

B.Com (Hons.) Part I
 Hons. Paper - I
 Sub: Financial Accounting

Dr. Rajendra Pandey
 H.O.D. P.G. Dept of Comm.
 & B. Mgmt.
 H.D. Jain College, Anand

Chapter: Dissolution of Partnership Firm.

Settlement of the Accounts of Partners:

Just after closing of Realisation A/c and transferring the balance to Partners' A/c's, the next step is to settle the accounts of the partners. Since all the tangible assets and liabilities accounts are closed, the Balance Sheet leaves only the following accounts.

Liabilities	Rs.	Assets
Partners' Capital A/c		Preliminary Exps.
Partners' Current A/c		Deferred Depreciation ^{Adv. A/c}
Partners' Loan A/c		Advertisement Suspense
General Reserve		Profit & Loss A/c (Dr)
Investment Fluctuation Fund A/c		Partners' Capital A/c (Overdrawn)
Joint Life Policy Fund A/c		Partners' Current A/c (Overdrawn)
		Partners' Loan A/c

1. First of all Partners' Capital A/c's are to be opened with the balance ^{as} appeared in B/e on the date of dissolution. When the partners are maintaining fixed capital method, the current A/c's balances are closed by transferring to respective Capital Accounts. The entry will be made:

- (a) Partners' Current A/c Dr
 To Partners' Capital A/c } When current A/c's credit Cr balance.
- (b) Partners' Capital A/c --- Dr
 To Partners' Current A/c } When current A/c's shows debit balance.

(2)

2. Secondly, if there is any Reserve/Joint Life Policy/Investment Fluctuation Fund or P&L A/c (or bal.) in the Balance sheet. All the above reserves ~~with~~ are transferred to Partners' Capital A/c in profit sharing ratio. The entry will be:

Various Reserve A/c -- Dr
To Partners' Capital A/c.

If there are any fictitious assets like P&L A/c (Dr balance), preliminary expenses, adv. expenses, etc in the B/S, these should be transferred to partners' capital Accounts in the profit sharing ratio. The entry will be:

Partners' Capital A/c --- Dr
To Preliminary Exps. A/c
To Advertisement Expense A/c
To Profit & Loss A/c (Dr)

3. If the partner has advanced any loan to the firm, a partners loan A/c will be opened with the balance appearing in the B/S.

4. Finally capital Accounts of the partners are to be closed. The way this is done depends on the solvency of the partners. Following are three cases to be considered in this respect. The procedure of closing the partners' capital Accounts will be different in each the following cases:

Case I: When all partners are solvent.

Case II: When some of the partners are solvent and others are insolvent.

Case III: When all the partners are insolvent.

Case I: When all the partners are solvent

(i) When all partners are solvent, the loan from any partner is to be paid first. The entry will be:

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

If a partner has taken loan from the firm the amount realised in cash and deposited into Bank A/c. The entry will be:

Bank A/c Dr
To Partner Loan A/c

(ii) After clearance of the partners' loan A/c, the partners' capital accounts are to be balanced.

If one partner's capital A/c shows a debit balance, the respective partner is to bring in the required amount to the business to make up deficiency. The entry will be made:

Cash/Bank A/c Dr
To Partner's Capital A/c

In last, the final payment is to be made to partners having credit balance in their Capital Accounts. The entry will be:

Partners' Capital A/c Dr
To Cash/Bank A/c
