

Dissolution of Partnership

Dissolution of Partnership: Dissolution of Partnership refers to terminal of old partnership agreement (i.e., Partnership Deep) and a reconstruction the firm.

It may take place on

- Change in profit sharing ratio among the existing partner:
- Admission of a partner; and
- Retirement of Death of partner.

It may or may not result into closing down of the business as the remount partners may decide to carry on the business under a new agreement.

Types of dissolution of firms: A Partnership firm can be dissolved in any the following ways:

(A) Without the intervention of the court:

(1) When all partners agree to dissolve the firm (Sec. 40);

(2) Compulsory Dissolution (Sec. 41)

- (i)** When all or except but one partner of the firm become insolvent
- (ii)** When business of the firm become unlawful.

(3) On the happening of any of the following events: (Sec. 42)

- (i)** On the insolvency of a partner.
- (ii)** On the fulfillment of the objective of the firm for which the for was formed.
- (iii)** On the expiry of the (period) for which the firm was formed.

(4) By Notice (Sec. 43): When the duration of the partnership firm is a fixed and it is at will of the partners. Any partner by giving notice other partners can dissolve the firm.

(B) Dissolution by order of the court (Sec. 44): A court on application by a partner may order the dissolution of the firm under the following circumstances:

- When a partner has become of unsound mind.
- When a partner has become permanently incapable of performing his duties as a partner.
- When a partner is found quality of misconduct that may harm the partnership.
- When a partner consistently and deliberately commits breach of partnership agreement.
- When a partner transfer whole of is interest in the business firm to a third party, without the consent of existing partners.
- When the court is satisfied that the partnership firm cannot be carried on except at a loss.
- When the court finds that the dissolution of firm is justified and equitable.

ACCOUNTING TREATMENT OF DISSOLUTION

On dissolution of a firm, the following accounts are opened to close the books of the firm.

- Realisation Account;
- Partner's Loan Account;
- Partner's Capital Accounts; and
- Cash or Bank Account.