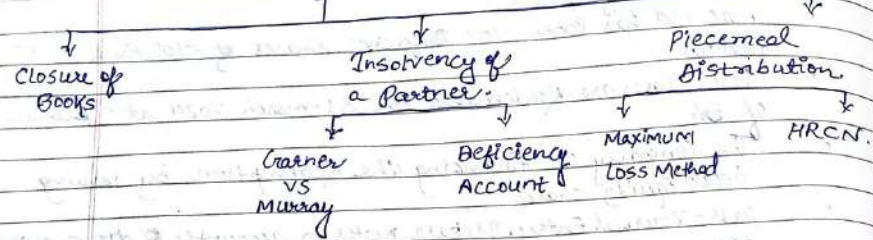


# Partnership Accounts

30/7/24

## 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  
(L) = (R)

→ 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 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 -

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+2320)	7810		
	71860		71860

TU-4:-

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

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

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

A's Cap A/c - 5360
B's Cap A/c - 2680
To B's Cap - 8040

Rule-2 Solvent partners ER se ke. Realization loss ke.

To bal b/d	-	-	3200	8415	By bal b/d	4000	20000	-	-
To Realisation	9220	6915	4610	2305	By bank (25%)				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	
					ER se ke			3200	
					By bank				
	49920	26915	7810	10720		49920	26915	7810	10720

To plant & Machine	2500	By Cash A/c - (Asset sold)	
To furniture	500	[1250+1500+4000+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		A	B
To bal b/d	-	550	By bal b/d	750	-
To Realization	1337	1338	By cash A/c *	Insolvent 0	Insolvent 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 [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

Ex: A, B, C are 5:3:2 partners. capitals are ₹10000, 14000 & ₹13000. find the order of payment.

Particulars	A [5]	B [3]	C [2]
Sol. Capitals	10000	14000	13000
Lowest Capital Units	③	②	③
[20000, 16667, 65000] Base	10000	6000	4000
	-	8000	9000
* Lowest Cap. Unit $\frac{60000}{3}$	-	②	②
[-, 26667, 45000] Base x3	-	8000	53334
	-	-	36666

Q. 1 A, B, C & D are 3:2:3:1 partners. Capitals are 45000, 70000, 8000 & 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)

Jul-7

Sol: Statement of Distribution of Cash

Particulars	Creditor	A's Loan	A	B	C
Opening Bal. 5000	5000	5000	15000	18000	9000
(+) Expected 10000					
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 - 3000					
(-) Paid A Loan (3000)		3000			
Nil					
(-) Paid to B & C (900)			15000	18000	9000
(2:3)					
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	15000	7500
Rate	-	3000	1500
Lowest Cap. unit			
(-, 1500, 1500)	-	3000	1500
	-	-	-

# 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	(6400)
Negative adjustment			7200	(4114)	(3086)
Negative adjustment			-	(1314)	3314
(Cash Paid)			-	1314	(1314)
			-	-	2000
2nd Realiz.	10000		10000	20000	13000
(-) Amt. Paid to all	43000				
May Loss in 2:2:3	33000		13200	13200	6600
Negative Adjo			(3200)	6800	6400
Cash Paid			3200	(1820)	(1371)
Balance			-	4971	5029
			(10000)	15029	9971

~~Handwritten scribble~~

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