

CBSE Test Paper 05
Ch-6 Dissolution of Partnership

1. Partners' Capital Account is which type of account
 - a. Real Account
 - b. Nominal Account
 - c. Personal Account
 - d. Both Personal Account and Nominal Account
2. When assets are transferred to Relisation account they are transferred at _____ amount, _____ against the assets is transferred separately
 - a. Gross, provision
 - b. Net, Investment
 - c. Net, Provision
 - d. Gross, liabilities
3. Anil and Baman were partners sharing profits and losses equally. The firm dissolved on 15 march 2012, which resulted a loss of ₹30000. On that date, capital account of Anil showed a credit balance of ₹20000. Transfer of loss to capital account of Anil will be
 - a. ₹20000
 - b. ₹15000
 - c. ₹2000
 - d. ₹3000
4. Unrecorded Asset taken over by the partner will not be shown in:
 - a. Both B and Realisation A/c
 - b. Partners Capital A/c
 - c. Realisation A/c
 - d. Cash A/c
5. How goodwill account appear in the Balance sheet be treated in case of dissolution of firm
 - a. Transferred to capital account at market value
 - b. Transferred to realization account at market value
 - c. Transferred to realization account at book value
 - d. Transferred to capital account at book value

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6. Name the asset that is not transferred to the debit side of realisation account, but brings certain amount of cash against its disposal at the time of dissolution of the firm.
 7. A and B are partners in a firm sharing profits in the ratio of 3 : 2. Mrs A has given a loan of Rs. 20,000 to the firm and the firm also obtained a loan of Rs. 10,000 from B. The firm was dissolved and its assets were realised for Rs. 25,000. State the order of payment of Mrs A's loan and B's loan with reason, if there were no creditor of the firm.
 8. When a liability is to be discharged by a partner, why is his capital account credited?
 9. Distinguish between 'dissolution of partnership' and 'dissolution of partnership firm' on the basis of 'economic relationship'.
 10. In case of dissolution of a firm, which liabilities are to be paid first?
 11. Pass Journal entries for the following:
 - i. Realisation expenses amounted to Rs. 10,000 were paid by the firm on behalf of Alok, a partner, with whom it was agreed at Rs. 7,500.
 - ii. Realisation expenses amounted to Rs. 5,000. It was agreed that the firm will pay Rs. 2,000 and balance by Ravinder, a partner.
 - iii. Dissolution expenses amounted to Rs. 10,000 were paid by Amit, a partner, on behalf of the firm.
 12. The book value of assets (other than cash and bank) transferred to Realisation Account is Rs 1,00,000. 50% of the assets are taken over by a partner Atul, at a discount of 20%; 40% of the remaining assets are sold at a profit of 30% on cost; 5% of the balance being obsolete, realised nothing and remaining assets are handed over to a Creditor, in full settlement of his claim.

You are required to record the journal entries for Realisation of assets.
 13. Ram and Shyam were partners in a firm sharing profits in the ratio of 2 : 3 respectively. They become old and no one was there to look after their business. Therefore, they decided to dissolve the business and donate the amount available to an NGO who are providing service for growing trees in urban areas to control

pollution. On 31st January, 2014, their balance sheet was as follows

Balance Sheet
as at 31st January, 2014

Liabilities		Amt (Rs.)	Assets	Amt (Rs.)
Creditors		65,000	Land	1,20,000
Bills Payable		35,000	Machinery	65,000
Capital A/ cs			Goodwill	10,000
Ram	75,000		Stock	25,000
Shyam	<u>75,000</u>	1,50,000	Debtors	20,000
			Cash	10,000
		<u>2,50,000</u>		<u>2,50,000</u>

Ram paid the creditors at a discount of 15% and Shyam paid bills payable in full. Assets realised as follows: Land at 20% less; machinery at Rs. 35,000; stock at 25% less and debtors at Rs. 12,500. Expenses on realisation Rs. 1,750 were paid by Shyam. Prepare realisation account, partner's capital accounts and bank account. Also, identify any one value which the partners communicated to the society.

14. Sanjay, Tarun, and Vineet shared profit in the ratio of 3: 2: 1. On December 31, 2012, their balance sheet was as follows :

Balance Sheet of Sanjay, Tarun, and Vineet
as at December 31, 2012

Liabilities		Amt(Rs)	Assets	Amt(Rs)
Capital:			Plant	90,000
Sanjay	1,00,000		Debtors	60,000
Tarun	1,00,000		Furniture	32,000
Vineet	<u>70,000</u>	2,70,000	Stock	60,000

Creditors		80,000	Investments	70,000
Bills Payable		30,000	Bills Receivable	36,000
			Cash in Hand	32,000
		3,80,000		3,80,000

On this date, the firm was dissolved. Sanjay was appointed to realise the assets. Sanjay was to receive 6% commission on the sale of assets (except cash) and was to bear all expenses of realisation.

Sanjay realised the assets as follows:

Plant Rs 72,000, Debtors Rs. 54,000, Furniture Rs. 18,000, Stock 90% on the book value. Investments Rs. 76,000 and Bills receivable Rs. 31,000. Expenses on realisation amounted to Rs. 4,500.

Prepare realisation account, capital account, and cash account.

15. Following is the balance sheet of Vinit and Yogesh as on 31st March, 2015.

Balance Sheet
as at 31st March, 2015

Liabilities		Amt (Amt)	Assets		Amt (Amt)
Creditors		3,60,000	Bank		80,000
Mrs. Vinit's Loan		60,000	Stock		70,000
Yogesh's Loan		1,00,000	Investments		1,00,000
Investment Fluctuation Fund		30,000	Debtors	2,00,000	
Capital A/cs			(-) Provision for Bad Debts	<u>(20,000)</u>	1,80,000
Vinit	2,00,000		Fixed Assets		3,80,000
Yogesh	1,00,000	3,00,000	Profit and Loss A/c		40,000
		<u>8,50,000</u>			<u>8,50,000</u>

The firm was dissolved on 31st March, 2015. The assets were realised and the liabilities were paid as under

- i. Vinit promised to pay off Mrs Vinit's loan and took away stock at 20% discount.
- ii. Yogesh took away 90% of the investments at 10% discount.
- iii. Sunil, a debtor of Rs. 50,000 had to pay the amount due 3 months after the date of dissolution. He was allowed a discount of 5% for making payment immediately.
The remaining debtors were collected in full.
- iv. Creditors were paid Rs. 3,50,000 in full settlement of their claim.
- v. Fixed assets realised Rs. 2,82,000 and remaining investment realised Rs. 7,500.
- vi. There was an old furniture which had been written-off completely from the books.
Yogesh took away the same for Rs. 4,000.
- vii. Realisation expenses Rs. 2,000 were paid by Vinit.

Prepare realisation account, bank account and partners' capital accounts.

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Answer

1. c. Personal Account, **Explanation:** Partners' Capital Account is a Personal Account. Any account which is directly concerned with the natural persons will be a personal account. There are three types of personal account:
 - i. Natural Persons Personal Account
 - ii. Artificial Persons Personal Account
 - iii. Representative Personal Account
2. a. Gross, provision, **Explanation:** At the time of dissolution, all assets are to be transferred to the realization account at their actual value (Book value) and all provision given against the assets are to be transferred in the realization account opposite side.
3. b. ₹15000, **Explanation:** Calculation of loss to be transferred:
Anil : $30,000 \times 1/2 = 15,000$
Baman : $30,000 \times 1/2 = 15,000$
4. d. Cash A/c, **Explanation:** the partner. If unrecorded asset is taken over by a partner, it will take place in realization account as well as in concerned partner's capital account but not in cash account.
5. c. Transferred to realization account at book value, **Explanation:** At the time of dissolution of partnership firm, goodwill given in the balance sheet should be transferred to the debit side of realisation account at its book value and not at the market value as it is a part of fixed assets of the business.
6. The asset which is not recorded in the balance sheet is called as the unrecorded asset. This asset does not transfer to the debit side of Realisation account. However, if it is sold in the market the sale proceeds is recorded.
7. According to Section 48 of The Indian Partnership Act, 1932, first of all the payment of Rs. 20,000 will be made for Mrs A's loan as she is an outsider, then remaining Rs. 5,000 will be paid to B against his loan of Rs. 10,000.

The order of payment in case of dissolution of partnership firm stands as follows:

- i. First external liabilities are paid
 - ii. Secondly partners' loans are paid
 - iii. Thirdly partners' capitals are returned.
8. When a liability is to be discharged by a partner, his capital account is credited because the partner's claim is increased over the firm by the amount of liability discharged by him, thus his capital account is increased.

In simple words that particular liability is taken over by the partner so the amount of that liability becomes due to him therefore his account is credited.

9. Difference between the dissolution of partnership and dissolution of partnership firm on the basis of economic relationship is as follows:

Basis	Dissolution of Partnership	Dissolution of Partnership Firm
Economic Relationship	The economic relationship between the partners continues though in a changed form. The partnership may dissolve in the event of admission or retirement of a partner. In this case, the business of a firm is not terminated. Partners entered into a new agreement and continue to have economic relations with each other	The economic relationship between the partners comes to an end. The business of the firm is terminated.

10. According to Section 48 (b), debts of the firm to the third parties and dissolution expenses are to be paid first. After that partners' loans are to be paid and at the end partners' capitals are settled.

11. **Journal Entries**

Date	Particulars	LF	Dr.	Cr.
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i	Alok Capital A/cDr.		7,500	
	Realisation A/cDr.		2,500	
	To Bank			10,000
	(Being expense on realisation paid.)			
ii	Realisation A/cDr.		2,000	
	To Bank			2,000
	(Being expense on realisation paid.)			
iii	Realisation A/cDr.		10,000	
	To Amit Capital A/c			10,000
	(Being expense on realisation paid by partner.)			

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Particulars		L.F.	Amount Rs	Amount Rs
Realisation A/c	Dr.		1,00,000	
To Sundry Assets A/c				1,00,000
(Assets other than cash and bank transferred to Realisation Account)				
Atul's Capital A/c	Dr.		40,000	
To Realisation A/c				40,000
(Atul took over 50% of assets worth Rs 1,00,000 at 20% discount) $[1,00,000 \times (50/100) \times (80/100)]$				
Bank A/c	Dr.		26,000	
To Realisation A/c				26,000
(Assets worth Rs 20,000, i.e. 40% of assets of Rs 50,000 are sold at a profit of 30%) $[50,000 \times (40/100) \times$				

(130/100)]				
No entry is made for obsolescence of the assets and the assets given to the creditors in the full settlement as these are already transferred to the Realisation Account and adjusted)				

Note: Once the assets (except Cash and Bank Balances) have been transferred to Realisation Account, the accounting treatment for recorded / unrecorded assets stand as follows:

Journal Entries:

(a) If the recorded / Unrecorded asset is sold for cash:

Cash A/c Dr.

To Realisation

(b) If the recorded / Unrecorded asset is taken by any partner:

Partner's Capital A/c Dr.

To Realisation

(c) If the recorded / Unrecorded asset is taken by any creditor in full settlement of his claim

No entry is passed

but where the recorded / Unrecorded asset taken by any creditor is unable to satisfy the claim, then for the balance amount paid:

Realisation A/c Dr.

To Cash A/c

and where the recorded / Unrecorded asset taken by any creditor is more than to satisfy the claim, then for the amount refunded:

Cash A/c Dr.

To Realisation A/c

13.

Dr		Realisation Account			Cr
Particulars		Amt (Rs.)	Particulars		Amt (Rs.)
To Sundry Assets A/c			By Sundry Liabilities A/c		
Land	1,20,000		Creditors	65,000	
Machinery	65,000		Bills Payable	<u>35,000</u>	1,00,000
Goodwill	10,000		By Cash A/c		
Stock	25,000		Land (1,20,000-20% of 1,20,000)	96,000	
Debtors	<u>20,000</u>	2,40,000	Machinery	35,000	
To Ram's Capital (Creditors) (65 ,000 -15% of 65,000)		55,250	Stock (25,000-25% of 25,000)	18,750	
To Shyam's Capital A/c (Bills payable)		35,000	Debtors	<u>12,500</u>	1,62,250
To Shyam's Capital A/c (Expenses on realisation)		1,750	By Loss on Realisation Transferred to		
			Ram's Capital A/c	27,900	
			Shyam's Capital A/c	<u>41,850</u>	69,750
		<u>3,32,000</u>			<u>3,32,000</u>
Dr.	Partners' Capital Account				Cr

Particulars	Ram (Rs.)	Shyam (Rs.)	Particulars	Ram (Rs.)	Shyam (Rs.)
To Realisation A/c (Loss on realisation)	27,900	41,850	By Balance b/d	75,000	75,000
To Cash/Bank A/c (Final Payment)	1,02,350	69,900	By Realisation A/c (Liabilities discharged)	55,250	35,000
			By Realisation A/c (Expenses paid)	---	1,750
	<u>1,30,250</u>	<u>1,11,750</u>		<u>1,30,250</u>	<u>1,11,750</u>

Dr		Cash/Bank Account		Cr	
Particulars	Amt (Rs.)	Particulars	Amt (Rs.)		
To Balance b/d	10,000	By Ram's Capital A/c (Final Payment)	1,02,350		
To Realisation A/c (Assets Realised) (96000+35000+18750+12500)	1,62,250	By Shyam's Capital A/c (Final Payment)	69,900		
	<u>1,72,250</u>		<u>1,72,250</u>		

Note : Question do not specify who will bear realisation expenses or agreement of partner to settle liability, then if expenses or liability is paid by the partner then they should be reimbursed.

Goodwill appearing in the Balance Sheet , treated as like any other asset and transferred to Realisation Account at Book Value. Question is silent about the realisation of Goodwill, it is assumed that Goodwill has not realised any amount.

14. Realisation Account

Dr.					Cr.

Particulars		Rs.	Particulars		Rs.
To Plant		90,000	By Creditors		80,000
To Debtors		60,000	By Bills Payable		30,000
To Furniture		32,000	By Cash A/c		
To Stock		60,000	Plant	72,000	
To Investment		70,000	Debtors	54,000	
To Bills Receivable		36,000	Furniture	18,000	
To Cash A/c			Stock($60000 \times 90/100$)	54,000	
Creditors	80,000		Investments	76,000	
Bills Payable	30,000	1,10,000	Bills Receivable	<u>31,000</u>	3,05,000
To Sanjay's Capital A/c (6%Commission on 3,05,000 i.e $3,05,000 \times 6/100$)		18,300	By Loss transferred to:		
			Sanjay's Capital A/c($61,300 \times 3/6$)	30,650	
			Tarun's Capital A/c($61,300 \times 2/6$)	20,433	
			Vineet's Capital A/c($61,300 \times 1/6$)	10,217	61,300
		4,76,300			4,76,300

Partner's Capital Account

Dr.							Cr.
Particulars	Sanjay(Rs.)	Tarun(Rs.)	Vineet(Rs.)	Particulars	Sanjay(Rs.)	Tarun(Rs.)	Vineet(Rs.)
To Realisation A/c	30,650	20,433	10,217	By Balance b/d	1,00,000	1,00,000	70,000

To Cash A/c (Balance Figure)	87,650	79,567	59,783	By Realisation A/c (Commission)	18,300		
	1,18,300	1,00,000	70,000		1,18,300	1,00,000	70,000

Cash Account

Dr.			Cr.
Particulars	Rs.	Particulars	Rs.
To Balance b/d	32,000	By Realisation A/c(Liabilities Paid)	1,10,000
To Realisation A/c (Assets Realised)	3,05,000	By Sanjay's Capital A/c	87,650
		By Tarun's Capital A/c	79,567
		By Vineet's Capital A/c	59,783
	3,37,000		3,37,000

15.

Dr		Realisation Account			Cr
Particulars		Amt (Rs.)	Particulars		Amt (Rs.)
To Sundry Assets A/c			By Sundry Liabilities A/c		
Stock	70000		Creditors	360000	
Debtors	200000		Mrs Vinit's Loan	60000	
Investments	100000		Investment Fluctuation Fund	<u>30000</u>	450000
Fixed Assets	<u>380000</u>	750000	By Provision for Doubtful Debts		20000
To Vinit's Capital A/c (Mrs. Vinit's loan)		60000	By Vinit's Capital A/c		56000

To Bank A/c (Creditors)	350000	By Yogesh's Capital A/c		81000
To Vinit's Capital A/c (Expenses)	2000	By Bank A/c (Assets realised)		
		Debtors	197500	
		Fixed Assets	282000	
		Investments	<u>7500</u>	487000
		By Yogesh's Capital A/c (Old furniture)		4000
		By Loss on Realisation Transferred to Capital A/c		
		Vinit	32000	
		Yogesh	<u>32000</u>	64000
	<u>1162000</u>			1162000

Dr	Partners' Capital Account				Cr
Particulars	Vinit (Rs.)	Yogesh (Rs.)	Particulars	Vinit (Rs.)	Yogesh (Rs.)
To Profit and Loss A/c	20000	20000	By Balance b/d	200000	100000
To Realisation A/c (Stock)	56000	---	By Realisation A/c (Loan)	60000	---
To Realisation A/c (Investment)	---	81000	By Realisation A/c (Expenses)	2000	---
To Realisation A/c (Furniture)	---	4000	By Bank A/c (Cash brought in)	---	37000
To Realisation A/c (Loss)	32000	32000			
To Bank A/c (Final payment)	154000	---			

	<u>262000</u>	<u>137000</u>		<u>262000</u>	<u>137000</u>
Dr	Bank Account				Cr
Particular	Amt (Rs.)	Particulars	Amt (Rs.)		
To Balance b/d	80000	By Yogesh's Loan A/c	100000		
To Realisation A/c (Assets realised)	487000	By Realisation A/c (Creditors)	350000		
To Yogesh's Capital A/c (Cash brought in)	37000	By Vinit's Capital A/c (Final payment)	154000		
	<u>604000</u>		<u>604000</u>		

Working note:1

Investment taken by yogesh @ 10% discount

Investment (90%)

$$[90000 - (90000 \times 10/100)] = 81000$$

Working note: 2

Amount collected from a debtor sunil @5% discount and and remaining amount of debtor collected in full

Total debtors - 5% discount + amount collected

$$[50000 - (5\% \text{ of } 50000)] + 150000 = 197500$$

Working note:3

Loan paid to Mrs vinit by vinit (in stock)

$$[70000 - (20\% \text{ of } 70000)] = 56000$$