Accounting for liquidation of a partnership

Finance

Accounting for Liquidation of a Partnership Questions a. Gain/ Loss realized on the sale of assets = Sales value-Net Book Value

= 85, 000-106, 000 = -21, 000 (Loss)

Name

Partnership

General Jou+A2: J25rnal

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Date

Account Titles and Explanation

P. R.

Debit

Credit

Asset A/C

GJ

21, 000

Realization A/

GJ

21, 000

Being loss on realization

Sand

1, 200

Mell

11, 700

Rand

15, 100

Loss: Sand

2, 100

Mell

8, 400

Rand

10, 500

Being losses on realization

Assets A/C

106, 000

Realiczation A/C

A/C

85, 000

Loss on realization

21, 000

Being losses on disposal of assets

Liabilities A/c

88, 000

Cash

95, 000

cash balance

7, 000

Being payment of liabilities

b.

Sand-1/10 x 21, 000 = (2, 100)

Mell-4/10 x 21, 000 = (8, 400)

Rand-5/10 x 21, 000= (10, 500)

Hence, balances in the partner’s capital accounts

Sand’s Capital Account

Debit

Loss 2, 100

2, 100

Credit

Balance b/d 1, 200

Balance c/d 900

2, 100

Mell’s Capital Account

Debit

Loss 8, 400

Balance c/d 3, 300

11, 700

Credit

Balance b/d 11, 700

11, 700

Rand’s Capital Account

Debit

Loss 10, 500

Balance c/d 4, 600

15, 100

Credit

Balance b/d 15, 100

15, 100

c.

Items $ $

Cash 10, 000

Other assets 85, 000

Total Assets 95, 000

Less: Total liabilities (88, 000)

Sand (1/10 x 7000) 700

Mell (4/10 x 7000) 2, 800

Rand (5/10 x 7000) 3, 500

Remaining cash after liquidation 7, 000

Liquidation of a partnership may occur if and only if, a partner has died, there is a mutual agreement between partners to end the business, if the partnership was contractual and its objective is met, there exist continued disagreements between the partners, a request by one of the partners for dissolution or bankruptcy due to continuous loss making (Warren, 2011). Prior to the liquidation period, the partnership should ensure that the accounting cycle is complete by preparing the financial statements having adjusted the entries, closing entries, and the post-closing trial balance. Hence, the balance sheet is the document open in the liquidation process (Delaney & Whittington, 2005). Liquidating a partnership necessitates selling noncash assets for cash and recognition of gain or loss on realization, allocation of the gains or losses to the partners based on their profit/loss ratios, cash payment of the liabilities of the partnership and distributing the remaining cash to the partners based on their capital balances. The aforementioned steps of the partnership liquidation process must be executed sequentially (Kimmel, Weygandt & Kieso, 2011). The other options available for partnership include placing the business under receivership where an administrative receiver is appointed to oversee the recovery process of the business in case of a limited liability partnership (Delaney & Whittington, 2005). In addition, the partners may decide to undertake an individual voluntary agreement with the creditors so that the secured creditors can be assured of their security enforcement before their final decision on forcing the partner into bankruptcy (Reeve, Warren & Duchac, 2012).

References

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