

## DISSOLUTION OF PARTNERSHIP FIRM

### Learning Objectives

After Studying this unit, the students will be able to understand:

- \*Meaning of Dissolution
- \* Distinction between Dissolution of Partnership and Dissolution of Partnership firm.
- \* Preparation of Realisation Account
- \* Procedure of settlement of accounts
- \* Preparation of Memorandum Balance sheet (to find out missing figures)
- \* Necessary journal entries to close the books of the firm.

### SALIENT POINTS:

- ❖ Dissolution : Dissolution of the firm is different from Dissolution of Partnership.
- ❖ Realisation account : It is prepared to realize the various assets and pay off the liabilities.
- ❖ Closure of the Books of Accounts : When the firm is dissolved, finally all the books of accounts are closed through Bank Account.

#### 1. Distinguish between Dissolution of Partnership and Dissolution of Partnership firm

Dissolution of Partnership	Dissolution of partnership firm
a)The Partnership is dissolved but the business continues. The Business is not terminated	a)The firm winds up the business.
b) Assets and liabilities are revalued through revaluation account and the Balance sheet is prepared	b)Assets are sold and the liabilities are paid off through Realisation account.
c) The Books of accounts are not closed as the business is not terminated.	d) The Books of accounts are closed.

#### 2.State the provisions of Section 48 of the Partnership Act 1932 regarding settlement of Accounts during the Dissolution of Partnership firm.

Ans. According to section 48—

- a) Losses including the deficiencies of Capitals are to be paid---
- i) First out of profits
  - ii) Next out of Capitals of the partners
  - iii) Lastly if required, by the partners individually in their profit sharing ratio(as their liability is unlimited)
- b) The Assets of the firm and the amount contributed by the partners to make up the deficiency of capital shall be applied for –
- i) First to pay the debts of the firm to the third parties.
  - ii) Next, Partners Loan(Partner has advanced to the firm)
  - iii) Partners capitals
  - iv) The residue, if any shall be distributed among the partners in their profit sharing ratio.
3. Distinguish between Realisation account and Revaluation account

Realisation Account	Revaluation Account
a) It is prepared in the case of Dissolution of Partnership firm.	a)It is prepared in the case of Dissolution of Partnership.
b) This account is prepared to realise the assets & pay off the liabilities .	b) This Account is prepared to revalue the assets and liabilities during Admission, Retirement and Death of the partner.

4. A and B are partners sharing profits and losses equally. They decided to dissolve their firm. Assets and Liabilities have been transferred to Realisation Account. Pass necessary Journal entries for the following.

- a) A was to bear all the expenses of Realisation for which he was given a commission of Rs 4000.
- b) Advertisement suspense account appeared on the asset side of the Balance sheet amounting Rs 28000
- c) Creditors of Rs 40,000 agreed to take over the stock of Rs 30,000 at a discount of 10% and the balance in cash.
- d) B agreed to take over Investments of Rs 5000 at Rs 4900
- e) Loan of Rs 15000 advanced by A to the firm was paid off.
- f) Bank loan of Rs 12000 was paid off.

**JOURNAL**

SN	Particulars	LF	Debit(Rs)	Credit(Rs)
a)	Realisation account –Dr A's Capital account (Being commission given to A)		4000	4000
b)	A's Capital account –Dr B's Capital account –Dr Advertisement Suspense account (Being Advertisement suspense written off)		14000 14000	28000
c)	Realisation account –Dr Cash account (Being creditors paid off)		13000	13000
d)	B's Capital account –Dr Realisation account (Being asset taken over by the partner)		4900	4900
e)	A's Loan account –Dr Cash account (Being partners loan paid off)		15000	15000
f)	Realisation account -- Dr Cash account (Being Bank loan paid off)		12000	12000

4. X and Y are partners in the firm who decided to dissolve the firm. Assets and Liabilities are transferred to Realisation account. Pass necessary journal entries—

- a) Creditors were Rs 1,00,000. They accepted Building valued Rs 1,40,000 and paid cash to the firm Rs 40,000
- b) Aman, an old customer whose account of Rs 1000 was written off as bad in the previous year paid 40% of the amount.
- c) There were 300 shares of Rs 10 each in ABC Ltd which were acquired for Rs 2000 were now valued at Rs 6 each. These were taken over by the partners in the profit sharing ratio.
- d) Profit on Realisation Rs 42000 was divided among the partners.
- e) Land and Building (Book value Rs 1, 60,000) was sold for Rs 3,00,000 through a broker who charged 2% commission on the deal.
- f) Plant and machinery (Book value Rs 60,000) was handed over to the creditor in full settlement of his claim.

S.N	Particulars	LF	Debit(Rs)	Credit(Rs)
a)	Cash account –Dr Realisation account (Being cash received from the creditor)		40000	40000
b)	Cash a/c –Dr Realisation a/c (Being cash received from a debtor whose account was written off earlier)		400	400
c)	X's Capital a/c –Dr Y's Capital a/c –Dr Realisation a/c (Being Investments taken over by the partners)		900 900	1800
d)	Realisation a/c –Dr X's Capital a/c Y's capital a/c (Being profit on Realisation distributed among the partners)		42000	21000 21000
e)	Cash a/c—Dr Realisation a/c (Being Land and Building realized)		294000	294000
f)	NO JOURNAL ENTRY			

### LONG QUESTIONS—6-8 MKS

6) Following is the Balance sheet of Karan and Sandeep who share profits and losses equally as on 31<sup>st</sup> march 2010

Liabilities	Rs	Assets	Rs
Capitals--		Bank	40,000
Karan	1,00,000	Debtors	25,000
Sandeep	50,000	Stock	35,000
Creditors	30,000	Machinery	60,000
Workmen compensation fund	15,000	Furniture	40,000
Bank loan	5000		
	2,00,000		2,00,000

The firm was dissolved on the above date.

1. Karan agreed to take over 50% of the stock at 10% less on its book value, the remaining stock was sold at a gain of 15%. Furniture and machinery realized for Rs 30,000 and 50,000 respectively.
2. There was unrecorded Investments which was sold for Rs 25,000.
3. Debtors realized Rs 31,500 (with interest) and Rs 1200 was recovered for bad debts written off last year.
4. There was an outstanding bill for repairs which had to be paid Rs 2000.

Prepare necessary Ledger accounts to close the books of the firm.

**Realisation account**

Particulars	Rs	Particulars	Rs
Sundry assets		Liabilities:	
Debtors-25000		Creditors : 30,000	
Stock-35,000		Bank loan : 5000	35000
Furniture-40,000			
Machinery-60,000	1,60,000		
Bank	2000	Karan's Capital a/c	15750
a/c(outstanding repair bill)			
Bank(Creditors & Bank loan)	35,000	Bank a/c(stock)	20125
Capital accounts-		Bank a/c(Assets realized)	80,000
Karan : 5787.5			
Sandeep: 5787.5		Bank a/c(Debtors)	32700
	11575		
		Bank a/c(Investments)	25,000
	208575		208575

**Partners Capital accounts**

Particulars	Karan	Sandeep	Particulars	Karan	Sandeep
Realisation a/c(stock)	15750		Balance b/d	1,00,000	50,000
			Workmen's compensation fund	7500	7500
Bank account	97537.5	63287.5	Realisation a/c	5787.5	5787.5
	113287.5	63287.5		113287.5	63287.5

**Bank account**

Particulars	Amount	Particulars	Amount
Balance b/d	40,000	Realisation a/c (repair bill, creditors and bank loan)	37000
Realisation a/c( stock)	20125	Karan's capital	97537.5
Realisation a/c(Machinery & furniture)	80,000	Sandeep's capital	63287.5
Realisation a/c(Debtors)	32700		
Bank(Investments)	25,000		
	197825		197825

5. Following is the Balance sheet of X and Y who share profits in the ratio of 4:1 as on 31<sup>st</sup> march 2010

Balance sheet

Liabilities	Rs	Assets	Rs
Sundry Creditors	8,000	Bank	20,000
Bank overdraft	6,000	Debtors 17,000 Less provision 2000	15,000
X's Brother's loan	8,000	Stock	15,000
Y's Loan	3,000	Investments	25,000
Investment Fluctuation fund	5,000	Building	25,000
Capitals- X-50,000 y-40,000	90,000	Goodwill	10,000
		Profit and Loss a/c	10,000
	1,20,000		1,20,000

The firm was dissolved on the above date and the following was decided—

- X agreed to pay off his brother's loan
- Debtors of Rs 5000 proved bad.
- Other assets realized as follows—Investments 20% less, and Goodwill at 60%.
- One of the creditors for Rs 5000 was paid only Rs 3000.
- Building was auctioned for Rs 30,000 and the auctioneer's commission amounted to Rs 1000.
- Y took over part of the stock at Rs 4000 (being 20% less than the book value) Balance stock realized 50%
- Realisation expenses amounted to Rs 2000.

Prepare Realisation account, Partners capital accounts and Bank account.

**Realisation account**

Particulars	Amt(Rs)	Particulars	Amt(Rs)
Sundry Assets		Sundry Liabilities	
Debtors 17,000		Creditors – 8000	
Stock 15,000		Bank overdraft - 6000	
Investments 25,000		X's Brothers loan- 8000	
Building 25,000	92,000	Investment Fluctuation fund – 5,000	29000
Goodwill 10,000		Provision for doubtful debts - 2000	
X's Capital(Brothers loan)	8000	Bank a/c (Assets realized)	72,000
Bank(Liabilities paid off)		Y's Capital(stock)	4000
Creditors- 6000	12000	Loss transferred to capitals	
Bank overdraft 6000		X- 7200	
		Y- 1800	9000
Bank(Realisation expenses)	2000		
	1,14000		1,14,000

**Partner's Capital Accounts**

Particulars	X	Y	Particulars	X	Y
Profit & Loss a/c	8,000	2,000	Balance b/d	50,000	40,000
Realisation a/c		4,000	Realisation a/c	8,000	
Realisation a/c(loss)	7,200	1,800			
Bank a/c	42,800	32,200			
	58,000	40,000		58,000	40,000



**Bank account**

Particulars	Amt (Rs)	Particulars	Amt(Rs)
Balance b/d	20,000	Y's loan a/c	3,000
Realisation a/c(assets realized)	72,000	Realisation a/c(liabilities paid off)	12,000
		Realisation a/c(expenses)	2,000
		X's Capital a/c	42,800
		Y's capital a/c	32,200
	92,000		92,000

6. A, B and C commenced business on 1<sup>st</sup> January 2008 with capitals of Rs 50,000, 40,000 and Rs 30,000 respectively. Profits and losses are shared in the ratio of 4:3:3. During 2008 and 2009 they made profit of Rs 20,000 and Rs 25000 respectively. Each partner withdrew Rs 5000 per year.

On 31<sup>st</sup> December 2009, they decided to dissolve the firm. Creditors and cash on that date were Rs 12,000 and Rs 2000 respectively. The Assets realized Rs 1,50,000. Creditors were settled for Rs 11,500 and realization expenses were Rs 500.

Prepare Realisation a/c, Capital accounts and Cash account.

**Realisation account**

Particulars	Rs	Particulars	Rs
Sundry Assets	1,45,000	Creditors	12,000
Cash a/c(Creditors)	11,500	Cash a/c(Assets realized)	1,50,000
Cash a/c(Expenses)	500		
Capital Accounts- A- 2,000 B- 1,500 C- 1,500	5,000		
	1,62,000		1,62,000

**Partners Capital Accounts**

Particulars	A	B	C	Particulars	A	B	C
Cash a/c	60,000	45,000	35,000	Balance b/d	58,000	43,500	33,500
				Realisation a/c	2,000	1,500	1,500
	60,000	45,000	35,000		60,000	45,000	35,000

**Cash account**

Particulars	Rs	Particulars	Rs
Balance b/d	2,000	Realisation(Creditors)	11,500
Realisation a/c	1,50,000	Realisation a/c(expenses)	500
		A's Capital a/c	60,000
		B's Capital a/c	45,000
		C's Capital a/c	35,000
	1,52,000		1,52,000

Working Note: Calculation of Closing capital(Capital as on 31/12/2009)

Particulars	A	B	C
Opening Capital	50,000	40,000	30,000
Add Profits(of two yrs)	18,000	13,500	13,500
Less Drawings(of 2 yrs)	10,000	10,000	10,000
Closing Capital	58,000	43,500	33,500

**Memorandum Balance sheet as on 31/12/2009**

Liabilities	Rs	Assets	Rs
Capitals- X-58000 Y-43500 Z-33500	1,35,000	Cash	2000
Creditors	12,000	Sundry Assets(Balancing fig)	1,45,000
	1,47,000		1,47,000

**UNIT 4: Company Accounts- Share capital****LEARNING OBJECTIVES**

Understand the meaning and features of company

- I) Classification of share capital
- II) Understand the accounting treatment of over subscription, calls in arrears, premium and discount on issue of shares.
- III) Understand the meaning of forfeiture of shares
- IV) Pass journal entries regarding forfeiture and reissue of shares
- V) Calculate capital reserve
- VI) Differentiate between capital reserve and reserve capital
- VII) Understand the disclosure of the share capital in the balance sheet

**Salient Features**

- \*A company is an artificial person having separate legal entity.
- \*A company is created by law and effected by law.
- \*A private company can be formed with minimum two members and maximum fifty.
- \*For a public company minimum members required are 7 and there is no maximum limit.