Chapter VII

DISSOLUTION OF PARTNERSHIP

It has been observed that partnership firm comes into existence as a result of mutual agreement between the partners. By agreement therefore, a partnership may be dissolved. Again, under certain circumstances, subject to the agreement between the partners a firm is dissolved. These are:

(a) If entered into for a fixed term, by the expiration of the term.
(b) If entered into for a certain adventure or undertaking, by the completion thereof.
(c) If a partner is adjudged insolvent.
(d) By the death of a partner.
(e) If entered into for an undefined period by any partner giving notice to the other or others of his intention to dissolve the partnership. In such case the partnership is dissolved as from the date as mentioned in the notice.

_Illegality:_

A partnership firm is dissolved compulsorily on the happening of any event which makes it unlawful for the business of the firm to be carried on or for the partners to carry it on in partnership.

_Dissolution by the Court:_

On the application by a partner, the firm may be dissolved by the Court in any of the following circumstances:

(a) When a partner is found to be of unsound mind. The application may be made on behalf of that partner by his committee or next friend or by person having title to intervene as well as by any other partner.

(b) When a partner becomes permanently incapable of performing his part of the partnership contract.

(c) When a partner has been guilty of such conduct as is likely to affect prejudicially the carrying on of the partnership business.

(d) When a partner, willfully or persistently commits breach of the partnership agreement, or so conducts himself relating to the partnership business that it is not rea-
sonably practicable for the other partner or partners to carry on the business in partnership with him.

(e) When a partner has allowed his share to be charged for his separate debts.

(f) If the business can only be carried on at a loss.

(g) If it appears to the court, under the circumstances, that it is just and equitable that the partnership be dissolved.

**Liability after Dissolution:**

Until public notice is given of dissolution, the partners continue to be liable to third parties for any act done by any of them which would have been an act of the firm if done before dissolution.

**Right of Partners on Dissolution:**

On the dissolution of a firm, every partner or his representative is entitled, as against all the other partners or their representatives, to have the property of the firm applied in payment of the debts and liabilities of the firm, and to have the surplus distributed among the partners or their representatives according to their rights.

**Continuing Authority of Partners for the Purpose of winding up:**

After the dissolution of a partnership the authority of each partner to bind the firm, and the other rights and obligations of the partners continue notwithstanding the dissolution so far as may be necessary to wind up the affairs of the partnership, and to complete transactions begun but unfinished at the time of the dissolution. But the firm is in no case bound by the acts of a partner who has become bankrupt.

**Rules for Settlement of Accounts:**

In settling the accounts between the partners after dissolution, the following rules shall, subject to any agreement between the partners, be observed:

(a) Losses, including deficiencies of capital, shall be paid, first out of profits, next out of capital, and lastly, if necessary, by the partners individually in the proportion in which they were entitled to share profits.

(b) The assets of the firm including any sums contributed
by the partners to make up deficiencies of capital, shall be applied in the following manner and order—

(i) in paying debts of the firm to third parties,
(ii) in paying to each partner rateably what is due from the firm to him for advances as distinguished from capital.
(iii) in paying to each partner rateably what is due to him on account of capital.
(iv) The residue, if any, shall be divided among the partners in the proportion in which they were sharing profits.

Firm Debts and Separate Debts:
Where there are joint debts due from the firm, and also separate debts due from a partner, the property of the firm shall be applied, in the first instance, in payment of the debts of the firm, and if there is surplus, then the share of each partner shall be applied in payment of his separate debts or paid to him. The separate property of any partner shall be applied first in the payment of his separate debts, and the surplus, if any, in the payment of the debts of the firm.

Partners Accountable for Profit made during winding up:
If a partner makes any profit in the business of the firm after dissolution but before complete winding up, he is liable to account for such profit to other partners or their representatives unless he purchased the goodwill.

Refund of Premium:
If a partner had paid any premium on being admitted as a partner for a fixed term and the firm is wound up before that term he is entitled to the return of such premium, provided that such winding up was not due to his own misconduct.

REALISATION ACCOUNT
It is obvious that upon dissolution, all that the partners have to do is to realise all the assets, pay the liabilities and take back their capitals. It is possible that some of the assets will realise more than their book value—to that extent there will be profit. On the other hand if some assets realise less, that will mean loss. It is extremely unlikely that all the assets will realise the exact
amount of their book value. Realisation therefore involves either profit or loss which the partners will share in their profit sharing ratio. It may be possible to sell the Goodwill (which is not recorded in the books) of the firm. That will be a gain which the partners will share.

To ascertain the result of realisation it is necessary to open a Realisation Account. All the asset accounts are closed by transferring them to the Realisation Account, which will now look like a Trading Account being debited with the cost (book value) of the assets which are going to be sold. Profit or loss as the case may be will be transferred to the partners' capital accounts. All the liabilities accounts except Loan from the partners will also be closed by transferring them to the Realisation Account.

To look at it another way the Realisation Account after the assets and liabilities have been transferred to it, looks like the Balance Sheet (the sides reversed) with the partners' Loan Account, the Capital Accounts and the Reserve Account left out. It should be noted that the reserve is the undistributed profit which belongs to the partners. The Reserve Account should be closed by transferring it to the partners' Capital Accounts. When the assets are realised and the liabilities paid including the loan from the partners, the cash will represent the capital of the firm which will then be refunded to the partners.

**Formula for Entries on Dissolution:**

The following entries are necessary for recording the realisation of the assets and settling the accounts between the partners—

1. Open a Realisation Account and transfer thereto all the assets (except cash or bank balance and the debit balance of the partner's Capital Accounts if any). The entries are—Debit Realisation Account and Credit the asset accounts.
2. Transfer all the liabilities other than Loan from a partner, to the Realisation Account by debiting the liability accounts and crediting the Realisation Account.
3. Upon the sale of the assets, Debit Cash and Credit Realisation Account with the sale proceeds.
4. If any asset is taken over by a partner, Debit the partner's Capital Account with the agreed value of the asset taken over and Credit the Realisation Account.
(5) Credit cash and Debit Realisation Account with the expenses of winding up.

(6) Debit Realisation Account and Credit Cash with the amount paid for the liabilities.

(7) Balance the Realisation Account and transfer the profit or loss as the case may be, to the partners' Capital Accounts in their profit sharing ratio. If the Capital Account of any partner shows a debit balance, that partner must bring in cash to repay his indebtedness to the firm; Debit cash,—Credit the partner's Capital Account. If that partner has a Loan Account, the deficiency may be made good by transfer from Loan Account to his Capital Account.

(8) Pay off Partners' Loans; Debit Loan Account and Credit Cash.

(9) The credit balance in the partners' Capital Accounts will now be equal to the cash. Pay off the partners' Capitals; Debit Capital Accounts and Credit Cash.

It is to be noted that the question of profit sharing ratio does not arise at this stage any more. Profits have been shared from the realisation. Now it is the question of refund of the Capitals which is represented by the cash.

Various kinds of situation may arise in dissolution depending upon the financial position of the firm and of the partners themselves, viz.—

(a) There may be profits on realisation.

(b) There may be loss on realisation.

(c) There may be losses on realisation necessitating the partners bringing in cash to meet the deficit and so enabling the creditors to be paid in full.

(d) There may be loss on realisation, some partners being solvent, some insolvent.

(e) There may be a loss on realisation, all the partners being insolvent, the creditors being paid a dividend.

Also, realisation does not necessarily mean that all the assets are sold outright for cash to outsiders. At agreed valuation, partners themselves may take over some of the assets. Again, it is possible that one of the partners may take over the business with the object of carrying on under the old firm name.
In such case he must, of course, pay for the goodwill which shall be valued according to the terms of the Partnership Deed. If the Deed is silent on this point the partner must value Goodwill by agreement between them. A Goodwill Account will be opened and debited with the agreed value, the partners' capital Accounts being credited with their respective shares. The Goodwill Account will then be closed by transfer to the Realisation Account. The purchasing partner's Capital Account will be debited and the Realisation Account credited with the value of the Goodwill.

When the business is taken over by a Limited Company, the value of Goodwill - if any, will be included in the purchase consideration agreed upon. The Purchasing Company will be debited with the total purchase consideration (inclusive of Goodwill) and the Realisation Account will be credited with like amount.

**Profit on Realisation**

**Example:**

Jadu, Madhu and Hari are in partnership sharing profits and loses, two-fifths, two-fifths and one-fifth respectively. The Balance Sheet on the date of dissolution is as follows:

<table>
<thead>
<tr>
<th></th>
<th>Rs. a p</th>
<th>Assets</th>
<th>Rs. a p</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sundry creditors</td>
<td>4,700 0 0</td>
<td>Cash</td>
<td>760 0 0</td>
</tr>
<tr>
<td>Capital Accounts</td>
<td></td>
<td>Sundry Debtors</td>
<td>16,400 0 0</td>
</tr>
<tr>
<td>Jadu</td>
<td>12,000 0 0</td>
<td>Stock</td>
<td>11,140 0 0</td>
</tr>
<tr>
<td>Madhu</td>
<td>8,000 0 0</td>
<td>Furniture &amp;</td>
<td></td>
</tr>
<tr>
<td>Hari</td>
<td>5,000 0 0</td>
<td>Fittings</td>
<td>1,400 0 0</td>
</tr>
<tr>
<td></td>
<td>29,700 0 0</td>
<td></td>
<td>29,700 0 0</td>
</tr>
</tbody>
</table>

The Furniture & Fittings realise, Rs. 1,300; Stock is sold for Rs. 12,390; Rs. 300 is allowed as discount to Debtors. Expenses of winding up Rs. 100.

| Account                                      | Dr.   | Rs.  | a  | p  | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Realisation Account                        |      |      |    |    | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| To Sundry Debtors                           |      | 28,940 | 0  | 0  | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| " Stock                                     |      |        |    |    | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| " Furniture & Fittings                      |      |        |    |    | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Being the transfer of assets to Realisation Account. |      |        |    |    | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Sundry Creditors                            |      | 4,700  | 0  | 0  | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| To Realisation Account                      |      |        |    |    | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Being the transfer of Sundry Creditors to Realisation Account. |      |        |    |    | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Cash                                        |      | 29,790 | 0  | 0  | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| To Realisation Account                      |      |        |    |    | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Being the sale proceeds of assets as per detail. |      |        |    |    | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Sundry Debtors                              |      | 16,100 | 0  | 0  | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Stock                                       |      | 12,390 | 0  | 0  | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Furniture & Fittings                        |      | 1,300  | 0  | 0  | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
|                                                  |      |        |    |    | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Realisation Account                         |      | 4,700  | 0  | 0  | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| To Cash                                     |      |        |    |    | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Being the payment of Sundry Creditors        |      |        |    |    | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Realisation Account                         |      | 100    | 0  | 0  | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| To Cash                                     |      |        |    |    | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Realisation Expenses paid                    |      |        |    |    | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Realisation Account                         |      | 750    | 0  | 0  | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| To Jadu's Capital Account                   |      |        |    |    | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| " Madhu's Capital Account                   |      |        |    |    | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| " Hari's Capital Account                    |      |        |    |    | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Being the transfer of profit to the partners' Capital Accounts in their profit sharing ratio. |      |        |    |    | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Jadu's Capital Account                      |      | 12,300 | 0  | 0  | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Madhu's Capital Account                     |      | 8,300  | 0  | 0  | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Hari's Capital Account                      |      | 5,150  | 0  | 0  | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| To Cash                                     |      |        |    |    | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Being withdrawal by the partners balances standing in their Capital Accounts. |      |        |    |    | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |

Realisation Account

<table>
<thead>
<tr>
<th>To Sundry Assets</th>
<th>Rs.</th>
<th>a</th>
<th>p</th>
<th>By Sundry Creditors</th>
<th>Rs.</th>
<th>a</th>
<th>p</th>
</tr>
</thead>
<tbody>
<tr>
<td>Transferred</td>
<td>28,940</td>
<td>0</td>
<td>0</td>
<td>Transferred</td>
<td>4,700</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Cash—Creditors paid</td>
<td>4,700</td>
<td>0</td>
<td>0</td>
<td>Cash—Assets realised</td>
<td>29,790</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Cash—expenses</td>
<td>100</td>
<td>0</td>
<td>0</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Capital Accounts (Profit transferred)</td>
<td></td>
<td></td>
<td></td>
<td>Jadu—300/-</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Madhu—300/-</td>
<td></td>
<td></td>
<td></td>
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<td></td>
<td></td>
<td></td>
<td></td>
<td>Hari—150/-</td>
<td></td>
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</tbody>
</table>

| Total     | 34,490 | 0 | 0 | 34,490 | 0 | 0 |
Cash Book.

<table>
<thead>
<tr>
<th>To Balance</th>
<th>Rs.</th>
<th>a</th>
<th>p</th>
</tr>
</thead>
<tbody>
<tr>
<td>,, Realisation A/c.</td>
<td>760</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>,, Realisation A/c.</td>
<td>29,790</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>By Realisation A/c</td>
<td>Rs.</td>
<td>a</td>
<td>p</td>
</tr>
<tr>
<td>,, Creditors paid</td>
<td>4,700</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>,, Expenses</td>
<td>100</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>,, Jadu—Refund of capital</td>
<td>12,300</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>,, Madhu</td>
<td>8,300</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>,, Hari</td>
<td>5,150</td>
<td>0</td>
<td>0</td>
</tr>
</tbody>
</table>

Total | 30,550 | 0 | 0 |

Jadu—Capital Account.

<table>
<thead>
<tr>
<th>To Cash</th>
<th>Rs.</th>
<th>a</th>
<th>p</th>
</tr>
</thead>
<tbody>
<tr>
<td>12,300</td>
<td>0</td>
<td>0</td>
<td></td>
</tr>
<tr>
<td>By Balance</td>
<td>Rs.</td>
<td>a</td>
<td>p</td>
</tr>
<tr>
<td>,, Realisation A/c.</td>
<td>12,000</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>share of profit</td>
<td>300</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Total</td>
<td>12,300</td>
<td>0</td>
<td>0</td>
</tr>
</tbody>
</table>

Madhu—Capital Account.

<table>
<thead>
<tr>
<th>To Cash</th>
<th>Rs.</th>
<th>a</th>
<th>p</th>
</tr>
</thead>
<tbody>
<tr>
<td>8,300</td>
<td>0</td>
<td>0</td>
<td></td>
</tr>
<tr>
<td>By Balance</td>
<td>Rs.</td>
<td>a</td>
<td>p</td>
</tr>
<tr>
<td>,, Realisation A/c.</td>
<td>8,000</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>share of profit</td>
<td>300</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Total</td>
<td>8,300</td>
<td>0</td>
<td>0</td>
</tr>
</tbody>
</table>

Hari—Capital Account.

<table>
<thead>
<tr>
<th>To Cash</th>
<th>Rs.</th>
<th>a</th>
<th>p</th>
</tr>
</thead>
<tbody>
<tr>
<td>5,150</td>
<td>0</td>
<td>0</td>
<td></td>
</tr>
<tr>
<td>By Balance</td>
<td>Rs.</td>
<td>a</td>
<td>p</td>
</tr>
<tr>
<td>,, Realisation A/c.</td>
<td>5,000</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>share of profit</td>
<td>150</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Total</td>
<td>5,150</td>
<td>0</td>
<td>0</td>
</tr>
</tbody>
</table>

Example:

Lalit, Madan and Naren are partners sharing profits and losses in the ratio of 3:2:1. Their Balance Sheet as at 31st December 1946 was as follows:
<table>
<thead>
<tr>
<th>Liabilities.</th>
<th>Assets.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sundry Creditors</td>
<td>Goodwill</td>
</tr>
<tr>
<td>9,000 0 0</td>
<td>5,000 0 0</td>
</tr>
<tr>
<td>Loan on mortgage</td>
<td>Land &amp; Building</td>
</tr>
<tr>
<td>6,000 0 0</td>
<td>13,000 0 0</td>
</tr>
<tr>
<td>Outstanding Ex-</td>
<td>Furniture &amp;</td>
</tr>
<tr>
<td>expenses</td>
<td>Investments</td>
</tr>
<tr>
<td>1,000 0 0</td>
<td>2,000 0 0</td>
</tr>
<tr>
<td>General Reserve</td>
<td>Sundry Debtors</td>
</tr>
<tr>
<td>4,500 0 0</td>
<td>700 0 0</td>
</tr>
<tr>
<td>Less Reserve for</td>
<td></td>
</tr>
<tr>
<td>Bad Debts</td>
<td>4,000/-</td>
</tr>
<tr>
<td>Rs</td>
<td></td>
</tr>
<tr>
<td>Lalit 8,000</td>
<td></td>
</tr>
<tr>
<td>Madan 6,000</td>
<td></td>
</tr>
<tr>
<td>Naren 3,000/-</td>
<td>17,000 0 0</td>
</tr>
<tr>
<td>– – –</td>
<td>Cash</td>
</tr>
<tr>
<td>– – –</td>
<td>1,000 0 0</td>
</tr>
<tr>
<td>– – –</td>
<td></td>
</tr>
<tr>
<td>37,500 0 0</td>
<td>37,500 0 0</td>
</tr>
</tbody>
</table>

The partners agree to dissolve the firm. The assets realised the following amount: Book Debts—Rs 3,000, Stock Rs 13,000, Furniture and Fittings Rs 2,500.

Lalit agreed to purchase the firm name and the Goodwill for Rs 10,000.

Sundry creditors were paid in full settlement Rs 8,600.

Land and Building was taken over by Madan at an agreed valuation of Rs 14,000, subject to the loan on mortgage, with the consent of the mortgagee.

The Investments were taken over by Naren at the market price of Rs. 50.

One month’s establishment Rs 550 accrued due during the period of winding up. A contingent liability actualised—Rs. 100, and the expenses of liquidation amounted to Rs 250.

Close the books of the firm.
### Journal

<table>
<thead>
<tr>
<th>Account</th>
<th>Rs. a</th>
<th>Rs. a</th>
<th>p</th>
</tr>
</thead>
<tbody>
<tr>
<td>Realisation Account</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>To Goodwill</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>&quot; Land &amp; Building</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>&quot; Furniture &amp; Fittings</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>&quot; Investments</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>&quot; Sundry Debtors</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>&quot; Stock in Trade</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Being transfer of assets to Realisation Account at book values</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sundry Creditors</td>
<td></td>
<td>9,000</td>
<td>0</td>
</tr>
<tr>
<td>Loan on mortgage</td>
<td></td>
<td>6,000</td>
<td>0</td>
</tr>
<tr>
<td>Outstanding Expenses</td>
<td></td>
<td>1,000</td>
<td>0</td>
</tr>
<tr>
<td>Reserve for Bad and Doubtful Debts</td>
<td></td>
<td>200</td>
<td>0</td>
</tr>
<tr>
<td>To Realisation Account</td>
<td></td>
<td>16,200</td>
<td>0</td>
</tr>
<tr>
<td><strong>Being transfer of liabilities to the Realisation Account</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash</td>
<td></td>
<td>18,500</td>
<td>0</td>
</tr>
<tr>
<td>To Realisation Account</td>
<td></td>
<td>18,500</td>
<td>0</td>
</tr>
<tr>
<td><strong>Being amount received on sale of assets as under</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sundry Debtors</td>
<td></td>
<td>3,000</td>
<td>0</td>
</tr>
<tr>
<td>Stock</td>
<td></td>
<td>13,000</td>
<td>0</td>
</tr>
<tr>
<td>Furniture &amp; Fitting</td>
<td></td>
<td>2,500</td>
<td>0</td>
</tr>
<tr>
<td><strong>Lalit’s Capital Account</strong></td>
<td></td>
<td>10,000</td>
<td>0</td>
</tr>
<tr>
<td><strong>Madan’s Capital Account</strong></td>
<td></td>
<td>14,000</td>
<td>0</td>
</tr>
<tr>
<td><strong>Naren’s Capital Account</strong></td>
<td></td>
<td>500</td>
<td>0</td>
</tr>
<tr>
<td>To Realisation Account</td>
<td></td>
<td>24,500</td>
<td>0</td>
</tr>
<tr>
<td><strong>Being the Value of Goodwill, Land and Building and Investments taken over by the partners</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Realisation Account</td>
<td></td>
<td>6,000</td>
<td>0</td>
</tr>
<tr>
<td>To Madan’s Capital Account</td>
<td></td>
<td>6,000</td>
<td>0</td>
</tr>
<tr>
<td><strong>Being the mortgage taken over by Madan</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Realisation Account</td>
<td></td>
<td>9,800</td>
<td>0</td>
</tr>
<tr>
<td>To Cash</td>
<td></td>
<td>9,800</td>
<td>0</td>
</tr>
<tr>
<td><strong>Being payment of Creditors and Outstanding Expenses</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Realisation Account</td>
<td></td>
<td>900</td>
<td>0</td>
</tr>
<tr>
<td>To Cash</td>
<td></td>
<td>900</td>
<td>0</td>
</tr>
<tr>
<td><strong>Being payment of expenses viz Establishment</strong></td>
<td>750</td>
<td></td>
<td>0</td>
</tr>
<tr>
<td><strong>Other expenses</strong></td>
<td>250</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Contingent Liability</td>
<td>100</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>General Reserve</strong></td>
<td></td>
<td>4,500</td>
<td>0</td>
</tr>
<tr>
<td>To Lalit’s Capital Account</td>
<td></td>
<td>2,250</td>
<td>0</td>
</tr>
<tr>
<td>&quot; Madan’s &quot;</td>
<td></td>
<td>1,500</td>
<td>0</td>
</tr>
<tr>
<td>&quot; Naren’s &quot;</td>
<td></td>
<td>750</td>
<td>0</td>
</tr>
<tr>
<td><strong>Being transfer of General Reserve to partners’ Capital Accounts.</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
### Realisation Account

<table>
<thead>
<tr>
<th>To Sundry Assets transferred</th>
<th>Rs</th>
<th>a</th>
<th>p</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash</td>
<td>36,700</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Creditors paid</td>
<td>8,600</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Outstanding expenses paid</td>
<td>1,000</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Madan's Capital Account</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Account Mortgage taken over</td>
<td>6,000</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Cash Expenses paid</td>
<td>250</td>
<td>0</td>
<td>0</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>By Sundry Laibi tus transferred</th>
<th>Rs</th>
<th>a</th>
<th>p</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash assets realised</td>
<td>10,200</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Debtors</td>
<td>4,000</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Stock</td>
<td>14,000</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Furniture &amp; Fittings</td>
<td>2,500</td>
<td>0</td>
<td>0</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>To Cash</th>
<th>Rs</th>
<th>a</th>
<th>p</th>
</tr>
</thead>
<tbody>
<tr>
<td>Goodwill taken over</td>
<td>10,000</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Madan's Contingent Liability paid</td>
<td>100</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Land &amp; Buildings taken over</td>
<td>14,000</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Naren's Investments taken over</td>
<td>900</td>
<td>0</td>
<td>0</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>To Capital Accounts profit transferred</th>
<th>Rs</th>
<th>a</th>
<th>p</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lahit 3,000</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Madan 2,000</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Naren 1,000</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### Cash Book

<table>
<thead>
<tr>
<th>To Balance</th>
<th>Rs</th>
<th>a</th>
<th>p</th>
</tr>
</thead>
<tbody>
<tr>
<td>Realisation A/c</td>
<td>1,000</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Debtors realised</td>
<td>4,000</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Stock</td>
<td>13,000</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Furniture &amp; Fittings realised</td>
<td>2,500</td>
<td>0</td>
<td>0</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>By Realisation A/c</th>
<th>Rs</th>
<th>a</th>
<th>p</th>
</tr>
</thead>
<tbody>
<tr>
<td>Creditors paid</td>
<td>8,600</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Outstanding</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Exp</td>
<td>1,000</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Establishment</td>
<td>750</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Expenses</td>
<td>250</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Contingent Liability</td>
<td>100</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Lahit - Capital A/c</td>
<td>3,250</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Madan Capital A/c</td>
<td>1,700</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Naren - Capital A/c</td>
<td>4,250</td>
<td>0</td>
<td>0</td>
</tr>
</tbody>
</table>

---

Total Balance 19,500 | 0 | 0
Lalit Capital Account

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Goodwill</td>
<td>10,000 0 0</td>
<td>General Reserve transfer</td>
<td>8,000 0 0</td>
</tr>
<tr>
<td>Cash</td>
<td>3,250 0 0</td>
<td>Realisation Account profit</td>
<td>2,250 0 0</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>3,000 0 0</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>13,250 0 0</td>
</tr>
</tbody>
</table>

Madan Capital Account

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Land and Building</td>
<td>14,000 0 0</td>
<td>General Reserve transfer</td>
<td>6,000 0 0</td>
</tr>
<tr>
<td>Cash</td>
<td>1,500 0 0</td>
<td>Realisation Account profit</td>
<td>1,500 0 0</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Mortgage</td>
<td>2,000 0 0</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>6,000 0 0</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>15,500 0 0</td>
</tr>
</tbody>
</table>

Naren Capital Account

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Investments</td>
<td>500 0 0</td>
<td>General Reserve transfer</td>
<td>3,000 0 0</td>
</tr>
<tr>
<td>Cash</td>
<td>4,250 0 0</td>
<td>Realisation Account profit</td>
<td>750 0 0</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>1,000 0 0</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>4,750 0 0</td>
</tr>
</tbody>
</table>

Sometimes the student may find it a little difficult to tackle the problem when the Balance Sheet as on the date of dissolution is not given. Such questions only test whether the student has clear conception of his business in dissolution. A little study of the problem will make it quite clear that there are enough data available from which the total assets (or the net assets) on the date of dissolution may be worked out. It should be remembered that the net assets and the amount for which those are disposed of are the informations necessary for ascertaining the profit or loss on realisation. For the rest we have the method as shown above.
Example:

A and B were in partnership which they agreed to dissolve. The assets realised Rs. 1,05,000.

The liabilities were as follows:—Sundry Creditors Rs. 45,000; Loan from B, Rs. 15,000; Capital A, Rs. 20,000; B, Rs. 10,000.

Close the Books of the firm.

The total assets are equal to the liabilities including the Capital. It comes to Rs. 90,000.

Realisation Account

<table>
<thead>
<tr>
<th>Rs.</th>
<th>a</th>
<th>p</th>
</tr>
</thead>
<tbody>
<tr>
<td>To Sundry assets</td>
<td>90,000</td>
<td>0</td>
</tr>
<tr>
<td>Transferred</td>
<td></td>
<td></td>
</tr>
<tr>
<td>By Sundry creditors</td>
<td>45,000</td>
<td>0</td>
</tr>
<tr>
<td>Transferred</td>
<td></td>
<td></td>
</tr>
<tr>
<td>&quot; Cash—creditors paid</td>
<td>45,000</td>
<td>0</td>
</tr>
<tr>
<td>&quot; Capital Accounts—profits transferred.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>A—Rs. 7,500/-</td>
<td></td>
<td></td>
</tr>
<tr>
<td>B—&quot; 7,500/-</td>
<td>15,000</td>
<td>0</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>1,50,000</td>
<td>0</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Rs.</th>
<th>a</th>
<th>p</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rs.</td>
<td>a</td>
<td>p</td>
</tr>
</tbody>
</table>

Cash Book

<table>
<thead>
<tr>
<th>Rs.</th>
<th>a</th>
<th>p</th>
</tr>
</thead>
<tbody>
<tr>
<td>To Realisation Account—assets realised</td>
<td>1,05,000</td>
<td>0</td>
</tr>
<tr>
<td>By Realisation Account—creditors paid</td>
<td>45,000</td>
<td>0</td>
</tr>
<tr>
<td>B—Loan repaid</td>
<td>15,000</td>
<td>0</td>
</tr>
<tr>
<td>A—Capital returned</td>
<td>27,500</td>
<td>0</td>
</tr>
<tr>
<td>B—Capital returned</td>
<td>17,500</td>
<td>0</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>10,50,000</td>
<td>0</td>
<td>0</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Rs.</th>
<th>a</th>
<th>p</th>
</tr>
</thead>
</table>
| B—Loan Account

<table>
<thead>
<tr>
<th>Rs.</th>
<th>a</th>
<th>p</th>
</tr>
</thead>
<tbody>
<tr>
<td>To Cash</td>
<td>15,000</td>
<td>0</td>
</tr>
<tr>
<td>By Balance</td>
<td>15,000</td>
<td>0</td>
</tr>
</tbody>
</table>

A—Capital Account

<table>
<thead>
<tr>
<th>Rs.</th>
<th>a</th>
<th>p</th>
</tr>
</thead>
<tbody>
<tr>
<td>To Cash</td>
<td>27,500</td>
<td>0</td>
</tr>
<tr>
<td>By Balance</td>
<td>20,000</td>
<td>0</td>
</tr>
<tr>
<td>&quot; Realisation A/c.</td>
<td>7,500</td>
<td>0</td>
</tr>
<tr>
<td></td>
<td>27,500</td>
<td>0</td>
</tr>
<tr>
<td></td>
<td>27,500</td>
<td>0</td>
</tr>
</tbody>
</table>
B—Capital Account

<table>
<thead>
<tr>
<th>To Cash</th>
<th>By Balance</th>
</tr>
</thead>
<tbody>
<tr>
<td>17,500 0 0</td>
<td>17,500 0 0</td>
</tr>
</tbody>
</table>

In some cases it becomes necessary to write up the Capital Accounts of the partners for some years to arrive at the position as on the date of dissolution.

Example

Ramnath and Suraj entered into partnership on 1 January 1945 with capitals of Rs 6,000 and Rs 8,000 respectively to share profits and losses as one-third and two-thirds. The net trading results for the years 1945, 1946 and 1947 were Rs 1,500 (loss), Rs 3,000 (profit) and Rs 4,500 (profit) respectively and they drew Rs 100 and Rs 200 per month.

On 1 January 1948, the partnership was dissolved, Suraj buying over Ramnath's interest. His share of Goodwill was valued at Rs 3,000.

Write up the necessary Ledger Accounts

Ramnath Capital Account

<table>
<thead>
<tr>
<th>Year</th>
<th>To Drawings</th>
<th>Rs a p 1945</th>
<th>Rs. a p</th>
</tr>
</thead>
<tbody>
<tr>
<td>1945</td>
<td></td>
<td>1,200 0 0</td>
<td>6,000 0 0</td>
</tr>
<tr>
<td>Dec 31</td>
<td>Share of loss</td>
<td>500 0 0</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Balance c/d</td>
<td>4,700 0 0</td>
<td></td>
</tr>
<tr>
<td>1946</td>
<td></td>
<td>6,000 0 0</td>
<td>6,000 0 0</td>
</tr>
<tr>
<td>Dec 31</td>
<td>To Drawings</td>
<td>1,200 0 0</td>
<td>4,300 0 0</td>
</tr>
<tr>
<td></td>
<td>Share of profit</td>
<td>1,000 0 0</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Balance c/d</td>
<td>4,400 0 0</td>
<td>5,300 0 0</td>
</tr>
<tr>
<td>1947</td>
<td></td>
<td>5,300 0 0</td>
<td>5,300 0 0</td>
</tr>
<tr>
<td>Dec 31</td>
<td>To Drawings</td>
<td>1,200 0 0</td>
<td>4,100 0 0</td>
</tr>
<tr>
<td></td>
<td>Share of profit</td>
<td>1,500 0 0</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Balance c/d</td>
<td>4,400 0 0</td>
<td>5,600 0 0</td>
</tr>
<tr>
<td>1948</td>
<td></td>
<td>5,600 0 0</td>
<td>5,600 0 0</td>
</tr>
<tr>
<td>Jan. 1</td>
<td>To Cash</td>
<td>7,400 0 0</td>
<td>7,400 0 0</td>
</tr>
<tr>
<td></td>
<td>By Balance</td>
<td>4,400 0 0</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Realisation A/c.</td>
<td>3,000 0 0</td>
<td></td>
</tr>
</tbody>
</table>
## Suraj—Capital Account

<table>
<thead>
<tr>
<th>Year</th>
<th>Description</th>
<th>Amount</th>
<th>Balance</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>1945</td>
<td>To Drawings</td>
<td>2,400</td>
<td>0</td>
<td>8,000</td>
</tr>
<tr>
<td></td>
<td>Share of loss</td>
<td>1,000</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td></td>
<td>Balance</td>
<td>4,600</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>1946</td>
<td>To Drawings</td>
<td>2,400</td>
<td>0</td>
<td>4,600</td>
</tr>
<tr>
<td></td>
<td>By Balance</td>
<td>4,200</td>
<td>0</td>
<td>2,000</td>
</tr>
<tr>
<td></td>
<td>Share of profit</td>
<td>7,200</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>1947</td>
<td>To Drawings</td>
<td>2,400</td>
<td>0</td>
<td>4,200</td>
</tr>
<tr>
<td></td>
<td>By Balance</td>
<td>4,800</td>
<td>0</td>
<td>3,000</td>
</tr>
<tr>
<td>1948</td>
<td>To Realisation</td>
<td>18,200</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td></td>
<td>By Balance</td>
<td>1,800</td>
<td>0</td>
<td>0</td>
</tr>
</tbody>
</table>

## Realisation Account

<table>
<thead>
<tr>
<th>Year</th>
<th>Description</th>
<th>Amount</th>
<th>Balance</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>1948</td>
<td>To Sundry Assets</td>
<td>9,200</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td></td>
<td>Capital A/c</td>
<td>3000</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td></td>
<td>Suraj</td>
<td>6000</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td></td>
<td>Jan 1 By Suraj</td>
<td>18,200</td>
<td>0</td>
<td>0</td>
</tr>
</tbody>
</table>

## Cash Book

<table>
<thead>
<tr>
<th>Year</th>
<th>Description</th>
<th>Amount</th>
<th>Balance</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>1948</td>
<td>To Suraj</td>
<td>7,400</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td></td>
<td>Jan 1 By Ramnath</td>
<td>7,400</td>
<td>0</td>
<td>0</td>
</tr>
</tbody>
</table>
**Loss on Realisation**

Example:

A, B and C are partners, sharing profits and losses in the proportion of 1/2, 3/10ths and 1/5th respectively. The Balance Sheet on the date of dissolution is given below.

<table>
<thead>
<tr>
<th>Liabilities</th>
<th>Rs.</th>
<th>a</th>
<th>p</th>
<th>Assets.</th>
<th>Rs.</th>
<th>a</th>
<th>p</th>
</tr>
</thead>
<tbody>
<tr>
<td>Capital Accounts</td>
<td></td>
<td></td>
<td></td>
<td>Freehold property</td>
<td>5,000</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>A—Rs. 5000</td>
<td></td>
<td></td>
<td></td>
<td>Plant &amp; Machinery</td>
<td>2,000</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>B—3000</td>
<td></td>
<td></td>
<td></td>
<td>Investments</td>
<td>3,000</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>C—2000</td>
<td>10,000</td>
<td>0</td>
<td>0</td>
<td>Stock-in-Trade</td>
<td>1,500</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>–</td>
<td>2,500</td>
<td>0</td>
<td>0</td>
<td>Debtors</td>
<td>2,500</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Current Accounts</td>
<td></td>
<td></td>
<td></td>
<td>Cash</td>
<td>2,500</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>A—Rs. 250</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>B—150</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>C—100</td>
<td>500</td>
<td>0</td>
<td>0</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>B. I,loan Account</td>
<td>2,000</td>
<td>0</td>
<td>0</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Creditors</td>
<td>1,500</td>
<td>0</td>
<td>0</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bills Payable</td>
<td>2,500</td>
<td>0</td>
<td>0</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

\[16,500 \quad 0 \quad 0\]

A took over the Plant & Machinery at an agreed valuation of Rs. 1,500 and B took over the Investments valued at Rs. 2,000.

The remaining assets realised as follows:

- Freehold Property  Rs. 4,000
- Stock  1,000
- Debtors  2,000

The Creditors and the Bills Payable were paid in full.

Show the Realisation Account, the Cash Book and the partners' Capital Accounts.
### Realisation Account

<table>
<thead>
<tr>
<th>To Sundry Assets transferred</th>
<th>Rs.</th>
<th>a</th>
<th>p</th>
<th></th>
<th>By Creditors— transferred</th>
<th>Rs.</th>
<th>a</th>
<th>p</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash—</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Bills Payable— transferred</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Creditors Paid</td>
<td>1,500</td>
<td>0</td>
<td>0</td>
<td></td>
<td>Cash— assets realised</td>
<td>2,500</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Bills Payable Paid</td>
<td>2,500</td>
<td>0</td>
<td>0</td>
<td></td>
<td>Freehold Property</td>
<td>4,000</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Stock</td>
<td>1,000</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Debtors</td>
<td>2,000</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>A—Capital A/c</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Plant and Machinery taken over</td>
<td>1,500</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>B—Capital A/c</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Investment taken over</td>
<td>2,000</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Loss on Realisation A’s Share ½</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>1750/-</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>B’s Share 3/10</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>1050/-</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>C’s Share 1/5</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>700/-</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>3,500</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>18,000</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### Cash Book

<table>
<thead>
<tr>
<th>To Balance</th>
<th>Rs.</th>
<th>a</th>
<th>p</th>
<th></th>
<th>By Realisation A/c.</th>
<th>Rs.</th>
<th>a</th>
<th>p</th>
</tr>
</thead>
<tbody>
<tr>
<td>Realisation A/c.</td>
<td>2,500</td>
<td>0</td>
<td>0</td>
<td></td>
<td>Creditors paid</td>
<td>1,500</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Freehold Property</td>
<td>4,000</td>
<td>0</td>
<td>0</td>
<td></td>
<td>Bills Payable paid</td>
<td>2,500</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Stock</td>
<td>1,000</td>
<td>0</td>
<td>0</td>
<td></td>
<td>B’s Loan A/c.</td>
<td>2,000</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Debtors</td>
<td>2,000</td>
<td>0</td>
<td>0</td>
<td></td>
<td>A’s Capital A/c.</td>
<td>2,000</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>B’s Capital A/c.</td>
<td>100</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>C’s Capital A/c.</td>
<td>1,400</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>9,500</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### B—Loan Account

<table>
<thead>
<tr>
<th>To Cash</th>
<th>Rs.</th>
<th>a</th>
<th>p</th>
<th></th>
<th>By Balance</th>
<th>Rs.</th>
<th>a</th>
<th>p</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2,000</td>
<td>0</td>
<td>0</td>
<td></td>
<td></td>
<td>2,000</td>
<td>0</td>
<td>0</td>
</tr>
</tbody>
</table>
**A—Capital Account**

<table>
<thead>
<tr>
<th>To Realisation A/c</th>
<th>Rs a p</th>
<th></th>
<th>To Realisation A/c</th>
<th>Rs a p</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>&quot; Plant &amp; Machinery Loss</td>
<td>1,500 0 0</td>
<td>By Balance</td>
<td>&quot; Current Account (transferred)</td>
<td>5,000 0 0</td>
<td></td>
</tr>
<tr>
<td>&quot; Cash</td>
<td>1,750 0 0</td>
<td></td>
<td></td>
<td>250 0 0</td>
<td></td>
</tr>
<tr>
<td></td>
<td>2,000 0 0</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>5,250 0 0</td>
<td></td>
<td></td>
<td>5,250 0 0</td>
<td></td>
</tr>
</tbody>
</table>

**B - Capital Account**

<table>
<thead>
<tr>
<th>To Realisation A/c</th>
<th>Rs a p</th>
<th></th>
<th>To Realisation A/c</th>
<th>Rs a p</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>&quot; Investments</td>
<td>2,000 0 0</td>
<td>By Balance</td>
<td>&quot; Current A/c (transferred)</td>
<td>3,000 0 0</td>
<td></td>
</tr>
<tr>
<td>&quot; Cash</td>
<td>1,050 0 0</td>
<td></td>
<td></td>
<td>150 0 0</td>
<td></td>
</tr>
<tr>
<td></td>
<td>100 0 0</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>3,150 0 0</td>
<td></td>
<td></td>
<td>3,150 0 0</td>
<td></td>
</tr>
</tbody>
</table>

**C Capital Account**

<table>
<thead>
<tr>
<th>To Realisation A/c</th>
<th>Rs a p</th>
<th></th>
<th>To Realisation A/c</th>
<th>Rs a p</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>&quot; Loss</td>
<td>700 0 0</td>
<td>By Balance</td>
<td>&quot; Current A/c (transferred)</td>
<td>2,000 0 0</td>
<td></td>
</tr>
<tr>
<td>&quot; Cash</td>
<td>1,400 0 0</td>
<td></td>
<td></td>
<td>100 0 0</td>
<td></td>
</tr>
<tr>
<td></td>
<td>2,100 0 0</td>
<td></td>
<td></td>
<td>2,100 0 0</td>
<td></td>
</tr>
</tbody>
</table>

**Profit on Realisation:** Debit balance in partner’s Capital Account—Bringing in Cash to meet the deficit.

**Example:**

The Balance Sheet of A, B and C who are sharing profits in the proportion of ½, 3/8ths and 1/8th respectively is given below. They agree to wind up their business.
Balance Sheet

<table>
<thead>
<tr>
<th>Liabilities</th>
<th>Rs</th>
<th>a</th>
<th>p</th>
<th>Assets</th>
<th>Rs</th>
<th>a</th>
<th>p</th>
</tr>
</thead>
<tbody>
<tr>
<td>Creditors</td>
<td>4,000</td>
<td>0</td>
<td>0</td>
<td>Plant &amp; Machinery</td>
<td>10,000</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Machinery Depreciation</td>
<td></td>
<td></td>
<td></td>
<td>Debtor's</td>
<td>3,600</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fund</td>
<td>2,000</td>
<td>0</td>
<td>0</td>
<td>Loss Reserve for</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Capital Accounts</td>
<td>24,000</td>
<td>0</td>
<td>0</td>
<td>Bad Debts</td>
<td>5,000</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>A</td>
<td>10,000/-</td>
<td>0</td>
<td>0</td>
<td>Stock in Trade</td>
<td>6,000</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>B</td>
<td>8,000/-</td>
<td>0</td>
<td>0</td>
<td>Cash at Bank</td>
<td>2,500</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>C's Capital Account</td>
<td>500</td>
<td>0</td>
<td>0</td>
</tr>
</tbody>
</table>

A takes over Plant & Machinery at Rs. 9,200. Debtor's and Stock realise Rs. 10,500. Creditors are paid off at a discount of 5 per cent. The expenses of realisation amounted to Rs. 100.

Show the Realisation Account, the Capital Accounts and the Cash Book.

Realisation Account

<table>
<thead>
<tr>
<th>To Sundry Assets transferred</th>
<th>Rs</th>
<th>a</th>
<th>p</th>
<th>By creditors transferred</th>
<th>Rs</th>
<th>a</th>
<th>p</th>
</tr>
</thead>
<tbody>
<tr>
<td>&quot; Cash—creditors paid</td>
<td>3,800</td>
<td>0</td>
<td>0</td>
<td>&quot; Bad Debts Reserve</td>
<td>4,000</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>&quot; expenses paid</td>
<td>100</td>
<td>0</td>
<td>0</td>
<td>&quot; Machinery Depreciation Fund</td>
<td>600</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>&quot; Profit transferred to capital Accounts</td>
<td>2,000</td>
<td>0</td>
<td>0</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>A—1/2 Share 400/-</td>
<td></td>
<td></td>
<td></td>
<td>&quot; A's Capital A/c. Plant &amp; Machinery taken over</td>
<td>9,200</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>B—3/8 300/-</td>
<td></td>
<td></td>
<td></td>
<td>&quot; Cash Stock &amp; Debtors—realised</td>
<td>10,500</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>C—1/8 100/-</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>26,300</td>
<td>0</td>
<td>0</td>
</tr>
</tbody>
</table>

Cash Book

<table>
<thead>
<tr>
<th>To Balance</th>
<th>Rs.</th>
<th>a</th>
<th>p</th>
<th>By Realisation A/c. creditors paid</th>
<th>Rs.</th>
<th>a</th>
<th>p</th>
</tr>
</thead>
<tbody>
<tr>
<td>&quot; Realisation A/c. Assets realised</td>
<td>10,500</td>
<td>0</td>
<td>0</td>
<td>&quot; expenses</td>
<td>3,800</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>&quot; C—Capital A/c.</td>
<td>400</td>
<td>0</td>
<td>0</td>
<td>&quot; A's Capital A/c.</td>
<td>1,200</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>&quot; B's &quot;</td>
<td></td>
<td></td>
<td></td>
<td>&quot; B's &quot;</td>
<td>8,300</td>
<td>0</td>
<td>0</td>
</tr>
</tbody>
</table>

13,400 | 0 | 0  | 13,400 | 0 | 0  |
A—Capital Account

<table>
<thead>
<tr>
<th>To Realisation A/c.</th>
<th>Rs</th>
<th>a</th>
<th>p</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>9,200</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td></td>
<td>1,200</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td></td>
<td>10,400</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>By Balance &quot; Realisation A/c.</td>
<td>Rs</td>
<td>a</td>
<td>p</td>
</tr>
<tr>
<td></td>
<td>10,000</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td></td>
<td>400</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td></td>
<td>10,400</td>
<td>0</td>
<td>0</td>
</tr>
</tbody>
</table>

B - Capital Account

<table>
<thead>
<tr>
<th>To Cash</th>
<th>Rs</th>
<th>a</th>
<th>p</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>8,300</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>By Balance &quot; Realisation A c.</td>
<td>Rs</td>
<td>a</td>
<td>p</td>
</tr>
<tr>
<td></td>
<td>8,000</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td></td>
<td>300</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td></td>
<td>8,300</td>
<td>0</td>
<td>0</td>
</tr>
</tbody>
</table>

C Capital Account

<table>
<thead>
<tr>
<th>To Balance</th>
<th>Rs</th>
<th>a</th>
<th>p</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>500</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>By Realisation A/c.</td>
<td>Rs</td>
<td>a</td>
<td>p</td>
</tr>
<tr>
<td></td>
<td>100</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Cash</td>
<td>Rs</td>
<td>a</td>
<td>p</td>
</tr>
<tr>
<td></td>
<td>400</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td></td>
<td>500</td>
<td>0</td>
<td>0</td>
</tr>
</tbody>
</table>

If a partner's Capital Account shows a debit balance, he has to bring in cash to make up the deficiency. In the case C has to bring in Rs 400 in Cash

**Loss on Realisation** : Some partners being solvent, some insolvent.

We have seen that when on realisation some partner’s Capital Account shows a debit balance, he has to bring in cash to make good the deficiency. A very complicated situation arises if that partner becomes insolvent, that is, if he is unable to bring in the cash to put right his Capital Account. It should be observed that the insolvency of the partner causes an additional loss to the solvent partners. There is, firstly, the loss on realisation, and secondly, there is the loss due to the insolvency of a partner.

It was never noticed before that the two losses were of entirely different nature till it was observed by Mr. Justice Joyce in the famous English case Garner Vs Murray. Formerly both these losses viz., loss on realisation and loss caused by the insolvency of a partner were borne by the solvent partners in the ratio in
which they shared profits and losses. But the ruling given by Mr. Justice Joyce in the above case was "that the solvent partners were only liable to make good their share of deficiency, and that the remaining assets should be divided among them in proportion to their capitals." In other words, the loss on realisation is to be shared by all the partners (including the insolvent partner) in their profit sharing ratio and the loss due to the insolvency of a partner is to be borne by the solvent partners in proportion to their capitals.

The facts of the case, in brief, are given below.

Garner, Murray and Wilkins were partners. They contributed capitals unequally but shared profits equally. On dissolution, the assets realised sufficient to pay the creditors. The two partners' advances were also paid. But there was not sufficient cash to repay the capitals of the partners. The position, approximately was this—

<table>
<thead>
<tr>
<th>Balance Sheet</th>
</tr>
</thead>
<tbody>
<tr>
<td>Liabilities</td>
</tr>
<tr>
<td>£ s d</td>
</tr>
<tr>
<td>----------------</td>
</tr>
<tr>
<td>Capital Accounts: --</td>
</tr>
<tr>
<td>Garner 2,500 0 0</td>
</tr>
<tr>
<td>Murray 300 0 0</td>
</tr>
<tr>
<td></td>
</tr>
</tbody>
</table>

Wilkins was insolvent and was unable to bring in anything. So, in any event, the total loss the solvent partners had to bear was £630+£245, i.e., £875. The question arose how much of this £875 was to be borne by Garner and how much by Murray. To say the same thing, how was the cash £1,925 to be divided between them?

Mr. Justice Joyce held that a distinction must be made between loss on realisation or ordinary trading loss and the loss due to default of a partner. Provided outside creditors have been paid the liability of each partner is limited to making good his share of deficiency. The assets then remaining will be taken by the solvent partners in proportion to their capitals.
Previous to this case the total loss viz., £875 would have been shared by the solvent partners in the ratio in which they were sharing profit, in this case half and half. So the position would be, stage by stage, as—

<table>
<thead>
<tr>
<th>Liabilities</th>
<th>£</th>
<th>s</th>
<th>d</th>
<th>Assets</th>
<th>£</th>
<th>s</th>
<th>d</th>
</tr>
</thead>
<tbody>
<tr>
<td>Capital Accounts</td>
<td></td>
<td></td>
<td></td>
<td>Cash</td>
<td>1,925</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Garner</td>
<td>2,500</td>
<td>0</td>
<td>0</td>
<td>Wilkins (overdrawn)</td>
<td>245</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Murray</td>
<td>300</td>
<td>0</td>
<td>0</td>
<td>Share of Deficiency</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Garner</td>
<td>210</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Murray</td>
<td>210</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Wilkins</td>
<td>630</td>
<td></td>
<td>0</td>
</tr>
</tbody>
</table>

2,800 0 0

After transferring the share of deficiency to the partners' Capital Accounts, the position becomes

<table>
<thead>
<tr>
<th>Liabilities</th>
<th>£</th>
<th>s</th>
<th>d</th>
<th>Assets</th>
<th>£</th>
<th>s</th>
<th>d</th>
</tr>
</thead>
<tbody>
<tr>
<td>Capital Accounts</td>
<td></td>
<td></td>
<td></td>
<td>Cash</td>
<td>1,925</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Garner</td>
<td>2,290</td>
<td>0</td>
<td>0</td>
<td>Wilkins</td>
<td>455</td>
<td></td>
<td>0</td>
</tr>
<tr>
<td>Murray</td>
<td>90</td>
<td>0</td>
<td>0</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

2,380 0 0

Now, Wilkins being insolvent the loss £455 would be shared by Garner and Murray equally. Debiting the solvent partners' capital accounts with £227-10 each the position would be,

Garner's Capital Account £2,062-10 credit balance
Murray’s Capital Account £137-10 debit balance

Murray must bring in cash to put right his capital account. The total cash then available would be £1,925 + £137-10 = £2062-10 which amount would be paid to Garner as return of his capital.
Application of the rule laid down in Garner V's Murray:

"The solvent partners are liable to make good their share of the deficiency" has been interpreted as meaning that the solvent partners are to bring in cash to meet the share of the loss on realisation. It may be noted that it makes no difference to the ultimate result whether the solvent partners actually bring in the cash or their share of loss on realisation are just brought into account, i.e., adjusted in their capital accounts.

Assuming that the solvent partners do bring in the cash, the position becomes this:

\[
\text{Cash } £1,925 + £210 + £210 = £2,345 \\
\text{Wilkins } £245 + £210 - £455.
\]

\[
\begin{array}{|c|c|c|}
\hline
\text{Liabilities} & \text{£ s d} & \text{Assets} & \text{£ s d} \\
\hline
\text{Capital Accounts} & & & \\
\text{Garner} & 2,500 0 0 & \text{Cash} & 2,345 0 0 \\
\text{Murray} & 300 0 0 & \text{Wilkins} & 455 0 0 \\
\hline
\hline
\end{array}
\]

\[
2,800 0 0
\]

Now, the solvent partners will share the cash as well as bear the loss due to Wilkins' insolvency in the proportion of their capitals i.e., in the ratio of 2,500 : 300.

\[
\begin{array}{|c|c|c|}
\hline
\text{Partners} & \text{Receive} & \text{Lose} \\
\hline
\text{Garner} & 2,500 \text{ of } £2,345 = £2,093-15 & 2,500 \text{ of } £455 = £406-5 \\
& 2,800 & 2,800 \\
\hline
\text{Murray} & 300 \text{ of } £2,345 = £251-5 & 300 \text{ of } £455 = £48-15 \\
& 2,800 & 2,800 \\
\hline
\end{array}
\]

If, instead of the solvent partners bringing in cash to make good their share of deficiency, the loss on realisation was brought into account by adjustment in their capital accounts, the position would be
Garner—Share of Wilkin's deficiency \( \frac{2500}{2800} \) of \( £455 = £406.50 \)
Murray—Share of Wilkin's deficiency \( \frac{300}{2800} \) of \( £455 = £48.15 \)

**Garner—Capital Account**

<table>
<thead>
<tr>
<th></th>
<th>£</th>
<th>s</th>
<th>d</th>
</tr>
</thead>
<tbody>
<tr>
<td>\text{To Loss on Realisation}</td>
<td>210</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>\text{&quot; Wilkin's Capital A/c}</td>
<td>406</td>
<td>5</td>
<td>0</td>
</tr>
<tr>
<td>\text{&quot; Cash}</td>
<td>1,883</td>
<td>15</td>
<td>0</td>
</tr>
<tr>
<td>\text{\textbf{By Balance} }</td>
<td>\textbf{2,500}</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>\text{\textbf{Total}}</td>
<td>2,500</td>
<td>0</td>
<td>0</td>
</tr>
</tbody>
</table>

**Murray Capital Account**

<table>
<thead>
<tr>
<th></th>
<th>£</th>
<th>s</th>
<th>d</th>
</tr>
</thead>
<tbody>
<tr>
<td>\text{To Loss on Realisation}</td>
<td>210</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>\text{&quot; Wilkin's Capital A/c}</td>
<td>48</td>
<td>15</td>
<td>0</td>
</tr>
<tr>
<td>\text{&quot; Cash}</td>
<td>11</td>
<td>5</td>
<td>0</td>
</tr>
<tr>
<td>\text{\textbf{By Balance} }</td>
<td>\textbf{300}</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>\text{\textbf{Total}}</td>
<td>300</td>
<td>0</td>
<td>0</td>
</tr>
</tbody>
</table>

**Wilkin's Capital Account**

<table>
<thead>
<tr>
<th></th>
<th>£</th>
<th>s</th>
<th>d</th>
</tr>
</thead>
<tbody>
<tr>
<td>\text{To Balance}</td>
<td>455</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>\text{\textbf{By Garner Capital A/c}}</td>
<td>\textbf{406}</td>
<td>5</td>
<td>0</td>
</tr>
<tr>
<td>\text{\textbf{By Murray}}</td>
<td>\textbf{48}</td>
<td>15</td>
<td>0</td>
</tr>
<tr>
<td>\text{\textbf{Balance}}</td>
<td>\textbf{455}</td>
<td>0</td>
<td>0</td>
</tr>
</tbody>
</table>

It may be observed that by making good their share of loss by bringing in cash, Garner took back the amount brought in i.e., \( £210 + £1,883.15 \), in all \( £2,093.15 \).

And Murray took back \( £210 + £41.50 \), in all \( £251.50 \). So making good the share of loss by bringing in cash does not make the slightest difference in the sharing of the cash by the solvent partners.

May it be noted here that by the application of the ruling in the case,

Garner gets \( £1,883.15 \)
Murray gets \( £41.50 \)

\( £1,925 \)

Under the method followed previously (as illustrated above), Murray has to bring in \( £137.10 \), which amount along with \( £1,925 \) goes to Garner.
The distinction drawn by Mr. Justice Joyce between the loss on realisation and the loss caused by the insolvency of a partner took the accountancy profession by surprise and it gave rise to a lot of controversy which still seems to be raging. But the ruling, now about half a century old, has not yet been reversed by any court whether English or Indian. Therefore the present position is that the loss caused by the insolvency of a partner must be borne by the solvent partners in the proportion of the capitals.

The Controversy

The arguments and counter-arguments turn on the one hand on the interpretation as to what is meant by "making good his share of loss" and what are "their capitals" in proportion to which the remaining assets are to be divided and on the other the practical difficulties of giving effect to those interpretations.

1. It is argued that according to the judgement the solvent partners should bring in cash and thus make good "their share of deficiency". The counter-arguments are it is unnecessary, unreasonable and in actual practice the solvent partners, more often than not, will not or cannot actually bring in the cash.

On close study of the wordings, it is by no means certain beyond doubt, that it is the correct interpretation that cash should be brought by the solvent partners. It reads—"the solvent partners are only liable to make good their share of the deficiency". It is suggested that there is considerable emphasis on the word "only", for unless it had a special significance the the word would seem unnecessary. It limits the liability of the solvent partners up to their own share of deficiency as against the former practice of sharing the deficiency of the insolvent partner as well. The words following are --"and the remaining assets should be divided among them in proportion to their Capitals". Mr. Justice Joyce gave his decision as to how the deficiency should be borne by the partners and gave direction regarding the division of the remaining assets. The normal interpretation of "remaining assets" would be assets remaining after meeting all the liabilities and not remaining after the solvent partners have brought in cash to make good their share of deficiency.

In working out exercises, in the absence of clear indication, the student can follow any course in the light of his own understanding—viz, he can assume cash actually brought in or not brought in by the solvent partners. The final distribution will be
the same, (as has been illustrated above). He will however find it easier to work out the exercises if cash brought in is assumed.

2. It is argued, in the second place, that the word "capitals" in the judgement--"the remaining assets should be distributed among them in proportion to their capitals"--means the fixed capitals (if the partnership agreement did so provide), or the capital as per last Balance Sheet, which are the partners' agreed capitals. May it be noted at once that this is the vital point. While the interpretation one way or the other--of "making good the share of deficiency" is immaterial in the sense that it makes no difference to the ultimate result, the decision as to what figure is to be taken as the capital affects the share of the cash each partner will get.

It is essential therefore to be quite clear on this point. There are three probable figures viz., (a), the fixed capitals, (b) the capitals as per the last Balance Sheet and (c) the capitals as on the date of dissolution.

(a) The Fixed Capitals:

It has been argued that where the partnership agreement provide for fixed capitals, the distribution of the "remaining assets"--(the final cash balance) should be in the proportion of those figures. The balances in the Current Accounts, it is argued, should not be considered. If the last Balance Sheet contains such items as Reserve, Profit and Loss Account balance (which is very unusual in case of a partnership firm) the necessary adjustments should be made in the Current Accounts of the partners. The main object is to make sure that the capital figures are not lost sight of because it is in that proportion that the remaining assets (cash) are to be divided among the solvent partners.

It is suggested that the partners' capitals may be fixed by the partnership agreement, but those are never the real capitals of the partners if there are balances in the Current Accounts. A partner's real capital in the firm is the Capital Account and the Current Account taken together. The undrawn profit (credit balance in the Current Account) or overdrawn (debit balance) current account increases or decreases the partner's actual capital just as in case of a sole proprietor. The fixed capitals cannot therefore form the basis in determining the proportion in which the cash is to be divided among the solvent partners. At the moment of repayment of capital, each partner's claim on the
cash balance is equal to what appears as the balance in his Capital Account—Fixed Capital and Current Account taken together. We have all along repaid the partners—when the question of insolvency did not arise—what at the last moment appeared as his capital. There is no justification of importing some other principle just because some partner is unable to make good the debit balance of his Capital Account.

(b) Capitals as per last Balance Sheet:

If the last Balance Sheet was prepared at a date earlier than the date when dissolution was decided upon, then the capital figures as shown therein cannot form the basis for the division of the final cash balance among the solvent partners because these are the capitals at an earlier date and may be quite different than the capitals the partners have on the day when they decide to dissolve the firm.

(c) Capitals as on the day when dissolution is decided upon:

These are the partners' actual capitals when the firm is being liquidated. If it so happened, that there was no loss or no gain in dissolution, that is to say, if book value of the assets were realised and the liabilities were paid, the partners would have got back the exact amount as shown in the Capital Accounts. If loss is suffered in realisation and if further loss is caused to some partners because some other partner is insolvent the Garner vs Murray case decides how the losses are to be shared by the solvent partners and how the cash is to be divided among them—it is in the proportion of their capitals, as they stood at the date when the partners determined upon dissolution, and prior to any adjustment arising from the dissolution. Loss on realisation will alter these capital figures, but "making good the share of deficiency" brings the figures back and forms the basis for the proportionate division of the cash among the solvent partners.

The Criticism:

The decision in Garner vs Murray has been severely criticised because of the distinction made between the trading loss or the loss on realisation and the loss due to the insolvency of a partner. Further it has been considered illogical that the solvent partners are to bear the loss caused by the insolvency of a partner in the proportion of their capitals. For, it is said, if a solvent partner has no capital or has a debit balance in his capital account,
according to the decision, he does not have to share the loss (however solvent he might be) caused by the insolvency of a partner. If there is a debit balance in the capital account, he is liable only to put it right by bringing in cash.

Now, let us see how much logic there is in the criticism. Here is the position of A, B and C who are equal partners, after the realisation of the assets C being insolvent is unable to bring in anything.

<table>
<thead>
<tr>
<th>Liabilities</th>
<th>Assets</th>
</tr>
</thead>
<tbody>
<tr>
<td>Capital Accounts:</td>
<td>Cash</td>
</tr>
<tr>
<td>A 2,000 0 0 C (Debit Balance)</td>
<td>1,500 0 0</td>
</tr>
<tr>
<td>B</td>
<td>500 0 0</td>
</tr>
<tr>
<td></td>
<td>2,000 0 0</td>
</tr>
<tr>
<td></td>
<td>2,000 0 0</td>
</tr>
</tbody>
</table>

According the ruling in Garner vs Murray A will take the entire amount of cash Rs. 1,500, B having no capital.

A—Capital Account

<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>To C Capital A/c.</td>
<td>By Balance</td>
</tr>
<tr>
<td>500 0 0</td>
<td>2,000 0 0</td>
</tr>
<tr>
<td>,, Cash</td>
<td>1,500 0 0</td>
</tr>
</tbody>
</table>

The advocates of the former practice would divide the loss due to the insolvency of C equally between A and B (their profits sharing ratio), and the position would be

<table>
<thead>
<tr>
<th>Liabilities</th>
<th>Assets</th>
</tr>
</thead>
<tbody>
<tr>
<td>Capital Account:</td>
<td>Cash</td>
</tr>
<tr>
<td>A—</td>
<td>1,500 0 0</td>
</tr>
<tr>
<td>A—1,750 0 0 B—Capital A/c</td>
<td>1,750 0 0</td>
</tr>
<tr>
<td></td>
<td>1,750 0 0</td>
</tr>
<tr>
<td></td>
<td>1,750 0 0</td>
</tr>
</tbody>
</table>
B will bring in Rs. 250 and A will be paid Rs. 1,750. Thus a mental satisfaction is obtained that B—a solvent partner—will also suffer the loss along with A.

Now, the whole point is, at the last moment the partners are withdrawing their capitals. The total capital at the moment is Rs. 2,000, which is represented by cash Rs. 1,500 and C’s debt of Rs. 500, which, if C could bring in, would go to A. For the entire capital of Rs. 2,000—no good denying it—belongs to A. For whatever reasons, part of it had gone to C’s pocket, or shall we say, becomes a debt from C, which he is now unable to bring. That being the facts of the case, it does not seem to be any good logic, that because C is unable to bring the money which belongs to A, B should bring half of it.

Partners come together to share the profits and losses of the partnership business and not for sharing the loss which is not a loss of the business. The loss caused by the failure of C, is not a loss of the partnership business. It is nowhere contemplated in the Partnership Act, that in certain event, some partners will compensate others because some other partner cannot put right his capital account.

Example:

The Balance Sheet of X, Y and Z is given below. They decide to dissolve their business.

<table>
<thead>
<tr>
<th>Liabilities</th>
<th>Rs.</th>
<th>a</th>
<th>p</th>
<th>Assets</th>
<th>Rs.</th>
<th>a</th>
<th>p</th>
</tr>
</thead>
<tbody>
<tr>
<td>Creditors—</td>
<td>13,200</td>
<td>0</td>
<td>0</td>
<td>Cash at Bank</td>
<td>200</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Capital Accounts</td>
<td></td>
<td></td>
<td></td>
<td>Debtors</td>
<td>9,000</td>
<td>6</td>
<td>0</td>
</tr>
<tr>
<td>X</td>
<td>24,000</td>
<td>0</td>
<td>0</td>
<td>Stock-in-Trade</td>
<td>32,000</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Y</td>
<td>18,000</td>
<td>0</td>
<td>0</td>
<td>Plant and</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Z</td>
<td>6,000</td>
<td>0</td>
<td>0</td>
<td>Machinery</td>
<td>20,000</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td></td>
<td>61,200</td>
<td>0</td>
<td>0</td>
<td></td>
<td>61,200</td>
<td>0</td>
<td>0</td>
</tr>
</tbody>
</table>

The assets realised 50% of their book value and expenses of realisation was Rs. 100. Z became insolvent and was unable to bring in anything to repay his debt to the firm. You are required to show the final adjustment of accounts (a) prior to and (b) after decision in Garner vs Murray.
(a) Method prior to Garner vs Murray decision.

Realisation Account

<table>
<thead>
<tr>
<th></th>
<th>Rs.</th>
<th>a</th>
<th>p</th>
<th></th>
<th>Rs.</th>
<th>a</th>
<th>p</th>
</tr>
</thead>
<tbody>
<tr>
<td>To Sundry Assets</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>transferred</td>
<td>61,000</td>
<td>0</td>
<td>0</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash—creditors paid</td>
<td>13,200</td>
<td>0</td>
<td>0</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash expenses</td>
<td>100</td>
<td>0</td>
<td>0</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>By Sundry Creditors</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>transferred</td>
<td>13,200</td>
<td>0</td>
<td>0</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash—assets realised</td>
<td>30,500</td>
<td>0</td>
<td>0</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Capital Accounts</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>—Loss Transferred</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>X</td>
<td>10,200</td>
<td>0</td>
<td>0</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Y</td>
<td>10,200</td>
<td>0</td>
<td>0</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Z</td>
<td>10,200</td>
<td>0</td>
<td>0</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
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<td></td>
<td>74,300</td>
<td>0</td>
<td>0</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Cash Book

<table>
<thead>
<tr>
<th></th>
<th>Rs.</th>
<th>a</th>
<th>p</th>
<th></th>
<th>Rs.</th>
<th>a</th>
<th>p</th>
</tr>
</thead>
<tbody>
<tr>
<td>To Balance</td>
<td>200</td>
<td>0</td>
<td>0</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Realisation Account</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Assets realised</td>
<td>30,500</td>
<td>0</td>
<td>0</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>30,700</td>
<td>0</td>
<td>0</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>By Realisation A/c</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Creditors paid</td>
<td>13,200</td>
<td>0</td>
<td>0</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Realisation A/c</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
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</tr>
<tr>
<td>expenses paid</td>
<td>100</td>
<td>0</td>
<td>0</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>X's Capital A/c</td>
<td>11,700</td>
<td>0</td>
<td>0</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Y's Capital A/c</td>
<td>5,700</td>
<td>0</td>
<td>0</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>30,700</td>
<td>0</td>
<td>0</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

X—Capital Account

<table>
<thead>
<tr>
<th></th>
<th>Rs.</th>
<th>a</th>
<th>p</th>
<th></th>
<th>Rs.</th>
<th>a</th>
<th>p</th>
</tr>
</thead>
<tbody>
<tr>
<td>To Realisation A/c</td>
<td>10,200</td>
<td>0</td>
<td>0</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1/3rd share of Loss</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Z's Capital Account</td>
<td>2,100</td>
<td>0</td>
<td>0</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1/2 share of deficiency</td>
<td>11,700</td>
<td>0</td>
<td>0</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>24,000</td>
<td>0</td>
<td>0</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Y—Capital Account

<table>
<thead>
<tr>
<th></th>
<th>Rs.</th>
<th>a</th>
<th>p</th>
<th></th>
<th>Rs.</th>
<th>a</th>
<th>p</th>
</tr>
</thead>
<tbody>
<tr>
<td>To Realisation A/c</td>
<td>10,200</td>
<td>0</td>
<td>0</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1/3rd share of loss</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Z's Capital A/c</td>
<td>2,100</td>
<td>0</td>
<td>0</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1/2 share of deficiency</td>
<td>5,700</td>
<td>0</td>
<td>0</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>18,000</td>
<td>0</td>
<td>0</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Z—Capital Account

<table>
<thead>
<tr>
<th>Rs.</th>
<th>a</th>
<th>p</th>
<th>By Balance</th>
<th>Rs.</th>
<th>a</th>
<th>p</th>
</tr>
</thead>
<tbody>
<tr>
<td>10,200</td>
<td>0</td>
<td>0</td>
<td>X’s Capital A/c</td>
<td>6,000</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>transfer</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>10,200</td>
<td>0</td>
<td>0</td>
<td>Y’s Capital A/c</td>
<td>2,100</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>transfer</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>10,200</td>
<td>0</td>
<td>0</td>
<td></td>
<td>10,200</td>
<td>0</td>
<td>0</td>
</tr>
</tbody>
</table>

(b) After the decision of Garner vs Murray
(i) Assumed cash brought in

Cash Book

<table>
<thead>
<tr>
<th>Rs.</th>
<th>a</th>
<th>p</th>
<th>By Realisation A/c</th>
<th>Rs.</th>
<th>a</th>
<th>p</th>
</tr>
</thead>
<tbody>
<tr>
<td>200</td>
<td>0</td>
<td>0</td>
<td>creditors paid</td>
<td>13,200</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>30,500</td>
<td>0</td>
<td>0</td>
<td>Realisation A/c</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>10,200</td>
<td>0</td>
<td>0</td>
<td>expenses paid</td>
<td>100</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>10,200</td>
<td>0</td>
<td>0</td>
<td>( Y )’s Capital A/c</td>
<td>21,600</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>10,200</td>
<td>0</td>
<td>0</td>
<td>( Y )’s Capital A/c</td>
<td>18,200</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>( Y )’s Capital A/c</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>51,100</td>
<td>0</td>
<td>0</td>
<td>( Y )’s Capital A/c</td>
<td>51,100</td>
<td>0</td>
<td>0</td>
</tr>
</tbody>
</table>

X—Capital Account

<table>
<thead>
<tr>
<th>Rs.</th>
<th>a</th>
<th>p</th>
<th>By Balance</th>
<th>Rs.</th>
<th>a</th>
<th>p</th>
</tr>
</thead>
<tbody>
<tr>
<td>10,200</td>
<td>0</td>
<td>0</td>
<td>Cash</td>
<td>14,000</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>2,400</td>
<td>0</td>
<td>0</td>
<td>( Z )’s Capital A/c</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>21,600</td>
<td>0</td>
<td>0</td>
<td>( Z )’s Capital A/c</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Cash</td>
<td>34,200</td>
<td>0</td>
<td>0</td>
</tr>
</tbody>
</table>

Y—Capital Account

<table>
<thead>
<tr>
<th>Rs.</th>
<th>a</th>
<th>p</th>
<th>By Balance</th>
<th>Rs.</th>
<th>a</th>
<th>p</th>
</tr>
</thead>
<tbody>
<tr>
<td>10,200</td>
<td>0</td>
<td>0</td>
<td>Cash</td>
<td>18,000</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>1,800</td>
<td>0</td>
<td>0</td>
<td>( Z )’s Capital A/c</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>16,200</td>
<td>0</td>
<td>0</td>
<td>( Z )’s Capital A/c</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Cash</td>
<td>28,200</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>28,200</td>
<td>0</td>
<td>0</td>
</tr>
</tbody>
</table>
\( Z \) — Capital Account

|                         | Rs  | a   | p 
|-------------------------|-----|-----|-----
| To Realisation A/c—     |     |     |     
| 1/3rd share of loss     | 10,200 | 0 | 0   
| By Balance              |     |     |     
| \( X \)'s Capital A/c   | 2,400 | 0 | 0   
| \( Y \)'s Capital A/c   | 1,800 | 0 | 0   

\( \text{(ii)} \) Assumed deficiency brought into account, cash not brought in

**Cash Book**

|                         | Rs  | a   | p 
|-------------------------|-----|-----|-----
| To Balance              |     |     |     
| \( X \)’s Capital A/c   | 13,200 | 0 | 0   
| creditors paid          | 100  | 0 | 0   
| \( Z \)’s Capital A/c   | 11,400 | 0 | 0   
| \( Y \)’s Capital A/c   | 6,000  | 0 | 0   

\( X \) — Capital Account

|                         | Rs  | a   | p 
|-------------------------|-----|-----|-----
| To Realisation A/c—     |     |     |     
| 1,3rd share of loss     | 10,200 | 0 | 0   
| \( Z \)’s Capital A/c   | 2,400 | 0 | 0   
| \( Z \)’s Capital A/c   | 11,100 | 0 | 0   

\( Y \) — Capital Account

|                         | Rs  | a   | p 
|-------------------------|-----|-----|-----
| To Realisation A/c—     |     |     |     
| 1/3rd share of loss     | 10,200 | 0 | 0   
| \( Z \)’s Capital A/c   | 1,800 | 0 | 0   
| \( Z \)’s Capital A/c   | 6,000  | 0 | 0   

| By Balance              |     |     |     
| 18,000                  | 0 | 0 | 0   

" 18,000    0  0"
Z—Capital Account

<table>
<thead>
<tr>
<th>Realisation A/c—</th>
<th>By Balance</th>
<th>Rs.</th>
<th>a. p</th>
</tr>
</thead>
<tbody>
<tr>
<td>1/3rd share of loss</td>
<td>&quot; X's Capital A/c</td>
<td>10,200</td>
<td>0 0</td>
</tr>
<tr>
<td></td>
<td>&quot; Y's Capital A/c</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>10,200</td>
<td>0 0</td>
</tr>
</tbody>
</table>

Example

A, B and C are in partnership sharing profits and losses equally. They decide to dissolve their firm and the Balance Sheet as at the date of dissolution is as follows:

<table>
<thead>
<tr>
<th>Liabilities</th>
<th>Assets</th>
</tr>
</thead>
<tbody>
<tr>
<td>Capital A/c--</td>
<td>Land and</td>
</tr>
<tr>
<td>A</td>
<td>Buildings</td>
</tr>
<tr>
<td>B</td>
<td>Furniture and</td>
</tr>
<tr>
<td>A--Loan A/c</td>
<td>Fittings</td>
</tr>
<tr>
<td>Sundry Creditors</td>
<td>Sundry Debtors</td>
</tr>
<tr>
<td></td>
<td>Stock-in-Trade</td>
</tr>
<tr>
<td></td>
<td>Cash</td>
</tr>
<tr>
<td></td>
<td>C --Capital A/c</td>
</tr>
<tr>
<td></td>
<td>Debit balance</td>
</tr>
</tbody>
</table>

1,06,000 0 0

The assets realised Rs 80,000, and the expenses of winding up amount to Rs. 1,000. A and B are solvent but C is unable to bring in anything.

Make the Journal entries, and show the necessary Ledger Accounts, applying the Garner vs Murray principle in winding up.
## Journal

<table>
<thead>
<tr>
<th>Dr.</th>
<th>Rs.</th>
<th>Rs.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Realisation Account</td>
<td>91,000</td>
<td>26,000</td>
</tr>
<tr>
<td>To Land &amp; Buildings</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Furniture &amp; Fittings</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sundry Debtors</td>
<td></td>
<td>40,000</td>
</tr>
<tr>
<td>Stock-in-trade</td>
<td></td>
<td>17,000</td>
</tr>
<tr>
<td><strong>Being the transfer of Sundry Assets to Realisation Account</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sundry Creditors</td>
<td>35,000</td>
<td>35,000</td>
</tr>
<tr>
<td>To Realisation Account</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Being the transfer of Sundry Creditors to Realisation Account</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash</td>
<td>80,000</td>
<td>80,000</td>
</tr>
<tr>
<td>To Realisation Account</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Being assets realised</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Realisation Account</td>
<td>35,000</td>
<td>35,000</td>
</tr>
<tr>
<td>To Cash</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Being the payment to Sundry Creditors</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Realisation Account</td>
<td>1,000</td>
<td>1,000</td>
</tr>
<tr>
<td>To Cash</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Being expenses of winding up paid</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>A's Capital Account</td>
<td>4,000</td>
<td>4,000</td>
</tr>
<tr>
<td>B's Capital Account</td>
<td></td>
<td></td>
</tr>
<tr>
<td>C's Capital Account</td>
<td>4,000</td>
<td>12,000</td>
</tr>
<tr>
<td>To Realisation Account</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Being share of loss transferred to Capital Account of the partners</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>A's Loan Account</td>
<td>15,000</td>
<td>15,000</td>
</tr>
<tr>
<td>To Cash</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Being A's loan repaid</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>A's Capital Account</td>
<td>6,000</td>
<td>3,000</td>
</tr>
<tr>
<td>B's Capital Account</td>
<td></td>
<td></td>
</tr>
<tr>
<td>To C's Capital Account</td>
<td></td>
<td>9,000</td>
</tr>
<tr>
<td><strong>Being transfer of debit balance of C's Capital Account to A and B's Capital Accounts</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>A's Capital Account</td>
<td>20,000</td>
<td></td>
</tr>
<tr>
<td>B's Capital Account</td>
<td>13,000</td>
<td>33,000</td>
</tr>
<tr>
<td>To Cash</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Being repayment of A and B's Capitals</strong></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
**Realisation Account**

<table>
<thead>
<tr>
<th>Rs.</th>
<th>a</th>
<th>p</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>To Assets Transferred</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>---</td>
<td>---</td>
<td>---</td>
</tr>
<tr>
<td>Land &amp; Building</td>
<td>26,000</td>
<td>0</td>
</tr>
<tr>
<td>Furniture &amp; Fittings</td>
<td>8,000</td>
<td>0</td>
</tr>
<tr>
<td>Sundry Debtors</td>
<td>40,000</td>
<td>0</td>
</tr>
<tr>
<td>Stock-in-Trade</td>
<td>17,000</td>
<td>0</td>
</tr>
<tr>
<td>&quot; Cash — Creditors paid</td>
<td>35,000</td>
<td>0</td>
</tr>
<tr>
<td>&quot; Cash Expenses paid</td>
<td>1,000</td>
<td>0</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>1,27,000</td>
<td>0</td>
</tr>
</tbody>
</table>

By Sundry Creditors — transferred.
Cash — Assets realised
Loss transferred to A — Capital A/c — 1/3rd share
B — Capital A/c — 1/3rd share
C — Capital A/c — 1/3rd share

**Cash Book**

<table>
<thead>
<tr>
<th>Rs.</th>
<th>a</th>
<th>p</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>To Balance</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>---</td>
<td>---</td>
<td>---</td>
</tr>
<tr>
<td>Realisation A/c — Assets realised</td>
<td>4,000</td>
<td>0</td>
</tr>
<tr>
<td><strong>By Realisation A/c — Creditors paid</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>---</td>
<td>---</td>
<td>---</td>
</tr>
<tr>
<td><em>Expenses paid</em></td>
<td>37,000</td>
<td>0</td>
</tr>
<tr>
<td><em>A’s Loan A/c</em></td>
<td>1,000</td>
<td>0</td>
</tr>
<tr>
<td><em>A’s Capital A/c</em></td>
<td>15,000</td>
<td>0</td>
</tr>
<tr>
<td><em>B’s Capital A/c</em></td>
<td>20,000</td>
<td>0</td>
</tr>
<tr>
<td><em>B’s Capital A/c</em></td>
<td>13,000</td>
<td>0</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>84,000</td>
<td>0</td>
</tr>
</tbody>
</table>

**A—Loan Account**

<table>
<thead>
<tr>
<th>Rs.</th>
<th>a</th>
<th>p</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>To Cash</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>---</td>
<td>---</td>
<td>---</td>
</tr>
<tr>
<td><em>Cash</em></td>
<td>15,000</td>
<td>0</td>
</tr>
<tr>
<td><strong>By Balance</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>---</td>
<td>---</td>
<td>---</td>
</tr>
<tr>
<td><em>Balance</em></td>
<td>15,000</td>
<td>0</td>
</tr>
</tbody>
</table>

**A—Capital Account**

<table>
<thead>
<tr>
<th>Rs.</th>
<th>a</th>
<th>p</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>To Realisation A/c — 1/3rd share of loss</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>---</td>
<td>---</td>
<td>---</td>
</tr>
<tr>
<td><em>C’s Capital A/c</em></td>
<td>4,000</td>
<td>0</td>
</tr>
<tr>
<td><em>Cash</em></td>
<td>6,000</td>
<td>0</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>30,000</td>
<td>0</td>
</tr>
</tbody>
</table>

By Balance

<table>
<thead>
<tr>
<th>Rs.</th>
<th>a</th>
<th>p</th>
</tr>
</thead>
<tbody>
<tr>
<td><em>Balance</em></td>
<td>30,000</td>
<td>0</td>
</tr>
</tbody>
</table>
B—Capital Account

\[
\begin{array}{ccc}
\text{Rs} & \text{a} & \text{p} \\
\hline
\text{To Realisation A/c—} & \text{By Balance} & \text{Rs} \text{ a} \text{p} \\
1/3rd share of loss & 4,000 & 0 & 0 \\
" C's Capital A/c & 1,000 & 0 & 0 \\
" Cash & 13,000 & 0 & 0 \\
\hline
20,000 & 0 & 0 \\
\hline
\end{array}
\]

\[
\begin{array}{ccc}
\text{Rs} & \text{a} & \text{p} \\
\hline
\text{C Capital Account—} & \text{Rs} \text{ a} \text{p} \\
\hline
\text{To Balance} & 3,000 & 0 & 0 \\
\text{Realisation A/c} & 6,000 & 0 & 0 \\
1/3rd share of loss & 4,000 & 0 & 0 \\
\hline
9,000 & 0 & 0 \\
\hline
\end{array}
\]

\text{Note } (1) \text{ It has been assumed that the solvent partners did not bring in cash to make good their share of deficiency.}

(2) \text{ The deficiency is shared by all the partners in their profit sharing ratio.}

(3) \text{ The solvent partners share the remaining cash in the proportion of their capitals as they stood on the day they determined upon dissolution.}

Example

Ramdeeb, Sukdeeb and Jadulal were partners sharing profits and losses in the ratio of 3:2:1. On the 31st December 19\text{...} \text{...} when the partners decided to dissolve the firm, the Balance Sheet was as follows:

<table>
<thead>
<tr>
<th>Liabilities</th>
<th>Assets</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sundry Creditors 4,000 0 0</td>
<td>Land and Buildings 5,000 0 0</td>
</tr>
<tr>
<td>General Reserve 4,500 0 0</td>
<td>Plant and Machinery 6,000 0 0</td>
</tr>
<tr>
<td>Capital A/c</td>
<td>Stock in-Trade 4,000 0 0</td>
</tr>
<tr>
<td>Ramdeeb 8,125 0 0</td>
<td>Sundry Debtors 5,500 0 0</td>
</tr>
<tr>
<td>Sukdeeb 8,875 0 0</td>
<td>Cash-at-Bank 2,000 0 0</td>
</tr>
<tr>
<td>Jadulal-Capital</td>
<td>A/c—(Debit Balance) 3,000 0 0</td>
</tr>
<tr>
<td></td>
<td>25,500 0 0</td>
</tr>
</tbody>
</table>

\[
\begin{array}{ccc}
\text{Rs} & \text{a} & \text{p} \\
\hline
\text{Liabilities} & \text{Assets} & 25,500 & 0 & 0 \\
\hline
\end{array}
\]
The assets realised Rs. 15,000. The expenses of liquidation amounted to Rs. 500. Jadulal became insolvent and could not contribute anything towards his deficiency. You are required to close the books.

Assume that the solvent partners bring in cash to make good their share of deficiency.

### Realisation Account

<table>
<thead>
<tr>
<th></th>
<th>Rs. a p</th>
<th></th>
<th>Rs. a p</th>
</tr>
</thead>
<tbody>
<tr>
<td>To Sundry Assets—</td>
<td>20,500  0 0</td>
<td>By Sundry Creditors—</td>
<td>4,000  0 0</td>
</tr>
<tr>
<td>transferred</td>
<td></td>
<td>transferred</td>
<td></td>
</tr>
<tr>
<td>&quot; Cash—Expenses</td>
<td>500  0 0</td>
<td>&quot; Cash—assets</td>
<td>15,000  0 0</td>
</tr>
<tr>
<td>paid</td>
<td></td>
<td>realised</td>
<td></td>
</tr>
<tr>
<td>&quot; Cash—creditors</td>
<td>4,000  0 0</td>
<td>&quot; Capital A/c</td>
<td>3,000  0 0</td>
</tr>
<tr>
<td>paid</td>
<td></td>
<td>Ramdeb—1/2 share of loss</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Sukdeb—1/3rd share of loss</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Jadulal—1/6th share of loss</td>
<td></td>
</tr>
<tr>
<td></td>
<td>25,000  0 0</td>
<td></td>
<td>25,000  0 0</td>
</tr>
</tbody>
</table>

### Cash Book

<table>
<thead>
<tr>
<th></th>
<th>Rs. a p</th>
<th></th>
<th>Rs. a p</th>
</tr>
</thead>
<tbody>
<tr>
<td>To Balance</td>
<td>2,000  0 0</td>
<td>By Realisation A/c—</td>
<td>4,000  0 0</td>
</tr>
<tr>
<td></td>
<td></td>
<td>creditors paid</td>
<td></td>
</tr>
<tr>
<td>&quot; Realisation A/c—</td>
<td>15,000  0 0</td>
<td>&quot; Realisation A/c—</td>
<td>500  0 0</td>
</tr>
<tr>
<td>assets realised</td>
<td></td>
<td>Expenses paid</td>
<td></td>
</tr>
<tr>
<td>&quot; Ramdeb—Capital</td>
<td>3,000  0 0</td>
<td>&quot; Ramdeb—Capital</td>
<td>8,750  0 0</td>
</tr>
<tr>
<td>Account</td>
<td></td>
<td>repaid</td>
<td></td>
</tr>
<tr>
<td>&quot; Sukdeb—Capital</td>
<td>2,000  0 0</td>
<td>&quot; Sukdeb—Capital</td>
<td>8,750  0 0</td>
</tr>
<tr>
<td>Account</td>
<td></td>
<td>repaid</td>
<td></td>
</tr>
<tr>
<td></td>
<td>22,000  0 0</td>
<td></td>
<td>22,000  0 0</td>
</tr>
</tbody>
</table>

### General Reserve Account

<table>
<thead>
<tr>
<th></th>
<th>Rs. a p</th>
<th></th>
<th>Rs. a p</th>
</tr>
</thead>
<tbody>
<tr>
<td>To Ramdeb Capital</td>
<td>2,250  0 0</td>
<td>By Balance</td>
<td>4,500  0 0</td>
</tr>
<tr>
<td>Account</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>&quot; Sukdeb Capital</td>
<td>1,500  0 0</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Account</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>&quot; Jadulal Capital</td>
<td>750  0 0</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Account</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>4,500  0 0</td>
<td></td>
<td>4,500  0 0</td>
</tr>
</tbody>
</table>


### Ramdeb—Capital Account

<table>
<thead>
<tr>
<th>To Realisation A/c</th>
<th>Rs</th>
<th>a</th>
<th>p</th>
<th>By Balance</th>
<th>Rs</th>
<th>a</th>
<th>p</th>
</tr>
</thead>
<tbody>
<tr>
<td>1/2 share of loss</td>
<td>3,000</td>
<td>0</td>
<td>0</td>
<td>General Reserve—</td>
<td>8,125</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>„ Jadulal—Capital Account</td>
<td>1,625</td>
<td>0</td>
<td>0</td>
<td>„ 1/2 share</td>
<td>2,250</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>„ Cash</td>
<td>8,750</td>
<td>0</td>
<td>0</td>
<td>„ Cash</td>
<td>3,000</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td></td>
<td>13,375</td>
<td>0</td>
<td>0</td>
<td></td>
<td>13,375</td>
<td>0</td>
<td>0</td>
</tr>
</tbody>
</table>

### Sukdeb—Capital Account

<table>
<thead>
<tr>
<th>To Realisation A/c</th>
<th>Rs</th>
<th>a</th>
<th>p</th>
<th>By Balance</th>
<th>Rs</th>
<th>a</th>
<th>p</th>
</tr>
</thead>
<tbody>
<tr>
<td>1/3rd share of loss</td>
<td>2,000</td>
<td>0</td>
<td>0</td>
<td>General Reserve—</td>
<td>8,875</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>„ Jadulal—Capital Account</td>
<td>1,625</td>
<td>0</td>
<td>0</td>
<td>„ 1/3rd share</td>
<td>1,500</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>„ Cash</td>
<td>8,750</td>
<td>0</td>
<td>0</td>
<td>„ Cash</td>
<td>2,000</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td></td>
<td>12,375</td>
<td>0</td>
<td>0</td>
<td></td>
<td>12,375</td>
<td>0</td>
<td>0</td>
</tr>
</tbody>
</table>

### Jadulal—Capital Account

<table>
<thead>
<tr>
<th>To Balance</th>
<th>Rs</th>
<th>a</th>
<th>p</th>
<th>By General Reserve—</th>
<th>Rs</th>
<th>a</th>
<th>p</th>
</tr>
</thead>
<tbody>
<tr>
<td>Realisation A/c</td>
<td>3,000</td>
<td>0</td>
<td>0</td>
<td>„ 1/6th share</td>
<td>750</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>„ 1/6th share of loss</td>
<td>1,000</td>
<td>0</td>
<td>0</td>
<td>„ Ramdeb Capital Account</td>
<td>1,625</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td></td>
<td>4,000</td>
<td>0</td>
<td>0</td>
<td>„ Sukdeb Capital Account</td>
<td>1,625</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td></td>
<td>1,000</td>
<td>0</td>
<td>0</td>
<td></td>
<td>1,000</td>
<td>0</td>
<td>0</td>
</tr>
</tbody>
</table>

**Note**—(1) The General Reserve has been transferred to the partners' Capital Accounts in their profit sharing ratio.

(2) The capitals of the solvent partner on the day of dissolution after adjustment of the Reserve were equal, viz., Rs 10,375 each. The loss due to Jadulal's insolvency was therefore borne equally by them.
Example:

A, B and C are partners. The Balance Sheet on the date they determined to dissolve is given below.

<table>
<thead>
<tr>
<th>Liabilities</th>
<th>Rs.</th>
<th>a</th>
<th>p</th>
<th>Assets</th>
<th>Rs.</th>
<th>a</th>
<th>p</th>
</tr>
</thead>
<tbody>
<tr>
<td>Creditors</td>
<td>20,000</td>
<td>0</td>
<td>0</td>
<td>Cash</td>
<td>3,000</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Reserve</td>
<td>6,000</td>
<td>0</td>
<td>0</td>
<td>Sundry Assets</td>
<td>70,000</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>B—Loan Account</td>
<td>5,000</td>
<td>0</td>
<td>0</td>
<td>Current Account—</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Capital Accounts—</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>A</td>
<td>20,000/-</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>B</td>
<td>10,000/-</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>C</td>
<td>8,000/-</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Current Accounts—</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>A</td>
<td>3,000/-</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>B</td>
<td>3,000/-</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>75,000</td>
<td>0</td>
<td>0</td>
</tr>
</tbody>
</table>

The assets realised Rs. 37,000. Show the final adjustment of accounts among the partners assuming that C was insolvent and nothing could be realised from his estate.

1 If “division of the remaining assets among the solvent partners in the proportion of their capitals” means in the proportion of their fixed capital; the adjustment of accounts will be as given below.

Cash Book

<table>
<thead>
<tr>
<th>To Balance</th>
<th>Rs.</th>
<th>a</th>
<th>p</th>
<th>By Realisation A/c—</th>
<th>Rs.</th>
<th>a</th>
<th>p</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>5,000</td>
<td>0</td>
<td>0</td>
<td>creditors paid</td>
<td>20,000</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>„ Realisation A/c</td>
<td>37,000</td>
<td>0</td>
<td>0</td>
<td>Loan Repaid—B</td>
<td>5,000</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>„ A—Current A/c</td>
<td>11,000</td>
<td>0</td>
<td>0</td>
<td>A—Capital repaid</td>
<td>23,000</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>„ B—Current A/c</td>
<td>11,000</td>
<td>0</td>
<td>0</td>
<td>B—Capital repaid</td>
<td>14,000</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>62,000</td>
<td>0</td>
<td>0</td>
</tr>
</tbody>
</table>

A—Capital Account

<table>
<thead>
<tr>
<th>To C’s Capital A/c—</th>
<th>Rs.</th>
<th>a</th>
<th>p</th>
<th>By Balance</th>
<th>Rs.</th>
<th>a</th>
<th>p</th>
</tr>
</thead>
<tbody>
<tr>
<td>% shares of deficiency</td>
<td>2,000</td>
<td>0</td>
<td>0</td>
<td>Current Account—Transfer</td>
<td>5,000</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Cash</td>
<td>23,000</td>
<td>0</td>
<td>0</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>25,000</td>
<td>0</td>
<td>0</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
### A—Current Account

<table>
<thead>
<tr>
<th>Description</th>
<th>Rs.</th>
<th>a</th>
<th>p</th>
<th>By Balance</th>
<th>Rs.</th>
<th>a</th>
<th>p</th>
</tr>
</thead>
<tbody>
<tr>
<td>To Realisation A/c</td>
<td>11,000</td>
<td>0</td>
<td>0</td>
<td>Reserve, 1/3rd</td>
<td>3,000</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>1/3rd share of loss</td>
<td></td>
<td></td>
<td></td>
<td>transferred</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>&quot; Transfer—Capital Account</td>
<td>5,000</td>
<td>0</td>
<td>0</td>
<td>&quot; Cash</td>
<td>2,000</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td></td>
<td>16,000</td>
<td>0</td>
<td>0</td>
<td></td>
<td>11,000</td>
<td>0</td>
<td>0</td>
</tr>
</tbody>
</table>

### B—Capital Account

<table>
<thead>
<tr>
<th>Description</th>
<th>Rs.</th>
<th>a</th>
<th>p</th>
<th>By Balance</th>
<th>Rs.</th>
<th>a</th>
<th>p</th>
</tr>
</thead>
<tbody>
<tr>
<td>To C's Capital A/c</td>
<td></td>
<td></td>
<td></td>
<td>Current A/c</td>
<td>10,000</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>1/3rd share of</td>
<td>1,000</td>
<td>0</td>
<td>0</td>
<td>transfer</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>deficiency</td>
<td>14,000</td>
<td>0</td>
<td>0</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>&quot; Cash</td>
<td>15,000</td>
<td>0</td>
<td>0</td>
<td></td>
<td>5,000</td>
<td>0</td>
<td>0</td>
</tr>
</tbody>
</table>

### B—Current Account

<table>
<thead>
<tr>
<th>Description</th>
<th>Rs.</th>
<th>a</th>
<th>p</th>
<th>By Balance</th>
<th>Rs.</th>
<th>a</th>
<th>p</th>
</tr>
</thead>
<tbody>
<tr>
<td>To Realisation A/c</td>
<td>11,000</td>
<td>0</td>
<td>0</td>
<td>Reserve—1/3rd</td>
<td>3,000</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>1/3rd share of loss</td>
<td></td>
<td></td>
<td></td>
<td>transferred</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>&quot; Transfer—Capital Account</td>
<td>5,000</td>
<td>0</td>
<td>0</td>
<td>&quot; Cash</td>
<td>2,000</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td></td>
<td>16,000</td>
<td>0</td>
<td>0</td>
<td></td>
<td>11,000</td>
<td>0</td>
<td>0</td>
</tr>
</tbody>
</table>

### C—Capital Account

<table>
<thead>
<tr>
<th>Description</th>
<th>Rs.</th>
<th>a</th>
<th>p</th>
<th>By Balance</th>
<th>Rs.</th>
<th>a</th>
<th>p</th>
</tr>
</thead>
<tbody>
<tr>
<td>To Current A/c transferred</td>
<td>11,000</td>
<td>0</td>
<td>0</td>
<td>A's Capital A/c</td>
<td>8,000</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>B's Capital A/c</td>
<td>2,000</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>1,000</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td></td>
<td>11,000</td>
<td>0</td>
<td>0</td>
<td></td>
<td>11,000</td>
<td>0</td>
<td>0</td>
</tr>
</tbody>
</table>

### C—Current Account

<table>
<thead>
<tr>
<th>Description</th>
<th>Rs.</th>
<th>a</th>
<th>p</th>
<th>By Reserve—1/3rd</th>
<th>Rs.</th>
<th>a</th>
<th>p</th>
</tr>
</thead>
<tbody>
<tr>
<td>To Balance</td>
<td>2,000</td>
<td>0</td>
<td>0</td>
<td>transferred</td>
<td>2,000</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Realisation A/c</td>
<td>11,000</td>
<td>0</td>
<td>0</td>
<td>Transfer to Capital Account</td>
<td>11,000</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>1/3rd share of loss</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>13,000</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
In this case adjustment for the Reserve has been made in the Current Accounts. The loss due to the insolvency of C viz., Rs. 3,000 has been debited to the Capital Accounts of A and B in the ratio of their fixed capitals viz. 2:1.

2. If "capital of the partners" meant the total credit balances of the partners—the Capital Accounts and the Current Accounts being taken together—the final adjustment of Accounts would be as given below

### Cash Book

<table>
<thead>
<tr>
<th>Rs.</th>
<th>a</th>
<th>p</th>
<th>Rs.</th>
<th>a</th>
<th>p</th>
</tr>
</thead>
<tbody>
<tr>
<td>To Balance</td>
<td>3,000</td>
<td>0</td>
<td>0</td>
<td>By Realisation A/c — creditors paid</td>
<td>20,000</td>
</tr>
<tr>
<td>&quot; Realisation A/c</td>
<td>37,000</td>
<td>0</td>
<td>0</td>
<td>&quot; Loan Repaid — B</td>
<td>5,000</td>
</tr>
<tr>
<td>&quot; A — Current A/c</td>
<td>11,000</td>
<td>0</td>
<td>0</td>
<td>&quot; A — Capital repaid</td>
<td>23,125</td>
</tr>
<tr>
<td>&quot; B — Current A/c</td>
<td>11,000</td>
<td>0</td>
<td>0</td>
<td>&quot; B — Capital repaid</td>
<td>13,875</td>
</tr>
<tr>
<td>—</td>
<td>62,000</td>
<td>0</td>
<td>0</td>
<td>—</td>
<td>62,000</td>
</tr>
</tbody>
</table>

### A — Capital Account

<table>
<thead>
<tr>
<th>Rs.</th>
<th>a</th>
<th>p</th>
<th>Rs.</th>
<th>a</th>
<th>p</th>
</tr>
</thead>
<tbody>
<tr>
<td>To C's Capital A/c — 5/8ths share of deficiency</td>
<td>1,875</td>
<td>0</td>
<td>0</td>
<td>By Balance &quot; Current A/c transfer</td>
<td>20,000</td>
</tr>
<tr>
<td>&quot; Cash</td>
<td>23,125</td>
<td>0</td>
<td>0</td>
<td>—</td>
<td>25,000</td>
</tr>
<tr>
<td>—</td>
<td>25,000</td>
<td>0</td>
<td>0</td>
<td>—</td>
<td>25,000</td>
</tr>
</tbody>
</table>

### A — Current Account

<table>
<thead>
<tr>
<th>Rs.</th>
<th>a</th>
<th>p</th>
<th>Rs.</th>
<th>a</th>
<th>p</th>
</tr>
</thead>
<tbody>
<tr>
<td>To Realisation A/c — 1/3rd share of loss</td>
<td>11,000</td>
<td>0</td>
<td>0</td>
<td>By Balance &quot; Reserve — 1/3rd transferred</td>
<td>3,000</td>
</tr>
<tr>
<td>&quot; Transfer to Capital Account</td>
<td>5,000</td>
<td>0</td>
<td>0</td>
<td>&quot; Cash</td>
<td>11,000</td>
</tr>
<tr>
<td>—</td>
<td>16,000</td>
<td>0</td>
<td>0</td>
<td>—</td>
<td>16,000</td>
</tr>
</tbody>
</table>

### B — Capital Account

<table>
<thead>
<tr>
<th>Rs.</th>
<th>a</th>
<th>p</th>
<th>Rs.</th>
<th>a</th>
<th>p</th>
</tr>
</thead>
<tbody>
<tr>
<td>To C's Capital A/c — 3/8ths share of deficiency</td>
<td>1,125</td>
<td>0</td>
<td>0</td>
<td>By Balance &quot; Current A/c transfer</td>
<td>10,000</td>
</tr>
<tr>
<td>&quot; Cash</td>
<td>13,875</td>
<td>0</td>
<td>0</td>
<td>—</td>
<td>5,000</td>
</tr>
<tr>
<td>—</td>
<td>15,000</td>
<td>0</td>
<td>0</td>
<td>—</td>
<td>15,000</td>
</tr>
</tbody>
</table>
B—Current Account

<table>
<thead>
<tr>
<th>Description</th>
<th>Rs. a p</th>
<th>Description</th>
<th>Rs. a p</th>
</tr>
</thead>
<tbody>
<tr>
<td>To Realisation A/c—</td>
<td></td>
<td>By Balance</td>
<td>3,000 0 0</td>
</tr>
<tr>
<td>1/3rd share of loss</td>
<td>11,000 0 0</td>
<td>&quot; Reserve—1/3rd share transferred</td>
<td>2,000 0 0</td>
</tr>
<tr>
<td>&quot; Transfer to Capital Account</td>
<td>5,000 0 0</td>
<td>&quot; Cash</td>
<td>11,000 0 0</td>
</tr>
<tr>
<td></td>
<td>16,000 0 0</td>
<td></td>
<td>16,000 0 0</td>
</tr>
</tbody>
</table>

C—Capital Account

<table>
<thead>
<tr>
<th>Description</th>
<th>Rs. a p</th>
<th>Description</th>
<th>Rs. a p</th>
</tr>
</thead>
<tbody>
<tr>
<td>To Current A/c—transfer</td>
<td></td>
<td>By Balance</td>
<td>8,000 0 0</td>
</tr>
<tr>
<td>11,000 0 0</td>
<td></td>
<td>&quot; A's Capital A/c transfer</td>
<td>1,875 0 0</td>
</tr>
<tr>
<td></td>
<td></td>
<td>&quot; B's Capital A/c—transfer</td>
<td>1,125 0 0</td>
</tr>
<tr>
<td></td>
<td>11,000 0 0</td>
<td></td>
<td>11,000 0 0</td>
</tr>
</tbody>
</table>

C—Current Account

<table>
<thead>
<tr>
<th>Description</th>
<th>Rs. a p</th>
<th>Description</th>
<th>Rs. a p</th>
</tr>
</thead>
<tbody>
<tr>
<td>To Balance</td>
<td></td>
<td>By Reserve 1/3rd share transferred</td>
<td>2,000 0 0</td>
</tr>
<tr>
<td>&quot; Realisation A/c—</td>
<td>2,000 0 0</td>
<td>&quot; Transfer to Capital Account</td>
<td>11,000 0 0</td>
</tr>
<tr>
<td>1/3rd share of loss</td>
<td>11,000 0 0</td>
<td></td>
<td>13,000 0 0</td>
</tr>
<tr>
<td></td>
<td>13,000 0 0</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

It will be observed that in this case the remaining assets (Cash) has been divided between the solvent partners in the proportion of 25,000 : 15,000 or 5 : 3.

The example has been worked out on the assumption that the solvent partners brought in cash to make good their shares of the deficiency.

Example

A, B and C are partners sharing profits and losses in the proportion of 1/2, 1/3rd and 1/6th respectively. They agree to dissolve the partnership business. The Balance Sheet of the firm is given below.
Plant and machinery realised Rs. 3,000. Bad Debts and Discount allowed amounted to Rs. 1,450. Stock realised Rs. 2,400.

The mortgage was duly paid off. The creditors were paid less discount amounting to Rs. 250. The cost of realisation was Rs. 350.

After the assets had been realised and the liabilities discharged C became insolvent, and a claim was made against his estate for the amount due from him to the firm. A dividend of seven annas in the rupee was received from his estate.

Write up the Realisation Account, Cash Book and show the final adjustments between the partners.

<table>
<thead>
<tr>
<th>Liabilities</th>
<th>Rs.</th>
<th>a p</th>
<th>Assets</th>
<th>Rs.</th>
<th>a p</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sundry Creditors</td>
<td>7,000</td>
<td>0</td>
<td>Cash in Hand</td>
<td>800</td>
<td>0</td>
</tr>
<tr>
<td>Loan on Mortgage</td>
<td>1,800</td>
<td>0</td>
<td>Sundry Debtors</td>
<td>9,000</td>
<td>0</td>
</tr>
<tr>
<td>Capital Accounts—</td>
<td></td>
<td></td>
<td>Stock-in-Trade</td>
<td>3,000</td>
<td>0</td>
</tr>
<tr>
<td>A 5,000/-</td>
<td></td>
<td></td>
<td>Plant &amp; Machinery</td>
<td>4,000</td>
<td>0</td>
</tr>
<tr>
<td>B 4,000/-</td>
<td>9,000</td>
<td>0</td>
<td>C’s Capital Account—</td>
<td>1,000</td>
<td>0</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>(overdrawn)</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>17,800</td>
<td>0</td>
<td>0</td>
<td>17,800</td>
<td>0</td>
</tr>
</tbody>
</table>

Realisation Account

<table>
<thead>
<tr>
<th>Rs.</th>
<th>a p</th>
<th>Rs.</th>
<th>a p</th>
</tr>
</thead>
<tbody>
<tr>
<td>To Sundry Assets— transferred</td>
<td>16,000</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>&quot; Cash—Creditors paid</td>
<td>6,750</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>&quot; Cash—Expenses paid</td>
<td>350</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
### Cash Book

<table>
<thead>
<tr>
<th>Rs.</th>
<th>a</th>
<th>p</th>
<th>Rs.</th>
<th>a</th>
<th>p</th>
</tr>
</thead>
<tbody>
<tr>
<td>To Balance</td>
<td>800</td>
<td>0</td>
<td>0</td>
<td>By Realisation A/c—</td>
<td>6,750</td>
</tr>
<tr>
<td>Realisation A/c—</td>
<td></td>
<td></td>
<td></td>
<td>Creditors paid</td>
<td></td>
</tr>
<tr>
<td>Assets realised</td>
<td>12,950</td>
<td>0</td>
<td>0</td>
<td>Realisation A/c—</td>
<td>350</td>
</tr>
<tr>
<td>A—Capital A/c</td>
<td>1,575</td>
<td>0</td>
<td>0</td>
<td>Expenses paid</td>
<td></td>
</tr>
<tr>
<td>B—Capital A/c</td>
<td>1,050</td>
<td>0</td>
<td>0</td>
<td>Loan on mortgage—</td>
<td>1,800</td>
</tr>
<tr>
<td>C—Capital A/c</td>
<td>687</td>
<td>3</td>
<td>0</td>
<td>repaid</td>
<td></td>
</tr>
<tr>
<td></td>
<td>17,042</td>
<td>0</td>
<td>0</td>
<td>A—Capital Repaid</td>
<td>4,523</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>B—Capital Repaid</td>
<td>3,618</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>17,042</td>
<td>0</td>
<td>0</td>
</tr>
</tbody>
</table>

### A—Capital Account

<table>
<thead>
<tr>
<th>Rs.</th>
<th>a</th>
<th>p</th>
<th>Rs.</th>
<th>a</th>
<th>p</th>
</tr>
</thead>
<tbody>
<tr>
<td>To Realisation A/c—</td>
<td></td>
<td></td>
<td></td>
<td>By Balance</td>
<td>5,000</td>
</tr>
<tr>
<td>1/2 share of loss</td>
<td>1,575</td>
<td>0</td>
<td>0</td>
<td>, Cash</td>
<td>1,575</td>
</tr>
<tr>
<td>C—Capital A/c</td>
<td>476</td>
<td>9</td>
<td>0</td>
<td>,</td>
<td></td>
</tr>
<tr>
<td>Cash</td>
<td>4,623</td>
<td>7</td>
<td>0</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>6,575</td>
<td>0</td>
<td>0</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### B—Capital Account

<table>
<thead>
<tr>
<th>Rs.</th>
<th>a</th>
<th>p</th>
<th>Rs.</th>
<th>a</th>
<th>p</th>
</tr>
</thead>
<tbody>
<tr>
<td>To Realisation A/c—</td>
<td></td>
<td></td>
<td></td>
<td>By Balance</td>
<td>4,000</td>
</tr>
<tr>
<td>1/3rd share of loss</td>
<td>1,050</td>
<td>0</td>
<td>0</td>
<td>, Cash</td>
<td>1,050</td>
</tr>
<tr>
<td>C—Capital A/c</td>
<td>381</td>
<td>4</td>
<td>0</td>
<td>,</td>
<td></td>
</tr>
<tr>
<td>Cash</td>
<td>3,618</td>
<td>12</td>
<td>0</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>5,050</td>
<td>0</td>
<td>0</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>5,050</td>
<td>0</td>
<td>0</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### C—Capital Account

<table>
<thead>
<tr>
<th>Rs.</th>
<th>a</th>
<th>p</th>
<th>Rs.</th>
<th>a</th>
<th>p</th>
</tr>
</thead>
<tbody>
<tr>
<td>To Balance</td>
<td>1,000</td>
<td>0</td>
<td>0</td>
<td>By Cash</td>
<td>667</td>
</tr>
<tr>
<td>Realisation A/c—</td>
<td>525</td>
<td>0</td>
<td>0</td>
<td>A's Capital A/c</td>
<td>476</td>
</tr>
<tr>
<td>1/6th share of loss</td>
<td></td>
<td></td>
<td></td>
<td>B's Capital A/c</td>
<td>381</td>
</tr>
<tr>
<td></td>
<td>1,625</td>
<td>0</td>
<td>0</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>1,625</td>
<td>0</td>
<td>0</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Loss on Realisation—All the partners insolvent—
Creditors getting a dividend

When there is a loss on realisation and all the partners are insolvent, the Creditors' claims are settled by paying them dividend of so much in the Rupee depending upon the cash available. The saving caused by the non-payment of a portion of the liability is virtually a profit to the firm. This profit gets merged in the Realisation Account and is transferred to the partner's Capital Accounts.

The Balance Sheet of A, B and C who were sharing profits and losses as 3/5ths, 1/5th and 1/5th respectively stood as follows, when they decided to dissolve the firm

<table>
<thead>
<tr>
<th>Liabilities</th>
<th>Rs. a p</th>
<th>Assets</th>
<th>Rs. a p</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bank Overdraft</td>
<td>30,000</td>
<td>Cash at Bank</td>
<td>500</td>
</tr>
<tr>
<td>Sundry Creditors</td>
<td>22,500</td>
<td>Bills Receivable</td>
<td>2,000</td>
</tr>
<tr>
<td>Capital Accounts—</td>
<td></td>
<td>Sundry Debtors</td>
<td>12,500</td>
</tr>
<tr>
<td>A</td>
<td>7,000</td>
<td>Stock-in Trade</td>
<td>20,000</td>
</tr>
<tr>
<td>B</td>
<td>5,000</td>
<td>Plant and Machinery</td>
<td>15,000</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Goodwill</td>
<td>5,000</td>
</tr>
<tr>
<td></td>
<td></td>
<td>C's Capital Account</td>
<td>10,000</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>65,000</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

The assets realised Rs. 39,875 - and the expenses of winding up was Rs. 1,000/- The partners were all insolvent and the creditors received twelve annas in the Rupee.

Show the final adjustment amongst the partners

Realisation Account

<table>
<thead>
<tr>
<th>Rs. a p</th>
<th>By Sundry Liabilities transferred</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Cash Assets</td>
</tr>
<tr>
<td>54,500</td>
<td>A/c 3/5ths 1,500/-</td>
</tr>
<tr>
<td>1,000</td>
<td>A's Capital</td>
</tr>
<tr>
<td>39,875</td>
<td>B's Capital</td>
</tr>
<tr>
<td></td>
<td>A/c 1/5th 500/-</td>
</tr>
<tr>
<td></td>
<td>C's Capital</td>
</tr>
<tr>
<td></td>
<td>A/c 1/5th 500/-</td>
</tr>
<tr>
<td>94,875</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Rs. a p</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>94,875</td>
<td>0</td>
</tr>
</tbody>
</table>
### Cash Book

<table>
<thead>
<tr>
<th>Description</th>
<th>Rs.</th>
<th>a</th>
<th>p</th>
</tr>
</thead>
<tbody>
<tr>
<td>To Balance</td>
<td>40,375</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>&quot; Realisation A/c - sale proceed of assets</td>
<td>39,875</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>&quot; By Realisation A/c—Expenses paid</td>
<td>1,000</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>&quot; Realisation A/c—Liabilities paid</td>
<td>39,375</td>
<td>0</td>
<td>0</td>
</tr>
</tbody>
</table>

**A Capital Account**

<table>
<thead>
<tr>
<th>Description</th>
<th>Rs.</th>
<th>a</th>
<th>p</th>
</tr>
</thead>
<tbody>
<tr>
<td>To Realisation A/c - 3/5ths share of loss</td>
<td>6,300</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>&quot; C's Capital Account transferred</td>
<td>7,800</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>&quot; By Balance</td>
<td>7,500</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>&quot; Transfer—B's Capital Account</td>
<td>300</td>
<td>0</td>
<td>0</td>
</tr>
</tbody>
</table>

**B Capital Account**

<table>
<thead>
<tr>
<th>Description</th>
<th>Rs.</th>
<th>a</th>
<th>p</th>
</tr>
</thead>
<tbody>
<tr>
<td>To Realisation A/c - 1/5th share of loss</td>
<td>500</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>&quot; C's Capital Account transferred</td>
<td>1,200</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>&quot; Transfer—A's Capital Account</td>
<td>300</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>&quot; By Balance</td>
<td>5,000</td>
<td>0</td>
<td>0</td>
</tr>
</tbody>
</table>

**C Capital Account**

<table>
<thead>
<tr>
<th>Description</th>
<th>Rs.</th>
<th>a</th>
<th>p</th>
</tr>
</thead>
<tbody>
<tr>
<td>To Balance</td>
<td>10,500</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>&quot; Realisation A/c - 1/5th share of loss</td>
<td>500</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>&quot; By A’s Capital A/c—3/5th share of deficiency</td>
<td>6,300</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>&quot; B’s Capital Account - 2/5th share of deficiency</td>
<td>4,200</td>
<td>0</td>
<td>0</td>
</tr>
</tbody>
</table>

After the debit balance of C's Capital Account has been transferred to A and B's Capital Account in the proportion of their Capitals, there is equal and opposite balance of Rs. 300 in those accounts. The books are closed by transfer of that balance from A to B.
Realisation Profit and Loss Account:

If it is desired to see what profit or loss each asset makes in realisation, the dissolution can be carried out by following a slightly different method. The asset accounts are not closed by transferring those to the Realisation Account. As the assets are realised, Cash Book is debited and the respective asset accounts are credited. The loss or gain on each asset is then transferred to the Realisation Profit and Loss Account.

Example:

A and B are equal partners. They decide to retire and sell their business on 31st December, the Balance Sheet on that date is as follows.

<table>
<thead>
<tr>
<th>Liabilities</th>
<th>Rs. a p</th>
<th>Assets</th>
<th>Rs. a</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sundry Creditors</td>
<td>2,160 0 0</td>
<td>Cash at Bank</td>
<td>1,860 0</td>
</tr>
<tr>
<td>Capital Accounts</td>
<td></td>
<td>Sundry Debtors</td>
<td>5,010 0</td>
</tr>
<tr>
<td>A</td>
<td>10,500 0 0</td>
<td>Stock in Trade</td>
<td>7,450 0</td>
</tr>
<tr>
<td>B</td>
<td>7,500 0 0</td>
<td>Lease</td>
<td>3,900 0</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Fixtures and Fittings</td>
<td>1,950 0</td>
</tr>
<tr>
<td></td>
<td>20,160 0 0</td>
<td></td>
<td>20,160 0</td>
</tr>
</tbody>
</table>

The Lease was sold for Rs 4,950, Fixtures and Fittings for Rs 2,175, and Stock for Rs 7,350. The Book Debts realised Rs 4,650, Rs 135 being allowed for discount. The creditors were paid Rs 2,100 in full settlement. The expense of winding up were Rs 165.

Close the books of the firm showing the result of the realisation. Show also the various Ledger Accounts and the payment to each partner the amount due to him.

**Lease**

<table>
<thead>
<tr>
<th>19—</th>
<th>19—</th>
<th>Rs. a p</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dec. 31 To Balance</td>
<td>3,900 0 0</td>
<td>Dec. 31 By Cash</td>
</tr>
<tr>
<td>&quot; Realisation A/c</td>
<td>1,050 0 0</td>
<td>&quot;</td>
</tr>
<tr>
<td></td>
<td>4,950 0 0</td>
<td>4,950 0</td>
</tr>
</tbody>
</table>

**Fixtures and Fittings**

<table>
<thead>
<tr>
<th>19—</th>
<th>19—</th>
<th>Rs. a p</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dec. 31 To Balance</td>
<td>1,950 0 0</td>
<td>Dec. 31 By Cash</td>
</tr>
<tr>
<td>&quot; Realisation A/c</td>
<td>225 0 0</td>
<td>&quot;</td>
</tr>
<tr>
<td></td>
<td>2,175 0 0</td>
<td>2,175 0</td>
</tr>
</tbody>
</table>
### Sundry Debtors

<table>
<thead>
<tr>
<th>Date</th>
<th>To Balance</th>
<th>19- Dec. 31</th>
<th>By Cash</th>
<th>Discount</th>
<th>Bad Debts</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Rs</td>
<td>a</td>
<td>p</td>
<td>Rs</td>
<td>a</td>
</tr>
<tr>
<td>19-</td>
<td>5,010</td>
<td>0</td>
<td>0</td>
<td>19-</td>
<td>4,650</td>
</tr>
</tbody>
</table>

### Stock

<table>
<thead>
<tr>
<th>Date</th>
<th>To Balance</th>
<th>19- Dec. 31</th>
<th>Realisation A/c</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Rs</td>
<td>a</td>
<td>p</td>
</tr>
<tr>
<td>19-</td>
<td>7,440</td>
<td>0</td>
<td>0</td>
</tr>
</tbody>
</table>

### Sundry Creditors

<table>
<thead>
<tr>
<th>Date</th>
<th>To Cash</th>
<th>19- Dec. 31</th>
<th>By Balance</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Rs</td>
<td>a</td>
<td>p</td>
</tr>
<tr>
<td>19-</td>
<td>2,160</td>
<td>0</td>
<td>0</td>
</tr>
</tbody>
</table>

### Bad Debts

<table>
<thead>
<tr>
<th>Date</th>
<th>To Sundry Debtors</th>
<th>19- Dec. 31</th>
<th>By Realisation A/c</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Rs</td>
<td>a</td>
<td>p</td>
</tr>
<tr>
<td>19-</td>
<td>225</td>
<td>0</td>
<td>0</td>
</tr>
</tbody>
</table>

### Discount Received

<table>
<thead>
<tr>
<th>Date</th>
<th>By Realisation Account</th>
<th>19- Dec. 31</th>
<th>By Sundry Creditors</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Rs</td>
<td>a</td>
<td>p</td>
</tr>
<tr>
<td>19-</td>
<td>60</td>
<td>0</td>
<td>0</td>
</tr>
</tbody>
</table>

### Discount Allowed

<table>
<thead>
<tr>
<th>Date</th>
<th>To Sundry Debtors</th>
<th>19- Dec. 31</th>
<th>By Realisation A/c</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Rs</td>
<td>a</td>
<td>p</td>
</tr>
<tr>
<td>19-</td>
<td>135</td>
<td>0</td>
<td>0</td>
</tr>
</tbody>
</table>

### Realisation Profit and Loss Account

<table>
<thead>
<tr>
<th>Date</th>
<th>To Bad Debts</th>
<th>19- By Lease</th>
<th>19- Fixtures and Fittings</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Rs</td>
<td>a</td>
<td>p</td>
</tr>
<tr>
<td>19-</td>
<td>225</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td></td>
<td>90</td>
<td>0</td>
<td>0</td>
</tr>
</tbody>
</table>

### Capital A/c

<table>
<thead>
<tr>
<th>Date</th>
<th>A—1/2 360/-</th>
<th>B—1/2 360/-</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>720</td>
<td>0</td>
</tr>
</tbody>
</table>

|        | 1,335 | 0 | 0 |

|        | 1,335 | 0 | 0 |
### Cash Book

<table>
<thead>
<tr>
<th>Date</th>
<th>Description</th>
<th>Amount (Rs.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dec. 31</td>
<td>To Balance</td>
<td>1,860 0 0</td>
</tr>
<tr>
<td></td>
<td>&quot; Lease</td>
<td>4,950 0 0</td>
</tr>
<tr>
<td></td>
<td>&quot; Fixtures and Fittings</td>
<td>2,175 0 0</td>
</tr>
<tr>
<td></td>
<td>&quot; Sundry Debtors</td>
<td>4,650 0 0</td>
</tr>
<tr>
<td></td>
<td>&quot; Stock</td>
<td>7,350 0 0</td>
</tr>
<tr>
<td></td>
<td><strong>Sub-total</strong></td>
<td>20,985 0 0</td>
</tr>
</tbody>
</table>

### A—Capital Account

<table>
<thead>
<tr>
<th>Date</th>
<th>Description</th>
<th>Amount (Rs.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dec. 31</td>
<td>To Cash</td>
<td>10,860 0 0</td>
</tr>
<tr>
<td></td>
<td><strong>Sub-total</strong></td>
<td>10,860 0 0</td>
</tr>
</tbody>
</table>

### B—Capital Account

<table>
<thead>
<tr>
<th>Date</th>
<th>Description</th>
<th>Amount (Rs.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dec. 31</td>
<td>To Cash</td>
<td>7,860 0 0</td>
</tr>
<tr>
<td></td>
<td><strong>Sub-total</strong></td>
<td>7,860 0 0</td>
</tr>
</tbody>
</table>

### Transfer of Business to a Limited Company

Primarily with the object of limiting the personal liability, the partners sometimes decide to carry on the business not as a firm but as a Limited Liability Company. For that purpose a Joint Stock Company is formed to which the business of the Firm is transferred.

The Firm is dissolved and the books are closed following the rules of dissolution. The only point of difference is that the company instead of paying cash issues fully paid shares as the purchase consideration. The Realisation Account is credited with the sale proceeds—the Purchasing Company being debited (instead of the Cash Book) with like amount. As and when the consideration is received in the form of shares (and Debentures)—the Purchasing Company’s account is credited and “Shares in the Company Account” (and Debenture Account) is debited.
As the shares (and Debentures) are distributed to the partners, these accounts and the Partners' Capital Accounts are closed, thus closing the books of the firm.

The profit or loss on realisation will come to the Capital Accounts from the Realisation Account in the usual way.

All sorts of agreements are possible, viz., all the assets and all the liabilities may not be taken over by the company, the purchase consideration may be paid partly in shares and partly in Cash (in which case of course, the Cash Book will be debited with the cash received), there may be a consideration for the Goodwill of the firm, the assets may be revalued.

Example:

The Balance Sheet of A, B, & C, stood as follows on the 31st December 1948:

<table>
<thead>
<tr>
<th>Liabilities</th>
<th>Rs.</th>
<th>a</th>
<th>p</th>
<th>Assets</th>
<th>Rs.</th>
<th>a</th>
<th>p</th>
</tr>
</thead>
<tbody>
<tr>
<td>Creditors</td>
<td>14,000</td>
<td>0</td>
<td>0</td>
<td>Cash at Bank</td>
<td>8,000</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Bills Payable</td>
<td>3,000</td>
<td>0</td>
<td>0</td>
<td>Sundry Debtors</td>
<td>18,000</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Capital Accounts</td>
<td></td>
<td></td>
<td></td>
<td>Less Reserve</td>
<td>1,800</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>A</td>
<td>15,000</td>
<td>0</td>
<td>0</td>
<td>Stock</td>
<td>15,000</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>B</td>
<td>15,000</td>
<td>0</td>
<td>0</td>
<td>Plant and Machinery</td>
<td>11,000</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>C</td>
<td>10,000</td>
<td>0</td>
<td>0</td>
<td>Fixtures</td>
<td>1,800</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Goodwill</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>5,000</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Total</td>
<td>57,000</td>
<td>0</td>
<td>0</td>
<td></td>
<td>57,000</td>
<td>0</td>
<td>0</td>
</tr>
</tbody>
</table>

It was decided to sell the business to XY & Co., Ltd. The Company agreed to allot 5,000 fully paid shares of Rs. 10 each in full satisfaction of the purchase consideration. The company assumed the liability except the Bills Payable and took over all the assets except the Bank balance. The partners shared profits and losses in proportion of one-half, one-third and one-sixth respectively. Write up the accounts showing the final settlement as regards the partners, assuming that the shares were duly allotted.

Realisation Account

<table>
<thead>
<tr>
<th>Rs. a p</th>
<th></th>
<th>Rs. a p</th>
</tr>
</thead>
<tbody>
<tr>
<td>To Sundry Assets</td>
<td>50,800</td>
<td>0</td>
</tr>
<tr>
<td>&quot; Profit transferred to Capital A/c</td>
<td>7,500/-</td>
<td></td>
</tr>
<tr>
<td>A - 1/2</td>
<td>7,500/-</td>
<td></td>
</tr>
<tr>
<td>B - 1/3rd 5,000/-</td>
<td></td>
<td></td>
</tr>
<tr>
<td>C - 1/6th 2,500/-</td>
<td>15,000</td>
<td>0</td>
</tr>
<tr>
<td>Total</td>
<td>65,800</td>
<td>0</td>
</tr>
</tbody>
</table>
Cash Book

<table>
<thead>
<tr>
<th>Rs.</th>
<th>a</th>
<th>p</th>
<th></th>
<th>Rs.</th>
<th>a</th>
<th>p</th>
</tr>
</thead>
<tbody>
<tr>
<td>To Balance</td>
<td>8,000</td>
<td>0</td>
<td>0</td>
<td>By Billa Payable</td>
<td>3,000</td>
<td>0</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>&quot; A's Capital A/c</td>
<td>2,046</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>&quot; B's Capital A/c</td>
<td>1,818</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>&quot; C's Capital A/c</td>
<td>1,136</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>---</td>
<td>---</td>
<td>---</td>
<td>---</td>
<td>---</td>
<td>---</td>
<td>---</td>
</tr>
<tr>
<td>8,000</td>
<td>0</td>
<td>0</td>
<td></td>
<td>8,000</td>
<td>0</td>
<td>0</td>
</tr>
</tbody>
</table>

XY & Co Ltd

<table>
<thead>
<tr>
<th>Rs.</th>
<th>a</th>
<th>p</th>
<th></th>
<th>Rs.</th>
<th>a</th>
<th>p</th>
</tr>
</thead>
<tbody>
<tr>
<td>To Realisation A/c</td>
<td>50,000</td>
<td>0</td>
<td>0</td>
<td>By Shares in XY &amp; Co Ltd, A/c</td>
<td>50,000</td>
<td>0</td>
</tr>
</tbody>
</table>

Shares in XY & Co Ltd Account

<table>
<thead>
<tr>
<th>Rs.</th>
<th>a</th>
<th>p</th>
<th></th>
<th>Rs.</th>
<th>a</th>
<th>p</th>
</tr>
</thead>
<tbody>
<tr>
<td>To XY &amp; Co Ltd</td>
<td>50,000</td>
<td>0</td>
<td>0</td>
<td>By A Capital A/c</td>
<td>20,454</td>
<td>0</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>\ B Capital A/c</td>
<td>18,182</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>\ C Capital A/c</td>
<td>11,364</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td></td>
<td>50,000</td>
<td>0</td>
<td>0</td>
<td></td>
<td>50,000</td>
<td>0</td>
</tr>
</tbody>
</table>

A—Capital Account

<table>
<thead>
<tr>
<th>Rs.</th>
<th>a</th>
<th>p</th>
<th></th>
<th>Rs.</th>
<th>a</th>
<th>p</th>
</tr>
</thead>
<tbody>
<tr>
<td>To Shares in XY &amp; Co Ltd</td>
<td></td>
<td></td>
<td>By Balance</td>
<td>15,000</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>\ Cash</td>
<td></td>
<td></td>
<td>Realisation A/c—</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>1/2 share of profit</td>
<td>7,500</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td></td>
<td>22,500</td>
<td>0</td>
<td>0</td>
<td></td>
<td>22,500</td>
<td>0</td>
</tr>
</tbody>
</table>

B—Capital Account

<table>
<thead>
<tr>
<th>Rs.</th>
<th>a</th>
<th>p</th>
<th></th>
<th>Rs.</th>
<th>a</th>
<th>p</th>
</tr>
</thead>
<tbody>
<tr>
<td>To shares in XY &amp; Co Ltd</td>
<td>18,182</td>
<td>0</td>
<td>0</td>
<td>By Balance</td>
<td>15,000</td>
<td>0</td>
</tr>
<tr>
<td>\ Cash</td>
<td>1,818</td>
<td>0</td>
<td>0</td>
<td>Realisation A/c—</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>1/3rd share of profit</td>
<td>5,000</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td></td>
<td>20,000</td>
<td>0</td>
<td>0</td>
<td></td>
<td>20,000</td>
<td>0</td>
</tr>
</tbody>
</table>
C—Capital Account

<table>
<thead>
<tr>
<th></th>
<th>Rs. a p</th>
<th>By Balance</th>
<th>Rs. a p</th>
</tr>
</thead>
<tbody>
<tr>
<td>To shares in X Y &amp; Co. Ltd.</td>
<td>11,361 0 0</td>
<td>&quot; Realisation A/c—1/8th share of profit</td>
<td>10,000 0 0</td>
</tr>
<tr>
<td>&quot; Cash</td>
<td>1,136 0 0</td>
<td></td>
<td>2,500 0 0</td>
</tr>
<tr>
<td></td>
<td>12,500 0 0</td>
<td></td>
<td>12,500 0 0</td>
</tr>
</tbody>
</table>

If the partners intended to retire from business they would sell the shares received from the Company. In that case the Shares Account instead of being transferred to the partners' capital accounts, would be credited with the sale proceeds, the Cash Book being debited. Any profit or loss on the sale of the shares will be transferred to the Realisation Account—thus closing the Shares Account.
EXERCISES

1. A, B and C carried on business in partnership and on 31st December 1913, their Balance Sheet was as follows:

<table>
<thead>
<tr>
<th>Liabilities</th>
<th>£</th>
<th>Assets</th>
<th>£</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sundry Creditors</td>
<td>4,500</td>
<td>Land and Building</td>
<td>4,000</td>
</tr>
<tr>
<td>A—Loan</td>
<td>6,000</td>
<td>Plant and Machinery</td>
<td>8,000</td>
</tr>
<tr>
<td>Capital Accounts</td>
<td></td>
<td>Loose Plant and Tools</td>
<td>1,500</td>
</tr>
<tr>
<td>A</td>
<td>12,000</td>
<td>Stock-in-Trade</td>
<td>10,000</td>
</tr>
<tr>
<td>B</td>
<td>10,000</td>
<td>Sundry Debtors</td>
<td>14,000</td>
</tr>
<tr>
<td>C</td>
<td>7,500</td>
<td>Cash at Bank and in Hand</td>
<td>2,500</td>
</tr>
<tr>
<td></td>
<td>40,000</td>
<td></td>
<td>40,000</td>
</tr>
</tbody>
</table>

They decide to dissolve the partnership as at 31st December 1913. A retires, and B and C continue the business, and agree to purchase A's share in the Capital of the firm in the proportions in which they share profits and losses. Profits and Losses are shared: A two-fifths, B two-fifths, and C one-fifth. A agrees to allow his loan to remain in the business.

For the purpose of the dissolution, Goodwill is valued at £5,000, and the assets are to be taken as follows:

- Land and Building £4,500.
- Plant and Machinery as in the Balance Sheet, subject to 10% depreciation.
- Loose Plant and Tools as in the Balance Sheet.
- Stock in-Trade at £9,000.
- Sundry Debtors as in the Balance Sheet, subject to £1,000 provision for Bad Debts and an allowance of 5% for discounts and cost of collection.

The liability to Sundry Creditors is taken over by B and C subject to an allowance of £200 for discounts.

B and C continue to share profits and losses in the same proportions as heretofore.

Draw up the Realisation Account and the Balance Sheet of B and C as on 1st January 1914.
2. **X and Y dissolve their partnership.** Their position as at 31st December, was as follows:—

<table>
<thead>
<tr>
<th></th>
<th>Rs.</th>
</tr>
</thead>
<tbody>
<tr>
<td>X’s Capital</td>
<td>25,000/-</td>
</tr>
<tr>
<td>Y’s Capital</td>
<td>15,000/-</td>
</tr>
<tr>
<td>Sundry Creditors</td>
<td>20,000/-</td>
</tr>
<tr>
<td>Cash in hand and at bank</td>
<td>750/-</td>
</tr>
</tbody>
</table>

The balance of X’s loan account to the firm stood at Rs. 10,000/-.

The realisation expenses amounted to Rs. 350/-.

Stock realised Rs 20,000 - and Debtors Rs 25,000/-

Y took a machine at the agreed valuation of Rs 7,500/-

Other fixed assets realised Rs. 20,000 -

You are requested to close the books of the firm.

(G. C I)

3. A, B and C have been carrying on business as wholesale grocers and they share profits 7/15ths, 5/15ths and 3/15ths respectively. On 31st December 1917, they dissolve partnership.

The Balance Sheet of the firm on that date was as follows:—

<table>
<thead>
<tr>
<th>Liabilities</th>
<th>Rs.</th>
<th>Assets</th>
<th>Rs.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sundry Creditors</td>
<td>2,500</td>
<td>Land and Building</td>
<td>7,500</td>
</tr>
<tr>
<td>Loan from A at 5%</td>
<td>6,000</td>
<td>Plant and Fittings</td>
<td>2,250</td>
</tr>
<tr>
<td>Capitals —</td>
<td></td>
<td>Stock in Trade</td>
<td>10,650</td>
</tr>
<tr>
<td>A</td>
<td>9,000</td>
<td>Horse, Cart &amp; Harness</td>
<td>1,000</td>
</tr>
<tr>
<td>B</td>
<td>6,000</td>
<td>Sundry Debtors</td>
<td>3,000</td>
</tr>
<tr>
<td>C</td>
<td>2,500</td>
<td>Cash</td>
<td>1,600</td>
</tr>
<tr>
<td></td>
<td>17,500</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>26,000</td>
<td></td>
<td>26,000</td>
</tr>
</tbody>
</table>

A and B wanted C to join them floating the concern as a private company but C refused and A and B arranged to pay C out and then to form the company.

The arrangements between A, B and C were as follows:—

A and B took over the liabilities at book figures plus Rs. 500/- allowed for realisation expenses; they also took over the cash; and the Horses, Cart and Harness were sold for cash realising Rs. 740/-. The other assets A and B agreed to take over as
follows:—Land and Building Rs. 10,000/-, Plant and Fittings less 10%; Stock less 20%; Debtors at Rs. 2,115/-.

A and B, having paid the realisation expenses Rs. 500/- and having paid out C by providing the required cash in the same proportions as they share profits and losses inter se, proceed to sell the assets, as they stand, to the Harbour Grocery Co. Ltd., for Rs. 12,000/- cash and Rs. 12,000/- in fully paid up shares. The latter A and B take in the same proportions as they share profits and losses.

A and B then pay off the liabilities and themselves, and close the partnership books.

You are required to show only (a) the Cash Account, (b) the Capital Accounts, (c) the Realisation Accounts, (d) Harbour Grocery Co. Ltd., Account. Assume that all the above transactions are put through and completed on 31st December 1917.

(G D A.)

4 A, B and C were in partnership, sharing profits and losses in the proportion of 3 : 2 : 1. The partnership was dissolved on 30th June, 1931 when the position was as follows—

<table>
<thead>
<tr>
<th>Liabilities</th>
<th>Rs</th>
<th>Assets</th>
<th>Rs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Creditors</td>
<td>2,10,000</td>
<td>Cash</td>
<td>28,000</td>
</tr>
<tr>
<td>Capitals</td>
<td></td>
<td>Debtors</td>
<td>2,94,000</td>
</tr>
<tr>
<td>A</td>
<td>1,40,000</td>
<td>Stock</td>
<td>1,12,000</td>
</tr>
<tr>
<td>B</td>
<td>70,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>C</td>
<td>14,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>2,24,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>4,34,000</td>
<td></td>
<td>4,34,000</td>
</tr>
</tbody>
</table>

It was arranged that the net realisations should be distributed in their due order at the end of each month.

The realisation and expenses were—

<table>
<thead>
<tr>
<th>Stock &amp; Debtors</th>
<th>Expenses</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rs.</td>
<td>Rs.</td>
</tr>
<tr>
<td>31st July, 1931</td>
<td>84,000/-</td>
</tr>
<tr>
<td>31st August, 1931</td>
<td>1,26,000/-</td>
</tr>
<tr>
<td>31st September, 1931</td>
<td>70,000/-</td>
</tr>
<tr>
<td>31st October, 1931</td>
<td>77,000/-</td>
</tr>
<tr>
<td>31st November, 1931</td>
<td>38,500/-</td>
</tr>
</tbody>
</table>
The Stock was completely disposed off and amount due from Debtors were realised. Set out the Cash account and the Capital accounts showing how the cash realised was distributed month by month.

(G. C. I)

5. The Balance Sheet of a firm on 31st December 1912, was as follows:

<table>
<thead>
<tr>
<th>Liabilities</th>
<th>Assets</th>
</tr>
</thead>
<tbody>
<tr>
<td>Partner A's Capital</td>
<td>5,000</td>
</tr>
<tr>
<td>Partner B's Capital</td>
<td>4,000</td>
</tr>
<tr>
<td>Partner C's Capital</td>
<td>3,000</td>
</tr>
<tr>
<td>Trade Creditors</td>
<td>2,000</td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td>14,000</td>
<td>14,000</td>
</tr>
</tbody>
</table>

Partnership profits and losses were divided equally. The partnership was dissolved as on 31st December 1912. The Trade Creditors were paid at 5% discount. A agreed to take over the freehold property at £9,000, B the investments at £500, and C the book debts at £600.

Show the Final Partnership Accounts.

(Chartered Accountants)

6. Messrs. Sen, Bose and Ghose are in partnership sharing profits and losses equally. Their Balance Sheet on 31st May, 1928 was as follows.

<table>
<thead>
<tr>
<th>Liabilities</th>
<th>Rs</th>
<th>Assets</th>
<th>Rs.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sundry Creditors</td>
<td>7,500</td>
<td>Freehold Property</td>
<td>60,000</td>
</tr>
<tr>
<td>Bank Overdraft</td>
<td>3,000</td>
<td>Plant</td>
<td>20,000</td>
</tr>
<tr>
<td>Capital Account</td>
<td></td>
<td>Sundry Debtors</td>
<td>17,000</td>
</tr>
<tr>
<td>Sen</td>
<td>55,000</td>
<td>Cash in hand</td>
<td>8,500</td>
</tr>
<tr>
<td>Bose</td>
<td>45,000</td>
<td>Stock</td>
<td>45,000</td>
</tr>
<tr>
<td>Ghose</td>
<td>40,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>1,40,000</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>1,50,500</td>
<td>1,50,500</td>
</tr>
</tbody>
</table>
They agree to dissolve partnership as at that date. Sen to take the Freehold Property at Rs. 50,000/-; Bose to purchase the Stock for Rs. 35,200/- and Ghose to take over the Sundry Debtors at a reduction of Rs. 100/-. The Plant realised Rs. 30,000/- and the cost of dissolution was Rs. 2,000/-. Prepare final accounts.

(B. Com.)

7. Jones, Brown and Robinson were partners in a business, profits and losses being divided thus: Jones 2/5ths, Brown 2/5ths and Robinson 1/5th. The Partnership was dissolved as on 31st December 1909, upon which date the position of the firm was as follows:

<table>
<thead>
<tr>
<th></th>
<th>£</th>
</tr>
</thead>
<tbody>
<tr>
<td>Capital</td>
<td></td>
</tr>
<tr>
<td>Jones</td>
<td>3,000</td>
</tr>
<tr>
<td>Brown</td>
<td>2,100</td>
</tr>
<tr>
<td></td>
<td>5,100</td>
</tr>
<tr>
<td>Loans</td>
<td></td>
</tr>
<tr>
<td>Jones</td>
<td>500</td>
</tr>
<tr>
<td>Smith</td>
<td>800</td>
</tr>
<tr>
<td></td>
<td>1,300</td>
</tr>
<tr>
<td>Sundry Creditors</td>
<td>5,840</td>
</tr>
<tr>
<td>Bank Overdraft</td>
<td>1,000</td>
</tr>
<tr>
<td></td>
<td>13,240</td>
</tr>
</tbody>
</table>

The expenses of the dissolution were £120. Jones took over the business paying £7,850 for the "Sundry Assets" and £2,500 for the Goodwill.

Prepare an account, as between the partners, showing the result of the dissolution.

(Chartered Accountants)

8. De, Dutta and Kar in partnership, sharing profits and losses as De 1/2, Dutta 5/16s and Kar 3/16s. The Capital Accounts were fixed under partnership agreement. As the result of several
consecutive years' losses, the firm's Balance Sheet on 31st March 1934 was as under:

<table>
<thead>
<tr>
<th>Liabilities</th>
<th>Rs</th>
<th>Assets</th>
<th>Rs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Capital Account</td>
<td></td>
<td>Current Account</td>
<td></td>
</tr>
<tr>
<td>De</td>
<td>5,000</td>
<td>De</td>
<td>2,195</td>
</tr>
<tr>
<td>Dutt</td>
<td>2,000</td>
<td>Dutt</td>
<td>1,733</td>
</tr>
<tr>
<td>Kar</td>
<td>1,000</td>
<td>Kar</td>
<td>1,520</td>
</tr>
<tr>
<td></td>
<td>8,000</td>
<td></td>
<td>5,448</td>
</tr>
<tr>
<td>Sundry Creditors</td>
<td>2,953</td>
<td>Plant &amp; Machinery</td>
<td>1,050</td>
</tr>
<tr>
<td>Bank Loan</td>
<td>5,500</td>
<td>Stock-in-trade</td>
<td>6,059</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Sundry Debtors</td>
<td>3,572</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Cash in hand</td>
<td>324</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>16,453</td>
<td></td>
<td>16,453</td>
</tr>
</tbody>
</table>

It was resolved to dissolve the partnership as on this date, and shortly afterwards Kar was adjudicated a bankrupt and could contribute nothing towards his deficiency in the firm. The firm's assets were realised as follows:

<table>
<thead>
<tr>
<th></th>
<th>Rs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Plant and Machinery</td>
<td>600/-</td>
</tr>
<tr>
<td>Stock-in-trade</td>
<td>5,230/-</td>
</tr>
<tr>
<td>Sundry Debtors</td>
<td>3,555/-</td>
</tr>
</tbody>
</table>

You are required to close the books of the firm.

(B. Com.)

9. State the principle laid down by Mr. Justice Joyce in the case of Garner vs. Murray for the adjustment of Partners' Accounts, when one partner is in debit after the realisation of Assets. What was the practice before this decision?

Illustrate your answer by a case where A, B and C are three partners who divide profits equally. On the dissolution of the partnership, the Balance Sheet stands thus:

<table>
<thead>
<tr>
<th>Liabilities</th>
<th>£</th>
<th>Assets</th>
<th>£</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>2,000</td>
<td>Cash</td>
<td>1,500</td>
</tr>
<tr>
<td>B</td>
<td>500</td>
<td>C</td>
<td>400</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Loss on Realisation</td>
<td>600</td>
</tr>
<tr>
<td></td>
<td>2,500</td>
<td></td>
<td>2,500</td>
</tr>
</tbody>
</table>

(Incorporated Accountants)
10. Antia and Burdy are in equal partnership. Their Balance Sheet stood as:

<table>
<thead>
<tr>
<th>Liabilities</th>
<th>Rs.</th>
<th>Assets</th>
<th>Rs.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Antia's Capital</td>
<td>600</td>
<td>Machinery and Plant</td>
<td>1,475</td>
</tr>
<tr>
<td>Creditors</td>
<td>3,900</td>
<td>Furniture</td>
<td>400</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Debtors</td>
<td>500</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Stock</td>
<td>625</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Cash</td>
<td>300</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Burdy's Drawings</td>
<td>1,200</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>4,500</td>
<td></td>
<td>4,500</td>
</tr>
</tbody>
</table>

The Assets were realised as follows:
- Stock Rs 350, Furniture Rs 200, Debtors Rs 500 and Machinery Rs 700

The cost of collecting and distributing the estate amounted to Rs 150. Antia's private estate is not sufficient even to pay his private debts, whereas in Burdy's private estate there is a surplus of Rs 50.

Prepare a Realisation Account, Cash Account, Profit and Loss Account and Creditors' Account showing what dividend is paid to Creditors.

(B. Com.)

11. M and P wish to convert their business into a Private Limited Company, with the view of giving their assistants an interest and being gradually bought out. To expedite matters, it is arranged to incorporate the Company as at 1st January 1925, on the basis of the last Balance Sheet dated 30th June 1924, net profits after charging all interest and commission for the intervening half-year being estimated at Rs 1,25,000. M and P get 3/5ths and 2/5ths of the profits respectively. The Balance Sheet discloses inter alia the following figures:

<table>
<thead>
<tr>
<th></th>
<th>Rs.</th>
</tr>
</thead>
<tbody>
<tr>
<td>M Capital</td>
<td>6,39,281/-</td>
</tr>
<tr>
<td>P Capital</td>
<td>3,85,637/-</td>
</tr>
<tr>
<td>X Deposit</td>
<td>50,000/-</td>
</tr>
<tr>
<td>A (Assistant) at Credit</td>
<td>24,321/-</td>
</tr>
<tr>
<td>B (Assistant) at Credit</td>
<td>9,738/-</td>
</tr>
</tbody>
</table>
These balances receive interest at 6% per annum on opening balances only. Goodwill is to be valued at Rs. 3,50,000, each partner sharing equally therein.

On the 1st December 1924, A sells War Bonds for Rs. 15,000 at 95 and pays the proceeds into his account with the firm. Both A and B receive commission at 3% on the Net Profits, before crediting the partners with interest. It is agreed by all to take shares to the fullest extent of their credits. M and P's drawings are Rs. 12,040 and Rs. 5,960 respectively for the half-year. It is proposed to raise the necessary finance as follows: -

- Capital Rs. 10,00,000 in Rs. 100 shares, Debentures Rs. 4,00,000 to be held by partners equally and the balance to be loaned by the partners in ratio of profits received.

Draw up a clear statement to submit to the partners, showing the finance available as at 31st December 1924 and its allocation.

(B. Com.)

12. Brown, Jones and Robinson were in partnership as Coal Merchants. On 31st December 1911, their Balance Sheet showed the following position of affairs:

<table>
<thead>
<tr>
<th>Liabilities</th>
<th>£</th>
<th>Assets</th>
<th>£</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sundry Creditors</td>
<td>3,000</td>
<td>Cash in hand and at Bank</td>
<td>1,400</td>
</tr>
<tr>
<td>Loan on Mortgage</td>
<td>400</td>
<td>Sundry Debtors</td>
<td>4,000</td>
</tr>
<tr>
<td>Brown—Capital</td>
<td></td>
<td>Stock</td>
<td>1,500</td>
</tr>
<tr>
<td>&quot; A/c</td>
<td>2,500</td>
<td>Horses, Carts, Etc.,</td>
<td>500</td>
</tr>
<tr>
<td>&quot; Drawings</td>
<td></td>
<td>Freehold Property</td>
<td>1,000</td>
</tr>
<tr>
<td>&quot; A/c</td>
<td>1,000</td>
<td>Robinson</td>
<td>500</td>
</tr>
<tr>
<td></td>
<td>3,500</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Jones—Capital</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>A/c</td>
<td>1,500</td>
<td></td>
<td></td>
</tr>
<tr>
<td>&quot; Drawings</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>A/c</td>
<td>500</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>2,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>8,900</td>
<td></td>
<td>8,900</td>
</tr>
</tbody>
</table>

They shared profits and losses in the proportions of Brown one-half, Jones one-third, Robinson one-sixth. It was decided to dissolve the partnership as at the date of the above Balance Sheet.
The Freehold Property realised £1,300. Bad Debts and Discounts allowed amounted to £500. The Stock realised £1,200, and the Horse, Carts, etc., £300. The Mortgage on the Property was duly paid off. The Creditors were also paid less discounts amounting to £100. The costs of realisation amounted to £300.

After the assets had been realised and all the liabilities discharged, Robinson became bankrupt and a claim was made against his estate for the amount due from him to the firm on the dissolution, and a dividend thereon at the rate of sh. 6/8 in the £ was received.

Write up the Realisation Account, the Cash Account, and the Capital and Drawings Account of the Partners, and close the books of the firm.

(Chartered Accountants)

13. The following Balance Sheet states the position of Messrs. Rufus & Isaacs on the 31st December 1910, on which date they decide to give up business and wind up their affairs:

<table>
<thead>
<tr>
<th>Liabilities</th>
<th>£</th>
<th>Assets</th>
<th>£</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sundry Creditors</td>
<td>3,800</td>
<td>Stock-in-Trade</td>
<td>7,200</td>
</tr>
<tr>
<td>Reserve</td>
<td>2,000</td>
<td>Book Debts</td>
<td>12,000</td>
</tr>
<tr>
<td>Mr. Rufus—Capital</td>
<td>11,000</td>
<td>Furnitures &amp; Fittings</td>
<td>400</td>
</tr>
<tr>
<td>Mr. Isaacs—Capital</td>
<td>8,000</td>
<td>Machinery and Plant</td>
<td>1,800</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Profit &amp; Loss Account</td>
<td>3,400</td>
</tr>
<tr>
<td></td>
<td>24,800</td>
<td></td>
<td>24,800</td>
</tr>
</tbody>
</table>

The book debts were collected at a cost of 7½%, Stock sold for £6,000, Machinery etc., for £1,400, and Fixtures and Fittings for £600. Open the necessary Ledger Accounts on the basis of the above Balance Sheet, and show the final closing of the books, including the withdrawal by partners of any ultimate balances due to them. The partners share equally.

(Incorporated Accountants)
14. A, B and C are partners in a business dividing profits equally. Their Balance Sheet at 31st December 1912, is as follows:—

<table>
<thead>
<tr>
<th>Liabilities</th>
<th>£</th>
<th>Assets</th>
<th>£</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sundry Creditors</td>
<td>3,800</td>
<td>Sundry Debtors</td>
<td>9,700</td>
</tr>
<tr>
<td>Bills Payable</td>
<td>900</td>
<td>Stock</td>
<td>2,400</td>
</tr>
<tr>
<td>Capital Accounts</td>
<td></td>
<td>Furniture</td>
<td>380</td>
</tr>
<tr>
<td>A</td>
<td>6,000</td>
<td>Cash at Bank</td>
<td>620</td>
</tr>
<tr>
<td>B</td>
<td>3,000</td>
<td>C's Drawings Account</td>
<td>3,000</td>
</tr>
<tr>
<td>C</td>
<td>1,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Drawings Accounts</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>A</td>
<td>700</td>
<td></td>
<td></td>
</tr>
<tr>
<td>B</td>
<td>700</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>16,100</td>
<td></td>
<td>16,100</td>
</tr>
</tbody>
</table>

C is insolvent and unable to contribute anything, the partnership is consequently dissolved, and the Sundry Debtors, Stock and Furniture realise £10,380. Draw up a final Balance Sheet showing the position of each partner’s Capital Account. There is no agreement between the parties.

(Incorporated Accountants)

15. A, B and C are equal partners, who decide to dissolve partnership. After realisation of their estate, the Balance Sheet stands thus:—

<table>
<thead>
<tr>
<th>Liabilities</th>
<th>£</th>
<th>Assets</th>
<th>£</th>
</tr>
</thead>
<tbody>
<tr>
<td>Capitals—</td>
<td></td>
<td>Cash</td>
<td>2,500</td>
</tr>
<tr>
<td>A</td>
<td>2,710</td>
<td>C—Overdrawn</td>
<td>600</td>
</tr>
<tr>
<td>B</td>
<td>1,902</td>
<td>Deficiency</td>
<td>1,512</td>
</tr>
<tr>
<td></td>
<td>4,612</td>
<td></td>
<td>4,612</td>
</tr>
</tbody>
</table>

C being insolvent, determine the final adjustment between A and B.

(Incorporated Accountants)
16. On 1st January 1915, L and M take Y into partnership, the terms being that he shall bring in £5,000 as Capital, and that L and M shall reduce the amount of their Capital to £12,000 and £8,000 respectively. Profits are to be shared, one-half to L and one-fourth to each of M and Y. No other terms are definitely agreed upon. On 30th September 1915, the partnership was dissolved. A valuation of the Land and Buildings shows them to be worth £6,000, and L agrees to take them at that price, in part satisfaction of his share. The Goodwill is sold for £5,000, and the other assets realise their book values, the Balance Sheet at that date being as follows —

<table>
<thead>
<tr>
<th>Liabilities</th>
<th>£</th>
<th>Assets</th>
<th>£</th>
</tr>
</thead>
<tbody>
<tr>
<td>Creditors</td>
<td>7,000</td>
<td>Land and Buildings</td>
<td>4,000</td>
</tr>
<tr>
<td>L—Capital Account</td>
<td>12,000</td>
<td>Plant and Machinery</td>
<td>8,500</td>
</tr>
<tr>
<td>L—Current Account</td>
<td>500</td>
<td>Stock</td>
<td>10,200</td>
</tr>
<tr>
<td>M—Capital Account</td>
<td>6,000</td>
<td>Debtors</td>
<td>6,700</td>
</tr>
<tr>
<td>M—Current Account</td>
<td>300</td>
<td>Y—Current Account</td>
<td>200</td>
</tr>
<tr>
<td>Y—Capital Account</td>
<td>5,000</td>
<td>Cash</td>
<td>1,200</td>
</tr>
<tr>
<td></td>
<td>30,800</td>
<td></td>
<td>30,800</td>
</tr>
</tbody>
</table>

Set out the Dissolution Account and show how much each partner receives.

(Chartered Accountants)

17. Black and White enter into partnership upon equal terms as to profits and losses of the venture, for the purpose of perfecting an invention with a view to its sale to a Syndicate. No interest was to be paid on Partners’ Capitals prior to division of results. Black contributed £300 and White £150 to cover the cost of experiments, White giving his personal services without salary. Upon the completion of the necessary experiments, the purchases and expenses were found to have amounted to £478. Black then advanced a further £50 and White paid a further £22 for Patent Fees, etc. The invention was sold by them to a Syndicate for £1,000 in cash, which was paid to them and 1,000 fully paid shares of £1 each in the Syndicate, and these were duly allotted. Upon dissolving the partnership, White arranged to take over the stock of materials at an agreed valuation of £36, and undertook to
discharge outstanding liabilities (if any). Black consented to take over the 1,000 fully paid shares at an agreed valuation of £50. Prepare the accounts necessary upon the dissolution of partnership.

(Royal Society of Arts).

18. The following is the Balance Sheet of A, B and C, on 31st December 1911

<table>
<thead>
<tr>
<th>Liabilities</th>
<th>£</th>
<th>Assets</th>
<th>£</th>
</tr>
</thead>
<tbody>
<tr>
<td>Creditors</td>
<td>2,000</td>
<td>Cash</td>
<td>500</td>
</tr>
<tr>
<td>Bank-Loan</td>
<td>500</td>
<td>Stock</td>
<td>2,000</td>
</tr>
<tr>
<td>Bills Payable</td>
<td>500</td>
<td>Plant and Tools</td>
<td>2,000</td>
</tr>
<tr>
<td>A—Capital</td>
<td>2,500</td>
<td>Sundry Debtors</td>
<td>1,000</td>
</tr>
<tr>
<td>B—Capital</td>
<td>1,500</td>
<td>Bills Receivable</td>
<td>1,000</td>
</tr>
<tr>
<td></td>
<td></td>
<td>C Capital Overdrawn</td>
<td>500</td>
</tr>
<tr>
<td></td>
<td>7,000</td>
<td></td>
<td>7,000</td>
</tr>
</tbody>
</table>

C is insolvent, but his partners recover from him £250. It is decided to wind up the Partnership, and the Assets realise—Cash £500, Stock £1,600, Plant and Tools £1,500, Sundry Debtors £750, Bills Receivable £700. Profits and losses are divided equally. What would be the position of each partner's Account on the winding up of the Partnership in accordance with the Partnership Act, the costs of Realisation amounting to £250?

(Chatered Accountants).

19. On 1st January 1906, A, B and C were partners carrying on business as merchants with a Capital divided as follows.—A £30,000, B £20,000, C £10,000. Each partner was to receive 5% interest per annum on his Capital, and to share profits and losses in the following proportion.—A seven-twelfths, B one-fourth, and C one-sixth.

At 30th June 1907, it was agreed to dissolve partnership and realise all the assets. In the result after all liabilities and claims had been paid with the exception of law and accountancy charges agreed at £500, there remained a balance in cash of £38,750.
December 31st, 1907, was an agreed date between the parties for a settlement. Draw up a statement showing the position as at that date.

(Incorporated Accountants).

20. J. Dyson and W. Daw traded in partnership as Dyson & Co., sharing profits and losses 2/3rds and 1/3rd respectively, and on 31st December 1911 their Balance Sheet was as follows:

<table>
<thead>
<tr>
<th>Liabilities</th>
<th>Assets</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sundry Creditors</td>
<td>£</td>
</tr>
<tr>
<td>Bills Payable</td>
<td>£ 2,000</td>
</tr>
<tr>
<td>Bank Overdraft</td>
<td>£ 1,115</td>
</tr>
<tr>
<td>Capital Assets</td>
<td>£ 3,000</td>
</tr>
<tr>
<td>J. Dyson</td>
<td>£ 2,000</td>
</tr>
<tr>
<td>W. Daw</td>
<td>£ 1,000</td>
</tr>
<tr>
<td></td>
<td>£ 15</td>
</tr>
<tr>
<td></td>
<td>£ 250</td>
</tr>
<tr>
<td></td>
<td>£ 3,000</td>
</tr>
<tr>
<td></td>
<td>Less Reserve</td>
</tr>
<tr>
<td></td>
<td>for Discount and</td>
</tr>
<tr>
<td></td>
<td>Bad Debts</td>
</tr>
<tr>
<td></td>
<td>£ 150</td>
</tr>
<tr>
<td></td>
<td>£ 2,850</td>
</tr>
<tr>
<td></td>
<td>Stock-in-Trade</td>
</tr>
<tr>
<td></td>
<td>£ 2,500</td>
</tr>
<tr>
<td></td>
<td>Plant and Machinery</td>
</tr>
<tr>
<td></td>
<td>£ 1,000</td>
</tr>
<tr>
<td></td>
<td>£ 6,615</td>
</tr>
</tbody>
</table>

On that date they agreed to sell the business to a limited company, the company to take over at the following valuations:

- Sundry Debtors £2,700, Stock £2,200, Plant and Machinery £1,200, the other assets and liabilities at their book values, and the company agreed to pay £1,750 for goodwill. The firm received £3,000 of the purchase price in £1 fully paid ordinary shares in the limited company and £1,500 in cash, and these assets were distributed among the partners in proportion to their capitals. Show in the books of the partnership:—(a) Realisation Account; (b) Company’s Purchase Account; (c) Partners’ Capital Accounts; (d) Cash Account; and (e) the Shares Account. No other accounts are required.

(Lancashire & Cheshire Institutes).
21. The following is the Balance Sheet of C and S, manufacturers, as at 31st December 1929 —

<table>
<thead>
<tr>
<th>Liabilities</th>
<th>Rs</th>
<th>Assets</th>
<th>Rs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Trade Creditors</td>
<td>11,853</td>
<td>Plant and Machinery</td>
<td>5,000</td>
</tr>
<tr>
<td>Loans</td>
<td>3,297</td>
<td>Stock</td>
<td>9,000</td>
</tr>
<tr>
<td>Capitals:</td>
<td></td>
<td>Work-in-Progress</td>
<td>10,000</td>
</tr>
<tr>
<td>C</td>
<td>25,000</td>
<td>Debtors</td>
<td>20,500</td>
</tr>
<tr>
<td>S</td>
<td>12,500</td>
<td>Less Reserve</td>
<td>2,350</td>
</tr>
<tr>
<td></td>
<td>37,500</td>
<td></td>
<td>18,150</td>
</tr>
<tr>
<td>Bank</td>
<td></td>
<td></td>
<td>3,000</td>
</tr>
</tbody>
</table>

52,650

C and S have decided to sell their business to a Limited Company to be called the Crank Manufacturing Co., Ltd as and from the date of the Balance Sheet \( \frac{1}{1} \), 31st December 1929. The purchase is not completed until 31st March 1930, but the company agrees to pay interest on the purchase price at 5\% per annum for the three months. Show the Ledger accounts in the firm’s books of the sale of the business to the company having regard to the following adjustments and allot to each partner his respective share.

The business is sold to the Company for cash. Plant and Machinery are valued for the purposes of sale at Rs 1,600 more than the figure appearing in the books, and the Goodwill of the firm is assessed at Rs 7,900. In addition to the Reserve for Bad Debts already provided, C and S have to make a further allowance of Rs 1,500 while the liabilities to be taken over by the new Company are found to be Rs 500 more than the amount stated in the Balance Sheet.

(B. Com.)

22. The Balance Sheet of Messrs Harris & Smith stood at 31st December 1910, as follows —

<table>
<thead>
<tr>
<th>Liabilities</th>
<th>£</th>
<th>Assets</th>
<th>£</th>
</tr>
</thead>
<tbody>
<tr>
<td>Creditors</td>
<td>2,300</td>
<td>Debtors</td>
<td>2,200</td>
</tr>
<tr>
<td>Loan by Harris</td>
<td>3,000</td>
<td>Plant and Machinery</td>
<td>5,000</td>
</tr>
<tr>
<td>Capital — Harris</td>
<td>1,000</td>
<td>Building</td>
<td>3,100</td>
</tr>
<tr>
<td>Capital — Smith</td>
<td>4,000</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

10,300

10,300
The partners share profits and losses equally. They decide to wind up the business as at 31st December 1910. The realisation of the assets yields 75% of the debts, 60% of the plant and machinery, and 70% of the building. Make out a final Balance Sheet and Capital Accounts

(Incorporated Accountants).

23. Messrs Anderson and Mullan who are equal partners, carry on business as Manufacturers, and their position, as stated in their Balance Sheet at 31st December 1921, is as follows:—

<table>
<thead>
<tr>
<th>Liabilities</th>
<th>Rs</th>
<th>Assets</th>
<th>Rs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sundry Creditors</td>
<td>55,500</td>
<td>Stock-in-Trade</td>
<td>42,000</td>
</tr>
<tr>
<td>Imperial Bank of India</td>
<td>28,500</td>
<td>Machinery and Plant</td>
<td>18,000</td>
</tr>
<tr>
<td>Bills Payable</td>
<td>10,500</td>
<td>Office Furniture</td>
<td>1,600</td>
</tr>
<tr>
<td>Anderson’s Capital</td>
<td>33,000</td>
<td>Book Debts</td>
<td>60,000</td>
</tr>
<tr>
<td>Mullan’s Capital</td>
<td>52,500</td>
<td>Life Policy on Joint</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Lives Surrender Value</td>
<td>7,500</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Leasehold Property</td>
<td>22,500</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Anderson’s Drawings</td>
<td>9,000</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Mullan’s Drawings</td>
<td>3,000</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Profit &amp; Loss A/c.</td>
<td>*16,500</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>1,80,000</td>
<td></td>
<td>1,80,000</td>
</tr>
</tbody>
</table>

The business is carried on until 30th June 1922, by which time a net profit of Rs. 12,300 has been made for the half year, after 10 per cent per annum has been written off leaseholds. Meanwhile, Sundry Creditors have been reduced by Rs. 12,000, Bills Payable by Rs. 2,925 and overdraft by Rs. 3,000, and Partners have withdrawn Rs. 3,000 each during the half year.

Stock-in-Trade now stands at Rs. 45,300, Book Debts at Rs. 46,200 and subject to any necessary alteration, the other items remain as at 31st December 1921.

In September, the firm agrees to sell the business to a Limited Company upon the basis that the Stock shall be taken over at a discount of 5 per cent and Book Debts at a discount of 2½ per cent as at June, the Company paying Rs. 7,500 for profits in the interval less Rs. 1,500 each withdrawn by partners since June;
the partners to retain the life policy, and the Company, with these exceptions, taking over on the basis of the Balance Sheet at 30th June, and agreeing to pay a Goodwill to Rs. 37,500. The purchase money is to be paid (1) by Rs 90,000 in cash, and (2) by the issue to the partners of Rs 15 Preference Shares to satisfy the balance due to them respectively.

Disregarding Interest on Drawings and Capital, you are required to prepare a Realisation Account and Capital account of the partners. Give also the final Journal Entry for the distribution of the remaining assets between the partners.

(G D. A)

24 R, M and D are in partnership. The partnership deed provides that upon the expiry of the partnership term as at 31st December 1923, M shall acquire the whole business upon repaying to the other partners the Capital standing to their credit at that date plus four years' purchase of their respective shares of profit taking the year 1923 as a basis. The partners' Capital which on 1st January 1923, is R Rs 90,000, M Rs 40,000 and D Rs 35,000 carries interest at 5%. Profits are divisible as to R 5,9ths, M 3,9ths and D 1,9th against which each partner draws Rs 5,000 per annum upon which the interest is not calculated. Stock at 31st December 1923 amounts to Rs 80,000 and the remaining balances are as follows:

<table>
<thead>
<tr>
<th>Description</th>
<th>Rs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sundry Creditors</td>
<td>69,000</td>
</tr>
<tr>
<td>Book Debts</td>
<td>1,50,000</td>
</tr>
<tr>
<td>Stock, 1st January 1923</td>
<td>65,000</td>
</tr>
<tr>
<td>Sales</td>
<td>4,20,000</td>
</tr>
<tr>
<td>Cash in Bank</td>
<td>16,500</td>
</tr>
<tr>
<td>Purchases</td>
<td>3,50,000</td>
</tr>
<tr>
<td>Bills Receivable</td>
<td>8,000</td>
</tr>
<tr>
<td>Machinery and Plant</td>
<td>30,000</td>
</tr>
<tr>
<td>Furniture and Fittings</td>
<td>1,500</td>
</tr>
<tr>
<td>Cash in hand</td>
<td>1,000</td>
</tr>
<tr>
<td>Profit and Loss Charges</td>
<td>20,000</td>
</tr>
<tr>
<td>Bad Debts Reserve</td>
<td>3,000</td>
</tr>
</tbody>
</table>

M deposited the title deeds of his property with the Bankers and obtained an overdraft of Rs. 70,000, himself introducing any further Capital necessary to pay out his partners. Prepare a Profit and Loss Account and Balance Sheet of the old firm and a
Further Balance Sheet showing M's position on 1st January 1924 after such payments.

(B. Com.)

25. A, B and C are partners in a firm dealing in hardware, and sharing profits and losses 40%, 30% and 30% respectively decide to dissolve, and appoint B to realise the assets and distribute the proceeds. B is to receive 5% of the amounts realised from Stock and Debtors as his remuneration, and is to bear all the expenses of realisation.

The following is the Balance Sheet prepared by the firm as on the date of dissolution:

<table>
<thead>
<tr>
<th>Liabilities</th>
<th>Assets</th>
<th>Rs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Creditors</td>
<td></td>
<td>59,000</td>
</tr>
<tr>
<td>Capital A/cs</td>
<td></td>
<td></td>
</tr>
<tr>
<td>A</td>
<td></td>
<td>30,000</td>
</tr>
<tr>
<td>B</td>
<td></td>
<td>20,000</td>
</tr>
<tr>
<td></td>
<td></td>
<td>50,000</td>
</tr>
<tr>
<td></td>
<td></td>
<td>1,09,000</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th></th>
<th>Rs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Assets</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash</td>
<td></td>
<td>1,500</td>
</tr>
<tr>
<td>Debtors</td>
<td></td>
<td>45,500</td>
</tr>
<tr>
<td>Less Reserve</td>
<td></td>
<td></td>
</tr>
<tr>
<td>for Doubtful</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Debits</td>
<td></td>
<td>2,500</td>
</tr>
<tr>
<td>Stock</td>
<td></td>
<td>60,000</td>
</tr>
<tr>
<td>C—Overdrawn</td>
<td></td>
<td>4,500</td>
</tr>
<tr>
<td></td>
<td></td>
<td>43,000</td>
</tr>
</tbody>
</table>

B reports the result of realisation as follows:

Debtors realise Rs. 35,000/-. Stock realises Rs. 45,000/-. The Goodwill is sold for Rs. 2,000/-. Creditors were paid Rs. 57,000/- in full settlement. Outstanding Creditors Rs. 500/- have also been paid.

The expenses of realisation came to Rs. 600/- which B met personally.

A and B agree to receive from C Rs. 3,000 in full settlement of the firm's claims against him. Show Capital, Realisation and Cash Accounts.

(B. Com.)
26 X and Y are in partnership. The Balance Sheet of 31 December 1915 showed X’s Capital at Rs. 6,000 and Y’s at Rs. 3,000. Goodwill does not appear on the Balance Sheet. Profit and Losses are to be divided as to 2/3 to X and 1/3rd to Y. As a matter outside the partnership, Y owes X Rs. 1,000. This does not appear in the firm’s Books. Disagreements arising the partners agree to dissolve as from 31st December 1915, on the basis of the Balance Sheet above referred to. Y offers X Rs. 11,000 to go out, this payment to recompense X for his interest in the Business including Goodwill and also to settle the private debt of Y to X. X, however, would rather pay Y out on the like terms with an additional amount of Rs. 500, and offers Y a sum to settle Y’s interest in the Business and his (Y’s) private debt, and the additional amount above referred to.

Prepare statements showing the details of their offers, assuming that X values the Goodwill at the amount which is implied as its value in Y’s offer to X.

(B. Com.)

27. A and B were partners and shared profits in the proportions of 2/3 and 1/3, respectively. They sold the Goodwill of their business and the Plant and Stock to C Company, Limited, for £10,000 cash, and 10,000 £1 shares in the C. Company, the market price of such shares being 25s. per share. The partners undertook to collect their own book debts and to discharge their own liabilities.

The following Balance Sheet represented the state of affairs at the date of the sale.

<table>
<thead>
<tr>
<th>Liabilities</th>
<th>£</th>
<th>Assets</th>
<th>£</th>
</tr>
</thead>
<tbody>
<tr>
<td>Creditors</td>
<td>6,000</td>
<td>Debtors</td>
<td>12,000</td>
</tr>
<tr>
<td>Loan, A</td>
<td>2,000</td>
<td>Cash</td>
<td>25</td>
</tr>
<tr>
<td>Capital, A</td>
<td>13,525</td>
<td>Bank</td>
<td>500</td>
</tr>
<tr>
<td>Capital, B</td>
<td>10,000</td>
<td>Plant</td>
<td>5,000</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Stock</td>
<td>14,000</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>31,525</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

A and B’s Balance Sheet
A, debtor for £500, became bankrupt and his estate realised 5s. the £. All the other debts were realised, subject to a discount 2½ per cent; the creditors were paid in full. A and B agreed that A should receive the whole of the C. Company shares as part of his share in the settlement.

Prepare an account showing how much A and B would each receive in cash.

(B. Com.)

28. The partners in a Drapery Business decide to sell their business to a Limited Company as on 31st December 1914, for the sum of £40,000, to include Goodwill. The Vendors are to collect the Debts and pay off the Mortgage and discharge the other Liabilities. On the 31st December 1914, the Balance Sheet of the Vendors showed:

<table>
<thead>
<tr>
<th>Liabilities</th>
<th>£</th>
<th>s. d.</th>
<th>Assets</th>
<th>£</th>
<th>s. d.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sundry Creditors</td>
<td>18,189</td>
<td>7 6</td>
<td>Freehold Premises</td>
<td>11,500</td>
<td>0 0</td>
</tr>
<tr>
<td>Mortgage on</td>
<td>7,000</td>
<td>0 0</td>
<td>Stock-in-Trade</td>
<td>18,560</td>
<td>16 6</td>
</tr>
<tr>
<td>Freehold</td>
<td>1,860</td>
<td>3 9</td>
<td>Book Debts</td>
<td>5,752</td>
<td>11 3</td>
</tr>
<tr>
<td>Bills Payable</td>
<td>7,500</td>
<td>0 0</td>
<td>Rates, Insurance</td>
<td></td>
<td></td>
</tr>
<tr>
<td>J. Smith</td>
<td></td>
<td></td>
<td>and Telephone</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Capital</td>
<td></td>
<td></td>
<td>paid in advance</td>
<td>177</td>
<td>3 8</td>
</tr>
<tr>
<td>H. A. Smith</td>
<td></td>
<td></td>
<td>Cash at Bankers</td>
<td>6,058</td>
<td>19 10</td>
</tr>
<tr>
<td>Capital</td>
<td>7,500</td>
<td>0 0</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

42,049 11 3

On the final winding up of the Partnership affairs, the Book Debts realised £5,500; and on payment of the Creditors, Discounts amounting to £385 were allowed. Prepare a statement showing the amount payable to each Partner after the repayment.

(Chartered Accountants).

29. Robert and Novy are in partnership. On 31st December 1922, Robert's Capital was Rs. 76,240 and Novy's Rs. 26,300. They share profits and losses in the proportions of five-sevenths and two-sevenths, and their withdrawals are to be in the same proportions.

At the close of 1923 you are given the following information relating to that year:—
(a) The Joint Capital on 31st December was Rs. 1,06,380.
(b) The drawings of Novy were Rs 1,080 in excess of the arranged proportion.
(c) Novy is to be credited with Rs 1,050 by way of preferential salary for 1923.
(d) Effect is to be given to a promise made to Novy by Robert in 1922 that Robert should pay Novy Rs 500 for additional work thrown on him owing to the illness of Robert.
(c) Interest on Capital at 5% to be charged.

Prepare a statement showing how the Capital of Rs 1,06,380 is divided between Robert and Novy.

(B. Com.)

30. A, B and C are partners in a firm dealing in fancy goods, and sharing profits and losses 48%, 35% and 17% respectively, decide to dissolve, and appoint B to realise the assets and distribute the proceeds. B is to receive 5% of the amounts coming to A and C as his remuneration and is to bear all the expenses of realisation.

The following is the Balance Sheet prepared by the firm as on the date of dissolution —

<table>
<thead>
<tr>
<th>Liabilities</th>
<th>Assets</th>
</tr>
</thead>
<tbody>
<tr>
<td>Creditors</td>
<td></td>
</tr>
<tr>
<td>1,247</td>
<td></td>
</tr>
<tr>
<td>Capital:</td>
<td></td>
</tr>
<tr>
<td>A 4,129</td>
<td></td>
</tr>
<tr>
<td>B 3,057</td>
<td></td>
</tr>
<tr>
<td>--- 7,186</td>
<td></td>
</tr>
<tr>
<td>Creditors</td>
<td></td>
</tr>
<tr>
<td>1,247</td>
<td></td>
</tr>
<tr>
<td>Capital:</td>
<td></td>
</tr>
<tr>
<td>A 4,129</td>
<td></td>
</tr>
<tr>
<td>B 3,057</td>
<td></td>
</tr>
<tr>
<td>--- 7,186</td>
<td></td>
</tr>
<tr>
<td>Less Reserve</td>
<td></td>
</tr>
<tr>
<td>for Bad Debts 211</td>
<td>4,018</td>
</tr>
<tr>
<td>Stock-in-Trade</td>
<td>1,872</td>
</tr>
<tr>
<td>Cash</td>
<td>476</td>
</tr>
<tr>
<td>Other Assets</td>
<td>1,710</td>
</tr>
<tr>
<td>C — Overdrawn</td>
<td>357</td>
</tr>
</tbody>
</table>

8,433

B reports the result of realisation as follows:

Debtors realise 3,462
Stock-in-Trade realises 1,444
Goodwill is sold for 50
The other assets realise 909
Creditors were omitted from the Balance Sheet to the amount £100.

The expenses of realisation amount to £110.

C informs his late partners that he is possessed of £100 only, and they agree that, if as a result of the realisation he is still indebted more than this amount, they will accept it in full settlement. Prepare Dissolution Accounts.

(Chartered Accountants).
Chapter VIII

CONSIGNMENTS AND JOINT VENTURES

In an attempt to find a market for his goods, a merchant may decide to forward his goods to a person in a different town who will sell those for him and then remit the sale proceeds to him after deducting his expenses and remuneration. It is clear that the person to whom the goods are forwarded is not the buyer—he is the agent acting on behalf of the merchant. He gets commission as his remuneration for the services rendered.

The act of sending the goods is called—Consignment.
The person who sends the goods on consignment for sale is the—Consignor. The person to whom the goods are sent on consignment is the Consignee.

When goods are sent on consignment we call it "Consignment Outward". To the Consignee it is "Consignment Inward". Thus an Outward Consignment is the despatch of a quantity of goods by a person to a person in a different town, more frequently to a place abroad, for the purpose of sale. And an Inward Consignment is the receipt of a quantity of goods by a person from his principal abroad, or in some other town for the purpose of sale.

Difference between a Consignment and a Sale:

(a) In the case of sale of goods, the property in the goods passes to the buyer. In the case of a consignment, the legal ownership does not pass to the Consignee.

(b) The person to whom the goods are sent is an agent, where as the person to whom the goods are sold is a debtor. The agent is not liable to pay for the goods if they are not sold—he can be asked to return the goods. The debtor cannot be asked to return the goods—he can be sued for the price, if unpaid.

Proforma Invoice:

In the case of a sale as we know, an invoice is sent to the buyer along with the goods, giving the description, quantity, the rate and the total value of the goods. This is the sale price realizable from the buyer. In the case of a consignment a Proforma Invoice is sent. The value shown on the proforma invoice is not necessarily the price to be realized from sale. More often than not, it is not the price eventually realized. The Consignor does not know what price the goods will fetch. He generally makes out the
invoice of the consignment at a price higher than his cost price—that being the indication to his agent of the price at which he expects the goods should be sold. (The agent generally has an authority to sell the goods at the best available price).

In the proforma invoice particulars are given as to the nature of the goods, number, or quantity, measurement, weight, marking, price etc.

In the Consignor’s books, the consignment is generally recorded at cost price. If it is recorded at a price higher than the cost price it becomes necessary at the time of ascertaining the profit or loss on the consignment to make adjustment to bring it down to the cost price.

**Consignment Book:**

When consignments are numerous a special subsidiary book called the Consignment Day Book is maintained for recording such transactions on the plan of the Sales Day Book. The total of the Consignment Day Book is posted to the credit of the Goods on Consignment Account in the General Ledger. A separate Consignment Ledger is also kept.

We may consign different lots of goods to different agents of the same or different towns. In order to ascertain the profit or loss on each consignment a separate Consignment Account is opened for each venture, such as “Consignment to Sydney Account”, “Consignment to Bombay Account”, “Consignment No. 44”, etc.

Supposing Hiralal of Calcutta consigned 100 boxes of tea to A. S. Sarma at Bombay. As Hiralal did not sell the goods to A. S. Sarma, the latter’s account in Hiralal’s books cannot be debited with the value of the goods. Hiralal will open an account in his books as “Consignment to A. S. Sarma, Bombay” and debit it with the cost of the goods. This account will be debited with all the expenses in connection with the consignment and credited with the sale proceeds. We shall see presently how it is done.

But the main point to note here is that the whole plan is to ascertain the net result—the profit or loss, of this particular consignment. In other words, each Consignment Account is the Trading and Profit & Loss Account combined of that particular venture. The net result of the consignment will be transferred to the general Profit & Loss a/c. of the trader—thus closing the Consignment Account.

**Advance on Consignment:**

It is not an uncommon practice for a consignee to make an advance to the consignor against the consignment. This
must not be credited to the Consignment Account, for the agent may never sell the goods. It should be put to the credit of the agent. In case the goods are not sold and is returned to the consignor, the agent would be creditor to the consignor for the amount advanced.

Sometimes the Consignor draws a Bill upon the Consignee and sends it along with the Bill of Lading, the Insurance policy and the Proforma Invoice for his acceptance. The Consignor can discount the Bill if he wants to raise money. The discount charge may be treated as cost of the particular consignment or it may be charged to his general Profit & Loss Account.

Del Credere Commission:

A little extra commission is sometimes allowed to the agent by the Consignor in consideration of the agent’s guaranteeing that there would be no loss due to the failure of the debtors if goods are sold on credit. The consignor will receive the proceeds of the consignment from the agent whether the agent himself receives it or not.

Account Sales:

This is a statement of account rendered by the Consignee to the Consignor. It gives full details of the gross sale proceeds of the consignment or part of the consignment as the case may be. All the expenses incurred by the agent as well as his commission is deducted therefrom. The balance (less the amount that might have been advanced) is the amount due to the Consignor. The Account Sales is accompanied by a draft for the amount due to the Consignor.

The Consignor had already debited the Consignment Account with the cost of the goods forwarded as well as with the expenses such as freight, insurance etc., he had incurred on it. On receipt of the Account Sales he gets the other particulars necessary to complete the account viz., the sale proceeds, the expenses of the agent and his commission. It will be observed, that all these together make up the Trading and Profit & Loss Account of the particular consignment. The account is balanced and the net result of profit or loss as the case may be—is transferred to the Consignor’s general Profit & Loss Account. If at the balancing time, the goods are partly sold then, of course, the Consignment Account will be credited with the stock of Goods on Consignment (i.e., the unsold goods lying with the agent) just as in the Trading Account. The Stock-on-Consignment will be brought down as a debit balance in the Consignment Account for the next
period and will appear in the trader's Balance Sheet along with his Stock-in-Trade as Stock-on-Consignment.

On the point of valuation of the Stock-on-Consignment it will be valued at the cost price to which proportionate expenses incurred such as carriage, insurance, godown charge, duty etc will be added.

Specimen of Account Sales:

Account Sales of 84 bags of Sugar ex S.S. Jai-pa, sold by Dharamdas of Bombay, for the account & risk of Paul & Sons, Calcutta

<table>
<thead>
<tr>
<th>Rs.</th>
<th>Rs a p</th>
</tr>
</thead>
<tbody>
<tr>
<td>50 bags Sugar</td>
<td>80</td>
</tr>
<tr>
<td>34 bags do</td>
<td>70</td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Deduct Charges & Expenses

<table>
<thead>
<tr>
<th>Rs a p.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Insurance</td>
</tr>
<tr>
<td>Cartage</td>
</tr>
<tr>
<td>Storage</td>
</tr>
<tr>
<td>Commission 5% on Rs. 6,380</td>
</tr>
</tbody>
</table>

| 6,001 |

Less Advance.

<table>
<thead>
<tr>
<th>Rs a p.</th>
</tr>
</thead>
<tbody>
<tr>
<td>3,000</td>
</tr>
</tbody>
</table>

Sight Draft for Rs 3001/- herewith Dharamdas
Bombay, 10.6.47.

Entries in the Books of the Consignor:

The record of Outward Consignments would be made in the books of the Consignor as follows:
1. Debit Consignment Account and credit "Goods on Consignment Account" with the cost price of the goods by means of a Journal Entry.

2. Debit Consignment Account with freight, insurance and other charges incurred in sending the consignment and credit Cash, if paid or the personal accounts, if unpaid.

3. When any amount, cash or a B/R is received from the Consignee as advance against the consignment, Cash or B/R account is debited, and the personal account of the Consignee is credited with the amount.

4. When the Consignee sells the goods and sends the Account Sales to the Consignor:
   (a) Consignee's Account is debited and Consignment Account is credited with the gross sale proceeds.
   (b) Consignment Account is debited, Consignee's account is credited with the expenses incurred by the Consignee in connection with the consignment, as well as with his due commission.

5. Balance the Consignment Account and transfer the balance to Profit and Loss Account. The value of the unsold portion of the consignment, if any, at the time of closing the books, is to be credited to the Consignment Account and brought down to the debit side after ruling off the account.

6. When the Consignee sends any amount either in Cash or by Bill in settlement of the account, Consignee is credited and Cash or Bills Receivable Account is debited with the amount.


If the Account Sales is not received within the financial period, the balance of the Consignment Account is to be shown in the Balance Sheet as an asset. Another important point to be noticed is that in valuing the unsold stock, cost price or market price, whichever is lower is to be taken as the basis of valuation. In some cases, proportionate charges incurred in sending the consignment are added to the Invoice value.

Entries in the Books of the Consignee—Principal Method:

1. As the Consignee is not liable for the value of the goods consigned to him, but holds them in trust on behalf of the Consignor, no entry should be made on receipt of the goods.

2. When the Consignee pays various expenses connected with the Consignment, Consignor's Account is debited, and the Cash Book is credited.
3. When the Consignor sends an advance connected with the Consignment, Consignor's Account as debited, Cash or Bills Payable Account is credited.

4. (a) On selling the goods for cash, Cash Book is debited, and the Consignor's Account is credited.
   (b) When the Consignee sells the goods on credit, the buyer's account is debited and Consignor's Account is credited with the value by means of a Journal Entry.

5. Debit Consignor and credit Commission Account with the amount of commission due by means of a Journal Entry.

6. Close the Consignor's Account by debiting it with remittance either in cash or by draft in final settlement.

Entries in the books of the Consignee (Alternative Method):

1. When the goods are received, Consignment Inwards Account is debited, Consignor's Account is credited by means of Journal Entry with the value.

2. When the Consignee pays various expenses connected with the Consignment, Cash is credited, Consignment Inwards Account is debited.

3. When the Consignee remits an advance cash or Bill Payable account as the case may be, is credited and Consignor's account is debited.

4. (a) When the goods are sold by the Consignee, cash is debited (in case of cash sale), Consignment Inwards Account is credited.
   (b) On credit sale, person who buys the goods, is debited, Consignment Inwards Account is credited by means of a Journal Entry with the value.

5. Consignment Inwards Account is debited, Commission Account is credited with the commission due, by means of a Journal Entry.

6. Balance the Consignment Inwards Account and transfer it to the Consignor's Account. Before balancing, any unsold stock must be credited to the Consignment Inwards Account and brought down as a debit balance after ruling off the account.

7. Close the Consignor's Account by debiting it with the final bill or draft in settlement. The value of any unsold stock must be debited to the Consignor's Account and brought down as a credit balance after ruling off the account.
Example 1:

L. Khaitan of Bombay consigned goods valued Rs. 16,500/- to M. Kimberly of East Borneo, and the Consignor paid freight and carriage Rs. 650/- while the Insurance cost him Rs. 490/-. A draft was drawn on M. Kimberly at six months for Rs. 5,500/- and this was immediately discounted with Bank for Rs. 5,420/-. In due course, an account's sales was received from the Consignee stating that part of the goods had been sold for Rs. 10,000/-, whilst expenses were Rs. 370/- and commission Rs. 500/-. And a draft was enclosed for the balance (Rs. 5,500/- previously drawn being a payment on account.) The unsold stock was valued at cost price at Rs. 10,500/-. You are required to give the Journal entries, necessary to record these details in the books of the Consignor and write up the Ledger Accounts and Cash Book of the Consignor.

<table>
<thead>
<tr>
<th>Journal</th>
<th>Dr.</th>
<th>Cr.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Consignment to East Borneo a/c.</td>
<td>16,500 0 0</td>
<td></td>
</tr>
<tr>
<td>To Goods sent on Consignment a/c.</td>
<td></td>
<td>16,500 0 0</td>
</tr>
<tr>
<td>Being value of goods sent to M. Kimberly on consignment</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Consignment to East Borneo a/c.</td>
<td>1,140 0 0</td>
<td></td>
</tr>
<tr>
<td>To Bank freight</td>
<td>650/-</td>
<td></td>
</tr>
<tr>
<td>Insurance</td>
<td>490/-</td>
<td></td>
</tr>
<tr>
<td></td>
<td>1140/-</td>
<td>1,140 0 0</td>
</tr>
<tr>
<td>Being freight and Insurance paid on consignment</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bills Receivable a/c.</td>
<td>5,500 0 0</td>
<td></td>
</tr>
<tr>
<td>To M. Kimberly</td>
<td></td>
<td>5,500 0 0</td>
</tr>
<tr>
<td>Being acceptance received from the latter</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>