

Dissolution of firm

→ Dissolution of partnership means change in relationship among partners but the firm continues. Dissolution of firm means business is closed and firm is dissolved.

→ Modes of dissolution of firms (v. imp)

- 1) mutual agreement i.e., Voluntary dissolution
- 2) compulsory dissolution eg:- insolvency of all partners
- 3) Dissolution by oust[⊗]

☞ Partner(s) becomes person of unsound mind

☞ Partner(s) becomes permanently incapable

☞ Partner(s) found guilty of misconduct

4) By notice in case of partnership at will

5) Happening of any event mentioned in partnership deed

- death of Partner
- Completion of venture
- etc

Dissol
of
firm

→ v.v. imp Section 48 of Indian Partnership Act 1932

(1) Settlement of Accounts - LOSSES

☞ Firstly Paid out of Profit.

☞ then paid out of Capitals

☞ lastly By partners in P/S/R

(2) Application of Assets

Order
in
this
Order

→ Realisation expenses

→ Outside liabilities - Secured

→ Outside liabilities - Unsecured

→ Partner's Loan A/c

→ Partner's Capital A/c

→ Residue (if any) among partners in P/S/R

⇒ Section 49 of Partnership Act, 1932

☞ Firm's debt - Debt owned by firm to outsiders

☞ Private debt - Debt owned by partners in personal capacity

Utilisation of Firms property.

1st Pay Firms debt

2nd Pay private debt

Utilisation of partners property.

1st Pay Private debt

2nd Pay Firms' debt

* ACCOUNTING TREATMENT *

• In this chapter we have to prepare following ledgers

- (a) Realisation A/c
- (b) Partner's Capital A/c
- (c) Partner's Loan A/c (only in specific cases)
- (d) Cash A/c or Bank A/c

— Sometime Q'n says that don't prepare ledgers A/c rather pass necessary journal entries

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Date: / /

— JOURNAL ENTRIES

① For closing of Asset.

Realisation A/c Dr.
To Asset A/c (including goodwill, excluding ^{just} like
Provision (Dr) balance

② For closing all the outside liabilities and provisions

Outside liabilities A/c Dr.
Provisions A/c Dr.
To Realisation A/c

③ For sale/Realisation of Asset (Recorded or Unrecorded)

Cash A/c Dr.
To Realisation A/c

④ For takeover of asset (recorded or unrecorded) by Partner

Partners Capital A/c Dr.
To Realisation A/c

⑤ To Pay off outside liabilities (recorded or unrecorded)

Realisation A/c Dr.
To Cash A/c

(6) To take over liabilities (recorded or unrecorded) by partners

Realisation A/c Dr.
To Partner's Capital A/c

(7) When an asset (recorded or unrecorded) is given to a liability (recorded or unrecorded)

"NO ENTRY"

(8) Realisation Expenses (R.E)

(a) R.E borne by firm and paid by firm

Realisation A/c Dr.
To Cash A/c

(b) R.E borne by firm and paid by partners

Realisation A/c Dr.
To Partner's Capital A/c

(c) R.E borne by partner and paid by firm

Partner's Capital A/c Dr.
To Cash A/c

(d) R.E borne by partner and paid by partner

"NO ENTRY"

(e) Partner is paid fixed commission / Remuneration / fixed amount

~~Rem~~ Realisation A/c Dr.
To Partner's Capital A/c

* In this case (e) there may be actual realisation expenses for which we have to very carefully read the question and identify one of the cases as discussed from (a) to (d)

(9) Partner's loan

(a) When Partner has credit balance in Capital A/c

Partner's loan A/c Dr.
To Cash A/c

(b) When partner has debit balance in Capital A/c

Partner's loan A/c Dr.

Cash A/c	Dr.
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To Partner's Capital A/c

To Cash A/c

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(10) For profit on realisation

Realisation A/c Dr.

To Partner's Capital A/c

Or

For loss on realisation

Partners Capital A/c Dr.

To Realisation A/c

(11) For Surplus or deficiency in Capital A/c

Partners Capital A/c Dr. } Surplus
To Cash A/c

Or

Cash A/c Dr.

To Partner's Capital A/c

} Deficiency

* Following are outside liabilities

- Bank overdraft
- Income received in advance
- Employees Provident Fund (EPF)
- Employees Saving Bank
- Partner's Relatives loan
- Public deposits

* Not outside liabilities *

- All reserves (General Reserve)
- Provision for doubtful debts

* Treatment of W.C.R *

W.C.R	10,000	
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Case 1 No W.C.L

Sol:- P. Capital A/c

To Cash A/c	4000	By W.C.R	10,000
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Case 2 W.C.L ₹ 4000

* Realisation A/c

Dr.

		By W.C.L	4000
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P. Capital A/c

		By W.C.R	6000
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Case (3) W.C.L ₹ 12000

Sol:- Realisation A/c

Dr.		Cr.	
To Cash A/c (always bring value)	12000	By W.C.L (H.Ech Amt.)	10,000

P. Capital A/c

		X	X	X	X	X	X	X
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Liability of B/S will transfer to Realisation A/c in CR side.
and
asset of B/S will transfer to Realisation A/c in Dr. side.

* * Memorandum Balance Sheet * *

→ Sometimes Question doesnot provide the balance sheet of the business, rather it give some relevant information in paragraphic form. In such Questions we have to prepare the balance sheet by ourselves and rest all the steps and concepts are 100% same (as Asset)

→ Sometimes a balancing figure comes on "asset" side, and it is to be named as "SUNDRY ASSETS"

(if balancing figure comes on Liability side, then it is named as "Provd. Acc")

"Chocolate"

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