PARTNERSHIP ACCOUNTING

Capital Accounts

Fixed and Fluctuating

A Capital Account is a general ledger account which shows some of the special transactions like proprietor's investment in his own business, the aggregate amount of earning, expenses of companies, etc. There are many more transactions which affect the Capital. Like: Interest on Capital, Interest on Drawings, Salaries to the Partners, Commission for the Partners, etc. These values are put in Profit and Loss Appropriation Account and at the same time credited or debited to their respective Capital Accounts.

Methods of Capital Account Creation

- Fluctuating Capital Account Method
- Fixed Capital Account Method

Fluctuating Capital Account Method

Fluctuate means anything having unpredictable ups and downs. Hence, under this method, the Capital of each Partner keeps on changing from time to time.

In a firm, there is a single account under the name "Capital" which shows all the necessary information about the different transactions related to the capital. It mostly starts with a credit amount of the capital invested by the partner in the initial time of the business.

All the adjustments leading to a decrease in the Capital are shown on the Debit side of the Capital Account. For example, Drawings by Partners and interest comes on the debit side of the Capital account. All the adjustments leading to an increase in the Capital are shown on the Credit side.

Fixed Capital Account Method

Under this method, the firm prepares Two accounts which show different transactions related to the capitals of the partners.

These two accounts are as follows :

(a) Fixed Capital Account

A firm prepares Fixed Account with very basic capital related transactions. Unlike the Capital account, under these repetitive capital related transactions does not affect the Capital balance. Like, Salary of employees, commission for employees, interest on capital, interest on drawings, etc.

The firm opens the account in the name of "Fixed Capital Account". Initial Investment will appear on the credit side as the starting entry. Only 2 kinds of Capital related transactions can affect its balance:

(1) Addition of Capital

(2) Permanent Withdrawal of Capital

(b) Current Account

It includes all the capital related transactions other than the initial investment of capital, addition of capital and withdrawal of capital. Hence, It mainly includes items such as :

1. Interest on Capital
2. Interest on Drawings
3. Salaries and other remuneration to employees
4. Commission to employees and even more.

Difference Between Fixed and Fluctuating Capital Methods

Fixed Capital Method	Fluctuating Capital Method
Two accounts are prepared: Capital Account and Current Account	Only a single account is prepared: Capital Account
The capital balance remains unchanged	Capital balance fluctuates
Both Capital and Current Accounts appears in the Balance sheet.	Only Capital Account appears in the Balance Sheet.
If this method is used then it must be specified in the Partnership Deed.	If this method is used then it is not necessary to specify the method under the Partnership Deed
Fixed Capital Account will always show a Credit Balance	Fluctuating Capital account may show debit balance as well.

Admission of a New Partner

According to the Partnership Act 1932, a new partner can be admitted into the firm only with the consent of all the existing partners unless otherwise agreed upon. With the admission of a new partner, the partnership firm is reconstituted and a new agreement is entered into to carry on the business of the firm.

Reasons for Admission of a New Partner

- The most significant reason for the admission of a new partner is the need for funding for the expansion of the business.
- If there is a requirement of an experienced and well-trained person for the efficient running of any business.
- If the company needs to increase the goodwill by adding the name of any reputed and renowned business person in the company.

Adjustment Required at the Time of Admission of a New Partner

During admission, the new partner brings his shares of goodwill and capital with him. There are some necessary adjustments made on the entry of a new partner in the firm. These adjustments are as follows:

- Calculation of new profit sharing ratio among the present partners of the firm
- Accounting treatment of the goodwill.
- Accounting treatment for the revaluation of assets and liabilities of the firm.
- Distribution of accumulated profits and reserves of the firm.
- The capital adjustment on the basis of new profit-sharing ratios of the firm.

Partnership Deed Contents

While making a partnership deed, all the provisions and the legal points of the partnership deed are included. This deed also includes basic guidelines for future projects and can be used as evidence at times of conflict or legal procedures. For a general partnership deed, the below mentioned information should be included.

- Name of the firm as determined by all partners.
- Name and details of all the partners of the firm.
- The date on which business commenced.
- Firm’s existence duration.
- Amount of capital contributed by each partner.
- Profit sharing ratio between the partners.
- Duties, obligations and power of each partner of the firm.
- The salary and commission if applicable that is payable to partners.

- The process of admission or retirement of a partner.
- The method used for calculating goodwill.
- The procedure that must be followed in cases of dispute arising between partners.
- Procedure for cases where a partner becomes insolvent.
- Procedure for settlement of accounts in the event of dissolution of a firm.

Meaning of Goodwill

Goodwill is the value of the reputation of a firm built over time with respect to the expected future profits over and above the normal profits. A well-established firm earns a good name in the market, builds trust with the customers and also has more business connections as compared to a newly set up business.

Factors Affecting the Value of Goodwill

- **Nature of business:**

  A firm that deals with good quality products or has stable demand for its product is able to earn more profits and therefore has more value.
- **Location of business:**

  A business which is located in the main market or at a place where there is more customer traffic tends to earn more profit and also more goodwill.
- **Owner's reputation:**

  An owner, who has a good personal reputation in the market, is honest and trustworthy attracts more customers to the business and makes more profits and also goodwill.
- **Efficient management:**

  An organization with efficient management has high productivity and cost efficiency. This gives it increased profits and also high goodwill.
- **Market situation:**

  The organization having a monopoly right or condition in the market or having limited competition, enables it to earn high profits which in turn leads to higher value of goodwill.
- **Special advantages:**

  A firm that has special advantages like import licenses, patents, trademarks, copyrights, assured a supply of electricity at low rates, subsidies for being situated in a special economic zones (SEZs), etc. possess a higher value of goodwill.

Methods of Valuation of Goodwill

Capitalisation Method

This method for the valuation of goodwill is divided into two parts. These are as follows:

Capitalisation of Average Profits:

Using this method, the capitalised value of average profits is calculated using the standard rate of return, and the actual capital employed is subtracted to determine the value of goodwill. The capitalisation method formula is:

- Value of Goodwill = Standard Capital - Capital Used.
- Profits on average multiplied by 100 divided by the standard rate of return yields average capital.
- Number of Capital Investments = Total Assets - Noncurrent Liabilities (excluding goodwill)

Capitalisation of Super Profits:

This approach uses the capitalisation of super profits to capitalise on goodwill directly. The calculation of goodwill by capitalisation method comes into play when the value of a company's good name is 100 times the abnormal profit margin divided by the average return rate.

Important Aspects of Goodwill Valuation

- If the departing chairman is the primary driver of the company's success, goodwill value may be one or two years' worth of profits. Traditional payback periods range from three to five years after purchase.
- If the super profit is high or the firm is very lucrative, an extended amount of time may be required.
- Whether the firm is making super profits or just average earnings, goodwill might rise if there are several interested buyers.
- A company's bottom line may be red ink at times. But, even then, goodwill payments might be made if the company's future seems bright.
- For an acquiring firm, it's not only about the money it makes after a merger but also about the efficiencies it gains.

- The company's technology, research and development, client base, and industry of operation may all play a role in the goodwill assessment process.

Methods for Valuation of Goodwill

A company adopts the valuation method consistent with the market practices of the trade and the position maintained by it. The different methods of valuation of goodwill are mentioned below.

1. Average Profits Method

The average profits method primarily takes the following two forms -

a. Simple Average

Here, the goodwill is evaluated by the calculation of average profit against the number of years purchased.

Goodwill = Average profit X Number of years of purchase

b. Weighted Average

This method is usually used in the instances of alterations of profit while also focusing on the current year's profit. It calculates the previous year's profit for obtaining the valuation.

Goodwill = Weighted Average Profit X Number of years of purchase

2. Super Profits Method

The super profit method of valuation of goodwill covers the excess of the maintainable profits in the future as opposed to the normal profits. The formula is indicated below.

Goodwill = Super profit X Number of years of purchase

(Super profit = Average / Actual profit – Normal profit

Normal profit = (Capital employed X Normal rate of return) / 100)

The super-profits method can be undertaken by either of the two following methods.

a. Annuity Method of Goodwill

The annuity method in the valuation of goodwill uses the average super profit over a specific number of years. The current value of an annuity is found on the basis of a discounted amount of super profit at the established rate of interest.

b. Purchase Method by Number-of-Years

Super profits in a definite number of purchase years are evaluated for establishing goodwill.

3. Capitalisation Method

In the goodwill capitalization method, there are two ways in which the calculation can be done.

a. Average Profits Method

The calculation covers the deduction of its actual capital that has been employed from the average profits of the capitalized value. It is undertaken based on the normal rate of return.

Goodwill = Capitalised Average profits – Actual capital employed

(Capitalised average profits = Average profits X 100 / Normal rate of return
Actual capital employed = Total assets (excluding goodwill) – Outside liabilities)

b. Super Profits Method of Valuation of Goodwill

In these methods, super profits are directly capitalized for the valuation of goodwill.

Goodwill = Super profits X 100 / Normal rate of return

Amalgamation-Meaning

- Amalgamation means to merge or to combine two or more business units carrying on same type of business and form a new business unit.
- Amalgamation of partnership firms means merger of two or more partnership firms with one another and form a new partnership firm.
- Example: A & B firm + X & Y firm= A,B,X & Y firm

Forms of Amalgamation

1. Merging of two or more existing sole proprietors into each another and form a new partnership firm.
2. Merging one existing partnership firm with one existing sole proprietor and form a new partnership firm.
3. Absorbing one existing partnership firm by another existing partnership firm.
4. Merging two or more existing partnership firms with one another and form a new partnership firm.

Objectives of Amalgamation Of Company

i. For a better control over the market.

ii. To properly utilise the service of professional experts.

iii. To increase the profit volume of business.

iv. It aims to eliminate the cut-throat competition among them.

v. To capable of increasing the market share and its area of operation.

vi. To increase the availability of funds for further investment in future.

vii. To enjoy the economy for large scale production.

Features of Amalgamation Of Companies

i. The new company form in Amalgamation is expected to be greater than to the transferor company.

ii. Two or more companies are required to Amalgamate on the process of Amalgamation.

iii. A new company must be formed to take over the business of the transferor company.

iv. All the existing companies are to be liquidated before Amalgamation.

v. In Amalgamation one company is acquired by another, and shareholders of the transferor company do not have a proportionate share in the equity of the combined company.

vi. If the purchase consideration of Amalgamation companies exceeds in net asset value (NAV), the excess amount is recorded as goodwill of the new company. If not recorded, it is recorded as capital reserves.

Dissolution of a Firm

When the partnership between all the partners of a firm is dissolved, then it is called dissolution of a firm. It is important to note that the relationship between all partners should be dissolved for the firm to be dissolved.

Modes of Dissolution of a Firm

1] By Agreement (Section 40)

According to Section 40 of the Indian Partnership Act, 1932, partners can dissolve the partnership by agreement and with the consent of all partners. Partners can also dissolve the partnership based on a contract that has already been made.

2] Compulsory Dissolution (Section 41)

An event can make it unlawful for the firm to carry on its business. In such cases, it is compulsory for the firm to dissolve. However, if a firm carries on more than one undertakings and one of them becomes illegal, then it is not compulsory for the firm to dissolve. It can continue carrying out the legal undertakings. Section 41 of the Indian Partnership Act, 1932, specifies this type of voluntary dissolution.

3] On the happening of certain contingencies (Section 42)

According to Section 42 of the Indian Partnership Act, 1932, the happening of any of the following contingencies can lead to the dissolution of the firm:

- Some firms are constituted for a fixed term. Such firms will dissolve on the expiry of that term.
- Some firms are constituted to carry out one or more undertaking. Such firms are dissolved when the undertaking is completed.
- Death of a partner.
- Insolvent partner.

4] By notice of partnership at will (Section 43)

According to Section 43 of the Indian Partnership Act, 1932, if the partnership is at will, then any partner can give notice in writing to all other partners informing them about his intention to dissolve the firm.

In such cases, the firm is dissolved on the date mentioned in the notice. If no date is mentioned, then the date of dissolution of the firm is the date of communication of the notice.

Dissolution of a Firm by the Court

According to Section 44 of the Indian Partnership Act, 1932, the Court may dissolve a firm on the suit of a partner on any of the following grounds:

1] Insanity/Unsound mind

If an active partner becomes insane or of an unsound mind, and other partners or the next friend files a suit in the court, then the court may dissolve the firm. Two things to remember here:

- The partner is not a sleeping partner
- The sickness is not temporary

2] Permanent Incapacity

If a partner becomes permanently incapable of performing his duties as a partner, and other partners file a suit in the court, then the court may dissolve the firm. Also, the incapacity may arise from a physical disability, illness, etc.

3] Misconduct

When a partner is guilty of conduct which is likely to affect prejudicially the carrying on of the business and the other partners file a suit in the court, then the court may dissolve the firm.

Further, it is not important that the misconduct is related to the conduct of the business. The court looks at the effect of the misconduct on the business along with the nature of the business.

4] Persistent Breach of the Agreement

A partner may willfully or persistently commit a breach of the agreement relating to

- The management of the affairs of the firm, or
- A reasonable conduct of its business, or
- Conduct him in matters relating to business that is not reasonably practicable for other partners to carry on the business in partnership with him.

In such cases, the other partners may file a suit against him in the court and the court may order to dissolve the firm. The following acts fall in the category of breach of agreement:

1. Embezzlement
2. Keeping erroneous accounts
3. Holding more cash than allowed
4. Refusal to show accounts despite repeated requests, etc.

5] Transfer of Interest

A partner may transfer all his interest in the firm to a third party or allow the court to charge or sell his share in the recovery of arrears of land revenue. Now, if the other partners file a suit against him in the court, then the court may dissolve the firm.

6] Continuous/Perpetual losses

If a firm is running under losses and the court believes that the business of the firm cannot be carried on without a loss in the future too, then it may dissolve the firm.

7] Just and equitable grounds

The court may find other just and equitable grounds for the dissolution of the firm. Some such grounds are:

- Deadlock in management
- Partners not being in talking terms with each other
- Loss of substratum (the foundation of the business)
- Gambling by a partner on the stock exchange.

Retirement of a Partner

A business may contain two or more partners. In simple words, a partnership is an arrangement between two or more people who share both profits and liabilities in their profit sharing ratio. This partnership may break either due to the retirement or death of one of its partners.

The retirement of the partner may be either due to his will or due to the completion of the venture for which the partnership came into the act. After the retirement of a partner, the firm rearranges the financial accounts and profit-sharing ratios among the remaining partners. The goodwill treatment of the retired partner is as per the agreement among the partners. The business will continue with remaining partners, and the retired partner shall leave with his share of goodwill.

Reasons for the Retirement of a Partner

The partner of a firm may retire due to the following reasons:

- The partner may retire due to old age.
- The partner may retire due to bad health and being incapable of carrying out his responsibilities.
- The partner may decide to retire due to a change in the nature of the firm.
- The partner can also retire on his own will if the partnership was on will too.
- The partner may retire if he got a better opportunity. He must give notice of retirement to other partners.

Retiring partner is entitled to receive

- **Share in Goodwill:**

The partner will get his share of goodwill due to his efforts for the company in the past. The goodwill treatment is in accordance with the agreement of all other partners. This goodwill earned by the firm has the contribution of the retired partner too with other existing partners. Moreover, due to the present goodwill, the firm will also experience success in the future. Thus, the retired partner must get his compensation in the form of his goodwill.

- **Share in Reserves:**

  The retired partner has the shares in the reserves too, as the reserves themselves are the undistributed profits of the previous years. Therefore, the shares in his reserves are credited to his capital account.

- **Shares in Revaluation of Assets and Liabilities:**

  The profit of revaluation of assets and reassessment of liabilities are evaluated on the date of retirement of the partner. The retiring partner will receive the profit as credit and loss as a debit from his capital account.

Deceased Partner

According to the Indian Partnership Act, 1932, Deceased partner is one who has discontinued the partnership due to his death. A contract between the partners of the enterprise is not dissolved by the death of a partner; the estate of a dead partner is not responsible for any act of the enterprise done after his death.

The accounting treatment in the occurrence of death of a partner is :

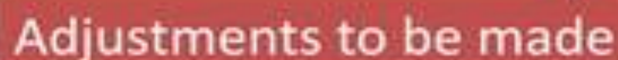
- Similar to that, when a partner retires and that in case of deceased partner his belonging is transferred to his legal enforcers and settled in a similar way as that of the partner who retires
- However, there is one primary distinction, the retirement usually takes place during the closure of an accounting period or financial year, the death of a partner may take place any time
- Therefore, in the case of a partner, his rights shall also incorporate his share of gains or loss, interest on drawings (if any), interest on capital from the last date of the Balance Sheet to the date of his death of these, the main issue associates to the computation of profit for a moderate period
- Since, it is contemplated burdensome to close the books and outline final a/c, for the period, the dead partner's share of profit may be computed on the ground of previous year's gain (or aggregate of past few years) or on the base of sales.

RETIREMENT OF A PARTNER

MEANING:

When one or more partners leaves the firm and the remaining partners continue to do the business of the firm, it is known as retirement of a partner.

Due to some reasons like old age, poor health, strained relations etc., an existing partner may decide to retire from the partnership.



(a) New profit sharing ratio and gaining ratio.
(b) Goodwill
(c) Revaluation of Assets and liabilities
(d) Transfer of accumulated reserve
(e) Transfer of undistributed profit or loss
(f) Settlement of retiring partners dues
(g) New capital of the continuing partners.

Gaining Ratio

The ratio in which retiring partner's share is distributed amongst continuing partners is known as gaining ratio.

Gaining Ratio = New Ratio – Existing Ratio

Distinguish between Sacrificing Ratio and Gaining Ratio.

Basis	Sacrificing Ratio	Gaining Ratio
(i) Meaning	Proportion in which old partners sacrifice their share in favour of new partner.	Proportion in which continuing partner gain the share of outgoing partner on his retirement.
(ii) Occasion	Sacrificing ratio is calculated at the time of admission of new partner.	Gaining ratio is calculated at the time of retirement or death of a partner.
(iii) Formula	Old ratio – New ratio	New ratio – Old ratio

Difference between Dissolution of Partnership and Dissolution of Partnership Firm

BASIS	DISSOLUTION OF PARTNERSHIP	DISSOLUTION OF PARTNERSHIP FIRM
1. Meaning	Change in existing agreement among the partners.	Closure of the firm.
2.Continuation of business	The firm continues its business.	Business of the firm comes to an end.
3. Economic Relationship	Economic Relationship among the partners changes, but continues.	Economic Relationship among the partners comes to an end.
4. Closure of Books	Books of accounts need not be closed.	Books of accounts have to be closed.

SETTLEMENT OF ACCOUNTS

Amount realised from sale of assets shall be applied in the following order:

a. First of all, outside debts of firm will be paid.
b. Then, loans advanced by partners will be paid.
c. Then, balance of partners capital accounts will be returned.
d. Balance amount will be divided among the partners in their profit sharing ratio.

ACCOUNTING PROCEDURE

To close the books of firm on dissolution, the following accounts are to be opened:

a. Realisation A/c
b. Partner's loan A/c
c. Partner's Capital A/c
d. Cash/Bank A/c

Format of Realisation A/c

PARTICULARS	AMOUNT	PARTICULARS	AMOUNT
To Assets (except cash/bank/accumulated losses/dr balance of partners' capital a/c) To Cash/Bank A/c (liabilities or expenses paid) To Partners' Capital A/c(liabilities or expenses taken over/paid by partner) To Partners' Capital A/c (profit on realisation)		By liabilities A/c (except reserves, accumulated profits, partners' capital a/c, partner's loan) By Cash/Bank A/c(sale of asset) By Partners' Capital A/c(Asset taken over by a partner) By Partners' Capital A/c (loss on realisation)	

OBJECTIVES OF AMALGAMATION

a) Elimination of competition
b) Production of goods and services on a large scale
c) Securing a large share of a market
d) Maintaining price by regulating output
e) Equitable distribution of what is produced

OBJECTIVES CONTD……

f) Building up goodwill
g)Securing economies of scale such as technical,financial,managerial and marketing
h)Avoiding duplications and reducing costs
i) Introducing schemes of rationalisation
j) Promoting research and development

QUESTION BANK

UNIT I

1. The partnership business in India is governed by the **Indian Partnership Act.**
2. The written form of agreement among the partners is called as **Partnership Deed.**
3. The liability of a partner in partnership business is **unlimited.**
4. The kind of partner who is not a real partner of firm but acts as a partner is called as **Partner by Estopal.**
5. The partnership which comes to an end, if anyone of the partners gives his option to
6. retire from the business is known as **Partnership at Will**.
7. **Profit and Loss Appropriation** Account is prepared to arrive at the true and fair profit or loss before its division among the partners.
8. The name under which the partnership business is carried on is called as **Firm name.**
9. Past adjustments means adjustment entries that are passed to **rectify** the errors and omission that are discovered after the books of accounts are closed
10. **Six** percent of interest shall be provided on any loan advanced by the partner in the absence of partnership deed.
11. Current accounts of the partners should be opened when the capitals are **fixed.**
12. The method of capital in which the amount of capital changes every year is known as **Fluctuating Capital.**
13. The Indian partnership act was passed in the year **1932.**
14. In the absence of agreement, the profits and losses of the business is shared by the partners in **Equal Ratio**.
15. The maximum number of partners in a banking firm is **ten.**
16. Interest on partner's capital is calculated on the **opening capital** of the partners.
17. When salary or commission is paid to a partner, the partners capital account or current account is **credited.**
18. Each partner in the firm has a right to take part in the **management** of the affairs of the business.
19. Partnership is a result of an **agreement** between two or more persons.
20. **Active** partner is one who contributes capital and takes active part in the management of the business.
21. The minor partner shares only **profits** of the business.

UNIT II

1. The amount of goodwill paid by the new partner is shared by the old partner in their **Sacrificing** ratio.
2. Revaluation account is a **Nominal** account.
3. Goodwill is an **intangible** asset.
4. The excess of average profit over normal profit is known as **Super** profit.
5. **Memorandum revaluation** account is prepared when the revised value of assets and liabilities are not to be shown in the books of accounts.
6. All accumulated profits are transferred to the capital accounts of the old partners in **old profit sharing** ratio.
7. Undistributed loss will appear on the **Assets** side of the balance sheet.
8. In the absences of specific agreement, old partner contribute to the new partners share of profit in **equal** ratio.
9. When a new partner is admitted, the combined shares of the old partners are **reduced**.
10. In admission of a partner, profit or loss on revaluation of assets and liabilities is shared by the **old partners.**
11. Profit on revaluation is a **capital** profit.
12. When admitting a new partner **average profits** are calculated on the basis of past performance of the business.
13. The product of normal rate of return and capital employed is called **normal profit.**
14. If the upper portion of a memorandum revaluation account shows a profit, the lower portion must show a **loss.**
15. A and B are in partnership sharing profits in the ratio of 3:2 respectively. C is admitted into the partnership. The new profit sharing will be 5:3:2. The sacrificing ratio will be **1:1.**
16. While admitting a new partner, any decrease in the value of liabilities is transferred to revaluation account by debiting **liabilities** account.
17. **Revaluation** account is prepared to record the increases or decreases in the value of assets before admitting a new partner.
18. The reputation enjoyed by the business due to good quality customer service and service to the public is known as **goodwill.**

19. Any amount to be written off after the admission of a partner is transferred to the capital accounts of all partners in their **new profit sharing** ratio.
20. When the incoming partner brings his share of goodwill in cash, it is adjusted by crediting **old partners capital a/c.**

UNIT III

1. The amount due to retiring partner, if not paid in cash is transferred to his **Loan** account.
2. New Ratio –old Ratio =**Gaining** Ratio.
3. Life Policy is taken by the firm to provide funds to the legal representative of the **deceased** partner.
4. A firm can take **Joint life policy** on the lives of all the partner.
5. In case of death of a partner, the excess of joint life policy over surrender value is written off by debiting **Joint Life Policy Reserve** Account.
6. Profit or loss on revaluation at the time of retirement must be transferred to all partners in the **Old Profit Sharing ratio**.
7. A Partner can retire from the business only with the consent of **all the partners**.
8. On retirement of a partner, when goodwill does not appear in the books, retiring partner's share of goodwill is debited to **remaining** partners.
9. A **retiring partner** will not be held liable for the debts incurred by the firm after his retirement.
10. Accounting Standard (AS)**10** States that goodwill can be recorded in the books only when some consideration in money or money's worth has been paid it.
11. A retiring partner is entitled to receive his share in the goodwill of the firm as per the agreement between the **partners.**
12. In the event of death of a partner the **legal representative** of the deceased partner receive his share from the firm.
13. The value which is payable immediately to the insured on surrendering all rights of the policy to the company is called **surrender value**.
14. Premium paid in respect of Joint Life Policy is treated as **business** expenses.
15. In case of a retirement of a partner, goodwill at its full value is credited to the accounts of **all partners.**
16. The retiring partner's share of goodwill is debited to **continuous** partner's capital account is gaining ratio

17. For writing off accumulated loss on retirement of a partner, partners capital account is **debited.**
18. Deceased partner has a right to share any **profit or loss** arising out of Joint Life Policy.
19. In case of retirement/death of a partner, the share of new goodwill is to be debited to the continuing partners capital account in their **Gaining Ratio.**
20. If a firm agreed to settle the accounts of a retiring /deceased partner by paying lump sum amount, then the amount paid in excess of his capital and share in reserve, revaluation profit will be treated as **hidden goodwill**.

UNIT IV

1. Closing down the undertaking or suspending permanently the activities of a partnership business is known as **dissolution of a firm.**
2. If all partners except one or all of them are declared insolvent, the firm may enter into **compulsory** dissolution as per law.
3. A partnership firm can be dissolved at any time by **mutual consent** of all the partners.
4. The dissolution by the order of the court when a partner becomes unsound mind or disabled permanently is called as **dissolution by court.**
5. In dissolution, the profit or loss shown by realization account is transferred to the capital account of the partners in their **profit sharing** ratio.
6. In case of dissolution of partnership **unrecorded** assets and liabilities are not to be transferred to realization.
7. The amount which is irrecoverable from an insolvent partner is a **loss** to the firm.
8. The deficiency of the insolvent partner must be borne by the solvent partners in their **capital** ratio.
9. When all the partners become insolvent, the loss on account of insolvency of the partners will have to be borne by the **creditors.**
10. In dissolution of a firm, any balance remaining unpaid to the creditors will be transferred to a **deficiency** account.
11. In dissolution of a firm, if any asset is taken over by the partner**, realization** account is credited.

12. When an expense of dissolution is paid by any partner his **capital** account will be credited.
13. If any partner agrees to purchase the business and pay for goodwill, the partners capital account will be **debited** and realization account will be **credited.**
14. Under fixed capital method, the profit or loss on realization account as result of insolvency of a partner is transferred to **partners current** account.
15. In case of insolvency of all partners, the amount of **external liabilities** is not transferred to realization account.
16. The debts due to the **creditors** must be paid out in full prior to any amount paid to any partner in respect of his loan and capital under piecemeal distribution method.
17. As per the ruling in garner Vs. Murrey case, the solvent partner should bring **cash** equal to their share of loss on realization.
18. Reconstitution of a firm due to retirement/insolvency /death of a partner and remaining partners continue the same business is known as **dissolution of partnership.**
19. When unrecorded asset is realized in case of dissolution of a firm **realization** account is credited and **bank** account is debited.
20. Goodwill account appearing in the books on the dissolution date is closed by transferring it to **debit** side of realization account.

UNIT V

1. Two or more partnership firm carrying on similar business join together to form a new firm is known as **Amalgamation of firm.**
2. In amalgamation, the new firm established is called as **Amalgamated firm.**
3. When amalgamation of firm takes place, partners of the combining firms become partners of the **new firm.**
4. In case of amalgamation, the capital accounts of the partners are closed by transferring them to **new firm** account.
5. In amalgamation, the assets and liabilities of the existing firms may be taken over by the new firm either at **book value** or at **revised** values.
6. In amalgamation, reserves, accumulated profits and losses should be transferred to the **partners capital** accounts in their old profit sharing ratio.

7. While adjusting the capital accounts of the partner as per the requirement of new firm, the excess capital balance is transferred to **cash** account or **current** account.
8. In amalgamation, liabilities not taken over by the new firm should be **credited** to the capital accounts of the partner.
9. In the books of the new firm, assets taken over will be **debited** and liabilities taken over will be **credited.**
10. At the time of amalgamation of firm the general reserve will be transferred to **capital** accounts of the partners.