

**CBSE Test Paper 04**  
**Ch-6 Dissolution of Partnership**

---

1. If a partner agreed to pay the unrecorded liability then \_\_\_\_\_
  - a. Realisation account is credited and concerned partner's account debited
  - b. Only Realisation account is credited
  - c. Realisation account is debited and concerned partner's capital account is credited.
  - d. Concerned partner's account is debited
2. If a partner takeover an assets such partner s account is \_\_\_\_
  - a. Credited
  - b. No Effect
  - c. Both debit and credit
  - d. Debited
3. In which circumstances partners' can dissolve the firm without interference of the court?
  - a. When business of the firm cannot be carried on except at a loss
  - b. Mutual Agreement
  - c. When a partner has become of unsound mind
  - d. When a partner is found guilty of breach of contract frequently
4. Proportionate Capital Method is otherwise called:
  - a. Relative capital Method
  - b. None of these
  - c. Maximum loss method
  - d. Balance method
5. Nilay and Poppy were partners sharing profits equally. Their firm was dissolved. Nilay agreed to take over 50% of the stock at 10% less on its book value and the remaining stock was sold at a gain of 15%. Balance sheet show stock amounted ` 35000. By what amount Bank A/c (stock realised) should be shown on credit side of realization account?
  - a. ₹20000
  - b. ₹17750
  - c. ₹15500
  - d. ₹20125

- 
6. Given any one difference between the dissolution of partnership and dissolution of a partnership firm.
  7. Distinguish between Dissolution of Partnership and Dissolution of partnership firm.
  8. What is meant by the dissolution of a firm?
  9. Identify a situation for compulsory dissolution of a partnership firm.
  10. Name the liability which is not shown in the balance sheet, but paid at the time of dissolution of the firm.
  11. Record necessary journal entries in the following cases:
    - a. Creditors worth Rs 85,000 accepted Rs 40,000 as cash and Investment worth Rs 43,000, in full settlement of their claim.
    - b. Creditors were Rs 16,000. They accepted Machinery valued at Rs 18,000 in settlement of their claim.
    - c. Creditors were Rs 90,000. They accepted Buildings valued Rs 1,20,000 and paid cash to the firm Rs 30,000.
  12. Pass the necessary journal entries for the following transactions on the dissolution of the firm of Sudha and Shiva after the various assets (other than cash) and outside liabilities have been transferred to Realisation Account:
    - i. Sudha agreed to pay off her husband's loan Rs. 19,000.
    - ii. A debtor whose debt of Rs. 9,000 was written off in the books paid Rs. 7,500 in full settlement.
    - iii. Shiva took over all investments at Rs. 13,300.
    - iv. Sundry creditors Rs. 10,000 were paid at 9% discount.
    - v. Realisation expenses Rs. 3,400 were paid by Sudha for which she was allowed Rs. 3,000.
    - vi. Loss on realisation Rs. 9,400 was divided between Sudha and Shiva in 3: 2 ratio.
  13. State the accounting treatment for:
    - i. Unrecorded assets
    - ii. Unrecorded liabilities

14. Following is the Balance sheet of Karan and Sandeep who share profits and losses equally as on 31st March 2010

Liabilities	Rs	Assets	Rs
Capitals		Bank	40,000
Karan	1,00,000	Debtors	25,000
Sandeep	50,000	Stock	35,000
Creditors	30,000	Machinery	60,000
Workmen compensation fund	15,000	Furniture	40,000
Bank loan	5000	.	...
.	2,00,000	.	2,00,000

The firm was dissolved on the above date.

- Karan agreed to take over 50% of the stock at 10% less on its book value, the remaining stock was sold at a gain of 15%. Furniture and machinery realized for Rs 30,000 and 50,000 respectively.
  - There was unrecorded Investments which was sold for Rs 25,000.
  - Debtors realized Rs 31,500 (with interest) and Rs 1200 was recovered for bad debts written off last year.
  - There was an outstanding bill for repairs which had to be paid Rs 2000.
- Prepare necessary Ledger accounts to close the books of the firm.
15. Surjit and Rahi were sharing profits (losses) in the ratio of 3:2, their Balance Sheet as on March 31, 2017 is as follows:

**Balance Sheet of Surjit and Rahi as on March 31, 2017**

Liabilities	Amount Rs	Assets	Amount Rs
Creditors	38,000	Bank	11,500
Mrs. Surjit loan	10,000	Stock	6,000

Reserve	15,000	Debtors	19,000
Rahi's loan	5,000	Furniture	4,000
Capital's:		Plant	28,000
Surjit	10,000	Investment	10,000
Rahi	8,000	Profit and Loss	7,500
	86,000		86,000

The firm was dissolved on March 31, 2017 on the following terms:

- i. Surjit agreed to take the investments at Rs 8,000 and to pay Mrs. Surjit's loan.
- ii. Other assets were realised as follows:

Stock	Rs 5,000
Debtors	Rs 18,500
Furniture	Rs 4,500
Plant	Rs 25,000

- iii. Expenses on Realisation amounted to Rs 1,600.
- iv. Creditors agreed to accept Rs 37,000 as a final settlement.

You are required to prepare Realisation Account, Partners' Capital Account and Bank Account.

---

**CBSE Test Paper 04**  
**Ch-6 Dissolution of Partnership**

---

**Answer**

1. c. Realisation account is debited and concerned partner's capital account is credited.  
**Explanation:** When a partner agreed to pay any unrecorded liability since payment has to be made it is recorded on the debit side because of nominal nature of realisation account and partner's liability on the business is increased so partners capital is credited.
2. d. Debited, **Explanation:** Any asset taken over by the partner at the time of dissolution of a partnership firm, will be recorded in the debit side of his capital account as it reduces the capital of partner.
3. b. Mutual Agreement, **Explanation:** when all the partners agree to close down the business, partners can dissolve the firm without interference of the court that is mutual agreement.
4. a. Relative capital Method, **Explanation:** Relative capital Method
5. d. ₹20125, **Explanation:** Actual stock transferred to the debit side of realization account ₹35,000.

Stock taken over by partner  $50\%$  of  $35,000 = 17,500 - 10\% = 15,750$

Remaining stock  $= 35,000 - 17,500 = 17,500$

Realised value of stock  $= 17,500 + 15\% = 20,125$

6. Dissolution of firm means dissolution of partnership between all the partners in the firm and business is closed down. So books of accounts are also closed as economic relationship between the partners comes to an end . Dissolution of partnership means change in the present agreement and business will be continued by the remaining partners. So books of accounts are not closed as economic relationship between the partners continues.

7.

<b>Dissolution of Partnership</b>	
-----------------------------------	--

	<b>Dissolution of partnership firm</b>
a) The Partnership is dissolved but the business continue. The Business is not terminated	a) The firm winds up the business.
b) Assets and liabilities are revalued through revaluation account and the Balance sheet is prepared	b) Assets are sold and the liabilities are paid off through Realisation account.
c) The Books of accounts are not closed as the business is not terminated.	d) The Books of accounts are closed
d) Dissolution of partnership is voluntary in nature	d) Dissolution of partnership firm may be voluntary or compulsory.
e) The economic relationship between partners continues to exist but in changed form.	e) The economic relationship between partners ceases to exist.

8. Dissolution of a firm means the dissolution of partnership among all the partners of the firm along with the termination of the firm's business and settlements of all its liabilities as well as settle all its internal accounts .
9. A firm is compulsorily dissolved on the insolvency of all the partners or all the partners except one partner.
10. The liability, which does not appear in the balance sheet is called as the unrecorded liability and not to be transferred to the credit side of the realisation account. However, it has to be paid off.

# 11. JOURNAL

<b>Date</b>	<b>Particulars</b>		<b>L.F.</b>	<b>Amount Rs</b>	<b>Amount Rs</b>
(a)	Realisation A/c	Dr.		40,000	
	To Cash A/c				40,000

	(Creditors worth Rs 85,000 accepted 40,000 as cash and investment worth Rs 43,000 in their full settlement)				
(b)	No Entry*				
	(Creditors Rs 16,000 accepted Machinery Rs 18,000 in the full settlement )				
(c)	Cash A/c	Dr.		30,000	
	To Realisation A/c				30,000
	(Creditors worth Rs 90,000 accepted buildings worth Rs 1,20,000 and returned Rs 30,000 as cash after settlement of claim to the firm)				

Note : \*When an asset is transferred in settlement of outside liability, No entry is required since both asset and liability are already transferred to the Realisation Account. So in first case transfer of machinery and investment are not journalised.

12.

## JOURNAL

Date	Particulars		L.F.	Amount Rs.	Amount Rs.
	Realisation A/c	Dr.		19,000	
	To Sudha's Capital A/c (Being Sudha's husband's loan taken over by Sudha transferred to her capital account )				19,000
	Bank A/c	Dr.		7,500	
	To Realisation A/c (Being debtors Rs. 9,000 was written off in the books paid Rs. 7,500 in full settlement)				7,500
	Shiva's Capital A/c	Dr.		13,300	
	To Realisation A/c				

	(Being investments were taken over by Shiva transferred to his capital account)				13,300
	Realisation A/c ( working note no 1 )	Dr.		9,100	
	To Bank A/c (Being creditors settled)				9,100
	Realisation A/c	Dr.		3,000	
	To Sudha's Capital A/c (Being realisation expenses borne by Sudha transferred to her capital a/c )				3,000
	Sudha's Capital A/c(9,400 x 3/5)	Dr.		5,640	
	Shiva's Capital A/c(9,400 x 2/5)	Dr.		3,760	
	To Realisation A/c (Being loss on realisation transferred to partners' capital A/c's)				9,400

Working note :

1. Total creditors = 10,000

total discount = 9 %

total amount paid to creditors = 10,000 - (9/100 x 10,000) 900 = 9100

13. i. **Accounting Treatment for Unrecorded Assets:** Unrecorded asset is an asset, which have not been shown in the books of account or which has been written off in the books of accounts, but the asset is still available in physical condition. Sometimes it is sold outside for cash and sometimes it is taken away by the partner.
- The accounting treatment for unrecorded asset will be there according to the situation.

a. **When the unrecorded asset is sold for cash:**

Cash A/c	Dr.



To Realisation A/c	
(Unrecorded assets sold for cash)	

**b. When the unrecorded assets is taken over by any partner:**

Partner's Capital A/c	Dr.
To Realisation A/c	
(Unrecorded asset taken over by the partner)	

**c. When the unrecorded asset is taken by creditors in part or full settlement of claims.** There may be three situations:

When the unrecorded asset is taken by creditors in full settlement of their claims	No entry will be passed
When the unrecorded asset is taken by creditors in the part settlement of their claims	Journal entry for the remaining part to be paid to the creditors: Realisation A/c Dr. To Cash A/c
When the unrecorded asset is valued by creditors as more than their claims	For the amount refunded by creditors, the journal entry will be: Cash A/c Dr. To Realisation A/c

**ii Accounting Treatment for Unrecorded Liabilities:** Unrecorded liabilities are those liabilities, which have not been shown in the books of account. But at the time of dissolution they are required to be paid off. The following Journal Entry will be there as per situation.

**a. When the unrecorded liability is paid off the following Journal Entry will be there**

Realisation A/c	Dr.
To Cash A/c	
(Unrecorded liability paid in cash)	

**b. When the unrecorded liability is taken over by a partner. The following Journal**

Entry will be there

Realisation A/c	Dr.
To Partner's Capital A/c	
(Unrecorded liability taken over by the partner)	

c. When the unrecorded liability is settled by unrecorded asset. There may be three situations:

When the unrecorded liability is settled by unrecorded asset in full settlement	No entry will be passed
When the unrecorded liability is settled by unrecorded asset in the part settlement of the claim	Journal entry for the remaining part to be paid for the liability: Realisation A/c Dr. To Cash A/c
When the unrecorded liability is settled by unrecorded asset but the unrecorded asset is valued as more than the claims	For the amount refunded by creditors, the journal entry will be: Cash A/c Dr. To Realisation A/c

#### 14. Realisation account

Dr.

Cr.

Particulars	Rs	Particulars	Rs
<u>To Sundry assets A/c</u>			
Debtors- 25000		By Creditors	30,000
Stock- 35,000		By Bank loan	5,000
Furniture- 40,000		Karan's Capital a/c (Stock	15,750

		taken)	
Machinery- 60,000	1,60,000	<u>Bank a/c (Assets REalized)</u>	
To Bank a/c (outstanding repair bill)	2,000	Stock 20125	
<u>To Bank A/c (Liabilities paid)</u>	...	Furniture 0,000	
Creditors 30,000		Machinery 50,000	
Bank loan <u>5,000</u>	35,000	.Investment 25,000	
		Debtors 31,500	
To Realization profit transferred to Capital A?c		Bad debts recovered <u>1,200</u>	1,57,825
Karan: 5,787.5			
Sandeep: <u>5,787.5</u>	11,575	.	
	2,08,575		2,08,575

### Partners Capital accounts

Particular	Karan	Sandeep	Particulars	Karan	Sandeep
Realisation a/c(stock)	15,750		Balance b/d	1,00,000	50,000
	...		Workmen's compensation fund	7,500	7,500
Bank account	97,537.5	63,287.5	Realisation a/c	5,787.5	5,787.5
	1,13,287.5	63,287.5		1,13,287.5	63,287.5

### Bank account

Particulars	Amount	Particular	Amount
Balance b/d	40,000	Realisation a/c (repair bill, creditors and bank loan)	37,000
Realisation a/c( stock)	20,125	Karan's capital	97,537.5
Realisation a/c(Machinery & furniture)	80,000	Sandeep's capital	63,287.5
Realisation a/c(Debtors)	32,700		...
Bank(Investments)	25,000		...
	1,97,825		1,97,825

15.

**Books of Surjit and Rahi**  
**Realisation Account**

Dr.					Cr.
Particulars		Amount Rs	Particulars		Amount Rs
Stock		6,000	Creditors		38,000
Debtors		19,000	Mrs. Surjit's Loan		10,000
Furniture		4,000	Surjit's Capital A/c (Investment)		8,000
Plant		28,000	Bank:		
Investment		10,000	Stock	5,000	
Surjit's Capital A/c		10,000	Debtors	18,500	
(Mrs. Surjit's Loan)			Furniture	4,500	
Bank:			Plants	25,000	53,000
Expenses	1,600		Loss transferred to:		

Creditors	37,000	38,600	Surjit's Capital A/c	3,960	
			Rahi's Capital A/c	2,640	6,600
		1,15,600			1,15,600

### Partners' Capital Account

Dr.					Cr.
Particulars	Surjit	Rahi	Particulars	Surjit	Rahi
Realisation (Investment)	8,000		Balance b/d	10,000	8,000
Realisation (Loss)	3,960	2,640	Realisation (Mrs. Surjit Loan)	10,000	
Profit and Loss	4,500	3,000	Reserve	9,000	6,000
Bank	12,540	8,360			
	29,000	14,000		29,000	14,000

### Rahi's Loan Account

Dr.			Cr.
Particulars	Amount Rs	Particulars	Amount Rs
Bank	5,000	Balance b/d	5,000
	5,000		5,000

### Bank Account

Dr.			Cr.
Particulars	Amount Rs	Particulars	Amount Rs
Balance b/d	11,500	Realisation (Creditors and	38,600

		Expenses)	
Realisation A/c (Assets realised)	53,000	Rahi's Loan	5,000
		Surjit's Capital A/c	12,540
		Rahi's Capital A/c	8,360
	64,500		64,500

Working note 1

Loss on Realisation =6600

Loss transferred to surjit's capital account=  $6600 \times \frac{3}{5} = 3960$

Loss transferred to Rahi's capital account =  $6600 \times \frac{2}{5} = 2460$

Working note:2

Profit for the year = 7500

Profit transferred to surjit's capital account =  $7500 \times \frac{3}{5} = 4500$

Profit transferred to Rahi's capital account =  $7500 \times \frac{2}{5} = 3000$

Working note:3

Reserve =15000

Share of surjit  $15000 \times \frac{3}{5} = 9000$

Share of rahi  $15000 \times \frac{2}{5} = 6000$