

2. 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		4,226			
		18,964			18,964

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>7,272</u>		
	38,500		38,500

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		
		18,49,163		18,49,163

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: 4

Realisation Account

Particulars	Amount	Particulars	Amount
To Plant and machinery	30,000	By Provision for doubtful debts	400
To Fixtures and fittings	2,000	By Loan on hypothecation of stock (W.N.3)	3,000
To Stock	10,400	By Creditors (W.N.2)	500
To Debtors	18,400	By Joint Life Policy A/c (W.N.4)	12,900
To Patents and Trademarks (W.N.5)	5,500	By Bank	
To Bank	2,300	Plant and machinery	17,000
		Fixtures and fittings	1,000
		Stock	9,000
		Debtors	16,500
		Patents and Trademarks	2,000
		By Partners' Capital Accounts	
		- Read	2,800
		- Write	1,400
		- Add	2,100
	68,600		6,300
			68,600

Bank Account

Particulars	Amount	Particulars	Amount
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To Balance b/d	8,000	By Add's Capital A/c- drawings	5,300
To Joint Life Policy	15,500	By Loan on hypothecation of stock	3,200
To Realisation A/c	45,500	By Creditors	12,800
To Add's Capital A/c	5,400	By Realisation A/c (expenses)	2,300
		By Read's Loan A/c	15,000
		By Read's Capital A/c	27,200
		By Write's Capital A/c	8,600
	74,400		74,400

Partners' Capital Accounts

Particulars	Read	Write	Add	Particulars	Read	Write	Add
To Bank			5,300	By balance b/d	30,000	10,000	2,000
To realization A/c	2,800	1,400	2,100	By bank a/c (bal. fig)			5,400
To Bank (Bal. Fig.)	27,200	8,600					
	30,000	10,000	7,400		30,000	10,000	7,400

Working Notes:

1.

Read's Loan Account

Particulars	Amount	Particulars	Amount
To bank a/c	15,000	By balance b/d	15,000
	15,000		15,000

2.

Sundry Creditors Account

Particulars	Amount	Particulars	Amount
To Patents and Trademarks A/c	4,500	By balance b/d	17,800
To Realisation A/c	500		
To Bank A/c	12,800		
	17,800		17,800

3.

Loan on Hypothecation of Stock Account

Particulars	Amount	Particulars	Amount
To Realisation A/c	3,000	By balance b/d	6,200
To Bank A/c	3,200		
	6,200		6,200

4.

Joint Life Policy Account

Particulars	Amount	Particulars	Amount
To Balance b/d	15,000	By Joint Life Policy Reserve A/c	12,400
To Realisation A/c	12,900	By Bank A/c (10,200 + 5,300)	15,500
	27,900		27,900

5.

Patents and Trademarks Account

Particulars	Amount	Particulars	Amount
To Balance b/d	10,000	By Creditors A/c	4,500
		By Realisation A/c	1,500
		By Realisation A/c (bal.fig.)	4,000
	10,000		10,000

PROBLEM NO: 5

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: 6

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.

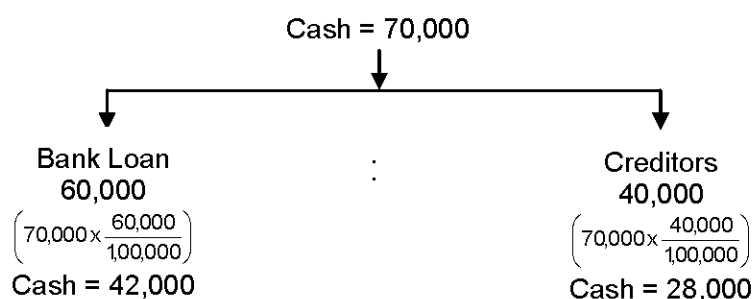
Particulars	Amount (Rs.)	Particulars	Amount (Rs.)
To Balance b/d	10,000	By Bank Loan A/c	42,000
To Realisation A/c	60,000	By Creditors A/c	28,000
	70,000		70,000

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: 7**

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			1,49,850	99,900	49,950	2,99,700

remaining assets fetch nothing (Rs.3,02,400 - Rs.2,700) in the ratio of 3:2:1						
			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: 8

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: 9

	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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THE END