UNIT - 6: DISSOLUTION OF PARTNERSHIP FIRMS AND LLP

LEARNING OUTCOMES

After studying this unit, you would be able to:

- Go through the circumstances in which a partnership is dissolved.
- Understand that on the dissolution of a partnership all assets are sold out and all liabilities are discharged. Learn the accounting technique relating to the disposal of assets and payment of liabilities.
- Learn how to settle the partner's claims in case of surplus and how to raise money from partners in case of a deficit.
- Deal with piecemeal distribution to partners of the amount realized from assets net of liabilities.
- Winding up of a Limited Liability Partnership (LLP)

UNIT OVERVIEW

Circumstances leading to Dissolution of Partnership

- where the firm is constituted for a fixed term, on the expiry of that term
- where the firm is constituted to carry out one or more adventures or undertaking, then by completion thereof
- by the death of a partner, and
- by the adjudication of a partner as an insolvent.

Methods of piecemeal distribution

Piecemeal distribution involves either of two methods

- Maximum loss method
- Highest relative capital method

6.1 INTRODUCTION

Apart from the readjustment of rights of partners in the share of profit by way of change in the profit-sharing ratio and admission of a new partner or for retirement/death of a partner, another important aspect of partnership accounts is how to close books of accounts in case of dissolution. In this Unit, we will discuss the circumstances leading to the dissolution of a partnership firm and accounting treatment necessary to close its books of accounts. Also, we will discuss the special problems relating to the insolvency of partners and the settlement of the partnership's liabilities.

6.2 CIRCUMSTANCES LEADING TO DISSOLUTION OF PARTNERSHIP

A partnership is dissolved or comes to an end on:

(a) the expiry of the term for which it was formed;

(b) completion of the venture for which it was entered into;

(c) death of a partner;

(d) insolvency of a partner.

However, the partners or remaining partners (in case of death or insolvency) may continue to do the business. In such a case there will be a new partnership but the firm will continue. When the business comes to an end then only it will be said that the firm has been dissolved.

A firm stands dissolved in the following cases:

A firm stands dissolved in the following cases:				
(i) The partners agree that the firm should be dissolved;	(ii) All partners except one become insolvent;	(iii) The business becomes illegal;	(iv) In case of partnership at will, a partner gives notice of dissolution; and	(v) The court orders dissolution.

The court has the option to order dissolution of a firm in the following circumstances :	(a)	Where a partner has become of unsound mind;
	(b)	Where a partner suffers from permanent incapacity;
	(c)	Where a partner is guilty of misconduct of the business;
	(d)	Where a partner persistently disregards the partnership agreement;
	(e)	Where a partner transfers his interest or share to a third party;
	(f)	Where the business cannot be carried on except at a loss; and
	(g)	Where it appears to be just and equitable.

6.3 CONSEQUENCES OF DISSOLUTION

On the dissolution of a partnership, firstly, the assets of the firm, including goodwill, are realized. Then the amount realized, is applied first towards repayment of liabilities to outsiders and loans taken from partners; afterwards, the capital contributed by partners is repaid and, if there is still a surplus, it is distributed among the partners in their profit-sharing ratio.

Conversely, after payment of liabilities of the firm and repayment of loans from partners, if the assets of the firm leftover are insufficient to repay in full the capital contributed by each partner, the deficiency is borne by the partners in their profit-sharing ratio.

According to the provisions contained in section 48 of the Partnership Act, upon dissolution of the partnership, the mutual rights of the partners, unless otherwise agreed upon, are settled in the following manner:

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

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

   (i) in paying the debts of the firm to third parties;

   (ii) in paying to each partner rateably what is due to him from the firm in respect of advances as distinguished from capital;

   (iii) in paying to each partner what is due to him on account of capital; and

(iv) the residue, if any, to be divided among the partners in the proportion in which they are entitled to share profits.

Distinction between Dissolution of Partnership and Dissolution of Partnership Firm

Dissolution of Partnership	Dissolution of Partnership Firm
Dissolution of a partnership refers to the discontinuance of the relation between the partners of the firm.	Dissolution of the firm implies that the entire firm ceases to exist, including the relation among all the partners.
There can be change in profit sharing ratio or admission/death/retirement of a partner.	Dissolution of partnership firm occurs.
In event of dissolution of the partnership, the business continues as usual, but the partnership is reconstituted.	In event of the dissolution of the firm, the business ceases to end.
There is no intervention by the court.	Court has the inherent power to intervene. By its order, a firm can be dissolved.
Economic relationships among partners may remain same or change.	Economic relationship among partners comes to an end.
Assets and liabilities are revalued. New balance sheet is prepared.	Assets are sold and realized. Liabilities are paid off.
Revaluation account is prepared.	Realization account is prepared.
Assets and liabilities are revalued after winding up of the existing partnership.	Assets and liabilities are settled on winding up of a firm.
Books of accounts are not closed.	Books of accounts are closed.

6.3.1 Dissolution before the expiry of a fixed term

A partner who, on admission, pays a premium to the other partners with a stipulation that the firm will not be dissolved before the expiry of a certain term, will be entitled to a suitable refund of premium or of such part as may be reasonable, if the firm is dissolved before the term has expired.

No claim in this respect will arise if:	(1)	the firm is dissolved due to the death of a partner;
	(2)	the dissolution is mainly due to the partner's (claiming refund) own misconduct; and
	(3)	the dissolution is in pursuance of an agreement containing no provision for the return of the premium or any part of it.

The amount to be repaid will be such as is reasonable having regard to the terms upon which the admission was made and to the length of the period agreed upon and that already expired. Any amount that becomes due will be borne by other partners in their profit- sharing ratio.

6.4 CLOSING OF PARTNERSHIP BOOKS ON DISSOLUTION

To close books of accounts of Partnership Firm. We need to transfer all the assets and liabilities to Realization Account. Given below is the specimen of the Realization Account.

Specimen of Realization Account

Particulars	₹	Particulars	₹
To Sundry Assets (Excluding Cash/Bank, Debit Balance of P&L A/c, Partners' Current, Capital, and Loan A/cs)		By Sundry Liabilities (Excluding Credit Balance of P&L A/c, Partners' Current, Capital, and Loan A/c)	
To Bank/Cash (expenses for realization)		By Provision on Assets	
To Bank/Cash A/c (Amount paid for liabilities and unrecorded liabilities)		By Bank/Cash A/c (Amount realized from assets and unrecorded assets)	
To Partners' Capital A/cs (Expenses or Liabilities paid by partners)		By Partners' Capital A/cs (Assets taken over by partners)	
To Partners' Capital A/cs (Profit on realization distributed among partners in profit sharing ratio)		By Partners' Capital A/cs (Loss on realization distributed among partners in profit sharing ratio)	

6.4.1 Treatment of Goodwill at the time of dissolution of Firm

Treatment of Goodwill

- If Goodwill appears in the Balance Sheet, it is considered as purchased Goodwill and is treated like any other asset and is transferred to realization account.
- If Goodwill does not appear in the balance sheet, no entry is required for this.
- If something is realized or Goodwill is purchased by any one of the partners, then either Cash Account is debited or Partner's Capital A/c is debited and Realization Account is credited.

We will understand how to close the books of accounts through illustration the required journal entries to be made for closing the books of a firm with the example given below:

Balance Sheet of Fast and Quick as at Dec. 31, 2021

Liabilities		₹	***Assets***		₹
Sundry Creditors		20,000	Plant and Machinery		40,000
Fast's Loan		10,000	Patents		6,000
General Reserve		10,000	Stock		25,000
Capitals:			Sundry Debtors	19,000	
Fast	30,000		*Less:* Prov. for doubtful debts	(1,000)	18,000
Quick	25,000	55,000	Cash		6,000
		95,000			95,000

Fast and Quick share profits in the ratio of 3:2. On 1st January, 2022 the firm was dissolved. Fast took over the patents at a valuation of ₹ 5,000. The other assets realized as under:

Particulars	₹
Plant and Machinery	45,000
Stock	22,000
Sundry Debtors	18,500
Total	85,500

The Sundry Creditors were paid off at a discount of 5%. The expense amounted to ₹ 3,500. The steps to close the books are given below:

I. Open a **Realization Account** and **transfer all assets** except cash in hand or at a bank at book values. Realization Account is debited and the various assets are credited and thus closed. It should be remembered that Sundry Debtors and Provisions for Bad Debts Accounts are two separate accounts and the gross amount of debtors should be transferred. In the above example the entry will be:

Particulars		₹	₹
Realization Account	Dr.	90,000	
To Plant and Machinery Account			40,000
To Patents Account			6,000
To Stock Account			25,000
To Sundry Debtors			19,000
(Transfer of various assets to the debit side of Realization Account)			

II. **Transfer of liabilities** to outsiders and provisions and reserves against assets (e.g., Provision for Doubtful Debts) to the credit side of Realization account. The accounts of the liabilities and provisions will be debited and thus closed. The entry should be at book figures. The entry will be:

Particulars		₹	₹
Sundry Creditors Account	Dr.	20,000	
Provision for Doubtful Debts Account	Dr.	1,000	
To Realization Account			21,000
(Transfer of liabilities to outsiders and provision against debtors to Realization Account)			

Note: Accounts denoting accumulated losses or profits should not be transferred to the Realization Account.

III. (i) The Realization Account should be **credited with the actual amount realized by the sale of assets**. This should take no note of the book figures. of course, Cash (or Bank) Account will be debited. Thus:

Particulars		₹	₹
Cash Account	Dr.	85,500	
To Realization Account			85,500
(Amount realized by the sale of various assets)			

(ii) If a **partner takes over an asset**, his Capital Account should be debited and Realization Account credited with the value agreed upon, Thus:

Particulars		₹	₹
Fast's Capital Account	Dr.	5,000	
To Realization Account			5,000
(Patents taken over by Fast at ₹ 5,000)			

IV. **Expenses of dissolution** or realization of assets are debited to the Realization Account and credited to Cash Account. Thus

Particulars		₹	₹
Realization Account	Dr.	3,500	
To Cash Account			3,500
(Payment of Expenses)			

V. (i) The actual amount **paid to creditors** should be debited to the Realization Account and Cash Account is credited:

Particulars		₹	₹
Realization Account	Dr.	19,000	
To Cash Account			19,000
(Payment of Sundry Creditors ₹ 20,000 less 5%)			

(ii) If any **liability is taken over by a partner**, his Capital Account should be credited and Realization Account debited with the amount agreed upon.

VI. At this stage, the Realization Account will show **profit or loss**. If the debit side is bigger, there is a loss; if the credit side is bigger, there is a profit. Profit or loss is transferred to the Capital Accounts of partners in the profit-sharing ratio. In the case of profit, Realization Account is debited and Capital Accounts are credited. The entry for loss is, naturally, reverse of this entry. The Realization Account in the example given above shows a loss of ₹ 1,000 (see account below).

Particulars		₹	₹
Fast's Capital Account	Dr.	600	
Quick's Capital Account	Dr.	400	
To Realization Account			1,000
(Transfer of loss to Capital Account in the ratio of 3:2)			

VII. **Partner's Loans** if any, should now be paid. The entry is to debit the Loan Account and credit Cash Account. Thus:

Particulars		₹	₹
Fast's Loan Account	Dr.	10,000	
To Cash Account			10,000
(Repayment of Fast's Loan)			

VIII. Any reserve of accumulated profit or loss lying in the books (as shown by the Balance Sheet) should be transferred to the Capital Account in the profit-sharing ratio. Thus:

Particulars		₹	₹
General Reserve	Dr.	10,000	
To Fast's Capital Account			6,000
To Quick's Capital Account			4,000
(General Reserve transferred to Capital Account in the ratio of 3:2)			

IX. At this stage the Capital Accounts of partners will show how much amount is due to them or from them. The partner owing money to the firm will pay; Cash Account will be debited and his Capital Account credited and thus closed. Money owing to a partner will be paid to him; his Capital Account will be debited and the Cash Account credited. This will close the Capital Accounts' as well as the Cash Account. The entry in the above example is seen in the Capital Accounts below:

Particulars		₹	₹
Fast's Capital Account	Dr.	30,400	
Quick's Capital Account	Dr.	28,600	
To Cash Account			59,000
(Amount paid to partners on Capital Account)			

Ledger Accounts

Plant and Machinery Account

2022	Particulars	₹	2022	Particulars	₹
Jan. 1	To Balance b/d	40,000	Jan. 1	By Realization A/c – Transfer	40,000

Patents Account

2022	Particulars	₹	2022	Particulars	₹
Jan. 1	To Balance b/d	6,000	Jan. 1	By Realization A/c – Transfer	6,000

Stock Account

2022	Particulars	₹	2022	Particulars	₹
Jan. 1	To Balance b/d	25,000	Jan. 1	By Realization A/c – Transfer	25,000

Sundry Debtors Account

2022	Particulars	₹	2022	Particulars	₹
Jan. 1	To Balance b/d	19,000	Jan. 1	By Realization A/c – Transfer	19,000

Provision for Doubtful Debts Account

2022	Particulars	₹	2022	Particulars	₹
Jan. 1	To Realization A/c		Jan. 1	By Balance b/d	1,000
	Transfer	1,000			

Sundry Creditors Account

2022	Particulars	₹	2022	Particulars	₹
Jan. 1	To Realization A/c -Transfer	20,000	Jan. 1	By Balance b/d	20,000

Fast's Loan Account

2022	Particulars	₹	2022	Particulars	₹
Jan. 1	To Cash Account	10,000	Jan. 1	By Balance b/d	10,000

General Reserve Account

2022	Particulars		₹	2022	Particulars	₹
Jan. 1	To Capital Accounts			Jan. 1	By Balance b/d	10,000
	Fast	6,000				
	Quick	4,000	10,000			
			10,000			10,000

Realization Account

2022	Particulars	₹	2022	Particulars		₹
Jan. 1	To Sundry Assets		Jan. 1	By Sundry Creditors		20,000
	Plant and Machinery	40,000		By Provision for Doubtful Debts		1,000
	Patents	6,000		By Cash Account-		85,500
	Stock	25,000		assets realized		

	Sundry Debtors	19,000		By Fast's Capital Account-patents taken over		5,000
	To Cash Account-Exp.	3,500				
	To Cash Account-Creditors paid	19,000		By Loss to:		
				Fast	600	
				Quick	400	1,000
		1,12,500				1,12,500

Cash Account

2022	Particulars	₹	2022	Particulars	₹
Jan. 1	To Balance b/d	6,000	Jan. 1	By Realization A/c-Expenses	3,500
	To Realization b/d	85,500	Jan. 1	By Realization A/c-Creditors	19,000
			Jan. 1	By Fast's Loan Account	10,000
			Jan. 1	By Fast's Capital A/c	30,400
			Jan. 1	By Quick's Capital A/c	28,600
		91,500			91,500

Fast's Capital Account

2022	Particulars	₹	2022	Particulars	₹
Jan. 1	To Realization A/c-Patents	5,000	Jan. 1	By Balance b/d	30,000
	To Realization A/c-Loss	600	Jan. 1	By General Reserve	6,000
	To Cash Account	30,400			
		36,000			36,000

Quick's Capital Account

2022	Particulars	₹	2022	Particulars	₹
Jan. 1	To Realization A/c-loss	400	Jan. 1	By Balance b/d	25,000
	To Cash Account	28,600		By General Reserve	4,000
		29,000			29,000

Note:

(1) If any of the assets are taken over by a partner at a value mutually agreed to by the partners, debit the Partner's Capital Account and credit Realization Account with the price of asset taken over.

(2) Pay off the liabilities, crediting cash, and debiting the liability accounts, the difference between the book figure and the amount paid being transferred to the Realization Account.

(3) Liabilities to outsiders may also be transferred to the Realization Account. In that case, the amount paid in respect of the liabilities in cash should be debited to the Realization Account, Cash Account being credited. If liability is taken over by a partner, Realization Account should be debited and the Partners' Capital A/cs credited at the figure agreed upon.

(4) The balance of the Realization Account will represent either the profit or loss on realization. Divide it between the partners in the proportion in which they shared profits and losses. In the case of a loss, credit Realization Account and debit various partners' Capital Accounts; follow the opposite course in the case of a profit.

(5) Pay off the partners' loans or advances which are separate from the capital (if any) contributed by them, after setting off against them any debit balance in the capital account of the concerned partner.

(6) The balance of the cash account at the end will be exactly equal to the balance of capital account, provided they are in credit; credit cash, and debit the partners' capital account with the amount payable to them to close their accounts.

ILLUSTRATION 1

X, Y, and Z are partners of the firm XYZ and Co., sharing Profits and Losses in the ratio of 4: 3: 2. Following is the Balance Sheet of the firm as on 31st March, 2022:

Balance Sheet as on 31st March, 2022

Liabilities	₹	***Assets***	₹
Partners' Capitals:		Fixed Assets	5,00,000
X	4,00,000	Stock in trade	3,00,000
Y	3,00,000	Sundry debtors	5,00,000
Z	2,00,000	Cash in hand	10,000
General Reserve	90,000		
Sundry Creditors	3,20,000		
	13,10,000		13,10,000

Partners of the firm decided to dissolve the firm on the above-said date.

Fixed assets realized ₹5,20,000 and book debts ₹4,40,000.

Stocks were valued at ₹2,50,000 and it was taken over by partner Y.

Creditors allowed discount of 5% and the expenses of realization amounted to ₹6,000.

You are required to prepare:

(i) Realization account;

(ii) Partners capital account; and

(iii) Cash account.

SOLUTION

(i) Realization Account

Particulars		₹	Particulars		₹
To	Fixed assets	5,00,000	By	Creditors	3,20,000
To	Stock in trade	3,00,000	By	Cash (5,20,000+4,40,000)	9,60,000
To	Debtors	5,00,000	By	Y (Stock taken over)	2,50,000
To	Cash – Expenses	6,000	By	Loss transferred to partners' capital accounts	
To	Cash -Creditors			X	35,555
	(3,20,000 x 95%)	3,04,000		Y	26,667
				Z	17,778
		16,10,000			16,10,000

(ii) Partners' Capital Accounts

Particulars		X	Y	Z	Particulars		X	Y	Z
		₹	₹	₹			₹	₹	₹
To	Realization Account	35,555	26,667	17,778	By	Balance b/d	4,00,000	3,00,000	2,00,000
To	Realization Account	-	2,50,000	-	By	General reserve	40,000	30,000	20,000
To	Cash	4,04,445	53,333	2,02,222					
		4,40,000	3,30,000	2,20,000			4,40,000	3,30,000	2,20,000

(iii) Cash Account

Particulars		₹	Particulars		₹
To	Balance b/d	10,000	By	Realization A/c (Expenses)	6,000
To	Realization A/c	9,60,000	By	Realization A/c (Creditors)	3,04,000
	(Fixed assets and				
	book debts realized)		By	X	4,04,445

		By Y	53,333
		By Z	2,02,222
	9,70,000		9,70,000

6.5 CONSEQUENCES OF INSOLVENCY OF A PARTNER

If the capital account of a partner is in debit, after his share of loss or profit has been adjusted therein, the firm will not have sufficient cash or assets to pay off the amounts due to the other partners, until the amount is repaid by the partner whose account is in debit. If however, the partner is insolvent, the amount will not be realized. In such a case, the deficiency may be borne by the solvent partners in their profit-sharing ratio or according to the principle settled in the well-known case of *Garner* vs. *Murray*. In the latter case, the deficiency would be borne by the solvent partners in proportion to their capitals and not in the proportion in which they share profits and losses.

If a partner goes insolvent then the following are the consequences:			
1. The partner adjudicated as insolvent ceases to be a partner on the date on which the order of adjudication is made.	2. The firm is dissolved on the date of the order of adjudication unless there is a contract to the contrary.	3. The estate of the insolvent partner is not liable for any act of the firm after the date of the order of adjudication, and	4. The firm cannot be held liable for any acts of the insolvent partner after the date of the order of adjudication.

6.6 LOSS ARISING FROM INSOLVENCY OF A PARTNER

When a partner is unable to pay his debt due to the firm, he is said to be insolvent and the share of loss is to be borne by other solvent partners following the decision in the English case of Garner vs. Murray.

According to this decision, solvent partners have to bear the loss due to insolvency of a partner and have to categorically put that the normal loss on realization of assets to be borne by all partners (including insolvent partner) in the profit-sharing ratio but a loss due to insolvency of a partner has to be borne by the solvent partners in the capital ratio.

The determination of capital ratio for this has been explained below. The provisions of the Indian Partnership Act are not contrary to Garner vs. Murray rule. However, if the partnership deed provides for a specific method to be followed in case of insolvency of a partner, the provisions as per the deed should be applied.

Capital Ratio on Insolvency

- The partners are free to have either fixed or fluctuating capitals in the firm.
- If they are maintaining capitals at fixed amounts then all adjustments regarding their share of profits, interest on capitals, drawings, interest on drawings, salary, etc. are done through Current Accounts, which may have debit or credit balances, and insolvency loss is distributed in the ratio of fixed capitals.
- But if capitals are not fixed and all transactions relating to drawings, profits, interest, etc., are passed through Capital Accounts then Balance Sheet of the business should not exhibit Current Accounts of the partners and capital ratio will be determined after adjusting all the reserves and accumulated profits to the date of dissolution, all drawings to the date of dissolution, all interest on capitals and drawings to the date of dissolution but before adjusting profit or loss on Realization Account.
- If some partner is having a debit balance in his Capital Account and is not insolvent then he cannot be called upon to bear the loss on account of the insolvency of other partner.

Insolvency of all Partners

- When the liabilities of the firm cannot be paid in full out of the firm's assets as well as personal assets of the partners, then all the partners of the firm are said to be insolvent. Under such circumstances, it is better not to transfer the amount of creditors to Realization Account. The balance of the creditors' accounts is transferred to Deficiency Account.
- Creditors may be paid the amount available including the amount contributed by the partners.
- The unsatisfied portion of the creditor account is transferred to the Capital Accounts of the partners in the profit-sharing ratio. Then Capital Accounts are closed. In doing so first close the Partners' Capital Account which is having the worst position. The last account will be automatically closed.

ILLUSTRATION 2

P, Q, and R were partners sharing profits and losses in the ratio of 3: 2: 1, no partnership salary or interest on capital being allowed. Their balance sheet on 30th June, 2022 is as follows:

Liabilities		₹	***Assets***	₹
Fixed Capital			*Fixed Assets:*	
P	*20,000*		*Trademark*	*40,000*
Q	*20,000*		*Freehold Property*	*8,000*

R	*10,000*	*50,000*	*Plant and Equipment*	*12,800*
Current Accounts:			*Motor Vehicle*	*700*
P	*500*		*Current Assets*	
Q	*9,000*	*9,500*	*Stock*	*3,900*
Loan from P		*8,000*	*Trade Debtors 2,000*	
Trade Creditors		*12,400*	*Less: Provision (100)*	*1,900*
			Cash at Bank	*200*
			Miscellaneous losses	
			R's Current Account	*400*
			Profit and Loss Account	*12,000*
		79,900		*79,900*

On 1st July, 2022 the partnership was dissolved. Motor Vehicle was taken over by Q at a value of ₹ 500 but no cash passed specifically in respect of this transaction. Sale of other assets realized the following amounts:

	₹
Trademark	*Nil*
Freehold Property	*7,000*
Plant and Equipment	*5,000*
Stock	*3,000*
Trade Debtors	*1,600*

Trade Creditors were paid ₹ 11,700 in full settlement of their debts. The costs of dissolution amounted to ₹ 1,500. The loan from P was repaid, P and Q were both fully solvent and able to bring in any cash required but R was forced into bankruptcy and was only able to bring 1/3 of the amount due.

Required

(a) Cash and Bank Account,

(b) Realization Account, and

(c) Partners Fixed Capital Accounts (after transferring Current Accounts' balances).

SOLUTION

Cash / Bank Account

Particulars	₹	**Particulars**	₹
To Balance b/d	200	By Realization A/c- Creditors	11,700
To Realization A/c-		By Realization A/c- Expenses	1,500
Freehold property	7,000	By P's Loan A/c	8,000

Plant and Equipment		5,000	By P's Capital A/c	14,200
Stock		3,000	By Q's Capital A/c	24,200
Trade Debtors		1,600		
To Capital Accounts:				
P	25,500			
Q	17,000			
R	300	42,800		
		59,600		59,600

Realization Account

Particulars	₹	Particulars		₹
To Trademark	40,000	By Trade Creditors		12,400
To Freehold Property	8,000	By Provision for Bad Debts		100
To Plant and Equipment	12,800	By Bank:		
To Motor Vehicle	700	Freehold Property	7,000	
To Stock	3,900	Plant and Equip.	5,000	
To Sundry Debtors	2,000	Stock	3,000	
To Bank (Creditors)	11,700	Debtors	1,600	16,600
To Bank (Expenses)	1,500	By Q (Car)		500
		By Capital Accounts: (Loss)		
		P	25,500	
		Q	17,000	
		R	8,500	51,000
	80,600			80,600

Partners' Capital Accounts

Particulars	P ₹	Q ₹	R ₹	Particulars	P ₹	Q ₹	R ₹
To Current A/c (Transfer) (WN)	5,500	—	2,400	By Balance b/d	20,000	20,000	10,000
To Realization A/c (Loss)	25,500	17,000	8,500	By Current A/c (Transfer) (WN)	—	5,000	—
To Realization A/c (Car)	—	500	—	By Bank	—	—	300
				By Bank (realization loss)	25,500	17,000	—
To R's Capital A/c (Deficiency)	300	300	—				

To Bank	14,200	24,200	—	By P & Q (Deficiency)	—	—	600
	45,500	42,000	10,900		45,500	42,000	10,900

Working Note

Particulars	**P**	**Q**	**R**
Current Account Balance	500 (Cr)	9000 (Cr)	400 (Dr)
Less: share of Profit & Loss A/c (debit balance)	6000 (Dr)	4000 (Dr)	2000 (Dr)
Adjusted Current Account Balance	5500 (Dr)	5000 (Cr)	2400 (Dr)

Note:

1. P, Q, and R will bring cash to make good their share of the loss on realization. In actual practice they will not be bringing any cash; only a notional entry will be made.

2. On following Garner Vs. Murray rule, solvent partners P and Q have to bear the loss due to insolvency of a partner R in their fixed capital ratio.

ILLUSTRATION 3

Amal and Bimal are in equal partnership. Their Balance Sheet stood as under on 31st March, 2021 when the firm was dissolved:

Liabilities	**₹**	***Assets***	**₹**
Creditors A/c	*4,800*	*Plant & Machinery*	*2,500*
Amal's Capital A/c	*750*	*Furniture*	*500*
		Debtors	*1,000*
		Stock	*800*
		Cash	*200*
		Bimal's drawings	*550*
	5,550		*5,550*

The assets realized as under:

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

The expenses of realization amounted to ₹ 175. Amal's private estate is not sufficient even to pay his private debts, whereas Bimal's private estate has a surplus of ₹ 200 only.

Show necessary ledger accounts to close the books of the firm.

SOLUTION

In the books of M/s Amal and Bimal

Realization Account

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

Cash Account

Particulars	₹	***Particulars***	₹
To Balance b/d	200	By Realization A/c- expenses	175
To Realization A/c		By Sundry Creditors A/c (Bal. fig.)	2,525
- Sale of sundry assets	2,300		
To Bimal's Capital A/c	200		
	2,700		2,700

Sundry Creditors Account

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

Partners' Capital Accounts

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

Deficiency Account

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

ILLUSTRATION 4

A, B, C, and D sharing profits in the ratio of 4:3:2:1 decided to dissolve their partnership on 31st March 2022 when their balance sheet was as under:

Liabilities	₹	Assets	₹
Creditors	*15,700*	*Bank*	*535*
Employees Provident Fund	*6,300*	*Debtors*	*15,850*
Capital Accounts:		*Stock*	*25,200*
A 40,000		*Prepaid Expenses*	*800*
B 20,000	*60,000*	*Plant & Machinery*	*20,000*
		Patents	*8,000*
		C's Capital A/c	*3,200*
		D's Capital A/c	*8,415*
	82,000		*82,000*

Following information is given to you: -

1. *One of the creditors took some of the patents whose book value was ₹ 5,000 at a valuation of ₹ 3,200. Balance of the creditors were paid at a discount of ₹ 400.*

2 *There was a joint life policy of ₹ 20,000 (not mentioned in the balance sheet) and this was surrendered for ₹ 4,500.*

3 *The remaining assets were realized at the following values: - Debtors ₹ 10,800; Stock ₹ 15,600; Plant and Machinery ₹ 12,000; and Patents at 60% of their book-values. Expenses of realization amounted to ₹ 1,500.*

D became insolvent and a dividend of 25 paise in a rupee was received in respect of the firm's claim against his estate. Prepare necessary ledger accounts.

SOLUTION

Realization Account

Particulars		₹	***Particulars***		₹
To Sundry Assets: -			By Creditors		15,700
Debtors	15,850		By Employee's Provident Fund		6,300
Stock	25,200				
Prepaid Expenses	800		By Bank A/c:		
Plant & Machinery	20,000		Joint Life Policy	4,500	
Patents	8,000	69,850	Debtors	10,800	
To Bank-Creditors: (₹ 15,700 –₹ 3,200 -₹ 400)		12,100	Stock	15,600	
			Plant and Machinery	12,000	
To Bank A/c		6,300	Patents 60% of		
Employee's (P.F)			(₹ 8,000 – ₹ 5,000)	1,800	44,700
To Bank A/c (expenses)		1,500	By Loss transferred to:		
			A's Capital A/c	9,220	
			B's Capital A/c	6,915	
			C's Capital A/c	4,610	
			D's Capital A/c	2,305	23,050
		89,750			89,750

Capital Accounts

Particulars	**A (₹)**	**B (₹)**	**C (₹)**	**D (₹)**	**Particulars**	**A (₹)**	**B (₹)**	**C (₹)**	**D (₹)**
To Bal. b/d	—	—	3,200	8,415	By Bal. b/d	40,000	20,000	—	—
To Realization					By Bank				
A/c	9,220	6,915	4,610	2,305	(Realization loss)	9,220	6,915	4,610	—
To D's Capital					By Bank				
(Deficiency)	5,360	2,680	—	—	(Recovery)	—	—	—	2,680
To Bank	34,640	17,320	—	—	By A's Capital (2/3)	—	—	—	5,360

					By B's Capital (1/3)	—	—	—	2,680
					By Bank A/c		—	3,200	—
	49,220	26,915	7,810	10,720		49,220	26,915	7,810	10,720

Bank Account

Particulars	**₹**	***Particulars***	**₹**
To Balance b/d	535	By Realization A/c	12,100
To Realization A/c	44,700	By Realization A/c	6,300
To A's Capital A/c	9,220	By Realization A/c	1,500
To B's Capital A/c	6,915	By A's Capital A/c	34,640
To D's Capital A/c	2,680	By B's Capital A/c	17,320
To C's Capital A/c (4,610 + 3,200)	7,810		
	71,860		71,860

Working Note

D's loss will be borne by A and B only because only solvent partners having credit balance has to bear the loss on account of insolvency. C will bring his share of loss in cash.

ILLUSTRATION 5

M/s X, Y, and Z who were in partnership sharing profits and losses in the ratio of 2:2:1 respectively, had the following Balance Sheet as on December 31, 2022:

Liabilities		**₹**	**₹**	***Assets***	**₹**	**₹**
Capital:	*X*	*29,200*		*Fixed Assets*		*40,000*
	Y	*10,800*		*Stock*		*25,000*
	Z	*10,000*	*50,000*	*Book Debts*	*25,000*	
Z's Loan			*5,000*	*Less: Provision*	*(5,000)*	*20,000*
Loan from Mrs. X			*10,000*	*Cash*		*1,000*
Sundry Trade Creditors			*25,000*	*Advance to Y*		*4,000*
			90,000			*90,000*

The firm was dissolved on the date mentioned above due to continued losses. After drawing up the balance sheet given above, it was discovered that goods amounting to ₹ 4,000 have been purchased in November, 2022 and had been received but the purchase was not recorded in books.

Fixed assets realized ₹ 20,000; Stock ₹ 21,000 and Book Debt ₹ 20,500. Similarly, the creditors allowed a discount of 2% on average. The expenses of realization come to ₹ 1,080. X agreed to take over the loan of Mrs. X. Y is insolvent, and his estate is unable to contribute anything.

Give accounts to close the books; work according to the decision in Garner vs. Murray.

SOLUTION

Realization Account

Particulars	₹	***Particulars***		₹
To Sundry		By Provision for Doubtful Debts		5,000
Fixed Assets (transfer)	40,000	By Cash (20,000+21,000+20,500)		61,500
Stock	25,000	By Sundry Trade Creditors		
Book Debts	25,000	(Discount)		29,000
To Cash—Expenses	1,080	By Loss: X (2/5)	9,600	
- Creditors	28,420	Y (2/5)	9,600	
		Z (1/5)	4,800	24,000
	1,19,500			1,19,500

Sundry Trade Creditors

Particulars	₹	***Particulars***	₹
To Realization A/c	29,000	By Balance b/d	25,000
		By Partners Capital Accounts	
		(Purchase omitted)	4,000
	29,000		29,000

Z's Loan Account

Particulars	₹	***Particulars***	₹
To Cash Account	5,000	By Balance b/d	5,000

Mrs. X's Loan Account

Particulars	₹	***Particulars***	₹
To X's Capital A/c – transfer	10,000	By Balance b/d	10,000

Cash Account

Particulars	₹	Particulars	₹
To Balance b/d	1,000	By Sundry Trade Creditors (after deducting discount of 2%)	28,420
To Realization A/c-		By Realization A/c – expenses	1,080
assets realized	61,500	By Z's Loan	5,000
To X's Capital A/c*	9,600	By X's Capital A/c	34,300
To Z's Capital A/c*	4,800	By Z's Capital A/c	8,100
	76,900		76,900

*X and Z bring these amounts to make good their share of the loss on realization. In actual practice they will not be bringing any cash; only a notional entry will be made.

Capital Accounts

Particulars	X(₹)	Y (₹)	Z (₹)	Particulars	X (₹)	Y (₹)	Z (₹)
To Sundry Trade				By Balance b/d	29,200	10,800	10,000
Creditors- omission	1,600	1,600	800				
To Balance c/d	27,600	9,200	9,200				
	29,200	10,800	10,000		29,200	10,800	10,000
To Advance	-	4,000	-	By Balance b/d	27,600	9,200	9,200
To Realization A/c-loss	9,600	9,600	4,800	By Mrs. X's Loan	10,000	-	-
To Y's Capital A/c	3,300	-	1,100	By Cash (Realization loss)	9,600	-	4,800
				By X's Capital A/c		3,300	
To Cash	34,300	-	8,100	By Z's Capital A/c	-	1,100	-
	47,200	13,600	14,000		47,200	13,600	14,000

Note: Y's deficiency comes to ₹ 4,400 (difference in the two sides of his Capital Account); this has been debited to X and Z in the ratio of 27,600: 9,200 *i.e.,* capital standing up just before dissolution but after correction of error committed while drawing up the accounts for 2022.

6.7 PIECEMEAL PAYMENTS

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

6.7.1 Maximum Loss Method

Each installment realized is considered to be the final payment *i.e.,* outstanding assets and claims are considered worthless and partners' accounts are adjusted on that basis each time when a distribution is made, following either *Garner* vs. *Murray* Rule or the profit-sharing ratio rule.

ILLUSTRATION 6

A, B, and C are partners sharing profits and losses in the ratio of 5:3:2. Their capitals were ₹ 9,600, ₹ 6,000 and ₹ 8,400 respectively.

After paying creditors, the liabilities and assets of the firm were:

Liabilities	₹	*Assets*	₹
Liability for interest on loans from:		*Investments*	*1,000*
Spouses of partners	*2,000*	*Furniture*	*2,000*
Partners	*1,000*	*Machinery*	*1,200*
		Stock	*4,000*

The assets realized in full in the order in which they are listed above. B is insolvent.

You are required to prepare a statement showing the distribution of cash as and when available, applying the maximum possible loss procedure.

SOLUTION

Statement of Distribution of Cash

Realization		Interest on loans from partner's spouses	Interest on loans from partners	Partners Capitals			Total
				A	B	C	
₹		₹	₹	₹	₹	₹	₹
Balances due (1)		2,000	1,000	9,600	6,000	8,400	24,000
(i) Sale of Investments	1,000	(1,000)					
		1,000	1,000				
(ii) Sale of furniture	2,000	(1,000)	(1,000)				
(iii) Sale of machinery	1,200						
Maximum possible loss ₹ 22,800 (total of capitals ₹ 24,000 less Cash available ₹ 1,200) allocated to partners in the profit sharing ratio i.e. 5:3: 2				(11,400)	(6,840)	(4,560)	(22,800)
Amounts at credit				(1,800)	(840)	3,840	1,200
Deficiency of A and B written off against C				1,800	840	(2,640)	

Amount paid (2)				-	-	1,200	1,200
Balances in capital accounts (1-2) = (3)				9,600	6,000	7,200	22,800
(iv) Sale of stock 4,000							
Max. possible loss 22,800-4,000 = 18,800							
allocated to partner's in the ratio 5:3:2				(9,400)	(5,640)	(3,760)	(18,800)
Amounts at credit and cash paid (4)				200	360	3,440	4,000
Balances in capital accounts left unpaid - Loss (3-4) = (5)				9,400	5,640	3,760	18,800

ILLUSTRATION 7

The following is the Balance Sheet of A, B, C on 31st December, 2022 when they decided to dissolve the partnership:

Liabilities	₹	Assets	₹
Creditors	2,000	Sundry Assets	48,500
A's Loan	5,000	Cash	500
Capital Accounts:			
A	15,000		
B	18,000		
C	9,000		
	49,000		49,000

The assets realized the following sums in installments:

I	1,000
II	3,000
III	3,900
IV	6,000
V	20,100[1]
	34,000

The expenses of realization were expected to be ₹ 500 but ultimately amounted to ₹ 400 only. Show how at each stage the cash received should be distributed between partners. They share profits in the ratio of 2:2:1.

SOLUTION

First of all, the following table will be constructed to show the amounts available for distribution among the various interests:

Statement showing Realization and Distribution of Cash Payments

Particulars	Realization ₹	Creditors ₹	Partners' Loan ₹	Partners' Capitals ₹
1. After taking into account cash balance and amount set aside for expenses	1,000	1,000	-	-

[1] *includes saving in expenses i.e. ₹ 100 (₹ 500 - ₹ 400).*

2.	3,000	1,000	2,000	-
3.	3,900	-	3,000	900
4.	6,000	-	-	6,000
Including saving in expenses	20,100	-	-	20,100
	34,000	2,000	5,000	27,000

To ascertain the amount distributable out of each installment realized among the partners, the following table will be constructed:

Statement of Distribution on Capital Accounts

(1) Calculation to determine the mode of distribution of ₹ 900

Particulars	***Total (₹)***	***A (₹)***	***B (₹)***	***C (₹)***
Balance	42,000	15,000	18,000	9,000
Less: Possible loss, should remaining assets prove to be worthless (in their profit-sharing ratio)	(41,100)	(16,440)	(16,440)	(8,220)
	+ 900	– 1,440	+ 1,560	+ 780
Deficiency of A's capital written off against those of B and C in the ratio of their capital, 18,000:9,000 (*Garner* vs. *Murray*)			(960)	(480)
Manner in which the first ₹ 900 should be distributed			+ 600	+ 300

(2) Distribution of ₹ 6,000

Balance after making payment of amount shown in step (1)	41,100	15,000	17,400	8,700
Less: Possible Loss assuming remaining asset to be valueless (in their profit sharing ratio)	(35,100)	(14,040)	(14,040)	(7,020)
Balance available and to be distributed	6,000	960	3,360	1,680

(3) Distribution of ₹ 20,100

Balance after making payment of amount shown in step (2)	35,100	14,040	14,040	7,020

Less: Possible loss, assuming remaining assets to be valueless (in their profit sharing ratio)	(15,000)	(6,000)	(6,000)	(3,000)
Manner of distribution of ₹ 20,100	20,100	8,040	8,040	4,020
Summary:				
Balance	42,000	15,000	18,000	9,000
Total amounts paid	27,000	9,000	12,000	6,000
Loss	15,000	6,000	6,000	3,000

6.7.2 Highest Relative Capital Method

According to this method, the partner who has the higher relative capital, that is, whose capital is greater in proportion to his profit-sharing ratio, is first paid off. This method is also called as proportionate capital method.

For determining the amount by which the capital of each partner is in excess of his relative capital, partners' capitals are first divided by figures that are in proportion to their profit-sharing ratio; the smallest quotient will indicate the basic capital. Having ascertained the partner who has the smallest basic capital, the amount of capital of other partners proportionate to the profit-sharing ratio of the basic capital is calculated. These may be called as their hypothetical capitals. The amount of hypothetical capital of each partner is then subtracted from the amount of his actual capital; the resultant figure will be the amount of excess capital held by him. By repeating the process once or twice, as may be necessary between the partners having excess capital, the amount by which the capital of each partner is in excess will be ascertained. The partner with the largest excess capital will be paid off first, followed by payment to the other or others who rank next to him until the capitals of partners are reduced to their profit-sharing ratio.

The illustration given above is now worked out according to this method.

Particulars	*A*	*B*	*C*
Capital	₹ 15,000	18,000	9,000
Profit-sharing ratio	2	2	1
Capital divided by the profit-sharing ratio	7,500	9,000	9,000
Proportionate Capital of B and C, taking			
A's capital as the base	₹ 15,000	15,000	7,500
Excess of actual over proportionate capital	₹ nil	3,000	1,500

This indicates that A should not get anything till ₹ 3,000 is paid to B and ₹ 1,500 is paid to C. Since capital of B and C are already according to their mutual profit-sharing ratio (2:1), they will share the available cash in this ratio.

After paying off creditors and A's loan, the available amount will be distributed as below in this method:

Particulars	***Total***	***A***	***B***	***C***
		₹	₹	₹
Third Installment	900	-	600	300
Fourth Installment (i)	3,600	-	2,400	1,200
(ii)	2,400	960	960	480
Fifth Installment	20,100	8,040	8,040	4,020
Total	27,000	9,000	12,000	6,000

Total payment made to each partner will, of course be same under both the methods.

ILLUSTRATION 8

A partnership firm was dissolved on 30th June, 2022. Its Balance Sheet on the date of dissolution was as follows:

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

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

	₹
On 5th July, 2022	*25,200*
On 30th August, 2022	*60,000*
On 15th September, 2022	*80,000*

The partners shared profits and losses in the ratio of 2 : 2 : 1. Prepare a statement showing distribution of cash amongst the partners by 'Highest Relative Capital' method.

SOLUTION

Statement showing distribution of cash amongst the partners

	Creditors	***B's Loan***	***A***	***B***	***C***
2022	₹	₹	₹	₹	₹
June 30					
Balance b/d	30,000	10,000	76,000	48,000	36,000
Cash balance less Provision for expenses (₹ 10,800 – ₹ 5,400)	5,400	-	-	-	-
Balances unpaid	24,600	10,000	76,000	48,000	36,000
July 5					
1st Instalment of ₹ 25,200	23,600	1,600	-	-	-
Discount received on full settlement	1,000	8,400	76,000	48,000	36,000
Less: Transferred to Realisation A/c	1,000				
	Nil				
August 30					
2nd instalment of ₹ 60,000 (W.N. 2)		8,400	32,640	4,640	14,320
Balance unpaid		Nil	43,360	43,360	21,680
September 15					
Amount realised ₹ 80,000					
Add: Balance out of the Provision for Expenses A/c 1,400					
81,400			32,560	32,560	16,280
Amount unpaid being loss on Realisation in the ratio of 2 : 2 : 1			10,800	10,800	5,400

Working Notes:

1. Highest relative capital basis

		A	B	C
		₹	₹	₹
1.	Present Capitals	76,000	48,000	36,000
2.	Profit-sharing ratio	2	2	1
3	Capital per unit of Profit share (1 ÷ 2)	38,000	24,000	36,000
4.	Proportionate capitals taking B, whose capital is the least, as the basis	48,000	48,000	24,000
5.	Excess capital (1-4)	28,000	Nil	12,000
6.	Profit-sharing ratio	2	-	1
7.	Excess capital per unit of Profit share (5 ÷ 6)	14,000		12,000
8.	Proportionate capitals as between A and C taking C capital as the basis	24,000	-	12,000
9.	Excess of A's Capital over C's Excess capital (5-8)	4,000	-	-
10.	Balance of Excess capital (5-9)	24,000		12,000
11.	Distribution sequence:			
	First ₹ 4,000 (2 : 0 : 0)	4,000	-	-
	Next ₹ 36,000 (2 : 0 : 1)	24,000	-	12,000
	Over ₹ 40,000 (2 : 2 : 1)			

2. Distribution of Second instalment

			Creditors	*A*	*B*	*C*
First	₹ 8,400		8,400	-	-	-
Next	₹ 4,000	(2 : 0 : 0)		4,000	-	-
Next	₹ 36,000	(2 : 0 : 1)		24,000	-	12,000
Balance	₹ 11,600	(2 : 2 : 1)		4,640	4,640	2,320
	60,000		8,400	32,640	4,640	14,320

6.8 WINDING UP OF A LIMITED LIABILITY PARTNERSHIP (LLP)

The winding up of a LLP may be either voluntary or by the Tribunal and LLP, so wound up may be dissolved.

Winding up of a LLP may be initiated by Tribunal if:

- The LLP wishes to wind up;
- The LLP has less than 2 partners for more than 6 months;
- The LLP is unable to pay its debts;
- The LLP has not acted in the interest of the sovereignty and the integrity of India;
- The LLP has failed to submit with the statements of accounts and solvency or the LLP annual returns for more than five consecutive financial years with the Registrar;
- The Tribunal thinks that it is Just and Equitable that the LLP should be wound up.

The Central Government may make rules for the provisions in relation to winding up and dissolution of LLP.

ILLUSTRATION 9

P and Q were partners sharing profits equally in LLP. Their Balance Sheet as on March 31, 2022 was as follows:

Balance Sheet as on 31st March, 2022

Equity and Liabilities		***₹***	***Assets***	***₹***
Capitals:			*Bank*	*30,000*
P	*1,00,000*		*Debtors*	*25,000*
Q	*50,000*	*1,50,000*	*Stock*	*35,000*
Creditors		*20,000*	*Furniture*	*40,000*
Q's current account		*10,000*	*Machinery*	*60,000*
Reserves		*15,000*	*P's current account*	*10,000*
Bank overdraft		*5,000*		
		2,00,000		*2,00,000*

The firm was dissolved on the above date:

P took over 50% of the stock at 10% less on its book value, and the remaining stock was sold at a gain of 15%. Furniture and Machinery realized for ₹ 30,000 and ₹ 50,000 respectively; There *was an unrecorded investment which was sold for ₹ 25,000; Debtors realized 90% only and ₹ 1,245 were recovered for bad debts written off last year. There was an outstanding bill for repairs which had to be paid for ₹ 2,000.*

You are required to prepare Realization Account, Partners' capital accounts (including transfer of current account balances) and Bank Account in the books of the firm.

SOLUTION

Books of P & Q LLP.

Realization Account

Particulars		₹	Particulars		₹
To Debtors	25,000		By Creditors		20,000
To Stock	35,000		By Bank overdraft		5,000
To Furniture	40,000		By Bank:		
To Machinery	60,000	1,60,000	Investment	25,000	
To Bank:			Furniture	30,000	
Creditors	20,000		Machinery	50,000	
Bank overdraft	5,000		Debtors (90%)	22,500	
Outstanding bill	2,000	27,000	Stock	20,125	
To Profit transferred to:			Bad debts Recovered	1,245	1,48,870
P's capital	1,310		By P's capital		15,750
Q's capital	1,310	2,620	(stock taken over)		
		1,89,620			1,89,620

Partners' Capital Accounts

	P	Q		P	Q
To P's current Account	16,940		By Balance b/d	1,00,000	50,000
To Bank	83,060	68,810	By Q's current Account		18,810
	1,00,000	68,810		1,00,000	68,810

Bank Account

	₹		₹
To Balance b/d	30,000	By Realization	27,000
To Realization	1,48,870	By P's capital	83,060
		By Q's capital	68,810
	1,78,870		1,78,870

Working Note:

Partners' Current Accounts

	P	Q		P	Q
To Balance b/d	10,000		By Balance b/d		10,000
To Realization	15,750		By Reserves	7,500	7,500
To Q's capital		18,810	By Realization (profit)	1,310	1,310
			By P's Capital	16,940	
	25,750	18,810		25,750	18,810

SUMMARY

- Reasons for which a partnership could be dissolved are
  - ➢ expiry of term for which it was formed
  - ➢ death of a partner
  - ➢ insolvency of a partner.
- Reasons when a firm stands dissolved
  - ➢ when partners mutually decide to dissolve
  - ➢ partners except one becomes insolvent
  - ➢ business becomes illegal
  - ➢ if partnership is at will any partner can give notice for dissolution
  - ➢ Court orders.
- The winding up of a LLP may be either voluntary or by the Tribunal and LLP, so wound up may be dissolved.
- On dissolution assets are realized and all liabilities are paid off.

  (if any liability remains unpaid then it is to be realized from partners in their profit-sharing ratio).
- Piecemeal distribution involves either of two methods:
  - ➢ Maximum loss method
  - ➢ Highest relative capital method.

TEST YOUR KNOWLEDGE

True and False

1. *Books of accounts are closed in dissolution of partnership.*
2. *On the dissolution of a partnership, firstly, the assets of the firm are realized. Then the amount realized, is applied first towards repayment of liabilities to outsiders.*
3. *In event of the dissolution of the firm, the business ceases to end. In event of dissolution of the partnership, the partnership is reconstituted and the business discontinues.*
4. *Expenses of dissolution on realization of assets are credited to the Realization Account.*
5. *Revaluation Account is prepared at the time of dissolution of partnership but Realization Account is prepared at the time of dissolution of partnership firm.*

Multiple Choice Questions

1. *Partnership could be dissolved because of*
   - *(a) Death of a partner.*
   - *(b) Insolvency of a partner.*
   - *(c) Either (a) or (b).*
2. *On the dissolution of partnership, profit or loss on realization of assets and liabilities should be divided among partners*
   - *(a) In the ratio of their capitals.*
   - *(b) In the same ratio in which they share profits.*
   - *(c) Equally.*
3. *An unrecorded asset realized at the time of dissolution is credited to*
   - *(a) Realization account.*
   - *(b) Revaluation account.*
   - *(c) Capital accounts.*
4. *A liability taken over by a partner at the time of dissolution is credited to*
   - *(a) Profit and loss account.*
   - *(b) Partners' capital accounts.*
   - *(c) Realization account.*

5. *Realization account is a*

   (a) *Nominal account.*

   (b) *Real account.*

   (c) *Personal account.*

6. *Which of the following method/methods is adopted to ensure that distribution of cash among partners is in proportion to their interest in partnership?*

   (a) *Maximum loss method.*

   (b) *Highest relative capital method.*

   (c) *Either (a) or (b).*

Theoretical Questions

1 *State the circumstances when Garner V/S Murray rule not applicable.*

2 *W paid a premium to other partners of the firm at the time of his admission to the firm, with a condition that they will not be dissolved before the expiry of five years. The firm is dissolved after three years. W claims refund of premium.*

   (i) *List the criteria for the calculation of the amount of refund.*

   (ii) *Also list any two conditions when no claim in this respect will arise.*

Practical Questions

1. *P, Q, and R are partners sharing profits and losses as to 2:2:1. Their Balance Sheet as on 31st March, 2022 is as follows:*

Liabilities		₹	**Assets**	₹
Capital accounts			Plant and Machinery	1,08,000
P	1,20,000		Fixtures	24,000
Q	48,000		Stock	60,000
R	24,000	1,92,000	Sundry debtors	48,000
Reserve Fund		60,000	Cash	60,000
Creditors		48,000		
		3,00,000		3,00,000

They decided to dissolve the business. The following are the amounts realized:

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

Creditors allowed a discount of 5% and realization expenses amounted to ₹ 1,500. There was an unrecorded asset of ₹ 6,000 which was taken over by Q at ₹ 4,800. An amount of ₹ 4,200 due for GST had come to notice during the course of realization and this was also paid.

You are required to prepare:

(i) Realization account.

(ii) Partners' capital accounts.

(iii) Cash account.

2. *'Thin', 'Short' and 'Fat' were in partnership sharing profits and losses in the ratio of 2:2:1.*

On 30th September, 2022 their Balance Sheet was as follows:

Liabilities		***₹***	***Assets***	***₹***
Capital Accounts:			*Premises*	*50,000*
Thin	*80,000*		*Fixtures*	*1,25,000*
Short	*50,000*		*Plant*	*32,500*
Fat	*20,000*	*1,50,000*	*Stock*	*43,200*
Current Accounts:			*Debtors*	*54,780*
Thin	*29,700*			
Short	*11,300*			
Fat (Dr.)	*(14,500)*	*26,500*		
Sundry Creditors		*84,650*		
Bank Overdraft		*44,330*		
		3,05,480		*3,05,480*

'Thin' decides to retire on 30th September, 2022 and as 'Fat' appears to be short of private assets, 'Short' decides that he does not wish to take over Thin's share of partnership, so

all three partners decide to dissolve the partnership with effect from 30th September, 2022. It then transpires that 'Fat' has no private assets whatsoever.

The premises are sold for ₹ 60,000 and the plant for ₹ 1,07,500. The fixtures realize ₹ 20,000 and the stock is acquired by another firm at a book value less 5%. Debtors realize ₹ 45,900. Realization expenses amount to ₹ 4,500.

The bank overdraft is discharged and the creditors are also paid in full.

You are required to write up the following ledger accounts in the partnership books following the rules in Garner vs. Murray:

(i) Realization Account;

(ii) Partners' Current Accounts;

(iii) Partners' Capital Accounts showing the closing of the firm's books.

3. *Amit, Sumit, and Kumar are partners sharing profit and losses in the ratio 2:2:1. The partners decided to dissolve the partnership on 31st March 2022 when their Balance Sheet was as under:*

Liabilities	**Amount**	**Assets**		**Amount**
Capital Accounts:		Land & Building		1,35,000
Amit	55,200	Plant & Machinery		45,000
Sumit	55,200	Furniture		25,500
General Reserve	61,500	Investments		15,000
Kumar's Loan A/c	15,000	Book Debts	60,000	
Loan from D	1,20,000	Less: Prov. for bad debts	(6,000)	54,000
Trade Creditors	30,000	Stock		36,000
Bills Payable	12,000	Bank		13,500
Outstanding Salary	7,500	Capital Withdrawn:		
		Kumar		32,400
	3,56,400			3,56,400

The following information is given to you:

(i) Realization expenses amounted to ₹ 18,000 out of which ₹ 3,000 was borne by Amit.

(ii) A creditor agreed to takeover furniture of book value ₹ 12,000 at ₹ 10,800. The rest of the creditors were paid off at a discount of 6.25%.

(iii) *The other assets realized as follows:*

Furniture	*- Remaining taken over by Kumar at 90% of book value*
Stock	*- Realized 120% of book value*
Book Debts	*- ₹ 12,000 of debts proved bad, remaining were fully realized*
Land & Building	*- Realized ₹ 1,65,000*
Investments	*-Taken over by Amit at 15% discount*

(iv) *For half of his loan, D accepted Plant & Machinery and ₹ 7,500 cash. The remaining amount was paid at a discount of 10%.*

(v) *Bills payable were due on an average basis of one month after 31st March 2022, but they were paid immediately on 31st March @ 6% discount "per annum".*

Prepare the Realization Account, Bank Account and Partners' Capital Accounts in the books of Partnership firm.

ANSWERS/HINTS

True and False

1. False. Books of accounts are not closed in dissolution of partnership but are closed in case of dissolution of partnership firm.

2. True. On the dissolution of a partnership, firstly, the assets of the firm, are realized. Then the amount realized, is applied first towards repayment of liabilities to outsiders and loans taken from partners; afterwards, the capital contributed by partners is repaid.

3. True. In event of the dissolution of the firm, the business ceases to end. However, in event of dissolution of the partnership, the business continues as usual, but the partnership is reconstituted.

4. False. Expenses of dissolution on realization of assets are debited to the Realization Account.

5. True. Revaluation Account is prepared at the time of dissolution of partnership but Realization Account is prepared at the time of dissolution of partnership firm.

Multiple Choice Questions

1.	(c)	**2.**	(b)	**3.**	(a)	**4.**	(b)	**5.**	(a)	**6.**	(c)

Theoretical Questions

1. Non-Applicability of Garner vs Murray rule:

(i) When the solvent partner has a debit balance in the capital account.

Only solvent partners will bear the loss of capital deficiency of insolvent partner in their capital ratio. If incidentally, a solvent partner has a debit balance in his capital account, he will escape the liability to bear the loss due to insolvency of another partner.

(ii) When the firm has only two partners.

(iii) When there is an agreement between the partners to share the deficiency in capital account of the insolvent partner.

(iv) When all the partners of the firm are insolvent.

2. If the firm is dissolved before the term expires, as is the case, W being a partner who has paid a premium on admission will have to be repaid/refunded

The criteria for calculation of refund amount are:

(i) Terms upon which admission was made,

(ii) The time period for which it was agreed that the firm will not be dissolved,

(iii) The time period for which the firm has already been in existence.

No claim for refund will arise if:

(i) The firm is dissolved due to the death of a partner,

(ii) If the dissolution of the firm is basically because of misconduct of W,

(iii) If the dissolution is through an agreement and such an agreement does not have a stipulation for a refund of premium.

Practical Questions

1. **Realization Account**

Particulars	₹	***Particulars***		₹
To Debtors	48,000	By Creditors		48,000
To Stock	60,000	By Cash A/c (Assets realized):		
To Fixtures	24,000	Plant and Machinery	1,02,000	
To Plant and machinery	1,08,000	Fixtures	18,000	
To Cash A/c (Creditors)	45,600	Stock	84,000	

To Cash A/c (GST)	4,200	Sundry Debtors 44,400	2,48,400
To Cash A/c (Realization expenses)	1,500	By Q (Unrecorded asset)*	4,800
To Profit on Realization			
P 3,960			
Q 3,960			
R 1,980	9,900		
	3,01,200		3,01,200

Partners' Capital Accounts

Particulars	***P***	***Q***	***R***	***Particulars***	***P***	***Q***	***R***
	₹	₹	₹		₹	₹	₹
To Realization A/c (unrecorded asset)		4,800		By Balance b/d	1,20,000	48,000	24,000
To Cash (Bal. Fig.)	1,47,960	71,160	37,980	By Reserve fund	24,000	24,000	12,000
				By Realization A/c (Profit)	3,960	3,960	1,980
	1,47,960	75,960	37,980		1,47,960	75,960	37,980

Cash Account

Particulars	₹	***Particulars***	₹
To Balance b/d	60,000	By Realization A/c (Creditors)	45,600
To Realization A/c (Assets)	2,48,400	By Realization A/c (Expenses)	1,500
		By Realization A/c (GST)	4,200
		By P's Capital A/c	1,47,960
		By Q's Capital A/c	71,160
		By R's Capital A/c	37,980
	3,08,400		3,08,400

* An unrecorded asset is in the nature of gain hence realization account is credited. Since this asset has been taken over by Q, therefore, his account has been debited.

2. **Realization Account**

Particulars	₹	Particulars		₹
To Premises	50,000	By Sundry Creditors		84,650
To Plant	1,25,000	By Bank:		
To Fixtures	32,500	Premises	60,000	
To Stock	43,200	Plant	1,07,500	
To Debtors	54,780	Fixtures	20,000	
To Bank (Creditors)	84,650	Stock	41,040	
To Bank (Expenses)	4,500	Debtors	45,900	2,74,440
		By Loss on Realization transferred to Partners' Current A/cs		
		Thin	14,216	
		Short	14,216	
		Fat	7,108	35,540
	3,94,630			3,94,630

Partners' Current Accounts

Particulars	Thin	Short	Fat	Particulars	Thin	Short	Fat
	₹	₹	₹		₹	₹	₹
To Balance b/d	–	–	14,500	By Balance b/d	29,700	11,300	–
To Realization	14,216	14,216	7,108	By Capital A/c Transfer	–	2,916	21,608
To Capital A/c transfer	15,484	–	–				
	29,700	14,216	21,608		29,700	14,216	21,608

Partners' Capital Accounts

Particulars	Thin	Short	Fat	Particulars	Thin	Short	Fat
	₹	₹	₹		₹	₹	₹
To Current A/c	–	2,916	21,608	By Balance b/d	80,000	50,000	20,000
To Fat's Capital A/c Deficiency in the ratio of 8:5	990	618	–	By Current A/c (transfer)	15,484	–	–
				By Bank (Realization loss)	14,216	14,216	

To Bank	1,08,710	60,682	–	By Thin & Short Capital A/cs			1,608
	1,09,700	64,216	21,608		1,09,700	64,216	21,608

Working Notes:

(i) **Bank Account**

Particulars	₹	***Particulars***	₹
To Realization A/c	2,74,440	By Balance b/d	44,330
To Thin's Capital A/c	14,216	By Realization A/c (Creditors)	84,650
To Short's Capital A/c	14,216	By Realization A/c (Expenses)	4,500
		By Thin's Capital A/c	1,08,710
		By Short's Capital A/c	60,682
	3,02,872		3,02,872

(ii) Fat's deficiency has been by borne Thin & Short in the ratio of their fixed capitals i.e., 8:5 following the rule in *Garner vs. Murray*.

3. **Realization Account**

	Particulars	₹		***Particulars***	₹
To	Land and Building	1,35,000	By	Provision for bad debts	6,000
To	Plant and Machinery	45,000	By	Loan from D	1,20,000
To	Furniture	25,500	By	Trade creditors	30,000
To	Investments	15,000	By	Bills payable	12,000
To	Book debts	60,000	By	Outstanding salary	7,500
To	Stock	36,000	By	Kumar - Furniture taken over (13,500 x .9)	12,150
To	Bank (Realization expenses)	15,000	By	Bank A/c -	
				Stock Realized 43,200	
To	Amit– Realization expenses	3,000		Land & Building 1,65,000	
				Debtors 48,000	2,56,200
To	Bank A/c -				
	Bill payable	11,940	By	Amit (Investment taken over)	12,750
	D's Loan	61,500			
	Creditors	18,000			
	Salary	7,500			

To	Profit transferred to partners' capital Accounts Amit 9,264 Sumit 9,264 Kumar 4,632	23,160			
		4,56,600			4,56,600

Bank Account

Particulars	₹	Particulars	₹
To Balance b/d	13,500	By Realization A/c (payment of liabilities: 11,940+ 7,500 + 54,000 + 15,000 + 18,000 + 7,500)	1,13,940
To Realization A/c (assets realized)	2,56,200	By Amit	79,314
To Kumar	12,618	By Sumit	89,064
	2,82,318		2,82,318

Partners' Capital Accounts

Particulars	Amit ₹	Sumit ₹	Kumar ₹	Particulars	Amit ₹	Sumit ₹	Kumar ₹
To Balance b/d			32,400	By Balance b/d	55,200	55,200	
				By Kumar's Loan			15,000
To Realization A/c (Investment taken over)	12,750			By General Reserve	24,600	24,600	12,300
To Realization A/c (Furniture taken over)			12,150	By Realization A/c (expense)	3,000		
To Bank A/c	79,314	89,064		By Realization A/c (profit)	9,264	9,264	4,632
				By Bank A/c			12,618
	92,064	89,064	44,550		92,064	89,064	44,550

Working Notes:

1. Payment for Bills Payable

Particulars	Amount (₹)
Bills Payable as per Balance Sheet	12,000
Less: Discount for early payment {12,000 x 6% x (1/12)}	60
Amount Paid in Cash	11,940

2. Payment to D's Loan

Particulars	***Amount (₹)***
D's Loan as per Balance Sheet	120,000.00
50% of Loan adjusted as below:	
Plant & Machinery accepted at Book Value (₹ 45,000) and ₹ 7,500 in cash.	7,500
Balance 50% of Loan adjusted as below:	
In cash after allowing discount of 10% i.e. ₹ 60,000 – ₹ 6,000 = ₹ 54,000.	54,000

3. Payment to Trade Creditors

Particulars	***Amount (₹)***
Trade Creditors as per Balance Sheet	30,000
Less: Furniture of Book Value ₹ 12,000 accepted at value ₹ 10,800	10,800
	19,200
Less: Discount @ 6.25%	1,200
Amount paid in Cash	18,000

4. Furniture taken over by Kumar

Particulars	***Amount (₹)***
Furniture as per Balance Sheet	25,500
Less: Furniture of Book Value ₹ 12000 accepted by trade creditors	12,000
	13,500
Less: 10% of Book Value	1,350
Value of Furniture taken over by Kumar	12,150

Annexure – II

FORMATS OF FINANCIAL STATEMENTS FOR LIMITED LIABILITY PARTNERSHIPS

PART I – Form of BALANCE SHEET

Name of the Limited Liability Partnership................

Balance Sheet as at ....

(Rupees in............)

	Particulars	**Note No**	**Figures as at the end of (Current reporting period) (in ₹) ________ (DD/MM/YYYY)**	**Figures as at the end of (Previous reporting period) (in ₹) ________ (DD/MM/YYYY)**
	1	**2**	**3**	**4**
I.	**PARTNERS FUNDS AND LIABILITIES**			
	(1) Partner's Fund			
	(a) Partners Capital Account (i) Partners' Contribution (ii) Partners' Current Account			
	(b) Reserves and surplus			
(2)	**Non-current liabilities**			
	(a) Long-term borrowings			
	(b) Deferred tax liabilities (Net)			
	(c) Other Long term liabilities			
	(d) Long-term provisions			
(3)	**Current liabilities**			
	(a) Short-term borrowings			

	(b) Trade payables			
	(c) Other current liabilities			
	(d) Short-term provisions			
	TOTAL			
II.	**ASSETS**			
(1)	**Non-Current Assets**			
	(a) Property, Plant and Equipment and Intangible assets			
	(i) Property, Plant and Equipment			
	(ii) Intangible assets			
	(iii) Capital work-in-progress			
	(iv) Intangible assets under development			
	(b) Non-current investment			
	(c) Deferred tax assets (net)			
	(d) Long-term loans and advances			
	(e) Other non-current assets			
(2)	**Current assets**			
	(a) Current investments			
	(b) Inventories			
	(c) Trade receivables			
	(d) Cash and bank balances			
	(e) Short-term loans and advances			
	(f) Other current assets			
	TOTAL			

See accompanying notes which form part of the financial statements.

Notes

GENERAL INSTRUCTIONS FOR PREPARATION OF BALANCE SHEET

1. An asset shall be classified as current when it satisfies any of the following criteria:

   (a) it is expected to be realized in, or is intended for sale or consumption in, the company's normal operating cycle;

   (b) it is held primarily for the purpose of being traded;

   (c) it is expected to be realized within twelve months after the reporting date; or

   (d) it is cash or cash equivalent unless it is restricted from being exchanged or used to settle a liability for at least twelve months after the reporting date.

   All other assets shall be classified as non-current.

2. An operating cycle is the time between the acquisition of assets for processing and their realization in cash or cash equivalents. Where the normal operating cycle cannot be identified, it is assumed to have a duration of 12 months.

3. A liability shall be classified as current when it satisfies any of the following criteria:

   (a) it is expected to be settled in the company's normal operating cycle;

   (b) it is held primarily for the purpose of being traded;

   (c) it is due to be settled within twelve months after the reporting date; or

   (d) the Limited Liability Partnership does not have an unconditional right to defer settlement of the liability for at least twelve months after the reporting date. Terms of a liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its classification.

   All other liabilities shall be classified as non-current.

4. A receivable shall be classified as a 'trade receivable' if it is in respect of the amount due on account of goods sold or services rendered in the normal course of business.

5. A payable shall be classified as a 'trade payable' if it is in respect of the amount due on account of goods purchased or services received in the normal course of business.

6. A Limited Liability Partnership shall disclose the following in the Notes to Accounts:

   A. Partners' Funds

   For each partner's contribution account/current account following items for the year to be disclosed separately, as agreed in the LLP Agreement:

   (a) opening balance;

(b) Introduced/Contributed during the year;

(c) remuneration for the year;

(d) interest for the year;

(e) withdrawals during the year;

(f) share of profit or loss for the year (share in % and amount);

(g) closing balance.

For partner's contribution account, the agreed contribution shall also be disclosed.

B. Reserves and Surplus

(i) Reserves and Surplus shall be classified as:

(a) Capital Reserves;

(b) Revaluation Reserve;

(c) Other Reserves – (specify the nature and purpose of each reserve and the amount in respect thereof);

(d) Undistributed Surplus i.e. balance in Statement of Profit and Loss.

(ii) Debit balance of statement of profit and loss shall be shown as a negative figure under the head 'Undistributed Surplus'. Similarly, the balance of 'Reserves and Surplus', after adjusting negative balance of surplus, if any, shall be shown under the head 'Reserves and Surplus' even if the resulting figure is in the negative.

C. Long-Term Borrowings

(i) Long-term borrowings shall be classified as:

(a) Term loans

- From banks
- From other parties

(c) Deferred payment liabilities.

(d) Loans and advances from related parties.

(e) Long term maturities of finance lease obligations

(f) Other loans and advances (specify nature).

(ii) Borrowings shall further be sub-classified as secured and unsecured. Nature of security shall be specified separately in each case.

(iii) Where loans have been guaranteed by partners/proprietor/owners or others, the aggregate amount of such loans under each head shall be disclosed.

(iv) Terms of repayment of term loans and other loans shall be stated.

D. Long-term provisions

The amounts shall be classified as:

(a) Provision for employee benefits.

(b) Others (specify nature).

E. Short-term borrowings

(i) Short-term borrowings shall be classified as:

(a) Loans repayable on demand

- From banks
- From other parties

(b) Loans and advances from related parties.

(b) Other loans and advances (specify nature).

(ii) Borrowings shall further be sub-classified as secured and unsecured. Nature of security shall be specified separately in each case.

(iii) Where loans have been guaranteed by partners or others, the aggregate amount of such loans under each head shall be disclosed.

(iv) current maturities of Long term borrowings may be disclosed separately.

F. Trade Payables

The following details relating to Micro, Small and Medium Enterprises shall be disclosed in the notes:-

(a) the principal amount and the interest due thereon (to be shown separately) remaining unpaid to any supplier at the end of each accounting year;

(b) the amount of interest paid by the buyer in terms of section 16 of the Micro, Small and Medium Enterprises Development Act, 2006, along with the amount of the payment made to the supplier beyond the appointed day during each accounting year;

(c) the amount of interest due and payable for the period of delay in making payment (which have been paid but beyond the appointed day during the year) but without adding the interest specified under the Micro, Small and Medium Enterprises Development Act, 2006;

(d) the amount of interest accrued and remaining unpaid at the end of each accounting year; and

(e) the amount of further interest remaining due and payable even in the succeeding years, until such date when the interest dues above are actually paid to the small enterprise, for the purpose of disallowance of a deductible expenditure under section 23 of the Micro, Small and Medium Enterprises Development Act, 2006.

Explanation.-The terms 'appointed day', 'buyer',' enterprise', 'micro enterprise', 'small enterprise' and 'supplier', shall have the same meaning assigned to those under clauses (b), (d), (e), (h), (m) and (n) respectively of section 2 of the Micro, Small and Medium Enterprises Development Act, 2006.

G. Other current liabilities

The amounts shall be classified as:

(a) Current maturities of finance lease obligations;

(b) Interest accrued but not due on borrowings;

(c) Interest accrued and due on borrowings;

(d) Income received in advance;

(e) Other payables (specify nature);

H. Short-term provisions

The amounts shall be classified as:

(a) Provision for employee benefits.

(b) Others (specify nature).

I. Property, Plant and Equipment

(i) Classification shall be given as:

(a) Land.

(b) Buildings.

(c) Plant and Equipment.

(d) Furniture and Fixtures.

(e) Vehicles.

(f) Office equipment.

(g) Others (specify nature).

(ii) Assets under lease shall be separately specified under each class of asset.

(iii) A reconciliation of the gross and net carrying amounts of each class of assets at the beginning and end of the reporting period showing additions, disposals acquisitions through business combinations, amount of change due to revaluation (if change is 10% or more in the aggregate of the net carrying value of each class of Property, Plant and Equipment) and other adjustments and the related depreciation and impairment losses/reversals shall be disclosed separately.

J. Intangible assets

(i) Classification shall be given as:

(a) Goodwill.

(b) Brands /trademarks.

(c) Computer software.

(d) Mastheads and publishing titles.

(e) Mining rights.

(f) Copyrights, and patents and other intellectual property rights, services and operating rights.

(g) Recipes, formulae, models, designs and prototypes.

(h) Licenses and franchise.

(i) Others (specify nature).

(ii) A reconciliation of the gross and net carrying amounts of each class of assets at the beginning and end of the reporting period showing additions, disposals, acquisitions through business combinations, amount of change due to revaluation (if change is 10% or more in the aggregate of the net carrying value of each class of intangible assets) and other adjustments and the related amortisation and impairment losses or reversals shall be disclosed separately.

K. Non-current investments

(i) Non-current investments shall be classified as trade investments and other investments and further classified as:

(a) Investment property;

(b) Investments in Equity Instruments;

(c) Investments in preference shares;

(d) Investments in Government or trust securities;

(e) Investments in debentures or bonds;

(f) Investments in Mutual Funds;

(g) Investments in partnership firms;

(h) Other non-current investments (specify nature)

Under each classification, details shall be given of names of the entities (indicating separately whether such entities are joint ventures or controlled special purpose entities) in whom investments have been made (showing separately investments which are partly-paid). In regard to investments in the capital of partnership firms, the names of the firms (with the names of all their partners, total capital and the shares of each partner) shall be given.

(ii) Investments carried at other than at cost should be separately stated specifying the basis for valuation thereof.

(iii) The following shall also be disclosed:

(a) Aggregate amount of quoted investments and market value thereof;

(b) Aggregate amount of unquoted investments;

(c) Aggregate provision for diminution in value of investments.

L. Long-term loans and advances

(i) Long-term loans and advances shall be classified as:

(a) Capital Advances;

(b) Loans and advances to related parties (giving details thereof);

(c) Other loans and advances (specify nature).

(ii) The above shall also be separately sub-classified as:

(a) Secured, considered good;

(b) Unsecured, considered good;

(c) Doubtful.

(iii) Allowance for bad and doubtful loans and advances shall be disclosed separately.

M. Other non-current assets

Other non-current assets shall be classified as:

(i) Security Deposits;

(ii) Bank deposits with more than 12 months maturity;

(ii) Others (specify nature).

N. Current Investments

(i) Current investments shall be classified as:

(a) Investments in Equity Instruments;

(b) Investment in Preference Shares;

(c) Investments in government or trust securities;

(d) Investments in debentures or bonds;

(e) Investments in Mutual Funds;

(f) Investments in partnership firms;

(g) Other investments (specify nature).

Under each classification, details shall be given of names of the entities (indicating separately whether such entities are joint ventures or controlled special purpose entities) in whom investments have been made (showing separately investments which are partly-paid). In regard to investments in the capital of partnership firms, the names of the firms (with the names of all their partners, total capital and the shares of each partner) shall be given.

(ii) The following shall also be disclosed:

(a) The basis of valuation of individual investments;

(b) Aggregate amount of quoted investments and market value thereof;

(c) Aggregate amount of unquoted investments;

(d) Aggregate provision made for diminution in value of investments.

O. Inventories

(i) Inventories shall be classified as:

(a) Raw materials;

(b) Work-in-progress;

(c) Finished goods;

(d) Stock-in-trade (in respect of goods acquired for trading);

(e) Stores and spares;

(f) Loose tools;

(g) Others (specify nature).

(ii) Goods-in-transit shall be disclosed under the relevant sub-head of inventories.

P. Trade Receivables

(i) Aggregate amount of trade receivables outstanding for a period exceeding six months from the date they are due for receipt shall be stated separately.

(ii) Trade receivables shall be sub-classified as:

(a) Secured, considered good;

(b) Unsecured considered good;

(c) Doubtful.

(iii) Allowance for bad and doubtful debts shall be disclosed separately.

Q. Cash and bank balances

(i) Cash and cash equivalents shall be classified as:

(a) Balances with banks;

(b) Cheques, drafts on hand;

(c) Cash on hand;

(d) Others (specify nature).

(ii) Other bank balances shall be classified as

(a) Bank Deposits - Earmarked balances with banks.

(b) Margin money or deposits under lien shall be disclosed separately.

(c) Bank deposits with original maturity for more than 3 months but less than 12 months from reporting date.

(d) others (specify nature)

R. Short-term loans and advances

(i) Short-term loans and advances shall be classified as:

(a) Loans and advances to related parties (giving details thereof);

(b) Others (specify nature).

(ii) The above shall also be sub-classified as:

(a) Secured, considered good;

(b) Unsecured, considered good;

(c) Doubtful.

(iii) Allowance for bad and doubtful loans and advances shall be disclosed under the relevant heads separately.

S. Other current assets (specify nature).

This is an all-inclusive heading, which incorporates current assets that do not fit into any other asset categories.

T. Contingent liabilities (to the extent not provided for)

(i) Contingent liabilities shall be classified as:

(a) Claims against the limited liability partnership not acknowledged as debt;

(b) Guarantees;

(c) Other money for which the limited liability partnership is contingently liable.

PART II – Form of STATEMENT OF PROFIT AND LOSS

Name of the LLP.........................

Statement of Profit and loss for the year ended ....

(Rupees in............)

	Particulars	**Note**	**Figures for the current reporting period (in) From _______ (DD/MM/YYYY) To _________ (DD/MM/YYYY)**	**Figures for the previous reporting period (in) From_________ (DD/MM/YYYY) To___________ (DD/MM/YYYY)**
	1	**2**	**3**	**4**
I.	Revenue from operations			
II.	Other income			
III.	**Total Income (I + II)**			
IV.	Expenses			
	Cost of Material consumed			
	Purchases of Stock in Trade			
	Changes in inventories of finished goods			
	Work-in-progress and Stock-in-Trade			
	Employee benefits expense			
	Depreciation and amortization expense			
	Finance Cost			
	Other expenses			
	Total expenses			

V	Profit before exceptional and extraordinary items, partners' remuneration and tax (III – IV)			
VI	Exceptional items			
VII	Profit before extraordinary items, partners' remuneration and tax (V – VI)			
VIII	Extraordinary Items			
IX	Profit before partners' remuneration and tax (VII – VIII)			
X	Partners' remuneration			
XI	Profit before tax (IX – X)			
XII	Tax expense:			
	(i) Current tax			
	(ii) Deferred tax			
XIII	Profit (Loss) for the period from continuing operations (XI – XII)			
XIV	Profit/(loss) from discontinuing operations			
XV	Tax expense of discontinuing operations			
XVI	Profit/(loss) from Discontinuing operations (after tax) (XIV – XV)			
XVII	Profit/ (Loss) (XIII + XVI)			

See accompanying notes which form part of the financial statements.

GENERAL INSTRUCTIONS FOR PREPARATION OF STATEMENT OF PROFIT AND LOSS

1. The provisions of this Part shall be applied to the income and expenditure account in like manner as they apply to a statement of profit and loss.

2. (A) Revenue from operations shall disclose separately in the notes revenue from—

    (a) Sale of products;

    (b) Less: Excise duty

    (c) Sale of services;

    (d) Other operating revenues;

    (B) In respect of a finance Limited Liability Partnership, revenue from operations shall include revenue from—

    (a) Interest; and

    (b) Other financial services.

3. Finance Costs

    Finance costs shall be classified as:

    (a) Interest expense; (other than interest on partners' capital)

    (b) Interest on partners' capital

    (c) Other borrowing costs;

    (d) Applicable net gain/loss on foreign currency transactions and translation.

4. Other income

    Other income shall be classified as:

    (a) Interest Income;

    (b) Dividend Income;

    (c) Net gain/loss on sale of investments;

    (d) Other non-operating income (net of expenses directly attributable to such income).

5. Following shall be disclosed by way of notes regarding aggregate expenditure and income on the following items:—

(i) (a) Employee Benefits Expense showing separately (i) salaries and wages, (ii) Contribution to provident and other funds, (iii) staff welfare expenses;

(b) Any item of income or expenditure which exceeds one per cent of the revenue from operations or ₹ 1,00,000 whichever is higher;

(c) Adjustments to the carrying amount of investments;

(d) Net gain or loss on foreign currency transaction and translation (other than considered as finance cost);

(e) Details of items of exceptional and extraordinary nature;

(f) Prior period items.

(ii) Expenditure incurred on each of the following items, separately for each item:—

(a) Consumption of stores and spare parts;

(b) Power and fuel;

(c) Rent;

(d) Repairs to buildings;

(e) Repairs to machinery;

(f) Insurance;

(g) Rates and taxes, excluding, taxes on income;

(h) Miscellaneous expenses.