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F.Y.B.COM (SEM - I) FINANCIAL ACCOUNT PIECEMEAL DISTRIBUTION OF CASH

CHAPTER-1

Piecemeal Distribution of Cash Among Partners

INTRODUCTION:-

In case of dissolution of partnership firm, if all assets are realized in a single day and settlement of liabilities are done on the same day, and then the process will be very simple and acceptable to all parties concerned. In fact, assets are not realized in a single day but it takes time. For example:-

Collection from debtors in a single day is not possible. Every debtor pays the dues on the terms decided while making sale.

In same way, if we sell the stock, this selling process may take more than one day. Thus, realization of assets is a process spread over a long period.

Now, when assets are realized gradually, the firm has two options:

(1) To distribute amount after final realization. If this is possible, process of distribution of cash becomes quite simple. But it is the experience of the firm that no one is ready to wait till final realization.

(2) Second option is to distribute cash as and when it is realized, which is popularly known as piecemeal distribution of cash. In this case question arises regarding priority of payment to the parties, because in piecemeal distribution, cash available is always insufficient to settle full liabilities.

MEANING:-

When dissolution of any partnership firm, then there is major problem is to collect payments from debtors and realization of any assets as well as payment to creditors. So that, in the solution of this problem is that when any amount comes in at that time that amount distributed between creditor or partner is known as piecemeal distribution of cash.

When there is to distribute this amount to creditor or partner, there is problem that, to whom pay first. So, in following order payment is done:

(1) First of all realization expenses are paid off. If it is said that realization expenses are estimated, then amount equal to estimate is set aside as reserve and that amount is subtracted from the first installment. Any excess of estimated reserve amount over actual realization expenses is added in last installment and if actual expenses are more than reserve kept, the deficiency is deducted from last installment.

(2) Reserve for bill discounted and Contingency reserve is also raised from the first installment. Excess or deficit of Reserve for bill discounted is adjusted in the installment related with the maturity date of bill. Contingency reserve is always adjusted from installment, when contingent liability is paid.

(3) Secured loan and liabilities are paid out of the cash realized by sale of mortgaged asset.

(4) After settling secured liabilities, unsecured liabilities are settled. It includes sundry creditors, Bills payable, Bank overdraft etc. If the amount available is insufficient for settling all liabilities, then available amount is distributed among all parties in ratio of amount of liabilities. (Amt. is distributed proportionately).

(5) Then comes the turn of partners' loan, if there is loan from, more than one partner and amount available is insufficient to settle loan A/c fully, then available amount is distributed in proportion of loan given by them.

(6) After partners' loans are fully paid off, question of redemption of partners' capital arises. If partners' capital is in proportion of their profit sharing ratio, then the process is simple. Distribute the available amount among partners in their profit sharing ratio.

☞ METHODS OF PIECEMEAL DISTRIBUTION OF CASH:-

Most probably the partners' capital may not be in their profit sharing ratio and at that time a question may arise regarding most reasonable and justifiable distribution. For this purpose two methods are available : (1) Surplus Capital Method and (2) Maximum Loss Method.

❖ Surplus Capital Method or Proportionate Capital Method:-

In this method, basic assumption is that all partners' capital should be in their profit sharing proportion and if in comparison with profit sharing ratio, capital of any partner is more, then his surplus capital should be redeemed first. For example, A and B are partners in ratio of 3 : 2 and having capital of Rs. 35,000 and 20,000. Now if we compared it with their profit ratio, A's capital must be Rs. 30,000 because B's capital is Rs. 20,000. So A has contributed Rs. 5,000 more which should be redeemed in top priority.

While calculating capital of all partners adjustment regarding General Reserve, Contingency Reserve, Profit and Loss A/c (Debit or Credit balance) should be done. And balance of capital account after this adjustment should be taken into consideration.

In this method, partners' with absolute surplus capital are paid off first, followed by payment to other partners having surplus capital when all partners' capital is adjusted in accordance with profit sharing ratio, then distribution of amount is made in profit sharing ratio.

The surplus capital is calculated as under :

- (1) Divide adjusted capital of each partner by his profit sharing proportion. The smallest figure should be considered as Base **Capital**.
- (2) By multiplying base capital with each partner's profit sharing ratio, we can get relative capital of each partner.
- (3) Calculate surplus capital by following method :
$$\text{Adjusted capita] - Relative capital of a partner} = \text{Surplus capital}$$
- (4) Divide surplus capital by profit sharing ratio of each partner. The smallest figure should be treated as Revised Base Capital.
- (5) Find out relative capital by multiplication of Revised Base Capital with ptofit sharing ratio.
- (6) Find out absolute surplus capita] by deducting revised based capital from surplus capital.

With the help of following two examples we shall have clear understanding of above process :

Example-1 :A and B are partners in profit sharing ratio of 3:1. Their adjusted

capital is Rs. 15,000 and Rs. 4,000 respectively. Find out surplus capital.

	1	Adjusted capital	15,000	4,000
	2	Profit sharing ratio	3	1
Step-1	3	Base capital	5,000	4,000
Step-2	4	Relative capital	12,000	4,000
Step-3	5	Surplus capital	3,000	

A's Capital is Rs. 6,000 more in comparison with C's Capital.

Example-2 : A, B and C are partners in proportion of 4 : 3 : 2 and their capital is Rs. 50,000, Rs. 30,000 and Rs. 15,000. Determine absolute Surplus Capital.

1	Capital A/C	50,000	30,000	15,000
2	Profit sharing ration	4	3	2
3	Base capital	12,500	10,000	7,500
4	Relative capital	30,000	22,500	15,000
5	Surplus capital	20,000	7,500	
6	Profit sharing ratio	4	3	
7	Revised base capital	5,000	2,500	
8	Revised relative capital	10,000	7,500	
9	Absolute surplus capital	10,000		

❖ Maximum Loss Method

In Maximum Loss Method, it is assumed that the amount of installment which is available for distribution among partners is the last installment and nothing more could be realized further. On this assumption, maximum possible loss is determined as under:

➤ Step one

Maximum Loss. =

Total of capital of all partners - Amt. available for distribution

➤ Second step,

This maximum loss is divided among partners in their profit Sharing ratio.

➤ Third step

From Capital of partner, the amount of maximum loss of his share is deducted and the amount available after this deduction is to be given to the partner from the installment.

We shall understand this method with following example.

A and B are partners sharing profit and loss in ratio of 5 : 2 having capital of Rs. 50,000 and Rs. 15,000 respectively. Amt. of first installment received is Rs. 16,000.

Now the process for distribution of this Rs. 16,000 as per Maximum Loss Method will be as under:

Step - 1 Total Capital of A and B = 50,000 + 15,000 = 65,000.

Step - 2 Determine Maximum Loss= Total Capital - Amt. available
Rs. 65,000 – Rs. 16,000 = 49,000

Step -3 Divide amt. of Maximum Loss to partners in their profit sharing ratio

$$A = 49,000 \times \frac{5}{7} = \text{Rs. } 35,000$$

$$B = 49,000 \times \frac{2}{7} = \text{Rs. } 14,000$$

Step - 4 Now, subtract Maximum Loss from each partners Capital.

$$A \text{ Rs. } 50,000 - 35,000 = \text{Rs. } 15,000 \quad \text{Rs. } 16,000 \text{ distributed}$$

$$B \text{ Rs. } 15,000 - 14,000 = \text{Rs. } 1,000 \text{ among } A \text{ and } B$$

This procedure will be repeated at each installment. Sometimes, it happens that after subtraction of portion of Maximum Loss from partners' capital, the figure shows the debit balance or minus

balance. This debit balance of a partner is transferred to remaining partners in their profit sharing proportion.

For example :

A B C are partners in ratio of 3 : 2 : 1. Following is the position. Amount available is

Rs. 11,000.

	A	B	c
Capital Balance	25,000	17,000	5,000
Maxi. Loss = Total Capital			
- Amt. available 47,000 -			
11,000 = 36,000 distributed			
in 3 : 2 : 1	18,000	12,000	6,000
	7,000	5,000	- 1,000
C's debit balance transferred			
to A and B in ratio 3 : 2	- 600	- 400	1,000
Amount distributed	6,400	4,600	-

EXAMPLE:-

On the basis of Maximum Loss Method, distribute Rs. 20,000 among partners, details of which are as sunder:

Partne	Capital (Rs.)	Proportion
N	42,000	5
R	12,000	4
K	26,000	3

Answer:

Statement showing piecemeal distribution among partners.

Particulars	N (Rs.)	R (Rs.)	K (Rs.)
Cr. balance of capital A/c of partner	42,000	12,000	26,000
Maximum Loss = Total Capital - Amt. of installment = Rs. 80,000 - Rs. 20,000 = Rs. 60,000			
Distributed among partners in their Profit and Loss sharing ratio	-25,000	-20,000	-15,000
R's deficit divided among N and K In ratio 5:3	17,000	-8,000	11,000
	-5,000	8,000	2,000
Amt. of instalment paid to N&K	12,000		8,000
Final Capital deficit	30,000	12,000	18,000

PRECTICAL PROBLEMS:

1, A, B and C are partners sharing profit and loss in proportion of 3:2:1. They decided to close the business from 31-3-06. B/S on that date is as under :

Liabilities	Amt. Rs	Assets	Amt. Rs
Capital A/c :		Building	45,000
A 75,000		Machinery	40,000
B 22,500		Bills Payable	10,000
C 67,500	1,65,000	Dead Stock	5,000
A's Loan	15,000	Debtors	87,500
Creditors	60,000	Stock	45,000
		Cash Balance	2,500
		Bank Balance	5,000
	2,40,000		2,40,000

Gradual realization from assets was as under :

Month	Realization (Rs.)	Expense (Rs.)
April 2006	45,700	700
May 2006	1,10,000	500
June 2006	71,000	500

2, Ram, Shyam and Radha are partners in proportion of 3:2:1. They decided to dissolve the firm. On dissolution date Capital of Ram Rs. 1,00,000

Shyam Rs. 90,000

Radha Rs. 50,000.

Loan: Ram Rs. 30,000

Sundry creditors Rs. 60,000

Gradual realization from assets and dissolution expenses were as under ::

Month	Stock (Rs.)	Furniture (Rs.)	Debtor (Rs.)	Dissolution Exp. (Rs.)
Jan.	30,000	3,000	20,000	5,000
Feb.	35,000	1,000	-	2,000
March	15,000	-	30,000	3,000
April	17,000	13,000	15,000	2,000

Prepare statement showing piecemeal distribution of cash among partners on surplus capital basis.

3. **Riya, Priya and Kriya** are partners sharing profit and loss in proportion of 5 : 4 : 1. Their Balance sheet on the date of dissolution i.e. on 31-12-05 is as under:

Liabilities	Amt. Rs	Assets	Amt. Rs.
Capital: Riya 40,000 Priya 36,000 Kriya 10,000		Assets Cash	1,86,000 20,000
General Reserve	86,000		
Loan: Riya 20,000 Kriya 30,000	20,000		
Creditors	50,000		
Bank O. D.	30,000		
	20,000		
	2,06,000		2,06,000

Assets realized as follows:

- (1) First Installment Rs. 30,000 (Dissolution exp. Rs. 2,000)
- (2) Second Installment Rs. 53,000 (Dissolution exp. Rs. 3,000)
- (3) Third Installment Rs. 10,000 (expense nil)

Bill Receivable of Rs.3, 000 having due date of 15-3-05 is discounted in Bank.

Prepare statement showing piecemeal distribution of cash.

Note : Transaction of Bill discounted is having due date of 31-3-05 while date of dissolution is 31-12-05. So there will be no

4. **X, Y, and Z** are partners of a firm sharing profit and loss in ratio of 3 : 4 : 2. Balance Sheet on that date is as under

Liabilities	Amt. Rs.	Assets	Amt. Rs.
Capital A/c : X 21,000 Y 36,000 Z 20,000		Building Other fixed assets Current assets (except cash)	30,000 50,000 60,000
X's Loan	77,000	Cash	8,000
Bank Loan	8,000	Fictitious Assets	2,000
(Secured against Building)	20,000		
Creditors	45,000		
	1,50,000		1,50,000

It was decided to dissolve the firm. With the details given below, partners on surplus capital basis. Prepare statement of piecemeal distribution of cash among

Inst	Building (Rs.)	Other fixed assets (Rs.)	Curre assets	Dissolutio Exp.
1st	12,000	20% of Book value	21,000	1,000
2nd	12,000	40% of Book value	5,000	2,000
3rd	—	40% of Book value	15,000	1,500
4th	—	40% of Book value	4,000	500

5. **Bhel, puri and Dabeli** are partners in proportion of 3 : 2 : 1. Their position except cash Balance is as under on 31-3-2006:

Particulars	Rs.
Sundry Assets	4,06,000
Loan : Bhel	30,000
Puri	20,000
Creditors	1,60,000
Capital : Bhel	1,40,000
Puri	70,000
Dabeli	14,000

Firm was dissolved on above date and details regarding gradual' realization and liquidation charges are as below :

Particulars	Realization	Expense
1 st Installment	Three times of Cash Balance	Rs. 7,000
2nd Installment	Rs.12,000 less than amount of	Rs. 5,500
3rd Installment	1 st installment	
4th Installment	Twice the second installment 90% of third installment	Rs. 24,900

Prepare statement showing gradual distribution of cash among partners by surplus capital method.

6. Balance Sheet of a firm on 31-3-2009 is as under:

Liabilities	Amt. Rs	Assets	Amt. Rs.
Sundry creditors	37,000	Cash on hand	3,000
Capital A/C:		Debtors	34,000
Om	40,000	Stock	39,000
Vans	30,000	Machinery	51,000
Dev	27,000	Vans's current	4,000
		A/C	3,000
		Dev's current A/C	
	1,34,000		1,34,000

Partners share profit and loss in ratio of 4 : 3 : 3. They have decided to dissolve the firm and to distribute the amount realized from assets at the end of every month.

Realization from assets is as under :

- (1) May 2006 Drs. Rs. 15,000, stock Rs. 20,000 and dissolution exp. Rs. 500
- (2) June 2006 Drs. Rs. 10,000 and stock Rs. 24,000.
- (3) Aug. 2006 some machinery sold for Rs. 18,000 and selling exp. is Rs. 600.
- (4) Sept. 2006 Kunal took away machinery having book value of Rs. 5,000 in Rs.10,000 Remaining machinery was sold in Rs. 30,000
- (5) Partners have decided to keep **minimum cash balance** of Rs. 2,000 for first three months and then minimum cash balance will be reduced to Rs. 1,000.

Prepare statement showing piecemeal distribution of cash on surplus capital basis.

Maximum Loss Method :

7, X, Y and Z are partners sharing profit and loss in proportion of 2 : 1 : 1. Firm was dissolved on 31-3-2006, on that date Balance Sheet was as under :

Liabilities	Amt. Rs.	Assets	Amt. Rs.
Capital :		Sundry Assets	80,000
X	20,000		
Y	20,000		
Z	12,000		
Creditors	28,000		
	80,000		80,000

Gradual realization from assets is Rs. 28,000, Rs. 20,000 and Rs. 20,000.

Prepare statement showing piecemeal distribution of cash on basis of maximum loss method.

8. Desai, Naik and Patel are partners sharing profit and loss in ratio of 4 : 3 : 3. Their Balance sheet on 31-3-2006 is as under :

Liabilities	Amt. Rs.	Assets	Amt. Rs.
Capital:		Fixed Assets	2,25,000
Desai 99,500		Current assets	85,000
Naik 69,000		Cash	15,000
Patel 61,500	2,30,000	P. & L A/c	5,000
Creditors	1,00,000		
	3,30,000		3,30,000

Firm was dissolved on 1-4-2006 and assets realized as follows :

1st installment	Rs. 86,250
2nd installment	Rs. 85,000
3rd installment	Rs. 43,500

Rs. 5,000 is kept as reserve for liquidation charges. Actual liquidation exp. was Rs. 4,000.

Prepare statement of piecemeal distribution of cash (by maximum loss method)

9. P, Q and R are partners sharing Profit and Loss in ratio of 4 : 5 : 1. Their balance sheet on date of dissolution is as under :

Liabilities	Amt. Rs	Assets	Amt. Rs.
Creditors	8,000	Cash on hand	3,000
P's Loan	4,500	Building	30,000
Q's Loan	4,500	Furniture	20,000
Reserve	6,000	Stock	4,000
Contingency Reserve	4,000		
Capital :			
P 15,000			
Q 12,000			
R 3,000			
	30,000		
	57,000		57,000

Realization from assets:

First installment	Rs. 8,000
Second installment	Rs. 20,000
Third installment	Rs. 17,000

Pending contingent liability of Rs. 2,000 was settled in Rs. 700. This payment was done during second installment.

Dissolution expense was estimated Rs. 2,000 while actually incurred was Rs. 1,500.

R took away stock worth Rs. 500 during third installment. Firm has to pay Rs. 600 for

an unaccounted expense.

Prepare statement showing piecemeal distribution of cash among partners on basis of maximum loss method.

10. S, N and K are partners in proportion of 2:2: 1. Their balance sheet on 31-3-2006 is as under :

Liabilities	Amt. Rs.	Assets	Amt. Rs.
Capital A/c :		Fixed Assets	55,000
S 25,000		Current Assets	35,000
N 15,000		including Cash Balance	
K 10,000	50,000	Rs. 15,000)	
General Reserve Bank	10,000	Profit and Loss sA/c	20,000
Loan Creditors	30,000		
	20,000		
	1,10,000		1,10,000

A Bill of exchange for Rs. 5,000 having maturity date of 30-6-2006 was discounted in Bank.

Firm was dissolved on 31-3-2006. Details of gradual Realization of assets and expenses paid are as under :

Date	Amt. Realized	Exp. Rs.
(1)	18,500	500
(2)	30,800	800
(3)	15,600	600
(4)	10,200	200

Dissolution expense incurred was Rs. 3,000 and bill discounted in Bank was honored by acceptor.

Prepare statement showing piecemeal distribution of cash (by Maximum loss method).

11, Meena, Heena and Reena are partners sharing profit and loss in ratio of 2 : 2 : 1. They dissolved the firm on 31-3-2007. Balance sheet as on 31-3-2007 was as under.

Liabilities	Rs.	Assets.	Rs.
Capital :		Fixed Assets	20,000
Meena	12,000	Stock	10,000
Heena	11,000	Furniture	5,000
Reena	4,500	Cash	7,500
Creditors		Profit and Loss A/c	5,000
	20,000		
	47,500		47,500

Bills Receivable of Rs. 2,000, which falls due on 30-6-2007 was endorsed and given to creditors.

Assets receivable as under :			
(1)	30-4-2007	Rs.	6,000
(2)	31-5-2007	Rs.	12,500
(3)	30-6-2007	Rs.	13,000
(4)	31-7-2007	Rs.	2,500

Rs. 1,500 was kept as reserve for dissolution charges. Actual dissolution expenses were of Rs. 1,000. Bill receivable was paid by acceptor on due date.

Prepare statement showing piecemeal distribution of cash on basis of maximum loss method.

12. Lichi, Ruchi and Prachi are partners sharing profits and losses in the ratio of 4 : 3 : 1. Their Balance Sheet as on 31st March, 2008 was as follows :

Balance Sheet			
Liabilities	Rs.	Assets	Rs.
Capital :		Fixed assets	1,00,000
Lichi	70,000	Stock	40,000
Ruchi	30,000	Cash balance	5,000
Prachi	50,000	Debtors	50,000
Creditors	30,000		
Loan from Lichi	10,000		
Loan from Ruchi	5,000		
	1,95,000		1,95,000

Partners decided to dissolved the firm on that date and assets realized gradually as under and it was decided that the cash so realized must be distributed piecemeal as and when received.

Month	Assets realization Rs.	Expenses paid Rs.
May	22,000	2,000
June	16,800	1,800
July	41,000	3,000
August	45,000	5,000
September	67,000	7,000

You are required to prepare a statement showing distribution of cash piecemeal by maximum loss method.

For self study:-

13. Raj, Ravi and Rom are the partners sharing profits and losses in Profit sharing the ratio of 3 : 2 : 1 respectively. The firm was dissolved on 31-3-2008 on that date the balance sheet was as under :

Liabilities	Rs.	Assets	Rs.
Capital accounts :		Fixed assets	55,000
Raj : 36,000		Stock	20,000
Ravi: 16,000		Debtors	14,500
Rom: 18,000	70,000	Cash	5,500
Loan A/c. of Ravi	5,000		
Creditors	20,000		
	95,000		95,000

The assets were realized in installments and the payments were made on the proportionate capital basis. Rs. 2,500 was set aside as a reserve for dissolution expense, while actual dissolution expense amounted to Rs. 2,000 paid on 30-6-2008.

Realizations of assets are as under:

(1)Dt. 12-4-2008	Rs. 12,000
(2)Dt. 16-5-2008	Rs. 25,000
(3)Dt. 30-6-2008	Rs. 36,500

Prepare a statement showing piecemeal distribution of cash as per Surplus Capital Method.

14. Shah, Desai and Soni are partners in proportion of 2 : 2 : 1. Their Balance sheet as on 31-3-2006 is as under :

Liabilities	Amt. Rs.	Assets	Amt. Rs.
Capital A/c :		Machinery	60,000
Shah 28,000		Stock	35,000
Desai 28,000		Cash	15,000
Soni 11,000	67,000	Profit and Loss A/c	10,000
Reserve	15,000		
Shah's loan	8,000		
Creditors	30,000		
	1,20,000		1,20,000

On 1-4-2006, firm was dissolved and Rs. 3,000 was kept as reserve amount for dissolution expenses. Amount Realized 'was as under:

1st installment	Rs. 18,000
2nd installment	Rs. 40,000
3rd installment	Rs. 29,000

Actual expense for dissolution was Rs. 2,000.

Prepare statement showing piecemeal distribution of cash on basis of surplus capital method.

15. **Raju, Tiku and Anju** were partners sharing profits and losses in the ratio of 2 : 2 : 1. On 31-3-2007, they agreed to dissolve the firm.

The Balance Sheet of the firm on that on that date was as under :

Liabilities	Rs.	Assets.	Rs.
Capital Accounts :		Land and Building	1,20,000
Raju		Machinery	40,000
Tiku		Stock	37,000
Aniu	1,40,000	Debtors	44,500
General Reserve	15,000	Cash on hand	6,500
Bank Loan	40,500	Profit and Loss A/c	20,000
Tiku's Loan	24,500		
Creditors	48,000		
	2,68,000		2,68,000

Land and Building is hypothecated with bank for Loan. The assets were realized as under :

Rs.

First Installment (Dt. 30-4-2007) 65,000
 Second Installment (Dt. 31-5-2007) 36,000
 Third Installment (Dt. 30-6-2007) 38,000
 Fourth Installment (Dt. 31-7-2007) 45,800

An amount of Rs. 15,000 was kept aside for the dissolution expenses, but the actual expenses were Rs. 12,000 Prepare a statement showing piecemeal distribution of cash per "Maximum loss method".

16. **Pransu, Priyanshu and Prince** are partners of a firm sharing profit and loss in the ratio of 4 : 3 : 3. Their firm was dissolved on 31-12-2007. The Balance Sheet of the firm as on that date was as under :

Liabilities	Rs.	Assets	Rs.
Capital accounts :		Fixed assets	86,000
Pransu: 38,000		Current assets	58,000
Priyanshu: 32,300		Cash	6,000
Prince : 19,700	90,000		
Bank overdraft	40,000		
Creditors	20,000		
	1,50,000		1,50,000

Receipts from assets are as under:

On 20-1-2008..... Rs. 48,000
 On 20-2-2008..... Rs. 28,000
 On 20-3-2008..... Rs. 32,000

Show the distribution of cash as per Maximum Loss Method.

17. Suresh, Paresh and Dinesh are partners sharing profit and loss in ratio of 9 : 7 : 4. They have decided to dissolve the firm from 1-1-'06. Balance sheet as on 1-1-'06 is as under :

Liabilities	Amt. Rs		Amt. Rs.
Capital :		cash	16,000
Suresh 1,81,200		Building	2,38,000
Paresh 1,31,600		Furniture	70,000
Dinesh 67,200	3,80,000	Stock	90,000
	64,000		
Can. Reserve		Debtors	1,24,000
Creditors	30,000	Bills Rece.	10,000
Bank Overdraft	40,000		
Paresh's Loan	34,000		
	<u>5,48,000</u>		<u>5,48,000</u>

Bill Recc. was collected through Bank on due date i.e.15-2-06 Other assets Realized are as under.

Prepare statement showing piecemeal distribution of cash among partners.

