

PARTNERSHIP DISSOLUTION OF FIRM

Solution 1

REALISATION ACCOUNT

| | ₹ | | ₹ |
|-----------------|------------------|-----------------------------------|------------------|
| To Fixed Assets | 5,00,000 | By Creditors | 3,20,000 |
| To Stock | 3,00,000 | By Cash | |
| To Debtors | 5,00,000 | Fixed Assets | 5,20,000 |
| To Cash | | Debtors | <u>4,40,000</u> |
| Creditors | 3,04,000 | By Y's Capital (Stock taken over) | 2,50,000 |
| Expenses | <u>6,000</u> | By Loss transferred | |
| | | X | 35,555 |
| | | Y | 26,667 |
| | | Z | <u>17,778</u> |
| | 16,10,000 | | 16,10,000 |

PARTNER'S CAPITAL ACCOUNTS

| | X | Y | Z | | X | Y | Z |
|--------------------|-----------------|-----------------|-----------------|--------------------|-----------------|-----------------|-----------------|
| To Realisation A/c | 35,555 | 26,667 | 17,778 | By Balance b/d | 4,00,000 | 3,00,000 | 2,00,000 |
| To Realisation A/c | | 2,50,000 | | By General reserve | 40,000 | 30,000 | 20,000 |
| To Cash | 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 ACCOUNT

| | ₹ | | ₹ |
|--------------------|-----------------|--------------------|-----------------|
| To Balance b/d | 10,000 | By Realisation A/c | 3,10,000 |
| To Realisation A/c | 9,60,000 | By X's Capital | 4,04,445 |
| | | By Y's Capital | 53,333 |
| | | By Z's Capital | 2,02,222 |
| | 9,70,000 | | 9,70,000 |

Solution 2

REALISATION ACCOUNT

| | ₹ | | ₹ |
|-------------------------|-----------------|----------------------------|----------------------------|
| To Land and Building | 1,35,000 | By Provision for bad debts | 6,000 |
| To Plant & Machinery | 45,000 | By Loan from D | 1,20,000 |
| To Furniture | 25,500 | By Creditors | 30,000 |
| To Investments | 15,000 | By Bills payable | 12,000 |
| To Book Debts | 60,000 | By Outstanding salary | 7,500 |
| To Stock | 36,000 | By Kumar's Capital | |
| To Amit's Capital | | Furniture | <u>12,150</u> (13,500*.09) |
| Real. Expenses | <u>3,000</u> | By Amit's Capital | |
| To Bank | | Investments | <u>12,750</u> |
| Bill payable | 11,940 | By Bank A/c | |
| D's Loan (7,500+54,000) | 61,500 | Stock | 43,200 |
| Creditors | 18,000 | Debtors | 48,000 |
| Salary | 7,500 | Land & Building | <u>1,65,000</u> |
| Real. Expenses | <u>15,000</u> | | 2,56,200 |
| To Profit transferred | | | |
| Amit | 9,264 | | |
| Sumit | 9,264 | | |
| Kumar | <u>4,632</u> | | |
| | 4,56,600 | | 4,56,600 |

PARTNER'S CAPITAL ACCOUNTS

| | Amit | Sumit | Kumar | | Amit | Sumit | Kumar |
|--------------------|---------------|---------------|---------------|-----------------------------|---------------|---------------|---------------|
| To Balance b/d | - | - | 32,400 | By Balance b/d | 55,200 | 55,200 | - |
| | | | | By General reserve | 24,600 | 24,600 | 12,300 |
| To Realisation A/c | 12,750 | - | 12,150 | By Kumar's Loan | - | - | 15,000 |
| To Bank | 79,314 | 89,064 | - | By Realisation A/c | 3,000 | - | - |
| | | | | By Realisation A/c (Profit) | 9,264 | 9,264 | 4,632 |
| | | | | By Bank | - | - | 12,618 |
| | 92,064 | 89,064 | 44,550 | | 92,064 | 89,064 | 44,550 |

BANK ACCOUNT

| | ₹ | | ₹ |
|--------------------|-----------------|--------------------|-----------------|
| To Balance b/d | 13,500 | By Realisation A/c | 1,13,940 |
| To Realisation A/c | 2,56,200 | By Amit's Capital | 79,314 |
| To Kumar's Capital | 12,618 | By Sumit's Capital | 89,064 |
| | 2,82,318 | | 2,82,318 |

Working Notes:

1. Amount paid to creditors

| | ₹ |
|---------------------------------------|----------|
| Book Value | 30,000 |
| Less: Creditors taking over Furniture | (10,800) |
| | 19,200 |
| Less: Discount @ 6.25% | (1,200) |
| | 18,000 |

2. Payment to Bills Payable

| | ₹ |
|---|--------|
| Book Value | 12,000 |
| Less: Discount for early payment {12,000 x 6% x (1/12)} | (60) |
| | 11,940 |

3. Payment to D's Loan

| | ₹ |
|--|----------|
| Book value | 1,20,000 |
| 50% of Loan adjusted as below: | |
| Plant & Machinery accepted at Book Value (₹ 45,000) and ₹ 7,500 in cash | 7,500 |
| Balance 50% of Loan adjusted as below: | |
| In cash after allowing discount of 10% i.e. ₹ 60,000 – ₹ 6,000 = ₹ 54,000. | 54,000 |

4. Furniture taken over by Kumar

| | ₹ |
|--|----------|
| Book value | 25,500 |
| Less: Furniture of Book Value ₹ 12,000 accepted by trade creditors | (12,000) |
| | 13,500 |
| Less: 10% of Book Value | (1,350) |
| | 12,150 |

Solution 3

If the firm is dissolved before the term expires, as is the case, W, being a partner, who has paid premium on admission will have to be repaid / refunded

The criteria for calculation of refund amount are:

- Terms upon which admission was made,
- The time period for which it was agreed that the firm will not be dissolved,
- The time period for which the firm has already been in existence.

No claim for refund will arise if:

- The firm is dissolved due to death of a partner,
- If the dissolution of the firm is basically because of misconduct of W,
- If the dissolution is through an agreement and such agreement does not have a stipulation for refund of premium.

Solution 4**REALISATION ACCOUNT**

| | ₹ | | ₹ |
|-------------------------|---------------|---|---------------|
| To Sundry Assets: | | By Provision for doubtful debts | 750 |
| Furniture and fixture | 6,000 | By Trade creditors | 23,250 |
| Trademarks | 10,500 | By Cash | 1,500 |
| Trade debtors | 24,000 | Furniture and fixtures | 1,500 |
| Inventories | 15,000 | Trademarks | 6,000 |
| To Cash | | Trade debtors | 16,500 |
| Expenses 750 | | Inventories | 12,000 |
| Creditors <u>23,000</u> | 23,750 | Joint life policy | <u>4,500</u> |
| | | By Partners' capital account (Loss on realisation) | |
| | | Kamal | 4,425 |
| | | Kishor | 4,425 |
| | | Mohan | 2,950 |
| | | Sohan | <u>2,950</u> |
| | 79,250 | | 79,250 |

CASH ACCOUNT

| | ₹ | | ₹ |
|--------------------------|---------------|--------------------------|---------------|
| To Balance b/d | 3,000 | By Realisation a/c | 23,750 |
| To Realisation a/c | 40,500 | By Kamal's loan a/c | 15,000 |
| To Partners' Capital A/c | | By Partners' capital a/c | |
| Kamal 4,425 | | Kamal's capital a/c | 17,771 |
| Kishor 4,425 | | Kishor's capital a/c | 13,329 |
| Sohan 2,950 | 11,800 | | |
| To Mohan's capital a/c | 5,550 | | |
| To Sohan's capital a/c | 9,000 | | |
| | 69,850 | | 69,850 |

PARTNERS' CAPITAL ACCOUNT

| | Kamal | Kishor | Mohan | Sohan | | Kamal | Kishor | Mohan | Sohan |
|---------------------------|--------|--------|--------|-------|----------------|--------|--------|-------|-------|
| To Balance b/d | - | - | 24,000 | 9,000 | By Balance b/d | 30,000 | 22,500 | | |
| To Realisation A/c (Loss) | 4,425 | 4,425 | 2,950 | 2,950 | By Cash A/c | 4,425 | 4,425 | - | 2,950 |
| To Mohan's Capital A/c | 12,229 | 9,171 | - | - | By Cash A/c | - | - | 5,550 | 9,000 |

| | | | | | | | | | |
|-------------|--------|--------|--------|--------|-------------------------|--------|--------|--------|--------|
| To Cash A/c | 17,771 | 13,329 | | | By Kamal's Capital A/c | | | 12,229 | - |
| | | | | | By Kishor's Capital A/c | - | - | 9,171 | - |
| | | | | | | | | | |
| | 34,425 | 26,925 | 26,950 | 11,950 | | 34,425 | 26,925 | 26,950 | 11,950 |

Working Notes:

- a) There was a debit balance of ₹ 9,000 in Sohan's capital account and Sohan is a solvent partner, therefore he must bring cash for balance capital.
- b) 'Mohan' is insolvent therefore is not able to bring cash. The deficiency in his account is borne by 'Kamal' and 'Kishor' in the ratio of 4:3 (capital ratio) as per Garner vs Murray. Deficiency in 'Mohan's account = ₹24,000 + ₹2,950 – ₹ 5,550 = ₹ 21,400
 Borne by Kamal = $4/7 \times ₹21,400 = ₹12,229$
 Borne by Kishor = $3/7 \times ₹21,400 = ₹9,171$
- c) 'Mr. Kamal's loan is paid off in cash.

Solution 5**REALISATION A/C**

| | ₹ | | ₹ |
|--------------------------------|-----------|---------------------------------|-----------|
| To Sundry Debtors | 7,00,000 | By Sundry Creditors | 6,00,000 |
| To Stock | 4,00,000 | By Provision for Doubtful Debts | 1,00,000 |
| To Other assets | 6,20,000 | By A's Capital A/c (Debtors) | 5,60,000 |
| To R's Capital A/c (Creditors) | 6,00,000 | By S's Capital A/c (Stock) | 3,80,000 |
| To Cash (Expenses) | 60,000 | By Cash (Other assets) | 6,00,000 |
| | | By Realisation Loss transferred | |
| | | A's Capital A/c | 56,000 |
| | | V's Capital A/c | 14,000 |
| | | R's Capital A/c | 28,000 |
| | | S's Capital A/c | 42,000 |
| | 23,80,000 | | 23,80,000 |

PARTNERS CAPITAL A/CS

| | A | V | R | S | | A | V | R | S |
|--------------------|-----------|----------|----------|----------|----------------------|-----------|----------|----------|----------|
| To Bal. b/d | | 4,00,000 | 3,00,000 | | By Bal. b/d | 14,00,000 | -- | -- | 6,00,000 |
| To Real. (Debtors) | 5,60,000 | -- | -- | -- | By Real. (Creditors) | - | - | 6,00,000 | - |
| To Real. (Stock) | - | - | - | 3,80,000 | By Cash | 56,000 | - | 28,000 | 42,000 |
| To Real. (loss) | 56,000 | 14,000 | 28,000 | 42,000 | By Cash | - | 43,800 | | |
| To V's A/c | 2,59,140 | - | - | 1,11,060 | By A's Cap | - | 2,59,140 | | |
| To Cash | 5,80,860 | - | 3,00,000 | 1,08,940 | By S's Cap | - | 1,11,060 | | |
| | 14,56,000 | 4,14,000 | 6,28,000 | 6,42,000 | | 14,56,000 | 4,14,000 | 6,28,000 | 6,42,000 |

CASH A/C

| | ₹ | | ₹ |
|--------------------|-----------|-------------------------------|-----------|
| To Balance b/d | 2,80,000 | By Realisation A/c (expenses) | 60,000 |
| To Realisation A/c | 6,00,000 | By Capital A/c | |
| To V's Capital A/c | 43,800 | A | 5,80,860 |
| To A's Capital A/c | 56,000 | R | 3,00,000 |
| To R's Capital A/c | 28,000 | S | 1,08,940 |
| To S's Capital A/c | 42,000 | | |
| | 10,49,800 | | 10,49,800 |

Note:

- a) A takes over Debtors at 80% of ₹ 7,00,000 i.e. ₹ 5,60,000.
 b) V's deficiency will be borne by A and S in the ratio of 7:3 i.e. on opening capitals of ₹ 14,00,000 and ₹ 6,00,000. R will not bear any portion of the loss since at the time of dissolution he had a debit balance in his capital account.

Solution 6**REALISATION ACCOUNT**

| | ₹ | | ₹ |
|---------------------|-----------------|--|-----------------|
| To Premises | 50,000 | By Sundry Creditors | 84,650 |
| To Plant | 1,25,000 | By Bank: | |
| To Fixtures | 32,500 | Premises | 60,000 |
| To Stock | 43,200 | Plant | 1,07,500 |
| To Debtors | 54,780 | Fixtures | 20,000 |
| To Bank (Creditors) | 84,650 | Stock | 41,040 |
| To Bank (Expenses) | 4,500 | Debtors | <u>45,900</u> |
| | | By Loss transferred to Current A/cs | |
| | | Thin | 14,216 |
| | | Short | 14,216 |
| | | Fat | <u>7,108</u> |
| | 3,94,630 | | 3,94,630 |

PARTNERS CURRENT ACCOUNTS

| | Thin | Short | Fat | | Thin | Short | Fat |
|-----------------|---------------|---------------|---------------|-----------------|---------------|---------------|---------------|
| To Balance b/d | - | - | 14,500 | By Balance b/d | 29,700 | 11,300 | - |
| To Realisation | 14,216 | 14,216 | 7,108 | By Capital A/cs | - | 2,916 | 21,608 |
| To Capital A/cs | 15,484 | - | - | | - | - | - |
| | 29,700 | 14,216 | 21,608 | | 29,700 | 14,216 | 21,608 |

PARTNERS' CAPITAL ACCOUNTS

| | Thin | Short | Fat | | Thin | Short | Fat |
|--|-----------------|---------------|---------------|---------------------------------|-----------------|---------------|---------------|
| To Current A/cs | - | 2,916 | 21,608 | By Balance b/d | 80,000 | 50,000 | 20,000 |
| To Fat's Cap. A/c (Deficiency in the ratio of 8:5) | 990 | 618 | | By Current A/cs | 15,484 | - | - |
| To Bank | 1,08,710 | 60,682 | - | By Bank (Realisation loss) | 14,216 | 14,216 | |
| | | | | By Thin & Short Capital A/cs | | | 1,608 |
| | 1,09,700 | 64,216 | 21,608 | | 1,09,700 | 64,216 | 21,608 |

Working Notes:**BANK ACCOUNT**

| | ₹ | | ₹ |
|------------------------|-----------------|--------------------------------|-----------------|
| To Realisation A/c | 2,74,440 | By Balance b/d | 44,330 |
| To Thin's Capital A/c | 14,216 | By Realisation A/c (creditors) | 84,650 |
| To Short's Capital A/c | 14,216 | By Realisation A/c (Expenses) | 4,500 |
| | | By Thin's Capital A/c | 1,08,710 |
| | | By Short's Capital A/c | 60,682 |
| | 3,02,872 | | 3,02,872 |

Fat's deficiency has been borne Thin & Short in the ratio of their fixed capitals i.e., 8:5 following the rule in *Garner vs. Murray*

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Solution 7

Cash & Bank Account

| Particulars | Amount | Particulars | Amount |
|--|---------------|----------------------------------|---------------|
| To Balance b/d | 240 | By Realisation A/c- Creditors | 14,040 |
| To Realisation A/c- (Assets Realised) | 19,920 | By Realisation A/c- Expenses | 1,800 |
| To Capital Accounts: | | By G's Loan A/c | 9,600 |
| G 27,200 | | By G's Capital A/c | 16,280 |
| S 20,400 | | By S's Capital A/c | 28,680 |
| J 2,640 | 50,240 | | |
| | 70,400 | | 70,400 |

Realisation Account

| Particulars | Amount | Particulars | Amount |
|------------------------|---------------|-----------------------------|---------------|
| To Goodwill | 48,000 | By Trade Creditors | 14,880 |
| To Land | 9,600 | By Provision for Bad Debts | 120 |
| To Plant and Machinery | 15,360 | By Bank: | |
| To Motor Car | 840 | Land 8,400 | |
| To Stock | 4,680 | Plant & Machinery 6,000 | |
| To Sundry Debtors | 2,400 | Stock 3,600 | |
| To Bank (Creditors) | 14,040 | Debtors 1,920 | 19,920 |
| To Bank (Expenses) | 1,800 | By G (Car) | 600 |
| | | By Capital Accounts: (Loss) | |
| | | G 27,200 | |
| | | S 20,400 | |
| | | J 13,600 | 61,200 |
| | 96,720 | | 96,720 |

Partners' Fixed Capital Accounts

| Particulars | G | S | J | Particulars | G | S | J |
|---------------------------------|---------------|---------------|---------------|----------------------------|---------------|---------------|---------------|
| To Current A/c (Transfer) | 5,800 | - | 3,680 | By Balance b/d | 24,000 | 24,000 | 12,000 |
| To Realisation A/c (Loss) | 27,200 | 20,400 | 13,600 | By Current A/c (Transfer) | - | 6,000 | - |
| To Realisation A/c (Car) | 600 | - | - | By Bank | - | - | 2,640 |
| To J's Capital A/c (Deficiency) | 1,320 | 1,320 | - | By Bank (realization loss) | 27,200 | 20,400 | - |
| To Bank* | 16,280 | 28,680 | - | By G&S (Deficiency) | - | - | 2,640 |
| | 51,200 | 50,400 | 17,280 | | 51,200 | 50,400 | 17,280 |

Note:

- G, S and J will bring cash to make good their share of the loss on realization.
- As per Garner Vs. Murray rule, solvent partners- G and S have to bear the loss due to insolvency of a partner J in their fixed capital ratio.

*Alternatively, posting may be done for the net amount being received from /paid to G and S respectively.

Working Note:

Current account balances of partners have been arrived after adjusting profit and loss account debit balance as follows:

| | Current account balance | Profit & Loss | | |
|---|----------------------------|---------------|-------|-----|
| G | 600 | (6,400) | 5,800 | Dr. |
| S | 10,800 | (4,800) | 6,000 | Cr. |
| J | (480) | (3,200) | 3,680 | Dr. |

Solution 8

REALISATION ACCOUNT

| Particulars | | ₹ | Particulars | | ₹ |
|-----------------------------------|--------|-----------------|-------------------------------|----------|-----------------|
| To Building | | 1,90,000 | By Trade creditors | | 80,000 |
| To Stock | | 1,30,000 | By Bills payable | | 30,000 |
| To Investment | | 50,000 | By Cash | | |
| To Debtors | | 70,000 | Building | 2,09,000 | |
| To Cash | | | Stock | 1,20,000 | |
| Creditors (W.N.1) | 63,650 | | Investments (W.N.2) | 40,000 | |
| Expenses | 8,000 | | Debtors (W.N.3) | 56,700 | 4,25,700 |
| Bills payable | 29,500 | 1,01,150 | By R (Debtors unrecorded) | | 7,000 |
| To Partners capital A/cs (Profit) | | | By R (Investments unrecorded) | | 11,000 |
| P | 4,183 | | | | |
| Q | 4,183 | | | | |
| R | 2,789 | | | | |
| S | 1,395 | 12,550 | | | |
| | | 5,53,700 | | | 5,53,700 |

CASH ACCOUNT

| Particulars | | ₹ | Particulars | | ₹ |
|----------------------------------|--|-----------------|-----------------------------------|--|-----------------|
| To Balance b/d | | 30,000 | By Realisation (liabilities paid) | | 1,01,150 |
| To Realisation (Assets realised) | | 4,25,700 | By Capital account | | |
| To R's capital A/c | | 7,000 | P | | 1,51,095 |
| | | | Q | | 1,51,095 |
| | | | S | | 59,360 |
| | | 4,62,700 | | | 4,62,700 |

PARTNERS' CAPITAL ACCOUNTS

| Particulars | P | Q | R | S | Particulars | P | Q | R | S |
|-----------------------------|-----------------|-----------------|---------------|---------------|--------------------|-----------------|-----------------|---------------|---------------|
| To Bal. b/d | | | 40,000 | | By Bal. b/d | 1,50,000 | 1,50,000 | - | 60,000 |
| To Real. A/c (Debtors) | | | 7,000 | | By General reserve | 13,333 | 13,333 | 8,889 | 4,445 |
| To Real. A/c – (Investment) | | | 11,000 | | By Real. (Profit) | 4,183 | 4,183 | 2,789 | 1,395 |
| To R's capital A/c (W.N.4) | 16,421 | 16,421 | | 6,480 | By Cash A/c | | | 7,000 | |
| To Cash A/c | 1,51,095 | 1,51,095 | | 59,360 | By P's capital A/c | | | 16,421 | |
| | | | | | By Q's capital A/c | | | 16,421 | |
| | | | | | By S's capital A/c | | | 6,480 | |
| | 1,67,516 | 1,67,516 | 58,000 | 65,840 | | 1,67,516 | 1,67,516 | 58,000 | 65,840 |

Working Notes:1. Amount paid to creditors in cash

| | ₹ |
|---|----------|
| Book Value | 80,000 |
| Less: Creditors taking over investments | (13,000) |
| | 67,000 |
| Less: Discount @ 5% | (3,350) |
| | 63,650 |

2. Amount received from sale of investments

| | ₹ |
|---|---------|
| Book Value | 50,000 |
| Less: Misappropriated by R | (8,000) |
| | 42,000 |
| Less: Taken over by a creditor | (9,000) |
| | 33,000 |
| Add: Profit on sale of investments | 7,000 |
| Cash received from sale of remaining investment | 40,000 |

3. Amount received from debtors

| | ₹ |
|--------------------------|---------|
| Book value | 70,000 |
| Less: Unrecorded receipt | (7,000) |
| | 63,000 |
| Less: Discount @10% | (6,300) |
| | 56,700 |

4. Deficiency of R

| | ₹ |
|---|---------|
| Balance of capital as on 31 st March, 2020 | 40,000 |
| Debtors-misappropriation | 7,000 |
| Investment-misappropriation | 11,000 |
| | 58,000 |
| Less: Realisation Profit | (2,789) |
| General reserve | (8,889) |
| Contribution from private assets | (7,000) |
| Net deficiency of capital | 39,322 |

This deficiency of ₹ 39,322 in R's capital account will be shared by other partners P, Q and S in their last agreed capital ratio of 1,63,333: 1,63,333 : 64,445 (After adding general reserve)

Solution 9**Realization Account**

| Particulars | ₹ | Particulars | ₹ |
|--|----------|-------------------------|----------|
| To Building | 1,90,000 | By Trade creditors | 80,000 |
| To Inventory | 1,30,000 | By Bills payable | 30,000 |
| To Investment | 50,000 | By Cash | |
| To Trade Debtors | 70,000 | -Building | 2,09,000 |
| To Cash - Trade creditors paid (W.N.1) | 60,300 | -Inventory | 1,20,000 |
| To Cash-expenses | 8,060 | -Investments (W.N.2) | 40,000 |
| To Cash-bills payable (30,000-500) | 29,500 | -Trade Debtors (W.N. 3) | 56,700 |
| To Partners' Capital A/cs | | By Sanjay's Capital A/c | 7,000 |

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| | | | | |
|---------|--------------|-----------------------------|--|-----------------|
| | | (Trade Debtors- unrecorded) | | |
| -Ajay | 6,160 | | By Sanjay's Capital A/c (Investments- unrecorded) | 11,000 |
| -Vijay | 6,160 | | | |
| -Sanjay | <u>3,520</u> | 15,840 | | |
| | | <u>5,53,700</u> | | <u>5,53,700</u> |

Cash and Bank Account

| Particulars | | Amount | Particulars | Amount |
|-------------------------------------|---------------|-----------------|--|-----------------|
| To Balance b/d | | 26,000 | By Realization A/c- Trade creditors paid | 60,300 |
| To Realization A/c- assets realized | | | By Realization A/c-bills payable | 29,500 |
| -Building | 2,09,000 | | By Realization A/c- expenses | 8,060 |
| -Inventory | 1,20,000 | | By Capital accounts: | |
| Investments (W.N.2) | 40,000 | | -Ajay | 1,80,420 |
| Trade Debtors (W.N. 3) | <u>56,700</u> | 4,25,700 | -Vijay | 1,80,420 |
| To Sanjay's capital A/c | | 7,000 | | |
| | | <u>4,58,700</u> | | <u>4,58,700</u> |

Partners' Capital Accounts

| Particulars | Ajay | Vijay | Sanjay | Particulars | Ajay | Vijay | Sanjay |
|------------------------------------|-----------------|-----------------|---------------|------------------------|-----------------|-----------------|---------------|
| To Balance b/d | | | 40,000 | By Balance b/d | 1,80,000 | 1,80,000 | - |
| To Trade Debtors- misappropriation | | | 7,000 | By General reserve | 14,000 | 14,000 | 8,000 |
| To Investment- misappropriation | | | 11,000 | By Realization profit | 6,160 | 6,160 | 3,520 |
| To Sanjay's Cap. A/c (WN4) | 19,740 | 19,740 | | By Cash A/c | | | 7,000 |
| To Cash A/c | 1,80,420 | 1,80,420 | | By Ajay's capital A/c | | | 19,740 |
| | | | | By Vijay's capital A/c | | | 19,740 |
| | <u>2,00,160</u> | <u>2,00,160</u> | <u>58,000</u> | | <u>2,00,160</u> | <u>2,00,160</u> | <u>58,000</u> |

Working Notes:

1. Amount paid to Trade creditors

| | |
|---|---------------|
| | ₹ |
| Book value | 80,000 |
| Less: Creditors taking over investments | (13,000) |
| | <u>67,000</u> |
| Less: Discount @ 10% | (6,700) |
| | <u>60,300</u> |

2. Amount received from sale of investments

| | |
|--------------------------------------|---------------|
| | ₹ |
| Book value | 50,000 |
| Less: Misappropriated by Sanjay | (8,000) |
| | <u>42,000</u> |
| Less: Taken over by a trade creditor | (9,000) |
| | <u>33,000</u> |
| Add: Profit on sale of investments | 7,000 |
| | <u>40,000</u> |

3. Amount received from Trade debtors

| | |
|---------------------------------|----------------|
| | ₹ |
| Book value | 70,000 |
| Less: Unrecorded receipt | (7,000) |
| | 63,000 |
| Less: Discount @ 10% | (6,300) |
| | 56,700 |

4. Deficiency of Sanjay

| | |
|---|----------------|
| | ₹ |
| Balance of capital as on 31st March, 2021 | 40,000 |
| Debtors-misappropriation | 7,000 |
| Investment-misappropriation | 11,000 |
| | 58,000 |
| Less: Realization Profit | (3,520) |
| General reserve | (8,000) |
| Contribution from private assets | (7,000) |
| Net deficiency of capital | 39,480 |

This deficiency of ₹ 39,480 in Sanjay's capital account will be shared by other partners Ajay and Vijay in their capital ratio of 1:1 Accordingly,

Ajay's share of deficiency = $[39,480/2] = ₹ 19,740$

Vijay's share of deficiency = $[39,480/2] = ₹ 19,740$

Solution 10

REALISATION ACCOUNT

| Particulars | Amount | Particulars | Amount |
|---------------------------|-----------------|----------------------------------|-----------------|
| To Land and building | 2,46,000 | By Sundry creditors | 36,000 |
| To Furniture & fixtures | 65,000 | By Mortgage loan | 1,10,000 |
| To Stock | 1,00,000 | By Cash Account | |
| To Debtors | 72,500 | Land and building | 2,30,000 |
| To Cash A/c | | Stock | 72,000 |
| Expenses | 7,800 | Furniture & Fix. | 42,000 |
| Creditors (36,000+18,000) | 54,000 | Debtors | 65,000 |
| Mortgage loan | 1,10,000 | By Partners' Capital A/cs (Loss) | |
| | | P = 40,120 | |
| | | Q = 30,090 | |
| | | R = 20,060 | |
| | | S = 10,030 | 1,00,300 |
| | 6,55,300 | | 6,55,300 |

PARTNER'S CAPITAL ACCOUNTS

| Particulars | P | Q | R | S | Particulars | P | Q | R | S |
|---------------------------------|----------|----------|--------|--------|--------------------------|----------|----------|--------|--------|
| To Bal. b/d | - | - | 25,000 | 18,000 | By Bal. b/d | 1,68,000 | 1,08,000 | - | - |
| To Real. A/c (Loss) | 40,120 | 30,090 | 20,060 | 10,030 | By General Reserve | 38,000 | 28,500 | 19,000 | 9,500 |
| To R's Capital A/c (Deficiency) | 12,636 | 8,424 | -- | -- | By Capital Reserve | 10,000 | 7,500 | 5,000 | 2,500 |
| To Cash A/c | 2,03,364 | 1,35,576 | - | - | By Cash A/c (Real. loss) | 40,120 | 30,090 | - | 10,030 |
| | | | | | By P's Capital A/c | | | 12,636 | |

| | | | | | | | | | |
|--|-----------------|-----------------|---------------|---------------|--------------------|-----------------|-----------------|---------------|---------------|
| | | | | | By Q's Capital A/c | | | 8,424 | |
| | | | | | By Cash A/c | | | | 6,000 |
| | 2,56,120 | 1,74,090 | 45,060 | 28,030 | | 2,56,120 | 1,74,090 | 45,060 | 28,030 |

Note: P, Q and S brought cash to make good, their share of the loss on realization. However in actual practice they will not be bringing any cash, only a notional entry will be made.

CASH ACCOUNT

| | | | |
|---------------------|-----------------|---------------------|-----------------|
| To Balance b/d | 15,500 | By Realisation A/c: | 1,71,080 |
| To Realisation A/c: | 4,09,000 | By P's Capital A/c | 2,03,364 |
| To P's Capital A/c | 40,120 | By Q's Capital A/c | 1,35,576 |
| To Q's Capital A/c | 30,090 | | |
| To S's Capital A/c | 10,030 | | |
| To S's Capital A/c | 6,000 | | |
| | 5,10,740 | | 5,10,740 |

Working Note:

As per Garner Vs. Murray rule, solvent partners have to bear the loss due to insolvency of a partner in their capital ratio.

Calculation of Capital Ratio of Solvent Partners

| | P | Q | S |
|----------------------|-----------------|-----------------|----------------|
| Opening capital | 1,68,000 | 1,08,000 | (18,000) |
| Add: General reserve | 38,000 | 28,500 | 9,500 |
| Capital Reserve | 10,000 | 7,500 | 2,500 |
| | 2,16,000 | 1,44,000 | (6,000) |

Though S is a solvent partner yet he cannot be called upon to bear loss on account of insolvency of R because his capital account has a debit balance.

Therefore, capital ratio of P & Q = 216:144 = 3:2

Deficiency of R = ₹ {(25,000 + 20,060) – (19,000 + 5,000)} = ₹45,060 – ₹24,000 = ₹21,060

Deficiency of R will be shared by P & Q in the capital ratio of 3 : 2 i.e.

$$P = ₹ 21,060 \times \frac{3}{5} = ₹12,636$$

$$Q = ₹21,060 \times \frac{2}{5} = ₹8,424$$

Solution 11

REALISATION ACCOUNT

| Particulars | Amount | Particulars | Amount |
|------------------------------------|------------------|------------------------|------------------|
| To Land | 50,000 | By Loan from NBFC | 5,00,000 |
| To Building | 2,50,000 | By Current Liabilities | 70,000 |
| To Office Equipment | 1,25,000 | By Bank A/c | |
| To Computers | 70,000 | Land | 1,00,000 |
| To Debtors | 4,00,000 | Building | 3,00,000 |
| To Stock | 3,00,000 | Computers | 49,000 |
| To Other Current Assets | 22,600 | Debtors | 3,80,000 |
| To Bank A/c | | Stock | 2,70,000 |
| Loan from NBFC | 5,05,000 | Office Equip. | 1,25,000 |
| Current Liabilities | <u>70,000</u> | Curr. Assets | <u>22,600</u> |
| | 5,75,000 | | 12,46,600 |
| To Partners' Current A/cs (Profit) | 24,000 | | |
| A = 9,600 | | | |
| B = 9,600 | | | |
| C = 2,400 | | | |
| D = 2,400 | | | |
| | 18,16,600 | | 18,16,600 |

PARTNER'S CURRENT ACCOUNTS

| Particulars | A | B | C | D | Particulars | A | B | C | D |
|----------------|---------------|-----------------|-----------------|---------------|----------------|---------------|-----------------|-----------------|---------------|
| To Bal. b/d | - | - | - | 87,400 | By Bal. b/d | 50,000 | 1,50,000 | 1,10,000 | - |
| To Capital A/c | 59,600 | 1,59,600 | 1,12,400 | - | By Realisation | 9,600 | 9,600 | 2,400 | 2,400 |
| | | | | | By Capital A/c | - | - | - | 85,000 |
| | 59,600 | 1,59,600 | 1,12,400 | 87,400 | | 59,600 | 1,59,600 | 1,12,400 | 87,400 |

PARTNER'S CAPITAL ACCOUNTS

| Particulars | A | B | C | D | Particulars | A | B | C | D |
|--------------------|-----------------|-----------------|-----------------|---------------|--------------------|-----------------|-----------------|-----------------|---------------|
| To Current A/c | - | - | - | 85,000 | By Bal. b/d | 2,00,000 | 2,00,000 | 1,00,000 | - |
| To D's Capital A/c | - | - | 42,500 | -- | By Current A/c | 59,600 | 1,59,600 | 1,12,400 | - |
| To D's Capital A/c | 17,000 | 17,000 | 8,500 | -- | By C's Capital A/c | - | - | - | 42,500 |
| To Cash A/c | 2,42,600 | 3,42,600 | 1,61,400 | - | By A's Capital A/c | - | - | - | 17,000 |
| | | | | | By B's Capital A/c | - | - | - | 17,000 |
| | | | | | By C's Capital A/c | - | - | - | 8,500 |
| | 2,59,600 | 3,59,600 | 2,12,400 | 85,000 | | 2,59,600 | 3,59,600 | 2,12,400 | 85,000 |

BANK ACCOUNT

| | | | |
|---------------------|------------------|---------------------|------------------|
| To Balance b/d | 75,000 | By Realisation A/c: | 5,75,000 |
| To Realisation A/c: | 12,46,600 | By A's Capital A/c | 2,42,600 |
| | | By B's Capital A/c | 3,42,600 |
| | | By C's Capital A/c | 1,61,400 |
| | 13,21,600 | | 13,21,600 |

Solution 12

Garner vs Murray rule is non-applicable in the following cases:

1. When the solvent partner has a debit balance in capital account. Only solvent partners will bear the loss of capital deficiency of insolvent partner in their capital ratio. If incidentally a solvent partner has a debit balance in his capital account, he will escape the liability to bear the loss due to insolvency of another partner.
2. When the firm has only two partners.
3. When there is an agreement between the partners to share the deficiency in capital account of insolvent partner.
4. When all the partners of the firm are insolvent.

Solution 13

In the Books of M/s Omega Statement of Piecemeal Distribution (Under Higher Relative Capital method)

| Particulars | Amount Available | Creditors | Bank Loan | L's loan | Capital A/cs | | |
|--|------------------|-----------|-----------|-----------|--------------|-----------|----------|
| Balance due | | 2,00,000 | 5,00,000 | 10,00,000 | 15,00,000 | 10,00,000 | 5,00,000 |
| 1 st Installment (including) cash and bank balances | 5,00,000 | | | | | | |
| Less: Liquidators Expenses and fee | (1,00,000) | | | | | | |

| | | | | | | | |
|--|-------------|------------|------------|-------------|------------------|------------------|------------------|
| | 4,00,000 | | | | | | |
| Less: Payment to Creditors & Bank Loan in the ratio of 2:5 | (4,00,000) | (1,14,286) | (2,85,714) | - | - | - | - |
| Balance Due | - | 85,714 | 2,14,286 | 10,00,000 | 15,00,000 | 10,00,000 | 5,00,000 |
| 2 nd Installment | 15,00,000 | | | | | | |
| Less: Payment to Creditors & bank loan | 3,00,000 | (85,714) | (2,14,286) | - | - | - | - |
| Balance Due | 12,00,000 | Nil | Nil | 10,00,000 | 15,00,000 | 10,00,000 | 5,00,000 |
| Less: Repayment of L's Loan | (10,00,000) | | | (10,00,000) | - | - | - |
| Balance Due | 2,00,000 | | | - | 15,00,000 | 10,00,000 | 5,00,000 |
| Less: Payment to Mr. L towards relative higher capital (W.N. 1) | (2,00,000) | | | | (2,00,000) | - | - |
| Balance Due | Nil | | | Nil | 13,00,000 | 10,00,000 | 5,00,000 |
| 3 rd Installment | 15,00,000 | | | | | | |
| Less: Payment to Mr. L towards higher relative capital (W.N.2) | (3,00,000) | | | | (3,00,000) | - | - |
| Balance Due | 12,00,000 | | | | 10,00,000 | 10,00,000 | 5,00,000 |
| Less: Payment to Mr. L & Mr. M. towards excess capital (W.N 1 & 2) | (10,00,000) | | | | (5,00,000) | (5,00,000) | - |
| Balance Due | 2,00,000 | | | | 5,00,000 | 5,00,000 | 5,00,000 |
| Less: Payment to all the partners equally | (2,00,000) | | | | (66,667) | (66,667) | (66,666) |
| Balance Due | Nil | | | | 4,33,333 | 4,33,333 | 4,33,334 |
| 4 th Installment | 30,00,000 | | | | | | |
| Less: Payment to all the partners equally | (30,00,000) | | | | (10,00,000) | (10,00,000) | (10,00,000) |
| Realisation profit credited to Partners | | | | | 5,66,667 | 5,66,667 | 5,66,666 |
| 5 th Installment | 30,00,000 | | | | | | |
| Less: Payment to all partners equally | (30,00,000) | | | | 10,00,000 | 10,00,000 | 10,00,000 |
| Realisation profit credited to partners | | | | | 15,66,667 | 15,66,667 | 15,66,666 |

Working Notes:

Scheme of payment of surplus amount of ₹2,00,000 out of second Installment:

| | L | M | S |
|--|-----------|-----------|----------|
| Balance (i) | 15,00,000 | 10,00,000 | 5,00,000 |
| Profit sharing ratio (ii) | 1 | 1 | 1 |
| Capital taking S's capital (iii) | 5,00,000 | 5,00,000 | 5,00,000 |
| Excess capital (iv) = (i) –(iii) | 10,00,000 | 5,00,000 | |
| Profit sharing ratio | 1 | 1 | |
| Excess capital taking M's Excess capital as base (v) | 5,00,000 | 5,00,000 | |
| Higher Relative Excess (iv)-(iv) | 5,00,000 | | |

So, Mr. L should get ₹5,00,000 first which will bring down his capital account balance from ₹15,00,000 to ₹10,00,000. Accordingly, surplus ₹2,00,000 will be paid to Mr. L towards higher relative capital.

Scheme of payment of ₹15,00,000 realized in 3rd installment:

Payment of ₹3,00,000 will be made to Mr. L to discharge higher relative capital. This makes the higher capital of both Mr. L and Mr. M ₹ 5,00,000 as compared to capital of Mr. S.

Payment of ₹5,00,000 each of Mr. L & Mr. M to discharge the higher capital.

Balance ₹2,00,000 equally to L, M and S, i.e., ₹66,667 ₹66,667 and ₹66,666 respectively.

Solution 14

First of all the following table will be constructed to show the amounts available for distribution:

Statement showing and distribution of Cash payments

| | Realisation | Creditors | Partners Loan | Partners Capitals |
|--|---------------|--------------|---------------|-------------------|
| After taking into account cash balance and amount set aside for expenses | 1,000 | 1,000 | - | - |
| | 3,000 | 1,000 | 2,000 | - |
| | 3,900 | - | 3,000 | 900 |
| | 6,000 | - | - | 6,000 |
| Including saving in expenses | 20,100 | - | - | 20,100 |
| | 34,000 | 2,000 | 5,000 | 27,000 |

To ascertain the amount distributable out of each installment realized among the partners, the following table will be constructed:

Statement of Distribution on Capital Account

Calculation to determine the mode of distribution of ₹900

| | Total | A | B | C |
|--|----------|----------|--------------|--------------|
| Balance | 42,000 | 15,000 | 18,000 | 9,000 |
| Less: Possible loss, should remaining assets prove to be worthless | (41,100) | (16,440) | (16,440) | (8,220) |
| | +900 | -1,440 | +1,560 | +780 |
| Deficiency of A's capital written off against those of B and C in the ratio of their capital, 18,000 : 9,000 (Garner vs. Murray) | | | (960) | (480) |
| Manner in which the first ₹900 should be distributed | | | + 600 | + 300 |

Distribution of ₹6,000

| | | | | |
|--|--------------|------------|--------------|--------------|
| Balance after making payment of amount shown in step (1) | 41,100 | 15,000 | 17,400 | 8,700 |
| Less: Possible loss assuming remaining asset to be valueless | (35,100) | (14,040) | (14,040) | (7,020) |
| Balance available and to be distributed | 6,000 | 960 | 3,360 | 1,680 |

Distribution of ₹ 20,100

| | | | | |
|--|----------|---------|---------|---------|
| Balance after making payment of amount shown in step (2) | 35,100 | 14,040 | 14,040 | 7,020 |
| Less: Possible loss, assuming remaining assets to be valuables | (15,000) | (6,000) | (6,000) | (3,000) |
| Manner of distribution of ₹20,100 | 20,100 | 8,040 | 8,040 | 4,020 |

Summary:

| | | | | |
|--------------------|---------------|--------------|--------------|--------------|
| Balance | 42,000 | 15,000 | 18,000 | 9,000 |
| Total amounts paid | (27,000) | (9,000) | (12,000) | (6,000) |
| Loss | 15,000 | 6,000 | 6,000 | 3,000 |

Solution 15**Statement of Distribution of Cash**

| | Realization | Trade Creditor | Partner's Loan | Partner's capital | | | |
|---|--------------------|-----------------------|-----------------------|--------------------------|--------------|---------------|---------------|
| Balances due (1) | | 2,800 | 1,400 | 13,440 | 8,400 | 11,760 | 33,600 |
| (i) Sale of Patent | 1,400 | (1,400) | - | | | | |
| | | 1,400 | 1,400 | | | | |
| (ii) Sale of furniture | 2,800 | (1,400) | (1,400) | | | | |
| (iii) Sale of machinery | 1,680 | | | | | | |
| Maximum possible loss (33,600-1,680) allocated to partners in the PSR i.e. 5:3:2 | 31,920 | | | (15,960) | (9,576) | (6,384) | (31,920) |
| Amounts at credit | | | | (2,520) | (1,176) | 5,376 | 1,680 |
| Deficiency of AD and BD written off against SD | | | | 2,520 | 1,176 | (3,696) | - |
| Amount paid (2) | | | | - | - | 1,680 | 1,680 |
| Balances in capital a/cs (1 - 2) = (3) | | | | 13,440 | 8,400 | 10,080 | 31,920 |
| (iv) Sale of stock | 5,600 | | | | | | |
| Maximum possible loss (31,920-5,600) allocated to partners in the ratio 5 : 3 : 2 | 26,320 | | | (13,160) | (7,896) | (5,264) | (26,320) |
| Amounts at credit and cash paid (4) | | | | 280 | 504 | 4,816 | 5,600 |
| Balances in capital accounts left unpaid: Loss (3 - 4) = (5) | | | | 13,160 | 7,896 | 5,264 | 26,320 |