Dissolution of a Partnership Firm

PART 1

Objective Questions

• Multiple Choice Questions

1. Dissolution of a firm may take place due to ……… .

(i) insolvency of a partner
(ii) death of a partner
(iii) change in profit sharing ratio
(iv) admission of new partner
(v) on the completion of venture
(vi) expiry of period of partnership

Alternatives

(a) (iii) (iv) (v) (vi) (b) (i) (ii) (iii) (v) (vi) (c) (i) (ii) (v) (vi) (d) (i) (iii) (v) (vi)

Ans. (c) (i) (ii) (v) (vi)

2. Court cannot pass the order to dissolve the firm, when ……… .

(a) partners' become incapable permanently
(b) partnership agreement persistently followed by partners'
(c) business of the firm cannot be carried except at a loss
(d) partner transfer whole of its interest to a third party

Ans. (b) Court can pass order to dissolve the firm if partnership agreement is breached constantly by a partner or partners.

3. In the event of dissolution of a firm, the partners' personal assets are first applied for payment of …… .

(a) the personal liabilities (b) the firm's liabilities (c) Both (a) and (b) (d) preferential tax liabilities

Ans. (a) Private property used first for the payment of private debts.

4. Which of the statements is/are correct?

(i) Dissolution of firm is a subset of dissolution of partnership.
(ii) When firm's goodwill is taken over by a partner at the time of dissolution, it is not recorded in the books.

Alternatives

(a) Only (i) (b) Only (ii) (c) Both (a) and (b) (d) None of these

Ans. (d) Dissolution of partnership is a subset of dissolution of firm but not vice-versa. When firm's goodwill is taken over by a partner, partners' account will be debited and realisation account will be credited with the same amount.

5. On the basis of the following data, how much final payment will be made to a partner on firm's dissolution? Credit balance of capital account of the partner was ₹ 50,000. Share of loss on realisation amounted to ₹ 10,000. Firm's liability taken over by him was for ₹ 8,000.

(a) ₹ 32,000 (b) ₹ 48,000 (c) ₹ 40,000 (d) ₹ 52,000

Ans. (b)

Dr **Partners' Capital Account** Cr

Particulars	Amt (₹)	Particulars	Amt (₹)
To Realisation A/c (Loss)	10,000	By Balance b/d	50,000
To Bank A/c (Final Payment)	48,000	By Realisation A/c (Liability taken Over)	8,000
	58,000		58,000

6. Rishabh and Vansh are partners in a firm sharing profits in the ratio of 3 : 2. Mrs. Rishabh has given a loan of ₹ 20,000 to the firm and the firm has also taken a loan from Vansh of ₹ 15,000. The firm was resolved and its assets were realised for ₹ 30,000. To whom company will repay if there were no other creditors of the firm?

(a) First repay ₹ 15,000 to Mr. Vansh
(b) First repay ₹ 20,000 to Mrs. Rishabh
(c) Repay ₹ 15,000 each
(d) Repay in the ratio of 4:3

Ans. (b) First, firm will settle down its debts with the third party, then partners' loans and advances.

7. When a liability is taken over by a partner, his capital account will be

(a) debited (b) credited (c) No entry (d) None of these

Ans. (b) When a liability is taken over by a partner, his capital account is credited because the claim of capital account is increased with the value of that liability.

8. On the dissolution of the firm, realisation account is closed through

(a) Bank A/c (b) Partners' Capital A/c (c) Loan A/c (d) Drawings A/c

Ans. (b) Partners' Capital A/c

9. What journal entry will be passed if remuneration expenses of ₹ 5,450 were to be borne by Rajesh, however it is paid by Sanjana?

(a) Sanjana's Capital A/c	Dr	5,450	
To Bank A/c			5,450
(b) Rajesh's Capital A/c	Dr	5,450	
To Sanjana's Capital A/c			5,450
(c) Sanjana's Capital A/c	Dr	5,450	
To Rajesh's Capital A/c			5,450
(d) Rajesh's Capital A/c	Dr	5,450	
To Bank A/c			5,450

Ans. (b) The partner who is ready to bear the expenses, will be debited and the partner who actually pays the expenses will be credited.

10. Amit, Barun and Chanda are partners. They decided to dissolve the firm. There is a debit balance of ₹ 27,000 in the profit and loss account on the date of dissolution. What journal entry would be passed?

(a) Profit and Loss A/c	Dr	27,000	
To Amit's Capital A/c			9,000
To Barun's Capital A/c			9,000
To Chanda's Capital A/c			9,000
(b) Amit's Capital A/c	Dr	9,000	
Barun's Capital A/c	Dr	9,000	
Chanda's Capital A/c	Dr	9,000	
To Profit and Loss A/c			27,000

(c) No entry
(d) None of the above

Ans. (b) Debit balance of profit and loss account adjusted in capital accounts of partners in equal ratio.

11. If goodwill does not exist in balance sheet but realised at ₹ 50,000 in cash, how it will be treated?

(a) Not recorded in the books

(b) Realisation A/c	Dr	50,000	
To Cash A/c			50,000
(c) Cash A/c	Dr	50,000	
To Realisation A/c			50,000
(d) Bank A/c	Dr	50,000	
To Realisation A/c			50,000

Ans. (c)

Cash A/c	Dr	50,000	
To Realisation A/c			50,000

12. State the order of payment of the following

(i) To each partner proportionately what is due to him/her from the firm for advances as distinguished from capital (partners' loan)

(ii) To each partner proportionately what is due to him on account of capital

(iii) From the debts of the firm to the outsiders.

Alternatives

(a) (i) (ii) (iii) (b) (iii) (ii) (i) (c) (ii) (i) (iii) (d) (iii) (i) (ii)

Ans. (d) Order of settlement of firms debts

(i) Outside liabilities

(ii) Partners' loan and advances

(iii) Partners capital

(iv) Distributed among partners in profit sharing ratio

13. When an unrecorded asset is realised at the time of dissolution of the firm, ... account is debited and .... account is credited.

(a) realisation, cash

(b) concerned partner account, cash

(c) cash, realisation

(d) realisation, concerned partner account

Ans. (c) Cash/Bank A/c Dr

To Realisation A/c

14. Match the following.

Column I	Column II
A. Loss on realisation	(i) Debit partners' capital account
B. Profit on realisation	(ii) Credit realisation account
C. Asset sold	(iii) Credit partners' capital account
D. Creditors paid	(iv) Debit realisation account

Codes

	A	B	C	D
(a)	(iii)	(i)	(iv)	(ii)
(b)	(i)	(iii)	(iv)	(ii)
(c)	(iii)	(i)	(ii)	(iv)
(d)	(i)	(iii)	(ii)	(iv)

Ans. (d) (i) (iii) (ii) (iv)

• Assertion-Reasoning MCQs

Directions *(Q. Nos. 1 to 5) There are two statements marked as Assertion (A) and Reason (R). Read the statements and choose the appropriate option from the options given below.*

(a) Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A)

(b) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A)

(c) Assertion (A) is true, but Reason (R) is false

(d) Assertion (A) is false, but Reason (R) is true

1. Assertion (A) Firm's debts are the debts which firm owes to its outsiders.

Reason (R) Private debts are the debts which partners' owes personally.

Ans. (b) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).

2. Assertion (A) Dissolution of firm means discontinuation of the firm.

Reason (R) Economic relationship between the partners comes to an end.

Ans. (a) Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A).

3. Assertion (A) Loan from spouse of a partner is considered as external liability.

Reason (R) It is shown on the debit side of realisation.

Ans. (c) Loan taken from spouse or relative of a partner is shown on the credit side of realisation account.

4. **Assertion** (A) While transferring liabilities to realisation account, it does not include accumulated profits.
Reason (R) Reserves and accumulated profits are transferred on the credit side of partners' capital account in new profit sharing ratio.

Ans. (c) Reserves and accumulated profits are transferred on the credit side of partners' capital account in old profit sharing ratio.

5. **Assertion** (A) After dissolution, cash / bank account will have nil balance.
Reason (R) Assets whether recorded or unrecorded, are credited to realisation account when realised.

Ans. (b) Cash/bank account remains nil after making payment of all external and internal liabilities at the time of dissolution.

• Case Based MCQs

1. **Direction** *Read the following case study and answer the question no. (i) to (iv) on the basis of the same.*

Anju, Manju and Sanju who were sharing profits in the ratio of 2 : 2 : 1 decided to dissolve the firm when their balance sheet was as follows

Balance Sheet
as at ...

Liabilities		Amt (₹)	Assets	Amt (₹)
Creditors		50,000	Cash	60,000
Bank Loan		35,000	Debtors	75,000
Employees' Provident Fund		15,000	Stock	40,000
Investment Fluctuation Fund		10,000	Investments	20,000
Commission Received in Advance		8,000	Plant	50,000
Capital			Profit and Loss A/c	3,000
Anju	50,000			
Manju	50,000			
Sanju	30,000	1,30,000		
		2,48,000		2,48,000

Anju was appointed to realise the assets. Anju was to receive 5% commission on the sale of assets (except cash) and was to bear all expenses of realisation. Anju realised the assets as follows

Debtors 20% less, stock ₹ 35,500, investments 80%, plant 90% of the book value.

Expenses of realisation amounted to ₹ 7,500 paid by the firm on Anju's behalf. Commission received in advance was returned to the customers after deducting ₹ 3,000.

Firm had to pay ₹ 8,500 of outstanding salary not provided for earlier. Compensation paid to employees amounted to ₹ 17,000. This liability was not provided for in the above balance sheet. ₹ 20,000 has to be paid for provident fund.

(i) The amount received by firm after realisation of assets is ....

(a) ₹ 1,56,500 (b) ₹ 1,85,000 (c) ₹ 1,88,000 (d) ₹ 2,45,000

Ans. (a) Amount received on realisation = Debtors + Stock + Investment + Plant
= 60,000 + 35,500 + 16,000 + 45,000 = ₹ 1,56,500

(ii) Commission charged by Anju amounted to ....

(a) ₹ 9,275 (b) ₹ 8,000 (c) ₹ 7,825 (d) ₹ 6,000

Ans. (c) Assets Realised $= 1,56,500 \times \frac{5}{100} =$ ` 7,825

(iii) The amount of profit and loss received by Anju, Manju and Sanju is

(a) ₹ 1,000 ; ₹ 1,000 ; ₹ 1,000 (b) ₹ 750 ; ₹ 750 ; ₹ 1,500

(c) ₹ 1,200 ; ₹ 1,200 ; ₹ 600 (d) ₹ 500 ; ₹ 500 ; ₹ 2,000

Ans. (c) It would be distributed among partners in their old profit sharing ratio.

Anju = $3{,}000 \times 2/5 =$ ₹1,200 Manju = $3{,}000 \times 2/5 =$ ₹1,200

Sanju = $3{,}000 \times 1/5 =$ ₹ 600

(iv) Total amount of sundry liabilities transferred to realisation account is ……… .

(a) ₹ 1,10,000 (b) ₹ 1,12,000 (c) ₹ 83,000 (d) ₹ 1,18,000

Ans. (d) Liabilities Amount = Creditors + Bank Loan + Employees' Provident Fund + Investment Fluctuation Fund + Commission Received in Advance

= 50,000 + 35,000 + 15,000 + 10,000 + 8,000 = ₹1,18,000

2. Direction *Read the following case study and answer the question no. (i) to (iv) on the basis of the same.*

P, Q and R who were sharing the profits and losses in the ratio of 3:1:1 respectively decided to dissolve the firm when their balance sheet was as follows

Balance Sheet

as at …

Liabilities		Amt (₹)	Assets		Amt (₹)
Sundry Creditors		1,20,000	Cash at Bank		64,000
Loan from Mrs Q		30,000	Debtors	4,84,000	
General Reserve		2,00,000	(–) Provision for Doubtful Debts	(24,000)	4,60,000
Capital A/c			Stock		1,56,000
P	4,90,000		Investments		3,40,000
Q	1,80,000		Fixed Assets		20,000
R	1,20,000	7,90,000	Advertisement Suspense A/c		1,00,000
		11,40,000			11,40,000

It was agreed that

(a) Goodwill is to be ignored.

(b) P is to take over all the fixed assets at ₹ 4,000 less, debtors amounting to ₹ 4,00,000 at ₹ 3,44,000. The creditors of ₹ 1,20,000 to be assumed by P at that figure.

(c) Q is to take over all stock at ₹ 1,40,000 and certain of the investment at ₹ 1,44,000 (being book value less 10%).

(d) R is to take over the remaining investments at 90% of book value less ₹ 2,000 allowances and to assume responsibility for the discharge of the Mrs Q's loan, together with accruing interest of ₹ 600 which has not been recorded in the books of the firm.

(e) The remaining debtors were sold to a debt collecting agency for 50% of book values.

(f) P was entitled to receive ₹ 5,400 as remuneration for completing the dissolution work and was to bear the realisation expenses. The expenses of realisation ₹ 3,400 were paid by P out of his private funds.

(i) What is the book value of investment taken over by Q?

(a) ₹ 1,60,000 (b) ₹ 1,29,600 (c) ₹ 1,44,000 (d) None of these

Ans. (a) $1{,}44{,}000 \times \dfrac{100}{90} =$ ₹ 1,60,000

(ii) What is the agreed value of investment taken over by R?

(a) ₹ 1,80,000 (b) ₹ 1,62,600 (c) ₹ 1,62,000 (d) ₹ 1,60,000

Ans. (d) Remaining investment = 3,40,000 – 1,60,000 = ₹ 1,80,000

Book value taken over by R = $1{,}80{,}000 \times 90/100$ = ₹ 1,62,000

Agreed value of investment = 1,62,000 – 2,000 = ₹ 1,60,000

(iii) Balance of advertisement suspense account will be transferred to

(a) debit side of realisation account (b) credit side of realisation account

(c) debit side of partners' capital account (d) credit side of partners' capital account

Ans. (c) Accumulated profits and losses transferred to credit and debit side of partners' capital account respectively.

(iv) Amount collected by selling debtors to collecting agency is ....

(a) ₹ 20,000 (b) ₹ 42,000 (c) ₹ 21,000 (d) ₹ 12,000

Ans. (b) Remaining debtors = 4,84,000 – 4,00,000 = ₹ 84,000

Debtors honoured $= 84{,}000 \times \frac{50}{100} =$ ₹ 42,000

PART 2
Subjective Questions

• Short Answer (SA) Type Questions

1. What is a realisation account? **(NCERT)**

Ans. Realisation account is opened on the dissolution of a firm. It is a nominal account. It is prepared to determine the profit or loss on the realisation of assets and payment of liabilities. It is prepared by transferring to it the firm's assets and liabilities, amount realised from the sale of assets, payment of liabilities and expenses incurred on realisation. The balance in the account is either profit or loss, which is transferred to the capital account of the partners in their profit sharing ratio.

2. State the difference between dissolution of partnership and dissolution of partnership firm. **(NCERT)**

Ans. Differences between dissolution of partnership and dissolution of a firm are as follows

Basis	Dissolution of Partnership	Dissolution of a Firm
Meaning	Dissolution of partnership is only a change in the partnership agreement. The firm may continue.	Dissolution of the firm is the discontinuance of all the business activities of the firm.
Books of Accounts	In this situation, books of accounts may not be closed.	Books of accounts are necessarily closed.
Dissolution	Dissolution of partnership does not mean dissolution of firm. The firm may not be discontinued.	Dissolution of the firm necessarily leads to dissolution of partnership.
Court's Intervention	There is no intervention of court.	The court intervenes, if deemed necessary.

3. State the accounting treatment for **(NCERT)**

(i) Unrecorded assets

(ii) Unrecorded liabilities

Ans. Unrecorded assets and liabilities are not transferred to realisation account because they do not appear in the books. Following accounting procedure is followed

(i) **Unrecorded Assets** If amount is realised from sale of unrecorded assets, it is debited to cash/bank account and credited to realisation account, it being in the nature of gain.

If unrecorded asset is taken by one of the partners, it is debited to concerned partner's capital account and credited to realisation account.

(ii) **Unrecorded Liabilities** If unrecorded liability is paid, realisation account is debited and cash/bank account is credited with the amount paid, it being a loss.

If a partner agrees to pay unrecorded liability, realisation account is debited and concerned partner's capital account is credited.

No entry is passed if unrecorded assets is given to discharge a recorded or unrecorded liability.

4. The amount of sundry assets transferred to realisation account was ₹ 80,000. 60% of them have been sold at a profit of ₹ 2,000. 20% of the remaining were sold at a discount of 30% and remaining were taken over by Z (a partner) at book value. Journalise.

Ans.

JOURNAL

Date	Particulars		LF	Amt (Dr)	Amt (Cr)
	Bank A/c To Realisation A/c (Being assets having book value of ₹ 48,000 were sold for ₹ 50,000 and assets having book value of ₹ 6,400 were sold for ₹ 4,480)	Dr		54,480	54,480
	Z's Capital A/c To Realisation A/c (Being assets having book value of ₹ 25,600 were taken over by Z at this value)	Dr		25,600	25,600

Working Notes

1. **Calculation of Amount Realised from Assets** — **Amt (₹)**

60% of ₹ 80,000		=	48,000
(+) Profit on sale		=	2,000
	A		50,000
20% of the remaining assets [i.e., (20/100) × (80,000 – 48,000)]		=	6,400
(–) 30% discount		=	(1,920)
	B		4,480

Total amount realised from assets (A + B) = 50,000 + 4,480 = ₹ 54,480

2. **Calculation of Value of Assets taken over by Z**

Total book value of assets	=	80,000
(–) Book value of assets sold (i.e., 48,000 + 6,400)	=	(54,400)
		25,600

5. Parul, Payal and Priyanka are partners. They decided to dissolve the firm. Pass the necessary journal entries for the following after the various assets (other than cash and bank) and outside liabilities have been transferred to realisation account.

(i) There were total debtors of ₹ 76,000. A provision for bad and doubtful debts also stood in the books at ₹ 6,000. ₹ 12,000 debtors proved bad and rest paid the amount due.

(ii) Parul agreed to pay off her husband's loan of ₹ 7,000 at a discount of 5%.

(iii) A machine which is not recorded in the books was taken over by Payal at ₹ 3,000 whereas its expected value was ₹ 5,000.

Ans.

JOURNAL

Date	Particulars		LF	Amt (Dr)	Amt (Cr)
(i)	Bank A/c (76,000 – 12,000) To Realisation A/c (Being the debtors realised)	Dr		64,000	64,000
(ii)	Realisation A/c To Parul's Capital A/c (7,000 × 95%) (Being husband's loan paid off by Parul)	Dr		6,650	6,650
(iii)	Payal's Capital A/c To Realisation A/c (Being unrecorded machine taken by Payal)	Dr		3,000	3,000

6. Ram's capital ₹ 60,000, advance to Shyam ₹ 40,000, loan from Ram ₹ 40,000, profit and loss account (debit) ₹ 1,60,000, Ram's current account (credit) ₹ 60,000, Shyam's capital ₹ 80,000, loan from Mrs. Ram ₹ 2,40,000, trade creditors ₹ 2,40,000, cash and bank balance ₹ 20,000. Prepare the balance sheet of the firm as at 31st March, 2020 being the date of dissolution of a loss incurring firm.

Ans.

Balance Sheet
as at 31st March, 2020

Liabilities		Amt (₹)	Assets	Amt (₹)
Trade Creditors		2,40,000	Cash and Bank Balance	20,000
Loan from Mrs Ram		2,40,000	Advance to Shyam	40,000
Loan from Ram		40,000	Profit and Loss A/c (Debit)	1,60,000
Capital			Sundry Assets (Balancing figure)	5,00,000
Ram	60,000			
Shyam	80,000	1,40,000		
Ram's Current A/c		60,000		
		7,20,000		7,20,000

7. Suman and Rajan were partners in a firm sharing profits and losses in the ratio of 3 : 1. The firm was dissolved on 31st March, 2019. Pass the necessary journal entries for the following transactions after various assets (other than cash in hand and at bank) and third party liabilities have been transferred to realisation account

(i) Dissolution expenses ₹ 10,000 were paid by the firm.

(ii) Rajan had given a loan of ₹ 60,000 to the firm for which he accepted ₹ 58,000 in full settlement.

(iii) The firm had a debit balance of ₹ 40,000 in the Profit and Loss Account on the date of dissolution.

(iv) Profit on realisation was ₹ 12,000. **(CBSE (C) 2020)**

Ans.

JOURNAL

Date	Particulars		LF	Amt (Dr)	Amt (Cr)
2014					
Mar 31 (i)	Realisation A/c	Dr		10,000	
	To Cash A/c				10,000
	(Being dissolution expenses paid by firm)				
Mar 31 (ii)	Rajan's Loan A/c	Dr		60,000	
	To Cash A/c				58,000
	To Realisation A/c				2,000
	(Being Rajan's loan fully settled)				
Mar 31 (iii)	Suman's Capital A/c	Dr		30,000	
	Rajan's Capital A/c	Dr		10,000	
	To Profit and Loss A/c				40,000
	(Being debit balance of profit and loss account debited to partners' capital account)				
Mar 31 (iv)	Realisation A/c	Dr		12,000	
	To Suman's Capital A/c				9,000
	To Rajan's Capital A/c				3,000
	(Being profit on realisation distributed among partners)				

8. What journal entries would be passed for the following transactions on the dissolution of a firm, after various assets (other than cash) and third party liabilities have been transferred to realisation account?

(i) Compensation to employees paid by the firm amounted to ₹ 2,000.

(ii) There was an unrecorded asset of ₹ 200 which was taken over by Kartik, a partner, at ₹ 150.

(iii) Jatin, a partner, undertook to pay Mrs Jatin's loan of ₹ 10,000 and took over 50% of the stock at a discount of 20% (book value of stock ₹ 25,000).

(iv) Balance of the stock was sold at a loss of 10%.

Ans.

JOURNAL

Date	Particulars		LF	Amt (Dr)	Amt (Cr)
(i)	Realisation A/c	Dr		2,000	
	To Bank A/c				2,000
	(Being compensation paid to employees)				
(ii)	Kartik's Capital A/c	Dr		150	
	To Realisation A/c				150
	(Being an unrecorded asset taken over)				
(iii) (a)	Realisation A/c	Dr		10,000	
	To Jatin's Capital A/c				10,000
	(Being Mrs Jatin's loan paid by her husband Mr Jatin)				
(b)	Jatin's Capital A/c	Dr		10,000	
	To Realisation A/c				10,000
	(Being stock taken over, book value ₹ 12,500 @ 80%)				
(iv)	Bank A/c	Dr		11,250	
	To Realisation A/c				11,250
	(Being stock was sold at a loss of 10%)				

9. Pass the necessary journal entries for the following transactions on the dissolution of firm of X, Y and Z (who were sharing profits in the ratio of 2 : 2 : 1) after the transfer of all assets (other than cash) and external liabilities to realisation account.

(i) Debtors were of ₹ 1,24,200. X takes over debtors amounted to ₹ 1,20,000 at ₹ 1,17,200 and the remaining debtors were sold to a debt collecting agency at 50% of the value.

(ii) Sundry assets were of ₹ 1,17,000. Y is to take over some sundry assets at ₹ 72,000 (being 10% less than the book value). Z is to take over remaining sundry assets at 80% of the book value.

Ans.

JOURNAL

Date	Particulars		LF	Amt (Dr)	Amt (Cr)
(i) (a)	X's Capital A/c	Dr		1,17,200	
	To Realisation A/c				1,17,200
	(Being some debtors taken over by X)				
(b)	Cash/Bank A/c [(1,24,200 – 1,20,000) × 50/100]	Dr		2,100	
	To Realisation A/c				2,100
	(Being the remaining debtors sold to a debt collecting agency)				
(ii) (a)	Y's Capital A/c	Dr		72,000	
	To Realisation A/c				72,000
	(Being sundry assets of value ₹ 80,000 $\left(72{,}000 \times \frac{100}{90}\right)$ taken over by Y at ₹ 72,000)				
(b)	Z's Capital A/c [(1,17,000 – 80,000) × 80/100]	Dr		29,600	
	To Realisation A/c				29,600
	(Being the remaining sundry assets taken over by Z)				

10. Pass necessary journal entries on the dissolution of a partnership firm in the following cases.

(i) Dissolution expenses were ₹ 800.

(ii) Dissolution expenses ₹ 800 were paid by Prabhu, a partner.

(iii) Geeta, a partner, was appointed to look after the dissolution work, for which she was allowed a remuneration of ₹ 10,000. Geeta agreed to bear the dissolution expenses. Actual dissolution expenses ₹ 9,500 were paid by Geeta.

(iv) Janki, a partner, agreed to look after the dissolution work for a commission of ₹ 5,000. Janki agreed to bear the dissolution expenses. Actual dissolution expenses ₹ 5,500 were paid by Mohan, another partner, on behalf of Janki.

(v) A partner, Kavita, agreed to look after the dissolution process for a commission of ₹ 9,000. She also agreed to bear the dissolution expenses. Kavita took over furniture of ₹ 9,000 for her commission. Furniture had already been transferred to realisation account. **(All India 2017, Modified)**

Ans.

JOURNAL

Date	Particulars		LF	Amt (Dr)	Amt (Cr)
(i)	Realisation A/c	Dr		800	
	To Bank A/c				800
	(Being expenses on dissolution paid)				
(ii)	Realisation A/c	Dr		800	
	To Prabhu's Capital A/c				800
	(Being dissolution expenses paid by Prabhu credited to his capital account)				
(iii)	Realisation A/c	Dr		10,000	
	To Geeta's Capital A/c				10,000
	(Being the remuneration due to Geeta)				
(iv)	Realisation A/c	Dr		5,000	
	To Janki's Capital A/c				5,000
	(Being the remuneration due to Janki)				
(v)	No Entry				

11. Lal and Pal were partners in a firm sharing profits in the ratio of 3:7. On 1st April, 2015 their firm was dissolved. After transferring assets (other than cash) and outsider's liabilities to realisation account, you are given the following information.

(i) A creditor of ₹ 3,60,000 accepted machinery valued at ₹ 5,00,000 and paid to the firm ₹ 1,40,000.

(ii) A second creditor for ₹ 50,000 accepted stock at ₹ 45,000 in full settlement of his claim.

(iii) A third creditor amounting to ₹ 90,000 accepted ₹ 45,000 in cash and investments worth ₹ 43,000 in full settlement of his claim.

(iv) Loss on dissolution was ₹ 15,000.

Pass necessary journal entries for the above transactions in the books of firm assuming that all payments were made by cheque. **(All India 2016)**

Ans.

JOURNAL

Date	Particulars		LF	Amt (Dr)	Amt (Cr)
(i)	Bank A/c	Dr		1,40,000	
	To Realisation A/c				1,40,000
	(Being payment received from creditors)				
(ii)	No Entry				
(iii)	Realisation A/c	Dr		45,000	
	To Bank A/c				45,000
	(Being partial payment made to creditors through cheque)				
(iv)	Lal's Capital A/c $(15,000 \times 3/10)$	Dr		4,500	
	Pal's Capital A/c $(15,000 \times 7/10)$	Dr		10,500	
	To Realisation A/c				15,000
	(Being loss on realisation transferred to partners' capital account in the ratio 3:7)				

12. Following is the balance sheet of P, Q and R as at 30th September, 2019

Balance Sheet
as at 30th September, 2019

Liabilities		Amt (₹)	Assets		Amt (₹)
Sundry Creditors		70,000	Land and Building		5,50,000
P's Brother's Loan		40,000	Patents		10,000
Employee's Provident Fund		20,000	Debtors	1,20,000	
Reserve Fund		60,000	(−) Provision	(6,000)	1,14,000
P's Capital A/c	3,00,000		Sundry Assets		40,000
Q's Capital A/c	2,50,000		Bank		48,000
R's Capital A/c	50,000	6,00,000	Cash		8,000
P's Current A/c	40,000		R's Current A/c		70,000
Q's Current A/c	10,000	50,000			
		8,40,000			8,40,000

They decided to dissolve the firm. The following information is given to you

(i) Land and building were sold for ₹ 5,00,000.
(ii) Debtors for ₹ 20,000 proved bad and rest paid the amount due at 5% discount.
(iii) An unrecorded investment of ₹ 20,000 was taken over by a creditor at ₹ 16,000. Remaining creditors were paid at 10% discount.
(iv) There was an outstanding bill for repairs for which ₹ 10,000 were paid.
(v) P's brother's loan was paid together with interest of ₹ 4,000.
(vi) Q is to take over some of sundry assets at ₹ 13,500 (being 10% less than book value).
(vii) R is to take over the remaining sundry assets at 80% of the book value less ₹ 500 as discount.

Ans. Dr **Realisation Account** Cr

Particulars		Amt (₹)	Particulars		Amt (₹)
To Land and Building		5,50,000	By Sundry Creditors		70,000
To Patents		10,000	By P's Brother's Loan		40,000
To Debtors		1,20,000	By Employee's Provident Fund		20,000
To Sundry Assets		40,000	By Provision for Doubtful Debts		6,000
To Bank (Payment made)			By Bank (Assets realised)		
Sundry Creditors	48,600		Land and Building	5,00,000	
Outstanding Repairs	10,000		Debtors	95,000	5,95,000
P's Brother's Loan	44,000		By Q's Current A/c (Sundry assets)		13,500
Employee's Provident Fund	20,000	1,22,600	By R's Current A/c (Sundry assets)		19,500
			By Current A/cs (Loss Transferred)		
			P	26,200	
			Q	26,200	
			R	26,200	78,600
		8,42,600			8,42,600

Working Notes

1. Q has taken sundry assets at ₹ 13,500 which is 10% less than the book value.

   Hence, book value of sundry assets taken by Q $= \dfrac{13{,}500 \times 100}{90} =$ ₹ 15,000

2. Remaining sundry assets have been taken over by R.

   Book value of remaining sundry assets $= 40{,}000 - 15{,}000 =$ ₹ 25,000

   R takes over these sundry assets at $25{,}000 \times \dfrac{80}{100} = 20{,}000 - 500 =$ ₹ 19,500

13. Prateek, Neeraj and Umang were partners in a firm, sharing profits and losses in the ratio of 7 : 2 : 1. The firm was dissolved on 31st March, 2019.

After transfer of assets (other than cash) and external liabilities to the realisation account, the following transactions took place

(i) Furniture of ₹ 45,000 was sold by auction for ₹ 66,000 and the auctioneer's commission amounted to ₹ 2,000.

(ii) Office equipment of ₹ 90,000 was taken over by creditors of the book value of ₹ 82,000 in full settlement.

(iii) Expenses incurred on dissolution were ₹ 21,000 and were paid by Prateek.

(iv) Loss on dissolution amounted to ₹ 40,000.

Pass the necessary journal entries for the above transactions in the books of the firm. **(CBSE 2020, Modified)**

Ans.

JOURNAL

Date	Particulars		LF	Amt (Dr)	Amt (Cr)
(i)	Bank A/c	Dr		64,000	
	To Realisation A/c				64,000
	(Being furniture realised)				
(ii)	No entry				
(iii)	Realisation A/c	Dr		21,000	
	To Prateek's Capital A/c				21,000
	(Being dissolution expenses paid by Prateek)				
(iv)	Prateek's Capital A/c	Dr		28,000	
	Neeraj's Capital A/c	Dr		8,000	
	Umang's Capital A/c	Dr		4,000	
	To Realisation A/c				40,000
	(Being loss on dissolution debited to partners capital accounts)				

14. Give the necessary journal entries for the following transactions in case of dissolution of a partnership firm after various assets (other than cash and bank) and third party liabilities have been transferred to realisation account

(i) Dissolution expenses ₹ 5,000 were paid by the firm.

(ii) An unrecorded computer not appearing in the books of accounts realised ₹ 2,200.

(iii) A creditor for ₹ 1,40,000 accepted building valued at ₹ 1,80,000 and paid to the firm ₹ 40,000.

(iv) Loss on realisation ₹ 10,000 was divided between the partners Subhi and Sudha in the ratio of 4 : 1.

(CBSE (C) 2020)

Ans. **JOURNAL**

Date	Particulars		LF	Amt (Dr)	Amt (Cr)
(i)	Realisation A/c	Dr		5,000	
	To Cash A/c				5,000
	(Being dissolution expenses paid by firm)				
(ii)	Cash A/c	Dr		2,200	
	To Realisation A/c				2,200
	(Being unrecorded computer realised)				
(iii)	Cash A/c	Dr		40,000	
	To Realisation A/c				40,000
	(Being creditors accept building and paid the remaining amount)				
(iv)	Subhi's Capital A/c	Dr		8,000	
	Sudha's Capital A/c	Dr		2,000	
	To Realisation A/c				10,000
	(Being loss on realisation distributed)				

15. Ankit, Bobby and Kartik were partners in a firm sharing profits in the ratio 4 : 3 : 3. The firm was dissolved on 31st March, 2018. Pass the necessary journal entries for the following transactions after various assets (other than cash and bank) and third party liabilities had been transferred to realisation account

(i) The firm had stock of ₹ 80,000. Ankit took over 50% of the stock at a discount of 20% while the remaining stock was sold off at a profit of 30% on cost.

(ii) A liability under a suit for damages included in creditors was settled at ₹ 32,000 as against only ₹ 13,000 provided in the books. Total creditors of the firm were ₹ 50,000.

(iii) Bobby's sister's loan of ₹ 20,000 was paid-off alongwith interest of ₹ 2,000.

(iv) Kartik's loan of ₹ 12,000 was settled at ₹ 12,500. **(CBSE 2019)**

Ans. **JOURNAL**

Date	Particulars		LF	Amt (Dr)	Amt (Cr)
2018					
Mar 31 (i)	Ankit's Capital A/c (WN)	Dr		32,000	
	To Realisation A/c				32,000
	(Being 50% of the stock taken at 20% discount)				
Mar 31	Bank A/c (WN)	Dr		52,000	
	To Realisation A/c				52,000
	(Being remaining 50% stock was sold at a profit of 30% on cost)				
Mar 31 (ii)	Realisation A/c	Dr		32,000	
	To Bank A/c				32,000
	(Being liability under a suit for damages was settled)				
Mar 31	Realisation A/c (50,000 – 13,000)	Dr		37,000	
	To Bank A/c				37,000
	(Being remaining creditors paid)				
Mar 31 (iii)	Realisation A/c	Dr		22,000	
	To Bank A/c				22,000
	(Being Bobby's sister loan paid with interest)				
Mar 31 (iv)	Realisation A/c	Dr		500	
	To Bank A/c				500
	(Being Kartik loan ₹ 12,000 settled at ₹ 12,500)				
Mar 31	Kartik's Loan A/c	Dr		12,000	
	To Bank A/c				12,000
	(Being amount of loan paid)				

Working Note

Total Stock = ₹ 80,000

Ankit took = 80,000 × 50%	=	40,000
(–) Discount (40,000 × 20%)	=	(8,000)
	=	₹ 32,000
Remaining Stock	=	40,000
(+) Profit @ 30%	=	12,000
	=	₹ 52,000

• Long Answer (LA) Type Questions

1. 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 ₹ 19,000.
(ii) A debtor whose debt of ₹ 9,000 was written-off in the books, paid ₹ 7,500 in full settlement.
(iii) Shiva took over all investments at ₹ 13,300.
(iv) Sundry creditors ₹ 10,000 were paid at 9% discount.
(v) Realisation expenses ₹ 3,400 were paid by Sudha for which she was allowed ₹ 3,000.
(vi) Loss on realisation ₹ 9,400 was divided between Sudha and Shiva in 3 : 2 ratio. **(All India 2011)**

Ans.

JOURNAL

Date	Particulars		LF	Amt (Dr)	Amt (Cr)
(i)	Realisation A/c	Dr		19,000	
	To Sudha's Capital A/c				19,000
	(Being husband's loan paid by Sudha)				
(ii)	Bank A/c	Dr		7,500	
	To Realisation A/c				7,500
	(Being debtors realised)				
(iii)	Shiva's Capital A/c	Dr		13,300	
	To Realisation A/c				13,300
	(Being investments taken over by Shiva)				
(iv)	Realisation A/c	Dr		9,100	
	To Bank A/c [10,000 – (10,000 × 9%)]				9,100
	(Being creditors paid)				
(v)	Realisation A/c	Dr		3,000	
	To Sudha's Capital A/c				3,000
	(Being expenses for realisation allowed to Sudha)				
(vi)	Sudha's Capital A/c	Dr		5,640	
	Shiva's Capital A/c	Dr		3,760	
	To Realisation A/c				9,400
	(Being realisation loss transferred to partners' capital accounts)				

2. Pass the necessary journal entries for the following transactions on the dissolution of the firm of P, Q and R (who were sharing profits in the ratio of 4:3:3) after the transfer of all assets (other than cash) and external liabilities to realisation account.

(i) P, one of the partners was to bear all the realisation expenses for which he was given a commission of 2% of net cash realised from dissolution. Cash realised from assets was ₹ 50,000 and cash paid for liabilities amounted to
₹ 10,000. Expenses of realisation ₹ 2,000 paid by P.
(ii) Workmen compensation reserve ₹ 60,000, workmen compensation paid ₹ 20,000.

(iii) Commission received in advance ₹ 2,000 was returned to customers after deducting ₹ 400.

(iv) There was a bill for ₹ 2,000 under discount. The bill was received from T who proved insolvent and a first and final dividend of 25% was received from his estate.

(v) Bankers (who granted loan of ₹ 14,000) accepted stock of ₹ 12,000 at a discount of 20% and the balance in cash.

(vi) Prepaid insurance of ₹ 10,000 and goodwill of ₹ 1,00,000 were also appearing in the balance sheet but no other additional information was given with regard to these two items.

Ans.

JOURNAL

Date	Particulars		LF	Amt (Dr)	Amt (Cr)
(i)	Realisation A/c	Dr		800	
	To P's Capital A/c				800
	(Being the commission due to P @ 2% of ₹ 40,000) [i.e. 50,000 – 10,000]				
(ii) (a)	Realisation A/c	Dr		20,000	
	To Bank A/c				20,000
	(Being the liability discharged)				
(b)	Workmen Compensation Reserve A/c	Dr		40,000	
	To P's Capital A/c				16,000
	To Q's Capital A/c				12,000
	To R's Capital A/c				12,000
	(Being the transfer of excess workmen compensation reserve)				
(iii)	Realisation A/c	Dr		1,600	
	To Bank A/c (2,000 – 400)				1,600
	(Being the payment made for commission received in advance)				
(iv) (a)	Realisation A/c	Dr		2,000	
	To Bank A/c				2,000
	(Being the payment of dishonoured discounted bill receivable)				
(b)	Bank A/c (2,000 × 25%)	Dr		500	
	To Realisation A/c				500
	(Being a first and final dividend of 25% received from the estate of T)				
(v)	Realisation A/c	Dr		4,400	
	To Bank A/c [14,000 – (12,000 × 80%)]				4,400
	(Being the payment made to bankers)				
(vi)	No journal entry is required since there is no realisation.				

3. Hanif and Jubed were partners in a firm sharing profits in the ratio of their capitals. On 31st March, 2020, their balance sheet was as follows

Balance Sheet

as at 31st March, 2020

Liabilities		Amt (₹)	Assets	Amt (₹)
Creditors		1,50,000	Bank	2,00,000
Workmen's Compensation Fund		3,00,000	Debtors	3,40,000
General Reserve		75,000	Stock	1,50,000
Hanif's Current A/c		25,000	Furniture	4,60,000
Capital A/cs			Machinery	8,20,000
Hanif	10,00,000		Jubed's Current A/c	80,000
Jubed	5,00,000	15,00,000		
		20,50,000		20,50,000

On the above date, the firm was dissolved.

(i) Debtors were realised at a discount of 5%. 50% of the stock was taken over by Hanif at 10% less than the book value. Remaining stock was sold for ₹ 65,000.

(ii) Furniture was taken over by Jubed for ₹ 1,35,000. Machinery was sold as scrap for ₹ 74,000.

(iii) Creditors were paid in full.

(iv) Expenses on realisation ₹ 8,000 were paid by Hanif.

Prepare realisation account. **(All India 2014; Modified)**

Ans. Dr **Realisation Account** Cr

Particulars		Amt (₹)	Particulars		Amt (₹)
To Sundry Assets A/c			By Sundry Liabilities A/c		
Debtors	3,40,000		Creditors		1,50,000
Stock	1,50,000		By Bank A/c (Assets realised)		
Furniture	4,60,000		Debtors	3,23,000	
Machinery	8,20,000	17,70,000	Stock	65,000	
To Bank A/c (Liabilities paid)			Machinery	74,000	4,62,000
Creditors		1,50,000	By Hanif's Current A/c (Stock) (75,000 – 7,500)		67,500
To Hanif's Current A/c (Realisation expenses)		8,000	By Jubed's Current A/c (Furniture)		1,35,000
			By Loss Transferred to Current A/cs		
			Hanif	7,42,333	
			Jubed	3,71,167	11,13,500
		19,28,000			19,28,000

4. Arnab, Ragini and Dhrupad are partners sharing profits in the ratio of 3: 1 : 1. On 31st March, 2021 they decided to dissolve their firm. On that date their balance sheet was as under

Balance Sheet
as at 31st March, 2021

Liabilities		Amt (₹)	Assets		Amt (₹)
Creditors		60,000	Bank		50,000
Arnab's Brother's Loan		95,000	Debtors	1,70,000	
Dhrupad's Loan		1,00,000	(–) Provision for Bad Debts	(20,000)	1,50,000
Investment Fluctuation Fund		50,000	Stock		1,50,000
Capital A/cs			Investments		2,50,000
Arnab	2,75,000		Building		3,00,000
Ragini	2,00,000		Profit and Loss A/c		50,000
Dhrupad	1,70,000	6,45,000			
		9,50,000			9,50,000

The assets were realised and the liabilities were paid as under

(i) Arnab agreed to pay his brother's loan.

(ii) Investments realised 20% less.

(iii) Creditors were paid at 10% less.

(iv) Building was auctioned for ₹ 3,55,000. Commission on auction was ₹ 5,000.

(v) 50% of the stock was taken over by Ragini at market price which was 20% less than the book value and the remaining was sold at market price.

(vi) Dissolution expenses were ₹ 8,000. ₹ 3,000 were to be borne by the firm and the balance by Dhrupad. The expenses were paid by him.

Prepare realisation account, bank account and partners' capital accounts. **(All India (C) 2016)**

Ans. Dr **Realisation Account** Cr

Particulars		Amt (₹)	Particulars		Amt (₹)
To Sundry Assets A/c			By Sundry Liabilities A/c		
Debtors	1,70,000		Creditors	60,000	
Stock	1,50,000		Arnab's Brother Loan	95,000	
Investments	2,50,000		Investment Fluctuation Fund	50,000	2,05,000
Building	3,00,000	8,70,000	By Provision for Doubtful Debts		20,000
To Arnab's Capital A/c (Brother's loan)		95,000	By Bank A/c (Assets realised)		
To Bank A/c (Creditor) (60,000 – 10%)		54,000	Stock (45,000 – 20%)	60,000	
To Dhrupad's Capital A/c (Expenses)		3,000	Investment	2,00,000	
			Building (3,55,000 – 5000)	3,50,000	6,10,000
			By Ragini's Capital A/c (Stock) 50% [75,000 –15,000 (75,000 × 20%)]		60,000
			By Loss on Realisation Transferred to Partners' Capital A/c		
			Arnab	76,200	
			Ragini	25,400	
			Dhrupad	25,400	1,27,000
		10,22,000			10,22,000

Dr **Partners' Capital Account** Cr

Particulars	Arnab (₹)	Ragini (₹)	Dhrupad (₹)	Particulars	Arnab (₹)	Ragini (₹)	Dhrupad (₹)
To Profit and Loss A/c	30,000	10,000	10,000	By Balance b/d	2,75,000	2,00,000	1,70,000
To Realisation A/c (Stock)	—	60,000	—	By Realisation A/c (Loan)	95,000	—	—
To Realisation A/c (Loss)	76,200	25,400	25,400	By Realisation A/c (Expenses)	—	—	3,000
To Bank A/c (Final payment)	2,63,800	1,04,600	1,37,600				
	3,70,000	2,00,000	1,73,000		3,70,000	2,00,000	1,73,000

Dr **Bank Account** Cr

Particulars	Amt (₹)	Particulars	Amt (₹)
To Balance b/d	50,000	By Arnab's Capital A/c	2,63,800
To Realisation A/c (Stock)	60,000	By Ragini's Capital A/c	1,04,600
To Realisation A/c (Investments)	2,00,000	By Dhrupad's Capital A/c	1,37,600
To Realisation A/c (Building)	3,50,000	By Dhrupad's Loan A/c	1,00,000
		By Realisation A/c (Creditor)	54,000
	6,60,000		6,60,000

5. Following is the balance sheet of A and B as at 31st March, 2021.

Balance Sheet
as at 31st March, 2021

Liabilities		Amt (₹)	Assets		Amt (₹)
Sundry Creditors		30,000	Cash in Hand		500
Bills Payable		8,000	Cash at Bank		8,000
Mrs A's Loan		5,000	Stock-in-trade		5,000
Mrs B's Loan		10,000	Investments		10,000
General Reserve		10,000	Debtors	20,000	
Investments Fluctuation Fund		1,000	(–) Provision for Doubtful Debts	(2,000)	18,000
Capital A/c			Plant and Machinery		20,000
A	10,000		Building		15,000
B	10,000	20,000	Goodwill		4,000
			Profit and Loss A/c		3,500
		84,000			84,000

The firm was dissolved on 31st March, 2021 and following was agreed

(i) A promised to pay Mrs A's loan and took stock-in-trade at ₹ 4,000.
(ii) B took half the investments @ 10% discount.
(iii) Debtors realised ₹ 19,000.
(iv) Creditors and bills payable were due on an average basis of one month after 31st March, but they were paid immediately on 31st March @ 6% discount per annum.
(v) Plant realised ₹ 25,000; building ₹ 40,000; goodwill ₹ 6,000 and remaining investments at ₹ 4,500.
(vi) There was an old typewriter in the firm which had been written-off completely from the books. It is now estimated to realise ₹ 300. It was taken away by B at this estimated price.
(vii) Realisation expenses were ₹ 1,000.

Show the realisation account, partners' capital accounts and bank account in the books of the firm.

Ans. Dr **Realisation Account** Cr

Particulars		Amt (₹)	Particulars		Amt (₹)
To Sundry Assets A/c			By Sundry Liabilities A/c		
Stock-in-trade	5,000		Sundry Creditors	30,000	
Investments	10,000		Bills Payable	8,000	
Debtors	20,000		Mrs A's Loan	5,000	
Plant and Machinery	20,000		Mrs B's Loan	10,000	
Building	15,000		Investments Fluctuation Fund	1,000	
Goodwill	4,000	74,000	Provision for Doubtful Debts	2,000	56,000
To A's Capital A/c (Mrs A's loan)		5,000	By A's Capital A/c (Stock)		4,000
To Bank A/c (Liabilities paid)			By B's Capital A/c (Investments)		4,500
Creditors (30,000 – 150) (WN)	29,850		By Bank A/c (Assets realised)		
Bills Payable (8,000 – 40) (WN)	7,960		Debtors	19,000	
Realisation Expenses	1,000		Plant and Machinery	25,000	
Mrs B's Loan	10,000	48,810	Building	40,000	
To Profit Transferred to			Goodwill	6,000	
A's Capital A/c	15,745		Investments	4,500	94,500
B's Capital A/c	15,745	31,490	By B's Capital A/c (Typewriter)		300
		1,59,300			1,59,300

Dr **Partners' Capital Account** Cr

Particulars	A (₹)	B (₹)	Particulars	A (₹)	B (₹)
To Realisation A/c	4,000	4,500	By Balance b/d	10,000	10,000
To Realisation A/c	—	300	By Realisation A/c	5,000	—
To Profit and Loss A/c	1,750	1,750	By Realisation A/c (Profit)	15,745	15,745
To Bank A/c (Final settlement)	29,995	24,195	By General Reserve A/c	5,000	5,000
	35,745	30,745		35,745	30,745

Dr **Bank Account** Cr

Particulars	Amt (₹)	Particulars	Amt (₹)
To Balance b/d	8,000	By Realisation A/c (Liabilities paid)	48,810
To Cash A/c	500	By A's Capital A/c (Final payment)	29,995
To Realisation A/c (Assets realised)	94,500	By B's Capital A/c (Final payment)	24,195
	1,03,000		1,03,000

Working Note Discount on creditors $= 30{,}000 \times \frac{6}{100} \times \frac{1}{12} =$ ₹ 150

Discount on bills payable $= 8{,}000 \times \frac{6}{100} \times \frac{1}{12} =$ ₹ 40

6. A and B were partners in a firm sharing profits in the ratio of 3 : 2. On 31st March, 2021, the balance sheet of the firm was as follows

Balance Sheet
as at 31st March, 2021

Liabilities		Amt (₹)	Assets	Amt (₹)
Capital A/c			Building	2,40,000
A	3,00,000		Furniture	1,75,000
B	2,00,000	5,00,000	Debtors	80,000
Sundry Creditors		1,17,000	Stock	75,000
			Cash	47,000
		6,17,000		6,17,000

The firm was dissolved on 1st April, 2021 and the assets and liabilities were settled as follows

(i) Building was taken over by creditors as their full and final payment.
(ii) Furniture was taken over by B for cash payment at 5% less than the book value.
(iii) Debtors were collected by a debt collection agency at a cost of ₹ 5,000.
(iv) Stock realised ₹ 70,500.
(v) B agreed to bear all realisation expenses. For this service, B is paid ₹ 500. Actual expense of realisation amounted to ₹ 1,000.

Pass necessary journal entries for dissolution of the firm. **(Delhi 2012; Modified)**

Ans. **JOURNAL**

Date	Particulars		LF	Amt (Dr)	Amt (Cr)
2021					
Apr 1	Realisation A/c	Dr		5,70,000	
	To Building A/c				2,40,000
	To Furniture A/c				1,75,000
	To Debtors A/c				80,000
	To Stock A/c				75,000
	(Being assets transferred to realisation account)				

Date	Particulars		LF	Amt (Dr)	Amt (Cr)
	Creditors A/c	Dr		1,17,000	
	To Realisation A/c				1,17,000
	(Being creditors transferred to realisation account)				
	Cash A/c	Dr		3,11,750	
	To Realisation A/c				3,11,750
	(Being cash realised from sundry assets)				
	Realisation A/c	Dr		500	
	To B's Capital A/c				500
	(Being realisation expenses borne by B)				
	B's Capital A/c	Dr		1,000	
	To Cash A/c				1,000
	(Being realisation expenses paid)				
	A's Capital A/c	Dr		85,050	
	B's Capital A/c	Dr		56,700	
	To Realisation A/c				1,41,750
	(Being realisation loss transferred to partners' capital accounts)				
	A's Capital A/c	Dr		2,14,950	
	B's Capital A/c	Dr		1,42,800	
	To Cash A/c				3,57,750
	(Being final payment made to partners)				

Working Notes

1. Dr **Realisation Account** Cr

Particulars		Amt (₹)	Particulars		Amt (₹)
To Sundry Assets A/c			By Sundry Creditors A/c		1,17,000
Building	2,40,000		By Cash A/c		
Furniture	1,75,000		Furniture	1,66,250	
Debtors	80,000		Debtors	75,000	
Stock	75,000	5,70,000	Stock	70,500	3,11,750
To B's Capital A/c (Expenses)		500	By Loss Transferred to		
			A's Capital A/c	85,050	
			B's Capital A/c	56,700	1,41,750
		5,70,500			5,70,500

2. Dr **Partners' Capital Account** Cr

Particulars	A (₹)	B (₹)	Particulars	A (₹)	B (₹)
To Realisation A/c (Loss)	85,050	56,700	By Balance b/d	3,00,000	2,00,000
To Cash A/c (Expenses)	—	1,000	By Realisation A/c (Expenses)	—	500
To Cash A/c (Balancing figure)	2,14,950	1,42,800			
	3,00,000	2,00,500		3,00,000	2,00,500

7. X, Y and Z were partners sharing profits in the ratio of 2 : 2 : 1. The balance sheet on 31st March, 2021, when they dissolved the firm was as follows

Balance Sheet
as at 31st March, 2021

Liabilities		**Amt (₹)**	**Assets**		**Amt (₹)**
Capital A/cs			Other Sundry Assets		1,17,000
X	1,27,500		Furniture		11,000
Y	1,10,000		Debtors	1,24,200	
Z	17,000	2,54,500	(−) Provision for Doubtful Debts	(1,200)	1,23,000
Loan		11,500	Stock		17,800
Creditors		16,000	Cash		13,200
		2,82,000			2,82,000

It was agreed that

(i) X to take over furniture at ₹ 8,000 and debtors amounting to ₹ 1,20,000 at ₹ 1,17,200 and the creditors of ₹ 16,000 were to be paid by him at this figure.

(ii) Y is to take over all stock for ₹ 17,000 and some sundry assets at ₹ 72,000 (being 10% less than the book value).

(iii) Z to take over remaining sundry assets at 80% of the book value and assume the responsibility of discharge of loan together with accrued interest of ₹ 2,300.

(iv) The expenses of realisation were ₹ 2,700. The remaining debtors were sold to a debt collecting agency at 50% of the value.

Prepare necessary accounts to close the books of the firm. **(Delhi 2011C; Modified)**

Ans. Dr **Realisation Account** Cr

Particulars		**Amt (₹)**	**Particulars**		**Amt (₹)**
To Sundry Assets A/c			By Sundry Liabilities A/c		
Other Sundry Assets	1,17,000		Loan	11,500	
Furniture	11,000		Creditors	16,000	
Debtors	1,24,200		Provision for Doubtful Debts	1,200	28,700
Stock	17,800	2,70,000	By X's Capital A/c		
To X's Capital A/c			Furniture	8,000	
Creditors		16,000	Debtors	1,17,200	1,25,200
To Z's Capital A/c			By Y's Capital A/c		
Loan	11,500		Stock	17,000	
Interest on Loan	2,300	13,800	Sundry Assets	72,000	89,000
To Cash A/c (Expenses)		2,700	By Z's Capital A/c (WN 1)		
			Sundry Assets (Remaining)		29,600
			By Cash A/c (Debtors) (WN 2)		2,100
			By Loss Transferred to		
			X's Capital A/c	11,160	
			Y's Capital A/c	11,160	
			Z's Capital A/c	5,580	27,900
		3,02,500			3,02,500

Dr **Partners' Capital Account** Cr

Particulars	**X (₹)**	**Y (₹)**	**Z (₹)**	**Particulars**	**X (₹)**	**Y (₹)**	**Z (₹)**
To Realisation A/c	1,25,200	89,000	29,600	By Balance b/d	1,27,500	1,10,000	17,000
To Realisation A/c (Loss)	11,160	11,160	5,580	By Realisation A/c	16,000	—	13,800
To Cash A/c (Final payment)	7,140	9,840	—	By Cash A/c (Cash brought in)	—	—	4,380
	1,43,500	1,10,000	35,180		1,43,500	1,10,000	35,180

Dr **Cash Account** Cr

Particulars	Amt (₹)	Particulars	Amt (₹)
To Balance b/d	13,200	By Realisation A/c	2,700
To Realisation A/c	2,100	By X's Capital A/c	7,140
To Z's Capital A/c	4,380	By Y's Capital A/c	9,840
	19,680		19,680

Working Notes

1. Book value of the sundry assets taken over by Y $= 72{,}000 \times \dfrac{100}{90} = ₹\ 80{,}000$

   Remaining sundry assets $= 1{,}17{,}000 - 80{,}000 = ₹\ 37{,}000\ ;\ = 37{,}000 \times \dfrac{80}{100} = ₹\ 29{,}600$

2. Book value of the debtors taken over by X $= ₹\ 1{,}20{,}000$

   Remaining debtors $= 1{,}24{,}200 - 1{,}20{,}000 = ₹\ 4{,}200;\ = 4{,}200 \times \dfrac{50}{100} = ₹\ 2{,}100$

8. P, Q and R commenced business on 1st April, 2016 with capitals of ₹ 5,00,000, ₹ 4,00,000 and ₹ 3,00,000 respectively. Profits and losses were shared in the ratio of 4 : 3 : 3. Interest on capitals was paid at 5% per annum. During 2016-17 and 2017-18, they earned profit of ₹ 2,00,000 and ₹ 2,50,000 (before allowing interest on capital). Drawings of each partner were ₹ 50,000 per year. On, 31st March, 2018, the firm was dissolved. Creditors on that date were ₹ 1,20,000. The assets realised ₹ 13,00,000 net. Give necessary accounts to close the books of the firm.

Ans. Balance sheet on the date of dissolution is not given. Further, partners' capitals and book value of assets on the date of dissolution are also not given. Hence, first of all balances of partners' capital are ascertained. After that, balance sheet on the date of dissolution, i.e. 31st March, 2015, will be prepared to ascertain the value of assets.

Dr **Partners' Capital Account** Cr

Date	Particulars	P (₹)	Q (₹)	R (₹)	Date	Particulars	P (₹)	Q (₹)	R (₹)
2018					2016				
Mar 31	To Bank A/c (Drawings)	50,000	50,000	50,000	Apr 1	By Bank A/c	5,00,000	4,00,000	3,00,000
					2017				
	To Balance c/d	5,31,000	4,12,000	3,07,000	Mar 31	By Interest on Capital A/c	25,000	20,000	15,000
						By Profit and Loss A/c (Net profit) (2,00,000 – 60,000)	56,000	42,000	42,000
		5,81,000	4,62,000	3,57,000			5,81,000	4,62,000	3,57,000
2018					2017				
Mar 31	To Bank A/c (Drawings)	50,000	50,000	50,000	Apr 1	By Balance b/d	5,31,000	4,12,000	3,07,000
					2018				
	To Balance c/d	5,82,550	4,38,850	3,28,600	Mar 31	By Interest on Capital A/c	26,550	20,600	15,350
						By Profit and Loss A/c (Net profit) (2,50,000 – 62,500)	75,000	56,250	56,250
		6,32,550	4,88,850	3,78,600			6,32,550	4,88,850	3,78,600

Net Profit = Total Profit – Interest on Capital

Balance Sheet
as at 31st March, 2018

Liabilities		Amt (₹)	Assets	Amt (₹)
Creditors		1,20,000	Sundry Assets (Balancing figure)	14,70,000
Capital				
P	5,82,550			
Q	4,38,850			
R	3,28,600	13,50,000		
		14,70,000		14,70,000

Dr **Realisation Account** Cr

Particulars	Amt (₹)	Particulars		Amt (₹)
To Sundry Assets A/c	14,70,000	By Creditors A/c		1,20,000
To Bank A/c (Creditors paid)	1,20,000	By Bank A/c (Sundry assets realised)		13,00,000
		By Loss Transferred to		
		P's Capital A/c	68,000	
		Q's Capital A/c	51,000	
		R's Capital A/c	51,000	1,70,000
	15,90,000			15,90,000

Dr **Partners' Capital Account** (After Realisation) Cr

Particulars	P (₹)	Q (₹)	R (₹)	Particulars	P (₹)	Q (₹)	R (₹)
To Realisation A/c (Loss)	68,000	51,000	51,000	By Balance b/d	5,82,550	4,38,850	3,28,600
To Bank A/c (Balancing figure)	5,14,550	3,87,850	2,77,600				
	5,82,550	4,38,850	3,28,600		5,82,550	4,38,850	3,28,600

Dr **Bank Account** Cr

Particulars	Amt (₹)	Particulars	Amt (₹)
To Realisation A/c (Sundry assets realised)	13,00,000	By Realisation A/c (Creditors paid)	1,20,000
		By P's Capital A/c	5,14,550
		By Q's Capital A/c	3,87,850
		By R's Capital A/c	2,77,600
	13,00,000		13,00,000

Chapter Test

Multiple Choice Questions

1. Partners' private properties could be used to repay ....

(a) only firm's debts (b) only private debts (c) Both (a) and (b) (d) None of these

2. All the partners decide to dissolve the firm on 1st April, 2020. Ashok, a partner, demands that his loan of ₹ 50,000 be paid before payment of loan by Mrs. Rana of ₹ 80,000. But , Rana , another partner, demands that loan by Mrs. Rana should be paid before repayment of loan by Ashok. Who is correct?

(a) Rana is correct (b) Ashok is correct (c) None of these (d) Can't be determined

3. How it will be recorded if loan was taken by Ankush, a partner, of ₹ 50,000 from firm but his capital account shows a debit balance of ₹ 40,000?

(a) Loan by Ankush A/c	Dr	40,000	
To Ankush's Capital A/c			40,000
(b) Ankush's Capital A/c	Dr	40,000	
Bank A/c	Dr	10,000	
To Loan by Ankush A/c			50,000
(c) Bank A/c	Dr	10,000	
To Loan by Ankush A/c			10,000
(d) Loan by Ankush A/c	Dr	50,000	
To Ankush's Capital A/c			40,000
To Bank A/c			10,000

4. Which of the statements is/are incorrect?

(i) If the question is silent about the realisation of goodwill, it is assumed that the goodwill realises full amount.
(ii) Books of accounts may not be closed in dissolution of partnership.

Alternatives

(a) Only (i) (b) Only (ii) (c) Both (a) and (b) (d) None of these

5. Identify the incorrect pair.

Column I		Column II	
A.	Debit balance in realisation	(i)	Profit on realisation
B.	External liabilities	(ii)	Transferred to realisation account
C.	Dissolution of partnership	(iii)	Revaluation account
D.	Dissolution of firm	(iv)	Realisation account

Codes

(a) A-(i) (b) B-(ii)
(c) C-(iii) (d) D-(iv)

Short Answer (SA) Type Questions

1. Give the necessary journal entries for the following transactions on dissolution of the firm of Anita and Ravi on 31st March, 2016, after the various assets (other than cash) and the third party liabilities have been transferred to realisation account. They shared profits and losses in the ratio 3 : 2.

(i) Amitesh, an old customer whose account for ₹ 60,000 was written-off as bad debt in the previous year, paid 90%.
(ii) Land and Building was sold for ₹ 3,00,000 through a broker who charged 2% commission.
(iii) There were 500 shares of ₹ 40 each in Vision Ltd., acquired at a cost of ₹ 22,000 and had been written-off completely from the books. These shares are now valued at ₹ 50 each and divided among the partners in their profit sharing ratio.

2. Avni, Avantika and Aashi are partners. They decided to dissolve the firm. Pass the necessary journal entries for the following after the various assets (other than cash and bank) and outside liabilities have been transferred to realisation account.

(i) Aashi paid realisation expenses of ₹ 15,000 out of her pocket and she was to get remuneration of ₹ 18,000 for completing the dissolution process.
(ii) A contingent liability (not provided for) of ₹ 4,000 was also discharged.
(iii) The firm had a debit balance of ₹ 27,000 in the profit and loss account on the date of dissolution.

3. Pass the necessary journal entries for the following transactions on the dissolution of firm of Anju, Manju and Sanju (who were sharing profits in the ratio of 2 : 2 : 1) after the transfer of all assets (other than cash) and external liabilities to realisation account.

(i) Debtors were of ₹ 62,100. Anju takes over debtors amounted to ₹ 60,000 at ₹ 58,600 and the remaining debtors were sold to a debt collecting agency at 50% of the value.

(ii) Sundry assets were of ₹ 58,500. Manju is to take over some sundry assets at ₹ 36,000 (being 10% less than the book value). Sanju is to take over remaining sundry assets at 80% of the book value.

(iii) Sanju assumes the responsibility of discharge of Mrs Sanju's loan of ₹ 5,750 together with accrued interest of ₹ 1,150.

4. Ravi and Mukesh were partners in a firm sharing profits and losses equally. On 31st March, 2019 their firm was dissolved. On the date of dissolution. Their balance sheet showed stock of ₹ 60,000 and creditors of ₹ 70,000. After transferring stock and creditors to realisation account the following transactions took place

(i) Ravi took over 40% of total stock at 20% discount.

(ii) 30% of total stock was taken over by creditors of ₹ 20,000 in full settlement.

(iii) Remaining stock was sold for cash at a profit of 25%.

(iv) Remaining creditors were paid in cash at a discount of 10%.

Pass necessary journal entries for the above transactions in the books of the firm.

5. Simar, Raja and Rita were partners in a firm sharing profits and losses in the ratio of 2 : 2 : 1. The firm was dissolved on 31st March, 2019. After the transfer of assets (other than cash) and external liabilities to the realisation account, the following transactions took place

(i) A debtor whose debt of ₹ 90,000 had been written-off as bad, paid ₹ 88,000 in full settlement.

(ii) Creditors to whom ₹ 1,21,000 were due to be paid, accepted stock at ₹ 71,000 and the balance was paid to them by a cheque.

(iii) Raja had given a loan to the firm of ₹ 18,000. He was paid ₹ 17,000 in full settlement of his loan.

(iv) Investments were ₹ 53,000 out of which investments worth ₹ 43,000 were taken over by Simar at ₹ 52,000 and the balance of the investments were sold for ₹ 12,000.

Pass the necessary journal entries for the above transactions in the books of the firm.

Long Answer (LA) Type Questions

1. Mala, Neela and Kala were partners sharing profits in the ratio of 3:2:1. On 1st March, 2015, their firm was dissolved. The assets were realised and liabilities were paid off. The accountant prepared realisation account, partners' capital accounts and cash account, but forgot to post few amounts in these accounts.

You are required to complete these below given accounts by posting correct amounts.

Dr **Realisation Account** Cr

Particulars		Amt (₹)	Particulars		Amt (₹)
To Sundry Assets A/c			By Provision for Doubtful Debts A/c		1,000
Machinery	10,000		By Sundry Creditors A/c		15,000
Stock	21,000		By Sheela's Loan A/c		13,000
Debtors	20,000		By Repairs and Renewals Reserve A/c		1,200
Prepaid Insurance	400		By Cash A/c (Assets sold)		
Investments	3,000	54,400	Machinery	8,000	
To Mala's Capital A/c (Sheela's loan)		13,000	Stock	14,000	
To Cash A/c (Creditors paid)		15,000	Debtors	16,000	38,000
To Cash A/c (Dishonoured bill paid)		5,000	By Mala's Capital A/c (Investments)		2,000
To Cash A/c (Expenses)		800	By		...
		88,200			88,200

Dr **Partners' Capital Account** Cr

Particulars	Mala (₹)	Neela (₹)	Kala (₹)	Particulars	Mala (₹)	Neela (₹)	Kala (₹)
To ...	...	—	—	By	...	...	...
To ...	...	...	...	By	...	—	—
To Cash A/c	12,000	9,000	—	By Cash A/c	—	—	1,000
	23,000	15,000	3,000		23,000	15,000	3,000

Dr **Cash Account** Cr

Particulars	Amt (₹)	Particulars	Amt (₹)
To Balance b/d	2,800	By Realisation A/c (Creditors paid)	15,000
To Realisation A/c (Sale of assets)	38,000	By Dishonoured Bill A/c	5,000
To Kala's Capital A/c	1,000	By	...
		By Mala's Capital A/c	12,000
		By Neela's Capital A/c	9,000
	41,800		41,800

2. Rashi and Nashi were partners from 1st April, 2016 with capitals of ₹ 1,20,000 and ₹ 80,000 respectively. They shared profits in the ratio of 3 : 2. They carried on business for two years. In the first year ended 31st March, 2017, they earned a profit of ₹ 1,00,000 but in the second year ended 31st March, 2018, a loss of ₹ 40,000 was incurred. As the business was no longer profitable, they dissolved the firm on 31st March, 2018. Creditors on that date were ₹ 40,000. The partners withdrew for personal use ₹ 16,000 per partner per year. The assets realised ₹ 2,00,000. The expenses of realisation were ₹ 6,000.
Prepare realisation account, partners' capital accounts and cash account.

Answers

Multiple Choice Questions

***1.** (c)* ***2.** (a)* ***3.** (d)* ***4.** (a)* ***5.** (a)*