



### **What is Dissolution of Partnership?**

**Meaning:** When the relation between all the partners of the firm comes to an end, this is called dissolution of the firm.

Dissolution of partnership is different from the dissolution of firm. When any of the partners dies, retires or become insolvent but if the remaining partners still agree to continue the business of the partnership firm, then it is dissolution of partnership not the dissolution of firm. Dissolution of partnership changes the mutual relations of the partners. But in case of dissolution of firm, all the relations and the business of the firm comes to an end.

When the relation between all the partners of the firm comes to an end, this is called dissolution of the firm. Section 39 of the Indian Partnership Act, provides that "the dissolution of the partnership between all the partners of a firm is called the dissolution of a firm." It implies the complete breakdown of the relation of partnership between all the partners.

**Dissolution of partnership is different from the dissolution of firm.** Dissolution of a partnership firm merely involves a change in the relation of partners; whereas the dissolution of firm amounts to a complete closure of the business. When any of the partners dies, retires or become insolvent but if the remaining partners still agree to continue the business of the partnership firm, then it is dissolution of partnership not the dissolution of firm. Dissolution of partnership changes the mutual relations of the partners. But in case of dissolution of firm, all the relations and the business of the firm comes to an end. On dissolution of the firm, the business of the firm ceases to exist since its affairs are would up by selling the assets and by paying the liabilities and discharging the claims of the partners. The dissolution of partnership among all partners of a firm is called dissolution of the firm.

**Modes of Dissolution:** A firm may be dissolved in any of the following ways:

**1. By Consent:** A partnership firm can be dissolved any time with the consent of all the partners whether the partnership is at will or for a fixed duration.

**2. By Agreement:** A partnership can be dissolved in accordance with the terms of the Partnership Deed or of the separate agreement.

**3. Compulsory Dissolution:** In case, any of the following events take place then it becomes compulsory for the firm to dissolve:

(i) *Insolvency of Partners:* In case all the partners or all the partners except one become insolvent.

(ii) *Unlawful Business:* In case the firm's business become unlawful on the happening of a subsequent event, e.g., trading with alien country.

**4. Dissolution on the Happening of Contingent Event:** A firm may be dissolved on the happening of any of the following contingent event:

(i) *Expiry of Fixed Period:* If the firm is constituted for fixed period, then the firm dissolves automatically.

(ii) *On achievement of specific task:* If the firm has been constituted for the achievement of specific task, on achievement of that task, firm ceases to exist.

(iii) *Death of Partner:* Death of any of the partner dissolves the partnership.

(iv) *Insolvency of Partner:* The insolvency of any of the partner may dissolve the firm.

(v) *Resignation of Partner:* Resignation by any of the partners dissolves the partnership.

**5. Dissolution by Notice:** In case of partnership at will, a partner can dissolve it by giving written notice of dissolution to other partners duly signed by him.

**6. Dissolution by Court:** The court may order for the dissolution of the firm on the following grounds:

(i) *Insanity of Partner:* On the application of any of the partner, court may order for the dissolution of the firm if a partner has become of an unsound mind.

(ii) *Incapacity of Partner:* If a partner has become permanently incapable of discharging his duties and obligations, then court may order for the dissolution of firm on the application of any of the partner.

(iii) *Misconduct of Partner:* If any partner other than partner suing is responsible for any loss to the firm, then the court may order for the dissolution of the firm.

(iv) *Constant breach of agreement by partner:* The court may order for the dissolution of the firm if the partner other than the suing partner is found guilty for constant breach of agreement and it becomes impossible to continue the business with such partner.

- (v) *Transfer of Interest*: When any of the partner other than the suing partner transfers whole of its share to the third party permanently.
- (vi) *Continuous Losses*: The court may order for dissolution if the firm is continuously suffering losses and there is no more capital available for the future growth of the firm.
- (vii) *Just and Equitable*: The court may order for dissolution on any other ground which court think is just, fair and equitable, e.g., loss of total confidence between the partners.

## SETTLEMENT OF ACCOUNTS ON DISSOLUTION

When a partnership firm is dissolved, its assets are disposed of and the proceeds therefrom are utilised in paying the creditors.

If the amount realised by sale of assets is not sufficient to discharge the claims of the creditors in full, the deficiency can be recovered proportionately from the personal properties of the partners.

If any partner becomes insolvent, the remaining solvent partners will bear the loss in their capital ratio.

In case the assets of the firm are more than sufficient to meet the liabilities in full, then the surplus may be utilised to pay off the loans and capitals contributed by the partners.

Section 48 of the Partnership Act, 1932 lays down the following procedure for the settlement of accounts between partners after the dissolution of the firm:

1. Losses including deficiencies of capital should be made good: (a) first out of profits, (b) then out of capital, and (c) if need be out of personal contributions of partners in their profit sharing ratio.
2. The assets of the firm including any sum contributed by partners to make up deficiencies of capital will be applied for settling the debts of the firm, in the following order, subject to any agreement to the contrary:
  - (i) First, in paying off the debts of the firm due to third parties;
  - (ii) Then in paying to each partner ratably any advances or loans given by him in addition to or apart from his capital contribution;
  - (iii) If any surplus is available after discharging the above liabilities, the capital contributed by the partners may be returned, if possible, in full or otherwise ratably;
  - (iv) The surplus, if any, shall be divided among the partners in their profit sharing ratio.

## How to Dissolve a Partner from Partnership Firm?

To explain the dissolution of partnership, let us take a simple citation. Suppose, Jack and Mack were two best friends. They started a business in partnership about 15 years ago. They were earning smart profits and were successful in their endeavor. People were quite jealous from their success, as a result some poor wisher incorporated a seed of misunderstanding between them. Eventually they closed down their business. This is very common that due to small misunderstandings partners dissolve their partnerships and sometimes they dissolve the entire business also.

## THE DISSOLUTION

The dissolution simply means termination or discontinuation. Here, it is important to mention that dissolution of firm and dissolution of partnership are two different things. Dissolution of firm means shutting down of business and complete termination of relationships between all partners of the firm. On the other hand, dissolution of partnership means a change in the interrelationship of two or more partners but the firm retains its identity and continues to be in the business. In later case, partnership would definitely reach to an end but the reconstituted firm may stay operational with the same name.

It's important to understand that if all partners of a firm decide to end relationships with each other, then it is a situation of dissolution of firm, but if 9 partners of a firm decide to end relationship with 1 or 2 partners of the firm then it is a situation of dissolution of partnership and not the firm. The firm will be restructured and reconstituted according to the partnership decisions of new partners.

So, we can say that dissolution of firm surely means termination or dissolution of partnership but the dissolution of partnership doesn't necessarily means termination or dissolution of firm.

A firm leads to dissolution under following instances:

**Dissolution by the Agreement:** A firm will see dissolution if all the partners agree to end their relationships or if partnership contract reach to its retirement.

**Compulsory Dissolution of Firm:** A firm will see compulsory dissolution under following instances:

1. When all partners of the firm excluding one partner become insolvent.
2. When firm breaks the business law of nation.
3. When all partners excluding one partner decide to have retirement from the work.
4. When all partners excluding one partner or all partners die.

**Dissolution by Law or Court:** Any concerned court of the country can also order to dissolve a firm under the following instances:

1. When partners lose their mental health.
2. When firm breaks the business law of nation.
3. When partners of the firm intentionally and repetitively break the agreements with suppliers, vendors, customers etc.
4. When firm is getting illegal benefits from some unknown source of income.
5. When firm is involved in restricted activities of import and export.

Many other cases also lead to the dissolution of entire firm. Even while dissolution of partnership, set up of the firm experience impulsive disturbances that ultimately put adverse effects on the business.

### **How to Dissolve a Partner?**

There are many ways to dissolve a partner from the firm. When all partners of the firm decide to end the relationships with one or more partners of the firm, then they can simply go for the valuation of the concerned partner and then paying him/her according to his/her share in the organization. This payment can be in the form of fixed assets or current assets. After the accepting the evaluated share, the dissolved partner loses all of his/her voting rights in the company.

### **Modes of Dissolution of the Partnership firm**

A partnership firm can be dissolved in any of the two ways: (A) By the order of the court; (B) Without the intervention of the court.

#### ***(A) By the Order of the Court***

A partner may apply to the court for getting the firm dissolved. On getting such application by any of the partner, the court may proceed to order the dissolution of the firm in the following circumstances:

1. If any of the partner becomes of unsound mind.
2. If a partner, other than the partner filing the suit is guilty of intentionally and persistently committing a breach of the partnership agreement.
3. If a partner, other than the partner filing the suit has transferred whole of his interest in the firm to a third party without the consent of the other partners.
4. If a partner, other than the partner filing the suit is guilty of misconduct.
5. If a partner, other than the partner filing the suit has become disabled to perform his duties as a partner.
6. If the court is satisfied that the business of the firm cannot be carried on except a loss.

- (7) If the court considers it just and equitable to dissolve the firm due to some other reasons.

**(B) Without the Intervention of the Court**

1. If all the partners are willing and hereby agree to dissolve the firm.
2. In the following circumstances:
  - (a) On the death of any partner.
  - (b) If any partner becomes insolvent.
  - (c) On the expiry of the duration of the firm.
  - (d) On the completion of the venture.

The Indian Partnership Act makes a distinction between dissolution of firm and dissolution of partnership. Section 39 provides that the dissolution of partnership between all the partners of a firm is called the dissolution of the firm.

Therefore, dissolution of the firm denotes complete breakdown of the contractual relationship between all the partners or termination of the partnership business. But when the existing contractual relationship is terminated and the business continues, it is a case of dissolution of partnership.

Therefore, in dissolution of partnership, the change in contractual relation of the partners may arise because of admission of new partners, retirement of partners, expulsion or insolvency or death of a partner etc. Dissolution of the firm involves dissolution of partnership but dissolution of partnership may not imply dissolution of firm.

### **Modes of Dissolution of a Firm**

A partnership firm may be dissolved under the following circumstances:

**1. Dissolution by Agreement:** Partnership arises from contract and can come to an end by contract. Therefore, the firm may be dissolved with the consent of all the partners or in accordance with a contract between the partners.

**2. Dissolution by Notice:** Where the partnership is at will, the firm may be dissolved by any partner giving notice in writing of his intention to dissolve the firm. The firm is dissolved from the date mentioned in the notice as the date of dissolution. An individual partner is empowered to bring an end to the firm.

**3. Dissolution on the Happening of Certain Contingencies:** Subject to contract between the partners, a firm can be dissolved on the happening of following circumstances:

- (i) Expiry of the term when constituted for a fixed term.
- (ii) Completion of the venture or undertaking when the firm constituted to carry on a venture or undertaking.

- (iii) Death of a partner.
- (iv) Adjudication of a partner as an insolvent.

The partnership agreement may provide that the firm will not be dissolved in any of the above circumstances.

**4. Compulsory Dissolution:** A firm is compulsorily dissolved under any of the following circumstances:

- (i) When all the partners or all but one are adjudged insolvent.
- (ii) When the business of the firm becomes unlawful because of happening of some event.

**5. Dissolution by the Court:** When the partners are having difference of opinion regarding dissolution of the firm on certain grounds, a suit can be filed by any partner in the court to dissolve the firm. Depending upon the merits of the matter, the court may order for dissolution of the firm. Under Section 44 of the Act, the court may dissolve the firm on the following grounds:

- (i) *Insanity:* When a partner becomes insane, the court may order to dissolve the firm. The suit can be filed by any of the other partners or even by any friend of the insane partner.
- (ii) *Permanent incapacity:* When a partner becomes permanently incapable of doing his duties as a partner, the court may dissolve the firm. The suit for dissolution must be filed by a partner other than the incapacitated partner.
- (iii) *Misconduct:* When a partner, other than the partner suing is guilty of misconduct and such misconduct is likely to affect the carrying on of the business, the court may dissolve the firm. The misconduct may be outside the business (punishment for an offence, adultery of a partner etc).
- (iv) *Persistent breach of agreement:* When a partner persistently or willfully commits breach of agreement or conducts himself in such a manner that it is impossible on the part of other partners to carry on the business with him, the court may dissolve the firm. Maintaining wrong accounts, taking away the books of accounts, continuous quarreling with other partners are good grounds.
- (v) *Transfer of interest:* When a partner transfers his whole interest in the firm to a third party or all his shares are sold or attached by the court under a decree, the court may dissolve the firm.
- (vi) *Continuous losses:* When the business cannot be carried on except at a loss, the court may dissolve the firm.
- (vii) *Any other ground:* The court may dissolve the firm on any other ground where the court considers it just and equitable to wind up the business.

### Format of Dissolution of Partnership Deed

THIS DEED OF DISSOLUTION made and executed on the \_\_\_\_\_ day of \_\_\_\_\_ 200 \_\_\_\_\_ at \_\_\_\_\_ amongst the following parties:-

01. Sh. \_\_\_\_\_ S/o Sh. \_\_\_\_\_ aged about \_\_\_\_\_ years R/o \_\_\_\_\_ of the PARTY OF THE FIRST PART (which expression shall mean and include, unless repugnant to the context or meaning thereof his heirs, legal representatives, executors, administrations and assigns.) hereinafter referred to as the CONTINUING PARTY.

#### AND

02. Sh. \_\_\_\_\_ S/o Sh. \_\_\_\_\_ aged about \_\_\_\_\_ years R/o \_\_\_\_\_ of the PARTY OF THE SECOND PART (which expression shall mean and include, unless repugnant to the context or meaning thereof his heirs, legal representatives, executors, administrations and assigns.) hereinafter referred to as the CONTINUING PARTY.

03. Sh. \_\_\_\_\_ S/o Sh. \_\_\_\_\_ aged about \_\_\_\_\_ years R/o \_\_\_\_\_ of the PARTY OF THE THIRD PART (which expression shall mean and include, unless repugnant to the context or meaning thereof his heirs, legal representatives, executors, administrations and assigns.) hereinafter referred to as the CONTINUING PARTY.

04. Sh. \_\_\_\_\_ S/o Sh. \_\_\_\_\_ aged about \_\_\_\_\_ years R/o \_\_\_\_\_ of the PARTY OF THE FOURTH PART (which expression shall mean and include, unless repugnant to the context or meaning thereof his heirs, legal representatives, executors, administrations and assigns.) hereinafter referred to as the RETIRING PARTY.

**WHEREAS the hereto parties had been carrying on the business of \_\_\_\_\_ under the name and style of M/s \_\_\_\_\_ with its office at \_\_\_\_\_ in terms of a Deed of Partnership dated \_\_\_\_\_.**

AND WHEREAS the hereto party of the \_\_\_\_\_ Part Sh. \_\_\_\_\_ had expressed his desire to retire from the Partnership Firm due to his preoccupation in other works w.e.f. \_\_\_\_\_ day of \_\_\_\_\_ 200 \_\_\_\_\_, which has been accepted by the hereto continuing parties.

AND WHEREAS the partnership firm continued its business activities as stipulated above till the close of business hours on \_\_\_\_\_ day of \_\_\_\_\_ 200 \_\_\_\_\_ when the aforesaid parties mutually decided to dissolve the firm because of lack of time being devoted for business by the hereto parties of the \_\_\_\_\_ part who has opted to retire from the firm from the close of business hours as on \_\_\_\_\_ day of \_\_\_\_\_ 200\_\_\_\_\_.

AND WHEREAS the hereto parties of the \_\_\_\_\_ part are minors and this Dissolution Deed is being signed and executed by their respective guardian on their behalf.

AND WHEREAS the term \_\_\_\_\_ PARTY shall be referred to as the retiring party and the party of the other parts shall be referred collectively to as the continuing parties.

AND WHEREAS the hereto retiring party shall have to be paid his capital contribution in the firm within a period of \_\_\_\_\_ months hereof which the hereto continuing parties have agreed to provide within the stipulated period.

AND WHEREAS it is considered expedient amongst the hereto parties to record all the terms and conditions of this dissolution *interse* the parties so that there are no possible misunderstandings in the future and also to bind the hereto parties.

AND WHEREAS the term hereto parties shall always be deemed to mean and include their respective legal heirs, assigns, executors administrators, representative, nominees and attorneys.

### **Now Therefore This Dissolution Witnessed As Under**

01. THAT the partnership firm stands dissolved as on \_\_\_\_ day of \_\_\_\_\_ 200 \_\_\_\_\_ and the firm shall be deemed to have been dissolved as from the said date for all the intents and purposes.

02. THAT the assets and liabilities remaining as on \_\_\_\_ day of \_\_\_\_\_ 200 \_\_\_\_\_ have been time over by the hereto continuing parties who shall continue to run the Partnership Firm, along with themselves as Partners. They may invite any other person to join them as may be beneficial for the firm.

03. THAT the firm stands dissolved as on w.e.f. \_\_\_\_\_ day of \_\_\_\_\_ 200 \_\_\_\_\_. The balance sheet of the firm has been drawn upto \_\_\_\_ day of \_\_\_\_\_ 200 \_\_\_\_ and all the parties have shared their liquid assets in their respective profit and loss sharing ratios.

04. THAT with a view to give full and complete effect to this dissolution the accounts of the late partnership have been properly looked into and checked by the hereto retiring parties and are now not open to any objections whatsoever by any of the hereto parties and the same are hereby specifically admitted to have been truly and correctly made.

05. THAT the continuing party shall clear and pay as referred to in clause 03 above to the retiring parties within \_\_\_\_\_ months hereto failing which the continuing parties shall pay interest 12% p.a. on the amount due to the retiring party, i.e., Sh. \_\_\_\_\_.

06. THAT the hereto retiring parties shall not hereinafter collect any assets claims and/or dues of the said late partnership and in case they do so, the amount so collected shall immediately be handed over them to the hereto party of the continuing part, who

shall further have the right to get indemnified for any act or action on the part of the hereto retiring parties.

07. THAT all the books of accounts, bills, vouchers and other documents belonging to the said late partnership have been taken possession off by the hereto parties of the continuing parts and shall remain in this custody hereinafter. They shall be responsible for producing them before the Income-Tax and other Government Authorities for getting the assessments or matter finalized.

08. THAT the hereto retiring party undertakes to do and sign all such deeds, documents and other papers as may be called upon to do by the hereto continuing party in order to given completion to this dissolution.

IN WITNESS whereof the hereto parties have set their respective hands to these present on this day, month and year mentioned above in the presence of the following witnesses:

### **Witnesses**

#### **Executants**

1. Sh. \_\_\_\_\_  
[Party of the Continuing Part]
2. Sh. \_\_\_\_\_  
[Party of the Continuing Part]
3. Sh. \_\_\_\_\_  
[Party of the Continuing Part]
4. Sh. \_\_\_\_\_  
[Party of the Continuing Part]

### **Deed of Dissolution of Partnership (Involving Immovable Property)**

THIS DEED OF DISSOLUTION is made at ... this day ... between Mr. A residing at ... hereinafter referred to as 'the Party of the First Part' and Mr. 'B' residing at ... hereinafter referred to as 'the Party for the Second Part' and Mr. 'C' residing at ... hereinafter referred to as 'the Party of the Third Part,'.

WHEREAS the Parties hereto have been carrying on business of... in partnership in the firm name of M/s. XYZ & CO on the terms and conditions recorded in the Deed of Partnership dated ... entered into by and between the parties hereto since the ... day of ...

AND WHEREAS as certain differences have arisen between the parties hereto (or as the parties do not desire to continue the said partnership for diverse reasons the parties) have agreed to dissolve the said partnership as from the ... day of ... on the terms herein recorded.

AND WHEREAS the assets of the partners consist of: (i) the land and premises purchased and belonging to the Party of the First Part and brought in by the Party of the First Part as his contribution to the capital of the Firm, (ii) the lands and premises described in the Second and Third Schedules hereto purchased or otherwise acquired by the Firm in the course of its business, and (iii) the goodwill, the stock-in-trade, furniture and other articles and things and bank balances and outstandings.

AND WHEREAS accounts of the partnership business have been made upto the date of dissolution and the total value of the assets have been ascertained to be ` ... including Bank balances, and outstanding debts and excluding therefrom the debts and liabilities of the Firm.

AND WHEREAS each partner is entitled to an equal share in the assets and profits of the firm, under the said Deed of Partnership.

AND WHEREAS it is agreed that the property described in the First Schedule will be returned back to the Party of the First Part in lieu of his share. In the said assets, the property described in the Second Schedule will be assigned to the Party of the Second Part in lieu of his share in the said assets and the property described in the Third Schedule will be retained by the Party of the Third Part in lieu of his share in the said assets.

AND WHEREAS for equalisation of shares the Party of the Third Part will pay to the Parties of the First and Second Parts in cash a sum of ` ... in the manner hereinafter provided.

AND WHEREAS it is agreed that the business of the firm will be continued by the Party of the Third Part alone in the same name and he will be entitled to retain not only the property described in the Third Schedule but all the stock-in- trade, furniture, articles and moneys in lieu of his share in the assets subject to payment of the said sums payable to the Parties of the First and Second Part and subject to all debts and liabilities of the Firm and that the Parties of the First and Second Part will be deemed to have retired from the partnership.

AND WHEREAS the parties have agreed to record the terms of and effectuate the dissolution of the Firm in the manner following.

**Now This Deed Witnessed As Follows**

1. It is agreed and declared that the partnership between the parties hereto in the name of M/s ... be and it is hereby dissolved with effect from the ... day of ....., 2000.
2. The accounts of the business and assets, profits and losses of the said partnership firm till the date of dissolution have been made and settled and signed by the Parties and the Parties confirm the same and except as hereinafter provided no party is liable to the others in respect thereof.

3. The business of the Firm shall be continued to be carried on by the Party of the Third Part alone and as the sole proprietor thereof as from the said date and the Parties of the First and Second Part shall be deemed to have retired from the partnership and shall have no claim thereto except to the extent hereinafter mentioned.
4. The property described in the First Schedule hereto shall cease to be a part of the assets of the Firm and shall continue to belong to the Party of the First Part in his own personal capacity and the Parties hereto of the Second and Third Part hereby release and renounce all their right, title and interest therein or thereto as partners of the Firm.
5. The property described in the Second Schedule hereto shall also cease to be a part of the assets of the Firm and shall belong to the Party of the Second Part alone and in his own personal right and the Parties of the First and Third Part hereby grant, transfer and release all their respective shares, right, title and interest therein together with the appurtenances thereto To Have and To Hold the same unto and to the use of the Party of the Second Part absolutely subject to the payment of the taxes, rates, assessments, dues and duties payable in respect thereof to the Government or Municipal Corporation or any other public body.
6. The Parties of the First and Second Part also release or renounce in favour of the Party of the Third Part all their share, right, title and interest, claim and demand in or to the stock-in-trade, furniture and other articles and moneys belonging to the Firm, the goodwill, thereof and in or to all the debts and outstandings belonging to the Firm.
7. The property described in the Third Schedule hereto shall belong to the Party of the Third Part alone and the Parties of the First and Second Part hereby grant, transfer and release all their respective shares, rights, title and interest therein To Have and To Hold the same unto the use of the Party of the Third Part absolutely subject to the payment of all the taxes, rates, assessments, dues and duties in respect thereof payable to the Government or the Municipal Corporation or any other public body.
8. The Party of the Third Part agrees and covenants to pay to each of the parties of the First and Second Parts a sum of ` ... by quarterly equal instalments with interest thereon at ... % p.a. The first of such instalments to be paid on the ... day of ... and each subsequent instalments on the ... day of each subsequent quarter provided that in default of payment of any two instalments the whole of the said amount or any part thereof then remaining due shall become payable forthwith and provided further that, the payment of the said amounts shall remain charged on the property described in the Third Schedule hereto and allotted to the Party of the Third Part.

9. The Party of the Third Part covenants with the Parties of the First and Second Part that he will pay and is liable to pay all the debts and liabilities of the Firm subsisting on the date of dissolution including liabilities of Firm's income-tax and other taxes and Government dues and shall indemnify and keep indemnified the Parties of the First and Second Parts against the said liability and against all loss, costs, charges and expenses incurred by any of them on account of such debts and liabilities or any of them or any part thereof being required to be paid by them or any of them.
10. Each of them the Parties hereto hereby releases the other or others from all proceedings. Accounts, claims and demands in respect of the said partnership but without prejudice to any rights or claims and remedies in respect thereof under these presents.
11. The Parties of the First and Second Part hereby jointly and severally appoint, nominate and constitute the Party of the Third Part their attorney or agent with authority to collect all the assets and property of the partnership and to ask, demand, sue for and recover and receive and to sign and give discharge for all the debts, estate and effects or other moneys due or owing or in any wise belonging to the said partnership and to settle accounts reckoning, matters and things whatsoever relating thereto and to compound or release all or any of the debts or claims belonging to the partnership and to Institute any suit or legal action or other proceedings for compelling payment, discharge or delivery of any moneys or other property belonging to the partnership and for any of the purposes aforesaid from time to time to appoint any substitute or substitutes and at any time to remove him or them, to sign, declare pleadings, applications and other papers as may be required for the purpose and generally to do all such acts and things as may be necessary or expedient for the purpose of recovering all debts and liabilities of the Firm or for vesting in the Party of the Third Part the premises hereby assigned or released to him.
12. The Parties of the First and Second Part shall not for a period of one year from the date hereof carry on or engage or be concerned or interested either directly or indirectly in the same business carried on by the said partnership in the city of ...
13. The benefits of or rights to all permits/licenses held by the said Firm shall belong to the Party of the Third Part alone and the Parties of the First and Second Part will have no right or claim thereto.
14. Each of the parties hereto agrees and undertakes to sign all applications, documents, and other papers as may be, required to properly transfer the properties and other assets allotted, assigned or released to the other or others including all licenses and permits in the Government or Municipal records or otherwise but the costs, charges and expenses in respect thereto will be borne by the party requiring such documents to be signed.

15. Each of the parties hereto assures the others that except as recorded in the books of account of the Firm and other record, any of them has not received, collected or discharged or compromised any claim demand or credit due or to become due to the Firm or incurred any debt or liability or obligation that may now or hereafter directly or indirectly charge or affect the partnership or any of its property and assets.
16. The notice of the dissolution of the firm in the prescribed form will be given by the Party of the Third Part within prescribed time as required by the Partnership Act and Rules made thereunder and the Party of the Third Part will publish the dissolution in the Government Gazette as early as possible.
17. All the expenses of and incidental to stamp and registration of this Deed will be borne by the parties hereto in equal shares.
18. The original of this Deed will remain in the custody of the Party of the Third Part and will be produced by him to the other or others whenever required for inspection or production before any Court, any Govt. Officer, Central or State, including the Offices of the Income-tax and Sales Tax Department. One duplicate signed copy of this Deed will remain with each of the other two parties hereto.
19. Notwithstanding anything hereinbefore contained all the liability for income-tax on the personal income including capital gains tax of any party hereto including any interest thereon and penalties imposed in respect thereof incurred before dissolution or after will be that of the party whose income it is and such party shall indemnify and keep indemnified the other parties against such liability and costs, charges and expenses incurred on that account.

IN WITNESS WHERE OF the parties have put their respective hands the day and year first hereinabove written.

*THE FIRST SCHEDULE ABOVE REFERRED TO  
THE SECOND SCHEDULE ABOVE REFERRED TO  
THE THIRD SCHEDULE ABOVE REFERRED TO*

Signed and delivered by the within named Party of the

First Part Mr. A in the presence of

Signed and delivered by the within named Party of the

Second Part Mr. B in the presence of

Signed and delivered by the within named Party of the

Third Part Mr. C in the presence of

**Q.1.** Distinguish between dissolution of partnership and dissolution of partnership firm on the basis of continuation of business.

**Ans.** In case of dissolution of partnership, the firm may continue its business operation but in case of dissolution of partnership firm, the business operations are discontinued.

**Q.2.** Why is Realisation Account prepared on dissolution of partnership firm?

**Ans.** Realisation account is prepared to ascertain profit or loss on sale of assets.

**Q.3.** State any one point of difference between Realisation Account and Revaluation Account.

**Ans.** Realisation Account is prepared on dissolution of partnership firm and Revaluation account is prepared on reconstitution of partnership firm.

**Q.4.** All partners wish to dissolve the firm. Yustin, a partner wants that her loan of ₹ 2,00,000 must be paid off before the payment of capitals to the partners. But, Amart, another partner wants that the capital must be paid before the payment of Yustin's loan. You are required to settle the conflict giving reasons.

**Ans.** Yustin's claim is valid as according to section 48 (b) of Partnership Act, partner's loan are to be paid before any amount is paid to partners on account of their capitals.

**Q.5.** On a firm's dissolution, debtors as shown in the Balance sheet were ₹ 17,000 out of these ₹ 2,000 became bad. One debtor of ₹ 6,000 became insolvent and 40% could be recovered from him. Full recovery was made from the balance debtors. Calculate the amount received from debtors and pass necessary journal entry.

|                      |                    |        |        |
|----------------------|--------------------|--------|--------|
| <b>Ans.</b> Cash A/c | Dr.                | 11,400 |        |
|                      | To Realisation A/c |        | 11,400 |

(For debtors realised on dissolution of firm)

**Q.6.** On dissolution of a firm, Kamal's capital account shows a debit balance of ₹ 16,000. His share of profit on realisation is ₹ 11,000. He has taken over firm's creditors at ₹ 9,000. Calculate the final payment due to/from him and pass journal entry.

|                                 |             |       |       |
|---------------------------------|-------------|-------|-------|
| <b>Ans.</b> Kamal's Capital A/c | Dr.         | 4,000 |       |
|                                 | To Cash A/c |       | 4,000 |

(For final payment to Kamal)

**Q.7.** A and B were partners in a firm sharing profits and losses equally. Their firm was dissolved on 15<sup>th</sup> March, 2004, which resulted in a loss of ₹ 30,000. On that date, the Capital A/c of A showed a credit balance of ₹ 20,000 and that of B a credit balance of ₹ 30,000. The cash account has a balance of ₹ 20,000. You are required to pass the necessary journal entries for the: (i) transfer of loss to the capital accounts and (ii) making final payment to the partners.

|                                       |     |        |        |
|---------------------------------------|-----|--------|--------|
| <b>Ans.</b> (i) A's Capital A/c       | Dr. | 15,000 |        |
| B's Capital A/c                       | Dr. | 15,000 |        |
| To Realisation A/c                    |     |        | 30,000 |
| (For transfer of loss on dissolution) |     |        |        |
| (ii) A's Capital A/c                  | Dr. | 5,000  |        |
| B's Capital A/c                       | Dr. | 15,000 |        |
| To Cash A/c                           |     |        | 20,000 |
| (For final payment to partners)       |     |        |        |

**Q.8.** What journal entries would be passed in the books of A and B who are partners in a firm, sharing profits in the ratio of 5 : 2, for the following transactions on the dissolution of the firm after various assets (other than cash) and third party liabilities have been transferred to Realisation Account?

- Bank loan ₹ 12,000 is paid.
- Stock worth ₹ 6000 is taken over by B.
- Loss on Realisation ₹ 14,000.
- Realisation expenses amounted to ₹ 2,000, B has to bear these expenses.
- Deferred Revenue Advertising Expenditure appeared at ₹ 28,000.
- A typewriter completely written off in the books of the firm was sold for ₹ 200.

**Ans.**

**Journal**

|     | Particulars   | Dr. (₹)                       | Cr. (₹) |
|-----|---|-------------------------------|---------|
| (a) | Realisation A/c<br>To Bank A/c  | Dr.<br>12,000                 | 12,000  |
| (b) | B's Capital A/c<br>To Realisation A/c   | Dr.<br>6,000                  | 6,000   |
| (c) | A's Capital A/c<br>B's Capital A/c<br>To Realisation A/c                              | Dr.<br>Dr.<br>10,000<br>4,000 | 14,000  |
| (d) | B's Capital A/c<br>To Bank A/c  | Dr.<br>2,000                  | 2,000   |
| (e) | A's Capital A/c<br>B's Capital A/c<br>To Deferred revenue advertising expenditure A/c | Dr.<br>Dr.<br>20,000<br>8,000 | 28,000  |
| (f) | Bank A/c<br>To Realisation A/c  | Dr.<br>200                    | 200     |

**Illustrations**

**Illustrations 1:** A, B and C started business on 1<sup>st</sup> April 2002 with capital of ₹ 1,00,000, ₹ 80,000 and ₹ 60,000 respectively sharing profits and losses in the ratio of 4 : 3 : 3 for the year ended 31<sup>st</sup> March 2003. The firm suffered a loss of ₹ 50,000. Each of the partner with draw ₹ 10,000 during the year on 31<sup>st</sup> March 2003, the firm was dissolved. The creditors of the firm stood at ₹ 24,000 on that day and cash in hand was ₹ 4,000. The assets realised ₹ 3,00,000 and creditors were paid ₹ 23,500 in full settlement of that claim. Prepare Realisation A/c and show working.

**Solution:****Statement Showing Calculation of Capital as on 31<sup>st</sup> March 2003.**

|   | A             | B             | C             |
|---|---------------|---------------|---------------|
| Capital (01.04.2002)                        | 1,00,000      | 80,000        | 60,000        |
| Loss (50,000)                               | 20,000        | 15,000        | 15,000        |
|   | <b>80,000</b> | <b>65,000</b> | <b>45,000</b> |
| Drawings                                    | 10,000        | 10,000        | 10,000        |
| Capital (as on 31 <sup>st</sup> March 2003) | 70,000        | 55,000        | 35,000        |

**Balance Sheet as on 31.03.2003**

|                 |                 |                     |                 |
|-----------------|-----------------|---------------------|-----------------|
| <b>Capital:</b> |                 | Cash                | 40,000          |
| A               | 70,000          | Sundry Assets (b/f) | 1,80,000        |
| B               | 55,000          |                     |                 |
| C               | <u>35,000</u>   | 1,60,000            |                 |
| Creditors       |                 | 24,000              |                 |
|                 | <b>1,84,000</b> |                     | <b>1,84,000</b> |

| Dr.                | Realisation Account |              | Cr.             |
|--------------------|---------------------|--------------|-----------------|
| To Sundry Assets   | 1,80,000            | By Creditors | 24,000          |
| To Cash            | 23,500              | By Cash      | 3,00,000        |
| <b>To Capital:</b> |                     |              |                 |
| A                  | 48,200              |              |                 |
| B                  | 36,150              |              |                 |
| C                  | <u>36,150</u>       | 1,20,500     |                 |
|                    | <b>3,24,000</b>     |              | <b>3,24,000</b> |

**Illustrations 2:** Give differences between dissolution of partnership and dissolution of partnership firm.



**Solution:****Journal**

|       | <b>Particulars</b>   | <b>Dr. (₹)</b> | <b>Cr. (₹)</b> |
|-------|--|----------------|----------------|
| (i)   | Cash A/c<br>To Realisation A/c<br>(Being unrecorded assets realised)       | Dr.<br>1,300   | 1,300          |
| (ii)  | Realisation A/c<br>To Bank A/c<br>(Being Bank loan paid)                   | Dr.<br>12,000  | 12,000         |
| (iii) | B's Capital A/c<br>To Realisation A/c<br>(Being stock taken over by Mr. B) | Dr.<br>6,000   | 6,000          |
| (iv)  | Realisation A/c<br>To Bank A/c<br>(Being realisation expenses paid)        | Dr.<br>700     | 700            |

**Illustration 5:** The Balance sheet of P, Q and R as on 31<sup>st</sup> March 2003 who are sharing profits in the ratio of 5 : 3 : 1 was as follows:

| <b>Liabilities</b> | <b>₹</b>        | <b>Assets</b>       | <b>₹</b>        |
|--------------------|-----------------|---------------------|-----------------|
| B/P                | 40,000          | Buildings           | 40,000          |
| Loan from Bank     | 30,000          | Plant and Machinery | 40,000          |
| Reserve Fund       | 9,000           | Stock               | 19,000          |
| Capital            |                 | Debtors             | 42,000          |
| P                  | 44,000          | Less: Provisions    | <u>2,000</u>    |
| Q                  | 36,000          | Cash                | 40,000          |
| R                  | <u>20,000</u>   |                     |                 |
|                    | <b>1,00,000</b> |                     |                 |
|                    | <b>1,79,000</b> |                     | <b>1,79,000</b> |

The partners dissolved the firm, the assets realised stock – ₹ 23,400, Debtors – 50% fixed assets – 10% depreciation on their book value. B/P were settled for ₹ 32,000. There was our outstanding bill of ₹ 800 which was paid off. Realisation expense ₹ 1,250 were also paid. Prepare Realisation A/c, Bank A/c and Partner's Capital A/c.

**Solution:**

| Dr.              |                 | Revaluation A/c               |              | Cr.    |                 |
|------------------|-----------------|-------------------------------|--------------|--------|-----------------|
| Particulars      | ₹               | Particulars                   | ₹            |        |                 |
| To Building      | 40,000          | By B/P                        |              | 40,000 |                 |
| To P & M         | 40,000          | By Bank Loan                  |              | 30,000 |                 |
| To Stock         | 19,000          | By Reserve for bad debts      |              | 2,000  |                 |
| To Debtors       | 42,000          | By Bank (Stock)               |              | 23,400 |                 |
| To Bank (N/P)    | 32,000          | By Bank (Debtors)             |              | 21,000 |                 |
| To Bank (Loan)   | 30,000          | By Bank (FA) (80,000 – 8,000) |              | 72,000 |                 |
| To Bank (R/E)    | 1,250           | By Partner's Cap A/c          |              |        |                 |
| To Bank (Repair) | 800             | P                             | 9,250        |        |                 |
|                  |                 | Q                             | 5,550        |        |                 |
|                  |                 | R                             | <u>1,850</u> |        | 16,650          |
|                  | <b>2,05,050</b> |                               |              |        | <b>2,05,050</b> |

| Dr.                          |                 | Bank Account                 |               | Cr.    |                 |
|------------------------------|-----------------|------------------------------|---------------|--------|-----------------|
| Particulars                  | ₹               | Particulars                  | ₹             |        |                 |
| To Balance b/d               | 40,000          | By Realisation A/c (NP)      |               | 32,000 |                 |
| To Realisation A/c (Stock)   | 23,400          | By Realisation A/c (Loan)    |               | 30,000 |                 |
| To Realisation A/c (Debtors) | 21,000          | By Realisation A/c (Expense) |               | 1,250  |                 |
| To Realisation A/c (FA)      | 72,000          | By Realisation A/c (Repairs) |               | 800    |                 |
|                              |                 | By Capital:                  |               |        |                 |
|                              |                 | P                            | 39,750        |        |                 |
|                              |                 | Q                            | 33,450        |        |                 |
|                              |                 | R                            | <u>19,150</u> |        | 92,350          |
|                              | <b>1,56,400</b> |                              |               |        | <b>1,56,400</b> |

| Dr.                       |               | Partner's Capital Account |               |                 | Cr.           |               |               |
|---------------------------|---------------|---------------------------|---------------|-----------------|---------------|---------------|---------------|
| Particular                | P             | Q                         | R             | Particular      | P             | Q             | R             |
| To Realisation A/c (loss) | 9,250         | 5,550                     | 1,850         | By Balance b/d  | 44,000        | 36,000        | 20,000        |
| To Bank                   | 39,750        | 33,450                    | 19,150        | By Reserve fund | 5,000         | 3,000         | 1,000         |
|                           | <b>49,000</b> | <b>39,000</b>             | <b>21,000</b> |                 | <b>49,000</b> | <b>39,000</b> | <b>21,000</b> |

**Illustration 6:** P and Q were partners in a firm sharing profits and losses in the ratio of 3:2. They agreed to dissolve their partnership firm on 31<sup>st</sup> March 2003. P was deputed to realise the assets and pay the liabilities. He was paid ₹ 1,000 as commission for his service. The financial position of the firm was as follows:

**Balance Sheet as on 31<sup>st</sup> March 2003**

|            |               |                     |               |
|------------|---------------|---------------------|---------------|
| Creditors  | 10,000        | Land, Building      | 30,000        |
| B/P        | 3,700         | Stock               | 5,500         |
| Investment |               | Investment          | 15,000        |
| Fund       | 4,500         | Accounts receivable | 7,100         |
| Capital    |               | Provision           | 450           |
| P          | 37,500        | Cash                | 12,650        |
| R          | 15,000        |                     |               |
|            | <b>70,700</b> |                     | <b>70,700</b> |

P took over investment for ₹ 12,500. Stock and Debtors were realized ₹ 7,500. Land and building were sold to Mr. R for ₹ 22,500 for cash. Realisation expenses paid ₹ 900. Prepare Realisation A/c, Partner's Capital A/c and Bank A/c.

**Solution:**

| Dr.                         | Revaluation Account |                                 | Cr.           |
|-----------------------------|---------------------|---------------------------------|---------------|
| Particulars                 | ₹                   | Particulars                     | ₹             |
| To Land and Building        | 30,000              | By Provision for doubtful debts | 450           |
| To Stock                    | 5,500               | By Creditors                    | 10,000        |
| To Investment               | 15,000              | By Bills payable                | 3,700         |
| To Accounts receivable      | 7,100               | By IFF                          | 4,500         |
| To P's Cap A/c (Commission) | 1,000               | By P's Cap A/c (Investment)     | 12,500        |
| To Cash (R/E)               | 900                 | By Cash (Stock & Debtors)       | 11,500        |
| To Cash (Creditors + B/P)   | 13,700              | By Cash (Land & Building)       | 22,500        |
|                             |                     | By Loss                         |               |
|                             |                     | P's Capital A/c                 | 4,830         |
|                             |                     | R's Capital A/c                 | 3,220         |
|                             | <b>73,200</b>       |                                 | <b>73,200</b> |

| Dr.                | Partner's Capital Account |               |                    | Cr.           |               |
|--------------------|---------------------------|---------------|--------------------|---------------|---------------|
| Particular         | P                         | R             | Particular         | P             | R             |
| To Realisation A/c | 12,500                    | -             | By Balance b/d     | 37,500        | 15,000        |
| To Realisation A/c | 4,830                     | 3,220         | By Realisation A/c | 1,000         | -             |
| To Cash A/c        | 21,170                    | 11,780        |                    |               |               |
|                    | <b>38,500</b>             | <b>15,000</b> |                    | <b>38,500</b> | <b>15,000</b> |

**Illustration 7:** Following is the balance sheet of A, B and C sharing profits and losses in the ratio of 3 : 2 : 1.

| Liabilities     | ₹               | Assets            | ₹               |
|-----------------|-----------------|-------------------|-----------------|
| Creditors       | 1,70,000        | Bank              | 35,000          |
| B/P             | 1,20,000        | Stock             | 1,98,000        |
| A's Loan        | 53,000          | Debtors           | 1,50,000        |
| General Reserve | 60,000          | Less: Provision   | 10,000          |
| Capital:        |                 | Joint Life Policy | 40,000          |
| A               | 2,50,000        | Furniture         | 1,00,000        |
| B               | 1,10,000        | Machinery         | 3,30,000        |
| C               | 80,000          |                   |                 |
|                 | <b>8,43,000</b> |                   | <b>8,43,000</b> |

They decided to dissolve the firm on 31.12.1996

- (i) Joint life policy is taken over by A at ₹ 5,000.
  - (ii) Assets realised as follows: Stock – ₹ 1,75,000, Debtors – ₹ 1,45,000, Furniture – ₹ 68,000, Machinery – ₹ 3,03,000.
  - (iii) Expenses on realisation amounted to ₹ 20,000.
- Prepare necessary accounts.

**Solution:**

| Dr.                      | Revaluation Account | Cr.                |                  |
|--------------------------|---------------------|--------------------|------------------|
| <b>Particulars</b>       | ₹                   | <b>Particulars</b> | ₹                |
| To S. Assets             | 8,08,000            | By S. Liabilities  |                  |
| To Bank (expense)        | 20,000              | Creditors          | 1,70,000         |
| To Bank (Creditor's B/P) | 2,90,000            | B/P                | 1,20,000         |
|                          |                     | Provision          | 10,000           |
|                          |                     | By A's Cap A/c     | 50,000           |
|                          |                     | By Bank (Assets)   | 6,91,000         |
|                          |                     | By Loss            |                  |
|                          |                     | A's Cap            | 43,500           |
|                          |                     | B's Cap            | 29,000           |
|                          |                     | C's Cap            | 14,500           |
|                          | <b>11,28,000</b>    |                    | <b>11,28,000</b> |

| Dr.                   |                | Partner's Capital Account |               |            | Cr.            |                 |               |
|-----------------------|----------------|---------------------------|---------------|------------|----------------|-----------------|---------------|
| Particular            | A              | B                         | C             | Particular | A              | B               | C             |
| To Realisation (loss) | 43,500         | 29,000                    | 14,500        | By Bal b/d | 2,50,000       | 1,10,000        | 80,000        |
| To TLP                | 50,000         | -                         | -             |            |                |                 |               |
| To Bank               | 1,86,500       | 1,01,000                  | 75,500        |            |                |                 |               |
|                       | <b>280,000</b> | <b>1,30,000</b>           | <b>90,000</b> |            | <b>280,000</b> | <b>1,30,000</b> | <b>90,000</b> |

| Dr.                         |                 | Bank Account                         |                 | Cr. |  |
|-----------------------------|-----------------|--------------------------------------|-----------------|-----|--|
| Particulars                 |                 | Particulars                          |                 |     |  |
| To Balance b/d              | 35,000          | By Realisation A/c                   | 20,000          |     |  |
| To Realisation A/c (Assets) | 6,91,000        | By Realisation A/c (Creditors & B/P) | 2,90,000        |     |  |
|                             |                 | By A's Cap A/c                       | 1,86,500        |     |  |
|                             |                 | By B's Cap A/c                       | 1,01,000        |     |  |
|                             |                 | By C's Cap A/c                       | 75,500          |     |  |
|                             |                 | By A's Loan A/c                      | 53,000          |     |  |
|                             | <b>7,26,000</b> |                                      | <b>7,26,000</b> |     |  |

**Illustration 8:** A, B and C are partners sharing profits in the ratio of 3 : 2 : 1. The Balance sheet of the firm on 31<sup>st</sup> December 200 was as follows:

| Liabilities                    |                 | Assets            |                 |
|--------------------------------|-----------------|-------------------|-----------------|
| Creditors                      | 65,000          | Cash              | 22,500          |
| B/P                            | 20,000          | Debtors           | 52,300          |
| President fund                 | 12,000          | Stock             | 36,000          |
| Investment fund                | 6,000           | Investment        | 15,000          |
| Commission received in advance | 8,000           | Plant             | 91,200          |
| Capital:                       |                 | Profit & Loss A/c | 54,000          |
| A                              | 80,000          |                   |                 |
| B                              | 50,000          |                   |                 |
| C                              | <u>30,000</u>   |                   |                 |
|                                | <b>2,71,000</b> |                   | <b>2,71,000</b> |

On this date, the firm was dissolved. Mr. A was appointed to realise the assets. Mr. A was to receive 5% commission on sale of assets (except cash) and was to bear all expenses of realisation. A realised the assets as follows:

Debtors – ₹ 30,000, Stock – ₹ 26,000, Investment – 75% of the book value, Plant – ₹ 42,750, Expenses of – ₹ 4,100.

Commission received in advance was returned to customers after deducting ₹ 3,000. The firm had to pay ₹ 7,100 for outstanding salary of employees amounted to ₹ 9,800. This liability was not provided for in the above balance sheet. ₹ 25,000 had to be paid for provident fund.

Prepare Realisation A/c and Capital A/c.

**Solution:**

| Dr.                                    |                 | Revaluation Account               |          | Cr. |  |
|--|-----------------|-----------------------------------|----------|-----|--|
| Particulars                            | ₹               | Particulars                       | ₹        |     |  |
| To Debtors                             | 52,300          | By Creditors                      | 65,000   |     |  |
| To Stock                               | 36,000          | By B/P                            | 20,000   |     |  |
| To Investment                          | 15,000          | By Investment fluctuation fund    | 6,000    |     |  |
| To Plant                               | 91,200          | By Commission received in advance | 8,000    |     |  |
| To A's capital (commission)            | 5,500           | By Provident fund                 | 12,000   |     |  |
| To Cash Commission received in advance | 5,000           | By Cash (Assets)                  | 1,10,000 |     |  |
| To Cash (outstanding salary)           | 7,200           | By Loss:                          |          |     |  |
| To Cash (compensation)                 | 9,800           | A's Capital                       | 55,500   |     |  |
| To Cash (PF)                           | 25,000          | B's Capital                       | 37,000   |     |  |
| To Cash (creditors)                    | 65,000          | C's Capital                       | 18,400   |     |  |
| To Cash (B/P)                          | 20,000          |                                   |          |     |  |
|  | <b>3,32,000</b> | <b>3,32,000</b>                   |          |     |  |

| Dr.                   |               | Capital Accounts |               |                             |               | Cr.           |               |
|-----------------------|---------------|------------------|---------------|-----------------------------|---------------|---------------|---------------|
| Particular            | A             | B                | C             | Particular                  | A             | B             | C             |
| To Realisation (loss) | 55,500        | 37,000           | 18,500        | By Bal b/d                  | 80,000        | 50,000        | 30,000        |
| To P&L A/c            | 27,000        | 18,000           | 9,000         | By Realisation (Commission) | 5,500         | -             | -             |
| To Cash               | 41,000        | -                | 2,500         | By Cash                     | 1,100         | 5,000         | -             |
|                       | <b>86,600</b> | <b>55,000</b>    | <b>30,000</b> |                             | <b>86,600</b> | <b>55,000</b> | <b>30,000</b> |

**Illustration 9:** A, B and C were partners in a firm sharing profit and losses in the ratio of 5 : 3 : 2. Due to difference in opinion, they decided to dissolve the partnership with effect from 1.04.2006 on which date the firm's position was as under:

## Balance Sheet as on 1.04.2006

| Liabilities     | ₹               | Assets               | ₹               |
|-----------------|-----------------|----------------------|-----------------|
| Capital         |                 | Plant & machinery    | 80,000          |
| A               | 60,000          | Furniture & fixtures | 45,000          |
| B               | 40,000          | Motor car            | 25,000          |
| C               | 30,000          | Stock in trade       | 30,000          |
| Current account |                 | Debtors              | 71,000          |
| A               | 8,000           | Cash in bank         | 14,000          |
| B               | 10,000          | Current A/c of C     | 3,000           |
| Creditors       | 1,20,000        |                      |                 |
|                 | <b>2,68,000</b> |                      | <b>2,68,000</b> |

Plant costing ₹ 40,000 was taken over by A at an agreed valuation of ₹ 45,000 and remaining machinery realised ₹ 50,000.

Furniture realised at ₹ 30,000.

Motor car was taken over by B for ₹ 30,000

Debtors include bad debts of ₹ 1,200 and the rest was realised as subject to cash discount of 10%.

Stock worth ₹ 5,000 was taken over by C for ₹ 5,200 and the rest realised at 20% above their book value.

A creditor for ₹ 2,000 was untraceable and other creditors accepted payment allowing 15% discount.

Realisation expenses amounted to ₹ 5,000.

You are required to prepare the Realisation Account and Capital Account of the partners on dissolution showing final payments to them.

**Solution:**

| In the Books of Firm<br>Revaluation Account |          |                       |          |
|---|----------|-----------------------|----------|
| Dr.   |          | Cr.                   |          |
| Particulars                                 | Amt. (₹) | Particulars           | Amt. (₹) |
| To Sundry assets:                           |          | By Sundry liabilities |          |
| Building                                    | 8,00,000 | Creditors             | 4,00,000 |
| Furniture                                   | 1,00,000 | B/P                   | 1,00,000 |
| Investment                                  | 3,00,000 | Bank loan             | 2,00,000 |

|                            |                 |                  |                          |                  |
|----------------------------|-----------------|------------------|--------------------------|------------------|
| Debtors                    | 3,00,000        |                  | By Bank (asset realised) | 7,00,000         |
| B/R                        | <u>1,50,000</u> | 16,50,000        | Building                 | 4,00,000         |
| To Bank (Liabilities paid) |                 |                  | Furniture                | 40,000           |
| Creditors                  | 4,00,000        |                  | Investment               | 2,50,000         |
| B/P                        | 1,00,000        |                  | Debtors                  | 2,40,000         |
| Bank Loan                  | <u>2,00,000</u> | 7,00,000         | B/R                      | 1,40,000         |
|                            |                 |                  | By Capital A/c           | 10,70,000        |
|                            |                 |                  | Raju                     | 2,90,000         |
|                            |                 |                  | Sanju                    | 1,74,000         |
|                            |                 |                  | Manju                    | <u>1,16,000</u>  |
|                            |                 | <b>23,50,000</b> |                          | <b>23,50,000</b> |

**Dr. Partner's Capital Account Cr.**

| Particular                | Raju            | Sanju           | Manju           | Particular | Raju            | Sanju           | Manju           |
|---------------------------|-----------------|-----------------|-----------------|------------|-----------------|-----------------|-----------------|
| To Realisation A/c (loss) | 2,90,000        | 1,74,000        | 1,16,000        | By Bal b/d | 5,00,000        | 3,00,000        | 2,00,000        |
| To Bank                   | 2,10,000        | 1,26,000        | 84,000          |            |                 |                 |                 |
|                           | <b>5,00,000</b> | <b>3,00,000</b> | <b>2,00,000</b> |            | <b>5,00,000</b> | <b>3,00,000</b> | <b>2,00,000</b> |

**Dr. Cash and Bank Account Cr.**

| Particulars        |                  | Particulars        |                  |
|--------------------|------------------|--------------------|------------------|
| To Bal B/d         |                  | By Realisation A/c | 7,00,000         |
| Cash               | 20,000           | By Capital A/c     | 21,000           |
| Bank               | 30,000           | Raju               | 1,26,000         |
| To Realisation A/c |                  | Sanju              | 84,000           |
|                    |                  | Manju              | 4,20,000         |
|                    | <b>11,20,000</b> |                    | <b>11,20,000</b> |

**Illustration 10:** R, S and T sharing profit and loss in the proportion of 3 : 2 : 1 agreed upon dissolution of partnership on 31-12-2008 on which date their balance sheet was as under:

| Liabilities |               | Assets         |          |
|-------------|---------------|----------------|----------|
| Capital     |               | Machinery      | 1,00,000 |
| R           | 1,00,000      | Stock in trade | 20,000   |
| S           | <u>50,000</u> | Investment     | 52,000   |
|             | 1,50,000      |                |          |

|                             |                 |                   |              |                 |
|-----------------------------|-----------------|-------------------|--------------|-----------------|
| Mr. R's loan                | 25,000          | Joint life policy |              | 35,000          |
| Creditors                   | 46,250          | Debtors           | 23,500       |                 |
| Life policy fund            | 35,000          | Less: R.D.D.      | <u>1,500</u> | 22,000          |
| Investment fluctuation fund | 15,000          | Cash at bank      |              | 13,750          |
|                             |                 | T's capital       |              | 28,500          |
|                             | <b>2,71,250</b> |                   |              | <b>2,71,250</b> |

The life policy is surrendered for ₹ 25,000. The investment are taken over by 'R' for ₹ 44,000 and agreed to discharge his wife loan. The other assets are realised at ₹ 1,80,000. The expenses of realisation amounted to ₹ 1,500.

It was found that the motor cycle was not recorded in the books in worth ₹ 8,000. The same is taken over by creditors at ₹ 7,000. The remaining creditors were paid in full.

Show the Realisation A/c, Partner's Capital A/c and Bank A/c on completion of dissolution of the firm.

**Solution:**

| Dr.                |              | Realisation Account |                         | Cr.      |                 |
|--------------------|--------------|---------------------|-------------------------|----------|-----------------|
| Particulars        |              | ₹                   | Particulars             | ₹        |                 |
| To Machinery       |              | 1,00,000            | By R.D.D.               | 1,500    |                 |
| To Stock in trade  |              | 20,000              | By Creditors            | 46,250   |                 |
| To Investment      |              | 52,000              | By Mrs. R's loan        | 2,500    |                 |
| To SLP             |              | 35,000              | By Bank (SLP)           | 25,000   |                 |
| To Debtors         |              | 23,500              | By R's Cap (investment) | 44,000   |                 |
| To R's Capital     |              | 25,000              | By Bank A/c             | 1,80,000 |                 |
| To Cash (expenses) |              | 1,500               |                         |          |                 |
| To Cash creditors  |              | 39,250              |                         |          |                 |
| To Profit          |              |                     |                         |          |                 |
| R                  | 12,750       |                     |                         |          |                 |
| S                  | 8,500        |                     |                         |          |                 |
| T                  | <u>4,250</u> | 25,500              |                         |          |                 |
|                    |              | <b>3,21,750</b>     |                         |          | <b>3,21,750</b> |

| Dr.                      |                 | Bank Account             |  | Cr.             |  |
|--------------------------|-----------------|--------------------------|--|-----------------|--|
| Particulars              |                 | Particulars              |  |                 |  |
| To Bal b/d               | 13,750          | By Realisation A/c (exp) |  | 1,500           |  |
| To Realisation A/c (SLP) | 25,000          | By Creditors             |  | 39,250          |  |
| To Realisation A/c       | 1,80,000        | By R's Capital           |  | 1,18,750        |  |
| To T's Capital A/c       | 15,917          | By S's Capital           |  | 75,167          |  |
|                          | <b>2,34,667</b> |                          |  | <b>2,34,667</b> |  |

| Dr.                |                 | Partner's Capital Account |               |                    |                 | Cr.           |               |
|--------------------|-----------------|---------------------------|---------------|--------------------|-----------------|---------------|---------------|
| Particulars        | R               | S                         | T             | Particulars        | R               | S             | T             |
| To Bal b/d         | –               | –                         | 28,500        | By Bal b/d         | 1,00,000        | 50,000        | –             |
| To Realisation A/c | 4,400           | –                         | –             | By LIP             | 17,500          | 1,1,667       | 5,833         |
| To Cash/Bank A/c   | 1,18,750        | 75,167                    | –             | By Investment      | 7,500           | 5,000         | 2,500         |
|                    |                 |                           |               | By Realisation A/c | 25,000          | –             | –             |
|                    |                 |                           |               | By Realisation A/c | 12,750          | 8,500         | 4,250         |
|                    |                 |                           |               | By Cash A/c        | –               | –             | 15,917        |
|                    | <b>1,62,750</b> | <b>75,167</b>             | <b>28,500</b> |                    | <b>1,62,750</b> | <b>75,167</b> | <b>28,500</b> |

**Illustration 11:** Anu and Manu were partners in a firm sharing profits and losses in the ratio of 3 : 2. They agreed to dissolve their partnership firm on 31<sup>st</sup> March 2003. Anu was deputed to realise the assets and pay the liabilities. He was paid ₹ 2,000 as commission for his service. The financial position of the firm was as follows:

**Balance Sheet as on 31<sup>st</sup> March 2003**

| Liabilities     |               |                 | Assets              |                 |
|-----------------|---------------|-----------------|---------------------|-----------------|
| Creditors       |               | 20,000          | Land, Building      | 60,000          |
| B/P             |               | 7,400           | Stock               | 11,000          |
| Investment Fund |               | 9,000           | Investment          | 30,000          |
| Capital         |               |                 | Accounts receivable | 14,200          |
| P               | 75,000        |                 | Provision           | 900             |
| R               | <u>30,000</u> | 1,05,000        | Cash                | 25,300          |
|                 |               | <b>1,41,400</b> |                     | <b>1,41,400</b> |

Anu took over investment for ₹ 25,000. Stock and Debtors were realised ₹ 15,000. Land and building were sold to Mr. Manu for ₹ 45,000 for cash. Realisation expenses paid ₹ 1,800. Prepare Realisation A/c, Partner's Capital A/c and Bank A/c.

| Dr.                         |                 | Realisation Accounts            |              | Cr.             |  |
|-----------------------------|-----------------|---------------------------------|--------------|-----------------|--|
| Particulars                 |                 | Particulars                     |              |                 |  |
| To Land and Building        | 60,000          | By Provision for doubtful debts |              | 900             |  |
| To Stock                    | 11,000          | By Creditors                    |              | 20,000          |  |
| To Investment               | 30,000          | By Bills payable                |              | 7,400           |  |
| To Accounts receivable      | 14,200          | By IFF                          |              | 9,000           |  |
| To P's Cap A/c (commission) | 2,000           | By P's Cap A/c (Investment)     |              | 25,000          |  |
| To Cash (R/E)               | 1,800           | By Cash (Stock & Debtors)       |              | 23,000          |  |
| To Cash (Creditors + B/p)   | 27,400          | By Cash (Land & Building)       |              | 45,000          |  |
|                             |                 | By Loss                         |              |                 |  |
|                             |                 | P Capital A/c                   | 9,660        |                 |  |
|                             |                 | R Capital A/c                   | <u>6,440</u> | 16,100          |  |
|                             | <b>1,46,400</b> |                                 |              | <b>1,46,400</b> |  |

| Dr.                |               | Partner's Capital Account |                    | Cr.           |               |
|--------------------|---------------|---------------------------|--------------------|---------------|---------------|
|                    | P             | R                         |                    | P             | R             |
| To Realisation A/c | 25,000        | -                         | By Balance b/d     | 75,000        | 30,000        |
| To Realisation A/c | 9,660         | 6,440                     | By Realisation A/c | 2,000         | -             |
| To Cash A/c        | 42,340        | 23,560                    |                    |               |               |
|                    | <b>77,000</b> | <b>30,000</b>             |                    | <b>77,000</b> | <b>30,000</b> |

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