Sem. I

Financial & cost Accounting

①

Piecemeal Distribution of Cash

1 Gradual Realisation of Assets and piecemeal distribution of cash

In practice when firm dissolves to get the optimum piece the assets are realised gradually and not on the very date of dissolution and for advertisements are given in media many round of auction take place whenever cash realises this can not be kept in hand until last assets gets sold, but immediately after the realisation the rightful claimants are paid equitably without any injustice to any body that means the creditors etc. can not be paid out in stroke but are paid as cash becomes available and hence as the receipts and payment of cash in some what in instalments, it is called as gradual realisation of assets and piecemeal distribution of cash.

As provided in Indian Partnership Act, being this is dissolution, the payment are made first of all for this purpose the partnership act has laid down the priority of payment procedure

2 Priority of payment

1) Realisation expenses – Actual or estimated
2) outside Liabilities
3) Preferential creditors – It includes Government dues (like GST Income tax octroi, etc) employees due (upto certain limit)
4) ... creditors — upto the amount realised ... which creditors

c) Provision for contingent liability

d) Unsecured creditors — It includes all remaining liabilities e.g. sundry creditors or Trade creditors Bills payable outstanding liabilities e.g. sundry expenses 'loan from wife Unsecured bank loan or overdraft etc' (to be paid proportionately)

3) Partner's loan — to be paid proportionetly

4) Partners capital — The order of payament may be made by any one of the following method

a) Surplus capital method

b) Maximum loss method

A) Surplus Capital Method — It is also called proportionate or higher Relative capital method or Excess capital method.

According to this method the capital of each partner is comparing with that of other according to the profit sharing ratio. The partner whose capital found in excess is to be paid first. so as to bring capital of all the partners to their profit sharing ratio

To find out the surplus capital the following steps should be followed.

1) Step-1 — Calculated adjusted capital of all the partners (by transferring accumulated reserve, profit loss current account balance

2) Step-2 — Divide the actual capital of the partners by their profit sharing ratio respectively and treat the smallest quotient as bas

3) Step-3 — Calculate the proportionate capital by multiplying the base capital and profit sharing ratio.

4) Step-4 — Calculate the surplus capital by deducting proportionate capital (as per 3) from the actual capital (as per step-1)

5) Step-5 —— The above procedure is repeated it will get "Absolute surplus".

B- Maximum loss Method :

Under this method instead of calculating partner's surplus capital after payament of all liabilities including partner's loan when cash is available. It is assumed that is the last realisation and if it's so partners will receive this cash only and whatever they don't receive is their loss. hence before distributing of cash the partners expected loss at this moment is calculated by deducting this available cash from the total of all partners capital and this loss is called as maximum loss and is distributed among all partners will be equal to available cash and hence the cash is paid to partners if again any asset realises then again the maximum loss is calculated and distributed and so on. If after a deduction of maximum loss any partners capital accounts shows debit balance he is treated as an insolvent and his debit balance is distributed among remaining partners in the ratio of capital just before distributing following Garner Vs Murray Rule. In short the step under this method are as follows.

1) payment all liabilities equitably as usual.

2. Take the total of all partners capital
3) Deduct there from the cash balance available. The resultant figure is called Maximum loss
4) Distribute the maximum loss among all partners in their profit sharing ratio.
5) Deduct the share of maximum loss from each partner's capital
6) If anybody capital after deducting maximum loss shows a debit balance transfer this to other partners in their capital ratio following Garner VS Murray Rule.
7) The Total of the amount remaining after the deduction of maximum loss is equal to the available cash pay out the cash to all partners
8) Then deduct this cash from the capital outstanding to get the remaining outstanding capital
9) If again cash becomes available follow the above steps again and carry the procedure at the time of availability of each instalments of cash.