



Q3. On dissolution, how will you deal with partner's loan if it appears on the

- a. Assets side of the Balance Sheet
- b. Liabilities side of the Balance Sheet

Solution:

a. If a partner's loan appears on the assets side of the balance sheet, then it means that a partner has taken a loan from the firm and is liable to repay the amount to the firm. In such a situation, the loan amount is transferred to his/her capital account. Thus, the accounting entry will be

Partner's Capital A/c	Dr.
To Partner's Loan A/c	
(Being partner's loan transferred to partner's Capital A/c)	

b. If a partner's loan appears on the liabilities side of the balance sheet, then it means that the partner has lent a loan to the firm and the firm is liable to pay back the amount to the partner. In such a situation, the partner's loan is paid off after paying all the external liabilities of the firm. The partner's loan will be paid in cash and the following accounting entry will be passed:

Partner's Loan A/c	Dr.
To Cash/Bank A/c	
(Being partner's loan paid in cash)	

***** END *****