

9. BASIC UNDERSTANDING OF DISSOLUTION OF PARTNERSHIP FIRMS

ASSIGNMENT SOLUTIONS

PROBLEM NO: 1

(i) Dr.	Realisation Account				Cr.
Particulars	Rs.	Particulars	Rs.		
To Fixed assets	5,00,000	By Creditors	3,20,000		
To Stock in trade	3,00,000	By Cash (5,20,000 + 4,40,000)	9,60,000		
To Debtors	5,00,000	By Y (Stock taken over)	2,50,000		
To Cash - Expenses	6,000	By Loss transferred to partner's capital accounts			
To Cash - Creditors (3,20,000 x 95%)	3,04,000	X	35,555		
		Y	26,667		
		Z	17,778		
	16,10,000				
			16,10,000		

(ii) Dr.	Partners' Capital Accounts						Cr.
Particulars	X	Y	Z	Particulars	X	Y	Z
To Realisation A/c	35,555	26,667	17,778	By Bal 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

(iii) Dr.	Cash Account				Cr.
Particulars	Amount (Rs.)	Particulars	Amount (Rs.)		
To Balance b/d	10,000	By Realisation A/c (Exp.)	6,000		
To Realisation A/c (Fixed assets and book debts realized)	9,60,000	By Realisation A/c (Creditors)	3,04,000		
		By X	4,04,445		
		By Y	53,333		
		By Z	2,02,222		
	9,70,000		9,70,000		

PROBLEM NO: 2

a) Dr.	Partner's Capital A/c						Cr.
Particulars	A (Rs.)	B (Rs.)	C (Rs.)	Particulars	A (Rs.)	B (Rs.)	C (Rs.)
To Cash A/c	15,636	-	-	By bal. b/d	12,000	9,000	6,000
To Realisation A/c (Bal)	-	17,762	11,438	By Realisation A/c	3,636	2,424	1,212
				By Cash A/c	-	6,338	4,226
	15,636	17,762	11,438		15,636	17,762	11,438

b) Opening entry in the book new firm:

Particulars		Amount (Rs.)	Amount (Rs.)
Stock A/c	Dr.	4,000	
Loose tools A/c	Dr.	500	
Motor vehicles A/c	Dr.	2,500	
Plant & Machinery A/c	Dr.	7,800	
Free hold premises A/c	Dr.	8,400	
Goodwill A/c	Dr.	6,000	
To B Capital A/c			17,762
To C Capital A/c			11,438
(Being assets and capitals incorporated in new firm)			

c) Balance sheet of B & C as on 30.06.2003.

Liabilities	Amount (Rs.)	Assets	Amount (Rs.)
Capitals		Stock A/c	4,000
B	17,762	Loose tools A/c	500
C	11,438	Motor vehicles A/c	2,500
		Plant & Machinery A/c	7,800
		Free hold premises A/c	8,400
		Good will A/c	6,000
	<u>29,200</u>		<u>29,200</u>

W.N-1:

Dr.		Cash A/c		Cr.	
Particulars	Amount (Rs.)	Particulars	Amount (Rs.)		
To Bal. b/d	2,500	By Creditors A/c	3,328		
To Debtors A/c	5,900				
To B Capital A/c	6,338	By A Capital A/c	15,636		
To C Capital A/c	<u>4,226</u>				
	<u>18,964</u>				<u>18,964</u>

W.N-2:

Dr.		Realisation A/c		Cr.	
Particulars	Rs.	Particulars	Rs.		
To Debtors	6,200	By Creditors	3,400		
To Stock	3,700	By Cash (debtors realization)	5,900		
To Loose tools	800	By B & C Capital A/c	29,200		
To Motor vehicle	1,200				
To Plant & Machinery	6,000				
To Freehold premises	10,000				
To Cash A/c (creditors)	3,328				
To Capital A/c					
A A/c	3,636				
B A/c	2,424				
C A/c	<u>1,212</u>				
	<u>38,500</u>				<u>38,500</u>

PROBLEM NO: 3

Dr.		Realisation Account				Cr.	
Particulars	Amount	Amount	Particulars	Amount	Amount		
To Assets:			By Liabilities:				
Plant & Machinery A/c		7,97,850	Sundry Creditors A/c		4,25,250		
Furniture A/c		48,487	Joint Life Policy				
Stock A/c		1,77,525	Reserve A/c		1,99,125		
Sundry Debtors A/c		4,00,500	Cash A/c:				
Joint Life Policy A/c		1,99,125	Joint Life Policy		1,74,375		
Commission		1,05,413	Commission		1,05,413		
Receivable			Receivable				
To L's Capital A/c:		13,500	By L's Capital A/c:				
Dissolution Expenses			Plant and Machinery	6,75,000			
To Cash A/c:		23,062	Furniture, Stocks	<u>1,35,000</u>	8,10,000		
Bill dishonoured			By M's Capital A/c:				
To Partner's Capital A/c's:			Furniture and stocks		1,35,000		
(Profit on realisation)							
L	41,851						
M	27,900						
N	13,950	83,701					
		<u>18,49,163</u>				<u>18,49,163</u>	

Dr.				Partner's Capital Accounts				Cr.			
Particulars	L	M	N	Particulars	L	M	N				
To Realisation A/c:				By Balance b/d	3,15,000	1,68,750	90,000				
Plant & Machinery	6,75,000	-	-	By Bank O.D A/c	4,54,837	-	-				
Furniture, Stocks	1,35,000	1,35,000		By Loan from Mrs. L A/c	1,12,500	-	-				
To Cash A/c (Bal. fig)	1,27,688	61,650	1,03,950	By Realisation A/c:							
				Dissolution Expenses	13,500	-	-				
				Profit on realisation	41,851	27,900	13,950				
	9,37,688	1,96,650	1,03,950		9,37,688	1,96,650	1,03,950				

Dr.		Cash Account		Cr.	
Particulars	Amount (Rs.)	Particulars	Amount (Rs.)		
To Balance b/d	36,562	By Realisation A/c:			
To Realisation A/c:		Bill dishonoured	23,062		
Joint Life Policy	1,74,375	By Partners' Capital Accounts:			
Commission		L	1,27,688		
Receivable A/c	1,05,413	M	61,650		
		N	1,03,950		
	3,16,350		3,16,350		

Note: No entry is required regarding assignment of sundry debtors to sundry creditors in full satisfaction of their claims.

PROBLEM NO. 1

Dr.		Realisation A/c		Cr.	
Particulars	Amount (Rs.)	Particulars	Amount (Rs.)		
To Fixed Assets A/c	40,000	By Provision for Bad debts A/c	5,000		
To Stock A/c	25,000	By Creditors (25,000 + 4,000)	29,000		
To Debtors A/c	25,000	By Mrs. X Loan A/c	10,000		
To Cash A/c (expenses)	1,080	By Cash A/c (20,000 + 21,000 + 20,500)	61,500		
To Cash A/c (Creditors)	28,420	By Partner's capital A/c			
To X Capital A/c (Mrs. X Loan)	10,000	X - 9,600			
		Y - 9,600			
		Z - 4,800	24,000		
	1,29,500		1,29,500		

Dr.		Z's Loan A/c		Cr.	
Particulars	Amount (Rs.)	Particulars	Amount (Rs.)		
To Cash A/c	5,000	By Balance b/d	5,000		
	5,000		5,000		

Dr.		Cash A/c		Cr.	
Particulars	Amount (Rs.)	Particulars	Amount (Rs.)		
To Balance b/d	1,000	By Realisation A/c (Creditors)	28,420		
To Realisation A/c - Assets realised	61,500	By Realisation A/c (expenses)	1,080		
		By Z's loan A/c	5,000		
To X's Cap A/c*	9,600	By X's Cap A/c	34,300		
To Z's Cap A/c*	4,800	By Z's Cap A/c	8,100		
	76,900		76,900		

*X and Z bring these amounts to make good their share of loss on realization. In actual practice they will not be bringing any cash, only a notional entry will be made.

Dr.				Partner's Capital A/c				Cr.			
Particulars	X (Rs.)	Y (Rs.)	Z (Rs.)	Particulars	X (Rs.)	Y (Rs.)	Z (Rs.)				
To Creditors A/c	1,600	1,600	800	By Balance b/d	29,200	10,800	10,000				
To Balance c/d	27,600	9,200	9,200								
	29,200	10,800	10,000		29,200	10,800	10,000				
To Advance	-	4,000	-	By Balance b/d	27,600	9,200	9,200				
To Realisation A/c (loss)	9,600	9,600	4,800	By Realisation A/c (Mrs. X Loan)	10,000	-	-				
To Y's cap	3,300	-	1,100	By Cash (Real. Loss)	9,600	-	4,800				
				By X's cap	-	3,300	-				
To Cash A/c (Bal. fig)	34,300	-	8,100	By Z's cap	-	1,100	-				
	47,200	13,600	19,000		47,200	13,600	14,000				

NOTE: Y's deficiency comes to Rs.4,400 (difference in the two sides of his Capital Account); this has been debited to X and Z in the ratio of 27,600 : 9,200 i.e., capital standing up just before dissolution but after correction of error committed while drawing up the accounts for 2012

PROBLEM NO: 5

Dr.		Realisation A/c		Cr.	
Particulars	Amount (Rs.)	Particulars	Amount (Rs.)		
To Fixed Assets A/c	1,00,000	By Cash A/c	60,000		
		By Partners Capitals A/c			
		P - 20,000			
		Q - 12,000			
		R - 8,000	40,000		
	1,00,000		1,00,000		

Dr.		Bank Loan A/c		Cr.	
Particulars	Amount (Rs.)	Particulars	Amount (Rs.)		
To Cash A/c	42,000	By Balance b/d	60,000		
To Deficiency A/c	18,000				
	60,000		60,000		

Dr.		Creditors A/c		Cr.	
Particulars	Amount (Rs.)	Particulars	Amount (Rs.)		
To Cash A/c	28,000	By Bal b/d	40,000		
To Deficiency A/c	12,000				
	40,000		40,000		

Dr.		Cash A/c		Cr.	
Particulars	Amount (Rs.)	Particulars	Amount (Rs.)		
To Balance b/d	10,000	By Bank Loan A/c	42,000		
To Realisation A/c	60,000	By Creditors A/c	28,000		
	70,000		70,000		

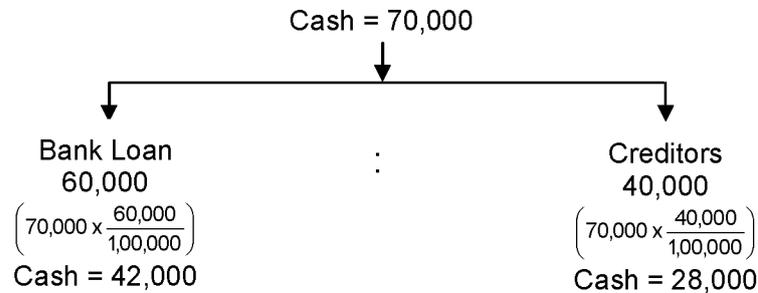
Dr.		Deficiency A/c		Cr.	
Particulars	Rs.	Amount (Rs.)	Particulars	Amount (Rs.)	
To Partners Capital A/c's			By Bank Loan	18,000	
P	15,000		By Creditors	12,000	
Q	9,000				
R	6,000	30,000			
		30,000		30,000	

Dr.

Partner's Capital A/c

Cr.

Particulars	P (Rs.)	Q (Rs.)	R (Rs.)	Particulars	P (Rs.)	Q (Rs.)	R (Rs.)
To Realisation A/c	20,000	12,000	8,000	By Balance b/d	5,000	3,000	2,000
				By Deficiency A/c	15,000	9,000	6,000
	20,000	12,000	8,000		20,000	12,000	8,000

WORKING NOTE: Distribution of Available Cash Based On the Outstanding Balance Ratio**PROBLEM NO: 6**

Statement of Distribution of Cash

	Realisation	Interest on loans from partner's Spouses	Interest on loans from partner's	Partners' Capitals			Total
				A	B	C	
Balances due (1)		2,000	1,000	9,600	6,000	8,400	24,000
i) Sale of investments	1,000	(1,000)	-				
ii) Sale of furniture	2,000	(1,000)	(1,000)				
iii) Sale of machinery	1,200	-	-				
Maximum possible loss (total of capitals Rs. 24,000 less cash available Rs. 1,200) allocated to partners in the profit sharing ratio i.e. 5 : 3 : 2	Rs. 22,800			(11,400)	(6,840)	(4,560)	(22,800)
Amounts at credit				(1,800)	(840)	3,840	1,200
Deficiency of A and B written off against C				1,800	840	(2,640)	-
Amount paid (2)				-	-	1,200	1,200
Balances in capital accounts (1 - 2) = (3)				9,600	6,000	7,200	22,800
iv) Sale of stock	4,000						
Maximum possible loss (Rs. 22,800 - Rs.4,000) Allocated to partners in the ratio 5 : 3 : 2	18,800			(9,400)	(5,640)	(3,760)	(18,800)
Amounts at credit and cash paid (4) (4,000)				200	360	3,440	4,000
Balances in capital accounts left unpaid - Loss (3 - 4) = (5)				9,400	5,640	3,760	18,800

PROBLEM NO: 7

Maximum Loss method

Statement Showing distribution of cash

Particulars	Creditors (Rs.)	Amar's loan (Rs.)	Capital Balances (Rs.)		
			Amar	Akbar	Antony
Balance due	80,000	20,000	1,00,000	30,000	90,000
15 April					

Cash Realized	60,000	(60,000)	-	-	-	-
Balance due		20,000	20,000	1,00,000	30,000	90,000
1 st May Realised	1,46,000					
Paid		(20,000)	(20,000)	-	-	-
Balance due				1,00,000	30,000	90,000
Maximum loss						
(1,06,000 - 1,00,000 - 30,000 - 90,000) = (1,14,000)						
distribution of loss 5:3:2		-	-	(57,000)	(34,200)	(22,800)
				43,000	(4,200)	67,200
Akbar's Deficiency shared to		-	-	(2,210)	4,200	(1,990)
Cash paid				40,790	-	65,210
Balance due				59,210	30,000	24,790
31 st May realized	94,000					
Maximum loss (94,000 - 59,210 - 30,000 - 24,790) = (20,000)						
Distribution of loss		-	-	(10,000)	(6,000)	(4,000)
Cash paid				49,210	24,000	20,790
Balance loss on realisation				10,000	6,000	4,000

Dr.		Cash A/c		Cr.	
Particulars	Amount (Rs.)	Particulars	Amount (Rs.)		
To Realisation A/c	60,000	By Creditors A/c	60,000		
To Realisation A/c	1,46,000	By Creditors A/c	20,000		
To Realisation A/c	94,000	By Amar's loan A/c	20,000		
		By Amar's capital A/c	40,790		
		By Antony's capital A/c	65,210		
		By Amar's capital A/c	49,210		
		By Akbar's capital A/c	24,000		
		By Antony's capital A/c	20,790		
	3,00,000		3,00,000		

Dr.		Partner's Capital A/c				Cr.	
Particulars	Amar (Rs.)	Akbar (Rs.)	Antony (Rs.)	Particulars	Amar (Rs.)	Akbar (Rs.)	Antony (Rs.)
To Cash A/c	40,790	-	65,210	By Balance b/d	1,00,000	30,000	90,000
To Cash A/c	49,210	24,000	20,790				
To Balance c/d (Realisation loss)	10,000	6,000	4,000				
	1,00,000	30,000	90,000		1,00,000	30,000	90,000

*If no further realisation takes place then Amar, Akbar and Anthony will bear loss on realisation respectively Rs.10,000, Rs.6000, Rs.4000

PROBLEM NO: 8

Statement showing the Distribution of Cash (According to Maximum Loss Method)

Particulars	Creditors (Rs.)	G's Loan (Rs.)	Capital Accounts			Total (Rs.)
			E (Rs.)	F (Rs.)	G (Rs.)	
A. Balance due	51,600	15,000	1,93,500	53,400	55,500	3,02,400
B. Paid to Creditors out of Bank (Rs. 29,200 - Rs.13,500)	(16,200)	-	-	-	-	-
Paid to creditors & G on 28th Feb.	(34,200)	(15,000)	-	-	-	-
C. Balance due (A-B)			1,93,500	53,400	55,500	3,02,400
Maximum Possible Loss if remaining assets fetch nothing (Rs.3,02,400 - Rs.2,700) in the ratio of 3:2:1			1,49,850	99,900	49,950	2,99,700
			43,650	(46,500)	5,550	

Adjustment of F's Deficiency between P & R in the ratio of their fixed capitals i.e. 1,13,100: 31,500		(36,370)	46,500	(10,130)	
Balance		7,280	-	(4,580)	
Adjustment of G's Deficiency (charged to E)		(4,580)	-	4,580	
D. Cash paid to E on Feb 28 th		2,700	-	-	2,700
E. Balance due (C - D)		1,90,800	53,400	55,500	2,99,700
Possible Max. loss (Rs. 2,99,700 - Rs. 1,39,500)		80,100	53,400	26,700	1,60,200
F. Cash Paid on 31 st March		1,10,700	-	28,800	1,39,500
G. Balance due (E - F)		80,100	53,400	26,700	1,60,200
Possible Max. Loss (Rs. 1,60,200 - Rs. 21,900)		69,150	46,100	23,050	1,38,300
H. Cash paid on 30 th April		10,950	7,300	3,650	21,900
I. Balance due (G - H)		69,150	46,100	23,050	1,38,300
J. Maximum Loss (Rs. 1,38,300 - Rs.6,300)		66,000	44,000	22,000	1,32,000
		3,150	2,100	1,050	6,300
K. Cash brought by G (6,300 - 1,050)		-	-	5,250	5,250
L. Cash paid to E & F		(3,150)	(2,100)		(5,250)
M. Investment given to G		-	-	(6,300)	6,300
N. Balance Due(I + K - L - M)		66,000	44,000	22,000	1,32,000
Possible Maximum Loss (Rs. 1,32,000 - Rs.96,000)		18,000	12,000	6,000	36,000
O. Cash paid on 30 th June		48,000	32,000	16,000	96,000
P. Unpaid balance (N - O)		18,000	12,000	6,000	36,000

Working Note:**Statement showing the calculation of cash available for distribution**

Particulars	Feb (Rs.)	March (Rs.)	April (Rs.)	May (Rs.)	June (Rs.)
A. Opening Balance	29,700	-	-	-	-
B. Add: Net Amount realised	51,900	1,39,500	18,000	-	96,000
C. Less: Provision for Expenses	13,500	-	-	-	-
D. Add: Provision no longer required	-	-	3,900	-	-
E. Cash available for distribution (A + B - C + D)	68,100	1,39,500	21,900	-	96,000

PROBLEM NO: 9**Statement showing distribution cash to Creditors and Bank loan:**

Particulars	Cash Balance (Rs.)	Creditors (Rs.)	Bank loan (Rs.)
Balance due		2,00,000	5,00,000
1. Realisation	5,00,000		
Less: Liquidation expenses	(1,00,000)		
	4,00,000		
Cash paid on outstanding ratio (2:5)	(4,00,000)	(1,14,286)	(2,85,714)
Balance due	-	85,714	2,14,286
2. Realisation	15,00,000		
Less: Cash paid	(3,00,000)	(85,714)	(2,14,286)
Balance	12,00,000	-	-

Statement showing distribution cash to partners

Particulars	Balance (Rs.)	L's Loan (Rs.)	L (Rs.)	M (Rs.)	S (Rs.)
Balance due	12,00,000	10,00,000	15,00,000	10,00,000	5,00,000
Less: Cash paid	(10,00,000)	(10,00,000)	-	-	-
Balance due	2,00,000	-	15,00,000	10,00,000	5,00,000

Less: Paid (W.N-1)	(2,00,000)	-	(2,00,000)	-	-
Balance due	-	-	13,00,000	10,00,000	5,00,000
3. Realisation	15,00,000				
Less: Paid	(3,00,000)	-	(3,00,000)	-	-
Balance due	12,00,000	-	10,00,000	10,00,000	5,00,000
Less: Paid	(10,00,000)	-	(5,00,000)	(5,00,000)	-
Balance due	2,00,000	-	5,00,000	5,00,000	5,00,000
Less: Paid	(2,00,000)	-	(66,667)	(66,667)	(66,666)
Balance due	-	-	4,33,333	4,33,333	4,33,334
4. Realised	30,00,000				
Cash paid (1:1:1)	(30,00,000)	-	(10,00,000)	(10,00,000)	(10,00,000)
Profit			(5,66,667)	(5,66,667)	(5,66,677)
5. Realised	30,00,000				
Less: paid to all	(30,00,000)	-	(10,00,000)	(10,00,000)	(10,00,000)
Total Realisation profit	-	-	(15,66,667)	(15,66,667)	(15,66,666)

W.N 1:**(i) Scheme of payment of surplus amount of Rs.2,00,000 out of second instalment**

Particulars	L (Rs.)	M (Rs.)	S (Rs.)
Capital balance	15,00,000	10,00,000	15,00,000
P&L ratio	1	1	1
Proportionate Capitals taking as 'S' Capital	(5,00,000)	(5,00,000)	(5,00,000)
Surplus	10,00,000	5,00,000	-
Profit sharing Ratio	1	1	
Proportionate Capital taking as 'M' Capital	(5,00,000)	(5,00,000)	
Higher relative capital	5,00,000	-	

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

(ii) Scheme of payment of Rs. 15,00,000 realised in 3rd Instalment:

- Payment of Rs.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 Rs. 5,00,000 as compared to capital of Mr. S.
- Payment of Rs. 5,00,000 each of Mr. L & Mr. M to discharge the higher capital.
- Balance Rs. 2,00,000 equally to L, M and S, i.e., Rs. 66,667 Rs. 66,667 and Rs. 66,666 respectively.

PROBLEM NO: 10

	Cash	Creditors	Capitals		
			P (Rs.)	Q (Rs.)	R (Rs.)
Balance due after loan		16,000	52,000	43,500	32,000
January					
Balance available	9,000				
Realization less expenses and cash retained	10,000				
Amount available and paid	19,000	(16,000)	-	-	3,000
Balance due	-	-	52,000	43,500	29,000
February					
Opening Balance	6,000				
Expenses paid and cash carried forward	3,000				
Available for distribution	3,000				
Cash paid to Q and Machinery given to R			-	3,000	9,000
Balance due	-		52,000	40,500	20,000
March					
Opening Balance	2,000				
Amount realized less expenses	87,300				
Amount paid to partners	89,300		41,689	32,767	14,844
Loss			10,311	7,733	5,156

Working Note:

(i) Highest Relative Capital Basis

	P(Rs.)	Q(Rs.)	R(Rs.)
Scheme of payment for January 2014			
Balance of Capital Accounts	65,000	50,500	32,000
Less: Loans	(13,000)	(7,000)	-
	(A) 52,000	43,500	32,000
Profit Sharing Ratio	4	3	2
Capital / Profit sharing Ratio	13,000	14,500	16,000
Capital in profit sharing ratio, taking P's capital as base (B)	52,000	39,000	26,000
Excess of R's capital and Q's Capital (A - B) (i)		4,500	6,000
Profit Sharing Ratio		3	2
Capital / Profit sharing Ratio		1,500	3,000
Capital in profit sharing ratio, taking Q's capital as base (ii)		4,500	3,000
Excess of R's Capital over Q's capital (i - ii)			3,000

(ii) Scheme of distribution of available cash for March:

	P (Rs.)	Q (Rs.)	R (Rs.)
Balance of Capital Accounts end of February (A)	52,000	40,500	20,000
Profit Sharing Ratio	4	3	2
Capital / Profit sharing Ratio	13,000	13,500	10,000
Capital in profit sharing ratio, taking R's capital as base (B) (i)	40,000	30,000	20,000
Excess of P's Capital and Q's Capital (A - B) (i)	12,000	10,500	
Profit Sharing Ratio	4	3	
Capital / Profit sharing Ratio	3,000	3,500	
Capital in profit sharing ratio taking P's capital as base (ii)	12,000	9,000	
Excess of Q's Capital over P's Capital (i - ii)		1,500	
Payment Rs. 1500 (C)		(1,500)	
Balance of Excess Capital (i - C)	12,000	9,000	
Payment Rs. 21000 (D)	(12,000)	(9,000)	
Balance due (A - C - D)	40,000	30,000	20,000
Balance cash Payment (Rs. 89,300 - Rs. 22,500) = Rs. 66,800 (E)	(29,689)	(22,267)	(14,844)
Total Payment (Rs. 89,000) (C + D + E) (iii)	41,689	32,767	
			14,844
Loss (A - iii)	10,311	7,733	5,156

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To **MASTER MINDS**, Guntur

THE END