

CBSE Test Paper 02
Ch-6 Dissolution of Partnership

1. In what circumstances a partnership firm can be dissolve?
 - a. When all partners become insolvent
 - b. When business of the firm become unlawful
 - c. When Capital account of a partner shows negative balance
 - d. Both When all partners become insolvent and When business of the firm become unlawful
2. Realisation expenses of ₹8,000 were to be borne and paid by Mr X (a partner). Give entry.

a.

Bank A/c Dr	8000
To X's Capital account	8000

b.

Realisation A/c Dr	4000
To X's Capital account	4000

c.

Realisation A/c Dr	8000
To X's Capital account	8000

d. No Entry is to be recorded

3. Amount realized from the sale of assets will be transferred to _____ Account _____ side
 - a. Cash, Credit
 - b. Cash, Debit
 - c. Partners Capital, Debit
 - d. Realisation, Debit
4. Accumulated losses are transfer to _____ in _____ ratio
 - a. Capital account, Gaining ratio
 - b. Realisation account, Profit sharing ratio
 - c. Realisation account, Gaining sharing ratio
 - d. Partner's Capital account, Profit sharing ratio

5. Investment (face value ₹18000) were taken over by the partners in the profit-sharing ratio (5:4:3) at ₹12000. The firm has three partners A, B and C. Investment amount transfer to B's Capital account should be
 - a. ₹6000
 - b. ₹4000
 - c. ₹3000
 - d. ₹5000
6. Explain dissolution of a firm by (i) Agreement and (ii) Notice.
7. State the provisions of Section 48 of the Partnership Act 1932 regarding settlement of Accounts during the Dissolution of Partnership firm.
8. Distinguish between Realisation account and Revaluation account
9. What is Realisation Account?
10.
 - i. Partners' Capital Accounts
 - ii. Partners' loan accounts
 - iii. Loan by the spouse of a partner;

Which account(s) will not be transferred to Realisation" Account?

11. Pass Journal entries for the following:
 - a. Realisation expenses of Rs. 15,000 were to be met by Rahul, a partner, but were paid by the firm.
 - b. Ramesh, a partner, was paid remuneration of Rs. 25,000 and he was to meet all expenses.
 - c. Anuj, a partner, was paid remuneration of Rs. 20,000 and he was to meet all expenses. Firm paid an expense of Rs. 5,000.
12. Complete the missing figure in the following accounts:

Realisation Account

Dr.				Cr.

Particulars		Rs.	Particulars	Rs.
To Land and Building A/c		11,750	By Accounts Payable	25,200
To Stock A/c		8,000	By Joint Life Policy Reserve A/c	5,000
To Accounts Receivable (Debtors)		10,050	By X's Capital A/c(Stock)	9,000
To Investments A/c		31,350	By Y's Capital A/c(Building)	8,750
To Office Equipments A/c		--	By Z's Capital A/c(Debtors)	1,850
To Bank A/c		225	By Bank A/c(28,500 + 12,500)	41,000
To Bank A/c(25,200 + 250)		25,450		
To Capital A/cs(Profit)				
X	3/6 -- -			
Y	2/6---			
Z	1/6--	2,175		
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Partner's Capital Account

Dr.							Cr.
Particulars	X(Rs.)	Y(Rs.)	Z(Rs.)	Particulars	X(Rs.)	Y(Rs.)	Z(Rs.)
To Realisation A/c	--	--	--	By Balance b/d	15,000	10,000	5,000
To Bank A/c	10,088	3,975	4,512	By General Reserve	3,000	2,000	1,000
				By Realisation A/c	--	--	--
	19,088	12,725	6,362		19,088	12,725	6,362

Bank Account

Dr.			Cr.
Particulars	Rs.	Particulars	Rs.
To Balance b/d	3,250	By Realisation A/c	2235
To Realisation A/c(Assets Realised)	41,000	By Realisation A/c	25,450
		By X's Capital A/c	--
		By Y's Capital A/c	---
		By Z's Capital A/c	--
	--		--

13. X and Y are partners in the firm who decided to dissolve the firm. Assets and Liabilities are transferred to Realisation account. Pass necessary journal entries—
- a. Creditors were Rs 1,00,000. They accepted Building valued Rs 1,40,000 and paid cash to the firm Rs 40,000
 - b. Aman, an old customer whose account of Rs 1000 was written off as bad in the previous year paid 40% of the amount.
 - c. There were 300 shares of Rs 10 each in ABC Ltd which were acquired for Rs 2000 were now valued at Rs 6 each. These were taken over by the partners in the profit sharing ratio.
 - d. Profit on Realisation Rs 42000 was divided among the partners.
 - e. Land and Building (Book value Rs 1, 60,000) was sold for Rs 3,00,000 through a broker who charged 2% commission on the deal.
 - f. Plant and machinery (Book value Rs 60,000) was handed over to the creditor in full settlement of his claim.
14. Pass Journal entries for the following at the time of dissolution of a firm:
- a. Sale of Assets- Rs. 50,000
 - b. Payment of Liabilities- Rs. 10,000
 - c. A commission of 5% allowed to Mr. X a partner on sale of assets,
 - d. Realisation expenses amounted to Rs. 15,000. The firm had agreed with Amrit, a

partner to reimburse him upto Rs. 10,000

- e. Z, an old customer whose account for Rs. 6,000 was written off as bad in the previous year, paid 60% of the amount written off
- f. Investment (Book value Rs. 10,000) realised 150%.

15. P, Q, and R commenced business on 1st January, 2005 with capitals of P - Rs 2,00,000; Q - Rs 2,00,000 and R - Rs 1,00,000. Profit is shared in the ratio of 4: 3: 3. Capital carried interest @5% p.a. During the year 2005, the firm suffered a loss of Rs 1,50,000 before allowing interest on Capital. Drawing of each partner during the year was Rs. 20,000. On 31st December 2005, the partners agreed to dissolve the firm as it was no longer profitable. The creditors on that date were Rs 40,000. The assets realised a net value of Rs 3,20,000 and the expenses of realisation were Rs 7,000. Prepare the Realisation Account, Partners' Capital Account and Cash Account along with necessary working to close the books of the firm.

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Answer

1. d. Both When all partners become insolvent and When business of the firm become unlawful

Explanation: A firm is dissolved compulsorily in the following cases:

- i. when all the partners or all but one partner, become insolvent, rendering them incompetent to sign a contract;
- ii. When the business of the firm becomes illegal.

2. d. No Entry is to be recorded

Explanation: There is no need to record this entry because all the expenses of realization will be borne and paid by the partner. When a partner is ready to pay and borne the realization expenses, in such a case we do not record it in the books of accounts. It becomes the personal expense of partner.

3. b. Cash, Debit, **Explanation:** Amount realized from the sale of assets at the time of dissolution will be transferred to the cash account debit side. since sale of assets will increase cash.

Journal Entry : cash A/c Dr.

To Realisation Account

4. d. Partner's Capital account, Profit sharing ratio

Explanation: At the time of dissolution all accumulated profits and losses should be transferred to the partners capital account in their profit sharing ratio as they are treated as free reserves. so free reserves are distributed among partners.

5. b. ₹4000, **Explanation:** Amount to be transferred to B's Account:

Total amount of investment ₹18,000 but they have taken investment at ₹12,000

A's Share = $12,000 \times \frac{5}{12} = 5,000$

B's Share = $12,000 \times \frac{4}{12} = 4,000$

C's Share = $12,000 \times \frac{3}{12} = 3,000$

6. **I. Dissolution by agreement:** A firm may be dissolved with the consent of all the partners or in accordance with a contract between the partners. (Section 40)

II. Dissolution by the Court. At the suit of a partner, the Court may dissolve a firm.

7. According to section 48 of the partnership act 1932

- a. Losses including the deficiencies of Capitals are to be paid-
 1. First out of profits
 2. Next out of Capitals of the partners
 3. Lastly if required, by the partners individually in their profit sharing ratio.
- b. The Assets of the firm and the amount contributed by the partners to make up the deficiency of capital shall be applied for –
 1. First to pay the debts of the firm to the third parties.
 2. Partners Loan
 3. Partners capital

8.

Realisation Account	Revaluation Account
a) It is prepared in the case of Dissolution of Partnership firm	a) It is prepared in the case of Dissolution of Partnership.
b) This account is prepared to realise the assets & pay off the liabilities	b) This Account is prepared to revalue the assets and liabilities during Admission, Retirement and Death of the partner.
c) It comprises of all assets and liabilities.	c) It comprises of only those assets and liabilities which are revalued.
d) Its remaining balance is transferred to all the partners.	d) Its remaining balance is transferred to old partners.

9. Realisation account is a nominal account which is prepared at the time of dissolution of firm to record the realized value of assets and payment of the liabilities.

10. Partners' Capital Accounts and Partners' Loan Accounts are not transferred to the Realisation Account because both these accounts are internal accounts.

11. **Journal Entries**

Date	Particulars	L.F.	Dr.	Cr.

i	Rahul's Capital A/c.....Dr.		15,000	
	To Bank A/c			15,000
	(Being expenses on realisation payable by partner.)			
ii	Realisation A/c.....Dr.		25,000	
	To Ramesh Capital A/c			25,000
	(Being Remuneration paid to partner for expenses on realisation.)			
iii	Realisation A/c.....Dr.		20,000	
	To Anuj's Capital A/c			15,000
	To Cash A/c			5,000
	(Being Remuneration paid to partner and expenses paid on realisation .)			

12. Complete the missing figure in the following accounts:

Realisation Account

Dr.				Cr.
Particulars		Rs.	Particulars	Rs.
To Land and Building A/c		11,750	By Accounts Payable	25,200
To Stock A/c		8,000	By Joint Life Policy Reserve A/c	5,000
To Accounts Receivable (Debtors)		10,000	By X's Capital A/c(Stock)	9,000
To Investments A/c		31,350	By Y's Capital A/c(Building)	8,750

To Office Equipments A/c(after subtracting all dr side total from cr side) (w.note 1)		1,850	By Z's Capital A/c(Debtors)	1,850
To Bank A/c		225	By Bank A/c(28,500 + 12,500)	41,000
To Bank A/c(25,200 + 250)		25,450		
To Capital A/cs(Profit)				
X(2,175 x 3/6)	1,088			
Y(2,175 x 2/6)	725			
Z(2,175 x 1/6)	362	2,175		
		90,800	(after adding all items)	90,800

Partner's Capital Account

Dr.							Cr.
Particulars	X(Rs)	Y(Rs)	Z(Rs)	Particulars	X(Rs.)	Y(Rs.)	Z(Rs.)
To Realisation A/c(all bold items are transferred from cr side of realisation)	9,000	8,750	1,850	By Balance b/d	15,000	10,000	5,000
To Bank A/c	10,088	3,975	4,512	By General Reserve	3,000	2,000	1,000
				By Realisation A/c(transferred profit from realisation)	1,088	725	362

	19,088	12,725	6,362		19,088	12,725	6,362
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Bank Account

Dr.			Cr.
Particulars	Rs.	Particulars	Rs.
To Balance b/d	3,250	By Realisation A/c	2235
To Realisation A/c(Assets Realised)	41,000	By Realisation A/c	25,450
		By X's Capital A/c(transferred from capital a/c dr side)	10,088
		By Y's Capital A/c(transferred from capital a/c dr side)	3,975
		By Z's Capital A/c(transferred from capital a/c dr side)	4,512
	44,250		44,250

Working notes 1. Total of the credit side of realisation a/c = 90,800 -
 (11,750+8,000+10,000+31,350+225+25,450+2,175)=1,850

13.

Date	Particulars		L.F.	Debit (Rs.)	Credit (Rs.)
(a)	Cash A/c	Dr.		40,000	...
	To Realisation A/c			...	40,000
	(Being cash Received from the creditor after adjusting value of Building Rs 1,40,000 against his dues)			...	...
(b)	Cash a/c	Dr.		400	...
	To Realisation A/c			...	400
	(Being Cash Received from a debtor whose			...	...

	account was Written off Earlier)				
(c)	X's Capital a/c	Dr.		900	...
	Y's Capital a/c	Dr.		900	...
	To Realisation A/c (300*6)			...	1800
	(Being Investment taken over by the partners)			...	...
(d)	Realisation a/c	Dr.		42,000	...
	To X's Capital A/c			...	21,000
	To Y's Capital A/c			...	21,000
	(Being Profit on Realisation distributed among the partners)			...	...
(e)	Cash a/c	Dr		2,94,000	...
	To Realisation a/c			...	2,94,000
	(Being Land and Building realized after brokerage)			...	...
	Realisation A/c	Dr.		6000	
	To Cash A/c				6000
	(Being Brokerage paid @ 2%)				
(f)	NO JOURNAL ENTRY			...	...

Note : If an asset is given in payment of a liability, no entry is passed for such payment.

14.

Journal Entries

Date	Particulars	L.F.	Dr.	Cr.
i	Cash AccountDr.		50,000	
	To Realisation Account			50,000
	(Being assets realised.)			

ii	Realisation AccountDr.		10,000	
	To Cash Account			10,000
	(Being Liabilities paid.)			
iii	Realisation AccountDr.		2,500	
	To Mr. X's Capital Account			2,500
	(Being commission allowed to partner.)			
iv	Realisation AccountDr.		10,000	
	To Amit's Capital Account			10,000
	(Being realisation expense reimbursed.)			
v	Bank AccountDr.		3,600	
	To Realisation Account			3,600
	(Being Previously written off recover upto 60%)			
vi	Bank AccountDr.		15,000	
	To Realisation Account			15,000
	(Being investment realised 150%)			

15.

Realisation Account

Particulars	Amount Rs	Particulars	Amount Rs
To Sundry Assets A/c(WN 3)	3,30,000	By Creditors A/c	40,000
To Cash A/c(Expenses)	7,000	By Cash A/c(Assets Realised)	3,20,000
To Cash A/c(Creditors)	40,000	By Loss on Realisation transferred to:	
		P's Capital A/c 6,800	
		Q's Capital A/c 5,100	

		R's Capital A/c 5,100	17,000
	3,77,000 =====		3,77,000 =====

Partner's Capital Account

Particulars	P Amount (Rs)	Q Amount (Rs)	R Amount (Rs)	Particulars	P Amount (Rs)	Q Amount (Rs)	R Amount (Rs)
To Realisation A/c (Loss)	6,800	5,100	5,100	By Balance b/d (WN 1)	1,20,000	1,35,000	35,000
To Cash A/c (Balancing Figure)	1,13,200	1,29,900	29,900				
	1,20,000	1,35,000	35,000		1,20,000	1,35,000	35,000

Cash Account

Particulars	Amount Rs	Particulars	Amount Rs
To Realisation A/c(Assets Realised)	3,20,000	By Realisation A/c(Expenses)	7,000
		By Realisation A/c(Creditors)	40,000
		By P's Capital A/c	1,13,200
		By Q's Capital A/c	1,29,900
		By R's Capital A/c	29,900
	3,20,000 =====		3,20,000 =====

Working Notes: Calculation of partners' capital as on 31st December 2005, i.e., date of dissolution.

Partner's Capital Account(Before Dissolution)

Particulars	P Amount (Rs)	Q Amount (Rs)	R Amount (Rs)	Particulars	P Amount (Rs)	Q Amount (Rs)	R Amount (Rs)
To Profit and Loss A/c(Loss)	60,000	45,000	45,000	By Balance b/d(1.1.2005)	2,00,000	2,00,000	1,00,000
To Drawings A/c	20,000	20,000	20,000				
To Balance c/d	1,20,000	1,35,000	35,000				
	2,00,000	2,00,000	1,00,000		2,00,000	2,00,000	1,00,000

1. In case of loss, interest on capital will not be allowed.
2. Calculation of Sundry Assets as on 31st December 2005.

Memorandum BalanceSheet

Liabilities	Amount (Rs)	Assets	Amount (Rs)
Creditors	40,000	Sundry Assets (Balancing Figure)	3,30,000
Capital A/Cs:			
P 1,20,000			
Q 1,35,000			
R 35,000	2,90,000		
	3,30,000 =====		3,30,000 =====

When the relation between all the partners of the firm comes to an end, this is called

dissolution of the firm. Section 39 of the Indian Partnership Act, provides that “the dissolution of the partnership between all the partners of a firm is called the dissolution of a firm.” It implies the complete break down of the relation of partnership between all the partners.