

VIDYA BHAWAN BALIKA VIDYA PITH

शक्तिउत्थानआश्रमलखीसरायबिहार

Class 12 commerce Sub. ACT Date 21.06.2021

Teacher name – Ajay Kumar Sharma

Dissolution of Partnership Firm

Question 1:

State the difference between dissolution of partnership and dissolution of partnership firm.

ANSWER:

Basis of Difference	Dissolution of Partnership	Dissolution of Partnership firm
Meaning	It means change in the partnership deed (or the agreement) among the partners.	It means that the business is wound up and the firm is dissolved.
Discontinuation	Business is not discontinued.	Business is discontinued, as the firm is dissolved.
Closure of Books of Accounts	Books of accounts are not closed, as there is only change in the existing agreement between the partners.	Books of accounts are closed, as the business is discontinued.
Assets and Liabilities	In this case, the assets and liabilities are revalued.	In this case, all the assets are sold off in order to pay the liabilities of the business.
Role of Court	There is no intervention by the court.	Dissolution of a partnership firm may be done with the consent of the court.
Nature	It is voluntary in nature.	It may be voluntary (as per the discretion of the partners) or compulsory (as per the order of the court).
Effect	It may or may not involve dissolution of the firm.	It necessarily involves dissolution of both the partnership as well as of the partnership firm.

(b) Liabilities side of the Balance Sheet

ANSWER:

a) If partner's loan appears on the assets side of the Balance Sheet then it implies that the partner has taken loan from the business and is liable to pay back to the business. In such case, the loan amount is transferred to his capital account. Thus the accounting entry will be:

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

(Partner's loan transferred to Partner's Capital Account)

b) If partner's loan appears on the liabilities side of the Balance Sheet then it implies that the partner has forwarded loan to the firm and the firm is liable to pay back the amount to the partner. In such case, partner's loan is paid off after paying all the external liabilities. The partner's loan is not transferred to the Realisation Account, in fact, it is paid in cash. The following accounting entry is passed.-

Partner's Loan A/c Dr.
 To Cash/Bank A/c

(Partner's loan paid in cash)

Question 4:

Distinguish between firm's debts and partner's private debts.

ANSWER:

Basis of Difference	Firm's Debts	Partner's Private Debts
Meaning	It refers to those debts that are borrowed against the name of the firm.	It refers to those debts that are borrowed personally by the partner.
Liability	All the partners of the firm are jointly and separately liable for the firm's debt.	The concerned partner is personally liable for his private debts.
Settlement of debts by private assets	If the firm's debt exceeds the firm's assets, then private assets of the partners may be utilised to pay back the firm's debt, if only the partner's private assets exceeds his/her own private debts.	Private debts are settled against the partner's private assets. Subsequently, if any surplus exists then this may be utilised to settle the firm's debts.

Settlement of debts by firm's assets	Firm's debts are settled against the firm's assets. Subsequently, if any surplus exists, then this is distributed among the partners.	After paying off firm's debts, the surplus of firm's assets, if any is distributed among the partners. The personal share of the partner in this surplus can be utilised to settle his/her own private debts.
--------------------------------------	---	---

Question 5:

State the order of settlement of accounts on dissolution.

ANSWER:

The following are the rules of settlement of accounts on dissolution as per the Section 48 of Partnership Act 1932.

1. **Application of Assets:** Amount received by the realisation (sale) of the assets shall be used in the following order:
 - a) First of all the external liabilities and expenses are to be paid.
 - b) Then, all loans and advances forwarded by the partners should be paid.
 - c) Then, the capital of each partner should be paid off. If there remains any surplus after the payment of (a), (b) and (c), then it should be distributed among the partners in their profit sharing ratio.

2. **Treatment of Loss:** In case of loss and any deficiency of capital this should be paid in the following order:
 - a) First these should be adjusted against firm's profits.
 - b) Then, against the total capital of the firm.
 - c) Even if there exists any loss and deficiencies then it should be borne by all the partners individually in their profit sharing ratio.

Question 6:

On what account realisation account differs from revaluation account.

ANSWER:

Basis of Difference	Realisation Account	Revaluation Account
Meaning	It records the sale of various assets and payment of various liabilities.	It records the effect of revaluation of assets and liabilities on the eve of

		admission, retirement, death and change in the profit sharing ratio.
Time	It is prepared at the time of dissolution of firm.	It is prepared when admission/retirement/death or change in profit sharing ratio takes place.
Objective	To find profit or loss on realisation of assets and payment of liabilities.	To find out profit or loss on revaluation of assets and liabilities.
Amount	Assets and liabilities are shown at the book value.	Increase or decrease in the value of assets and liabilities are shown in this account.
Records	All assets and liabilities are recorded here.	Only those assets and liabilities are recorded here whose values have changed over a period of time.
Effect	All accounts of assets and liabilities are closed.	No account is closed on revaluation of assets and liabilities.
