

Chapter 13 Partnership Dissolution (合夥解散)

13.2 Reasons for dissolution and actions required (合夥解散的原因及所需的行動)

Reasons (原因):

- 1 The partnership has been making substantial losses (合夥持續錄得重大虧損).
- 2 One of the partners is leaving due to ill health or has died (某合夥人因病退出合夥或去世).
- 3 There are serious conflicts among the partners (合夥人之間出現嚴重分歧).
- 4 The partnership is taken over by another business (合夥被另一企業收購).

Actions (行動):

- 1 The **assets** are to be disposed of (變賣資產): they may be sold to **external parties** (企業以外的人士), or taken over (接收) by existing partners (現有合夥人) at **agreed values** (按議定價值).
- 2 The **liabilities** (債務) are to be repaid (償還) to external parties and the partners.
- 3 The partners are to be repaid the final balances in their capital accounts (歸還合夥人資本帳戶的餘額).

13.3 Accounting entries for dissolution (解散所需的會計分錄)

A **realisation account** (變產帳戶) would be opened to record the transactions arising on dissolution.

- 1 **Transfer the net book value of all the assets (except bank and cash) to the realisation account** (把所有資產(銀行存款和現金除外)的帳面淨值轉到變產帳戶)

Dr Realisation account
Cr Asset account

- 2 **Record the amounts received from the sale of assets or collected from account receivable** (記錄出售資產所得的款項或收回的應收帳款)

Dr Cash/Bank account
Cr Realisation account

- 3 **Record the value of assets taken over by partners without immediate payment** (記錄由合夥人接收的資產的議定價值(不用即時付款))

Dr Partners' capital accounts
Cr Realisation account

- 4 **Record the amounts paid to creditors with discounts received (if any)** (記錄償還給債權人的金額及購貨折扣(如適用))

Dr Creditors' accounts
Cr Cash/Bank account (with the amount of payment)
Cr Realisation account (with the amount of discounts received, if any)

- 5 **Record the payment of dissolution costs (realisation expense)** (記錄支付解散費用的金額)

Dr Realisation accounts
Cr Cash/Bank account

- 6 **Share the profit or loss on realization among the partners in the profit and loss sharing ratio** (按損益分配比率攤分變產損益給合夥人)

A **profit or loss** may arise in the **disposal** of assets and **repayment** of liabilities (變賣資產和償還債務可能會為合夥帶來損益), and this should be shared by (攤分) all the partners in their agreed profit and loss sharing ratio (按協定的損益分配比率).

- (i) When there is a profit on realisation

Dr Realisation accounts
Cr Partners' capital accounts (with their share of the profit on realization)

- (ii) When there is a loss on realisation

Dr Partners' capital accounts (with their share of the loss on realization)
Cr Realisation accounts

Realisation				
	\$	\$	\$	
Office equipment (1)		40,000	Bank – Office equipment (2)	48,000
Motor vehicles (1)		25,000	Bank – Inventory (2)	27,000
Inventory (1)		21,000	Bank – Trade receivable (2)	20,400
Trade receivable (1)		22,400	Capital: Lee - Motor vehicles taken over (3)	22,000
Bank – Dissolution costs (5)		2,600	Trade payable – Discounts received (4)	2,000
Profit on realization – (6)				
Capital: Chan (2/3)	5,600			
Capital: Lee (1/3)	2,800	8,400		
		<u>119,400</u>		<u>119,400</u>

Capital					
	Chan	Lee		Chan	Lee
	\$	\$		\$	\$
Realisation –Motor vehicles taken over (3)	—	22,000	Balances b/d	30,000	20,000
			Realisation – Share of profit (6)	5,600	2,800

7 Transfer the partners' current account balances to their capital accounts (把合夥人的往來帳戶的餘額轉到其資本帳戶)

- (i) For credit balances in current accounts
 Dr Partners' current accounts
 Cr Partners' capital accounts (with the credit balances in current accounts)
- (ii) For debit balances in current accounts
 Dr Partners' capital accounts (with the debit balances in current accounts)
 Cr Partners' current accounts

Current					
	Chan	Lee		Chan	Lee
	\$	\$		\$	\$
Capital (7)	26,000	20,000	Balances b/d	26,000	20,000

Capital					
	Chan	Lee		Chan	Lee
	\$	\$		\$	\$
Realisation –Motor vehicles taken over (3)	—	22,000	Balances b/d	30,000	20,000
			Realisation – Share of profit (6)	5,600	2,800
			Current (7)	26,000	20,000

8 Settle the final balances in the partners' capital accounts (結算合夥人的資本帳戶的最後餘額)

- (i) For credit balances in capital accounts
 Dr Partners' capital accounts
 Cr Cash/Bank account (with the credit balances in capital accounts)
- (ii) For debit balances in capital accounts
 Dr Cash/Bank account (with the debit balances in capital accounts)
 Cr Partners' capital accounts

Capital					
	Chan	Lee		Chan	Lee
	\$	\$		\$	\$
Realisation –Motor vehicles taken over (3)	—	22,000	Balances b/d	30,000	20,000
Bank – Final settlement (8)	61,600	20,800	Realisation – Share of profit (6)	5,600	2,800
			Current (7)	26,000	20,000
	<u>61,600</u>	<u>42,800</u>		<u>61,600</u>	<u>42,800</u>
Bank					
	\$			\$	
Balance b/f	10,600		Trade payable (4)		21,000
Realisation –Office equipment (2)	48,000		Realisation –Dissolution costs (5)		2,600
Realisation – Inventory (2)	27,000		Capital: Chan – Final settlement (8)		61,600
Realisation – Trade receivable (2)	20,400		Capital: Lee – Final settlement (8)		20,800
	<u>106,000</u>				<u>106,000</u>

Class work 1

1. Bai and Ng were partners, sharing profits and losses in the ratio of 2 : 1. They decided to dissolve their partnership on 31 December 2010. Their final balance sheet as at 31 December 2010 was as follows:

Bai and Ng Balance Sheet as at 31 December 2010		\$
Fixtures (net)	124,000	
Office equipment (net)	66,000	
Inventory	98,500	
Trade receivable	24,500	
Bank	5,000	
	318,000	
Less Trade payable	(27,000)	
	291,000	
Capital: Bai	173,000	
Ng	118,000	
	291,000	

The fixtures and the office equipment were sold for \$196,000 and \$59,000, respectively. Inventory was disposed of for \$82,200 and receipts from trade receivable amounted to \$23,100. Trade payable, net of discounts received of \$600, were paid off. The cost of dissolution were \$6,500.

- (a) Name two types of dissolution costs.
 (b) Draw up the Realisation, Capital and Bank accounts.

- (a) Legal fees
Accountants' fees

(b)

Realisation

	\$	\$		\$
Fixtures		124,000	Bank — Fixtures	196,000
Office equipment		66,000	Office equipment	59,000
Inventory		98,500	Inventory	82,200
Trade receivable		24,500	Trade receivable	23,100
Bank — Dissolution expenses		6,500	Trade payable — Discounts received	600
Profit on realization —				
Capital: Bai (2/3)	27,600			
Capital: Ng (1/3)	13,800	41,400		
		360,900		360,900

Capital

	Bai	Ng		Bai	Ng
	\$	\$		\$	\$
Bank—Final settlement	200,600	131,800	Balances b/d	173,000	118,000
			Realisation—Share of profit	27,600	13,800
	200,600	131,800		200,600	131,800

Bank

	\$		\$
Balance b/f	5,000	Trade payable (27,000 – 600)	26,400
Realisation — Fixtures	196,000	Realisation—Dissolution expenses	6,500
Office equipment	59,000	Capital: Bai — Final settlement	200,600
Inventory	82,200	Capital: Ng — Final settlement	131,800
Trade receivable	23,100		
	365,300		365,300

HKCEE (2006, 6)

Ann, Ben and Joe were partners sharing profits and losses in the ratio of 2 : 2 : 3. The balance sheet as at 30 April 2006 was as follows:

	\$	\$	\$
Fixed Assets			
Office equipment			325 000
Furniture			72 900
Motor vehicle			116 800
			<u>514 700</u>
Current Assets			
Stock		126 000	
Debtors		<u>37 000</u>	
		163 000	
Less: Current Liabilities			
Loan – Ann	100 000		
Creditors	<u>86 000</u>		
Bank overdraft	<u>120 400</u>	<u>306 400</u>	
Net current assets			<u>(143 400)</u>
			<u>371 300</u>
Capital Accounts			
Ann			160 000
Ben			95 000
Joe			<u>80 000</u>
			335 000
Current Accounts			
Ann		32 800	
Ben		<u>19 500</u>	
Joe		<u>(16 000)</u>	<u>36 300</u>
			<u>371 300</u>

The liquidity of the partnership worsened during the past two years and so the partners decided to dissolve the partnership on 1 May 2006. The following information was provided:

- The office equipment was sold at a price of 30% below
- Ann took over the motor vehicle to set off her loan to the partnership.
- Most of the furniture was sold at an agreed value of \$35,000. The remaining furniture was donated to a charitable organisation and Ben paid \$200 on behalf of the partnership for transporting the furniture.
- Part of the stock was sold at 90% of its net realizable value of \$100,000. The remaining stock was taken over by Ben at an agreed value of \$9,750.
- A debt of \$2,000 was to be written off and a cash discount of 2% was allowed on the remaining debtors.
- The creditors were settled and a discount of 5% was received on 50% of the creditors.
- Realisation expenses amounted to \$2,100.

You are required to prepare:

- the realization account;

Realisation

	\$		\$	\$
Office equipment	325,000	Bank : Office equipment (325,000 x 70%)		227,500
Furniture	72,900	Loan : Ann: motor vehicle		100,000
Motor vehicle	116,800	Bank : Furniture		35,000
Stock	126,000	Bank : Stock (100,000 x 90%)		90,000
Debtors	37,000	Capital: Ben–Stock		9,750
Capital: Ben–transportation expenses	200	Bank : Debtors [(37,000 – 2,000) x 98%]		34,300
Bank: Realisation expenses	2,100	Creditors: discounts received		
		(86,000 x 50% x 5%)		2,150
		Share of loss:		
		Capital: Ann (2/7)	51,800	
		Capital: Ben (2/7)	51,800	
		Capital: Joe (3/7)	77,700	181,300
	<u>680,000</u>			<u>680,000</u>

13.4 Capital deficiency of an insolvent partner (無償債能力的合夥人的資本虧絀)

When a partner ends up with a debit balance in his capital account, he is said to have a **capital deficiency** (資本虧絀). The following capital account is shown that there is a debit balance in a Martin's capital account on **final settlement** (最終結算). Martin is said has a **capital deficiency** (資本虧絀). This means that Martin **owes** (欠) the partnership money and is required to **settle** (償還) the debt with the partnership. Martin **need to settle** (能償還) the **amount owed** (欠款), the capital account would be shown as below.

Example 2

Capital				Capital			
	Paul	Martin	Raymond		Paul	Martin	Raymond
	\$	\$	\$		\$	\$	\$
Realisation – Inventory	5,160	—	—	Balances b/d	10,000	10,000	10,000
Realisation –Share of loss	8,250	5,500	2,750	Realisation – Commission	—	—	690
Current : Martin	—	9,400	—	Current: Paul	8,400	—	—
Bank–Final settlement	4,990	—	26,140	Raymond	—	—	8,200
				Loan: Raymond	—	—	10,000
				Bank –Final settlement	—	4,900	—
	<u>18,400</u>	<u>14,900</u>	<u>28,890</u>		<u>18,400</u>	<u>14,900</u>	<u>28,890</u>

If the partner is unable to pay (being **insolvent** (無力還債)), his capital deficiency would have to be shared by the **solvent partners** (有償債能力的合夥人承擔). Hence, if Martin is **unable** (無法) to **settle** (償還) the **capital deficiency** (資本虧絀), his capital deficiency would have to be **shared** (分擔) by Paul and Raymond. If an **agreement** (協議) had been drawn up to share the capital deficiency of any insolvent partner in the **existing** (現有) profit and loss sharing ratio (Paul 3 : Martin 2 : Raymond 1). If Martin was **unable** (無法) to pay the final debt balance in the capital account (\$4,900), it would have to be shared by Paul and Raymond in their profit and loss sharing ratio of 3 : 1

Martin's capital deficiency shared by Paul = $\$4,900 \times \frac{3}{4} = \$3,675$

Martin's capital deficiency shared by Raymond = $\$4,900 \times \frac{1}{4} = \$1,225$

The required entries are:

Dr Paul's capital account \$3,675

Cr Martin's capital account \$3,675

Dr Raymond's capital account \$1,225

Cr Martin's capital account \$1,225

The capital accounts would be settled as follows:

Capital				Capital			
	Paul	Martin	Raymond		Paul	Martin	Raymond
	\$	\$	\$		\$	\$	\$
Realisation – Inventory	5,160	—	—	Balances b/d	10,000	10,000	10,000
Realisation –Share of loss	8,250	5,500	2,750	Realisation – Commission	—	—	690
Current : Martin	—	9,400	—	Current: Paul	8,400	—	—
Capital: Martin	3,675	—	1,225	Raymond	—	—	8,200
Bank–Final settlement	1,315	—	24,915	Loan: Raymond	—	—	10,000
				Capital: Paul	—	3,675	—
				Capital: Raymond	—	1,225	—
	<u>18,400</u>	<u>14,900</u>	<u>28,890</u>		<u>18,400</u>	<u>14,900</u>	<u>28,890</u>

Class work 2

1. The following balances were extracted from the books of Yam, Fang and Au as at 31 December 2009:

	\$		\$
Store buildings (net)	1,450,000	Capital: Yam	692,000
Fixtures (net)	179,000	Fang	614,000
Vans (net)	123,700	Au	269,300
Inventory	219,100	Accounts payable	123,900
Accounts receivable	98,000	Loan from Chow	160,000
Cash	7,100	Bank overdraft	217,700

The partners shared profits and losses in the ratio of Yam 5 : Fang 3 : Au 2. The partnership was dissolved on 31 December 2009. Yam took over a van valued at \$57,000 and Fang took another one valued at \$29,000. Au took over part of the inventory for \$110,000. Yam also took over the store buildings for \$1,950,000. The remaining vans were sold for \$28,000, the fixtures for \$160,000 and the remaining inventory for \$88,500. Accounts receivable were settled, less \$1,800 cash discounts. Dissolution expenses of \$6,800 were paid. Accounts payable, net of discounts received \$1,900, were settled. The loan from Chow was also repaid. Any partner with a capital deficiency was required to settle the amount owed.

Draw up the following accounts:

- Realisation account
- Bank account
- Partners' capital accounts

(a)

Realisation

	\$	\$		\$
Store buildings		1,450,000	Capital: Yam (van)	57,000
Fixtures		179,000	Capital: Fang (van)	29,000
Vans		123,700	Capital: Au (inventory)	110,000
Inventory		219,100	Capital: Yam (store buildings)	1,950,000
Accounts receivable		98,000	Bank – Fixtures	160,000
Bank – Dissolution expenses		6,800	Bank – Vans	28,000
Profit on realization –			Bank – Inventory	88,500
Capital: Yam (5/10)	222,000		Bank – Accounts receivable (\$98,000 – \$1,800)	96,200
Capital: Fang (3/10)	133,200		Accounts payable – Discounts received	1,900
Capital: Au (2/10)	88,800	444,000		
		<u>2,520,600</u>		<u>2,520,600</u>

(b)

Bank

	\$		\$
Cash	7,100	Balance b/f	217,700
Realisation – Vans	28,000	Accounts payable (\$123,900 – \$1,900)	122,000
Realisation – Fixtures	160,000	Loan from Chow	160,000
Realisation – Inventory	88,500	Realisation – Dissolution expenses	6,800
Realisation – Accounts receivable	96,200	Capital: Fang (final settlement)	718,200
Capital: Yam (final settlement)	1,093,000	Capital: Au (final settlement)	248,100
	<u>1,472,800</u>		<u>1,472,800</u>

(c)

Capital

	Yam	Fang	Au		Yam	Fang	Au
	\$	\$	\$		\$	\$	\$
Realisation				Balances b/f	692,000	614,000	269,300
– Vans taken over	57,000	29,000	—	Realisation – Share of profit	222,000	133,200	88,800
– Inventory taken over	—	—	110,000	Bank – Final settlement	1,093,000	—	—
– Store buildings taken over	1,950,000	—	—				
Bank – Final settlement	—	718,200	248,100				
	<u>2,007,000</u>	<u>747,200</u>	<u>358,100</u>		<u>2,007,000</u>	<u>747,200</u>	<u>358,100</u>

HKCEE (2006, 6)

Ann, Ben and Joe were partners sharing profits and losses in the ratio of 2 : 2 : 3. The balance sheet as at 30 April 2006 was as follows:

	\$	\$	\$
Fixed Assets			
Office equipment			325 000
Furniture			72 900
Motor vehicle			<u>116 800</u>
			514 700
Current Assets			
Stock		126 000	
Debtors		<u>37 000</u>	
		163 000	
Less: Current Liabilities			
Loan – Ann	100 000		
Creditors	86 000		
Bank overdraft	<u>120 400</u>	<u>306 400</u>	
Net current assets			<u>(143 400)</u>
			<u>371 300</u>
Capital Accounts			
Ann			160 000
Ben			95 000
Joe			<u>80 000</u>
			335 000
Current Accounts			
Ann		32 800	
Ben		19 500	
Joe		<u>(16 000)</u>	<u>36 300</u>
			<u>371 300</u>

The liquidity of the partnership worsened during the past two years and so the partners decided to dissolve the partnership on 1 May 2006. The following information was provided:

- The office equipment was sold at a price of 30% below
- Ann took over the motor vehicle to set off her loan to the partnership.
- Most of the furniture was sold at an agreed value of \$35,000. The remaining furniture was donated to a charitable organisation and Ben paid \$200 on behalf of the partnership for transporting the furniture.
- Part of the stock was sold at 90% of its net realizable value of \$100,000. The remaining stock was taken over by Ben at an agreed value of \$9,750.
- A debt of \$2,000 was to be written off and a cash discount of 2% was allowed on the remaining debtors.
- The creditors were settled and a discount of 5% was received on 50% of the creditors.
- Realisation expenses amounted to \$2,100.
- Joe was unable to meet his liability to the partnership. His deficiency was to be borne by Ann and Ben in their profit and loss sharing ratio.

You are required to prepare:

- the realization account;
- the bank account; and
- the partners' capital accounts in columnar form, showing the final settlement among them.

(a)

Realisation

	\$		\$	\$
Office equipment	325,000	Bank – Office equipment (325,000 x 70%)		227,500
Furniture	72,900	Bank– Furniture		35,000
Motor vehicle	116,800	Bank– Stock (100,000 x 90%)		90,000
Stock	126,000	Bank– Debtors [(37,000 – 2,000) x 98%]		34,300
Debtors	37,000	Loan – Ann: motor vehicle		100,000
Capital: Ben: transportation expenses	200	Capital: Ben–Stock		9,750
Bank–Realisation expenses	2,100	Creditors – discounts received		
		(86,000 x 50% x 5%)		2,150
		Share of loss:		
		Capital: Ann (2/7)	51,800	
		Capital: Ben (2/7)	51,800	
		Capital: Joe (3/7)	77,700	181,300
	<u>680,000</u>			<u>680,000</u>

(b)

Bank

	\$		\$
Realisation–Office equipment	227,500	Balance b/f	120,400
Realisation– Furniture	35,000	Creditors (86,000 – 2,150)	83,850
Realisation– Stock (100,000 x 90%)	90,000	Realisation–Realisation expenses	2,100
Realisation– Debtors [(37,000 – 2,000) x 98%]	34,300	Capital: Ann – Final settlement	134,150
		Capital: Ben – Final settlement	46,300
	<u>386,800</u>		<u>386,800</u>

(c)

Capital

	Ann	Ben	Joe		Ann	Ben	Joe
	\$	\$	\$		\$	\$	\$
Current account: Joe	—	—	16,000	Balances b/d	160,000	95,000	80,000
Realisation–Stock	—	9,750	—	Current account	32,800	19,500	—
Realisation–Share of loss	51,800	51,800	77,700	Realisation: transportation	—	200	—
Capital: Joe	6,850	6,850	—	Capital: Ann	—	—	6,850
Bank – Final settlement	134,150	46,300	—	Capital: Ben	—	—	6,850
	<u>192,800</u>	<u>114,700</u>	<u>93,700</u>		<u>192,800</u>	<u>114,700</u>	<u>93,700</u>