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Chapter 7

DISSOLUTION OF PARTNERSHIP

شراکتی کاروبار کا اختتام

According to Partnership Act, 1932 "the Dissolution of Partnership between all the partners of a firms is called dissolution of firm".

Partnership is dissolved at the time of admission, retirement or death of a partner. This termination does not necessarily indicate the discontinuation of a business. Generally, at the time of admission, retirement or death of a partner, the partnership is terminated. Termination of partnership indicates a change in the membership of the firm, which may or may not be followed by liquidation, a new agreement is made, and business continues under this new agreement.

If a business is discontinued it is called as dissolution. The dissolution of firm means a complete break down of the relation of partnership among all the partners. Dissolution involves selling of assets, payments of liabilities and return of capital to the partners.

Partnership ایکٹ 1932 کے مطابق شراکتی معاہدے کا تمام حصہ داروں کے درمیان ہونے والے عہدنامے کا اختتام فرم کا اختتام کہلاتا ہے۔

کسی حصہ دار کی شمولیت، علیحدگی یا موت کی صورت میں شراکتی عہدنامہ ختم ہو جاتا ہے۔ یہ اختتام ضروری نہیں کہ کاروبار کا اختتام ہو۔ عموماً کسی نئے حصہ دار کی شمولیت، علیحدگی یا موت پر شراکتی عہدنامہ ختم ہو جاتا ہے جو حصہ داران کے درمیان ہونے والے معاہدہ کی تبدیلی ہوتی ہے۔ جس کے نتیجہ میں کاروبار ختم یا نہ ختم بھی ہو سکتا ہے۔ ایک نئے معاہدے کے تحت کاروبار کو جاری رکھا جا سکتا ہے۔ اگر کاروبار کا تسلسل ختم کر دیا جائے تو اسے کاروبار کا اختتام کہا جائے گا۔ اس اختتام کے نتیجہ میں تمام حصہ داران کے درمیان کے رشتہ کو مکمل طور پر ختم کر دیا جاتا ہے۔ جس کے نتیجہ میں تمام اثاثہ جات کو بیچ دیا جاتا ہے اور تمام واجب الادا ادائیگیاں کر کے حصہ داران کا سرمایہ واپس کر دیا جاتا ہے۔

Dissolution Conditions: اختتام کی شرائط

Dissolution of partnership is affected under one or more of the following circumstances:

درج ذیل امور میں کسی ایک یا زیادہ وجوہ کی بنیاد پر کاروبار ختم ہو جاتا ہے۔

(i) At the retirement of a partner,

کسی حصہ کی علیحدگی کی صورت میں بشرطیکہ نیا معاہدہ نہیں کیا جاتا۔

(ii) If any one of the partners becomes insolvent.

کسی حصہ دار کے دیوالیہ ہونے کی صورت میں بشرطیکہ نیا معاہدہ نہیں کیا جاتا۔

(iii) After the completion of a project, for which partnership was formed.

کام (جس کے لئے شراکتی معاہدہ کیا گیا تھا) کی تکمیل پر

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(iv) At the expiry of a specific period for which partnership was formed.

جس عرصے کے لئے معاہدہ کیا گیا تھا اس عرصے کے ختم ہونے پر

(v) If all the partners mutually decide to dissolve the firm.

تمام حصہ داران کے باہمی تصفیہ پر فرم ختم کی جاسکتی ہے

(vi) If all the partners, but one, are insolvent,

ایک حصہ دار کے علاوہ باقی تمام حصہ داران کے دیوالیہ ہونے کی صورت میں

(vii) In case of partnership at will, if any of the partner gives notice of his will to discontinue the firm.

حصہ داران کی مرضی کے مطابق شراکتی کاروبار کو کسی ایک حصہ دار کی طرف سے کاروبار کے خاتمے کے نوٹس پر فرم اختتام پذیر ہو جاتی ہے۔

(viii) The firm is dissolved, if it is doing some illegal business.

کسی غیر قانونی کام میں ملوث ہونے پر فرم کا اختتام ہو جاتا ہے۔

Dissolution by Court: عدالت کی طرف سے اختتام

A partnership firm may also be dissolved by a competent court on filing of a suit by a partner on any one of the following grounds:

کسی حصہ دار کی طرف سے عدالت میں شراکتی کاروبار کے اختتام کے لئے مقدمہ دائر کرنے پر یا درج ذیل میں سے کسی وجوہ کی بنیاد پر متعلقہ عدالت کے حکم پر کاروبار ختم کر دیا جاتا ہے۔

(a) That a partner has become of unsound mind.

کسی حصہ دار کے دماغی توازن کھو دینے کی صورت میں

(b) That a partner other than suing, is incapable of performing business duties.

درخواست دہندہ کے علاوہ کسی دوسرے حصے دار کا کاروبار میں سرگرمیاں ادا کرنے کے قابل نہ ہونے پر

(c) That a partner is guilty of misconducting the partnership affairs.

کسی حصہ دار کا کاروباری امور کو سرانجام دینے کی خلاف ورزی کرنے پر

(d) That a partner has willfully or persistently committed breach of contract.

کسی حصہ دار کا دانستہ یا باقاعدگی کے ساتھ کاروباری معاہدوں کے توڑنے پر

(e) That a partner, without the consent of other partners has transferred his interest to a third person.

کسی حصہ دار کا حصہ کسی دوسرے شخص کو بغیر رضامندی دیگر حصہ داران منتقل کرنا

(f) That a business cannot be carried on, except at a loss.

کاروبار سوائے نقصان کے چلانا ناممکن ہونے پر

Settling up of Account: لین دین کا تصفیہ

When partnership business is discontinued, the accounts are settled between partners and other parties having interest in the business as follows:

شراکتی کاروبار کے اختتام پر تمام حصہ داران کے آپس میں اور دیگر کاروبار سے منسلک اشخاص کے مابین لین دین کا تصفیہ درج ذیل طریقہ سے کیا جاتا ہے

(i) All the properties and assets of the firm (including the original investment of the partners and any subsequent one, if made to make up the deficiencies),

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must first be applied towards payment of liabilities of the firm.

کاروباری فرم کے تمام اثاثہ جات اور (حصہ داروں کی ابتدائی سرمایہ کاری اور بعد میں کسی کمی کو پورا کرنے کے لئے کی گئی سرمایہ کاری) کاروبار کی ادائیگیوں کے لئے استعمال کی جائے گی۔

(ii) After making payments against Accounts Payable and the liabilities as above if there is a surplus that will be used for the payment of any advance or. Loan from partners if loan is taken from more than one partner this will be paid rateably.

تمام ادائیگیاں اور واجب الادار قوم ادا کرنے کے بعد بچ جانے والی رقم حصہ داران سے حاصل کئے گئے قرضہ یا پیشگی کو ادا کرنے کے لئے استعمال کی جائے گی۔

(iii) Surplus is applied in making payment of each partner's capital. This will also be paid rateably. Term rateably means first of all payment will be made to a partner whose capital is proportionately more than his profit and loss sharing ratio.

بقایا بچ جانے والی رقم حصہ داران کا سرمایہ ادا کرنے کے لئے استعمال کی جائے گی۔ اس کی ادائیگی تناسبت کے حساب سے ہو گی۔ تناسبت سے مراد سب سے پہلے اس حصہ دار کو ادائیگی ہو گی جس کا سرمایہ نفع و نقصان کی نسبت سے مقابلتاً جتنا زیادہ ہو گا۔

Realisation Account: حصول کا کھاتہ

When a business is dissolved or liquidated all the assets of the business are disposed off and 'liabilities are paid off, the process of disposing off the assets, and paying off the liabilities is called realization. The realization account is the account operated to find out the gain or loss resulting from the sale of assets and the payment of liabilities.

جب کاروبار ختم کر دیا جاتا ہے تو کاروبار کے تمام اثاثہ جات کو فروخت اور تمام ادائیگیوں کی ادائیگی کر دی جاتی ہے۔ ان اثاثہ جات کی فروخت اور ادائیگیوں کی ادائیگی کا مرحلہ Realisation Account کہلاتا ہے۔ جس میں اثاثہ جات کی فروخت اور ادائیگیوں کی ادائیگی کے نتیجہ میں ہونے والے نفع و نقصان کا تعین کیا جاتا ہے۔

Accounting for Dissolution: اختتامی حساب کتاب

(i) When all the partners of the firm are solvent.

تمام حصہ داران کی استطاعت ادائیگی کی صورت میں

(ii) When one of the partners is insolvent.

ایک حصہ دار کے دیوالیہ ہونے کی صورت میں

(iii) When all the partners are insolvent.

تمام حصہ داران کے دیوالیہ ہونے کی صورت میں

Note: Keeping in view the course outlines for D.Com. only 1st case of dissolution i.e. when all the partners are solvent will be discussed in this chapter.

نوٹ: D.Com کے سلیبس کو مد نظر رکھتے ہوئے صرف نمبر 1 (Case) (جب تمام حصہ داران کی استطاعت ادائیگی ہو گی) کا اس باب میں تذکرہ کیا جائے گا۔

When all Partners are Solvent:

When a business is dissolved the books of accounts will have to be closed, there are two methods to close the books.

کاروبار کے اختتام کی صورت میں حساب کتاب کی کتابیں بند کر دی جاتی ہیں جس کے دو طریقہ کار ہیں۔

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FIRST METHOD

پہلا طریقہ

Under this method all the assets except cash in hand and cash at bank and liabilities other than capital are transferred to realization. For this purpose realization a/c is debited and assets are individually created at book value, whereas other liabilities are debited and realization a/c is credited. All the amounts realised by the sale of assets and all payment of liabilities are recorded under this account. The balance of realization account will show gain or loss, which will be divided among all the partners in their income sharing ratio. The following points will explain this method:

اس طریقہ کار کے تحت زر نقد اور بینک بیلنس اور سرمایہ کے علاوہ تمام اثاثہ جات اور ادائیگیوں کو Realization Account میں منتقل کر دیا جاتا ہے۔ جس کے لئے Realization Account کو Debit اور تمام اثاثہ جات کو الگ الگ کتابوں میں درج شدہ قیمت کے مطابق Credit کر دیا جاتا ہے۔ اور تمام دیگر ادائیگوں کو Dr اور Realization a/c کو کریڈٹ کیا جاتا ہے۔ تمام اثاثہ جات کی فروخت سے حاصل ہونے والی رقم سے کاروبار کی دیگر ادائیگیاں ادا کر دی جاتی ہیں۔ Realization Account کا بقایا نفع یا نقصان کو ظاہر کرے گا جسے تمام حصہ داران کے سرمایے میں نفع و نقصان کی نسبت سے تقسیم کر دیا جائے گا۔

(i) To Close Asset:

All the assets other than cash and cash at bank, are transferred to a newly opened account "Realization" by the following journal entry.

Date	Description	P.R.	Debit	Credit
	Realization.....Dr. All assets (individually).....Cr. (Book value) (Assets other than cash and cash at bank are transferred to realization at a book value).			

(ii) To Close Liabilities:

Liabilities other than owners', equity are transferred to realization account at the book value, in a way that accounts of liabilities are closed. Journal entry will be as under:

Date	Description	P.R.	Debit	Credit
	All liabilities (individually at book value) .....Dr. Realization.....Cr. (To close liabilities).			

(ii) To Close Reserve

If reserve or balance of expense and revenue summary exists in the Balance Sheet, that should be transferred to the partners' capital accounts according to their income sharing ratio. Journal entry will be as under:

Date	Description	P.R.	Debit	Credit
	Reserve/Profit & Loss/ Income Summary..... ..Dr. All partners' Capital.....Cr. (Reserve/balance of profit transferred to partners' capital)		———	———

In case of loss the above entry will be reversed.

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(iv) Disposal of Assets

All assets other than cash and cash at bank are disposed off either by:

(a) Selling in the market

(b) Transferring to partners

(a) Selling of Assets

When assets are sold and cash is realized from the sale of assets, Journal entry will be:

Date	Description	P.R.	Debit	Credit
	Cash/Bank.....Dr. Realization.....Cr. (Assets sold for cash).			

(b) Transferring to Partners:

When assets are taken over by a partner/partners at a value agreed between them, the entry will be:

Date	Description	P.R.	Debit	Credit
	Partner's Capital.....Dr. Realization.....Cr. (Transferring of asset to partners' capital).			

(v) Disposal of Liabilities:

(a) By Payment:

When cash is realized from the sale of assets, this cash will be utilised for 'making' payment of liabilities such as, Accounts Payable, Notes payable, Unpaid expenses, Loan from banks, etc.

The journal entry will be:

Date	Description	P.R.	Debit	Credit
	Realization.....Dr. Cash/Bank.....Cr. (Being payment of liabilities)			

Note: Those liabilities will be paid, which were transferred to realization.

(b) Transferring to Partners:

If a partner or partners take the responsibility of paying some liabilities, the entry will be:

Date	Description	P.R.	Debit	Credit
	Realization.....Dr. Partners' capital (who takes the responsibility).....Cr. (Being transfer of liability to a partner).			

(vi) Payment of Partner's Loan:

After the payment of liabilities such as Accounts Payable, Notes Payable, Unpaid expenses, Bank overdrafts, Bank loan etc. Loan of partners other than their capitals will be paid off. The Journal entry for this payment will be:

Date	Description	P.R.	Debit	Credit
	Partner's Loan.....Dr. Cash/Bank;.....Cr. (Being the payment of partners' loan)			

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(vii) Expenditure incurred on disposal of assets:

If any expenditure is incurred for selling of the assets, such as commission paid to auctioner, advertisement expenditure etc., the Journal entry will be:

Date	Description	P.R.	Debit	Credit
	Realization.....Dr. Cash/Bank.....Cr. Being payment of expenses on realization.			

(viii) Closing of Realization:

Realization account will show either gain or loss on realization, which will be transferred to partners' capital account according to their income sharing ratio. Credit balance of realization account represents gain and debit balance indicates loss. Journal entry for loss will be as such:

Date	Description	P.R.	Debit	Credit
	All partners' capital (each partner's share).....Dr. Realization .....Cr. (Loss or Realization transferred to partners).			

Note: Reverse entry will be passed in case of gain.

(ix) Making up of Deficiency:

If any partner's capital account shows a debit balance, he will pay cash to make up his deficiency. Journal entry will be:

Date	Description	P.R.	Debit	Credit
	Cash .....Dr. Respective Partner's Capital.....Cr. (Being receipt of cash from partner to cover up his deficiency)			

(x) Closing of Capital Account

Now balance of cash/bank account will exactly be equal to the total credit balance standing to credit of all partners' capital account. This cash will be paid to all partners equal to credit balance of their capital. The Journal entry will be:

Date	Description	P.R.	Debit	Credit
	Partners' Capital (with each partners' credit balance).....Dr. Cash/bank.....Cr. (Being payment of. each partner's capital)		———	———

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Illustration No. 1

A, B and C are in partnership sharing in the ratio 3:2:1. Their Balance Sheet on December 31, 2013 was as:

	Rs.		Rs.
Cash	5,000	Account payable	5,000
Accounts receivable	12,000	Capital A	10,000
Inventory	10,000	Capital B	8,000
Equipment	3,000	Capital C	7,000
	30,000		30,000

The firm dissolved on the date. All partners are solvent. Non cash assets sold for Rs. 28250 only. Expense of dissolution Rs. 250.

Required: Close the books of the firm by giving:
(i) General Journal Entries. (ii) Necessary Lodger Accounts.

Solution:

Date	Description	PR.	Amount Dr.	Amount Cr.
2013				
Dec.31	Realization		25,000	
	Account receivable			12,000
	Inventory			10,000
	Equipment			3,000
	(Transfer of assets to realization)			
	Accounts payable		5,000	
	Realization			5,000
	(Transfer of accounts payable to realization)			
	Cash:		28,250	
	Realization			28,250
	(Cash received from sale of assets)			
	Realization		5,000	
	Cash			5,000
	(Payment of accounts payable)			
	Realization		250	
	Cash			250
	(Payment of realization expenses)			
	Realization (W-1)		3,000	
	Capital A			1,500
	Capital B			1,000
	Capital C			500
	(Realization profit transferred to partners' Capital)			
	Capital A		11,500	
	Capital B		9,000	

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	Capital C		7,500	
	Cash			28,000
	(Capital balance paid to partners)			

Realization Account

Date	Description	PR	Amount	Date	Description	PR	Amount
2013				2013			
Dec.31	Accounts receivable		12,000	Dec. 31	Accounts payable		5,000
	Inventory		10,000	Dec. 31	Cash (Sale of asets)		28,250
	Equipment		3,000				
	Cash (Liability)		5,000				
	Cash (Expenditure)		250				
	Capital A 1500 (W-1)						
	Capital B 1000 (W-1)						
	Capital C 500 (W-1)		3,000				
			33,250				33,250

Capital Accounts

Date	Description	A	B	C	Date	Description	A	B	C
2013					2013				
Dec 31	Cash (balancing figures)	11,500	9,000	7,500	Dec.31	Balance	10,000	8,000	7,000
						Realization profit	1500	1000	500
		11,500	9,000	7500		Total	11,500	9,000	7,500

Cash Account

Date	Description	PR	Amount	Date	Description	PR	Amount
2013				2013			
Dec.31	Balance		5,000	Dec. 31	Realization (Liability)		5,000
	Realization (Sale of asets)		28,250	Dec. 31	Realization (Exps.)		250
					Capital A		11,500
					Capital B		9,000
					Capital C		7500
			33,250				33,250

WORKING: (w-1) Distribution of realization profit.

Realization profit = Rs. 3000

Profit sharing ratio = 3 : 2 : 1 or $\frac{3}{6} : \frac{2}{6} : \frac{1}{6}$

Share of realization profit –A = $3000 \times \frac{3}{6}$ = Rs. 1500

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Share of realization profit –B = $3000 \times \frac{2}{6}$ = Rs. 1000

Share of realization profit –C = $3000 \times \frac{1}{6}$ = Rs. 500

Illustration No. 2

X and Y are partners sharing profit and loss in the ratio 3:2 respectively. Their capital being Rs. 25,000/- each. Mr. X provided Rs. 10,000/- as loan to the firm. Account Payable amounted to Rs. 30,000/-. Total assets of the firm realized in the form of cash amounted to Rs. 1,00,000/-

Required: Prepare (i) Journal entries. (ii)Realization account, (iii) Cash account (iv) Capital accounts.

Solution:

Journal Entries

Date	Description	PR.	Amount Dr.	Amount Cr.
	Realization (w-1)		90,000	
	Sundry assets			90,000
	(Being the transfer of sundry assets to realization).			
	Accounts Payable		30,000	
	Realization			30,000
	(Being the transfer of account payable to realization)			
	Cash		1,00,000	
	Realization			1,00,000
	(Being the account realized by sale of sundry assets).			
	Realization		30,000	
	Cash			30,000
	(Being the payment of accounts payable)			
	X – Loan		10,000	
	Cash			10,000
	(Being the payment of X loan).			
	Realization		10,000	
	Capital – X w-2			6,000
	Capital – Y w-2			4,000
	(Distribution of realization profit)			
	Capital – X		31,000	
	Capital – Y		29,000	
	Cash			60,000
	(Payment of partners' capital)			

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Realization Account

Date	Description		Amount	Description	Amount
	Sundry assets		90,000	Cash	100,000
	Cash		30,000	A/P	30,000
	X – Capital	6000			
	Y – capital	4000			
			10,000		
			130,000		130,000

Cash Account

Date	Description	Amount	Description	Amount
	Realization	100,000	X – loan	10,000
			Realization (A/P)	30,000
			X – Capital	31,000
			Y – Capital	29,000
		100,000		100,000

Capital Accounts

Date	Description	X	Y	Date	Description	X	Y
	Cash	31,000	29,000		Balance	25,000	25,000
					Realization	6,000	4,000
		31,000	29,000			31,000	29,000

Working (W-1) **Calculation of Sundry Assets:**

Balance Sheet

Assets	Amount	Liabilities		Amount
Sundry assets (Balancing figure)	90,000	Account payable		30,000
		X – Loan		10,000
		Owners Equity:		
		Capital - X=	25000	
		Capital-Y. =	25000	50,000
	90,000			90,000

(W-2) Distribution of realization profit.

Realization profit = Rs. 10,000

Profit sharing ratio = 3 : 2 or $\frac{3}{5} : \frac{2}{5}$

Share of realization profit – X = $10,000 \times \frac{3}{5}$ = Rs. 6,000

Share of realization profit – Y = $10,000 \times \frac{2}{5}$ = Rs. 4,000

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Illustration No. 3

Given below is the Balance Sheet of M & N as on 31st December 2013:

Assets		Amount	Equities		Amount
Current Assets:					
Cash		1,000	**Current Liabilities:**		
Mechanised inventory		20,000	Account Payable		21,000
Account Receivable	25,000		Bank Loan		11,500
Less: Allowance for uncollectible	500	24,500	**Owners; Equities:**		
Non-Current Assets:			M – Capital	19000	
Furniture		1,000	N-Capital	11,000	30,000
Land		12,000			
Good-will		4,000			
		62,500			**62,500**

The firm was dissolved on 31st December 2013.

(a) Assets were realized as under:

Furniture-Rs. 700; Land-Rs. 15,000; Account Receivable Rs. 22,500; Merchandise Rs. 19,000.

(b) Account payable and bank loan were settled for Rs. 31,000. M & N shared profits and loss in the ratio of 3:2.

Required (i) Journal entries for dissolution

(ii) Prepare necessary ledger accounts to close the books.

Solution:

Journal Entries

Date	Description	PR.	Amount Dr.	Amount Cr.
2013	Realization		62,000	
Dec.31	Merchandise inventory			20,000
	Account Receivable			25,000
	Furniture			1,000
	Land			12,000
	Goodwill			4,000
	(Non-cash assets transferred to realization).			
Dec.31	Accounts Payable		21,000	
	Loan		11,500	
	Allowance for uncollectible		500	
				33,000
	(Liabilities are transferred to realization).			
Dec.31	Cash		57,200	
	Realization			57,200
	(All non-cash assets realized).			
Dec.31	Realization		31,000	
	Cash			31,000
	(Being the payment of liabilities).			

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Dec.31	M – Capital (w-1)		1,680	
	N – Capital (w-1)		1,120	
	Realization			2,800
	(Loss on realization transferred to partners).			
Dec.31	M – Capital		17,320	
	N – Capital		9,880	
	Cash			27,200
	(Being payment made to partners).			

Realization

Date	Description	Amount	Date	Description	Amount
2013			2013		
Dec. 31	Merchandise inventory	20,000	Dec. 31	Accounts payable	21,000
" "	Account receivable	25,000	" "	Loan	11,500
" "	Furniture	1,000	" "	Allowance for unreceivable	500
" "	Land	12,000	" "	Cash	57,200
" "	Goodwill	4,000	" "	M – Capital 1,680	
" "	Cash (Payment to A/P)	31,000	" "	N – Capital 1,120	2,800
" "		93,000	" "		93,000

Capital Accounts

Date	Description	M	N	Date	Description	M	N
2013				2013			
Dec. 31	Realization	1,680	1,120	Dec 31	Balance	19,000	11,000
" "	Cash	17,320	9,880				
		19,000	11,000			19,000	11,000

Cash

Date	Description	Amount	Date	Description		Amount
2013			2013			
Dec. 31	Balance	1,000	Dec 31	Cash (A/P)		31,000
	Realization	57,200		M – Capital	17320	
				N – Capital	9880	27,200
		58,200				58,200

Working (W – 1) Distribution of realization loss.

Realization loss = Rs. 2,800

Profit and loss sharing ratio = 3 : 2 or $\frac{3}{5} : \frac{2}{5}$

Share of loss – M = $2800 \times \frac{3}{5}$ = **Rs. 1,680**

Share of loss – N = $2800 \times \frac{2}{5}$ = **Rs. 1,120**

Illustration No. 4

Aslam and Akbar are partners in a business sharing profit and loss in the ratio of 5:3. They decided to sell their business on 30th June, 2013, when their balance sheet was

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as follows:

Balance Sheet

Assets		Amount	Equities		Amount
Current Assets:			**Current Liabilities:**		
Cash		150	Account Payable,		7,500
Cash at bank		3,000	Loan payable to Alam		4,500
Account Receivable	12000		General reserve		16,000
Less: Allowance for uncollectible	1125	10,875	**Owners' Equity**		
Inventory		9,600	Aslam	= 22500	
Non-Current Assets:			Akbar	= 16875	39,375
Plant and machinery		15,750			
Equipment		18,000			
Furniture		7,500			
Tools		2,500			
		67,375			67,375

Plant and Machinery realized Rs. 14,000; Equipment Rs. 15,000; Tools Rs. 1,500' Merchandise Rs. 9,000; Furniture Rs. 7,000 and Account Receivable Rs. 10,000. Expenses of winding up the business amounted to Rs. 875/-. Account Payable were settled at Rs. 6,000/- Aslam took over the-responsibility to pay Alam's loan which is settled at Rs. 4,000.

Required: i. Pass the necessary Journal entries to show the effect of dissolution.
ii. Prepare realization account, capital accounts and bank account.

Solution:

Journal Entries

Date	Description	PR.	Amount Dr.	Amount Cr.
2013				
June 30	Realization		65,350	
	Accounts Receivables			12,000
	Merchandise inventory			9,600
	Plant and Machinery			15,750
	Equipment			18,000
	Furniture			7,500
Jun. 30	Tools			2,500
	(Being the transfer of assets to realization accounts)			
	Allowance for uncollectible		1,125	
	Accounts payable		7,500	
	Loan payable to Alam		4,500	
	Realization			13,125
	(Being transfer of A/P and other liabilities to			

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	realization)			
	General reserve		16,000	
	Aslam – Capital ($16000 \times \frac{5}{8}$)			10,000
	Akbar – Capital ($16000 \times \frac{3}{8}$)			6,000
	(General reserve transferred to partners according to profit ratio).			
	Realization		875	
	Bank			875
	(Expenses of winding up paid)			
	Bank		56,500	
	Realization			56,500
	Plant	14,000		
	Tools	1,500		
	Equipment	15,000		
	Furniture	7,000		
	A/R	10,000		
	Merchandise	9,000		
	(Assets realized and amount deposited into bank)			
	Realization		6,000	
	Bank			6,000
	(Being payment of A/P).			
	Realization		4,000	
	Aslam's capital			4,000
	(Being the transfer of loan to Aslam)			
	Aslam – Capital		4,125	
	Akbar – Capital		2,475	
	Realization			6,600
	(Loss of realization transferred to partners capital according to profit ratio)			
	Bank		150	
	Cash			150
	(Cash in hand deposited into bank)			
	Aslam – Capital		30,375	
	Akbar – Capital		22,400	
	Bank			52,775
	(Amount due to partners' paid off)			

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Realization

A/R		12,000	Allowance for uncollectiable		1,125
Merchandise		9,600	A/P		7,500
Plant & Mach.		15,750	Loan payable to Alam		4,500
Equipment		18,000	Bank		56,500
Furniture		7,500	**Capital:**		
Tools		2,500	Aslam -	4,125	
Bank (Exps)		875	Akbar-	2,475	6,600
Bank (A/P)		6,000			
Aslam's - Capital		4,000			
		76,225			**76,225**

Capital - Aslam

Date	Description	P.R.	Amount	Date	Description	P.R	Amount
2013				2013			
June 30	Realization		4,125	June 30	Balance		22,500
					Reserve		10,000
	Bank		32,375		Aslam's Loan		4,000
			36,500				**36,500**

Capital - Akbar

Date	Description	P.R.	Amount	Date	Description	P.R	Amount
2013				2013			
June 30	Realization		2,475	June 30	Balance		16,875
	Bank		20,400		Reserve		6,000
			22,875				**22,875**

Bank

Date	Description	P.R.	Amount	Date	Description	P.R	Amount
2013				**2013**			
June 30	Balance		3,000	June 30	Realization (Expenses)		875
	Realization (Assets)		56,500		Realization (A/P)		6,000
	Cash		150		Aslam - Capital		32,375
					Akbar - Capital		20,400
			59,650				**59,650**

Working (W-1): Distribution of realization loss.

Realization loss = Rs. 6600

Profit and loss sharing ratio = 5.3 = $\frac{5}{8} : \frac{3}{8}$

Share of realization loss – Aslam = $6600 \times \frac{5}{8}$ = Rs. 4125

Share of realization loss – Akbar = $6600 \times \frac{3}{8}$ = Rs. 2475

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Illustration No. 5

Anis, Badar, Faisal and Kashif were partners in a firm sharing profit and loss in 4:3:2:1 ratio. They decided to dissolve the firm on 31st March 2013. On this day the balance sheet was as under:

Assets		Amount	Equities		Amount
Current Assets:					
Cash		60,500	**Current Liabilities:**		
Account to receivable	9,850		Un-paid taxes		1,850
Less: Allowance for			Accounts payable		32,000
un-collectible	350	9,500	Un-earned commission		2,150
Supplies un-used		1,250	Bank loan		30,000
Merchandise inventory		24,750	**Owners' Equity:**		
Non-Current Assets:			Anis - Capital	70,000	
Equipment		25,000	Badar - Capital	60,000	
Furniture		15,000	Faisal - Capital	50,000	
Land		45,000	Kashif- Capital	40,000	2,20,000
Building		1,00,000			
Tools		5,000			
		2,86,000			**2,86,000**

Account Receivable, Supplies, Merchandise Inventory were realized as Rs. 9,000, Rs.1,000 and Rs. 24,000 respectively. Equipment and furniture were taken over by Faisal and Kashif at an agreed value of Rs. 20,000 and Rs. 10,000 respectively. Building was taken over by Anis at Rs. 1,25,000, while he took the responsibility of paying A/P. Half of the unearned commission was to be paid. Taxes were settled for Rs. 1,500. Land and tools were sold at book value. Winding up expenses amounted to Rs. 825.

Required: Prepare the necessary ledger accounts to wind up the business.

Solution

Realization - Acount

Date	Description	Amount	Date	Description	Amount
2013			2013		
Mar 31	Un-used supplies	1,250	Mar 31	Unpaid taxes	1,850
	Accounts receivable	9,850		Account Payable	32,000
	Merchandise inventory	24,750		Un-earned commission	2,150
	Equipment	25,000		Bank loan	30,000
	Furniture	15,000		Cash (A/R. Supp; Merch).	34,000
	Land	45,000		Kashaf capital (Furniture)	10,000
	Buildings	1,00,000		Faisal capital (Equipment)	20,000
	Tools	5,000		Anis capital (Building)	1,25,000
	Anis – Capital	32,000		Cash (Land + Tools)	50,000
	Cash (Tax and un-earned) commission)	2,575		Allowance for uncollectible	350

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	Cash (Bank Loan)	30,000			
	Cash (Expenses)	825			
	Capital- (w-1)				
	Anis = 5,640				
	Badar = 4,230				
	Faisal = 2,820				
	Kashif = 1,410	14,100			
		3,05,350			**3,05,350**

Capital Accounts

Description	Anis	Badar	Faisal	Kashif	Description	Anis	Badar	Faisal	Kashif
Realizatin	1,25,000	---	20,000	10,000	Balance	70,000	60,000	50,000	40,000
Cash	---	64,230	32,820	31,410	Realization	32,000			
					Realization (profit)	5,640	4,230	2,820	1,410
					Cash	17,360			
	1,25,000	**64,230**	**52,820**	**41,410**		**1,25,000**	**64,230**	**52,820**	**41,410**

Cash Acount

Date	Description	Amount	Date	Description	Amount
2013			**2013**		
Mar 31	Balance	60,500	Mar 31	Realization	32,575
" "	Realization	84,000	" "	Realization (Exps.)	825
" "	Anis – Capital	17,360	" "	Badar – Capital	64,230
			" "	Faisal – Capital	32,820
			" "	Kashif – Capital	31,410
		1,61,860			**1,61,860**

Working (W-1) Distribution of realization profit

Realization profit = Rs. 14,100

Sharing ratio = $4 : 3 : 2 : 1 = \frac{4}{10} : \frac{3}{10} : \frac{2}{10} : \frac{1}{10}$

Share of realization profit – Anis = $14,100 \times \frac{4}{10}$ = Rs. 5,640

Share of realization profit – Badar = $14,100 \times \frac{3}{10}$ = Rs. 4,230

Share of realization profit – Faisal = $14,100 \times \frac{2}{10}$ = Rs. 2,820

Share of realization profit – Kashif = $14,100 \times \frac{1}{10}$ = Rs. 1,410

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Second or Alternative Method of Dissolution:

Second or Alternative Method دوسرا طریقہ

Under this method the assets and liabilities of business are not transferred to' realization. Only the amount of gain or loss on sale of assets and payment of liability are transferred to realization. The balance of realization account will show gain or loss, which will be transferred to partners' capital in income sharing ratio. The following points will explain this method.

اس طریقہ کار کے مطابق اثاثہ جات اور ادائیگیوں کو Realization Account میں منتقل نہیں کیا جاتا صرف اثاثہ جات کی فروخت اور ادائیگیوں کی ادائیگی کے نتیجہ میں ہونے والے نفع یا نقصان کو Realization Account میں منتقل کیا جاتا ہے۔ Realization Account نفع یا نقصان کو ظاہر کرے گا جو حصہ داران کے سرمایہ میں منتقل کر دیا جائے گا۔

When assets are sold at a loss:

Cash A/c.	Dr.		(with actual amount realised)
Realization	Dr.		(with amount of loss)
Asset		Cr.	(with book value)

When assets are sold on profit:

Cash	Dr.		(actual cash realized)
Realization		Cr.	(with amount of profit)
Asset		Cr.	(Book value)

Disposal/Payment of Liabilities:

All the liabilities, other than partners' capital, such as Account Payable, Notes Payables Bank Loan, Unpaid Expenses, Unearned Incomes, etc., are paid out of cash realized from the sale of assets or balance available in Cash and Bank Account. These liabilities may be settled at lower or higher amount than shown in the books.

When liabilities are settled at lower amount, it is a gain on dissolution, the entry will be:

Liability	Dr.		(with book value)
Cash		Cr.	(with amount actually paid)
Realization		Cr.	(with amount of gain)

When an amount higher than book value is to be paid for settlement of a claim, it causes a loss on liquidation, the Journal entry will be:

Liability	Dr.		(with book value)
Realization		Cr.	(with amount of loss)
Cash		Cr.	(with amount actually paid)

Distribution of Gain or Loss:

The realization account will be prepared and balance in this account will be transferred to partners' capital account in the similar way as discussed in the previous method.

Payment of Partners' Capital:

Total credit balance in partners' capital account will be equal to Cash/Bank balance, this will be paid off to each partner. The Journal entry will be the same as passed in previous method.

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Illustration No. 6

Moon and Star agree to dissolve partnership on 31st December, 2013 on which date their Balance Sheet was as follows:

Assets		Amount	Equities		Amount
Current Assets:			**Current Liabilities:**		
Cash at Bank	5,000		Account payable	6,000	
Amount receivable	8,600		Moon loan	14,000	
Merchandise inventory	2,400		**Total Current Liabilities**		20,000
Total Current Assets:		16,000	**Owners' Equities:**		
Plant & machinery	15,000		Capital – Moon	8,500	
Goodwill	5,500		Capital – Star	8,000	16,500
Total fixed assets		20,500			
		36,500			**36,500**

Moon & Star share profit and loss in the ratio of 2/3 and 1/3 respectively. Accounts receivable realized Rs. 83,00, merchandise inventory Rs. 3,000, plant and machinery Rs. 12,000 and good-will Rs 9,000 account Payable were paid off Rs. 5.600 in full settlement and the cost of realization amounted to Rs. 300.

Required: Make the necessary journal entries and close the books of the partnership by necessary ledger account under alternative methods.

Solution:

Journal Entries

Date	Description	PR.	Amount Dr.	Amount Cr.
2013	Bank		8,300	
Dec 31	Realization		300	
	Account receivable			8,600
	(Amount realized on account receivable).			
	Bank		3,000	
	Merchandise Inventory			2,400
	Realization			600
	(Amount realized on sale of merchandise)			
	Bank		9,000	
	Goodwill			5,500
	Realization			3,500
	(Amount realized from goodwill)			
	Bank		12,000	
	Realization		3,000	
	Plant & Machinery			15,000
	(Amount realized on sale of Plant and Machinery)			
	Account Payable		6000	
	Cash Realization			5600
	(Being the Payment of account payable			400

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	Moon's Loan		14,000	
	Bank			14,000
	(Being the payment of Moon's loan).			
	Realization		300	
	Bank			300
	(Paid realization expenses)			
	Realization (w-1)		900	
	Capital – Moon			600
	Capital – Star			300
	(Profit on realization transferred to partner's capital)			
	Capital – Moon		9,100	
	Capital – Star		8,300	
	Bank			17,400
	(Being the repayment of partners' capital)			

Realization Acount

Date	Description		Amount	Date	Description	Amount
2013	Account Receivable		300	2013	Bank	600
Dec 31	Plant & Machinery		3,000	Dec 31	Bank	3,500
	Bank		300		Account Payable	400
	Profit:					
	Capital - Moon	600				
	Capital- Star	300	900			
			4,500			4,500

Capital Account

Description	Moon	Star	Description	Moon	Star
Bank	9,100	8,300	Balance	8,500	8,000
			Realization	600	300
	9.100	8,300		9.100	8,300

Bank Acount

Date	Description	Amount	Date	Description	Amount
2013	Balance	Rs. 5,000	2013	Accounts payable	5,600
Dec.31	Account Receivable	8,300	Dec 31	Moon's loan	14,000
	Merchandise Inventory	2,400		Realization	300
	Realization	600		Capital – Moon	9,100
	Plant & machinery	12,000		Capital – Star	8,300
	Goodwill	5,500			
	Realization	3,500			
		37,300			37,300

Working:

(W-1) Distribution of realization profit:

Realization profit = Rs. 900

Sharing ratio = 2/3 : 1/3

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Share of realization profit	– Moon	=	900 × 2/3 = Rs. 600
	– Star	=	900 × 1/3 = Rs. 300

(A) When one of the Partner is Insolvent

On the dissolution of the form when one partner have a debit balance in his capital account and unable to bring cash to settled his debts, it is called insolvent in other words if a partner unable to satisfy his debt to the firm called insolvent partner. Difficulty arises when the partner concerned in insolvency and is incapable of contributing to words making up the deficiency of his capital. Before the decision in the Garner us Murry such a loss was treated at per with ordinary losses and on the same footing wad shared by the solvent partners in their profit sharing proportion.

جب ایک حصہ دار دیوالیہ ہو جائے:

شراکت کے خاتمہ پر اگر ایک حصہ دار کا دیوالیہ ہو جائے یعنی اس کے کیپٹل اکاؤنٹ کا بیلنس ڈیبٹ ہو اور وہ اپنے Debt کی رقم ادا کرنے سے قاصر ہو تو اصل مشکلات بھی اس وقت پیدا ہوتی ہے جب ایک حصہ دار کا دیوالیہ ہو جائے اور کیپٹل اکاونٹ میں ہونے والی کمی بھی پوری نہ کر سکتا ہو۔ Garner vs Murray کیس کا فیصلہ کرنے سے قبل دیوالیہ حصہ دار کی وجہ سے ہونے والے نقصان کو عام کاروباری نقصان (Revenue loss) قرار دیا جاتا تھا اور بقایا حصہ دار نفع و نقصان کی نسبت سے اس نقصان کو پورا کر دیتے تھے۔

But after the decision by justice Joyce in the case of Gasmer vs Murray in number 1903, altered the method adjusting the loss caused by the insolvency of the one partner. The solvent partners are only bring cash equal to their respective share of loss on realization and the deficiency on the capital account of the insolvent partner to be shared by solvent partners in the ratio of their Capital just before dissolution.

لیکن Garner vs Murray کیس میں جج جوئس کا فیصلہ آنے کے بعد نومبر 1903 سے دیوالیہ حصہ دار کی وجہ سے ہونے والے نقصان کی تلافی کا طریقہ کار تبدیل ہو گیا ہے۔ جوئس حوالے کے مطابق بقایا حصہ دار کیپٹل اکاونٹ میں ہونے والی اپنی اپنی کمی کے برابر رقم فراہم کریں گے۔ اور دیوالیہ حصہ دار کی وجہ سے ہونے والی کمی کو بقایا حصہ دار اپنے کیپٹل کی نسبت سے پورا کریں گے جو کیپٹل کاروبار کے خاتمہ سے پہلے تھا۔

Fixed and Fluctuating Ratio:

As the ratio in which an insolvent partner's loss is to be written off is the ratio of Capital just prior to dissolution, the capitals are fixed or fluctuating is important.

If the capitals are fixed, then that will be the ratio in which an insolvent partner's loss will be born and if the Capital are fluctuating, all necessary adjustments in respect of reserves or profit and loss account etc. should be made and the ratio in which the insolvent partner's loss will be divided will be the ratio of the resulting capital.

متعین سرمائے اور قابل تبدیل سرمائے کی نسبت:

دیوالیہ حصہ دار کا نقصان کو خارج (Written off) کرنے کی نسبت وہ کیپٹل کی نسبت ہو گی جو شراکت ختم کرنے سے پہلے تھی۔ ایسے صورت میں یہ بات اہمیت کی حامل ہے کہ سرمایہ کا اکاونٹ متعین طریقہ سے بنایا جاتا ہے یا قابل تبدیل سرمائے کی نسبت سے۔

اگر سرمایہ کا اکاونٹ متعین طریقہ سے بنایا جاتا ہے۔ تو پھر دیوالیہ حصہ دار کے نقصان کو برداشت کرنے کی نسبت وہی ہو گی جو

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شراکت کے خاتمے سے پہلے تھی۔ لیکن اگر سرمائے کا اکاونٹ قابل تبدیل طریقہ سے بنایا جاتا ہے تو پھر تمام Adjustments کے بعد جو سرمائے کا بقایا آئے گا اس کی نسبت ہوگی۔

Illustration No. 7

X, Y and Z are in partner sharing profits and losses in the proportions of 4:3:2. The Balance sheet prepared on December 31, 2015 were as follows.

Cash	1500	Creations	3500
Debden	1000	Capital X	4000
Machinery	5500	Y	2000
Furniture	2000	Z	500
	10,000		**10,000**

They agree to dissolve partnership as on this date. To prevent a disastrous on sale x agree to take over the furniture at a value of Rs. 1500 and the debater at valuables of Rs. 700. The Machinery are sold at auction for R. 2700. Show by means of ledger accounts how the partnership books will be closed. Z being insolvent and unable to provide any more cash.

Solution:

Realisation account

Date	Details		Amount	Date	Details		Amount
2015	Sundry Assets			2015	X Capital		2200
Dec. 31	Debater	1000		Dec. 31	Cash		2700
	Furniture	2000			Loss		
	Machinery	5500	8500		X	1600	
					Y	1200	
					Z	800	3600
			8500				**8500**

X's Capital

Realisation	2200	Balance b/d	4000
Realisation (loss)	1600	Cash	1600
Z capital	200		
Cash	1600		
	5600		**5600**

Y's Capital

Realisation	1200	Balance b/d	2000
Z Capital	100	Cash	1200
Cash	1900		
	3200		**3200**

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Z's Capital

Realisation	800	Balance b/d	500
		X's Capital	200
		Y's Capital	100
	800		**800**

Cash Account

Balance b/d	1500	Creditors	3500
Realisation account	2700	X's Capital	1600
X's Capital	1600	Y's Capital	1900
Y's Capital	1200		
	7000		**7000**

Notes: Rs. 300 being loss caused by Z's insolvency is shared by X and Y in the ratio of thin last agreed Capital i.e, Rs. 4000 and Rs. 2000

Illustration No. 8

Below is the Balance sheet M/S A, B, and C as on June 30, 2015.

Assets	Amount	Liabilities	Amount
Cash	1000	Accounts Payable	40,000
Machinery	24,000	A's Loam	12000
Account Receivable	20,000	Capital Accounts	
Building	5000	A 5000	
e's Capital (overdraft)	10,000	B 3000	**8000**
	60,000		**60,000**

Adjustments:

(i) Owing to the inability to pay accounts payable, the firm is dissolved.
(ii) B and C cannot pay any thing
(iii) A can contribute only Rs. 1500 from private estate.
(iv) Machinery realizes Rs. 15000, Accounts Receivable Rs. 16,000 and Building is sold for Rs. 1500.
(v) Expenses amount to Rs. 3000

Prepare accounts to close the books of the firm.

Solution:

Realization Account

Date	Description		P.F	Amount	Date	Description		P.R	Amount
2015	Sundery Assets					Cash Account			
Jun.30	Machinery	24000				Machinery	15000		
	Accounts receivable	20,000				A/c receivable	16,000		
						Building	1500		32,500
	Building	5000		49,000		Loss Transformed to			
	Expensive			3000		A	6500		
						B	6500		
						Z	6500		19,500
				52,000					52,000

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Cash Account

Date	Description	P.F	Amount	Date	Description	P.R	Amount
2015 Jun.30	Balance b/d		1000	2015 Jun. 30	Expenses		3000
	Realization account		32,500		Accounts payable		33000
	X' Capital		1500		(Valuable cash)		
			35,000				**35000**

Accounts Payable

Date	Description	P.F	Amount	Date	Description	P.R	Amount
2015 Jun.30	Cash		32000	2015 Jun. 30	Balance b/d		40,000
	Deficiencies a/c		8000				
			40,000				**40,000**

Deficiency Account

Date	Description	P.F	Amount	Date	Description	P.R	Amount
2015 Jun.30	B's Capital Account		3500		Accounts payable		
	C's Capital a/c		16,500		(unpaid)		8000
					A's Capital A/c		
					(unpaid)		12,000
			20,000				**20,000**

Capital Account

Description	A	B	C	Description	A	B	C
Balance b/d	–	–	10,000	Balance b/d	5000	3000	–
Loss on Realization	6500	6500	6500	A's Loan	12,000	–	–
	12,000	–	–	Cash a/c	1500		
Deficiency a/c				Deficiency A/c	–	3500	16.500
	18,500	**6500**	**16,500**		**18,500**	**6500**	**16,500**

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MULTIPLE CHOICE QUSTIONS

Encircle the Correct Answer.

1. **If all the partners, but one is insolvent it is:**
   (a) Dissolution by an agreement
   (b) Dissolution of a firm
   (c) May or may not cause dissolution
   (d) Dissolution of partnership
2. **At the time of dissolution non-cash assets are credited with**
   (a) Market value (b) Book value
   (c) As the agreed amount among partner
   (d) Market or book value
3. **Loss on realization is distributed among partners:**
   (a) According to old sharing ratio
   (b) According to capital ratio
   (c) As decided among them
   (d) According to new ratio
4. **Loss on realization is:**
   (a) Debited to partners capital account
   (b) Credited to partners capital account
   (c) Debited to realization account
   (d) Credited to partners' loan account
5. **Realization account is opened at the time of;**
   (a) Retirement of partner (b) Amalgamation of firm
   (c) Dissolution of firm (d) Admission of partner
6. **Realization account is:**
   (a) Nominal account (b) Impersonal account
   (c) Personal account (d) Real account
7. **The account which is opened at the time of dissolution of firm is:**
   (a) Revaluation account (b) Cash account
   (c) Realization account (d) Amalgamation account
8. **A firm dissolved with the consent of all the partners is:**
   (a) Dissolution by notice (b) Dissolution by agreement
   (c) Compulsory dissolution (d) Dissolution by court
9. **The accounts like provision for doubtful debts or provision for depreciation etc. are called:**
   (a) Valuation accounts (b) Contra asset account
   (c) Fictitious assets account (d) None of these
10. **If the firm was formed for a particular period, it automatically stands dissolved after the expiry of that particular period it is:**
   (a) Compulsory dissolution (b) Dissolution by court
   (c) Dissolution by agreement (d) Dissolution by notice

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11. **The process of breaking up and discontinuing partnership business is called:**
   (a) Liquidation (b) Dissolution
   (c) Termination (d) All of above

12. **Unrecorded liability when paid on dissolution is debited to:**
   (a) Realization account (b) Liability account
   (c) Partners capital account (d) Partner's capital accounts

13. **If all the partners, but one, are solvent it is:**
   (a) Dissolution of partnership
   (b) Dissolution of a firm
   (c) May or may not cause dissolution
   (d) None of above

14. **If a liability is settled at higher value than shown in the Balance Sheet it causes:**
   (a) A loss on realization
   (b) Gain on realization
   (c) Loss or revaluation
   (d) Loss on amalgamation

15. **All the accounts are settled among partners and creditors at the time of:**
   (a) Retirement of partner (b) Admission of partner
   (c) Dissolution of firm (d) Amalgamation of firm

16. **When a partner become unsound mind the dissolution is considered as:**
   (a) Dissolution by court (b) Dissolution by notice
   (c) Dissolution by agreement (d) Compulsory dissolution

17. **At the time of dissolution general reserve is credited to:**
   (a) Capital (b) Drawings
   (c) Realization (d) Revolution

ANSWERS

1.	(b)	2.	(b)	3.	(a)	4.	(a)	5.	(c)	6.	(a)	7.	(c)
8.	(b)	9.	(c)	10.	(a)	11.	(d)	12.	(b)	13.	(b)	14.	(a)
15.	(c)	16.	(a)	17.	(a)								

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QUESTIONS WITH SHORT ANSWERS

Q.1. What is meant by dissolution of partnership?

Ans. It is discontinuation or closer of the business. It involves selling of assets, payment of liabilities and return of capital to the partners.

اس میں کاروبار سرے سے ختم ہو جاتا ہے۔ تمام اثاثہ جات فروخت کر کے تمام ادائیگیاں کرنے کے بعد حصہ داران کا سرمایہ ان کو واپس کر دیا جاتا ہے۔

Q.2. What is difference between retirement and dissolution.

Ans. Retirement is discontinuation of partnership agreement. There is a change in partnership agreement, business is going on dissolution is closer of the business.

Retirement کی صورت میں سابقہ شراکتی معاہدہ ختم ہو جاتا ہے اور نیا شراکتی معاہدہ تشکیل پاتا ہے۔ کاروبار اسی طرح چلتا رہتا ہے۔ جبکہ اختتام کی صورت میں کاروبار اختتام پذیر ہو جاتا ہے۔

Q.3. Give any three conditions under which partnership is dissolved.

Ans. (i) If all the partners decide to dissolve the firm.

اگر تمام حصہ داران باہمی رضامندی سے کاروبار کو ختم کرنے کا فیصلہ کر لیتے ہیں۔

(ii) If all the partners, but one are insolvent.

ایک حصہ دار کے علاوہ باقی تمام حصہ داران دیوالیہ ہو جانے کی صورت میں۔

(iii) If the firm is doing illegal business.

اگر فرم غیر قانونی کاروبار میں ملوث ہو جائے۔

Q.4. What is meant dissolution by court?

Ans. A partnership firm may be dissolved by a competent court on filing a suit by a partner, giving sound reason or reasons.

کسی حصہ دار کے معقول وجہ یا وجوہات کی بنا پر متعلقہ عدالت سے کاروبار کے اختتام کے لئے رجوع کرنے پر عدالت کاروبار کو ختم کر سکتی ہے۔

Q.5. How accounts are settled in case of dissolution of firm?

Ans. The accounts are settled as under:

درج ذیل طریقہ کار کے مطابق معاملات کو نپٹایا جائے گا۔

(i) All assets are sold for cash.

تمام اثاثہ جات کو نقد فروخت کر دیا جائے گا۔

(ii) Cash in hand and received from sale of assets is used to pay outside liabilities.

اثاثہ جات کے فروخت سے وصول ہونے والی رقم اور نقد رقم کو باہر کی ادائیگیوں کے استعمال کیا جائے گا۔

(iii) Receiving cash is used to pay off loan from partners rateably.

حصہ داران سے لئے گئے قرض کی ادائیگی بچ جانے والی رقم سے کی جائے گی۔

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(iv) Surplus in used to pay each partner capital, which will also be paid rateably.
ان تمام ادائیگیوں کے بعد حصہ داران کے سرمایہ کی واپسی کی جائے گی۔

Q.6. What is meant by realization a/c?

Ans. At the time of dissolution, the process of disposing off assets and paging of liabilities is called realization.
کاروبار کے اختتام پر اثاثہ جات کی فروخت اور ادائیگیوں کی ادائیگی کے عمل کو Realization کہا جاتا ہے۔

Q.7. Why realization account is prepared?

Ans. It is prepared to know the loss or profit due to dissolution of the firm.
Realization account کو کاروبار کو ختم کرنے کے نتیجہ میں ہونے والے نفع یا نقصان معلوم کرنے کے لئے تیار کیا جاتا ہے۔

Q.8. Explain the term all partners are solvent.

Ans. At the time of dissolution, all the partners are in a position to make up their deficiency in their capital, it is said that all the partners are solvent.
کاروبار کے اختتام پر اگر تمام حصہ داران اپنے اپنے سرمایہ کی کمی کو پورا کرنے کے قابل ہوں تو کہا جائے گا کہ تمام حصہ داران Solvent ہیں۔

Q. 9. What do you mean by "When one partner is insolvent"?

Ans. At the time of dissolution, if any partner is not in a position to make up deficiency in his capital it is known that one partner is insolvent.
کاروبار کے اختتام پر کسی ایک حصہ دار کا اپنے سرمایہ میں کمی کو پورا کرنے کی اہلیت نہ ہونا اس حصہ دار کے دیوالیہ ہونے کو ظاہر کرتا ہے۔

Q.10. If a partner is insolvent, what entry is passed to make of his deficiency.

Ans. Solvent partners capital .....Dr
Insolvent capital .....Cr

Q. 11. If partner's capital account shows any deficiency what will be journal entry, if all partners are solvent.

Ans. Cash a/c.
To Partner's capital a/c.

Q. 12. In which circumstances firm is dissolved?

Ans. The firm is dissolved under the following circumstances:

(i) Dissolution by agreement معاہدہ کے ذریعہ اختتام

(ii) Dissolution by notice کسی حصہ دار کی طرف بذریعہ نوٹس اختتام

(iii) Dissolution onthe happening of certain contingencies.
کسی ہنگامی صورت کے رونما ہونے کی صورت میں

(iv) Compulsory dissolution لازمی اختتام

(v) Dissolution by order of the court. عدالتی حکم کے ذریعہ اختتام

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Q. 13. What is meant by dissolution by agreement?

Ans. A firm may be dissolved with the consent of all the partners according to a the agreement between the partners.

تمام حصہ داران کے درمیان ایک باہمی رضابندی کے ذریعہ فرم کا اختتام ہونا۔

Q. 14. What is compulsory dissolution or dissolution by the operation of law?

Ans. A firm is compulsory dissolved.
By the happening of any event which makes it unlawful for the business of the firm to be carried on.

کسی ایسے واقع کے رونما ہونے پر جس کی وجہ سے فرم غیر قانونی ہو جائے لازمی اختتام ہو گا۔

Q. 15. What is dissolution of happening of certain contingencies?

Ans. (i) If a partner becomes sane — کسی حصہ دار کے پاگل ہونے کی صورت میں
(iii) By the death of a partner. — کسی حصہ دار کی موت کی صورت میں
(iii) By the insolvency of a partner. — کسی حصہ دار کے دیوالیہ ہونے کی صورت میں

Q. 16. What is meant by dissolution by notice of partnership at will?

Ans. Where the partnership is at will, the firm may be dissolved by any partner giving notice in writing to all the other partners of his intention to dissolve the firm.

مرضی کے شراکتی کاروبار کو کسی بھی حصہ دار کی طرف سے بقایا تمام حصہ داران کو بذریعہ تحریری نوٹس شراکتی کاروبار کے اختتام کی خواہش پر کاروبار ختم ہو جاتا ہے۔

Q. 17. What journal entry will be passed for closing various assets account in case of dissolution of the firm?

Ans. Realization a/c.
To All assets (individually)
(Transfer of all assets to realization account.)

Q. 18. What journal entry will be passed for transfer of all liabilities to realization account?

Ans. All liabilities (Individually) a/c.
To Realization a/c.
(Transfer of all liabilities to realization a/c.)

Q. 19. What journal entry will to passed if the assets are sold for cash in case of dissolution of the firm?

Ans. Cash/Bank a/c.
To Realization a/c.
(Cash received from the sale of assets.)

Q. 20. What journal entry will be passed for payment of liabilities?

Ans. Realization a/c.
To Cash/Bank a/c.
Liabilities paid.

Q. 21. What is realization account?

Ans. It is an account which is used to find out profit or loss resulting from sale of assets and payment of liabilities at the time of dissolution of business.

کاروبار کے اختتام پر اثاثہ جات کی فروخت اور ادائیگیوں کی ادائیگی کی صورت میں ہونے والے نفع نقصان کو معلوم کرنے والا **Realization Account** کہلاتا ہے۔

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Q. 22. How assets can be disposed off?

Ans. Assets can be disposed off under the following two methods:

درج ذیل دو طریقوں سے اثاثہ کو Dispose off کیا جا سکتا ہے۔

(i) Selling in Market. مارکیٹ میں فروخت کرنا

(ii) Transferring to partners. حصہ داران کو ٹرانسفر کر کے

Q.23. What entry in passed on the transfer of asset to a partner?

Ans. The following entry will be passed:

Capital – partner Dr.

Asset Cr. (at agreed amount

Q.24. What entry is passed on sale of asset in the market?

Ans. Following entry is passed:

Cash Dr.

Asset a/c. Cr. (on agreed amount)

Q.25. Who give the decision of Garner Marry case /Marry case?

Ans: Justice Joyee give the decision Garner vs.

Q.26. How Liabilities can be disposed off?

Ans: Liabilities can be disposed off by:

ادائیگیوں کو کس طرح Dispose off کیا جا سکتا ہے۔

(i) Paying cash بذریعہ نقد ادائیگی

(ii) Transferring to partners حصہ داران کو ٹرانسفر کرنے سے

Q.27. What entry is passed on transfer of a liability to a partner?

Ans. Following entry is passed:

Liability Dr.

Partner's capital Cr.

Q.28. What entry will be passed to close reserve account?

Ans. reserve a/c. Dr.

All the partners capital a/c. Cr. (According to profit sharing ratio)

QUESTIONS

1. Under what circumstances does a partnership stand dissolved?
2. Narrate the entries necessary on a dissolution of partnership.
3. If a partner's capital account shows a deficiency at the time of dissolution, how will you deal with it?
4. What is a realization account? What entries will be passed at the time of dissolution under alternative method.

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EXERCISES

No. 1. Mr. Raees and Anees were partners in a firm. They dissolved the partnership on 31st March 2013. Total assets of the firm amounted to Rs. 1,50,000. Their capitals were, Raees Rs. 25,000 and Anees Rs., 30,000. Mr. Raees provided Rs.50,000 as loan. They share profit and loss in 3:2 ratio. All the assets were realized for Rs. 1,35,000. Expenses of dissolution were Rs. 5,000. Liabilities were settled for Rs.40,000. All the liabilities including owners equities were paid off.

Required: Pass the necessary Journal entries to show the effects of dissolution, also prepare realization account, capital accounts and bank account.

Answer

Loss on Realization Rs. 15,000. Capital Raees Rs. 16,000, Anees Rs.24,000. Other liabilities Rs. 45,000.

No. 2. Ahmad, Majeed and Saleem are partners. They share profit and loss in ratio of 3:2:1. Their balance sheet on 31st December, 2013 is as follows:

Assets	Amount	Equities	Amount
Cash	36,000	Account Payable	16,000
Other assets	18,000	Ahmad Capital	15,000
		Majeed Capital	10,000
		Saleem Capital	13,000
	54,000		**54,000**

The partners decide to liquidate, and sell their non-cash assets at a loss of Rs.6,000. After meeting their obligations, they divided the remaining cash.

Required: Pass necessary Journal entries and close the ledger account.

Answer

Capital Ahmed Rs. 12,000 ; Majeed Rs. 8,000 Saleem Rs. 12,000 Loss on realization Rs. 6,000.

No. 3. Following is the balance sheet of Messrs Aleem and Co. which was dissolved on 30th June, 2013.

Balance Sheet

Assets	Amount	Equities		Amount
Cash	15,000	Account Payable		50,500
Account receivable	35,000	Unpaid expenses		3,500
Merchandise inventory	50,000	Loan		46,000
Non-Current Assets:		**Owner's Equity:**		
Building	1,00,000	Aleem Capital	80,000	
Machinery	50,000	Kaleem Capital	70,000	150,000
	2,50,000			**2,50,000**

(i) Assets other than cash were realized for Rs. 1,85,000.

(ii) All the liabilities other than owners' equity were settled for Rs. 85,000 Profit sharing ratio is 5:2.

Required: Pass the necessary Journal entries to, show the effect of dissolution and ledger accounts for dissolution.

Answer:

Loss on Realization Rs. 35,000 Capital: Aleem Rs.55000 Kaleem Rs.60000..

No. 4. M and N are partners sharing profit and loss in the ratio of 4:3. Their capital balances are Rs. 25,000 and Rs. 30,000 respectively. Firm took loan from M Rs. 15,000

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from N Rs. 10,000, beside this liabilities of the company amounted to Rs. 35,000. Firm has cash balance of Rs. 10,000 other assets were realized for Rs. 92,000. Expenses of liquidation amount to Rs. 1,000. All obligations were settled at book value.

Required: Prepare the necessary ledger account to close the books of the firm.

Answer Sundry Assets Rs.105000.

Loss on Realization Rs. 14,000. Capital M - 17,000, N - 24,000.

No.5. The Balance sheet of Amjad, Akbar and Anwer, who were equal partners, showed as follows on 31st March, 2010.

Balance Sheet

Assets	Amount	Equities	Amount
Cash at bank	12,500	Accounts payable	1,10,000
Accounts receivable	1,25,000	Capital-Amjad	1,65,000
Merchandise inventory	1,75,000	Capital-Anwer	1,10,000
Investments	50,000		
Furniture & Fixtures	2,500		
Akabr (overdrawn)	20,000		
	3,85,000		**3,85,000**

It was agreed to dissolve the partnership as on that date. The assets were realized as under:

(i) Investment Rs.80,000 merchandise inventory Rs.1,40,000 and accounts receivable Rs.1,18,000

(ii) Anwer took over the furniture and fixtures at book value.

(iii) Accounts payable were settled for Rs. 1,07,000

(iv) Realization expenses came to Rs. 1,500

Required: (i) Pass the necessary journal entices.

(ii) Prepare realization account and capital accounts of all the partners, assuming that Akbar has made up his deficiency.

Answer: Realization loss Rs. 10500, Capital Balance Amjad (Cr) Rs, 1,61,500 Anwer (Cr) Rs, 1,04,000 Akber (Dr.) Rs 23500, Bank a/c 3,74,000

No. 6. Ahmad and Majad are partners in a firm. They share profit and loss equally. Their balance sheet on 1st April, 2013 on the date of dissolution is as under:

Balance Sheet

Assets		Amount	Equities		Amount
Cash in hand		500	Account Payable		15,000
Cash at bank		5,000	Bank overdraft		17,000
Accounts Receivable	15000		Reserve		10,500
Less: Allowance	1000		**Owner's Equity:**		
for uncollectible		14,000	Ahmad - Capital	40,000	
Merchandise inventories		35,000	Majeed - Capital	41,000	81,000
Non-current Assets:					
Furniture	10,000				
Less: Allowance for depreciation	1,000	9,000			
Building		50,000			
Equipment		10,000			
		1,23,500			**1,23,500**

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The assets were realized as follows:

Accounts receivable were collected equal to Rs. 13,000, merchandise inventories at a discount of 5%. Furniture was taken over by Ahmad at an agreed price of 7,500. Building was sold for Rs. 65,000, while Rs. 1,000 was paid to the broker, through whom building was sold. Equipment was taken over by Majad at book value. Account Payable were settled at a discount of 3%. Bank's overdraft was settled with an interest of Rs. 1,000.

Required: Pass the necessary Journal entries to show the effect of dissolution, also prepare ledger accounts to close the books.

Answer: Realization Profit Rs. 9,200 Capital Ahmad = Rs. 42,350. Majad = Rs. 40,850.

No. 7. On 1st January 2013 A, B and C were partners, sharing profit and loss in the ratio of 7:3:2. Their capital balances on that date amounts to Rs. 40,000, 30,000 and Rs. 20,000 respectively. The firm was dissolved on 1st January 2013, all the assets were realized, and all the liabilities except a liability under suit, which was to be settled for Rs. 500, were paid off. In the result after realization and payment, cash balance was Rs. 68,750. Interest of capitals, A Rs. 3,000, B Rs. 2,000 and C Rs. 1,000 was still to be paid to partners.

Required: Draw up a statement showing the position on that date.

Answer

Loss on realization Rs. 27,750. capital A = 26,812.50, B = 25,062.50, C = 16,375.00.

No. 8. A & B agreed to dissolve partnership on 31st December 2013, on which date their balance sheet was as follows:

Balance Sheet

Assets	Amount	Equities	Amount
Cash	1,000	Account Payable	6,000
Accounts receivable	5,000	A's Loan	8,000
Merchandise inventory	20,000	Capital – A	20,000
Plant	14,000	Capital – B	10,000
Goodwill	4,000		
	44,000		**44,000**

(i) The partners share profit and loss in proportion to their capitals.

(ii) Accounts receivable realized Rs. 4,200, merchandize inventory Rs. 18,000 and goodwill at Rs. 6,000

(iii) Plant realized 20% less than the book value.

(iv) The accounts payable were paid off at a discount of 5%.

(v) Dissolution expenses came to Rs. 600.

Required: Pass the necessary journal entries and prepare realization account and capital accounts of the partners.

Answer: Realization loss Rs, 3,900 Capital Balance A (Cr) Rs. 17,400, B (Cr) Rs, 8,700 cash A/C Rs. 40,400

No. 9. X, Y and Z are partners in a firm, their income sharing ratio is 2:1:1. They decided to dissolve the partnership. After realization of their non-cash assets and payment to liabilities, the balance sheet stood as follows:

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Balance Sheet

Assets	Amount	Equities		Amount
Current assets		**Current Liabilities:**		
Cash at bank	5,000	Capital :		
Y – overdrawn	1,000	X -	5,000	
Loss on realization.	2,000	Y -	3,000	8,000
	8,000			8,000

Y makes up his deficienc·

Required: Pass the necessary Journal entries to show the final adjustment between X and Z, also prepare ledger account.

Answer: Y's deficiency Rs. 1,500. Cash to X - 3,000, Z - 2,000.

No. 10. Following balance sheet was taken from the partnership records of Sultan, Saleem and Usama who share profit and losses in the ratio of 2:2:1. Due to economic change in business, the partnership firm dissolved on 31st Oct. 2013.

Balance Sheet

Assets		Rs.	Equities	Rs.
Cash		15,000	Accounts Payable	51,000
Accounts Receivable	82,200		Mortgage Payable	60,000
Less: Allowance for b/d	4,500	77,700	Sultan-Capital	61,200
Land		18,000	Saleem-Capital	15,000
Building	186,000		Usama-Capital	45,000
Less: Accum. Depr.	97,500	88,500		
Equipment	42,000			
Les: Accum. Deptr.	9,000	33,000		
Total		232,200		232,200

1. Accounts receivable Rs. 69,600 collected.
2. Equipment is sold for Rs. 19,500 for cash.
3. The land and building are sold for Rs. 8,100.
4. Accounts payable and mortgage are paid in full.
5. Salcem contributed cash necessary to remove the deficit in his capital accounts.
6. Cash distributed to Sultan and Usama equal to the credit balance in their respective capitals.

Required: Pass the necessary journal entries, prepare realization account and capital accounts of the partners

Answers: Realization loss Rs, 1,20,000 Capital Balance Sultan (Cr.) Rs,13,200, Usama (Cr.) Rs, 21,000 Saleem (Dr.) 33,000 Cash account Rs.1,45,200

No. 11. H and M decide to cease business and dissolve their partnership as on 30th June 2013. Their balance sheet as on that date was as follows:

Balance Sheet

Assets	Amount	Equities	Amount
Cash	1,850	Account Payable	2,400
Current Account - H	250	Reserve	1,500
Merchandise inventory	4,300	Current Account – M	350
Account Receivable	7,000	**Owner's Equity:**	

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Fixture and Furniture	450	Capital – H	5,600	
		Capital – M	4,000	9,600
	13,850			13,850

They share profit as to seven-twelfth to H and five-twelfth to M. Account Receivable realized 89% of the book value. Furniture and fixture Rs. 315. Merchandise was sold at a discount of $17\frac{1}{2}$%. Account Payable were paid Rs. 2,700. Realization expenses amounted to Rs. 580.

Required: Prepare the necessary ledger account, to show the result of dissolution, with the help of Journal entries under alternative method.

Answer: Loss Rs. 2,537.50; Capital H = 4,744.79, M=3,917.71.

No. 12. X & Y are partners in a firm, sharing profit and loss in the ratio 3:2. Their balance sheet on 31st December, 2013 the date of dissolution is as under:

Balance Sheet

Assets	Amount	Equities	Amount
Sundry assets	90,000	Account Payable	30,000
		X – Loan	10,000
		Capital – X	25,000
		Capital – Y	25,000
	90,000		90,000

Sundry assets realized Rs. 1,00,000.

Required: (i) Give necessary Journal entries showing loss or gain for each item.
Answer (ii) Prepare realization account and capital account.

Realization profit Rs. 10,000. Capital X - Rs. 31,000, Y - Rs. 29,000. and prepare realization account and capital accounts.

No. 13. The Balance Sheet of A, B and C sharing profits and losses in the ratio of 3: 2:1 was as follows on 31st January 2014

Assets		Rs.	Liabilities		Rs.
Machinery		25,000	Sundry Creditors		12,000
Stock		11,000	Contigencies Reserve		3,000
Debtors	10,000		Capital:		
Loss: Provision	500		A	20,000	
		9,500	B	15,000	
Patents		5,000	C	10,000	45,000
Goodwill		8,000			
Cash		1,500			
		60,000			60,000

On the above date the firm was dissolved. The assets except cash realized Rs.50,000. The creditors were paid Rs.11,500 in full settlement. Expenses of dissolution came to Rs.1,000.

Required: Give Journal entries to close the firm's books and show the Realization Accounts partners' Capital Account and cash account.

Answer: Loss on realization Rs.3000

Capital: A: Rs. 17000 B: Rs. 13000 C: Rs. 9000

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