



Q5. State the order of settlement of accounts on dissolution.

Solution: According to Section 48 of the Partnership Act, 1932, following are the rules of the settlement of accounts on dissolution:

1. Application of Assets: Proceeds received from the sale (realisation) of the assets shall be applied in the following order:

- a. First, all external liabilities and expenses are to be paid.
- b. Second, all loans and advances lent by partners to the firm should be paid.
- c. Lastly, the capital of each partner should be paid off.

If any surplus remains after the payment of (a), (b) and (c), then it should be distributed among the partners in their profit-sharing ratio.

2. Treatment of Loss: In case of any loss and deficiency, the treatment for the same should be made in the following order:

- a. First, it should be adjusted against the firm's profits.
- b. Then, it should be adjusted against total capital of the firm.
- c. If any loss and deficiencies still exist, then it should be borne by all the partners individually in their profit-sharing ratio.

***** END *****