Dissolution of Partnership Firm

Q1.What do you mean by dissolution of partnership firm?

The dissolution of partnership firm means a complete breakdown or end of the partnership relation among the partners. In such a case, the activities of the firm comes to an end and the firm is wound up. The assets of the firm are sold and the claims of the partners are paid after discharging the third party or outside liabilities.

Q2.Define Dissolution of partnership firm?

According to section 39 of the Indian partnership act, 1932, " The dissolution of partnership between all the partners of a firm is called the dissolution of the firm.

Q3.State the reason for/ grounds of dissolution of partnership firm.

Grounds are:-

i. Change in the existing profit sharing ratio among partners.
ii. Admission of a new partner.
iii. Retirement of a partner.
iv. Death of a partner.
v. Insolvency of a partner.

Q4.What do you mean by Realisation Account?

Realisation account is an account which we prepare on dissolution of partnership firm with the objective of finding out profit or loss on realisation of assets and payment of liabilities.

Q5.Mention 2 objectives of preparation of realisation account?

Given below 2 objectives of preparation of realisation account are :-

a. It is prepared on dissolution of partnership firm to dispose of assets and liabilities.
b. It is prepared with the objective of finding out profits or loss on realisation of assets and liabilities.

Q6.Mention the accounts need to be prepared on dissolution of firm?

The accounts are need to be prepared on dissolution of firm are given below: -

i. Realisation Account.
ii. Partner's loan Account.
iii. Partner's capital Account.
iv. Cash Bank Account.

Q7.State the various modes/ grounds of dissolution of a partnership firm?

Various modes of dissolution of a partnership firm are contained in section 40,41,42,43,44 of the Indian partnership Act,1932 which states that there are 5 modes of dissolution of a firm . They are discussed below:-

a) **Dissolution of agreement:-**
   A partnership firm can be dissolved by an agreement among all the partners. Partnership is created by agreement and similarly it can be dissolved by agreement.
b) **Compulsory dissolution:-**
   A firm may be compulsory dissolved under the following situation:-
   - **Insolvency of Partners:-When all the partners or any one partner of a firm are declared insolvent, then the firm is compulsory dissolved.**
   - **Illegal Business:-The activity of the firm may become illegal under the changed circumstances.**
c) **Contingent Dissolution:-**
   In case there is no agreement among partners regarding certain contingencies, partnership firm will be dissolved on:-
   - **Death of Partner:- A Partnership firm is dissolved on the death of any of the partner.**
   - **Resignation by a partner:-If a partner(s) does not want to continue in the firm , his resignation from the concern will dissolve the partnership.**
d) **Dissolution by notice of partnership at will:-**
   If a partnership is at will, it can be dissolved by any partner by giving a notice to other partners. The notice must be written. A notice once given cannot be withdrawn without the consent of all the partners.
e) **Dissolution by the court:-**
   A partner can apply to the court for dissolution of the firm on any of these grounds:-
   i. **When a partner has become unsound mind, becomes insane.**
   ii. **When a partner has permanently become incapable of doing his duties.**
   iii. **When a partner transfers all of his shares to a third party.**
   iv. **When a partner is guilty of misconduct in carrying on the business.**
   v. **When a partner wilfully commits breach of agreement.**
   vi. **When the court finds that the business cannot be carried on except for a loss.**

Q8.Mention 5 points of distinction between dissolution of firm and dissolution of partnership.

Given below five points of distinction between dissolution of firm and dissolution of partnership.

Basis	Dissolution of Firm	Dissolution of Partnership
Continuation of Business	It involves discontinuation of the partnership business.	It does not affect the continuation of business.
Books of Accounts	Books of accounts are closed.	Books of accounts are not closed.

Relationship	Relationship among the partners is broken off.	Relationship among the partners is reconstituted.
Dissolved by court	A firm may be dissolved by the order of the court.	Dissolution of partners cannot be ordered by court.
Accounting Entries	Accounting Entries are passed through realisation account.	Accounting Entries are passed through revaluation account.
Nature	It necessarily involves dissolution of partnership.	It may or may not involve dissolution of the firm.
Assets and Liabilities	Assets are revalued through revaluation account .	Assets are disposed off and paid off through realisation account.
Economic Relation among partners	Economic relation among partners comes to an end.	Economic relation among partners may remain.

Q9.Mention 5 points of distinction between Revaluation Account and Realisation Account.

Given below 5 points of distinction between Revaluation Account and Realisation Account.

Basis	Revaluation Account	Realisation Account
Closing of Accounts	Accounts of assets and liabilities shown in this account are not closed.	Accounts of assets and liabilities transferred here are closed.
Repetition of accounts	This account is repeated many times during the life time of a business.	This account is prepared only once during the life time of the business.
Prepared For	It is prepared to find out profit or loss on the revaluation of assets and liabilities.	It is done to ascertain profit or loss on the disposal of assets and payments of liabilities.
Prepared On	It is prepared in case of admission, retirement and death of a partner etc.	It is prepared in case of dissolution of a firm.
Transfer of Profit or Loss	Profit or loss on revaluation is transferred to old partner's capital account (in case of admission) and to all partners' capital (in case of retirement and death).	In case of dissolution , profit or loss on realisation is transferred to all partner's capital account.

Q10.Mention the mode of settlement of accounts on the dissolution of partnership firm?

OR

Write a note on settlement of accounts in dissolution?

Section 48,49 and 55 of the partnership act specify the mode of settlement of accounts on the dissolution of a partnership firm. These are as follows:-

i. First of all, the amount of loss , including the deficiency of capital shall be paid out of profits, next out of capital and lastly, if necessary will be realised from the partners in their profit sharing ratio.

ii. Amount realised from the sale of assets of the firm (including any sum contributed by the partners) shall be applied in the following manner and order:-
   - First of all, all the debts of the firm will be paid.(Outside party)
   - Out of the remaining amount, the loans advanced by partners will be paid.
   - There after the balance of partners capital account will be returned.
   - If some amount remains, it will be divided among the partners in their profit sharing ratio.

Q11.Mention 3 points of distinction between firm's debt and private debt.

Three points of distinction between firm's debt and private debt are:-

Basis	Firm's Debt	Private debt
Meaning	These are the debt of the firm owned to the third parties.	These are the debt owned by a partner personally any other person.
Liabilities	Partners are jointly liable for the firms debt.	Partners are personally liable for their private debt.
Uses of firm's property	Firm's property is applied first for payment of firm's debt.	Concerned partner's share in the surplus firm's property is applied for private debt.

Q12.What are the rights of partners after dissolution of firm?

According to section 46 of the Indian Partnership act 1932, on the dissolution of a firm every partner is entitled, as against all the other partners, 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.

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