vs. *Murray* Rule or the profit-sharing ratio rule.

ILLUSTRATION 9

A, B, and C are partners sharing profits and losses in the ratio of 5:3:2. Their capitals were ₹ 9,600, ₹ 6,000 and ₹ 8,400 respectively.

After paying creditors, the liabilities and assets of the firm were:

Liabilities	₹	***Assets***	₹
Liability for interest on loans from:		*Investments*	*1,000*
Spouses of partners	*2,000*	*Furniture*	*2,000*
Partners	*1,000*	*Machinery*	*1,200*
		Stock	*4,000*

The assets realized in full in the order in which they are listed above. B is insolvent.

You are required to prepare a statement showing the distribution of cash as and when available, applying the maximum possible loss procedure.

STATEMENT OF DISTRIBUTION OF CASH

PARTICULARS	AMOUNT REALISED	INTEREST ON LOANS FROM PARTNERS SPOUSE	INTEREST ON LOANS FROM PARTNERS	PARTNERS CAPITAL			
				A	B	C	TOTAL
BALANCE DUE		2000	1000	9600	6000	8400	24000
SALE OF INVESTMENT	1000	1000	0	0	0	0	0
BALANCE DUE		1000	1000	9600	6000	8400	24000
SALE OF FURNITURE	2000	1000	1000				
BALANCE DUE		0	0	9600	6000	8400	24000
SALE OF MACHINERY	1200						
MPL OF 22800 (24000-1200) TO BE DISTRIBUTED ON 5:3:2				-11400	-6840	-4560	-22800
AMOUNT AT CREDIT				-1800	-840	3840	1200
DEFIENCY OF A & B W/FF AGAINST C				1800	840	-2640	-
AMOUNT PAID				0	0	1200	1200
BALANCE DUE				9600	6000	7200	22800
SALE OF STOCK	4000						
MPL OF 18800 (22800-4000) TO BE DISTRIBUTED ON 5:3:2				-9400	-5640	-3760	-18800
AMOUNT AT CREDIT & PAID				200	360	3440	4000
BALANCE DUE LEFT UNPAID				9400	5640	3760	18800

ILLUSTRATION 10

The following is the Balance Sheet of A, B, C on 31st December, 2022 when they decided to dissolve the partnership:

Liabilities	**₹**	***Assets***	**₹**
Creditors	*2,000*	*Sundry Assets*	*48,500*
A's Loan	*5,000*	*Cash*	*500*
Capital Accounts:			
A	*15,000*		
B	*18,000*		
C	*9,000*		
	49,000		*49,000*

The assets realized the following sums in installments:

I	*1,000*
II	*3,000*
III	*3,900*
IV	*6,000*
V	*20,100*[1]
	34,000

The expenses of realization were expected to be ₹ 500 but ultimately amounted to ₹ 400 only. Show how at each stage the cash received should be distributed between partners. They share profits in the ratio of 2:2:1.

STATEMENT OF DISTRIBUTION OF CASH

PARTICULARS	AMOUNT REALISED	REALISATION EXPENSES	CREDITORS	A'S LOAN	PARTNERS CAPITAL			
					A	B	C	TOTAL
BALANCE DUE		500	2000	5000	15000	18000	9000	42000
CASH AVAILABLE	500	500	0	0	0	0	0	0
BALANCE DUE		0	2000	5000	15000	18000	9000	42000
AMOUNT REALISED IN FIRST INSTALLMENT	1000		1000	0				
BALANCE DUE			1000	5000	15000	18000	9000	42000
AMOUNT REALISED IN SECOND INSTALLMENT	3000		1000	2000				
BALANCE DUE			0	3000	15000	18000	9000	42000
AMOUNT REALISED IN THIRD INSTALLMENT	3900			3000	0	0	0	0
BALANCE DUE BEFORE ALLOCATING 900 SURPLUS					15000	18000	9000	42000
MPL OF 41100 (42000-900) TO BE DISTRIBUTED IN 2:2:1					-16440	-16440	-8220	-41100
AMOUNT AT CREDIT					-1440	1560	780	900
DEFICIENCY OF A TO W/OFF AGAINST B & C IN CAPITAL RATIO OF 18000:9000)					1440	-960	-480	0
AMOUNT PAID					0	600	300	900
BALANCE DUE					15000	17400	8700	41100

PARTICULARS	AMOUNT REALISED	REALISATION EXPENSES	CREDITORS	A'S LOAN	PARTNERS CAPITAL			
					A	B	C	TOTAL
AMOUNT REALISED IN FOURTH INSTALLMENT	6000							
MPL OF 35100 (41100-6000) TO DISTRIBUTED IN 2:2:1					-14040	-14040	-7020	-35100
AMOUNT AT CREDIT & PAID					960	3360	1680	6000
BALANCE DUE					14040	14040	7020	35100
AMOUNT REALISED IN FIFTH INSTALLMENT	20100							
MPL OF 15000 (35100-20100) TO DISTRIBUTED IN 2:2:1					-6000	-6000	-3000	-15000
AMOUNT AT CREDIT & PAID					8040	8040	4020	20100
BALANCE DUE LEFT UNPAID					6000	6000	3000	15000

HIGHEST RELATIVE CAPITAL METHOD

- According to this method, the partner who has the higher relative capital, that is, whose capital is greater in proportion to his profit-sharing ratio, is first paid off. This method is also called as proportionate capital method.

- For determining the amount by which the capital of each partner is in excess of his relative capital, partners' capitals are first divided by figures that are in proportion to their profit- sharing ratio; the smallest quotient will indicate the basic capital. Having ascertained the partner who has the smallest basic capital, the amount of capital of other partners proportionate to the profit-sharing ratio of the basic capital is calculated. These may be called as their hypothetical capitals. The amount of hypothetical capital of each partner is then subtracted from the amount of his actual capital; the resultant figure will be the amount of excess capital held by him.

- By repeating the process once or twice, as may be necessary between the partners having excess capital, the amount by which the capital of each partner is in excess will be ascertained.

- The partner with the largest excess capital will be paid off first, followed by payment to the other or others who rank next to him until the capitals of partners are reduced to their profit-sharing ratio.

ILLUSTRATION 11

A partnership firm was dissolved on 30th June, 2022. Its Balance Sheet on the date of dissolution was as follows:

Liabilities	₹	₹	*Assets*	₹
Capitals:			*Cash*	*10,800*
A	*76,000*		*Sundry Assets*	*1,89,200*
B	*48,000*			
C	*36,000*	*1,60,000*		
Loan A/c – B		*10,000*		
Sundry Creditors		*30,000*		
		2,00,000		*2,00,000*

The assets were realized in instalments and the payments were made on the proportionate capital basis. Creditors were paid ₹ 29,000 in full settlement of their account. Expenses of realization were estimated to be ₹ 5,400 but actual amount spent was ₹ 4,000. This amount was paid on 15th September. Draw up a statement showing distribution of cash, which was realized as follows:

	₹
On 5th July, 2022	*25,200*
On 30th August, 2022	*60,000*
On 15th September, 2022	*80,000*

The partners shared profits and losses in the ratio of 2 : 2 : 1. Prepare a statement showing distribution of cash amongst the partners by 'Highest Relative Capital' method.

STATEMENT OF DISTRIBUTION OF CASH

PARTICULARS	AMOUNT REALISED	REALISATION EXPENSES	CREDITORS	B'S LOAN	PARTNERS CAPITAL			
					A	B	C	TOTAL
BALANCE DUE		5400	29000	10000	76000	48000	36000	160000
CASH AVAILABLE	10800	5400	5400	0	0	0	0	0
BALANCE DUE		0	23600	10000	76000	48000	36000	160000
AMOUNT REALISED IN FIRST INSTALLMENT	25200		23600	1600				
BALANCE DUE			0	8400	76000	48000	36000	160000
AMOUNT REALISED IN SECOND INSTALLMENT	60000			8400				
BALACE OF 51600 TO BE ALLOCATED AS PER WN 1					32640	4640	14320	51600
BALANCE DUE			0	0	43360	43360	21680	108400
AMOUNT REALISED IN THIRD INSTALLMENT + SAVING IN REALISATION EXP (80000+1400) TO DISTRIBUTED IN PSR	81400				32560	32560	16280	81400
AMOUNT REMAINING UN PAID					10800	10800	5400	27000

WN 1 DISTRIBUTION OF 51600 OF 2ND INSTALLMENT AMONG PARTNERS

SR.NO	PARTICULARS	PARTNERS CAPITAL		
		A	B	C
A	CAPITAL BALANCE	76000	48000	36000
B	PSR	2	2	1
C	CAPITAL PER UNIT (A/B)	38000	24000	36000
D	PROPORTIONATE CAPITAL TAKING B'S CAPITAL AS BASE	48000	48000	24000
E	EXCESS CAPITAL (A-D)	28000	0	12000
F	PSR	2	0	1
G	CAPITAL PER UNIT (E/F)	14000		12000
H	PROPORTIONATE CAPITAL TAKING C'S CAPITAL AS BASE	24000		12000
I	EXCESS CAPITAL (E-H)	4000		0
J	PAYMENT TO A	4000		
K	CAPITAL BALANCE (A-J)	72000	48000	36000
L	PSR	2	2	1
M	CAPITAL PER UNIT (K/L)	36000	24000	36000
N	PROPORTIONATE CAPITAL TAKING B'S CAPITAL AS BASE	48000	48000	24000
0	EXCESS CAPITAL (K-N)	24000	0	12000
P	PAYMENT TO A & C	24000		12000
Q	CAPITAL BALANCE (K-P)	48000	48000	24000
R	BALANCE 11600 TO BE PAID IN PSR	4640	4640	2320
S	TOTAL PAID	32640	4640	14320

WINDING UP OF A LLP

The winding up of a LLP may be either voluntary or by the Tribunal and LLP, so wound up may be dissolved.

Winding up of a LLP may be initiated by Tribunal if:

- **The LLP wishes to wind up;**
- **The LLP has less than 2 partners for more than 6 months;**
- **The LLP is unable to pay its debts;**
- **The LLP has not acted in the interest of the sovereignty and the integrity of India;**
- **The LLP has failed to submit with the statements of accounts and solvency or the LLP annual returns for more than five consecutive financial years with the Registrar;**
- **The Tribunal thinks that it is Just and Equitable that the LLP should be wound up.**

The Central Government may make rules for the provisions in relation to winding up and dissolution of LLP.

ILLUSTRATION 12

P and Q were partners sharing profits equally in LLP. Their Balance Sheet as on March 31, 2022 was as follows:

Balance Sheet as on 31st March, 2022

Equity and Liabilities		₹	***Assets***	₹
Capitals:			*Bank*	*30,000*
P	*1,00,000*		*Debtors*	*25,000*
Q	*50,000*	*1,50,000*	*Stock*	*35,000*
Creditors		*20,000*	*Furniture*	*40,000*
Q's current account		*10,000*	*Machinery*	*60,000*
Reserves		*15,000*	*P's current account*	*10,000*
Bank overdraft		*5,000*		
		2,00,000		*2,00,000*

The firm was dissolved on the above date:

P took over 50% of the stock at 10% less on its book value, and the remaining stock was sold at a gain of 15%. Furniture and Machinery realized for ₹ 30,000 and ₹ 50,000 respectively; There was an unrecorded investment which was sold for ₹ 25,000; Debtors realized 90% only and ₹ 1,245 were recovered for bad debts written off last year. There was an outstanding bill for repairs which had to be paid for ₹ 2,000.

You are required to prepare Realization Account, Partners' capital accounts (including transfer of current account balances) and Bank Account in the books of the firm.

Realisation A/c

Particulars	Amount	Particulars	Amount
To Debtors A/c	25,000	By Creditors A/c	20,000
To Stock A/c	35,000	By P A/c (stock)	15,750
To Furniture A/c	40,000	**By Bank A/c**	
To Machinery A/c	60,000	Stock (17500x115%) 20,125	
To Cash A/c (repair)	2,000	Furniture 30,000	
To Cash A/c (crs)	20,000	Machinery 50,000	
		Investment 25,000	
		Debtors 22,500	
		Bad Debts recovered 1,245	1,48,870

Particulars	Amount	Particulars	Amount
To Profit Transferred to Current A/c			
P 1310			
Q 1310	2,620		
	1,84,620		**1,84,620**

Partners Capital A/c

Particulars	P	Q	Particulars	P	Q
To P Current A/c	16,940		By Balance b/d	1,00,000	50,000
			By Q’s Current A/c		18,810
To Bank A/c (BF)	83,060	68,810			
	1,00,000	**68,810**		**1,00,000**	**68,810**

Bank A/c

Particulars	Amount	Particulars	Amount
To Balance b/d	30,000	By Creditors A/c	20,000
To Realisation A/c	1,48,870	By Bank Overdraft A/c	5,000
		By Realisation A/c (repair)	2,000
		By P's Capital A/c	83,060
		By Q's Capital A/c	68,810
	1,78,870		**1,78,870**

WN 1 - Partners Current A/c

Particulars	P	Q	Particulars	P	Q
To Balance b/d	10,000		By Balance b/d		10,000
To Realisation A/c	15,750		By Reserves A/c	7,500	7,500
			By Realisation A/c	1,310	1,310
To Q's Capital A/c (BF)		18,810			
			By P's Capital A/c (BF)	16,940	
	25,750	**18,810**		**25,750**	**18,810**

thank you!