

RANKERS' COMMERCE (KANKARBAGH PATNA)

call: - 9386035411, 7870266699,

DISSOLUTION OF PARTNERSHIP

Dissolution: - It is discontinue in the relationship among the partner's due to any reason and business activities of the firm may be continued with new agreement or permanently winding off, such legal process is called dissolution.

Dissolution of partnership: - It is discontinue in the relationship among the partners due to any reason and business activity of the firm may be continued with new agreement, such legal process is called dissolution of partnership.

Causes of dissolution of partnership:-

- i. To change in PSR
- ii. To admission of the partner
- iii. To retirement of the partner
- iv. To death of the partner
- v. To amalgamation of 2 or more than the firm.

Dissolution of partnership firm: - It is discontinuing in the relationship among the partner due to any reason and business activity of the firm are necessary to be winding off, such legal process is called dissolution of partnership firm.

According to partnership act 1932 as per sec.39. Dissolution of firm means- **“A dissolution of partnership among all the partner in the firm, all the business activities come to an end by the dissolution of firm, the asset of the firm are sold and outsider liabilities are paid off. Therefore any balance is paid to the partners in settlement of their account.”**

Causes of dissolution of partnership firm:-

- i. To insolvency of the partner
- ii. Death of all the partner
- iii. To unsound mind of the partner
- iv. By expiry of the period

**1. (Ds-3 opp Doctors' colony P.N.B building kankarbagh patna)
Accounts by Nitesh Sir**

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v. By count order

Difference between Dissolution of partnership and Dissolution of partnership firm

Sl	Basis	Dissolution of partnership	Dissolution of partnership Firm
1	Meaning	It is only change in partnership agreement.	It is legal process of the discontinuous of all the business activities of the firm.
2	Nature	It is voluntary nature.	It may be both voluntary & compulsory
3	Existence	The business activity of firm may continue.	Necessary to be closed.
4	Book of Account	In this case, the books of account may not be closed.	Books of account are necessary to be closed.
5	Sale of assets	All the assets of firm are not sold	All the assets of the firm are sold on the date of dissolution.
6	Payment of liabilities	All the liabilities are not paid off.	All the liabilities are paid off.
7	Legal effect	It is only a legal changes known to the insider only	It is a legal discontinuous of the firm business. This is well known to outsider also

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Accounting Treatment

At the time of dissolution of the firm, the business activities of the firm is necessary to be closed and the process of settlement of the account between partner and third party is started then the following process is adopted by the firm-

- i. **All the assets of the firm are sold or taken over by the partner.**
- ii. **Amount realized from sale of the asset.**
- iii. **Payment of the dissolution expenses/ realization expenses.**
- iv. **To payment of the outsider liabilities or taken over by the partner.**
- v. **Payment of partner's loan.**
- vi. **Any balance left then, amount of capital returned to the partner.**
- vii. **At the end of the process any balance left then such amount is necessary to be distributed among the partner in the PSR.**

Journal Entries (in the books of firm)

- i. When the entire asset except cash/ bank, transferred into realization A/c.
Realization A/cDr.
 To Sundry assets A/c
(Being asset of the firm transferred into realization A/c)
- ii. When all the outsider's liabilities are transferred onto realization A/c
 Sundry liabilities A/c Dr.
 To Realization A/c
(Being sundry liabilities transferred into realization A/c)
- iii. When asset of the firm to be sold
Cash/ bank A/c.....Dr.
 To realization A/c
(Being asset of the firm to be sold)

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- iv. When asset of the firm are taken over by the partner.
Partner's capital A/c.....Dr.
To realization A/c
(Being asset of the firm taken over by the partner).
- v. When payment of realization expenses/ dissolution expenses.
Realization A/c.....Dr
To cash / bank A/c.
(Being payment of realization expenses/ dissolution expenses)
- vi. When payment of outsider liabilities.
Realization A/c.....Dr
To cash / Bank A/c
(Being payment of outsider liabilities)
- vii. When liability of the firm taken over by the partner.
Realization A/cDr
To partner's capital A/c
(Being liability of the firm taken over by the partner)
- viii. When payment of partner's loan
Partner's loan A/c.....Dr
To cash/bank A/c
(Being payment of partner's loan)
- ix. When accumulated profit/ reserve to be distributed among the partner.
Reserve A/c.....Dr
Profit/ loss A/c.....Dr
To partner's capital A/c
(Being accumulated profit / reserve to be distributed among the partner)
- x. When balance of realization A/c transferred into partner's capital A/c—
a) In the case of (Debit Balance) ie, (loss)
Partner's capital A/cDr
To realization A/c
(Being loss on realization transferred into partner's capital A/c)

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b) In the case of (Credit Balance)ie, (profit)

Realization A/c Dr.

To partner's capital A/c

(Being profit on realization transferred into partner's capital A/c)

- Any credit balance of the partner's capital A/c is to be available in the books of firm then return to the partner.

Partner's capital A/c Dr

To cash / bank A/c

(Being amount returned to the partner)

ASSIGNMENT NO – 1

- A, B and C are partners in the firm. They share Profit/Loss in the ratio of 2:2:1. They decided to dissolve the firm as on 31st Dec 2017 and following position are as under-

BALANCE SHEET

Liabilities	Amount	Assets	Amount
Partner's Capital		Plant	80,000
A= 1, 50,000		Machinery	1, 20,000
B= 1, 00,000		Furniture	60,000
C= 50,000	3, 00,000	Stock	40,000
Reserve	10,000	Debtor	40,000
A'S Loan	20,000	Bills Receivable	30,000
Creditors	30,000	Cash A/C	10,000
Bills Payable	20,000		

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The following information is as under:-

- i. The plant was sold for Rs.50, 000, furniture for 40,000 and machinery for 95,000.
- ii. Stock and debtor realize less than 10% Book value
- iii. Realization Expenses ie Rs. 2,000

Pass the necessary journal entry and prepare necessary ledger A/c.

ASSIGNMENT NO – 2

2. X, Y and Z are partners in the firm. They share profit/ loss in the ratio of 5:3:2. They decided to dissolve the firm and following position as on 31st Dec 2014 are as under

BALANCE SHEET

Liabilities	Amount	Assets	Amount
Partner's capital A/c		Plant	1, 50,000
X= 2, 50,000		Machinery	1, 00,000
Y= 1, 50,000		Building	2, 00,000
Z= 50,000	4, 50,000	Tools	80,000
Reserve	20,000	Stock	20,000
X'S Loan	30,000	Debtor	25,000
Bank Loan	60,000	Bills Receivable	15,000
Creditors	60,000	Cash	10,000
Bills payable	10,000		
	600000		600000

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Other information on the date of dissolution is as under-

- i. The amount of plant realized Rs. 1, 10,000 & building realize Rs. 1, 80,000.
- ii. Tools and stock realized at 10% less than book value.
- iii. Machinery was taken by X at book value and debtor taken over by the Z Rs. 15,000.
- iv. Bank loan taken over by the Y and realization expenses Rs. 3,000.

Prepare necessary ledger account in the books of firm.

Tutorial Note:-

- i. Any amount of realization expenses is paid /payable by the firm on the date of dissolution then, realization A/c to be debited and partner's capital A/c to be credited.
- ii. If the amount of debtor is to be available on the net realized value at the time of dissolution then, debtor amount is necessary to be transferred into the realization A/c at book value and provision for bad debts is also transferred into the realization A/c with outsider liabilities

UNRECORDED ASSETS/ UNRECORDED LIABILITIES

- a. **In case of unrecorded asset:-** At the time of the firm any amount of asset is given outsider of the balance sheet or in the adjustment then such asset is called unrecorded asset of the firm. In this case, such unrecorded asset is sold directly or taken over by the partner on the date of dissolution.
 - i. When unrecorded asset directly sold by the firm
Cash /Bank A/c Dr
To realization A/c
(Being unrecorded asset said by the firm)
 - ii. When unrecorded asset taken over by the firm partner
Partner's capital A/cDr
To realization A/c
(Being unrecorded assets taken over by the partner)

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b. In the case of unrecorded liabilities:-

- i. When unwritten or unrecorded liability paid off
Realization A/cDr
To bank A/c
(Being unrecorded liabilities paid off)

- ii. When unrecorded liability is taken over or paid by a partner
Realization A/c Dr
To partner's capital A/c.
(Being unrecorded liabilities taken over by the partner)

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