



## CHAPTER – 5

### Quick Revision Notes

#### ACCOUNTING FOR PARTNERSHIP - DISSOLUTION OF FIRM

##### Distinction between dissolution of Partnership and Dissolution of Firm

Basis of Distinction	Dissolution of Partnership	Dissolution of Firm
(i) Meaning	It means to change in the existing agreement between the partnership.	It means the dissolution of partnership between all the partners of the firm
(ii) Settlement of Accounts	Assets and liabilities are revalued and new balance sheet is drawn after settlement of accounts.	Assets are realized and liabilities are paid off after the accounts are finally settled.

##### Format of Realization Account

Particulars	Rs.	Particulars	Rs.
To Various Assets A/cs Except Cash, Bank, Dr. balance of Partner's Capital/ Current A/cs . Loan to partner and Fictitious assts	-	By Various Liabilities A/cs Except Undistributed Profit, Partner's capital/Current A/cs, Loan from partner	-
To Cash/Bank A/c (Payment of dissolution expenses)	-	By Provision for any assets, e.g., Provision for doubtful debts, Joint Life Policy fund etc.	-
To Cash/bank/a/c (Payment of outside and unrecorded liabilities)	-	By Cash/bank A/c (Receipts on realization of assets and unrecorded assets).	-
To Partner's Capital a/c (Liability taken over by a partner or any expenses paid by him or remuneration payable to him)	-	By Partner's Capital a/c (Assets taken over by a partner)	-
To Profit transferred to Partner's Capital A/c	-	By Loss transferred to Partner's Capital A/c	-
Total	-	Total	-

##### Accounting Treatment of Provision and Undistributed Profits/Losses

###### (i) Transfer of Provision to realization Account:

Provision which has a credit balance will be transferred to the credit side of realization account and the following entry will be passed:

Provision for Depreciation A/c	Dr.
Provision for Bad Debts A/c	Dr.
Provision for discount on Debtors A/c	Dr.
Investment Fluctuation Fund A/c	Dr.
Joint Life Policy Fund A/c	Dr.
To Realization A/c	

(For Provision against an asset transferred to realization a/c)



Note: Provision against assets are not to be paid as these are not the liabilities.

(ii) Transfer of undistributed profits/losses to Partners capital accounts:

- (a) Undistributed profits such as General Reserve, Reserve Fund, Credit balance of profit & Loss Account etc. are not to be transferred to Realization Account. These accounts are transferred to Partners' capital or current accounts in their profit sharing ratio. The entry will be passed:

General Reserve A/c	Dr.
Reserve Fund A/c	Dr.
Profit & Loss A/c(credit balance)	Dr.
Workmen's' Compensation Fund	Dr.
To Partners' Capital/Current A/cs	

- (b) Similarly if undistributed losses or fictitious assets, i.e., debit balance or Profit & Loss Account, Advertisement Expensed etc. are given in the assets side of balance sheet, the following entry will be passed:

Partners' Capital/Current A/cs	
To Profit & Loss A/c(debit balance)	
To Advertisement Suspense A/c	

(For the transfer of undistributed profits to partners' accounts in their profit sharing ratio)

### **Accounting Treatment for Unrecorded Assets and Unrecorded Liabilities**

#### **(i) Unrecorded assets:**

- (a) *If cash is realized from unrecorded assets:*

Cash/Bank A/c	Dr.
To Realization A/c	-

- (b) *If unrecorded assets are taken over by a partner:*

Partner's Capital A/c	Dr.
To Realization A/c	-

#### **(ii) Unrecorded liabilities:-**

- (a) *If cash payment is made for unrecorded liability*

Realization A/c	Dr.-
To Cash/Bank A/c	-

- (b) *If unrecorded liability is taken over by a partner:*

Realization A/c	Dr.
To Partner's Capital A/c	

Note: Both unrecorded assets and unrecorded liabilities are not transferred to realization account because they have no account in the books.



### Format of Partners' Capital A/c

Particulars	A	B	C	Particulars	A	B	C
To realization(assets taken over by partner)	xx	xx	xx	By balance b/d	xx	xx	xx
To realization loss	xx	xx	xx	By realization profit	xx	xx	xx
To cash(bal. fig)	xx	xx	xx	By Realization A/c (liability or expenses paid by partner)	xx	xx	xx
				By cash(bal. fig)	xx	xx	xx
	xx	xx	xx		xx	xx	xx

### Format of Cash A/c

Particulars	Rs.	Particulars	Rs.
To balance b/d(cash in hand/ at bank)	xxx	By Balance b/d( Bank overdraft)	xxx
To realization	xxx	By realization	xxx
To A's capital	xxx	By A's capital	xxx
To B's capital	xxx	By B's capital	xxx
To C's capital	xxx	By C's capital	xxx
	xxx		xxx