Dissolution of a Partnership Firm

★ DISSOLUTION OF PARTNERSHIP

→ It means that the firm closes down its business and comes to an end.

→ Dissoluton of firm is different from dissolution of partnership.

→ Dissolution of partnership means change in relationship among partners (reconstitution) but the firm continues.

→ Dissolution of firm means business is closed and firm is dissolved.

★ MODES OF DISSOLUTION OF PARTNERSHIP FIRM

(A) Without the intervention of the court.

(i) By Mutual Agreement [Sec. 40] : Firm dissolve when all partners agree for its dissolution.

(ii) Compulsory dissolution [Sec. 41] : By following -

(a) When all or except one partner of firm becomes insolvent.

(b) When business of firm becomes unlawful.

(iii) On happening of an Event [Sec. 42]: By following:
(a) On the insolvency of a partner.
(b) On death of a partner.
(c) On the fulfilment of the object for which the firm was formed.
(d) On the expiry of the period.

(iv) By Notice [Sec. 43]: When duration of firm is not fixed and it is at will of partner by giving notice to others.

(B) By order of the court [Sec 44]
(a) Partners becomes a person of unsound mind.
(b) Partners becomes permanently incapable.
(c) Partner found guilty of misconduct.
(d) As the court may thinks fit. [court have power]

BASIS	DISSOLUTION OF PARTNERSHIP	DISSOLUTION OF FIRM
Meaning	It refers to change in the existing agreement between the partners. The firm continues its business	It refers to closure of the firm.
Continuation of firm	Firm continues its business.	Firm comes to an end.
Economic Relationship	Relationship between partners continues though in a ~~chaged~~ changed form.	Relationship between partners comes to an end.
Closure of books of accounts	Books of accounts need not be closed.	Books of accounts have to be closed.
Effect	It doesn't mean the dissolution of firm.	It means the dissolution of partnership also.

Date

Settlement of assets & liabilities	Assets and liabilities are revalued and then gain or loss of revalution is distributed among partners	Assets are sold and liabilities are paid off, balance if any is distributed among partners.
Courts intervention	No intervention of court, the partnership is dissolved by mutual consent.	A firm can be dissolved either without the intervention or by order of the court.

- **Settlement of Accounts** [Section. 48]

LOSSES
→ Firstly paid out of profits (पुराने Profit)
→ Then paid out of capital
→ Lastly by partners in PSR.

- **Application of Assets** [Section. 48]

→ Realisation expenses [बेचने जाने में जो खर्च हो]
→ Outside liability - secured
→ Outside liability - unsecured
→ Partner's loan A/C
→ Partner's capital A/C
अगर बच जाए → Residue (if any) among partners in PSR.

- **Section. 49**

(i) Firm's debt : Debt owed by firm by outsiders
(ii) Private debt : Debt owed by partners in personal capacity.

Firm's Property	Private Property
→ Firm's debt	→ Private debt
→ Private debt	→ Firm's debt

जिसकी property उसका debt पहले

★ ACCOUNTING TREATMENT ON DISSOLUTION OF FIRM

1) Entries for realisation of Assets:

(i) When asset is sold for cash

Cash / Bank A/C Dr.
To Realisation A/C

(ii) When asset is taken over by one of the partners:

Partner's capital A/c Dr.
To realisation A/C

2) Entries of payment of Outside liability

(i) When liabilities are paid in cash:

Realisation A/C Dr.
To cash / bank A/C

(ii) When any partner agrees to take over some liability.

Realisation A/C Dr.
To Partner's capital A/C

3) For payment of realisation expenses.

(i) If fixed remuneration or commission is given to partners for dissolution work.

Realisation A/C Dr.
To Partner's capital A/C

(ii) When expenses paid by firm.

Realisation A/c Dr.
To cash / bank A/C

Date ______

4) **Distribuable Items of B/S**

① General reserve Dr.
P&L A/C Dr.
WCR A/C Dr.
To Partner's capital A/C

⑪ Partner's capital A/c Dr.
To P&L suspense A/C

5) **Realisation gain / loss**

① Realisation A/C Dr.
To Partner's cap. A/C
} profit

⑪ Partner's cap. A/C Dr.
To realisation A/C
} loss

Dr. Realisation A/C {Nominal A/C} Cr.

Particulars	₹	Particulars	₹
To sundry assets		By sundry liabilities	
To bank (liab. pay)		By bank (asset sold)	
To P. capital (liab. Partner ke jatah)		By P. capital (asset taken by Part)	
To bank (Real. exp.)		By realisation loss	
To real. gain			

outflow / inflow

Partner's capital A/C

Particular	A	B	Particulars	A	B
To real. loss.			By bal. b/d	x	x
To real.			By real. gain		
To P&L suspense			By real.		
To cash (bal.)			By GR/ WCR/ P&L		
			By cash (bal.)		

NOTE

→ TANGIBLE ASSETS should be sold with their book value if question is silent.

→ These liabilities must be paid with their book value if question is silent about their payment.
(a) creditors
(b) Bills payable
(c) Employees provident fund.
(d) Bank overdraft
(e) Advance income
(f) Outstanding expenses
(g) bank loan / wife loan

→ IFF, provision for bad/ doubtful debts and provision for depreciation are only transfer credit of realisation A/C.

• Treatment of Partner's loan A/C

(I)

B/S

A's loan . 10000	

& No additional point.

A's loan A/C

To bank	10,000	By bal b/d.	10,000

No effect on realisation A/C

(II) B/S + Additional point. { ~~By~~ cash – 8000 by bank

A's loan A/C

To bank	8000	By bal. b/d	10,000
To real.	2000		
	10000		10000

Date

- Treatment when creditors took over assets of the firm in full settlement — No entry.

- Treatment of realisation Expenses.

Dr. – Borne by firm Realisation expense A/C Dr.	Dr. – Borne by partner. Partner's capital A/C Dr.
Cr. – Paid by firm To bank	Cr. – Paid by partner. To partner's capital A/C

- If ques. is silent we assume that borne and paid by firm itself.

If same partner borne & paid → No Entry.

- <u>Treatment of Workmen Compensation Reserve.</u>

<u>Case 1</u> B/S

WCR – 6000	

Additional – No claim.
A & B (1:1)

WCR A/C Dr. 6000
To A's cap. 3000
To B's cap. 3000

<u>Case 2</u> A & B (1:1)

B/S

WCR 6000	

+ Additional claim on WCR 2000

Page
Date

Realisation A/C

To bank 2000	By WCR 6000

P. capital A/C

	A	B
By WCR	2000	2000

① WCR A/C Dr. 6000
To realisation A/C 2000
To A's capital A/C 2000
To B's capital A/C 2000

② Realisation A/C Dr. 2000
To bank A/C 2000

Case 3

B/S

WCR 6000	

Claim on WCR 6000

Reali A/C

To bank 6000	By WCR 6000

P. capital A/C will not made.

WCR A/C Dr. 6000
To realisation A/C 6000

Realisation A/C Dr. 6000
To bank 6000

Case-4

B/S

WCR 6000	

Add: claim on WCR 9000

Page

Date

Realisation A/C

To bank	9000	By WCR	6000

WCR A/C Dr. 6000
To real. A/C 6000

Realisation A/C Dr. 9000
To bank 9000

Case 5

B/S

WCR — 0	

Claim on WCR 9000.

Realisation A/C

To bank	9000		

Realisation A/C Dr. 9000
To bank A/C 9000

Page
Date

Ques 1 Anil, Bhanu and Chandu were partners sharing profit in ratio of 3:1:1 on 31/03/22 they decided to dissolve their firm.

Liabilities	₹	Assets	₹
Creditors	60000	Cash	32000
Loan	15000	Debtors 262000	
loan by Anil	100,000	- PFDD 12000	250,000
Capital		Stock in trade	78000
Anil - 275,000		Furniture	10,000
Bhanu - 100,000		Computer	80,000
Chandu - 70,000	445000	Sundry assets	170,000
	620,000		620,000

It was agreed that:

(I) Anil took computer at its book value in settlement of his loan.

(II) Anil took furniture at 8000 & debtors of 200000 at 172000, the creditors of 60,000 to be paid by him at this amount.

(III) Bhanu took stock-in-trade at 70,000 and some of the sundry assets at 72000 (being 10% less than book value.)

(IV) Chandu took the remaining sundry assets at 90% of the book value less $ 1000 as discount and assume the liability of a loan together with accrued interest of 300 which was not recorded in the books.

(V) The expenses of dissolution were 2700, the remaining debtors were sold to a debt collecting agency for 50% of the book value.

Prepare realisation account.

(3) Adjust

Realisation A/C

Particulars.	₹	Particulars	₹
To sundry assets		By creditors 60,000	
Debtors 262000		By loan 15,000	
stock in trade 78000		By PFDD 12000	87000
furniture 10000		By Anil's (Comp.) 80000	
computer 80000		By Anils (gain) 20000	100000
sundry asset 170,000	600000	By Anil furniture	8000
To Anil capital A/C	60000	By Anil capital	172000
To Chandu capital A/c	15300	By Bhanu cap. (stock)	70000
To bank (real. exp.)	2700	By Bhanu cap. (S. asset)	72000
		By Chandu (Remaing S.Ass)	80000
		By bank (Remaining debtor)	31000
		By realisation loss transferred to capital A/C A - 34800 B - 11600 C - 11600	58000
	678000		678000

A/C B/S

Capital	P&L (Dr.)
General Reserve	Adver. exp.] Cap. A/C Dr.
P&L (Cr.)	Cash/Bank A/C
WCR	other asset
Other liab	↳ ~~liab~~ real.
↳ real-	

Investment & G/w distribute nahi hoga