10 CHAPTER

PARTNERSHIPS

THEORY QUESTIONS

Q.1. What is Piecemeal payments method under Partnership Dissolution? Briefly explain the two methods followed for determining the order in which the payments are made? (*2 marks*) (*May 2010*)

Ans. : Generally, the assets sold upon dissolution of partnership are realized only in small instalments over a period of time. In such circumstances the choice is either to distribute whatever is collected or to wait till whole amount is collected. Usually, the first course is adopted. In order to ensure that the distributed cash amongst the partners is in proportion to their interest in the partnership concern either of the two methods described below may be followed for determining the order in which the payment should be made.

(*i*) ***Maximum Loss Method***: Each instalment realized is considered to be the final payment i.e. outstanding assets and claims are considered worthless and partners' accounts are adjusted on that basis each time when a deposit is made following either Garner Vs. Murray rule or the profit-sharing ratio rule.

(*ii*) ***Highest Relative Capital Method***: According to this method, the partner who has the higher relative capital, that is, whose capital is greater in proportion to his profit-sharing ratio is first paid off. This method is also called as proportionate capital method.

Q.2. Explain Garner V/S Murray rule applicable in the case of partnership firms. State, when is this rule not applicable? (*4 marks*) (*May 2013*)

Ans. : ***Garner vs. Murray rule- Applicability***

When a partner is unable to pay his debt due to the firm, he is said to be insolvent and the share of loss is to be borne by other solvent partners in accordance with the decision held in the English case of Garner vs. Murray. According to this decision, normal loss on realisation of assets is to be brought in cash by all partners (including insolvent partner) in the profit-sharing ratio but a loss due to insolvency of a partner has to be borne by the solvent partners in their capital ratio. In order to calculate the capital ratio, no adjustment will be made in case of fixed capitals. However, in case of fluctuating capitals, ratio should be calculated on the basis of adjusted capital before considering profit or loss on realization at the time of dissolution.

Non-Applicability of Garner vs Murray rule:

1. When the solvent partner has a debit balance in the capital account.

   Only solvent partners will bear the loss of capital deficiency of insolvent partner in their capital ratio. If incidentally a solvent partner has a debit balance in his capital account, he will escape the liability to bear the loss due to insolvency of another partner.
2. When the firm has only two partners.
3. When there is an agreement between the partners to share the deficiency in capital account of insolvent partner.
4. When all the partners of the firm are insolvent.

LIMITED LIABILITY PARTNERSHIP (LLP)

Q.3. Explain the Limitations of Liability of Limited Liability Partnership (LLP) and its partners.

Ans. : Under section 27(3) of the LLP Act, 2008 an obligation of an LLP arising out of a contract or otherwise, shall be solely the obligation of the LLP;

- The Liabilities of an LLP shall be met out of the properties of the LLP;
- Under section 28(1) a partner is not personally liable, directly or indirectly, for an obligation referred to in Section 27(3) above, solely by reason of being a partner in the LLP;
- Section 27(1) states that an LLP is not bound by anything done by a partner in dealing with a person, if:
  - The partner does not have the authority to act on behalf of the LLP in doing a particular act; and
  - The other person knows that the partner has no authority or does not know or believe him to be a partner in the LLP
- Under section 30(1) the liability of the LLP and the partners perpetrating fraudulent dealings shall be unlimited for all or any of the debts or other liabilities of the LLP.

Q.4. Under what circumstances, an LLP can be wound up by the Tribunal.

(*4 marks*) (*May 2015*)

Ans. : Under following circumstances, an LLP can be wound up by the Tribunal:

(*i*) If the LLP decides that it should be wound up by the Tribunal;

(*ii*) If for a period of more than six months, the number of partners of the LLP is reduced below two;

(*iii*) If the LLP is unable to pay its debts;

(*iv*) If the LLP has acted against the interests of the integrity and sovereignty of India, the security of the state or public order;

(*v*) If the LLP has defaulted in the filing of the Statement of Account and Solvency with the Registrar for five consecutive financial years;

(*vi*) If the Tribunal is of the opinion that it is just and equitable that the LLP be wound up.

Q.5. What is the distinction between an Ordinary Partnership Firm and a Limited Liability Partnership (LLP)?

(*4 marks*) (*May 2016*)

Ans. : ***Distinction between Partnership (LLP) an ordinary partnership firm and a Limited Liability***

	Key Elements	*Partnerships*	*LLPs*
1	Applicable Law	Indian Partnership Act, 1932	Limited Liability Partnerships Act, 2008
2	Registration	Optional	Compulsory with ROC
3	Creation	Created by an Agreement	Created by Law
4	Body Corporate	Not a body corporate	Yes, after registration with ROC, it becomes a body corporate
5	Separate Legal Identity	It has no separate legal identity	Yes, all body corporate is said to have a separate legal identity.
6	Perpetual Succession	Partnerships do not have perpetual succession	It has perpetual succession and individual partners may come and go
7	Number of Partners	Minimum 2 and Maximum 20 (subject to 10 for banks)	Minimum 2 but no maximum limit
8	Ownership of Assets	Firm cannot own any assets. The partners own the assets of the firm	The LLP as an independent entity can own assets
9	Liability of Partners/ Members	Liability of the partners is unlimited. Partners are severally and jointly liable for actions of other partners and the firm and their liability extends to personal assets	Liability of the partners is limited to the extent of their contribution towards LLP except in case of intentional fraud or wrongful act of omission or commission by a partner.
10	Principal Agent Relationship	Partners are the agents of the firm and of each other.	Partners are agents of the firm only and not of other partners

Q.6. Write short notes on Designated Partner in a Limited Liability Partnership and what are their liabilities.

(*4 marks*) (*Nov 2016*)

Ans. : "Designated partner" means any partner designated as such pursuant to section 7 of the Limited Liability Partnerships (LLPs) Act, 2008.

As per section 7 of the LLP Act, every limited Liability Partnership shall have at least 2 designated Partners who are individuals and at least one of them shall be a resident in India:

Provided that in case of Limited Liability Partnership in which all the partners are bodies corporate or in which one or more partners are Individuals and bodies corporate, at least 2 individuals who are partners of such limited liability Partnership or Nominees of such Bodies corporate shall act as designated partners.

"Liabilities of designated partners"

As per Section 8 of LLP Act, unless expressly provided otherwise in this Act, a designated partner shall be-

(*a*) responsible for the doing of all acts, matters and things as are required to be done by the limited liability partnership in respect of compliance of the provisions of this Act including filing of any document, return, statement and the like report pursuant to the provisions of this Act and as may be specified in the limited liability partnership agreement; and

(*b*) liable to all penalties imposed on the limited liability partnership for any contravention of those provisions.

Q.7. State the circumstances when LLP can be wound up by the Tribunal.

(*4 marks*) (*May 2017*)

Ans. : Under section 64 of the LLP Act, 2008, an LLP may be wound up by the Tribunal:

- If the LLP decides that it should be wound up by the Tribunal;
- If for a period of more than six months, the number of partners of the LLP is reduced below two;
- If the LLP is unable to pay its debts;
- If the LLP has acted against the interests of the integrity and sovereignty of India, the security of the state or public order;
- If the LLP has defaulted in the filing of the Statement of Account and Solvency with the Registrar for five consecutive financial years;
- If the Tribunal is of the opinion that it is just and equitable that the LLP be wound up.

Q.8. Explain the nature of Limited Liability Partnership. Who can be a designated partner in a Limited Liability Partnership?

(*4 marks*) (*Nov 2017*)

Ans. : ***Nature of Limited Liability Partnership***: A limited liability partnership is a body corporate formed and incorporated under the LLP Act, 2008 and is a legal entity separate from that of its partners. A limited liability partnership shall have perpetual succession and any change in the partners of a limited liability partnership shall not affect the existence, rights or liabilities of the limited liability partnership.

Designated partners: Every limited liability partnership shall have at least two designated partners who are individuals and at least one of them shall be a resident in India.

In case of a limited liability partnership in which all the partners are bodies corporate or in which one or more partners are individuals and bodies corporate, at least two individuals who are partners of such limited liability partnership or nominees of such bodies corporate shall act as designated partners.

Q.9. Differentiate on ordinary partnership firm with an LLP (Limited Liability Partnership) in respect of the following:

(1) Applicable Law
(2) Number of Partners
(3) Ownership of Assets
(4) Liability of Partners/Members

(*4 Marks*) (*May 2018*)

Ans. : ***Distinction between an ordinary partnership firm and an LLP***

Key Elements	*Partnerships*	*LLPs*
Applicable Law	Indian Partnership Act, 1932	The Limited Liability Partnerships Act, 2008
Number of Partners	Minimum 2 and Maximum 20 (subject to 10 for banks)	Minimum 2 but no maximum limit
Ownership of Assets	Firm cannot own any assets. The partners own the assets of the firm.	The LLP as an independent entity can own assets
Liability of Partners/ Members	Unlimited: Partners are severally and jointly liable for actions of other partners and the firm and their liability extends to personal assets.	Limited to the extent of their contribution towards LLP except in case of intentional fraud or wrongful act of omission or commission by a partner.

Q.10. Write short notes on extent of liability of LLP and its Partners.

(*5 Marks*) (*May 2018*)

Ans. : Every partner of an LLP for the purpose of its business is an agent of the LLP but is not an agent of other partners. Obligations of LLP are solely its obligations and liabilities of LLP are to be met out of properties of LLP.

The partners of an LLP in the normal course of business are not liable for the debts of the LLP. The LLP is liable if a partner of LLP is liable to any person as a result of wrongful or omission on his part in the course of business of the LLP or with his authority. However, a partner will be liable for his own wrongful acts or commissions, but will not be liable for the wrongful acts or commissions of other partners of the LLP. Thus, a partner may be called to pay the liability of an LLP under exceptional circumstances.

If an LLP or any of its partners act with the intent to defraud creditors of the LLP or any other person or for any fraudulent purpose, then the liability of the LLP and the concerned partners is unlimited. However, where the fraudulent act is carried out by a partner, the LLP is not liable if it is established by the LLP that the act was without the knowledge or authority of the LLP. Where the business is carried out with fraudulent intent or for fraudulent purpose, every person who was knowingly a party is punishable with imprisonment and fine.

Q.11. Can a partner be called upon to pay the liability of the LLP? If yes, under what circumstances?

Ans. : Under section 27(3) of the LLP Act, 2008, any obligation of the LLP arising out of a contract or otherwise will be the sole obligation of the LLP.

The partners of an LLP in the normal course of business are not liable for the debts of the LLP. However, under section 28(2) of the LLP Act, 2008, a partner will be liable for his own wrongful acts or commissions, but will not be liable for the wrongful acts or commissions of other partners of the LLP.

Thus, a partner may be called to pay the liability of an LLP under exceptional circumstances.

SIMPLE DISSOLUTION

Q.12. L, M and N were in partnership sharing profits and losses in the ratio of 3:2:1 respectively. They decided to dissolve the partnership firm on 31.3.2016, when the Balance Sheet of the firm appeared as under:

Balance Sheet of the firm as on 31.3.2016

Liabilities	₹		Assets	₹
Sundry Creditors		4,25,250	Plant and Machinery	7,97,850
Bank Overdraft		4,54,837	Furniture	48,487

Liabilities	**₹**		**Assets**	**₹**
Joint Life Policy				
Reserve		**1,99,125**	**Stock**	**1,77,525**
Loan from Mrs. L		**1,12,500**	**Sundry Debtors**	**4,00,500**
Capital Accounts:			**Joint Life Policy**	**1,99,125**
			Commission	
L	**3,15,000**		**Receivable**	**1,05,413**
M	**1,68,750**		**Cash in Hand**	**36,562**
N	**90,000**	**5,73,750**		
		17,65,462		**17,65,462**

The following details are relevant for dissolution:

(*i*) The joint life policy was surrendered for ₹ 1,74,375.

(*ii*) L took over plant and machinery for ₹ 6,75,000.

(*iii*) L also agreed to discharge bank overdraft and loan from Mrs. L.

(*iv*) Furniture and stocks were divided equally between L and M at an agreed valuation of ₹ 2,70,000.

(*v*) Sundry debtors were assigned to firm's creditors in full satisfaction of their claims.

(*vi*) Commission receivable was received in time.

(*vii*) A bill discounted was subsequently returned dishonoured and proved valueless ₹ 23,062 (including ₹ 375 noting charges).

(*viii*) L paid the expenses of dissolution amounting to ₹ 13,500.

You are required to prepare:

(*i*) Realisation Account

(*ii*) Partners' Capital Accounts and

(*iii*) Cash Account. **(*RTP*)**

Ans. :

Realisation A/c

	₹	₹		₹	₹
To Assets:			By liabilities		
Plant & Machinery A/c		7,97,850	Sundry Creditors A/c		4,25,250
			Joint Life Policy		
Furniture A/c		48,487	Reserve A/c		1,99,125
Stock A/c		1,77,525	Cash A/c:		
Sundry Debtors A/c		4,00,500	Joint Life Policy		1,74,375
Joint Life Policy A/c		1,99,125	Commission Receivable		1,05,413
Commission					
Receivable		1,05,413	By L's Capital A/c:		
To L's Capital A/c:			Plant and		

	₹	₹		₹	₹
Dissolution Expenses		13,500	Machinery	6,75,000	
To Cash A/c:			Furniture, Stocks	1,35,000	8,10,000
Bill dishonoured		23,062	By M 's Capital A/c:		
To Partner's Capital Accounts:			Furniture and stocks		1,35,000
(Profit on realisation)					
L	41,851				
M	27,900				
N	13,950	83,701			
		18,49,163			18,49,163

Partners' Capital A/c's

	L	M	N		L	M	N
	₹	₹	₹		₹	₹	₹
To Realisation A/c:				By Balance b/d	3,15,000	1,68,750	90,000
Plant and Machinery	6,75,000	-	-	By Bank Overdraft A/c	4,54,837	-	
Furniture, Stocks	1,35,000	1,35,000		By Loan from			
				Mrs. L A/c	1,12,500	-	
To Cash A/c	1,27,688	61,650	1,03,950	By Realisation A/c:			
(Balancing figure)				Dissolution Expenses	13,500		
				Profit on realisation	41,851	27,900	13,950
	9,37,688	1,96,650	1,03,950		9,37,688	1,96,650	1,03,950

Cash A/c

To Balance b/d	36,562	By Realisation A/c:	
To Realisation A/c:		Bill dishonoured	23,062
Joint Life Policy Commission	1,74,375	By Partners' Capital Accounts:	
Receivable A/c	1,05,413	L	1,27,688
		M	61,650
		N	1,03,950
	3,16,350		3,16,350

Note:

There will be no entry for assignment of sundry debtors to sundry creditors in full satisfaction of their claims.

Q.13. P, Q and R are partners sharing profits and losses in the ratio of 2: 2: 1. Their Balance Sheet as on 31st March, 2009 is as follows:

Liabilities		₹	Assets	₹
Capital Accounts:			Plant & Machinery	1,08,000
P	1,20,000		Fixtures	24,000
Q	48,000		Stock	60,000
R	24,000	1,92,000	Sundry debtors	48,000
Reserve fund		60,000	Cash	60,000
Creditors		48,000		
		3,00,000		3,00,000

They decided to dissolve the firm. The following are the amounts realized from the assets:

	₹
Plant and Machinery	1,02,000
Fixtures	18,000
Stock	84,000
Sundry debtors	44,400

Creditors allowed a discount of 5% and realization expenses amounted to ₹ 1,500. A bill for ₹ 4,200 due for sales tax was received during the course of realization and this was also paid.

You are required to prepare:

(*a*) Realization account

(*b*) Partners' capital accounts

(*c*) Cash account. **(*6 Marks*) (*Nov 2009*)**

Ans. :

Realisation A/c

Particulars	*Amount*			*Amount*
To Debtors A/c	48,000	By Creditors A/c		48,000
To Stock A/c	60,000	By Cash A/c (assets realized):		
To Fixtures A/c	24,000	Plant & Machinery	1,02,000	
To Plant and machinery A/c	1,08,000	Fixtures	18,000	
To Cash A/c (Creditors)	45,600	Stock	84,000	
To Cash A/c (Sales Tax)	4,200	Debtors	44,400	2,48,400
To Cash A/c (realisation expenses)	1,500			

Particulars	*Amount*		*Amount*
To Profit on realisation P 2,040 Q 2,040 R 1,020	5,100		
	2,96,400		2,96,400

Partners' Capital A/c

Particulars	*P*	*Q*	*R*	*Particulars*	*P*	*Q*	*R*
To Cash A/c (Bal. fig.)	1,46,040	74,040	37,020	By Balance b/d	1,20,000	48,000	24,000
				By Reserve fund	24,000	24,000	12,000
				By Realisation A/c (Profit)	2,040	2,040	1,020
	1,46,040	74,040	37,020		1,46,040	74,040	37,020

Cash A/c

Particulars	*Amount* (₹)	*Particulars*	*Amount* (₹)
To Balance b/d	60,000	By Realisation A/c (Creditors)	45,600
To Realisation A/c (assets realized)	2,48,400	By Realisation A/c (Expenses)	1,500
		By Realisation A/c (Sales tax)	4,200
		By Partners' Capital Accounts	
		P	1,46,040
		Q	74,040
		R	37,020
	3,08,400		3,08,400

INSOLVENCY OF ONE OR MORE PARTNERS

Q.14. A, V, R and S are partners in a firm sharing profits and losses in the ratio of 4: 1: 2: 3. The following is their Balance Sheet as at 31st March, 2014:

Liabilities	**₹**	**₹**	**Assets**	**₹**
Sundry Creditors		**6,00,000**	**Sundry Debtors**	**7,00,000**
Capital A/cs:			**Less: Doubtful Debts**	**(1,00,000)**
A	**14,00,000**			**6,00,000**
S	**6,00,000**	**20,00,000**	**Cash in hand**	**2,80,000**
			Stocks	**4,00,000**
			Other Assets	**6,20,000**
			Capital A/cs:	
			V	**4,00,000**
			R	**3,00,000**
		26,00,000		**26,00,000**

On 31st March, 2014, the firm is dissolved and the following points are agreed upon:

(*a*) A is to takeover sundry debtors at 80% of book value.

(*b*) S is to take over the stocks at 95% of the value.

(*c*) R is to discharge sundry creditors.

(*d*) Other assets realise ₹ 6,00,000 and the expenses of realisation come to ₹ 60,000.

(*e*) V is found insolvent and ₹ 43,800 is realized from his estate.

You are required to prepare Realisation Account and Capital Accounts of the partners. Show also the Cash A/c. The loss arising out of capital deficiency may be distributed following the decision in Garner vs Murray.

(*RTP*)

Ans. :

Realisation A/c

	₹		₹
To Sundry Debtors	7,00,000	By Sundry Creditors	6,00,000
To Stock	4,00,000	By Provision for Doubtful Debts	1,00,000
To Other assets	6,20,000	By A's Capital A/c (Debtors)	5,60,000
To R's Capital A/c (Creditors)	6,00,000	By S's Capital A/c (stock)	3,80,000
To Cash		By Cash (Other assets)	6,00,000
Expenses on realization	60,000	By A's Capital A/c 56,000	
		By V's Capital A/c 14,000	
		By R's Capital A/c 28,000	
		By S's Capital A/c 42,000	1,40,000
		(Loss on realisation)	
	23,80,000		23,80,000

Partners' Capital A/c's

	A	*V*	*R*	*S*		*A*	*V*	*R*	*S*
	₹	₹	₹	₹		₹	₹	₹	₹
To Balance b/f		4,00,000	3,00,000		By Balance b/f	14,00,000	_	_	6,00,000
To Realisation	5,60,000	_	_	_	By Realisation	_	_	6,00,000	_
(Debtors)				3,80,000	(Creditors)		4,14,000		
To Realisation					By Balance c/d				
(Stock)									
To Realisation (loss)	56,000	14,000	28,000	42,000					
To Balance c/d	7,84,000	_	2,72,000	1,78,000					
	14,00,000	4,14,000	6,00,000	6,00,000		14,00,000	4,14,000	6,00,000	6,00,000
To Balance b/d	_	4,14,000	_	_	By Balance b/d	7,84,000	_	2,72,000	1,78,000

	A	V	R	S		A	V	R	S
	₹	₹	₹	₹		₹	₹	₹	₹
To V's A/c	2,59,140	_	_	1,11,060	By Cash	_	43,800		
To Cash	5,24,860	_	2,72,000	66,940	By A	_	2,59,140		
					By S		1,11,060		
	7,84,000	4,14,000	2,72,000	1,78,000		7,84,000	4,14,000	2,72,000	1,78,000

Cash A/c

	₹		₹	₹
To Balance b/d	2,80,000	By Realisation A/c (expenses)		60,000
To Realisation A/c	6,00,000	By Capital A/c		
To V's Capital A/c	43,800	A	5,24,860	
		R	2,72,000	
		S	66,940	8,63,800
	9,23,800			9,23,800

Note:

V's deficiency will be borne by A and S in the ratio of 7: 3 i.e. on opening capitals of ₹ 14,00,000 and ₹ 6,00,000. R will not bear any portion of the loss since at the time of dissolution he had a debit balance in his capital account.

Q.15. A, B, C and D are sharing profits and losses in the ratio 5: 5: 4: 2. Frauds committed by C during the year were found out and it was decided to dissolve the partnership on 31st March, 2010 when their Balance Sheet was as under:

Liabilities	Amount (₹)	Assets	Amount (₹)
Capital		**Building**	**1,20,000**
A	**90,000**	**Stock**	**85,500**
B	**90,000**	**Investments**	**29,000**
C	**-**	**Debtors**	**42,000**
D	**35,000**	**Cash**	**14,500**
General reserve	**24,000**	**C**	**15,000**
Trade creditors	**47,000**		
Bills payable	**20,000**		
	3,06,000		**3,06,000**

Following information is given to you:

(*i*) **A cheque for ₹ 4,300 received from debtor was not recorded in the books and was misappropriated by C.**

(*ii*) **Investments costing ₹ 5,400 were sold by C at ₹ 7,900 and the funds transferred to his personal account. This sale was omitted from the firm's books.**

(*iii*) **A creditor agreed to take over investments of the book value of ₹ 5,400 at ₹ 8,400. The rest of the creditors were paid off at a discount of 2%.**

(iv) The other assets realized as follows:

Building 105% of book value

Stock ₹ 78,000

Investments The rest of investments were sold at a profit of ₹ 4,800

Debtors The rest of the debtors were realized at a discount of 12%

(v) The bills payable was settled at a discount of ₹ 400.

(vi) The expenses of dissolution amounted to ₹ 4,900

(vii) It was found out that realization from C's private assets would only be ₹ 4,000.

Prepare the necessary Ledger Accounts.

(*16 Marks*) (*Nov 2010*)

Ans. :

Realisation A/c

Particulars		₹	*Particulars*		₹
To Building		1,20,000	By Trade creditors		47,000
To Stock		85,500	By Bills payable		20,000
To Investment		29,000	By Cash		
To Debtors		42,000	Building	1,26,000	
To Cash-creditors paid (W. N.1)		37,828	Stock	78,000	
To Cash-expenses		4,900	Investments (W.N.2)	23,000	
To Cash-bills payable (20,000-400)		19,600	Debtors (W.N. 3)	33,176	2,60,176
To Partners' Capital A/cs			By Debtors-unrecorded		4,300
A	171		By Investments-unrecorded		7,900
B	171				
C	137				
D	69	548			
		3,39,376			3,39,376

Cash A/c

Particulars		₹	*Particulars*	₹
To Balance b/d		14,500	By Realisation-creditors paid	37,828
To Realisation - assets realized			By Realisation-bills payable	19,600
Building	1,26,000		By Realisation-expenses	4,900
Stock	78,000		By Capital account	

Particulars		₹	*Particulars*	₹
Investments	23,000		A	90,528
Debtors	33,176	2,60,176	B	90,528
To C's capital A/c.		4,000	D	35,292
		2,78,676		2,78,676

Partners' Capital A/c's

Particulars	*A*	*B*	*C*	*D*	*Particulars*	*A*	*B*	*C*	*D*
	₹	₹	₹	₹		₹	₹	₹	₹
To Balance b/d			15,000		By Balance b/d	90,000	90,000	-	35,000
To Debtors-misappropriation			4,300		By General reserve	7,500	7,500	6,000	3,000
To Investment-misappropriation			7,900		By Realisation profit	171	171	137	69
To C's capital A/c (W.N.4)	7,143	7,143			By Cash A/c			4,000	
					By A's capital A/c			7,143	
					By B's capital A/c			7,143	
To Cash A/c	90,528	90,528		35,292	By D's capital A/c			2,777	
	97,671	97,671	27,200	38,069		97,671	97,671	27,200	38,069

Working Notes:

1. Amount paid to creditors

	₹	₹
Book value		47,000
Less: Creditors taking over investments		(8,400)
		38,600
Less: Discount @ 2%		(772)
		37,828

2. Amount received from sale of investments

	₹
Book value	29,000
Less: Misappropriated by C	(5,400)
	23,600
Less: Taken over by a creditor	(5,400)
	18,200
Add: Profit on sale of investments	4,800
	23,000

3. Amount collected from debtors

	₹
Book value	42,000
Less: Unrecorded receipt	(4,300)
	37,700
Less: Discount @ 12%	(4,524)
	33,176

4.	**Deficiency of C**	₹
	Balance of capital as on 31st March, 2010	15,000
	Debtors-misappropriation	4,300
	Investment-misappropriation	7,900
		27,200
	Less: Realisation Profit	(137)
	General reserve	(6,000)
	Contribution from private assets	(4,000)
	Net deficiency of capital	17,063

This deficiency of ₹ 17,063 in C's capital account will be shared by other partners A, B and D in their capital ratio of 90: 90: 35

Thus,

A's share of deficiency = [17,063 x (90/215)] = ₹ 7,143

B's share of deficiency = [17,063 x (90/215)] = ₹ 7,143

D's share of deficiency = [17,063 x (35/215)] = ₹ 2,777

Q.16. P, Q, R and S had been carrying on business in partnership sharing profits & losses in the ratio of 4:3:2:1. They decided to dissolve the partnership on the basis of following Balance Sheet as on 30th April, 2011:

Liabilities		**Amount (₹)**	**Assets**	**Amount (₹)**
Capital Accounts			**Land & building**	**2,46,000**
P	**1,68,000**		**Furniture & fixtures**	**65,000**
Q	**1,08,000**	**2,76,000**	**Stock**	**1,00,000**
General reserve		**95,000**	**Debtors**	**72,500**
Capital reserve		**25,000**	**Cash in hand**	**15,500**
Sundry creditors		**36,000**	**Capital overdrawn:**	
Mortgage loan		**1,10,000**	**R 25,000 S 18,000**	**43,000**
		5,42,000		**5,42,000**

(*i*)	**The assets were realized as under:**	**₹**
	Land & building	**2,30,000**
	Furniture & fixtures	**42,000**
	Stock	**72,000**
	Debtors	**65,000**

(*ii*) Expenses of dissolution amounted to ₹ 7,800.

(*iii*) Further creditors of ₹ 18,000 had to be met.

(*iv*) R became insolvent and nothing was realized from his private estate.

Applying the principles laid down in Garner Vs. Murray, prepare the Realisation Account, Partners' Capital Accounts and Cash Account.

(*16 Marks*) (*Nov 2011*)

Ans. :

Realisation A/c

Particulars	*Amount (₹)*	*Particulars*	*Amount (₹)*
To Land and building	2,46,000	By Sundry creditors	36,000
To Furniture and fixtures	65,000	By Mortgage loan	1,10,000
To Stock	1,00,000	By Cash account -	
To Debtors	72,500	Land and building	2,30,000
To Cash A/c (expenses on dissolution)	7,800	Furniture & fixtures	42,000
		Stock	72,000
To Cash A/c (creditors ₹ 36,000 + ₹ 18,000)	54,000	Debtors	65,000
To Cash A/c (Mortgage loan)	1,10,000		
		By Partners' capital accounts (Loss 4:3:2:1) P = 40,120 Q = 30,090 R = 20,060 S = 10,030	1,00,300
	6,55,300		6,55,300

Partners' Capital A/c

Particulars	*P* ₹	*Q* ₹	*R* ₹	*S* ₹	*Particulars*	*P* ₹	*Q* ₹	*R* ₹	*S* ₹
To Balance b/d	-	-	25,000	18,000	By Balance b/d	1,68,000	1,08,000		
To Realization A/c (Loss)	40,120	30,090	20,060	10,030	By General Reserve	38,000	28,500	19,000	9,500
To R's Capital A/c (Deficiency)	12,636	8,424	-	-	By Capital Reserve	10,000	7,500	5,000	2,500
To Cash A/c	2,03,364	1,35,576			By Cash A/c (realization loss) - notional entry	40,120	30,090	-	10,030
					By P's Capital A/c			12,636	
					By Q's Capital A/c			8,424	
					By Cash A/c				6,000
	2,56,120	1,74,090	45,060	28,030		2,56,120	1,74,090	45,060	28,030

Cash A/c

Particulars	*Amount*	*Particulars*	*Amount*
	(₹)		*(₹)*
To Balance b/d	15,500	By Realization A/c:	
To Realization A/c:		Expenses on dissolution	7,800
Land and building	2,30,000	Creditors (36,000+18,000)	54,000
Furniture & fixtures	42,000	Mortgage loan	1,10,000
Stock	72,000	By P's capital A/c	2,03,364
Debtors	65,000	By Q's capital A/c	1,35,576
To P, Q, S's capital A/cs (40,120+30,090+10,030)	80,240		
To S's capital A/c	6,000		
	5,10,740		5,10,740

Working Note:

As per Garner Vs. Murray rule, solvent partners have to bear loss of insolvent partner in their capital ratio.

Computation of Capital Ratio (of Solvent Partners)

	P	*Q*	*S*
	(₹)	*(₹)*	*(₹)*
Opening capital	1,68,000	1,08,000	(18,000)
Add: General reserve	38,000	28,500	9,500
Capital reserve	10,000	7,500	2,500
	2,16,000	1,44,000	(6,000)

Though S is a solvent partner yet he cannot be called upon to bear loss on account of insolvency of R because his capital account has a debit balance.

Therefore, capital ratio of P & Q = 216: 144 = 3: 2

Deficiency of R = ₹ {(25,000 + 20,060) - (19,000 + 5,000)} = ₹ 45,060 - ₹ 24,000 = ₹ 21,060. Deficiency of R will be shared by P & Q in the capital ratio of 3: 2 i.e.

P = ₹ 21,060 X 3/5 = ₹ 12,636

Q = ₹ 21,060 X 2/5 = ₹ 8,424

INSOLVENCY OF ALL PARTNERS

Q.17. A and B are in equal partnership. Their Balance Sheet stood as under on 31st March, 20X1 when the firm was dissolved:

Particular	**₹**	**Particulars**	**₹**
Creditors A/c	**4,800**	**Plant & Machinery**	**2,500**
A's Capital A/c	**750**	**Furniture**	**500**
		Debtors	**1,000**

Particular	₹	Particulars	₹
		Stock	800
		Cash	200
		B's drawings	550
	5,550		5,550

The assets realized as under:

	₹
Plant & Machinery	**1,250**
Furniture	**150**
Debtors	**400**
Stock	**500**

The expenses of realisation amounted to ₹ 775. A's private estate is not sufficient even to pay his private debts, whereas B's private estate has a surplus of ₹ 200 only. Show necessary ledger accounts to close the books of the firm.

Ans. :

Realisation A/c

Particular	₹	*Particulars*	₹	₹
To Sundry Assets:		By Cash A/c:		
Plant & Machinery	2,500	Plant & Machinery	1,250	
Furniture	500	Furniture	150	
Debtors	1,000	Debtors	400	
Stock	800	Stock	500	2,300
Cash A/c-expenses	175	By Partners' Capital A/c & Loss on realisation (Bal.fig.)	1,337	
		A		
		B	1,338	2,675
	4,975			4,975

Cash A/c

	₹		₹
March 31, 20X1		March 31, 20X1	
To Balance b/d	200	By Realisation A/c- expenses	175
To Realisation A/c - Sale of sundry assets	2,300	By Sundry Creditors A/c (Bal. fig.)	2,525
To B's Capital A/c	200		
	2,700		2,700

Sundry Creditors A/c

	₹		₹
To Cash A/c	2,525	By Balance b/d	4,800
To Deficiency A/c-transfer (bal.fig.)	2,275		
	4,800		4,800

Partners' Capital A/c's

	A	B		A	B
	₹	₹		₹	₹
To Balance b/f	—	550	By Balance b/f	750	—
To Realisation A/c			By Cash A/c	—	200
- loss	1,337	1,338	By Deficiency A/c - transfer (bal.fig.)	587	1,688
	1,337	1,888		1,337	1,888

Deficiency Account

	₹		₹
To Partners' Capital A/c		By Sundry Creditors A/c	2,275
A	587		
B	1,688		
	2,275		2,275

PIECEMEAL DISTRIBUTION

Q.18. A partnership firm was dissolved on 30th June, 2016. Its Balance Sheet on the date of dissolution was as follows:

Liabilities	**₹**	**₹**	**Assets**	**₹**
Capitals:			**Cash**	**10,800**
A	**76,000**		**Sundry Assets**	**1,89,200**
B	**48,000**			
C	**36,000**	**1,60,000**		
Loan A/c - B		**10,000**		
Sundry Creditors		**30,000**		
		2,00,000		**2,00,000**

The assets were realized in instalments and the payments were made on the proportionate capital basis. Creditors were paid ₹ 29,000 in full settlement of their account. Expenses of realization were estimated to be ₹ 5,400 but actual amount spent was ₹ 4,000. This amount was paid on 15th September. Draw up a statement showing distribution of cash, which was realized as follows: