

Dissolution of Partnership Firm

Chapter 4

1. Partnership vs Firm

Partnership : relationship ends ;

Firm CONTINUES with rest.

*

Firm : business ends ; books CLOSED ;

Realisation A/c.

5 axes (TSCRB) :

Termination / Settlement / Court /

Relationship / Books closure.

2. Modes (Secs 39-44)

Sec 40 - by agreement

Sec 41 - compulsory (insolvent etc)

Sec 42 - contingencies (death, expiry)

Sec 43 - by notice (at-will firm)

Sec 44 - by court order

3. 9-Step Protocol

- ① Open Realisation A/c
- ② Write off fictitious(PSR)
- ③ Distribute reserves(PSR)
- ④ Record realisations asset sales
- ⑤ Pay liabilities
- ⑥ Realisation P / L(in PSR)
- ⑦ Sec 48 order external -> loans
- ⑧ Cash A/c close to ZERO (check)
- ⑨ Cross-check tallies

*** Memory : R-W-D-R-P-S

Realise / Write off / Distribute /

Record / Profit-loss / Settle

4. Realisation A/c Rules

Dr. side = ALL assets at book value

(EXCEPT Cash / Bank / Fictitious)

Cr. side = ALL outside liabilities

at book value

*** Cash / Bank NEVER transferred !

Standard Journals

Transfer assets : Reln Dr ; Asset Cr,

Transfer liab : Liab Dr ; Reln Cr

Sale of asset : Cash Dr ; Reln Cr

Asset by partner : Partner Dr ; Reln Cr

Liab paid : Reln Dr ; Cash Cr

Liab by partner : Reln Dr ; Partner Cr

Reln expenses : Reln Dr ; Cash Cr

P/L on Reln -> Partners' Cap in PSR.

5. Unrecorded Items

Asset realised in cash :

Cash Dr ; ReIn Cr

Asset taken by partner :

Partner's Cap Dr ; ReIn Cr

Liability paid :

ReIn Dr ; Cash Cr

Liability by partner :

ReIn Dr ; Partner's Cap Cr

6. Realisation Expenses (4 cases)

Q1: who PAID ? Q2: who BORE ?

Firm pays + bears : ReIn Dr ; Cash Cr

Partner pays / firm bears :

ReIn Dr ; Partner's Cap Cr

Partner pays + bears : ~~ReIn Dr~~ NO ENTRY

Partner gets fixed remun :

ReIn Dr ; Partner's Cap Cr

7. Partner's Loan (2 cases)

Asset side

Firm has lent to partner :

Partner's Cap Dr ; Loan-to-P A/c Cr
(NOT through Realisation A/c)

Liability side

Partner has lent to firm :

Partner's Loan A/c Dr ; Cash Cr
Paid AFTER outside creditors
BEFORE capital (Sec 48)

8. Sec 48 Order (ELCS)

External / Loans / Capital / Surplus

- (a) External debts paid FIRST
- (b) Partners' loans next
- (c) Capital balances
- (d) Surplus shared in PSR

Losses also borne in PSR.

9. Sec 49 - Firm vs Private Debts

Two separate pools.

Firm's property \rightarrow Firm's debts FIRST
 \rightarrow surplus to partners

Private property \rightarrow Private debts FIRST
 \rightarrow surplus to firm's debts

10. Garner v Murray (1904)

If a partner is insolvent and can't meet his capital deficiency, the deficit is borne by SOLVENT partners in their CAPITAL RATIO (NOT PSR).

Conditions

- * Deed silent on this matter
- * Solvents on FLUCTUATING capitals
- * Deficit in capital ratio of solvents

Eg. C deficit 8k ; A:B caps 60k:50k

$$A \text{ bears } 8k \times 60/110 = 4364$$

$$B \text{ bears } 8k \times 50/110 = 3636$$

11. Realisation vs Revaluation

Realisation A/c

- * Dissolution
- * BOOK values
- * ALL items
- * Made ONCE
- * PSR for P/L

Revaluation A/c

- * Reconstitution
- * CHANGES only
- * SELECTED items
- * Can be made MULTIPLE times
- * OLD ratio for P/L

12. Conversion into Company

- (1) Open Realisation A/c
- (2) Company A/c Dr ; ReIn Cr
(purchase consideration)
- (3) Equity Sh Cap / Cash Dr ; Co Cr
- (4) Distribute ReIn P/L
- (5) Distribute shares to partners

13. Common Mistakes

- X Transferring Cash / Bank to ReIn
- X Routing partner's loan via ReIn
- X "Partner bears personally" as
firm expense (no entry !)
- X Using OLD ratio for ReIn P/L
- X Forgetting unrecorded items
- X Garner v Murray when conditions
don't apply

14. Exam-Day Quick Recap

- ① Markassets / liab to transfer
- ② Write off fictitious (PSR)
- ③ Distributer reserves (PSR)
- ④ Passrealisation entries
- ⑤ P/L in PSR
- ⑥ Sec 48 ELCS
- ⑦ Cash -> zero (check !)