6. BASIC UNDERSTANDING OF DISSOLUTION OF PARTNERSHIP FIRMS

NO. OF PROBLEMS IN 41e OF CA INTER: CLASSROOM - 09, ASSIGNMENT – 10

NO. OF PROBLEMS IN 42e OF CA INTER: CLASSROOM - 09, ASSIGNMENT - 11

MODEL WISE ANALYSIS OF PAST EXAM PAPERS OF IPCC & CA INTER

MODEL NO.	M-12	N-12 TO N-13	M-14	N-14	M-15	N-15	M-16	N-16	M-17	N-17	M-18 (O)	M-18 (N)	N-18 (O)	N-18 (N)
Model - 1	-	-	-	-	16	-	-	-	-	-	16	-	16	-
Model - 2	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Model - 3	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Model - 4	16	-	16	-	-	-	-	16	-	-	-	-	-	20

Model - 1 : Dissolution of Partnership Firm and Final Settlement of Accounts

Model - 2 : Dissolution due to insolvency of one or more partners by application of Garner Vs. Murray Rule

Model - 3 : Dissolution due to insolvency of all partners

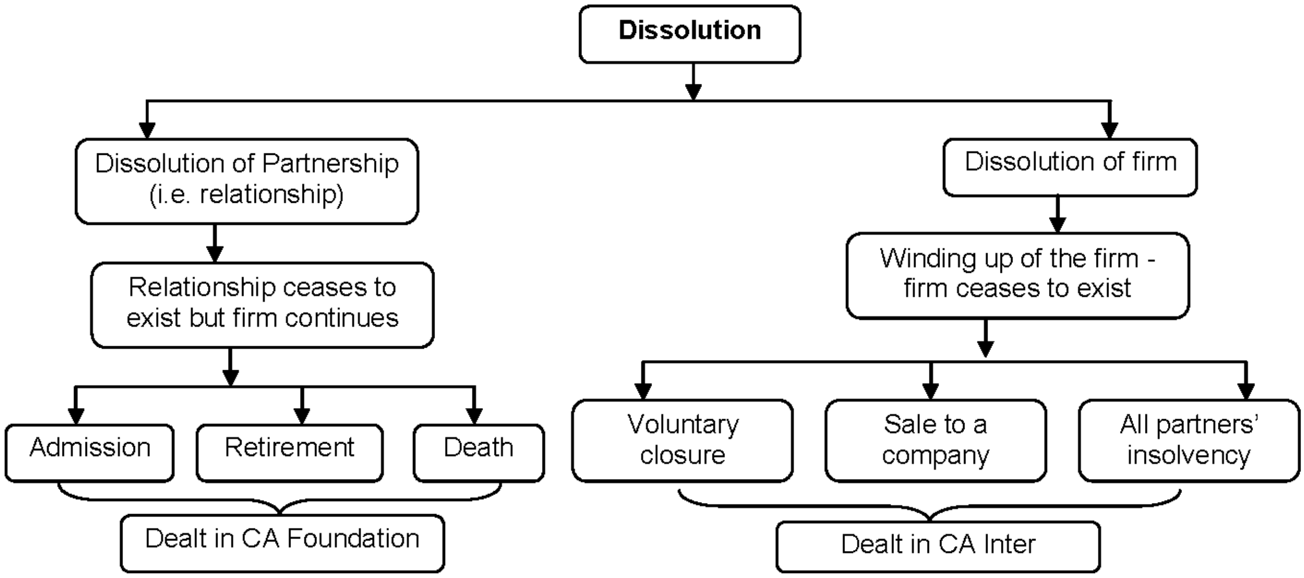
Model - 4 : Piecemeal Distribution

SIGNIFICANCE OF EACH PROBLEM COVERED IN THIS MATERIAL

PROBLEM No. in this material	PROBLEM No. in NEW SM	PROBLEM No. in OLD SM	PROBLEM No. in OLD PM	RTP	MTP	Previous Exams	Remarks
CR -1	-	PQ NO-1	2	-	-	-	-
CR -2	-	-	3	N18 (O)	-	-	-
CR -3	ILL-5	PQ NO-2	-	-	-	-	-
CR- 4	ILL-3	ILL-4	-	-	-	-	-
CR -5	ILL-3	ILL-2	-	-	-	-	-
CR -6	ILL-6	ILL-7	-	-	-	-	-
CR -7	-	ILL-8	12	N18 (N&O)	-	-	-
CR -8	ILL-7	PQ NO-4	-	-	-	-	-
CR -9	ILL-9	ILL-10	-	-	-	-	-
ASG- 1	-	ILL-1	1				-
ASG- 2	-	-	-	-	-	-	-
ASG -3	-	-	-	M-17	-	-	-
ASG -4	ILL-4	ILL-5	-	-	-	-	-
ASG -5	-	-	-	-	-	-	-
ASG- 6	-	PQ NO-3	10	-	M-17	-	-
ASG- 7	-	-	11	-	-	-	-
ASG- 8	-	-	-	-	-	N18(N)	-
ASG- 9	ILL-8	ILL-9	EX-2	M-16	-	-	-
ASG- 10	-	-	13	-	-	M-14	-
ASG- 11	ILL-2	ILL-2	-	-	-	-	-

THEORY

DISSOLUTION OF A FIRM



MODEL NO.1: DISSOLUTION OF PARTNERSHIP FIRM AND FINAL SETTLEMENT OF ACCOUNTS

1. **Dissolution of a Firm:** Dissolution of a firm refers to the situation wherein the partnership firm ceases to exist. In simple words, partnership firm comes to an end, and relationship between all the partners also comes to an end.
2. **Reasons for Dissolution of firm:**
   - **a)** On the insolvency of all the partners or all except one.
   - **b)** On business becoming unlawful
   - **c)** On the expiry of the term for which the firm was formed
   - **d)** On the completion of the venture(s) for which the firm was formed
   - **e)** On the death of a partner; or retirement of a partner subject to contract between the partner etc.
   - **f)** The court orders dissolution
   - **g)** The Partners agree that the firm should be dissolved
3. **Settlement of accounts:**

   The provisions of Sec 48 relating to settlement of accounts at the time of dissolution of firm are given below:

Treatment of Losses	Losses including deficiencies of capital are to be paid in the following manner. **a)** First out of profits; **b)** Then out of capital; **c)** Lastly by partners individually in their profit-sharing ratio. [Sec. 48 (a)].
Application of Assets	The assets of the firm (including the sums, if any, contributed by the partners to make up the deficiencies of capital) shall be applied in the following manner and order. **a)** First to pay off firm's debts due to the third parties, **Note:** Secured creditors are to be paid off first out of the proceeds of secured assets before anything is paid to unsecured creditors **b)** Then to pay off loans from partners. **c)** Then to pay oft capitals of partners. **d)** Lastly the surplus, (If any), shall be divided among the partners In their profit-sharing ratio. [Sec. 48 (b)]

4. **Realisation Account:**

a) **Objective:** The object of Realisation Account is to close the books of accounts of a dissolved firm and compute the net effect of realisation of various assets and payment of various liabilities.

b) **Features:**

i) It records the **realisation of various assets and payments of various liabilities**.

ii) It is prepared **to determine the net profit/loss on realisation**.

iii) It is prepared **at the time of dissolution of the firm**.

iv) Its balance is transferred **to all partners' capital accounts**.

v) Entries relating to assets and liabilities are made on the basis of their **book values and actual payments**.

vi) As a result of entries passed in this account, the **accounts** of assets and liabilities are **closed**.

vii) This account is prepared only **once during the lifetime of a firm**.

5. **Accounting Entries for closing the books of Partnership on Dissolution:**

a) **On Transfer of Assets to Realisation A/c:**

❅	Realisation A/c Dr To Sundry assets (individually)	(With the total) (Individual book values)

Notes:

1. All the recorded assets except cash in hand or at bank at book values (i.e. including goodwill, joint life policy but excluding fictitious assets, Current A/c and Capital A/c) debited to Realization A/c.
2. In case of dissolution of a firm on A/c of 'Sale of Business', unless otherwise stated, Cash & Bank balances shall also be transferred to the Realisation A/c.
3. It should be remembered that Sundry Debtors and Provisions for Bad Debts Accounts are two separate accounts and the gross amount of debtors should be transferred

b) **On Transfer of Outsiders' Liabilities to Realisation A/c:**

❅	Sundry Liabilities (Individually) Dr. To Realisation A/c	(Individual book values) (With the total)

Notes:

1. That portion of any provision/fund which represents a liability expected to arise in future, should also be transferred to Realisation A/c.
2. Loan from a relative of a partner is an external liability whereas loan from any partner is not an external liability since its payment can be made only after the repayment of outsiders' liabilities. No doubt, loan from partner is having priority as to repayment over the repayment of any part of capital.

c) **On Realisation of all Assets (whether recorded or unrecorded):**

❅	**When the assets are sold for cash:** Cash (or) Bank A/c Dr To Realisation A/c	XXX	 XXX
❅	**When the assets are taken away by any of the partners:** Concerned Partner's Capital A/c Dr To Realisation A/c	XXX	 XXX
❅	**When the assets are given away to any of the creditors towards the full (or) partial payment of his dues:** ---No journal entry may be passed---		

Note: Firm's assets which are not appearing in its books are called firm's unrecorded assets.

d) On Discharge of Outsiders' Liabilities (recorded or unrecorded):

❅	**When the liabilities are discharged in cash:** Realisation A/c Dr To Cash (or) Bank A/c	 XXX 	 XXX
❅	**When any of the partners agree to discharge a liability:** Realisation A/c Dr To Concerned Partner's Capital A/c	 XXX 	 XXX

Note: Firm's liabilities which are not appearing in its books are called unrecorded liabilities.

e) On Payment of Realisation Expenses:

❅	**When such expenses are paid in cash:** Realisation A/c Dr To Cash (or) Bank A/c	 XXX 	 XXX
❅	**When any of the partners agrees to do dissolution work for an agreed remuneration:** Realisation A/c Dr To Concerned Partner's Capital A/c	 XXX 	 XXX

f) On Transfer of the Balance in Realisation A/c:

❅	**In case of Profit on Realisation:** Realisation A/c Dr To All Partners' Capital A/c's	 XXX 	 XXX
❅	**In case of Loss on Realisation:** All Partners' Capital A/c's Dr To Realisation A/c	 XXX 	 XXX

g) On Payment of Partner's Loan/Advances:

❅	Partner's Loan/Advance A/c Dr To Cash/Bank A/c	XXX 	 XXX

Note: Where a Partner's Capital A/c shows a debit balance. His loan (to firm) A/c should be transferred to his Capital A/c to the extent of debit balance and the balance, if any, in his Loan A/c (To firm) should be paid off.

h) On Transfer of the Accumulated Profits & Losses:

❅	**In case of accumulated profits & reserves (i.e. Credit Balance in P & L A/c. General Reserve):** Profit & Loss A/c Dr General Reserve Dr To All Partners' Capital A/c's	 XXX XXX 	 XXX
❅	**In case of accumulated losses, (e.g. debit balance in P & L A/c, Deferred Revenue Expenditure):** All Partners' Capital A/c's Dr To Profit & Loss A/c To Deferred Revenue Expenditure A/c	 XXX 	 XXX XXX

i) On Transfer of the Balance in Current A/c(s) (if any):

❅	**In case of debit balance in a Current A/c of a partner:** Concerned Partner's Capital A/c Dr To concerned Partner's Current A/c	 XXX 	 XXX
❅	**In case of credit balance in a current A/c of a partner:** Concerned Partner's Current A/c Dr To Concerned Partner's Capital A/c	 XXX 	 XXX

j) **On Making Payment to/by a Partner:**

❅	**In case of payment by a partner having a debit balance in his Capital A/c:** Cash (or) Bank A/c Dr. To Concerned Partner's Capital A/c	XXX	XXX
❅	**In case of payment to a partner having a credit balance in his Capital A/c:** Concerned Partner's Capital A/c Dr. To Cash (or) Bank A/c	XXX	XXX

Treatment of Goodwill:

Particulars	If Goodwill is Already Appearing in the Books	If Goodwill is not Appearing in the Books
On Transfer to Realisation A/c	Realisation A/c Dr. To Goodwill A/c	The question of transfer does not arise at all.
On Sale for cash	Cash (or) Bank A/c Dr. To Realisation A/c	Cash (or) Bank A/c Dr. To Realisation A/c
On being taken over by any of the partners	Concerned Capital A/c Dr. To Realisation A/c	Concerned Capital A/c Dr. To Realisation A/c

MODEL NO.2: DISSOLUTION DUE TO INSOLVENCY OF ONE OR MORE PARTNERS BY APPLICATION OF GARNER VS. MURRAY

If a partner having a debit balance in his Capital Account is unable to bring in the necessary cash to make up the deficiency, he is said to be an insolvent partner. The irrecovered debit balance is called the loss arising due to the insolvency of a partner. Now the question arises should this loss be regarded as an ordinary loss (which is shared by the partners in their profit-sharing ratio) or an extra ordinary one? This issue was involved in the leading case of Garner vs. Murray (1904).

<u>Decision Making by Garner Vs. Murray Rule:</u>

Justice Joyee held that the loss arising due to the insolvency of a partner must be distinguished from an ordinary loss (including realisation loss). Unless otherwise agreed, the decision in Garner vs. Murray requires-

a) That the solvent partners should bring in cash equal to their respective shares of the loss on realisation;

b) That the solvent partners should bear the loss arising due to the insolvency of a partner in the ratio of their Last Agreed Capitals.

The Last Agreed Capital should be interpreted as under:

Case	Meaning of Last Agreed Capital
a) In case of Fixed Capitals	Last Agreed Capital means the Fixed Capital (given in the Balance Sheet) without any adjustment.
b) In case of Fluctuating Capitals	Last Agreed Capital means the Capital after making adjustments for past accumulated reserves, profits or losses, drawings, interest on capitals, interest on drawings. remuneration to a partner etc. to the date of dissolution but before making adjustment for profit or loss on realisation.

MODEL NO.3: DISSOLUTION DUE TO INSOLVENCY OF ALL PARTNERS

When all the partners are insolvent and the firm's assets fall short of its liabilities, the creditors of the firm cannot be paid in full, The available cash with the firm (Cash in Hand + Final amount received from the partner's estate) is used first for paying realisation expenses. The balance amount is paid to creditors proportionally.

In order, to close the books of the firm, Realisation Account is prepared in the usual manner without transferring the liabilities to Realisation Account. All liabilities are discharged directly to the extent possible. Any balance left unpaid is transferred to deficiency A/c. The partner's capital accounts are then closed by transferring to deficiency A/c.

The Accounting Entries are:

1. **For Payment of Liabilities:**

Liabilities A/c Dr.	
To Cash / Bank A/c	(Actual Amount paid)
To Deficiency A/c	(Unpaid amount)

2. **For Closing Partner's Capital A/c's:**

   Deficiency A/c Dr.

   To Partner's Capital A/c's

MODEL NO.4: PIECEMEAL DISTRIBUTION

Generally, the assets sold upon dissolution of partnership are realised only in small instalments over a period of time. In such circumstances, the choice is either to distribute whatever is collected or to wait till the whole amount is collected. Usually, the first course is adopted. In order to ensure that the distribution of cash among the partners is in proportion to their interest in the partnership concern either of the two methods described below may be followed for determining the order in which the payment should be made.

1. **Maximum Loss Method:** This method is suitable when a partner or (partners) is known to be insolvent or is likely to be so. Under this method, every instalment realised is considered as final realisation, i.e., the remaining assets and claims are worthless. The maximum possible loss (Balance due ***minus*** assets realised) is distributed among all the partners in the profit-sharing ratio. In case, any partner(s) apportioned loss exceeds his balance due then, he is assumed for this purpose to be insolvent and his negative balance will be shared by the solvent partners in their Capital Ratio (assuming Garner Vs. Murray). This process is repeated till the negative balance is abolished. The partners having positive balance is paid-off first.

   The same principle is to be followed for all subsequent realisations.

   Notes:

   a) Cash in hand is to be considered as first realisation; and

   b) For calculating capital ratio, balance of Capital A/c and share of reserve and surplus are to be considered when capitals are fluctuating. However, when capitals are fixed, no adjustment is required.

2. **Higher Relative Capital method (or) Proportionate Method:**

   Step 1: Ascertain partner who has least capital for his profit share vis-a-vis other partners.

   Step 2: Compute proportionate capitals of other partners on the basis of the partner's capital identified in Step 1.

   Step 3: Determine excess capital of other partners.

   Excess capital = Existing capital - Proportionate capital.

   Step 4: Cash should be distributed in the following order

   a) First pay off excess capital

   b) Then cash available should be distributed among all partners in profit sharing ratio.

   Note:

   i) The capital account balance after repayment of excess capitals would be in profit sharing ratio.

   ii) In the event of two or more partners having excess capital and cash being insufficient to pay excess capital in the first instance, the steps 1 to 4 above should be repeated to ascertain the excess of 'excess capital" among these partners.

PROBLEMS FOR CLASSROOM DISCUSSION

MODEL NO.1: DISSOLUTION OF PARTNERSHIP FIRM AND FINAL SETTLEMENT OF ACCOUNTS

PROBLEM NO 1: (PRINTED SOLUTION AVAILABLE) P, Q and R are the Partners sharing profits and losses as to 2:2:1. Their balance sheet as on 31st march, 2011 is as follows:

Liabilities	Rs.	Assets	Rs.
Capital accounts:		Plant and machinery	1,08,000
P	1,20,000	Fixtures	24,000
Q	48,000	Stock	60,000
R	24,000	Sundry debtors	48,000
Reserve fund	60,000	Cash	60,000
Creditors	48,000		
	3,00,000		**3,00,000**

They decided to dissolve the business. The following are the amounts realized:

Plant and machinery	Rs.1,02,000
Fixtures	Rs. 18,000
Stock	Rs. 84,000
Sundry Debtors	Rs. 44,400

Creditors allowed a discount of 5% and realization expenses amounted to Rs.1,500. There was an unrecorded asset of Rs.6,000 which was taken over by Q at Rs.4,800. A bill for 4,200 due for sales tax was received during the course of realization and this was also paid.

You are required to prepare:

1. Realisation Account
2. Partner's Capital Accounts.
3. Cash Account *(B) (NEW SM)*

(ANS.: PROFIT ON REALIZATION P -3,960, Q- 3,960, R- 1,980, CASH PAID TO PARTNER'S P- RS.1,47,960; Q- RS.71,160; R- RS.37,980) (SOLVE PROBLEM NO. 1, 2 OF ASSIGNMENT PROBLEM AS REWORK)

Note: ______________________________

____

PROBLEM NO 2: Read, Write and Add give you the following Balance Sheet as on 31st March, 2011.

Liabilities		Rs.	Assets		Rs.
Capital Accounts:			Plant and Machinery at cost		30,000
Read	30,000		Fixtures and Fittings		2,000
Write	10,000		Stock		10,400
Add	2,000	42,000	Debtors **Less:** Provision	18,400 (400)	18,000
Read's Loan		15,000	Joint Life Policy		15,000
Sundry Creditors		17,800	Patents and Trademarks		10,000
Loan on Hypothecation of Stock		6,200	Cash at Bank		8,000
Joint Life Policy Reserve		12,400			
		93,400			**93,400**

The partners shared profits and losses in the ratio of Read 4/9, Write 2/9 and Add 1/3. Firm was dissolved on 31st March, 2011 and you are given the following information:

1. Add had taken a loan from insurers for Rs. 5,000 on the security of Joint Life Policy.

   The policy was surrendered and Insurers paid a sum of Rs. 10,200 after deducting Rs. 5,000 for. Add's loan and Rs. 300 as interest thereon.

2. One of the creditors took some of the patents whose book value was Rs. 6,000 at a valuation of Rs. 4,500. The balance to that creditor was paid in cash.

3. The firm had previously purchased some shares in a joint stock company and had written them off on finding them useless. The shares were now found to be worth Rs. 3,000 and the loan creditor agreed to accept the shares at this value.

4. The remaining assets realized the following amount:

	Rs.
Plant and Machinery	17,000
Fixtures and Fittings	1,000
Stock	9,000
Debtors	16,500
Patents 50% of their book value	

5. The liabilities were paid and a total discount of Rs. 500 was allowed by the creditors.

6. The expenses of realization amounted to Rs. 2,300.

Prepare the Realisation Account, Bank Account and Partners Capital Accounts in columnar form.

(B) (OLD PM, SIMILAR: N18 (O)) (ANS: REALISATION LOSS READ-2,800, WRITE-1,400, ADD-2,100; BANK A/C TOTAL 74,400; PARTNERS CAPITAL A/C TRANSFERRED TO BANK READ-27,200, WRITE-8,600, ADD-(5,400))

(SOLVE PROBLEM NO. 3 OF ASSIGNMENT PROBLEM AS REWORK)

Note: ____

MODEL NO.2: DISSOLUTION DUE TO INSOLVENCY OF ONE OR MORE PARTNERS BY APPLICATION OF GARNER VS. MURRAY

PROBLEM NO 3: (PRINTED SOLUTION AVAILABLE) 'Thin', 'Short' and 'Fat' were in partnership sharing profits and losses in the ratio of 2:2:1. On 30th September, 2012 their Balance Sheet was as follows:

Liabilities		**Rs.**	**Assets**	**Rs.**
Capital Accounts:			Premises	50,000
Thin	80,000		Fixtures	1,25,000
Short	50,000		Plant	32,500
Fat	20,000	1,50,000	Stock	43,200
Current Accounts:			Debtors	54,780
Thin	29,700			
Short	11,300			
Fat (Dr.)	(14,500)	26,500		
Sundry Creditors		84,650		
Bank Overdraft		44,330		
		3,05,480		**3,05,480**

'Thin' decides to retire on 30^{th} September, 2012 and as 'Fat' appears to be short of private assets, 'Short' decides that he does not wish to take over Thin's share of partnership, so all three partners decide to dissolve the partnership with effect from 30th September, 2012. It then transpires that 'Fat' has no private assets whatsoever.

The premises are sold for Rs.60,000 and the plant for Rs.1,07,500. The fixtures realize Rs.20,000 and the stock is acquired by another firm at book value less 5%. Debtors realise Rs.45,900. Realisation expenses amount to Rs.4,500.

The bank overdraft is discharged and the creditors are also paid in full.

You are required to write up the following ledger accounts in the partnership books following the rules in Garner vs. Murray:

1. Realisation Account ;
2. Partners' Current Accounts;
3. Partners' Capital Accounts showing the closing of the firm's books. *(A) (NEW SM)*

(ANS.: LOSS ON REALISATION IS 35,540, TOTAL OF CURRENT A/C THIN 29,700 SHORT 14,216, FAT 21,608, TOTAL OF CAPITAL A/C THIN 1,09,700 SHORT 64,216, FAT 21,608) (SOLVE PROBLEM NO. 4 OF ASSIGNMENT PROBLEM AS REWORK)

Note: ____

____

PROBLEM NO 4: A, B, C and D sharing profits in the ratio of 4:3:2:1 decided to dissolve their partnership on 31st March 2012 when their balance sheet was as under:

Liabilities	Rs.	Assets	Rs.
Creditors	15,700	Bank	535
Employees Provident Fund	6,300	Debtors	15,850
Capital Accounts:		Stock	25,200
A 40,000		Prepaid Expenses	800
B 20,000	60,000	Plant & Machinery	20,000
		Patents	8,000
		C's Capital A/c	3,200
		D's Capital A/c	8,415
	82,000		**82,000**

1. One of the creditors took some of the patents whose book value was Rs.5,000 at a valuation of Rs.3,200. Balance of the creditors were paid at a discount of Rs.400.
2. There was a joint life policy of Rs.20,000 (not mentioned in the balance sheet) and this was surrendered for Rs.4,500.
3. **The remaining assets were realised at the following values:** Debtors Rs.10,800; Stock Rs.15,600; Plant and Machinery Rs.12,000; and Patents at 60% of their book-values. Expenses of realisation amounted Rs.1,500.

D became insolvent and a dividend of 25 paisa in a rupee was received in respect of the firms claim against his estate. Prepare necessary ledger accounts.

(A) (NEW SM) (ANS.: LOSS ON REALISATION IS 23,050, TOTAL OF BANK A/C IS 71,860)

Note: ____

____

MODEL NO.3: DISSOLUTION DUE TO INSOLVENCY OF ALL PARTNERS

PROBLEM NO 5: Amal and Bimal are in equal partnership. Their Balance Sheet stood as under on 31st March, 2012 when the firm was dissolved:

Liabilities	Rs.	Assets	Rs.
Creditors A/c	4,800	Plant & Machinery	2,500
Amal's Capital A/c	750	Furniture	500
		Debtors	1,000
		Stock	800
		Cash	200
		Bimal's drawings	550
	5,550		**5,550**

The assets realised as under:

Particulars	Rs.
Plant & Machinery	1,250
Furniture	150
Debtors	400
Stock	500

The expenses of realisation amounted to Rs. 175. Amal's private estate is not sufficient even to pay his private debts, whereas Bimal's private estate has a surplus of Rs. 200 only.

Show necessary ledger accounts to close the books of the firm. *(B) (NEW SM)*

(ANS.: REALISATION LOSS AMAL-1,337, BIMAL-1,338; CASH A/C TOTAL 2,700; PARTNERS CAPITAL A/C TRANSFERRED TO DEFICIENCY A/C AMAL-587, BIMAL-1,688) (SOLVE PROBLEM NO. 5 OF ASSIGNMENT PROBLEM AS REWORK)

Note: ____

____

MODEL NO. 4: PIECEMEAL DISTRIBUTION

PROBLEM NO 6: (PRINTED SOLUTION AVAILABLE) The following is the Balance Sheet of A, B, C on 31st December, 2012 when they decided to dissolve the partnership:

Liabilities	Rs.	Assets	Rs.
Creditors	2,000	Sundry Assets	48,500
A's Loan	5,000	Cash	500
Capital Accounts:			
A	15,000		
B	18,000		
C	9,000		
	49,000		**49,000**

The assets realised the following sums in installments:

I	1,000
II	3,000
III	3,900
IV	6,000
V	20,100 (Including saving in expenses)
	34,000

The expenses of realisation were expected to be **Rs.**500 but ultimately amounted to Rs.400 only.

Show how at each stage the cash received should be distributed between partners. They share profits in the ratio of 2:2:1. Follow Maximum loss method for piecemeal distribution.

(A) (NEW SM) (ANS.: LOSS BY PARTNERS A-6,000, B-6,000, C-3,000)

(SOLVE PROBLEM NO. 6, 7, 8 OF ASSIGNMENT PROBLEM AS REWORK)

Note: ____

____

PROBLEM NO 7: Ajay Enterprises, a Partnership firm in which A, B and C are three partners sharing profits and losses in the ratio of 4 : 3 : 3. The balance sheet of the firm as on 31st December, 2011 is as below:

Liabilities	Rs.	Assets	Rs.
A' s Capital	15,000	Factory Building	24,160
B' s Capital	7,500	Plant & Machinery	16,275
C' s Capital	15,000	Debtors	5,400
B' s Loan	4,500	Stock	12,390
Sundry Creditors	16,500	Cash at Bank	275
	58,500		**58,500**

On balance sheet date all the three partners have decided to dissolve their partnership. Since the realization of assets was protracted, they decided to distribute amounts as and when feasible and for this purpose they appoint C who was to get as his remunerations 1% of the value of the assets realized other than cash at Bank and 10% of the amount distributed to the partners.

Assets were realized piecemeal as under: **Rs.**

First installment	18,650
Second installment	17,320
Third installment	10,000
Last installment	7,000
Dissolution expenses were provided for estimated amount of	3,000
The creditors were settled finally for	15,900

Prepare a statement showing distribution of cash amongst the partners by 'Higher Relative Capital Method'. ***(A) (NEW SM, MTP2 M18 (N&O), SIMILAR: RTP N18 (N&O), RTP N16, N16 - 16M)***

(ANS: LOSS SUFFERED BY PARTNERS A: 4,340, B: 3,255, C: 3,255)

(SOLVE PROBLEM NO.9 OF ASSIGNMENT PROBLEM AS REWORK)

Note: ____

____

<u>**PROBLEM NO 8:**</u> **(PRINTED SOLUTION AVAILABLE)** The partners A, B & C have called upon you to assist them in winding up the affairs of their partnership on 30th June, 2012. Their Balance Sheet as on that date is given below:

Liabilities	**Rs.**	**Assets**	**Rs.**
Sundry Creditors	17,000	Cash at Bank	6,000
Capital A/c's:		Sundry Debtors	22,000
A 67,000		Stock in trade	14,000
B 45,000		Plant & Equipment	99,000
C 31,500	1,43,500	Loan-A	12,000
		Loan-B	7,500
	1,60,500		**1,60,500**

1. The partners share Profits & Losses in the ratio of 5:3:2.
2. Cash is distributed to the partners at the end of each year.
3. A summary of liquidation transactions are as follows:

July 2012	
Rs.16,500	Collected from Debtors; balance is uncollectible
Rs.10,000	Received from sale of entire stock
Rs.1,000	Liquidation expenses paid.
Rs.8,000	Cash retained in the business at the end of the month.
August 2012	
Rs.1,500	Liquidation expenses paid. As part payment of his Capital
	C accepted piece of equipment for Rs.10,000 (book value Rs.4,000)
Rs.2,500	Cash retained in the business at the end of the month.
Sept. 2012	
Rs.75,000	Received on sale of remaining plant and equipment
Rs.1,000	Liquidation expenses Paid. No cash retained in the business.

Prepare a schedule of cash payments as of 30th September, showing how the cash was distributed under surplus capital method. ***(A) (NEW SM) (ANS.: LOSS TO BE BORNE - A: RS. 13,500; B: RS. 8,100; C: 5,400)***

(SOLVE PROBLEM NO. 10 OF ASSIGNMENT PROBLEM AS REWORK)

Note: ____

____

PROBLEM NO 9: Daksh Associates is a reputed firm. On account of certain misunderstanding between the partners, it was decided to dissolve the firm as on 31st December, 2011. Their Balance Sheet as on 31st December, 2011 was follows:

Liabilities		Rs.	Assets	Rs.
Capitals:			Land and Buildings	7,00,000
Daksh	3,00,000		Other Fixed Assets	3,00,000
Yash	2,00,000		Stock in Trade	2,00,000
Siddhart (Minor)	1,00,000	6,00,000	Debtors	4,00,000
Trade Loans		3,00,000	Bills Receivable	1,50,000
Bank Overdraft		3,00,000	Goodwill	30,000
Other Loans		2,00,000	Cash	20,000
Creditors		2,00,000		
Siddhart's Loan		2,00,000		
		18,00,000		**18,00,000**

It was decided that Mr. Daksh shall be in-charge of Realisation. He shall set apart Rs. 10,000 towards expenses. He shall be paid a remuneration of 5 percent on the amounts distributed to the partners towards their contribution other than loans. Assets realized are as under:

		Rs.
1-1-2012	Debtors	3,50,000
15-1-2012	Fixed Assets	4,00,000
1-2-2012	Debtors	50,000
15-2-2012	Bills Receivable	1,40,000
1-3-2012	Fixed Assets	50,000
15-3-2012	Land and Buildings	8,00,000

Prepare a statement showing how the money received on various dates will be distributed assuming:

1. The actual expenses of realization amounted to Rs. 20,000.
2. The firm is solvent.
3. The profit sharing ratio was as under:

	Profit	Loss
Daksh	2	1
Yash	2	1
Siddharth	1	Nil
	5	**2**

4. The final dissolution is made on 15th March, 2012. ***(A) (NEW SM)***

(ANS.: BALANCE DUE DAKSH-RS.19,050; YASH-RS.19,050; SIDDHART-NIL)

Note:____

ASSIGNMENT PROBLEMS

MODEL NO.1: DISSOLUTION OF PARTNERSHIP FIRM AND FINAL SETTLEMENT OF ACCOUNTS

PROBLEM NO 1: X, Y and Z are partners of the firm XYZ and Co., sharing Profits and Losses in the ratio of 4 : 3 : 2. Following is the Balance Sheet of the firm as at 31st March, 2012:

Balance Sheet as at 31st March, 2012

Liabilities	Rs.	Assets	Rs.
Partners' Capitals:		Fixed Assets	5,00,000
X	4,00,000	Stock in trade	3,00,000

Y	3,00,000	Sundry debtors	5,00,000
Z	2,00,000	Cash in hand	10,000
General Reserve	90,000		
Sundry Creditors	3,20,000		
	13,10,000		**13,10,000**

Partners of the firm decided to dissolve the firm on the above said date.

Fixed assets realized Rs. 5,20,000 and book debts Rs. 4,40,000.

Stocks were valued at Rs. 2,50,000 and it was taken over by partner Y.

Creditors allowed discount of 5% and the expenses of realization amounted to Rs. 6,000.

You are required to prepare:

1. Realisation account;
2. Partners capital account; and
3. Cash account.

(B) (NEW SM) (ANS.: (I) REALISATION LOSS X-35,555; Y-26,667; Z-17,778 (II) PARTNERS CAPITAL A/C TRANSFERRED CASH X-4,04,445; Y-53,333; Z-2,02,222. (III) CASH A/C TOTAL 9,70,000)

PROBLEM NO 2: A, B & C decided to dissolve their partnership on 30th June, 2003. Their balance sheet is as follows:

Liabilities			Rs.	Assets	Rs.
Creditors			3,400	Cash at bank	2,500
Capitals:				Debtors	6,200
	A	12,000		Stock	3,700
	B	9,000		Loose Tools	800
	C	6,000	27,000	Motor Vehicles	1,200
				Plant & Machinery	6,000
				Freehold premises	10,000
			30,400		**30,400**

B & C agreed to form a new partnership to carry on the business and it is agreed that they shall acquire from the old firm the following assets at figures shown below: Stock - Rs.4,000 Loose Tools - Rs.500 Motor vehicles - Rs.2,500 Plant & Machinery - Rs.7,800 Freehold premises - Rs.8,400 Goodwill - Rs.6,000. Debtors realise Rs.5,900 and discounts amounting to Rs.72 are secured on payments due to creditors. The partnership agreement of A, B & C provides that Trading Profit or Loss shall be divided in the ratio of 3:2:1 and that capital profits or losses shall be divided in proportion of their respective capitals.

You are required to Prepare

a) The necessary A/c's of A, B & C giving effect to these transactions and
b) Opening entry in the books of B & C.
c) Draw up the opening Balance Sheet of B & C who bring necessary cash to pay A in the ratio of 3:2.

(A) (ANS.: BALANCE IN REALIZATON ACCOUNT: 34,950, TOTAL OF BALANCE SHEET: 2,27,658)

PROBLEM NO 3: L, M and N were in partnership sharing profits and losses in the ratio of 3:2:1 respectively.They decided to dissolve the partnership firm on 31.03.2016, when the Balance Sheet of the firm appeared as under:

Balance Sheet of the firm as on 31.03.2016

Liabilities	Rs.	Rs.	Assets	Rs.
Sundry Creditors		4,25,250	Plant and Machinery	7,97,850
Bank Overdraft		4,54,837	Furniture	48,487
Joint Life Policy Reserve		1,99,125	Stock	1,77,525
Loan from Mrs. L		1,12,500	Sundry Debtors	4,00,500
Capital Accounts			Joint Life Policy	1,99,125

L	3,15,000		Commission Receivable	1,05,413
M	1,68,750		Cash in Hand	36,562
N	90,000	5,73,750		
		17,65,462		**17,65,462**

The following details are relevant for dissolution:

i) The joint life policy was surrendered for Rs.1,74,375.

ii) L took over plant and machinery for Rs.6,75,000.

iii) L also agreed to discharge bank overdraft and loan from Mrs. L.

iv) Furniture and stocks were divided equally between L and M at an agreed valuation of Rs. 2,70,000.

v) Sundry debtors were assigned to firm's creditors in full satisfaction of their claims.

vi) Commission receivable was received in time.

vii) A bill discounted was subsequently returned dishonoured and proved valueless Rs.23,062 (including Rs.375 noting charges).

viii) L paid the expenses of dissolution amounting to Rs.13,500.

You are required to prepare:

i) Realisation Account

ii) Partners' Capital Accounts and

iii) Cash Account. ***(A) (RTP M17)***

(ANS.: PROFIT ON REALISATION: RS.83,701; BALANCE IN CAPITAL A/C'S L - RS.1,27,688 M - RS.61,650 N - 1,03,950)

MODEL NO.2: DISSOLUTION DUE TO INSOLVENCY OF ONE OR MORE PARTNERS BY APPLICATION OF GARNER VS. MURRAY

PROBLEM NO 4: M/s X, Y and Z who were in partnership sharing profits and losses in the ratio of 2:2:1 respectively, had the following Balance Sheet as at December 31, 2012:

Liabilities	Rs.	Assets		Rs.
Capital: X	29,200	Fixed Assets		40,000
Y	10,800	Stock		25,000
Z	10,000	Book Debts	25,000	
Z's Loan	5,000	**Less:** Provision	(5,000)	20,000
Loan from Mrs. X	10,000	Cash		1,000
Sundry Trade Creditors	25,000	Advance to Y		4,000
	90,000			**90,000**

The firm was dissolved on the date mentioned above due to continued losses. After drawing up the balance sheet given above, it was discovered that goods amounting to Rs. 4,000 have been purchased in November, 2012 and had been received but the purchase was not recorded in books.

Fixed assets realised Rs. 20,000; Stock Rs. 21,000 and Book Debt Rs. 20,500. Similarly, the creditors allowed a discount of 2% on the average. The expenses of realisation come to Rs. 1,080. X agreed to take over the loan of Mrs. X. Y is insolvent, and his estate is unable to contribute anything.

Give accounts to close the books; work according to the decision in Garner vs. Murray.

(A) (NEW SM) (ANS: LOSS ON REALISATION A/C X - 9,600, Y - 9,600, Z - 4,800; TOTAL OF CREDITORS - 29,000; TOTAL OF CASH A/C 76,900; TOTAL OF CAPITAL A/C'S X - 47,200, Y - 13,600, Z - 14,000)

MODEL NO.3: DISSOLUTION DUE TO INSOLVENCY OF ALL PARTNERS

PROBLEM NO 5:

Balance Sheet as at 30.10.13

Liabilities	Rs.	Assets	Rs.
Capitals:		Fixed Assets	1,00,000
P	5,000	Cash	10,000
Q	3,000		
R	2,000		
Bank Loan	60,000		
Sundry Creditors	40,000		
	1,10,000		**1,10,000**

All the partners were declared insolvent. Profit sharing ratio 5:3:2. Assets realized Rs.60,000. Prepare necessary ledger accounts to close the books of the firm.

(C) (ANS: LOSS ON REALISATION A/C P-20,000, Q-12,000, R-8,000; TOTAL OF PARTNERS' CAPITAL A/C P-20,000, Q-12,000, R-8,000; TOTAL OF DEFICIENCY A/C-30,000; TOTAL OF BANK LOAN A/C- 60,000; TOTAL OF CREDITORS A/C-40,000; TOTAL OF CASH A/C-70,000)

MODEL NO. 4: PIECEMEAL DISTRIBUTION

PROBLEM NO 6: A, B and C are partners sharing profits and losses in the ratio of 5:3:2. Their capitals were Rs 9,600, Rs 6,000 and Rs 8,400 respectively. After paying creditors, the liabilities and assets of the firm were:

	Rs.		Rs.
Liability for interest on loans from:		Investments	1,000
Spouses of partners	2,000	Furniture	2,000
Partners	1,000	Machinery	1,200
		Stock	4,000

The assets realised in full in the order in which they are listed above. B is insolvent. You are required to prepare a statement showing the distribution of cash as and when available, applying maximum possible loss procedure. ***(B) (NEW SM)***

(ANS.: BALANCE IN CAPITAL A/C'S LEFT UNPAID: LOSS A: RS.9,400; B: RS.5,640; C: RS.3,760)

PROBLEM NO 7: Amar, Akbar and Antony are in partnership. The following is their Balance Sheet as at March 31, 2010 on which date they dissolved their partnership. They shared profit in the ratio of 5:3:2.

Liabilities	Rs.	Assets	Rs.
Creditors	80,000	Plant and machinery	60,000
Loan A/c - Amar	20,000	Premises	80,000
Capital A/c's - Amar	1,00,000	Stock	60,000
Akbar	30,000	Debtors	1,20,000
Antony	90,000		
	3,20,000		**3,20,000**

It was agreed to repay the amounts due to the partners as and when the assets were realised, viz.

April 15, 2010	Rs.60,000
May 1, 2010	Rs.1,46,000
May 31, 2010	Rs.94,000

Prepare a statement showing how the distribution should be made under maximum loss method and write up the cash account and partners' capital accounts.

(B) (OLD PM) (ANS.: LOSS ON REALISATION AMAR-10,000, AKBAR-6,000, ANTONY-4,000)

PROBLEM NO 8: E, F and G were partners in a firm sharing profits and losses in the ratio of 3:2:1, respectively. Due to extreme competition, it was decided to dissolve the partnership on 31st December, 2017. The balance sheet on that date was as follows:

Liabilities	Rs.	Assets	Rs.
Capital Accounts:		Machinery	1,54,000

E	1,13,100		Furniture & fittings	25,800
F	35,400		Investments	5,400
G	31,500	1,80,000	Stock	97,700
Current Accounts:			Debtors	56,400
E	26,400		Bank	29,700
G	6,000	32,400	Current account: F	18,000
Reserves		1,08,000		
Loan accounts: G		15,000		
Creditors		51,600		
		3,87,000		**3,87,000**

The realization of assets is spread over the next few months as follows:

February: Debtors Rs.51,900; March: Machinery Rs.1,39,500; April: Furniture: Rs.18,000; May: G agreed to take over investment at Rs.6,300; June: Stock: Rs.96.000.

Dissolution expenses, originally provided, were Rs.13,500, but actually amounted to Rs.9,600 and were paid on 30th April. The partners decided that after creditors were settled for Rs.50,400. all cash received should be distributed at the end of each month in the most equitable manner. You are required to prepare a statement of actual cash distribution as received using "Maximum loss basis" method. ***(N18 (N) - 20M)***

PROBLEM NO 9: The firm of LMS was dissolved on 31.3.2012, at which date its Balance Sheet stood as follows:

Liabilities	Rs.	Assets	Rs.
Creditors	2,00,000	Fixed Assets	45,00,000
Bank Loan	5,00,000	Cash and Bank	2,00,000
L's Loan	10,00,000		
Capital - L	15,00,000		
M	10,00,000		
S	5,00,000		
	47,00,000		**47,00,000**

Partners share profits equally. A firm of Chartered Accountants is retained to realise the assets and distribute the cash after discharge of liabilities. Their fees which include all expenses is fixed at Rs. 1,00,000. No loss is expected on realisation since fixed assets include valuable land and building.

Realizations are:

S. No.	Amount in Rs.
1.	5,00,000 (including cash and bank)
2.	15,00,000
3.	15,00,000
4.	30,00,000
5.	30,00,000

The Chartered Accountant firm decided to pay off the partners in 'Higher Relative Capital Method'. You are required to prepare a statement showing distribution of cash with necessary workings.

(A) (NEW SM, RTP M16, SIMILAR: RTP M18 (O)) (ANS: REALISATION PROFIT CREDITED TO PARTNERS L-15,66,667, M - 15,66,667, N - 15,66,666)

PROBLEM NO 10: The partners P, Q & R have called you to assist them in winding up the affairs of their partnership on 31.12.2013. Their balance sheet as on that date is given below:

Liabilities	Amount Rs.	Assets	Amount Rs.
Capital Accounts:		Land & Building	50,000
P	65,000	Plant & Machinery	46,000
Q	50,500	Furniture & Fixture	10,000
R	32,000	Stock	14,500
Sundry Creditors	16,000	Debtors	14,000
		Cash at Bank	9,000

		Loan P	13,000
		Loan Q	7,000
	1,63,500		**1,63,500**

1. The partners share profit and losses in the ratio of 4:3:2.
2. Cash is distributed to the partners at the end of each month.
3. A summary of liquidation transactions are as follows:

January 2014:

1. Rs. 9,000 - collected from debtors; balance is uncollectable.
2. Rs. 8,000 - received from the sale of entire furniture
3. Rs. 1,000 - Liquidation expenses paid.
4. Rs. 6,000 - Cash retained in the business at the end of month

February 2014:

1. Rs. 1,000 - Liquidation expenses paid.
2. As part payment of his capital, R accepted a machinery for Rs. 9,000 (book value Rs. 3,500)
3. Rs. 2,000 - Cash retained in the business at the end of month

March 2014:

1. Rs. 38,000 - received on the sale of remaining plant and machinery.
2. Rs. 10,000 - received from the sale of entire stock.
3. Rs. 1,700 - Liquidation expenses paid.
4. Rs. 41,000 - Received on sale of land & building.
5. No Cash is retained in the business.

You are required to prepare a schedule of cash payments amongst the partners by "Higher Relative Capital Method". ***(B) (OLD PM, RTP N17) (ANS.: LOSS P: RS. 10,311, Q: RS. 7,733, R: RS. 5,156)***

PROBLEM NO 11: P, Q and R were partners sharing profits and losses in the ratio of 3 : 2 : 1, no partnership salary or interest on capital being allowed. Their balance sheet on 30th June, 20X1 is as follows:

Liabilities	Amount Rs.	Assets	Amount Rs.
Fixed Capital		Fixed assets :	
P 20,000		Goodwill	40,000
Q 20,000		Freehold Property	8,000
R 10,000	50,000	Plant and Equipment	12,800
Current Accounts :		Motor Vehicle	700
P 500		Current Assets	
Q 9,000	9,500	Stock	3,900
Loan from P	8,000	Trade Debtors 2,000	
Trade Creditors	12,400	Less : Provision (100)	1,900
		Cash at Bank	200
		Miscellaneous losses	
		R's Current Account	400
		Profit and Loss Account	12,000
	79,900		**79,900**

On 1st July, 20X1 the partnership was dissolved. Motor Vehicle was taken over by Q at a value of ` 500 but no cash passed specifically in respect of this transaction. Sale of other assets realised the following amounts:

Goodwill	nil
Freehold Property	7,000

Plant and Equipment	5,000
Stock	3,000
Trade Debtors	1,600

Trade Creditors were paid Rs. 11,700 in full settlement of their debts. The costs of dissolution amounted to Rs. 1,500. The loan from P was repaid, P and Q were both fully solvent and able to bring in any cash required but R was forced into bankruptcy and was only able to bring 1/3 of the amount due.

You are required to show:

(a) Cash and Bank Account,

(b) Realisation Account, and

(c) Partners Fixed Capital Accounts (after transferring Current Accounts' balances).

(NEW SM) (ANS: Cash/ bank A/c-59,600,Realisation a/c loss-51,000,Partner's a/c Total :P-45,500,Q-42,000,R-10,900)

PRINTED SOLUTIONS FOR SOME SELECTIVE PROBLEMS

PROBLEM NUMBERS TO WHICH SOLUTIONS ARE PROVIDED: 1, 3,6,8.

PROBLEM NO:1

i) Dr. Realisation Account Cr.

Particulars	Rs.	Particulars		Rs.
To Debtors	48,000	By Creditors		48,000
To Stock	60,000	By Cash (Assets realised):		
To Fixtures	24,000	Plant and machinery	1,02,000	
To Plant and machinery	1,08,000	Fixtures	18,000	
To Cash A/c – (Creditors)	45,600	Stock	84,000	
To Cash A/c (sales tax)	4,200	Sundry debtors	44,400	2,48,400
To Cash A/c (Realisation expenses)	1,500	By Q (Unrecorded asset)*		4,800
To Profit on realization P 3,960 Q 3,960 R 1,980	9,900			
	3,01,200			**3,01,200**

ii) Dr. Partners' Capital Accounts Cr.

Particulars	P	Q	R	Particulars	P	Q	R
To Realisation Account (unrecorded asset)		4,800		By Bal. b/d	1,20,000	48,000	24,000
To Cash (Bal fig.)	1,47,960	71,160	37,980	By reserve fund	24,000	24,000	12,000
				By Realisation A/c (Profit)	3,960	3,960	1,980
	1,47,960	**75,960**	**37,980**		**1,47,960**	**75,960**	**37,980**

iii) Dr Cash Account Cr.

Particulars	Rs.	Particulars	Rs.
To Balance b/d	60,000	By Realisation A/c (Creditors)	45,600
To Realisation A/c (assets)	2,84,400	By Realisation A/c (Expenses)	1,500
		By Realisation A/c (Sales Tax)	4,200
		By P's capital By Q's capital	1,47,960 71,160

		By R's capital	37,980
	3,08,400		**3,08,400**

PPROBLEM NO: 3

1) **Dr. Realisation Account Cr.**

Particulars	Rs.	Particulars	Rs.
To premises	50,000	By creditors	84,650
To Fixtures	1,25,000	By Bank	
To Plant	32,500	Premises 60,000	
To stock	43,200	Plant 1,07,500	
To Debtors	54,780	Fixtures 20,000	
To Bank	4,500	Stock 41,040	
To Bank	84,650	Debtors 45,900	2,74,440
		By loss	35,540
		Thin 14,216	
		Short 14,216	
		Fat 7,108	
	3,94,630		**3,94,630**

2) **Dr. Partners' Current Accounts Cr.**

Particulars	Thin	Short	Fat	Particulars	Thin	Short	Fat
To Balance b/d			14,500	By balance b/d	29,700	11,300	
To Realisation A/c	14,216	14,216	7,108	By concerned partner			
To concerned partner	15,484			Capital A/c		2,916	21,608
Capital A/c							
	29,700	**14,216**	**21,608**		**29,700**	**14,216**	**21,608**

3) **Dr. Partners' Capital Accounts Cr.**

Particulars	Thin	Short	Fat	Particulars	Thin	Short	Fat
To concerned partner		2,916	21,608	By balance b/d	80,000	50,000	20,000
Current A/c				By concerned partner			
To Fat capital	990	618		Current A/c	15,484		
To Bank	1,08,710	60,682		By Bank	14,216	14,216	
				By Thin' s Capital			990
				By short capital			618
	1,09,700	**64,216**	**21,608**		**1,09,700**	**64,216**	**21,608**

Dr. Bank Account Cr.

Particulars	Rs.	Particulars	Rs.
To Thin capital	14,216	By balance B/d	44,330
To Short capital	14,216	By Realisation A/c	4,500
To Realisation	2,74,440	By Realisation A/c	84,650
		By Thin capital	1,08,710
		By Short capital	60,682
	3,02,872		**3,02,872**

W.N-1 Application of garner vs. murray

Deficiency of Fat 1608

Note: As per Garner Vs. Murray case law deficiency of the insolvent partner shall be borne by insolvent partner in their last agreed capital ratio .if partner are following fixed capital method, fixed capital will be the last capital ratio. Hence in the above question deficiency of 1608 will be shared by Thin & Short in 80000:50000 ratio

Thin's capital A/c	Dr	990	
Short capital A/c	Dr	618	
To Fat's capital A/c			1608

PPROBLEM NO: 6

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

Statement showing Realisation and Distribution of Cash Payments

Particulars	Realisation	Creditors	Partners' Loan (Rs.)	Partners' Capitals (Rs.)
1. After taking into account cash balance and amount set aside for expenses	1,000	1,000	-	-
2.	3,000	1,000	2,000	-
3.	3,900	-	3,000	900
4.	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 realised among the partners, the following table will be constructed:

Statement of Distribution on Capital Account

1. Calculation to determine the mode of distribution of Rs. 900

Particulars	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 Rs. 900 should be distributed			+ 600	+ 300

2. Distribution of Rs. 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

3. Distribution of Rs. 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 valueless	(15,000)	(6,000)	(6,000)	(3,000)
Manner of distribution of Rs. 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

PPROBLEM NO: 8

Statement of Piecemeal distribution

Particulars	Amount	Creditors	A	B	C
Balance	6,000	17,000	55,000	37,500	31,500
Less: Payment of Creditors	(6,000)	(6,000)	-	-	-
	-	11,000	55,000	37,500	31,500
July Realisation:					
Collected from Debtors	16,500				
Received from sale of entire stock	10,000				
Less: Liquidation Expenses	(1000)				
Less: Cash retained	(8000)				
Less: Payment to Creditors Balance	(11,000)	(11,000)			
Balance	6,500	-	55,000	37,500	31,500
Less: Payment to 'C'	(6,500)	-	-		(6,500)
Balance	Nil	-	55,000	37,500	25,000
August Realisation:					
Opening Balance	8,000				
Less: Liquidation of Expense	(1,500)				
Less: Cash Retained	(2,500)				
	4,000				
Less: Equipment given to 'C'					(10,000)
Less: Payment to' B'	(4,000)			(4,000)	
	-	-	55,000	33,500	15,000
September Realisation					
Sale of equipment	75,000				
Add: Balance Retained	2,500				
Less: Liquidation Expenses	(1,000)				
Less: Payment to 'B'	(500)			(500)	
	76,000	**-**	**55,000**	**33,000**	**15,000**
Less: Payment to Partners having surplus Capital (17,500+10,500)	(28,000)	-	(17,500)	(10,500)	-
	48,000	-	37,500	22,500	15,000
Less: Payment to Partners in Profit sharing ratio	(48,000)	-	(24,000)	(14,400)	(9,600)
Loss to be borne by Partners	-	-	13,500	8,100	5,400

Working Notes :

1. COMPUTATION OF ABSOLUTE SURPLUS CAPITAL

Particulars	A	B	C
Capital	67,000	45,000	31,500
Less : Loan	(12,000)	(7,500)	-
	55,000	**37,500**	**31,500**
Profit Sharing Ratio	5	3	2
Base Capital	11,000	12,500	15,750
Relative Capital	55,000	33,000	22,000
Surplus Capital	**-**	**4,500**	**9,500**
Profit sharing ratio	-	3	2
Revised capital	-	1,500	4,750
Relative capital	-	4,500	3,000
Absolute surplus capital	-	-	6,500

2. COMPUTATION OF ABSOLUTE SURPLUS CAPITAL

Particulars	A	B	C
Balance	55,000	33,500	15,000
Profit Sharing Ratio	5	3	2
Base Capital	11,000	11,167	7,500
Relative Capital	37,500	22,500	15,000
Surplus Capital	17,500	11,000	-
Profit sharing ratio	5	3	-
Base capital	3,500	3,667	-
Relative capital	17,500	10,500	-
Absolute surplus capital	-	500	-

THE END