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Syllabus: Dissolution of firms – Insolvency of partner –Garner Vs Murray-Piecemeal distribution.

DISSOLUTION OF A FIRM

Dissolution means discontinuance. It may either be dissolution of a partnership or of a firm. Dissolution of partnership result into change in the existing relationship among partners. However, the firm continues the business. Dissolution of firm results into cessation of partnership among all the partners and the firm discontinues the business.

Distinction between the dissolution of partnership and dissolution of a firm:

1.Meaning: Dissolution partnership means change in the existing relations of the partners. Whereas, the dissolution of a firm means discontinuance of partnership among all the partners in the firm.

2.Continuance of business: In case of dissolution of partnership, the firm continues its business with existing partners. Whereas, in case of dissolution of a firm, the firm's business comes to an end.

3.Reason:Dissolution of partnership takes place at the time of admission, retirement or death of a partner. Whereas, the dissolution of a firm takes place mostly because of the insolvency of partner/s or as per provision of Sec. 40-44 of the Indian Partnership Act, 1932.

4.Reconstituted firm: Dissolution of partnership results into a newly constituted firm. Whereas, dissolution of a firm does not result into a reconstituted firm because, the firm's business comes to an end and the books of accounts are closed.

5.Scope:Dissolution of partnership does not necessarily mean dissolution of a firm. Whereas, dissolution of a firm necessarily means dissolution of partnership. Hence, the scope of dissolution of a firm is wider than that of dissolution of partnership.

6.Number of times:Dissolution of partnership may take palce number of times for various reasons and the business may be reconstituted after dissolution of partnership. Whereas, dissolution of firm takes place only once.

Settlement of Accounts Regarding Losses and Assets

At the time of dissolution of firm if the partnership deed is silent as regards the settlement of accounts, the provisions of Sec.48 of Indian Partnership Act, 1932 are applied. The accounts of the firms are applied. The accounts of the firms are settled as follows:

Regarding the settlement of losses, the following procedure is to be adopted. The losses of the firm including the deficiencies of capital are to be paid in the following order and manner:

1. The firm's profits are first used to pay the losses including the deficiencies of capital.
2. If the firm's profits are not sufficient to settle losses, then the credit balances in the partner's capital accounts are used to pay the losses.
3. If the partners' capital amounts are also not sufficient to settle the losses, then the losses are to be settled by the partners or borne by the partners individually in their profit sharing ratio.

As regards the application of assets, the assets of the firm, including any amount contributed by the partners to set right their deficiencies of capital, are used in the following order:

1. The debts of the firm to the third parties are paid.
2. The partners' loans to the firm are paid ratably.
3. The balance in the partners' capital accounts is paid ratably.
4. The remaining amount, i.e., residue is divided among the partners in the profit sharing ratio.

Firm's Debts and Private Debts

At the time of dissolution, if both debts of the firm and private debts of the partners exist, then the treatment of the same as per sec 49 of Indian Partnership Act, 1932, is as follows:

The debts of the firm are paid first by using the assets of the firm. If there is any surplus of assets the same is used for paying the partners' private debts to the extent to which each partner is entitled to share the profits.

The private debts of the partners are paid firs by using private properties of the concerned partners. If there is any surplus of private assets, the same is used for paying the firm's debts, only if the firm's liabilities are more than the firm's assets.

Accounting Treatment

When a firm is dissolved, the accounting steps involved to close the books of the firms are as follows:

1. Preparation of Realisation Account.
2. Treatment of unrecorded assets and liabilities.
3. Treatment of accumulated reserves, profits or losses
4. Treatment of Goodwill.
5. Closing the Capital Account of partners.
6. Preparation of Balance sheet as on the date of dissolution.

INSOLVENCY

Insolvency refers to inability to pay the debts when they become due. In partnership business, the firm is compulsory dissolved if all the partners or all except one partner become insolvent. Thus, one of the reasons for dissolution of a firm is insolvency.

Insolvency of a Partner

At the time of dissolution of a firm, all the assets are sold and all the liabilities are paid. The resulted profit or loss on realisation, accumulated reserves, profit and losses, etc. are transferred to all partners' capital or current accounts in their profit sharing ratio.

At the time of dissolution, if partners have private debts, then they are paid by using the private properties of concerned partners. If there is any surplus or private assets, the same is used for paying the firm's debts, provided, the firm's laibilities are more than the firm's assets.

After making the above adjustments regarding dissolution and receiving the surplus of private assets, the capital accounts of partners show either credit balance or debit balance. If the capital accounts show favourable(i.e., credit balance) balance, then it is paid to the partners. If the capital show unfavourable(i.e., debit balance) balance, then the problem arises.

If a partner, having a debit balance in his capital account, is not able to bring in the required cash to make up the deficiency, then he becomes an insolvent. Thus, when a partner is unable to pay his debt due to the firm, he is said to be insolvent. The debit balance of insolvent partner cannot be recovered from him and it is considered to be the loss arising from insolvency of a partner.

Rule in Garner Vs.Murray Case

If a partner becomes insolven, then the loss arising due ot insolvency(ie., debit balance in his capital account) is not an ordinary loss. The decision to be takn regarding this loss is given in the leading English case of Garner vs. Murray.

The rule in Garner vs. Murray says that if any partner becomes insolvent, then the loss due to insolvency is borne by the remaining partner in their capital ratio. Thus, it is clear that the ordinary loss arising due to realisation of assets and payment of liabilities is shared between all the partners in the profit sharing ratio and the extraordinary loss due to insolvency of a partner is borne by the solvent partners in their capital ratio. Besides bearing the loss due to insolvency in their capital ratio, the solvent partners have to being cash equivalent to their shre of loss on realisation.

The essence of Garner vs. Murray case is given below:

In case of insolvency of a partner, the solvent partners have to

(1) Bring cash equal to their share of loss on realisation of assets and liabilities.

(2) Bear the loss arising due to insolvency in the ratio of their capitals after they brought cash equal to their loss on realisation.

Application To India

The decision in Garner vs. Murray Case can be applied to Indian conditions also because

1. This case is based on the provisions of English Partnership Act which is similar to Sec.48 of Indian Partnership Act, which says the losses including deficiencies of capital are firs paid out of profits, next out of capital and lastly, if necessary, by the partners individually in their profit sharing ratio. It is opposed that the decision given in this case is contrary to the provisions of Sec.48 and they say that unless otherwise agreed, all the losses are to be borne by the partners in the profit sharing ratio. Hence, to avoid this problem, it is safe to mention in the agreement that whether the rule in Garner Vs. Murray is followed to treat the losses arising due to insolvency of a partner or not.
2. There are no previous example case laws available.

Problems

Sum No 1: P, Q, and R are partners sharing profit in ½, ¼, ¼. On the date of dissolution their balance sheet were

Liabilities		Rs	Assets	Rs.
Creditors		14000	Sundry Assets	40000
Capitals P	10,000			
Q	10,000			
R	6000			
		40000		40000

The assets were realized for Rs.35500, Creditors were fully paid. Realisation exp was 1500. Close the books of accounts.

Sum No 2: R,S,T were partners for profit-sharing ratio of 3 :2: 1. On balance sheet as follows :

Liabilities		Rs	Assets	Rs.
Creditors		12000	Machinery	25000
General reserve		3000	Goodwill	13000
Capitals R	20,000		Debtors	9500
S	15,000		Stock	11000
T	10000		Cash in bank	1500
		60000		60000

The firm was dissolved after realization of assets except cash @ 60000 and creditors were settled for 11500. Dissolution charges 800. Give ledger accounts.

Sum No 3: R,S,M were partners for profit-sharing ratio of 2 :2: 1. On balance sheet as follows :

Liabilities		Rs	Assets	Rs.
Creditors		4000	Machinery	9000
General reserve		5000	Fixtures	2000
Capitals R	10,000		Debtors	4000
S	4,000		Stock	5000
M	2000		Cash in bank	5000
		25000		25000

They decided to dissolve the firm after assets realization by Machinery 8500, furniture 1500, Stock 7000, Debtors 3700. Creditors allowed a discount of 2% and R agreed to bear all realization expenses. For this service R is paid 120. Actual expenses 900. This was withdrawn by him from the firm. There was an unrecorded asset of 500 which was taken over by S @ 400. Pass journal and prepare ledger accounts,

Sum No 4: A, B were partners for ratio of 3: 2. Their B/S as

Liabilities		Rs	Assets		Rs.
Creditors		38000	Fixtures and fitting		4000
Loan from Mrs.A		10000	Plant and mach.		28000
Capitals A	10,000		Debtors	20000	
B	8,000	18000	(-) Provision	1000	19000
Reserve fund		5000	P & L A/c		7500
B's loan		15000	Cash in bank		11500
			Investment		10000
			Stock		6000
		86000			86000

The firm was dissolved with the following changes for the dissolution expenses of 1100.
A took over the investments @ an agreed value of 8000 and agreed to pay off the loan of Mrs A. The assets were realized for stock 5000, Drs 18500, fixtures 4500, plant 25000 and Crs were paid off less 2 ½ % discount . prepare necessary ledgers.

Sum No 5; A and B were equal partners which was dissolved on the same date of balance sheet.

Liabilities		Rs	Assets	Rs.
Creditors		6400	Furniture	2400
Loan from A		4000	Goodwill	2000
Capitals A	19,000		Debtors	5840
B	7,000		Stock	4530
			Freehold premises	18000
			Cash in bank	3630
		36400		36400

It was agreed that A will take over the freehold premises @ value of 15500 and B will take over the stock @ discount of 10%. The sundry debtors realized 95% of the book value. Furniture realized @ 1470 and goodwill was sold only for 500. The realization expenses were 827.show realization account and close the books.

Sum No 6: A,B and C were partners sharing profits equally..the balance sheet were as shown which was dissolved. :

Liabilities		Rs	Assets	Rs.
Creditors		40000	Furniture	50000
Loan from Mrs.A		30000	Goodwill	40000
Capitals A	100,000		Debtors	25000
B	60,000	160000	Stock	40000
Life policy fund		42000	Freehold premises	18000
Investment fluctuation fund		15000	Cash in bank	16000
			Investment	36000
			Joint Life Policy	42000
			Current a/c-C	38000
		287000		287000

The life policy is surrendered for 36000. the investment is taken over by A 31000.A agrees to discharge his wife's loan. B decides to continue the business and takes up stock @ 26000 and debtors amounting to 12000 @ 8000 and also agrees to pay 30000 for goodwill. Furniture sold for 54000.the remaining debtors realized for 7200. The realization expenses were 2400. it was found that unrecorded investment rs.4000 and was taken by one of the creditors @ 90% of its value. Show realization account and close the books.

Sum No 7: P and G are equal partners. They decide to dissolve the partnership on 31.12.13 when their balance sheet stood as follows:

Liabilities	Rs.	Assets	Rs.
Creditors	2400	Cash	6480
Capital Accounts: P	48,000	Debtors	5760
G	48,000	Stock	6960
		Plant and Machinery	19200
		Factory Buildings	60,000
	98400		98400

P is to take over the business and pay 12000 for goodwill which has not been previously valued. He is also to take over the buildings and stock @ book value and Machinery @ 18000. During the period unto 31.05.2014, P collects 4800 from the firm's debtors and pays the liabilities getting 240 as cash discount also pays dissolution expenses 480. Show realization account and close the books.

Sum No 8: A, B and C were equal partners. On 31.12.2012 their position was as follows: C is insolvent and can pay nothing. Close the books of the firm.

A's Capital	2,000	Cash	1,500
B's Capital	600	C's capital	200
		Loss on realisation	900
	2,600		2,600

Sum No 9: (finished) Given the question in class. X,Y,Z

Sum No 10: (finished) Given the question in class. A,B,C

Sum No 11: Jeeva and Veera were equal partners in a manufacturing business. On 30.6.2012 they dissolved the firm and its balance sheet was:

Liabilities		Rs.	Assets		Rs.
Creditors	28000		Cash at bank		2500
(-) Provision for discount	1000	27000	Debtors	42000	
Reserve for contingencies		5000	Less : provision	2000	40000
Mrs.Veera's loan		10000	Stock		32000
Reserve fund		15000	Furniture		.3500
J's loan		8000	Plant and machinery		25000
Capital : Jeeva		21000	Prepaid expenses		1000
Veera		18000			
		104000			104000

The following assets were realized Stock 27000, debtors 38000, plant 20000, goodwill 5000. Furniture did not realize any value. An amount of 6000 was paid on account of contingencies liabilities. . The realization expenses were 1000. the firm had previously made some investment in shares of a joint stock company and had written off this investment on finding it useless. The investment now realized at 1500 .Show realization account and close the books.

Sum No 12: The balance sheet of A,B and C as on 31.12.13 was as follows:

Sundry creditors	6,300	Cash	2,500
A's Loan	4,000	Sundry Assets	17,000
A's Captial	6,400	C's Capital A/c	7,800
B's Capital	3,600		
Profit and loss a/c	7,000		
	27,000		27,000

Profit and Losses are shared A 18/35, B 7/35, C 10/35. The firm is dissolved on the above date. Sundry Assets realised Rs. 14,000, Sundry creditors are paid Rs. 6,000 is full settlement. Expenses amounted to Rs. 800. C's insolvent.Give realisation a/c and Capital a/c of partners.

Sum No 13: Ram, Shyam and Mohan are partners sharing profits and losses as to 2:2:1. Their balance sheet as on 31st December 2013 is as follows:

Creditors	4,000	Cash	5,000
Capitals: Ram	10,000	Debtors	4,000
Shyam	4,000	Stock	5,000
Mohan	2,000	Fixtures	2,000
Reserve fund	5,000	Plant & Machinery	9,000
	25,000		25,000

They decided to dissolve the business. The following are the amounts realised. Plant&Machinery Rs. 8,500; Fixtures Rs. 1,500; Stock Rs. 7,000; Debtors Rs. 3,700. Creditors allowed a discount of 2% and Ram agreed to bear all realisation expenses. For this service Ram is paid Rs. 120. Actual expenses amounted to Rs.900. There was an unrecorded asset of Rs.500 which was taken over by Shyam at Rs. 400.Prepare necessary accounts to close the books of the partners.

Sum No 14: The balance sheet of X,Y,Z who share profits in 3:1:1 stood as follows on 31.12.13.

Bank Overdraft	60,000	Cash on hand	1,000
S.Creditors	45,000	Debtors	29,000
X's Capital	15,000	Stock	40,000
Z's Capital	10,000	Plant	30,000
		Goodwill	10,000
		Y's Capital	20,000
	1,30,000		1,30,000

The assets realised Rs. 79,000. After dissolution expenses Rs. 2,000 the creditors were paid .75ps in the ruppee. Give necessary ledger a/cs assuming all partners are insolvent.

Sum No15: K and N are partners sharing profits and losses equally. Their balance sheet on 30th September 2013 is as follows:

Creditors		11,200	Cash		3,500
Bills payable		1,800	Stock		17,800
K's loan		5,000	Debtors	13,800	
Reserve Fund		6,000	Less: Provision	1,400	
Capital Accounts:	K	15,000		--------	12,400
	N	20,000	Furntiture		2,800
			Plant and Machinery		22,500
		----------			--------
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		95,000			95,000
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They decide to dissolve the firm. The assets realised as follows:

Stock Rs. 18,200; Debtors Rs. 10,600; Furniture Rs. 1,800; Plant and Machinery Rs. 19,000.Creditors allowed a discount of 2% and expenses of realisation amounted to Rs. 544.Give the necessary ledger accounts to close the books of the firm.

Sum No16: A and B are partners sharing profits and losses as3:1.They decided to dissolve on 31.3.14. their balance sheet onthat date.

		Commission outstanding		6000
		Investment	20000	
Bank Overdraft	60,000	Cash on hand		2,000
S.Creditors	88,000	Debtors	48,000	
A's Capital	1,08,000	Stock	70,000	
B's Capital	54,000	Machinery		70,000
		Furniture	14,000	
		Leasehold premises		80,000
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	310,000		310,000	
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Leasehold premises, Machinery and Furniture were divided amongst themselves and valuatioons were agreed @ 120000 & 80000 resp. for A and B. A agreed to pay creditors and B agreed to meet Overdraft. A conducted dissolution proceeding and was authorised to receive outstanding commission by way of his expenses and remunaretion. Stock is worth 80% of book value and investment worth 36000.stock and other assets except those stated above are divided equally. The accounts are settled by cash payment. Show ledger accounts.

Sum No 17: A,B and C commenced business on 1.1.2012 with capitals of 200000, 160000 and 120000 resp. Profits and losses were shared in the ratio of 4:3:3. Capital carried interest @ 5% p.a. during 2012 and 2013 , they made a profits of 80000 and 100000 (before allowing interest on capitals). Drawings of each partner were 20000 per year. On 31.12.2013, the firm was dissolved. Creditors on that date were 48000. The assets realised 520000 (Net). Give necessary ledger a/cs to close the books of firm.

Sum No 18: A, B and C were equal partners. On 31.12.2012 their position was as follows:

A's Capital	21,000	Bank	200
B's Capital	13000	Debtors	16000
C's capital	5000	Stock	25000
Creditors	10000	Bill receivable	5000
Bills Payable	3200	Machinery	15000
General reserve	9000		
	--------		-------
	61200		61200
	--------		-------

C is insolvent and his private estate could pay only 100. The firm was dissolved. Assets realised 31000 realisation expenses came to 600. Prepare necessary ledger a/c to close the books of the firm. (Apply Garner Vs Murray rule if capital was fixed)

Sum No 19: X, Y and Z were partners. On 31.12.2012 their position was as follows:

X's Capital	50000	Bank	12000
Y's Capital	30000	Debtors	20000

Creditors	10000	Stock	40000
General reserve	30000	Machinery	20000
		Z's capital	18000
		Furniture	40000
	--------		-------
	150000		150000
	--------		-------

Z is insolvent and his estate could pay 4000. The firm was dissolved. Assets realised Debtors 15000, furniture 28000, stock 32000, plant 14000. the realisation expenses came to 5000. Prepare necessary ledger a/c to close the books of the firm. (Apply Garner Vs Murray rule if capital was fluctuating.)

Sum No 20: The balance sheet of I, J and K who were sharing profits in 3/5th, 1/5th and 1/5th stood as follows on 31st December, 2013 ie., dissolution.

Bank overdraft	28,000	Cash in hand	500
Creditors	24,500	Bills Receivable	2,000
I's Capital	7,500	Debtors	12,000
J's Capital	5,000	Stock	19,000
		Plant and machinery	16,000
		Goodwill	5,000
		K' Capital account	10,500
	---------		---------
	65,000		65,000
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The assets realised Rs. 39,875 and after paying Rs. 1,000 for realisation expenses, the creditors were paid 0.75 ps in rupee. Prepare dissolution accounts, assuming that they are all insolvent.

Sum No 21: The balance sheet of P, Q and R who were sharing profits equally stood as follows on 31st December, 2013

Reserve fund	18,000	Cash in bank	8000
Creditors	64,000	Furniture	16000
P's Capital	16000	Debtors	40,000
R's Capital	12000	machinery	40,000
		Q' Capital account	6000
	---------		---------
	110,000		110000
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The firm was dissolved due to Q 's insolvency who is unable to contribute payment. The machinery realised Rs. 30000, furniture for 6400. Only 24000 was recovered from debtors. the creditors were paid @ a discount of 5%. Prepare dissolution accounts, assuming that capital are fluctuating. Apply Garner Vs Murray.

Sum No 22: The balance sheet of D, E ,F and G who were sharing profits in 4:3:2:1 stood as follows on 31st December, 2013.

Bank loan	60000	Cash in bank	4500
Creditors	120000	Debtors	120000
D's Capital	90000	Stock	60000
E's Capital	60000	F's Capital account	10,500
		G's Capital account	3000
		Machinery	132000
	---------		---------
	330000		330000
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The firm was dissolved All assets realised Rs. 246000 and after paying Rs. 1,800 for realisation expenses, the creditors and bank loan were 177000 in full satisfaction. G is insolvent and F paid only 9000. Prepare dissolution accounts and close books of accounts..

Sum No 23: The balance sheet of A, B, C and D who were sharing profits in 3:2:3:2 stood as follows on 31st December, 2013 ie., dissolution.

Reserve fund	8,000	Assets	34000
Creditors	12000	C' Capital account	12720
A's Capital	20000	D' Capital account	3280
B's Capital	10000		

50,000	50,000

On the above date ,C became insolvent and was able to pay only .50 paise in rupee. The assets realised Rs. 25000 and after paying Rs. 800 for realisation expenses. Prepare dissolution accounts. Apply Garner Vs Murray.

Sum No 24: A,B and C were partners sharing profits in 3:2:1. the balance sheet were as shown which was dissolved. :

Liabilities		Rs	Assets	Rs.
Creditors		20000	Plant & Mach.	28500
A's Loan		5000	Stock	25000
Capitals A	45000		Debtors	25000
B	5000		Cash in bank	1500
C	5000	55000	B's current a/c	1000
Bills payable		3500	C's current a/c	2500
A's current a/c		750	Profit and loss	750
		84250		84250

Plant and mach. Realized for 20000, stock 15000, debtors 21000, goodwill was sold for 300. Dissolution expenses 600. C is insolvent and a dividend of .50 paise in the rupeeis received from his pvt. Estate. Pass journal entries and prepare ledger and close the books of accounts. Apply Garner Vs Murray.

Sum no :25 The following is the balance sheet of A,B,C,D with profit sharing ratio of 4:3:2:1.

Capital A	15000	Fixed assets	20000
B	10000	Current assets	6000
C	1500	Goodwill	5000
Sundry Creditors	5000	D's capital	500
	31500		31500

D has no separate assets and liabilities. They decided to dissolve the firm. Fixed assets realised 15000 and Current assets for 5000. The goodwill is valueless. Realisation expenses 1500. C can only contribute only 250. Prepare necessary accounts accd. To garner vs. Murray when both C and D have become insolvent.

Sum no :26 The balance sheet of A and B with equal profit sharing ratio.

Capital A	600	Furniture	400
Sundry Creditors	3900	Plant and Machinery	1475
		Debtors	500
		Stock	625
		Bank	300
		B's capital	1200
	4500		4500

The assets realised were stock 350, furniture 200,debtor 500, plant and mach 700. The cost of collection and distribution of estate was 150. A's private estate could not contribute anything and B's private estate has a surplus of 50. Prepare realisation a/c, cash a/c, creditor's a/c, capital a/c and deficiency a/c.

Sum no :27 The balance sheet of X,Y,Z with equal profit sharing ratio.

Capital X	1600	Furniture	1600
Z	1000	Plant and Machinery	4000
X's loan	2000	Land and Bldgs.	4000
Sundry Creditors	10000	Debtors	2000
		Stock	1600
		Bank	100
		Y's capital	1300
	14600		14600

Due to lack of liquidity and weak financial position of the partners, the firm
Is dissolved. X and Z are not able to contribute anything and a sum of 400 received from Y. All of them were insolvent. The assets are realised stock 1000, plant 2000, furniture 400, land 1600, debtors 1100 only. Realisation expenses were 100. Close the books of accounts.

PIECEMEAL DISTRIBUTION

Meaning

At the time of dissolution, all the assets are realised are paid. Hence, it is assumed that all the assets are realised on the date of dissolution. But in reality, it is not possible to realise all the assets at the same time. Depending on the type of asset, whether current or fixed, the realisation of the same takes some time, i.e., the assets are realised, is used in the order of paying the realisation expenses, outsiders' liabilities, partners' loan and finally the partners' capital.

Piecemeal distribution means distribution of available cash to partners(after paying the oursiders' liabilities and partner's loan) immediately on realisation of any asset(any asset or portion or piece thereof), without waiting for realisation of all assets.

Surplus Capital Method of Piecemeal Distribution

This method is followed when the capital contributed by the partners is not in the profit sharing ratio. Thus, it denotes some partners have contributed excess capital than others. To make the capitals in the proportion of profit sharing ratio, the surplus capital contributed more than their proportionate share is paid first. Hence, after paying the outsiders' liabilites and partners' loan.

Maximum Loss Method

This is an alternate method followed when the capital contributed by the partners are not in the profit sharing ratio. First the outsiders' liabilites and partners' loan are paid. Then the following steps are involved while solving problems:

1. Capital accounts of all partners are prepared(after making all adjustmenrs regarding the accumulated reserves, profits and losses, drawings, interest on capital and drawings, etc.) to ascertain the final amount to be paid.
2. If any asset is realised, then it is compared with the total amount of capital payable to all the partners. The amount which is unpaid is considered to be the maximum loss and the same is distributed to the partners in their profit sharing ratio. The folmula is Maximum Loss = Total amount of capital payable to all partners – available cash. This is based on the assumption that nothing will be realised in future through the sale of remaining assets. Hence, the amount unpaid is the maximum loss to the partners.
3. After distributing the maximum loss to the partners, if all the partners' capital accounts show credit balance, i.e., positive figure, then the result is the actual cash paid to the partners.
4. The outstanding balance of capital payable to each partner is ascertained by deducting the cash paid on realisation. Then steps 2to 4 are repeated for each realisation.
5. After distributing the maximum loss to all the partners on final realisation of assets, if any solvent partner's capital account shows negative balance, than he has to being cash, which is used to settle the balance due to other solvent partners whose capital account show positive balance.

Sum no :28 Proportionate capital method.

Red, White and Blue are partners sharing profits in 5:3:2. They dissolved the firm when their balance sheet was

Capital	Red	50000	Plant	30000
	White	15000	Premises	40000
	Blue	45000	Debtors	60000
Red's loan		10000	Stock	30000
Sundry Creditors		40000		
		160000		160000

It was agreed to repay the amounts due to the partners as and then the assets were realised. 1st realisation 30000 , 2nd realisation 73000, and 3rd realisation 47000. Prepare a statement showing distribution to the partners .

Sum no :29 A, B and C are partners sharing profits in 3:2:1. They dissolved the firm when their balance sheet was

Capital	A	54000	Fixed assets	122000
	B	40000	cash at bank	10000
	C	25000	Other current assets	113000
Bank overdraft		30000		
General reserve		6000		
Sundry Creditors		90000		
		245000		245000

The assets were realised gradually after meeting realisation expenses

1st realisation 75000(including cash @bank balance) , 2nd realisation 32000, 3rd realisation 60000 and 4th realisation 63000.If the distribution of cash is to be made after each instalment of realisation, Prepare a statement showing distribution to the partners at each inst. Although the final results were not yet known .

Sum no :30 C, J and T are partners sharing profits in 3:2:1. They dissolved the firm when their balance sheet as on 30.06.2012 was

Capital	C	140000	Debtors	294000
	J	70000	cash at hand	28000
	T	14000	stock	112000
Sundry Creditors		210000		
		434000		434000

There was a bill discounted for 10000 due on 30.11.12. it was agreed that net realisation should be distributed piecemeal @ the end of each month.

Date of realisation	Stock and debtors	expenses
31.7.12	84000	7000
31.8.12	126000	5400
30.9.12	70000	4900
31.10.12	77000	3500
30.11.12	35500	3500

The stock was completely disposed off. The balance of debtors irrecoverable. The acceptor of discounted bill paid the amount on the due date. Prepare a statement showing distribution to the partners.

Sum no :31 M, N and O are partners sharing profits in 4:5:1. They dissolved the firm when their balance sheet was

Capital	M	30000	cash	6000
	N	24000	Other assets	112000
	O	6000		
Contingent reserve		8000		
General reserve		12000		
M's loan		12000		
N's loan		6000		
Sundry Creditors		20000		
		118000		118000

The assets were realised 1st realisation 20000, 2nd realisation 40000, 3rd realisation 34000 and 4th realisation 63000. On the date of dissolution, there was a contingent liability of 2000 against the firm which was settled @ 1400 at the time of 2nd realisation. Realisation expenses were estimated @ 4000 but actually came to 3000. O took stock worth 1000 @ 3rd realisation. Prepare a statement showing distribution to the partners.

Sum No 32: The balance sheet of A, B, C and D who were sharing profits in 4:3:2:1 stood as follows on 31st December, 2013 ie., dissolution.

Creditors	5000	Fixed Assets	20000
A's Capital	15000	D' Capital	500
B's Capital	10000	Current assets	6000
C' Capital	1500	Goodwill	5000
	31500		31500

On the above date ,D has no separate assets and liabilities. The partners decided to dissolve the business. F ixed assets realised 15000, and current assets for 5000. The goodwill is valueless. Realisation expenses 1500. C can only contribute only 250 fromhis separate resources. Prepare dissolution accounts. Apply Garner Vs Murray assuming both C and D were insolvent.

Sum No 33: A and B are equal partners. They decide to dissolve the partnership on 31.12.13 when their balance sheet stood as follows:

Liabilities	Rs.	Assets	Rs.
Creditors	3900	Bank	300
Capital Accounts: A	600	Debtors	500
		B's capital	1200
		Stock	625
		Plant and Machinery	1475
		Factory Buildings	400

4500	4500

Assets were realised as follows: stock 350, furniture 200, debtors 500, plant and mach. 700. The cost of collecting and distributing the estate amounted to 150. A's private estate is not sufficient even to pay his private liabilities, where as in B's private estate there is surplus of 50. Show realization a/c, cash a/c, creditors a/c, capital a/c and deficiency a/c.

Sum No 34: The balance sheet of X, Y and Z who were sharing profits equally stood as follows on 31st December, 2013

X's loan	2000	Cash in Hand	100
Creditors	10000	Furniture	1600
X's Capital	1600	Debtors	2000
Z's Capital	1000	machinery	4000
		Y' Capital (overdrawn)	1300
		Stock	1600
		Buidings	4000
	14600		14600

Due to lack of liquidation and weak financial position of the partners, the firm is dissolved. X and Z are not able to contribute anything and a sum of 400 received from Y. All of them were decclared insolvent.

Assets were realised as follows: stock 1000, furniture 400, debtors 1100, plant and mach. 2000, land and bldg. 1600. Realisation expenses 100. Prepare necessary ledger a/c to close the books of the firm.

Problems:

Sum No 35: The balance sheet of A,B,C and D showed the following position on dissolution.

		Rs.		Rs.
Creditors		10,000	Cash at bank	34,000
Capital Account:	A	15,000	C's Capital account	10,000
	B	10,000	D's Capital account	3,000
Realisation account: Profit		12,000		
		47,000		47,000

Show the final adjustment among the partners assuming that C is insolvent.

Sum No 36: Following is the balance sheet of X,Y,Z who share profits and losses in the ratio of 2:2:1.

	Rs.		Rs.
Sundry Creditors	15,000	Cash in hand	2,000
Capital : X	15,000	Sundry Debtors	22,000
Y	12,000	Stock	22,000
Z	4,000		
	46,000		46,000

The firm was dissolved and the assets were realised. Rs. 10,000 was received in first instalment, Rs. 15,000 in the second instalment and Rs. 9,000 in final instalment. Show how each instalment is to be distributed.

Sum No 37: K,V,G were sharing profits and losses in the ratio of 3:2:1 respectively as partners. They decided to dissolve the firm on 30,6,93. Their balance sheet as on that date was as follows:

	Rs.		Rs.
S. Creditors	35,000	Fixed Assets	60,000
K's Capital	25,000	Curren Assets	40,000
V's Capital	25,000		
G's Capital	15,000		
	1,00,000		1,00,000

The assets were realised and the amount received in instalments. First Rs. 35,000; Second- Rs. 25,000. Prepare statement showing distribution of cash under maximum possible loss method.

Sum No 38: A, B and C share profits and losses in the proportion of A- ½ , B – 1/3 and C – 1/6. Their balance sheet is as follows:

	Rs.		Rs.
Creditors	50,000	Land and buildings	70,000
A's Loan	10,000	Plant and Machinery	40,000
A's Capital	50,000	Stock	25,000
B's Capital	10,000	Debtors	20,000
C's Capital	40,000	Cash	5,000
	1,60,000		1,60,000

The partnership is dissolved and the assets realised as follows:

Realisation I	Rs. 40,000
Realisation II	Rs. 30,000
Realisation III	Rs. 54,000
Realisation Iv	Rs. 7,000

Prepare a statement showing piece meal distribution of cash under "Proportionate Capital Method"

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