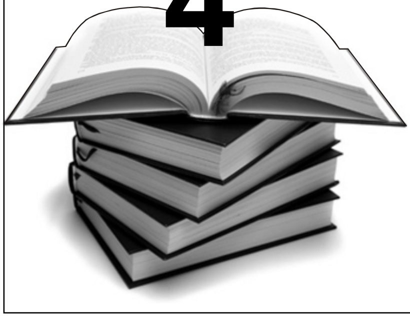
Chapter 4



Piecemeal Distribution of Cash

What is Piecemeal Distribution?

In actual practice, the assets are not realised at once on a single day unless the business is sold to somebody. The partners expect a good price for the assets and therefore, they gradually realise them depending on the market condition. Thus, the whole process of realisation takes some time, i.e., may be a few months, even a year, or even more. The process followed to discharge the liabilities and claims of the partners as and when the assets are realised is called piecemeal distribution of cash.

What is Gradual Realisation and Distribution of Cash?

In the process of realising the assets and discharging liabilities, the assets are usually realised slowly, steadily and gradually depending on the demand, the liabilities are discharged as and when the assets are realised. Therefore, this process is also known as "gradual realisation and distribution of cash". It is also known as "interim distribution of cash" because when the amount realised is not sufficient to discharge the liability fully, an interim payment is made to the extent of cash available. For the balance, the liability holder should wait for another asset to be realised. Thus, the liabilities are paid off as and when the assets are realised.

What is the Basis of Distribution of Cash to Capitals of Partners in Piecemeal Distribution of Cash? or

What is the Purpose Behind Adjusting the Capitals of Partners in Their Profit Sharing Ratio in the Case of Piecemeal Distribution of Cash?

As long as the capital contribution ratio and profit sharing ratio of the partners are one and the same, the distribution of cash as and when realised does not create any problem when pro-rata distribution is made in accordance with their claim. But when these two ratios are different, the pro-rata distribution of cash in accordance with their claims creates problem. If the cash available is distributed in the capital ratio, the loss or profit on dissolution to be shared by the partners may not be in the profit sharing ratio. On the contrary, if the cash available is distributed in the profit sharing ratio, there is a possibility that one or two partners may get more than what is due to them.

What are the Methods of Distribution on the Schemes followed to Distribute Cash as and when Realised in Piecemeal?

These are the methods of distributing cash in piecemeal namely:

(1) Surplus/Excess/Proportionate/Quotient Capital Method.

(2) Maximum Possible/Notional Loss Method.

What does Surplus or Excess Capital Method mean?

It is necessary to adjust the capital of the partners to the profit sharing ratio and pay excess contribution to the partners first as and when the cash is realised. This process should be repeated till the capitals become proportionate to profit sharing ratio. When once the excess contribution of the partner is paid (capitals get adjusted to PSR), the realisation of cash may be distributed to all the partners in their capital PSR.

Since the excess capital contribution is found out by comparing with PSR and paid first, this method is called Surplus/Excess Method. This is called Proportionate Capital/ Quotient Method because the capitals are ought to be bought in proportion to PSR.

What is Meant by Maximum Possible Loss Method? or

What are the Assumptions under Maximum Loss Method?

Maximum loss method is an improved method of distribution of cash as and when realised. Here at every stage of distribution of cash realised, it is assumed that there will be no more realisations and the firm is going to suffer the maximum loss. Thus, the loss calculated on an assumption is distributed to partners in their profit sharing ratio before the partner's claims are paid. The assumption of no more realisations result in a notional loss caused at this stage of realisation.

Specify About the Order of Discharging Liabilities in Piecemeal Distribution of Cash?

When the assets are realised gradually piece by piece, there is a need to follow a proper order to discharge the liabilities. Out of the scale proceeds, the expenses of dissolution should be met first and the balance should be utilised to pay the outside creditors (Bank O/D, B/P, Creditors, Loans, etc.) in the following order:

(1) Payment of fully secured creditors.

(2) Payment to partly secured creditors to the extent of the securities realisation.

(3) Payment to preferential creditors (salary, dues to Government).

(4) Payment to unsecured creditors.

(5) Only after completely discharging the unsecured outside creditors, payment to internal liabilities in the form of partners loan should be made.

(6) Lastly partners should be paid their dues towards their capital.

If the creditors cannot be distinguished under the categories stated above, the payment should be made 'pro-rata' based on their outstanding claims as and when the assets are realised.

PARTNERSHIP ACCOUNTS – PIECEMEAL DISTRIBUTION

So far, we have assumed that all the assets are realised immediately on the date of dissolution and the accounts of all the partners and the creditors are settled on the same date.

But this assumption is unrealistic in nature, because normally the process of realising the assets takes a long time and cash is distributed as and when it is realised. In such a case to avoid unpleasant consequences, the assets realised are distributed in such a way that the unpaid balance of capitals of each partner is left in their profit sharing ratio.

On a gradual realisation of assets, the cash is distributed in the following order:

1. The debts of the firm to the third parties (outside liabilities) must be paid first.
2. After the creditors, have been paid off, the amount due to a partner as loan should be paid. When the loans are due to more than one partner, the cash available should be distributed proportionately.
3. After the payment of outside liabilities and loans due to the partners, the capitals of the partner are paid.

There are two methods for distribution of cash under Piecemeal distribution:

1. **Proportionate Capital Method:** If the capitals of the partners are in the ratio of their profit sharing arrangement, then each of them is paid out according to his capital ratio at each distribution. If the capitals of the partners are not in the profit sharing ratio, then the first cash available (after making payment of outside liabilities and loans due to the partners) for distribution amongst the partners should be paid to those partners whose capitals are more than their profit sharing ratio so as to bring their capitals to their profit sharing levels. After this, the cash available is distributed amongst all partners according to their profit sharing ratio.

   The unpaid balance of capital accounts will represent loss on realisation and this loss will be exactly in their profit sharing ratio.

2. **Maximum Loss Method:** An alternative method of piecemeal distribution amongst partner is to calculate the maximum possible loss on every realisation after the outside liabilities and the partner's loan has been paid. The amount available for distribution amongst partners is compared with the total amount of capital payable to the partners and the maximum loss is ascertained on the assumption that in future assets will not realise any amount. The maximum possible loss so ascertained is deducted from the capital balances of the partners in their profit and loss sharing ratio and the balance left in the capital account after deducting the maximum possible loss will be the amount payable to the partner.

   If a partner's share of maximum possible loss is more than the amount standing to the credit of his capital account, he should be treated as insolvent and his deficiency should be debited to the capital accounts of the solvent partners in the proportion of their capitals which stood on the dissolution date as stated under the Garner v/s. Murray Rule. The amount standing to the credit of the partners after debiting their share of maximum loss and their share of insolvent partner's deficiency will be equal to the cash available for the distribution amongst the partners.

   This process of maximum possible loss is repeated on each realisation till all the assets are disposed.

Solved Problems

Illustration 1: A, B, and C are carrying on business in partnership has decided to dissolve it on and from 31st Dec 2005. The following was the balance sheet on that date:

Liabilities		`	**Assets**	`
Capital Account:			Fixed assets	80,000
A	30,000		Current assets	44,000
B	15,000		Banks	26,000
C	25,000	70,000		
General Reserves		30,000		
Mr. A's loan		10,000		
Mr. B's loan		20,000		
Creditors		20,000		
		1,50,000		**1,50,000**

It was decided that after keeping aside an amount of ` 4,000 for estimated realisation expenses, the available funds should be distributed amongst the partners as and when realised. The following are the realisation:

	`
January 2006 (first)	30,000
February 2006 (second)	76,000
March 2006 (third)	44,000

Actual realisation expenses amounted to ` 4,400. You are requested to submit a statement showing distribution of cash among the partners under excess capital method.

Solution:

Statement of Excess Capital

Particulars	**A (`)**	**B (`)**	**C (`)**
Capital balance	30,000	15,000	25,000
General reserve	10,000	10,000	10,000
Adjusted capital	40,000	25,000	35,000
Profit sharing ratio (PSR)	1	1	1
Proportionate capital (` 25,000 being minimised)	25,000	25,000	25,000
Excess capital	15,000	NIL	10,000
PSR	1	-	1
	15,000		10,000
Proportionate capital	10,000		-
Ultimate excess capital	5,000	-	-

Pay ` 5,000 first to A

Pay ` 10,000 each to A and C

Then distribute equally to A, B and C.

Particulars	**Cash**	**Creditors**	**A Loan**	**B Loan**	**A Capital**	**B Capital**	**C Capital**
Balance	26,000	20,000	10,000	20,000	40,000	25,000	35,000
Prov. for expenses	4,000						
Cash available	22,000						
Paid to creditors	20,000	20,000					
Balance	2,000	NIL					
Repayment of loan	2,000		667	1,333			
Balance	NIL		9,333	18,667	40,000	25,000	35,000

1. Realisation	30,000		9,333	18,667			
Repayment of loan	28,000						
Balance available	2,000						
Paid to A	2,000				2,000		
Balance	NIL		NIL	NIL	38,000	25,000	35,000
2. Realisation	76,000				(3,000)		
Paid to A	(3,000)				(10,000)		(10,000)
Paid to A & C	(20,000)				(17,667)	(17667)	(17,667)
Paid to A, B & C (1:1:1)	(53,000)				7,333	7,337	7,337
Balance	NIL						
3. Realisation	44,000						
Less: Realisation expences	400						
Balance	43,600						
Paid to A, B & C	43,600				14,533	14,533	14,534
Profit on realisation (bal fig.)					7,200	7,200	7,200

Illustratio 2: A, B and C are carrying on business in partnership has decided to dissolve it on and from 31 Dec. 2005. The following was the balance sheet on that date:

Liabilities		`	**Assets**	`
Capital Account:			Fixed assets	80,000
X	40,000		Current assets	40,000
Y	10,000		Banks	30,000
Z	20,000	70,000		
Creditors		80,000		
		1,50,000		**1,50,000**

As per the arrangement with the bank, the partners were entitled to withdraw ` 10,000 each in the month of Jan. 2006, Feb. 2006, March 2006. Actual realisation expenses amounted to ` 4,400. You are requested to submit a statement showing distribution of cash among the partners under excess capital method. It was decided that after keeping aside an amount of ` 2,000 for estimated realisation expenses, the available funds should be distributed amongst the partners as and when realised. The following are the realisation:

	`
January 2006 (first)	30,000
February 2006 (second)	75,000
March 2006 (third)	44,000

Actual realisation expenses amounted to ` 1,400. You are requested to submit a statement showing distribution of cash among the partners by maximum loss method.

Solution:

Statement showing Distribution of Cash
(Maximum Loss Method)

Particulars	Cash	Creditors	X	Y	Z
Balance	10,000	80,000	40,000	10,000	20,000
Jan.: Asset realised	30,000				
Less: prov. for exp.	2,000				
	38,000				
Paid to creditors	38,000	38,000			
Balance	NIL	42,000	40,000	10,000	20,000
Feb.: Bank	10,000				
Assets realised	75,000				
	85,000				
Paid to creditors	42,000				
	43,000	NIL	40,000	10,000	20,000
Maximum loss					
(70000 – 43000) = 27000			(9,000)	(9,000)	(9,000)
Paid to X, Y and Z	43,000		31,000	1,000	11,000
March: Bal.	NIL		9,000	9,000	9,000
Bank	10,000				
Asset realisation	44,000				
Excess prov.	600				
	54,600				
Profit on realisation					
Paid to X, Y and Z			9,200	9,200	9,200
	54,600		**18,200**	**18,200**	**18,200**

Illustration 3: J and K were in partnership. Their Balance sheet as on 31-3-2002 was as under:

Liabilities	`	**Assets**	`
J's capital	1,00,000	Stock	1,60,000
K's capital	1,00,000	Other Assets	2,40,000
Loan from Bank	1,00,000		
(Secured by stock)			
Creditors	1,00,000		
	4,00,000		4,00,000

The assets realised as under:

30-4-2002	Other Assets	` 1,00,000
31-5-2002	Stock	` 40,000
30-6-2002	Other Assets	` 30,000
31-7-2002	Other Assets	` 1,20,000

You are required to prepare a statement showing piecemeal distribution of cash under Maximum Loss Method.

Solution:

In the Books of J and K
Statement of Piecemeal Distribution of Cash
(Maximum Loss Method)

Date	Particulars	Amount Available	Total Liabilities	Bank Loan	Creditors	J's Cap.	K's Cap.
2002							
Mar. 31	Balances	–	4,00,000	1,00,000	1,00,000	1,00,000	1,00,000
Apr. 30	Realisation (Other assets)	1,00,000					
	Less: Paid Bank Loan and Creditors in 1 : 1	–1,00,000	–1,00,000	–50,000	–50,000		
	Balance	–	3,00,000	50,000	50,000	1,00,000	1,00,000
May 31	Realisation (stock)	40,000					
	Less: Paid Bank Loan	–40,000	–40,000	–40,000			
	Balance	–	2,60,000	10,000	50,000	1,00,000	1,00,000
June 30	Realisation (other assets)	30,000					
	Less: Paid Bank Loan and creditors in 1 : 5	–30,000	–30,000	–5,000	–25,000		
	Balance	–	2,30,000	5,000	25,000	1,00,000	1,00,000

July 31 (Final)	Realisation (other assets)	1,20,000					
	Less: Paid Bank loan and Creditors	–30,000	–30,000	–5,000	–25,000		
		90,000	2,00,000	–	–	1,00,000	1,00,000
	Maximum loss ` 1,10,000 Transferred in PSR 1 : 1					–55,000	–55,000
	Less: Paid to J and K	–90,000	–90,000			45,000	45,000
	Realisation Loss	–	1,10,000	–	–	55,000	55,000

Illustration 4: The firm of Py Ra Mides present you with the following Balance Sheet drawn as on 31st March, 2003:

Liabilities		`	**Assets**		`
Sundry Creditors		74,000	Cash in hand		6,000
Capital Accounts:			Sundry Debtors		68,000
P	80,000		Stock in trade		78,000
R	60,000		Machinery		1,02,000
M	54,000	1,94,000	Current Accounts:		
			R	8,000	
			M	6,000	14,000
		2,68,000			2,68,000

Partners shared profits and losses in the ratio of 4 : 3 : 3. Due to differences among the partners, it was decided to wind up the firm, realise the assets and distribution cash among the partners at the end of each month.

(i) April 2003 – ` 30,000 from Debtors and ` 40,000 by sale of stock. Expenses on realisation ` 1,000.

(ii) May 2003 – Balance of Debtors realised ` 20,000. Balance of stock fetched ` 48,000.

(iii) June 2003 – Part of machinery was sold for ` 36,000. Expenses incidental to sale ` 1,200.

(iv) July 2003 – Part of Machinery valued in the books at ` 10,000 was taken by P, in part discharge at an agreed value of ` 20,000. Balance of Machinery was sold for ` 60,000 (net).

Partners decided to keep a minimum cash balance of ` 4,000 in the first two months and ` 2,000 thereafter. Show how the amounts due to partners will be settled as per Highest Relative Capitals.

Solution:

In the books of Py Ra Mides
Statement of Excess Capital

Particulars	**P (4)**	**R (3)**	**M (3)**
Capital	80,000	60,000	54,000
Less: Current A/c	–	8,000	6,000
Adjusted Capitals	80,000	52,000	48,000
M's Capital being lowest taken as base (Note 1)	64,000	48,000	48,000
Excess Capital	16,000	4,000	NIL
R's Capital being lowest taken as base (Note 2)	5,333	4,000	
Ultimate Excess Capital	10,667	NIL	NIL
Note 1: Capital per unit of profit	$\frac{80,000}{4}$ = 20,000	$\frac{52,000}{3}$ = 17,333.33	$\frac{48,000}{3}$ = 16,000
Note 2: Capital per unit of profit	$\frac{16,000}{4}$ = 4,000	$\frac{4,000}{3}$ = 1,333.33	

Statement of Piecemeal Distribution of Cash
(Highest Relative Capital)

Date	**Particulars**	**Cash**	**Crs.**	**P's Cap.**	**R's Cap.**	**M's Cap.**
2003		`	`	`	`	`
Mar. 31	Balances	6,000	74,000	80,000	52,000	48,000
	Less: Minimum Balance	–4,000				
	Less: Paid Creditors	–2,000	–2,000			
	Balances	–	72,000	80,000	52,000	48,000
Apr. 30	Realisation (30,000 + 40,000 – 10,000)	69,000				
	Less: Paid Creditors	–69,000				
	Balance	–	3,000	80,000	52,000	48,000
May 31	Realisation (20,000 + 48,000)	68,000				
	Add: Cash not required	+ 2,000				
		70,000				
	Less: Paid Creditors	–3,000	–3,000			
	Less: Paid P	–10,667		–10,667		
	Less: Paid P and R	–9,333		–5,333	–4,000	

	Less: Paid P, R and M	–47,000		–18,800	–14,100	–14,100
	Balance	–	–	31,280	23,460	23,460
June 30	Realisation (36,000 + 60,000)	34,800				
	Less: Paid P, R and M	–34,800		–13,920	–10,440	–10,440
	Balance	–	–	31,280	23,460	23,460
July 31 (Final)	Realisation (20,000 + 60,000)	80,000				
	Add: Cash not required	+ 2,000				
		82,000				
	Less: Paid P, R and M	–82,000		–32,800	–24,600	–24,600
	Realisation Profit	–	–	1,520	1,140	1,140

Illustration 5: From the following Balance Sheet of M/s Ideal Store with Sunil, Anil and Neel as partners sharing profits and losses in the ratio of 5 : 3 : 2. Their Balance Sheet on the date of dissolution was as follows:

Liabilities	`	**Assets**	`
Partner's Capital:		Fixed Assets	80,000
Sunil	38,800	Current Assets	60,000
Anil	20,400	Cash in hand	9,600
Neel	26,000		
General Reserve	19,200		
Sunil's Loan	20,200		
Sundry Creditors	24,000		
	1,49,600		1,49,600

(i) Realisation expenses were estimated at ` 4,000.

(ii) The Assets were realised as under:

First instalment	` 61,280
Second instalment	` 28,720
Third instalment	` 21,000

(iii) Actual realisation expenses were ` 3,000 only.

Prepare a statement showing piecemeal distribution of cash by adopting Excess Capital Method.

Solution:

In the books of M/S Ideal Store Statement of Excess Capital

	Sunil (5) `	Anil (3) `	Neel (2) `
Capitals	38,800	20,400	26,000
Add: General Reserve (5 : 3 : 2)	9,600	5,760	3,840
Adjusted Capitals	48,400	26,160	29,840
Considering Anil as base (Note 1)	43,600	26,160	17,440
Excess Capital	4,800	–	12,400
Considering Sunil as base (Note 2)	4,800	–	1,920
Ultimate Excess Capitals	–		10,480
Note 1: Capital per unit of profit	$\frac{48,400}{5}$ = 9,680	$\frac{26,160}{3}$ = 8,720	$\frac{29,840}{2}$ = 14,920
Note 2: Capital per unit of Profit	$\frac{4,800}{5}$ = 960	–	$\frac{12,400}{2}$ = 6,200

First, pay Neel ` 10,480.

Next, pay Sunil and Neel ` 6,720 in 5 : 2.

Balance pay to all in 5 : 3 : 2.

Statement of Piecemeal Distribution of Cash

Date	Particulars	Cash Available	Creditors	Sunil's Loan	Sunil	Anil	Neel
	Balance	9,600	24,000	21,200	48,400	26,100	29,840
	Less: Kept aside for Realisation expenses	4,000					
	Less: Paid creditors	5,600	5,600				
	Balances	–	18,400	21,200	48,400	26,160	29,840
1st	Realisation	61,280					
	Less: Paid Creditors	18,400	18,400				
	Less: Paid Loan	21,200		21,200			
	Less: Paid Neel	10,480					10,480
	Less: Paid Sunil and Neel in 5 : 2	6,720			4,800		1,920
	Less: Paid all in 5 : 3 : 2	4,480			2,240	1,344	896
	Balance	–	–	–	41,360	24,816	16,544

2nd	Realisation	28,720					
	Less: Paid all in 5 : 3 : 2	28,720	–	–	14,360	8,616	5,744
	Balance	–	–	–	27,000	16,200	10,800
3rd and Final	Realisation	21,000					
	Less: Paid all in 5 : 3 : 2	21,000	–	–	10,500	6,300	4,200
	Realisation Loss	–	–	–	16,500	9,900	6,600

Illustration 6 (Withdrawal of agreed amounts): Madhuri, Tabu and Juhi carrying on business in partnership decided to dissolve it on and from 30th September, 2003. The following was their Balance Sheet on the date:

Liabilities		`	**Assets**	`
Capital Accounts:			Fixed assets	40,000
Madhuri	20,000		Current Assets	22,000
Tabu	5,000		Bank	13,000
Juhi	10,000	35,000		
General Reserve		30,000		
Creditors		10,000		
		75,000		75,000

As per the arrangements with the bank, the partners were entitled to withdraw ` 4,000 immediately and ` 9,000 after 1st December, 2003. It was decided that after keeping aside an amount of ` 1,000 for estimated realisation expenses, the available funds should be distributed amongst the partners as and when realised.

The following were the realisation:

	Fixed Assets `	**Current Assets** `
31st October, 2003 (first)	10,000	5,000
15th November, 2003 (second)	26,000	12,000
30th December, 2003 (final)	10,000	12,000

Actual realisation expenses amounted to ` 700. You are requested to submit a statement showing distribution of cash amongst the partners by Proportionate Capital Method.

Solution:

Particulars	Cash	Creditors	Madhuri	Tabu	Juhi
Balance due	–	10,000	30,000	15,000	20,000
Bank balance (available)	4,000				
Less: Reserve for Expenses	1,000				
	3,000				
Less: Paid to creditors	3,000	3,000			
Balance due	–	7,000	30,000	15,000	20,000
31-10 Realisation (10,000 + 5,000)	15,000				
Less: Paid to creditors	7,000	7,000			
Balance	8,000	–	30,000	15,000	20,000
Less: Paid to Madhuri [I]	8,000	–	8,000	–	–
Balance due	–	–	22,000	15,000	20,000
15-11 Realisation (26,000 + 1,200)	38,000	–			
Less: Paid to Madhuri [I]	2,000	–	2,000		
Balance	36,000	–	20,000	15,000	20,000
Less: Paid to Madhuri & Juhi [II]	10,000	–	5,000	–	5,000
Balance due	26,000	–	15,000	15,000	15,000
Less: Paid to Madhuri, Tabu, & Juhi in PSR	26,000	–	8,666	8,667	8,667
Balance due	–	–	6,334	6,333	6,333
30-12 Realisation		–			
Bank balance (available)	9,000	–			
Add: Realisation (10,000 + 12,000)	22,000	–			
Add: Unspent Expenses (10,00 – 700)	300	–			
	31,300	–			
Less: Paid to Madhuri, Tabu & Juhi in PSR	31,300	–	10,434	10,433	10,433
Surplus paid	–	–	4,100	4,100	4,100

Illustration 7: L, U and M were in partnership, sharing profit and losses in the ratio of 1/2, 1/3, and 1/6 respectively. Their firm was dissolved as on 31st December 2003 on which date the Balances Sheet of the firm was as under:

Balance sheet as at 31st December, 2003

Liabilities	`	Assets	`
Capitals		Cash	4,000
L	17,000	Debtors	42,000
U	8,000	Stock	16,000
M	1,000		
General Reserve	6,000		
Loans:			
L	6,000		
U	4,000		
Creditors	20,000		
	62,000		62,000

It was agreed that the realisation should be distributed in their due order at the end of each fortnight. The realisation and expenses were as under:

Particulars	Debtors	Stocks	Expenses
15th January 2004	7,500	4,500	1,000
31st January 2004	10,500	500	500
15th February 2004	8,500	8,500	1,000
28th February 2004	10,500	500	400
15th March 2004	2,050	3,050	600

Stocks were completely off and the remaining debtors were to be taken over by M at an agreed amount of ` 600.

Show the Statement of distribution of cash, following Relative Capital Methods.

Solution:

Statement of Distribution
A. Payment of Liabilities (including Partner's Loan)

Date	Particulars	Cash	Creditors	Loan: L	Loan: U
2004					
1-1	Balances	4,000	20,000	6,000	4,000
	Less: Paid to creditors	4,000	4,000	-	-
	Balance due	-	16,000	6,000	4,000
15-1	Realisation (7,500 + 4,500 – 1,000)	11,000			
	Less: Paid to creditors	11,000	11,000	-	-
	Balance due	-	5,000	6,000	4,000

31-1	Realisation (10,500 + 500 – 500)	10,500			
	Less: Paid to creditors	5,000	5,000	-	-
	Balance to Partners Loan (pro-data 6:4)	5,500	-	6,000	4,000
		5,500	-	3,300	2,200
		-	-	2,700	1,800
15-2	Realisation (8,500 + 8,500 – 1,000)	16,000			
	Less: Paid for loans	4,500	-	2,700	1,800
	Balance c/d for payment of partners capitals	11,500	-	-	-

B. Payment of Partner's Capital

Date	Particulars	Cash	L [3]	U [2]	M [1]
2004					
1-1	Balances Due (capital + reserve)	-	20,000	10,000	2,000
	Cash Balance b/d from A	11,500			
	Less: Paid to L (I)	5,000	5,000	-	-
15-2	Balance	6,500	15,000	10,000	2,000
	Less: Paid to L & U (II)	6,500	3,900	2,600	-
	Balances	-	11,100	7,400	2,000
28-2	Realisation (10,500 + 500 – 400)	10,600			
	Less: Paid to L & U (II) (15,000 – 6,500)	8,500	5,100	3,400	-
	Balances	2,100	6,000	4,000	2,000
	Less: Balances paid to all in profit sharing ratio	2,100	1,050	700	350
	Balances due	-	4,950	3,300	1,650
15-3	Realisation (2,050 + 3,050 + 600 – 600)	5,100			
	Distributed to all in PSR	5,100	2,550	1,700	850
	Unpaid Balances	-	2,400	1,600	800

Working note:

(1) Profit Sharing Ratio (PSR) given in fraction (1/2, 1/3 and 1/6) when converted becomes 3 : 2 : 1.

(2) Cash available at each stage is debtors + stock – expenses.

Debtors taken over by M at ` 600 are added in cash realisation and distribution on 15-3 ` 850 distributed to M on 15-3 is made up of debtors ` 600 and balance ` 250 in cash.

PRACTICAL PROBLEMS – PROPORTIONATE CAPITAL METHOD

1. A, B and C were sharing profits and losses in the proportion of 1/2, 1/3 and 1/6. Their Balance Sheet was as follows:

Liabilities	`	Assets	`
Creditors	50,000	Land and Buildings	70,000
A's Loan A/c	10,000	Plant & Machinery	40,000
A's Capital A/c	50,000	Stock	25,000
B's Capital A/c	10,000	Debtors	20,000
C's Capital A/c	40,000	Cash	5,000
	1,60,000		**1,60,000**

The partnership is dissolved and the assets are realised as follows:

1st Realisation	40,000
2nd Realisation	30,000
3rd Realisation	54,000
4th Realisation	7,000

Prepare a statement showing how the distribution should be made by using proportionate capital method.

2. M,N and O were partners in a firm sharing profits and losses in the ratio of 1/2, 1/4 and 1/4 respectively on the date of dissolution. Their balance sheet was as follows:

Liabilities	`	Assets	`
Creditors	28,000	Sundry Assets	80,000
M's Capital A/c	20,000		
N's Capital A/c	20,000		
O's Capital A/c	12,000		
	80,000		**80,000**

The assets realised ` 68,000 and it was received in installments of ` 28,000, ` 20,000 and ` 20,000.

Prepare a statement showing distribution of cash by using proportionate capital method.

3. A, B and C were in partnership sharing profits and losses in the proportion of 1/2, 1/3 and 1/6 respectively. The partnership was dissolved on 30/06/2000 when the proportion was as follows:

Liabilities		`	Assets	`
Capital Account:			Cash in Hand	28,000
A	1,40,000		Debtors	2,94,000
B	70,000		Stock in Trade	1,12,000
C	14,000	2,24,000		
Creditors		2,10,000		
		4,34,000		**4,34,000**

There was a bill for ` 10,000 due on 30/11/2000 under discount. It was agreed that net realisation should be distributed in their due order (at the end of each month) but as safely as possible. The realisation and expenses were:

	Stock & Debtors	Expenses
31.07.2000	84,000	7,000
31.08.2000	1,26,000	5,400
30.09.2000	70,000	4,900
31.10.2000	77,000	3,500
30.11.2000	35,500	3,500

The stock was completely disposed off and the amounts due from debtors were realised, the balance being irrecoverable. The acceptor of the bill under discount met the bill on the due date. Draw up a detailed statement showing the monthly distribution of cash realised using proportionate capital method.

PRACTICAL PROBLEMS – MAXIMUM LOSS METHOD

4. The following is the balance sheet of X, Y and Z who share profits and losses equally:

Liabilities		`	Assets	`
Capital Account:			Sundry Assets	60,000
X	29,000		Cash at Bank	4,000
Y	20,000		Profit and Loss A/c	6,000
Z	11,000	60,000		
Creditors		10,000		
		70,000		**70,000**

The firm dissolved on 1/12/2002 and the assets were realised as follows:

1st Realisation	6,000
2nd Realisation	9,000
3rd Realisation	15,000
4th Realisation	18,000

Show the distribution of cash under maximum loss method.

5. Rinku, Pinku and Tinku were in partnership sharing profits and losses in the ratio of 3 : 2 : 1. Their balance sheet on 31/12/2001 was as:

Liabilities		`	**Assets**	`
Creditors		30,000	Cash	3,000
Tinku's Loan A/c		5,000	Stock	25,000
Capital Accounts			Debtors	35,000
Pinku	15,000		Bills Receivable	3,000
Rinku	15,000		Furniture & Fittings	9,000
Tinku	10,000	40,000		
		75,000		**75,000**

The Bills Receivable were accepted on 1/11/2001 payable after three months on 1/1/2002. The firm was dissolved. The assets were realised and the expenses were as follows:

	Stock	**Debtors**	**Furniture & Fittings**	**Expenses**
31 Jan	5,000	7,000	2,000	600
28 Feb	9,000	10,000	3,500	1,000
31 Mar	6,000	11,000	———	3,000
30 Apr	2,500	4,500	2,000	900

The Bills Receivable were duly honoured. Prepare a statement showing the distribution of cash assuming payments were made on the last day of the month.

6. Following is the balance sheet of M/s P, Q and R who share profits and losses in the ratio of 2 : 2 : 1.

Liabilities		`	Assets	`
Creditors		15,000	Cash in Hand	2,000
Capitals			Debtors	22,000
P	15,000		Stock	22,000
Q	12,000			
R	4,000	31,000		
		46,000		**46,000**

The firm dissolved and the assets were realised gradually as follows:

1st Realisation	10,000
2nd Realisation	15,000
3rd Realisation	9,000

Show the distribution of cash under maximum loss method.

7. Monika, Sonika and Ronika share profit and losses in the proportion of 2 : 1 : 1. Their balance sheet is as follows:

Liabilities		`	Assets	`
Creditors		10,000	Plant & Machinery	25,500
Sonika's Loan		6,000	Stock	15,500
Ronika's Loan		4,000	Furniture	5,000
Reserve Fund		8,000	Sundry Debtors	17,000
Contingency Reserve		6,000	Cash in hand	6,000
Capital Accounts:				
Monika	20,000			
Sonika	10,000			
Ronika	5,000	35,000		
		69,000		**69,000**

The firm is dissolved, and the assets are realised as follows:

1st Realisation	12,000
2nd Realisation	25,000
3rd Realisation	19,000

On the dissolution date, there was a contingent liability of ` 2,000 against the firm which was settled at ` 1,500 at the time of 2nd realisation. Realisation expenses were estimated at ` 20,000 but these actually amounted to ` 1,200. The firm was found to pay ` 600 out of third realisation for which no provision was made. Sonika took over stock valued at ` 1,000 at the time of 3rd realisation. Prepare a statement showing the distribution of cash.

Working Problems

1. P, Q and R share profits of a firm in the proportion of 1/2, 1/4 and 1/4 respectively. On the date of dissolution, their Balance Sheet stood as follows:

Liabilities	`	Assets	`
Creditors	10,000	Sundry Assets	60,000
P's Loan A/c	5,000	Cash in Hand	1,000
Q's Loan A/c	3,000		
P's Capital A/c	20,000		
Q's Capital A/c	15,000		
R's Capital A/c	8,000		
	61,000		**61,000**

The assets realised ` 45,000 which were received in installments of ` 15,000, ` 16,000 and ` 14,000. Show how the proceeds should be distributed as and when received by following the proportionate capital method.

2. Ramesh, Rajesh and Rakesh are three partners in a firm and share profits and losses in the proportion of 3/10, 5/10 and 2/10 respectively. Their balance sheet on 31st December, 2001 is as follows:

Liabilities		`	Assets	`
Creditors		17,000	Cash in hand	4,000
Capital Account			Other Assets	70,000
Ramesh	38,000		Profit & Loss A/c	10,000
Rajesh	26,000			
Rakesh	3,000	67,000		
		84,000		**84,000**

The partnership is dissolved and the assets are realised as follows:

2002	Book Value of Assets Realised `	Amount Realised `
January 31	30,000	25,000
February 29	25,000	15,000
March 31	15,000	10,000

Rakesh is insolvent and a sum of ` 1,400 is recovered from his estate in full settlement. Prepare a statement showing how the distribution should be made by following the maximum possible loss method.

3. Orange, Apple and Banana were in partnership sharing profits and losses in the ratio of 3 : 2 : 1. They decided to dissolve the partnership and to distribute the sale proceeds as and when realised.

   The partner's capitals were: Orange ` 10,000, Apple ` 9,000 and Banana ` 5,000. Apple's loan (Cr.) amounted to ` 3,000.

   Sundry creditors amounted to ` 6,000.

   The assets were realised as under:

	Stock	Debtors	Furniture & Fittings	Expenses
July	3,000	2,000	300	500
August	2,000	1,500	100	200
September	2,500	2,000	——	300
October	3,000	1,500	——	200

   You are required to draw up a statement showing the distribution of cash.

4. A, B and C share profits and losses in the proportion of 1/2, 1/3 and 1/6. Their balance sheet is as follows:

Liabilities		`	Assets	`
Capital Account:			Assets	8,000
A	3,000			
B	3,000			
C	2,000	8,000		
		8,000		**8,000**

   The partnership dissolved and the assets were realised as follows:

1st Realisation	1,000
2nd Realisation	1,500
3rd Realisation	2,500

   The partners desire to withdraw immediately such cash as is available for division between them rather than wait until all the assets have been sold.

   Prepare a statement showing how the distribution should be made and prepare Partner's Capital Accounts by following the maximum loss method.

5. Given below is the balance sheet of A, B and C on December 31, 2001 on which date they dissolved their partnership. They shared profits and losses in the ratio of 4 : 3 : 3. They decided to distribute amounts as and when feasible and to appoint C for this purpose who was to get as his remuneration 1% of the value of the assets realised other than cash at Bank and 10% of the amount distributed to the partners.

Liabilities		`	Assets	`
Capital:			Cash at bank	275
A	15,000		Sundry Assets	53,725
B	7,500			
C	15,000	37,500		
Sundry Creditors		16,500		
		54,000		**54,000**

Assets realised as under:

1st Installment	16,250
2nd Installment	12,750
3rd Installment	10,000
4th Installment	7,500

Prepare a statement showing distribution of cash by following Maximum Loss Method and also the necessary journal entries to close the books of the firm.

6. A partnership firm was dissolved on 30th June, 2001. Its balance sheet on the date of dissolution was as follows:

Liabilities		`	Assets	`
Capital Account:			Sundry Assets	60,000
Ram	38,000		Cash at Bank	4,000
Shyam	24,000		Profit and Loss A/c	6,000
Mohan	18,000	80,000		
Loan A/c – Shyam		5,000		
Creditors		15,000		
		1,00,000		**1,00,000**

The assets were realised in installments and the payments were made on the proportionate capital basis. Creditors were paid ` 14,500 in full settlement of their account. Expenses of realisation were estimated to be ` 2,700, but actual amount spent on this account was ` 2,000. This amount was paid on 15th September. Draw up a Memorandum of distribution of cash, which was realised as follows:

5th July	12,600
30th August	30,000
15th September	40,000

The partners shared profits and losses in the ratio of 2 : 2 : 1. Give working notes.

7. Sharad, Adesh, Rama and Ajay were partners in a firm. The capital of the firm consisted of ` 40,000 contributed originally in the proportion. The firm was dissolved on 31st March, 2002. The balance sheet as on that date was as under:

Liabilities		`	**Assets**	`
Capital Accounts:			Cash	6,000
Sharad	20,000		Debtors	50,000
Adesh	14,000		Stock	19,000
Rama	10,500			
Ajay	2,500	47,000		
Loan:				
Sharad	5,000			
Rama	8,000	13,000		
Creditors		15,000		
Total		75,000		75,000

It was decided on 15th April that the net realisation should be distributed on the first of each month in the appropriate order. The realisation and expenses at the end of each month were as under;

	Stock	**Debtors**	**Expenses**
April	7,000	15,000	500
May	5,000	8,500	1,000
June	——	11,000	250
July	4,000	5,500	150
August	2,500	7,000	100

The stock was completely disposed off. It was further agreed that Adesh should take over the remaining debts for ` 2,500.

8. P, Q and R were partners sharing profits in the proportion of 1/2, 1/4 and 1/4 respectively. Their Balance Sheet on the date of dissolution was as follows:

Liabilities	`	**Assets**	`
Creditors	10,000	Sundry Assets	60,000
P's Loan	5,000	Cash	1,000
Q's Loan	3,000		
P's Capital	20,000		
Q's Capital	15,000		
R's Capital	8,000		
	61,000		**61,000**

The assets realised ` 65,000, which was received in installments of ` 15,000, ` 16,000, ` 14,000 and ` 20,000. Show how the proceeds should be distributed as and when received by the following Proportionate Capital Method.

9. A, B and C share profits and losses in the proportion of 1/2 : 1/3 : 1/6. Their Balance sheet as on 31-12-1983 was as follows:

Liabilities		`	Assets	`
Creditors		30,000	Cash	4,000
Capital:			Debtors	42,000
A	20,000		Stock	16,000
B	10,000			
C	2,000	32,000		
		62,000		**62,000**

They decided to dissolve the firm and agreed to distribute the cash as and when realised. The realisation and expenses are as follows:

Month	Debtors	Stock	Expenses
April	8,000	4,000	1,000
May	12,000	6,000	800
June	7,000	3,000	700
July	10,000	1,000	500
August	2,000	3,500	600

Stock having been completely sold, Mr. C accepted to collect the remaining debts ` 600. From the details given above, prepare a statement showing the piecemeal distribution of cash.

10. A, B, and C were partners sharing profits and losses in the ratio of 2 : 2 : 1. They dissolved their firm on 1-1-1986 when their position was as under:

Liabilities		`	Assets	`
Trade Creditors		40,000	Land and Building	50,000
Bills Payable		30,000	Plant & Machinery	80,000
Reserves		10,000	Stock-in-trade	60,000
Capital Accounts:			Cash in Hand	10,000
A	40,000		Profit & Loss A/c	5,000
B	60,000		Sundry Debtors	10,000
C	35,000	1,35,000		
		2,15,000		**2,15,000**

Assets were realised and cash was paid to partners as and when received. The net cash was available each month as under:

End of February 1986	50,000
End of March 1986	1,20,000
End of June 1986	40,000

A part of the stock costing ` 20,000 was taken over by B for ` 15,000 for his personal use. Prepare the statement showing piecemeal distribution of cash among the partners.

11. Monika, Sonika and Romika share profits and losses in the proportion of 2 : 1 : 1. Their Balance Sheet is as follows:

Liabilities	`	**Assets**	`
Sundry creditors	10,000	Plant and Machinery	25,000
Sonika's Loan	6,000	Stock	15,500
Romika's Loan	4,000	Furniture	5,500
Reserve fund	8,000	Sundry Debtors	17,000
Contingency Reserve	6,000	Cash in Hand	6,000
Monika's Capital	20,000		
Sonika's Capital	10,000		
Romika's Capital	5,000		
	69,000		**69,000**

The firm is dissolved and the assets are realised as follows:

1st Realisation	12,000
2nd Realisation	25,000
3rd Realisation	19,000

On the dissolution date, there was a contingent liability of ` 2,000 against the firm, which was settled at ` 1,500 at the time of 2nd realisation. Realisation expenses were estimated at ` 2,000, but these actually amounted to ` 1,200. The firm was bound to pay ` 600 out of third realisation for which no provision was made. Sonika took over stock valued at ` 1,000 at the time of third realisation. Prepare a statement showing the distribution of Cash under Surplus capital method.

12. East, South and North are in partnership sharing profits and losses in the ratio of 3 : 2 : 1. They decided to dissolve the business on 31-12-1978 on which date their balance sheet was as follows:

Liabilities	`	Assets	`
Capital A/c:		Land & buildings	30,810
East	38,700	Motor Car	5,160
South	10,680	Investments	1,080
North	11,100	Stock	19,530
Loan Account: North	3,000	Debtors	11,280
Creditors	10,320		
Cash	5,940		
	73,800		**73,800**

The assets were realised piecemeal as follows and it was agreed that cash should be distributed as and when realised:

15-1-1979	` 10,380
20-2-1979	` 27,900
23-3-1979	` 3,600
15-4-1979 North took over investments at a value of	` 1,260
27-4-1979	` 19,200

Dissolution expenses were originally provided for an estimated amount of ` 2,700, but the actual amount spent on 29-3-1979 was ` 1,920. The creditors were settled for ` 10,080. You are required to prepare a statement showing distribution of cash amongst the partners.

13. P, Q and R share profits of an firm in the proportion of 1/2, 1/4 and 1/4 respectively. On the dissolution, their Balance Sheet stood as follows:

Liabilities	`	Assets	`
Creditors	10,000	Sundry Assets	60,000
P's Loan	5,000	Cash in Hand	1,000
Q's Loan	3,000		
P'S Capital	20,000		
Q's Capital	15,000		
R's Capital	8,000		
	61,000		**61,000**

The assets realised ` 45,000 which were received in installments of ` 15,000, ` 16,000 and ` 14,000. Show how the proceeds should be distributed as and when received by following the proportionate capital method.

14. Ram, Sham and Rahim are in partnership sharing profits and losses in the ratio of 3 : 2 : 1 respectively. They decided to dissolve the business on 31st December 1986 on which their Balance sheet stood as follows:

Liabilities	`	Assets	`
Capital:		Land & Buildings	92,430
Ram	1,16,100	Motor Car	15,480
Sham	32,040	Investments	3,240
Rahim	33,300	Stock	58,590
Ram's Loan A/c	9,000	Debtors	33,840
Creditors	30,960	Cash in Hand	17,820
	2,21,400		**2,21,400**

The realisation of assets is as follows:

16th Jan, 1986	` 31,140
20th Feb, 1986	83,700
23rd March, 1986	10,800
16th April, 1986 Rahim took over Investment at a value of	3,780
27th April, 1986	57,600

Dissolution expenses were originally provided for an estimated amount of ` 8,100 but the actual amount spent on 29th March 1986 was ` 5,760. The Creditors were paid for ` 30,240 in full settlement. You are required to prepare a statement showing distribution of cash amongst the partners according to the proportionate capital method.

15. Orange, Apple and Banana were in partnership sharing profits and losses in the ratio of 3 : 2 : 1. They decided to dissolve the partnership and to distribute the sale proceeds as and when realised.

The partner's capitals were: Orange ` 10,000; Apple ` 9,000 and Banana ` 5,000. Apple's loan (Cr.) amounted to ` 3,000. Sundry creditors amounted to ` 6,000.

The assets were realised as under:

	Stock	Furniture	Debtors	Expenses
July	` 3,000	` 300	` 2,000	` 500
August	2,000	100	1,500	200
September	2,500	2,000	300	
October	3,000	1,500	200	

You are required to draw up a statement showing the distribution of cash.

16. Lamb, Deer and Peacock were in partnership, their respective share being 1/2, 1/4 and 1/4. The following was their Balance Sheet on December 31, 1974 on which date they decided to dissolve the firm.

Liabilities	`	**Assets**	`
Creditors	15,000	Cash	9,000
Income-tax payable	4,000	Stock	40,000
Loan from Bank (Secured of stock)	30,000	Debtors	60,000
Deer's Loan	11,000	Furniture	36,000
Capital Accounts:		Motor Car	25,000
Lamb	40,000		
Deer	40,000		
Peacock	30,000		
	1,70,000		**1,70,000**

Bank could realise only ` 25,000 on disposal of stock. A sum of ` 3,000 was spent for furniture, for getting better price. Other assets were realised as follows:

January 1975	` 12,000
February 1975	` 15,000
March 1975	` 10,000
April 1975	` 30,000
May 1975	` 35,000

The partners distributed the cash as and when available. Show the distribution of cash on the basis of 'highest relative capitals'.

17. K, L and M are partners who share profits in the ratio of 3 : 2 : 1. Their Balance sheet on 31/12/87 was under:

Capital:		Sundry Assets	` 2,00,000
K	` 30,000		
L	50,000		
M	50,000		
Creditors	70,000		
	2,00,000		**2,00,000**

The firm dissolved and the assets realised as follows: First realisation ` 50,000; Second realisation ` 30,000; Third realisation ` 60,000; Fourth realisation ` 30,000 and Final realisation ` 15,000. Prepare the statement showing the piecemeal distribution of cash under Maximum Loss Method.

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