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**Subject:- Financial Accounting**



**CHAPTER**  
**DISSOLUTION**  
**of**  
**Partnership Firm**

The following is the Balance Sheet as on 31st March, 2017. Partners share profits and losses equally. On account of heavy losses in the two years, it is decided to close the business. The assets with the exception of balance realised ₹ 2,26,880. The partner C is insolvent :

Liabilities		Amount	Assets	
		₹		
Creditors		1,02,400	Bank Balance	
Loan :			Debtors	
A	₹ 30,000		Stock	
B	12,000	42,000	Machinery	
Current A/cs :			Land and Buildings	
A	21,200		Current A/c : C	
B	2,500	23,700		
Capital A/cs :				
A	60,000			
B	40,000			
C	20,000	1,20,000		
		<u>2,88,100</u>		

What would be the position of each partner's account on the dissolution of the partnership in accordance with the Indian Partnership Act ?

**Solution**

Since Indian Partnership Act is not clear on the issue of deficiency of capital of the insolvent partner the problem has been solved according to Garner vs. Murray rule.

**Realisation Account**

Particulars	Amount	Particulars	Amount
	₹		₹
To Debtors A/c	66,060	By Creditors A/c	1,02,400
To Stock A/c	94,000	By Bank A/c (Assets realised)	2,26,880
To Machinery A/c	28,600	By Loss on Realisation	
To Land and Building A/c	84,000	transferred to Current A/cs :	
To Bank A/c (Creditors)	1,02,400	A	15,260
		B	15,260
		C	15,260
	<u>3,75,060</u>		<u>45,780</u>
			<u>3,75,060</u>

### Partners' Current Accounts

Particulars	A	B	C	Particulars	A	B	C
	₹	₹	₹		₹	₹	₹
To Balance b/d	—	—	9,940	By Balance b/d	21,200	2,500	—
To Realisation A/c	15,260	15,260	15,260	By Bank A/c	15,260	15,260	—
To Capital A/c (Transfer)	21,200	2,500	—	By Capital A/c (Transfer)	—	—	25,200
	<u>36,460</u>	<u>17,760</u>	<u>25,200</u>		<u>36,460</u>	<u>17,760</u>	<u>25,200</u>

### Partners' Capital Accounts

Particulars	A	B	C	Particulars	A	B	C
	₹	₹	₹		₹	₹	₹
To C's Current A/c	—	—	25,200	By Balance b/d	60,000	40,000	20,000
To C's Capital A/c	3,120	2,080	—	By Current A/c	21,200	2,500	—
To Bank A/c (Final Payment)	78,080	40,420	—	By A's Capital A/c (3/5 of deficiency)	—	—	3,120
	—	—	—	By B's Capital A/c (2/5th of deficiency)	—	—	2,080
	<u>81,200</u>	<u>42,500</u>	<u>25,200</u>		<u>81,200</u>	<u>42,500</u>	<u>25,200</u>

### Loan Account

Particulars	A	B	Particulars	A	B
	₹	₹		₹	₹
To Bank A/c	<u>30,000</u>	<u>12,000</u>	By Balance b/d	<u>30,000</u>	<u>12,000</u>

### Bank Account

Particulars	₹	Particulars	₹
To Balance b/d	5,500	By Realisation A/c	1,02,400
To Realisation A/c	2,26,880	By A's Loan A/c	30,000
To A's Current A/c	15,260	By B's Loan A/c	12,000
To B's Current A/c	15,260	By A's Capital A/c	78,080
	—	By B's Capital A/c	40,420
	<u>2,62,900</u>		<u>2,62,900</u>