Partnership Accounts

30/7/24

Dissolution of partnership firm & LLP

- Closure of Books
- Insolvency of a Partner.
  - Garner vs Murray
  - Deficiency Account
- Piecemeal Distribution.
  - Maximum Loss Method
  - HRCN

1. Introduction :-

→ Partnership is dissolved i.e comes to an End on :-

a) Expiry of the term b.) Completion of venture c.) Death of Partner

d.) Insolvency of partner

→ Modes of Dissolution :-

a.) Voluntary Dissolution - Partner agree to close business.

b.) Compulsory Dissolution - All Partners Except one becomes Insolvent.

c.) Business Becomes illegal

d.) In case of partnership at will, a partner gives notice of Dissolution.

e.) By order of court :-

1.) When a partner has become person of unsound mind.

2.) When a partner suffers from permanent incapicity.

3.) When a Partner is guilty of Misconduct.

4.) When a partner transfer his Intrest (share) to 3rd party.

5.) Where the Business cannot be carried on Except at a loss. Etc.

→ Dissolution of Partnership vs. Dissolution of firm

Dissolution of Partnership	Dissolution of firm
★ it is reconstitution of firm & Business Continues.	★ Entire firm ceases to Exist, Including the relation among all Partners & Business also ceases to End.
★ No intervention of court	★ Court may Interve
★ Asset & Liabilities are revalued	★ Asset & liabilities are sold & paid off
★ Revaluation A/C Prepared.	★ Realisation A/C is prepared.
★ Book of Accounts are not Closed	★ Books of Accounts are closed.

Closing of Books :-

Step-1 :- Transfer all the items of Balancesheet at Book value to their Respective A/cs.

B/S totally खाली होगई

→ Partner's capital A/c, current A/c, free Reserves, fictitious assets, Drawings are transferred to Partner's Capital A/c.

→ Cash & Bank balances are transferred to Bank / Cash A/c

→ Remaining all items are transferred to Realisation A/c.

Step-2 :- Realise Assets & Pay liabilities :-

a) Asset Realised :-
Bank A/c dr - xx
To Realisation A/c - xx

b.) Asset taken over by partner :-
Partner's capital A/c dr - xx
To Realisation A/c - xx

b.) Liability Paid :-
Realisation A/c dr - xx
To Bank A/c - xx

d.) Liability taken over by Partner :-
Realisation A/c dr -
To Partner's capital A/c -

c.) Asset taken over by liability :- NO ENTRY

Step-3 :- Realisation Expenses :-

a) Expenses Paid by firm :-
Realisation A/c dr - xx
To Bank A/c - xx

b.) Expenses Paid by Partner :-
Realisation A/c dr - xx
To Partner's capital A/c - xx

Step-4 - Closure of Account :-

* close Realisation A/c & transfer profit or loss to partner's capital A/c.
* close partner's capital A/c & transfer the Balance to Bank A/c.
* Bank A/c will tally.

\# Insolvency of partner :-

→ Insolvency loss should be borne by solvent partner having credit balance in capital A/C Just before dissolution in CAPITAL RATIO.

- Fixed Capital :- fixed capital Ratio
- fluatuating Capital :- fluatuating capital Ratio.

→ Realization Loss will be introduced in cash by solvent Partners.

Cash/Bank A/C dr -
  To Partner Cap. A/C -

TU-4 :-

Sol →

Realisation A/C

Debtor	15850	Creditors	15700
Stock	25200	EPF (outside liability)	6300
Prepaid Exp.	800	By Bank (A/C) sale :- (4500 + 10800 + 15600 + 12000 + 1800)	44700
Plant & Machine	20000		
Patents	8000		
To Bank A/C (i)	12100	By Loss (bal.)	23050
To Bank A/C (Exp)	1500	A - 9220	
** To Bank A/c (EPF)	6300	B - 6915	
		C - 4610	
		D - 2305	
	89750		89750

Partner's Capital A/C

	A	B	C	D		A	B	C	D
To bal b/d	-	-	3200	8415	By bal b/d	40000	20000	-	-
To Realization	9220	6915	4610	2305	By bank (25%)				2680
To D Cap A/c	5360	2680			By A's Cap				5360
					By B Cap				2680
					By Bank	9220	6915	4610	
To bank bal -	34640	17320			घर से लाएंगे - By bank			3200	
	49220	26915	7810	10720		49220	26915	7810	10720

Bank A/C

To Bal b/d	535	By Realisation (1200 + 6300 + 1500)	19900
To Realisation	44700	By A's Cap	34640
To D Cap	2680	By B's Cap	17320
To A Cap	9220		
To B Cap	6915		
To C Cap (4610 + 3200)	7810		
	71860		71860

(D) Insolvency loss → 10720 - 2680 = 8040.
In cap. Ratio.

Rule-1 will borne by A & B - because they have solvent
5360   2680

A's Cap Dr - 5360
B's Cap. Dr - 2680
  To D's Cap - 8040

Rule-2 Solvent partners घर से पैसे लेकर aayege
Realization loss ke.

TU-3

Realisation A/c

To plant & Machine	2500	By Cash A/C - (Asset sold) [1250 + 150 + 400 + 500]	2300
To furniture	500		
To debtor	1000		
To stock	80		
To Cash Exp.	175		
		By Loss	2675
		A - 1 : 1337	
		B - 1 : 1338	
	4975		4975

Partners Capital A/c

	A	B		A	B
To bal b/d	–	550	By bal b/d	750	–
To Realization	1337	1338		Insolvent	Insolvent
			By cash A/C *	0	200
			By deficiency A/C	587	1688
				1337	1888
	1337	1888			

Cash A/c

To bal b/d	200	By Realisation	175
To Realisation	2300		
To B's Capital A/c	200	(bal.)	2525
	2700		2700

Creditor A/c

To Cash A/C	2525	By bal b/d	4800
To deficiency A/C (bal.)	2275		
	4800		4800

Deficiency A/c

To A's Capital A/c	587	By Creditor A/c	2275
To B's Capital A/c	1688		
	2275		2275

* Piecemeal Distribution *
[Distribution of Cash]

1. Proportionate Capital Method – Highest Capital Relative Method [HCRM]

Step-1 – Find out the balance payble to partners after all adjustments like profit, Reserves drawing etc.

Step-2 :- Find out the order of payment to partner (Refer practice Examples)

2. Maximum Loss Method :- [Generally when 1 partner becomes Insolvent]

Step-1 – Calculate total amount payble to all partners after adjustment.

Step-2 – Calculate Maximum Loss ⇒ Step 1(–) Available Amt.

Step-3 – Distribute Maximum loss among partners in PSR. If balance is negative then such negative balance is shared by other partners in capital Ratio.

Step-4 – The above ③ steps will be repeated again & again for each realisation.

1. HCRM

Eg 1 :- A, B, C are 5:3:2 partners. capitals are ₹100000, 140000 & ₹130000. find the order of payment.

Sol.

Particulars	A [5]	B [3]	C [2]
Capitals	100000	140000	130000
Lowest Capital Units [20000 (Base), 46667, 65000]	100000 ③	60000 ③	40000 ③
	–	80000	90000
* Lowest Cap. unit [80000/3] [–, 26667 (Base ×3), 45000]	–	80000 ②	53334 ②
	–	–	36666 ①

Eg.2 A, B, C, D are 3:2:3:1 partners. Capitals are 45000, 70000, 81000 & 40000, find order of payment.

Sol→ 1.) D → ₹5000
2.) - B & D - ₹16000 & 8000 (2:1)
3.) - B, C, D - ₹24000, ₹36000, ₹12000 (2:3:1)
4.) - A, B, C, D - (3:2:3:1)

III-7

Sol→ Statement of Distribution of Cash

Particulars	Creditors	A's Loan	A	B	C
Opening Bal. 500 (-) Expected Realisation Exp (1500)	2000	5000	15000	18000	9000
Nil	–	–	–	–	–
1st Realisation - 1000 (-) Paid to creditor (1000)	1000	–	–	–	–
Nil					
2nd Real. - 3000 (-) Paid Creditor (1000)	1000				
(-) " A's Loan (2000)		2000			
Nil					
3rd Realisation - 3000 (-) Paid A loan - (3000)		3000			
	Nil	Nil	15000	18000	9000
(-) Paid to B&C (900) (2:1)					
Nil	–	–	15000	17400	8700
4th Real. 6000 (-) Paid B & C (3600) (2:1)				2400	1200
(-) Paid A:B:C (2400) (2:2:1)			960	960	480
Nil	–	–	14040	14040	7020
5th Real. 20100			8040	8040	4020
(-) Paid A:B:C (20100) 2:2:1			6000	6000	3000
Nil	–	–			

Realisation Loss.

17:25

☆ Working :-

	A 2:	B 2:	C 1
Capital	15000	18000	9000
Lowest Cap unit (7500; 9000; 9000) Base	15000 (2)	15000 (2)	7500 (2)
	–	3000	1500
Lowest Cap unit (–, 1500, 1500)		3000 (1)	1500 (1)
	–	–	–

2.) Maximum Loss Method :-

Eg: A, B, C are 2:2:1 partners with capital of ₹10000, ₹20000 & ₹15000. Creditors were ₹5000. Realisation are :-
1st → ₹7000
2nd → ₹10000
3rd → 30000

Sol-) Statement of Distribution of Cash

Particulars	Total	Creditor	A	B	C
Balance		5000	10000	20000	15000
1st Realiz..	7000				
(-) Paid to Creditor	5000	5000			
	2000	–	10000	20000	15000
(-) Amt Paid to all	45000				
Maximum Loss (2:2:1)	43000 (loss)		17200	17200	8600
			(7200)	2800 4:3	6400
Negative adJustment			7200	(4114)	(3086)
Negative adJustment			–	(1314)	3314
			–	1314	(1314)
(Cash Paid)			–	–	2000
	–	–	10000	20000	13000
2nd Realiz..	10000				
(-) Amt. Paid to all	43000				
Max Loss in 2:2:1	33000		13200	13200	6600
			(3200)	6800	6400
Negative AdJ.			3200	(1829)	(1371)
Cash Paid			–	4971	5029
Balance	–	–	10000	15029	7971

3rd Realisation	30000				
(-) ~~Amt~~ Paid to all	(33000)				
Max Loss	3000		1200	1200	600
Cash paid →			8800	13829	7371
Realisation loss :	-	-	1200	1200	600