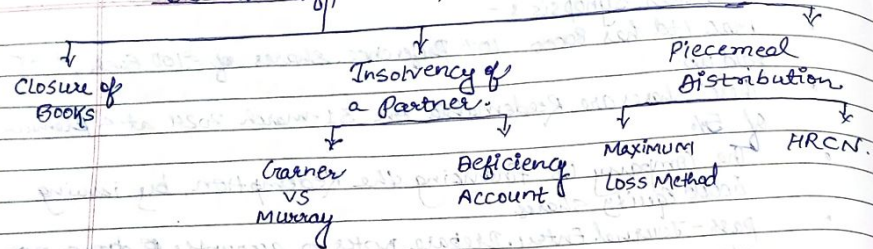


Partnership Accounts

Date: ~~30/7/24~~
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Dissolution of Partnership firm & LLP



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 incapacity.

3) when a partner is guilty of misconduct.

4) when a partner transfers his interest (share) to 3rd party.

5) where the business cannot be carried on except at a loss. etc.

→ Dissolution of Partnership vs. 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 intervene
★ 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/c.

BIS
totally
equal
(ETSE)

→ Partner's Capital A/c, Current A/c, 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 partners having Credit balance in capital A/c just before dissolution in CAPITAL RATIO.

↳ Fixed Capital :- fixed Capital Ratio.

↳ fluctuating Capital :- fluctuating Capital Ratio.

→ Realization loss will be introduced in cash by solvent partners.

Cash/BANK A/c dr -
To Partner Cap. A/c -

TU-43:-

Sol + Dr		Realisation A/c	
Debtor	15850	Creditors	15700
Stock	25200	EPF (outside liability)	6300
Prepaid exp.	800	By Bank (A/c) Sale :-	
Plant & Machine	20000	(4500 + 10800 + 15600 +	
Patents	8000	12000 + 1800]	44700
To Bank A/c (i)	12100	By Loss (bal.)	23050
To Bank A/c (Exp)	15000	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 (257)				2680
To A Cap A/c	5360	2680			By A's Cap				5360
					By B's Cap				2680
To bank bal -	34640	17320			By Bank	9220	6915	4610	
					or A dis -				3200
					By bank				
	49920	26915	7810	10720		49920	26915	7810	10720

Bank A/c

To Bal b/d	535	By Realisation	
To Realisation	44700	(1200 + 6300 + 1500)	19900
To A Cap	2680	By A's Cap	34640
To A Cap	9220	By B's Cap	17320
To B Cap	6915		
To C Cap			
(4610 + 2305)	7810		
	71860		71860

(B) Insolvency loss → 10720 - 2680 = 8040.

Rule-1 will borne by A & B - because they have solvent In Cap. Ratio.

Rule-2

A's Cap dr - 5360
B's Cap dr - 2680
To B's Cap - 8040

Rule-2 Solvent partners हर से बँसे लेना योग्य है Realization loss के.

Realisation A/c

TU-3		Realisation A/c	
To plant & Machine	2500	By Cash A/c - (Asset sold)	
To furniture	500	[1250 + 1500 + 400 + 500]	2300
To debtor	1000		
To stock	80		
To Cash Exp.	175		
		By Loss	2675
		A - I	1337
		B - I	1338
	4975		4975

Partners Capital A/c			A	B
To bal b/d	-	By bal b/d	750	-
To Realization	1337	By cash A/c *	Insolvent 0	Insolvent 200
		By deficiency A/c	587	1688
	1337		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. Proportional Capital Method - Highest Capital Relative Method [HCM]
- Step-1 - Find out the balance payable 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 payable to all partners after adjustment.
- Step-2 - Calculate Maximum Loss \Rightarrow 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. HCM

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

Particulars	A [5]	B [3]	C [2]
Sol: Capitals	100000	140000	130000
Lowest Capital Units	③	②	③
[20000, 46667, 65000]	100000	60000	40000
	-	80000	90000
* Lowest Cap. Unit $\left[\frac{60000}{3}\right]$	-	80000	②
[-, 26667, 45000]	-	-	53334
[Base x 3]	-	-	36666

Q.2 A, B, C & D are 3:2:3:1 partners. Capitals are 45000, 70000, 81000 & 20000, 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)

Q.7

Sol: Statement of Distribution of Cash

Particulars	Creditor	A's Loan	A	B	C
Opening Bal. 500	2000	5000	15000	18000	9000
(-) Expected 1000					
Realisation Exp					
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 - 3500					
(-) Paid A Loan (3000)		3000			
Nil					
(-) Paid to B & C (900)			15000	18000	9000
(2:1)					
Nil			15000	17400	8700
4th Real. - 6000					
(-) Paid B & C (3600)				2400	1200
(2:1)					
(-) Paid A: B: C (2400)			960	960	480
(2:2:1)					
Nil			14040	14040	7020
5th Real. - 20100					
(-) Paid A: B: C (20100)			8040	8040	4020
(2:2:1)					
Nil			6000	6000	3000

Realisation Loss

17:25

★ Working :-

	A 2:	B 2:	C 1
Capital	15000	18000	9000
Lowest Cap. unit			
(7500; 9000; 9000)	15000 ⁽²⁾	15000 ⁽²⁾	7500 ⁽²⁾
Rate	-	3000	1500
Lowest Cap. unit			
(-, 1500, 1500)	-	3000 ⁽³⁾	1500 ⁽³⁾
	-	-	-

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			
(-) Amt Paid to all	45000		10000	20000	15000
Maximum Loss (2:2:1)	43000 (Loss)		7200	7200	6600
Negative adjustment			(7200)	2800	(3640)
Negative adjustment			7200	(4114)	(3086)
Negative adjustment			-	(1314)	3314
(Cash Paid)			-	1314	(1314)
2nd Realiz..	10000		10000	20000	13000
(-) Amt. paid to all	43000				
Max Loss in 2:2:3	33000		13200	13200	6600
Negative Adj.			(3200)	6800	6400
Cash Paid			3200	(1829)	(1371)
Balance			-	4971	5029
			(10000)	15029	9971

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Dec-22 Pyg
June-22 Pyg

3rd Realisation	30000				
(-) Amt Paid to all	(83000)				
Max loss	3000				
Cash paid →					
Realisation loss	-				

1200	1200	600
8800	13829	7371
-	-	-
1200	1200	600

x