

# **Dissolution of Partnership - CA Foundation Notes**

## **Introduction to Dissolution of Partnership**

Dissolution of a partnership refers to the process in which the partnership firm comes to an end. It involves closing the firm's books, realizing its assets, and settling its liabilities.

Modes of Dissolution:

1. By Agreement
2. Compulsory Dissolution
3. Dissolution by Court
4. Dissolution on Happening of Certain Events
5. Dissolution by Notice (in case of partnership at will)

## **Settlement of Accounts**

When a partnership firm is dissolved, the following steps are undertaken for settlement of accounts:

1. Realisation of Assets
2. Payment of External Liabilities
3. Settlement of Partner's Capital Accounts
4. Distribution of Surplus (if any)

Journal Entries:

1. For Transfer of Assets to Realisation Account:

Realisation A/c Dr.

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To Assets A/c

2. For Transfer of Liabilities to Realisation Account:

Liabilities A/c Dr.

To Realisation A/c

3. For Payment of Liabilities:

Realisation A/c Dr.

To Bank A/c

4. For Expenses on Realisation:

Realisation A/c Dr.

To Cash/Bank A/c

5. For Distribution of Remaining Cash among Partners:

Partner's Capital A/c Dr.

To Cash/Bank A/c

## Practical Example

Example:

X, Y, and Z are partners sharing profits in the ratio of 3:2:1. The firm's Balance Sheet as on 31st

Dec 2024 is as follows:

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Assets: Cash Rs.10,000 | Debtors Rs.30,000 | Stock Rs.20,000 | Furniture Rs.15,000

Liabilities: Creditors Rs.20,000 | Capital: X Rs.30,000, Y Rs.15,000, Z Rs.10,000

Realisation Details:

- Debtors realized Rs.28,000
- Stock realized Rs.18,000
- Furniture realized Rs.12,000
- Creditors paid in full
- Realisation expenses Rs.2,000

Required: Prepare necessary accounts.

Solution Outline:

1. Transfer all assets and liabilities to Realisation A/c.
2. Record realisation values and expenses.
3. Distribute cash balance among partners.