

CBSE Test Paper 03
Ch-6 Dissolution of Partnership

1. In case of deficiencies, losses will be met first from____
 - a. Creditors
 - b. Capitals of the partners
 - c. Personal Property of partners
 - d. Bankers
2. Which of the following Reserve or fund is not transferred to the Realisation Account?
 - a. Reserve for doubtful debts
 - b. Contingency Reserve
 - c. Investment Fluctuation Reserve
 - d. Employee Provident Fund
3. Money realised from the sale of unrecorded assets is debited to the _____
 - a. Cash Account
 - b. Partners capital account
 - c. Revaluation Account
 - d. Balance Sheet
4. What journal entry you will record to close the partners' capital accounts showing positive balance at the time of dissolution?
 - a. Partner's Capital A/c Dr.
 To Realisation A/c
 - b. Partner's Capital A/c Dr.
 To Cash/Bank A/c
 - c. Cash/Bank A/c Dr.
 To Partner's Capital A/c
 - d. Cash/Bank A/c Dr.
 To Realisation A/c
5. Z one partner was paid remuneration (including expenses) of ₹9,000 to carry out dissolution of the firm. Actual realization expenses were ₹11,500. How will you record this?

a.

Realisation A/c	2,500
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To Z's Capital A/c	2,500
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b.

Realisation A/c	11,500
To Z's Capital A/c	11,500

c.

Realisation A/c	9,000
To Z's Capital A/c	9,000

d. No Entry

6. How is a new partner admitted?
7. Leela and Meeta were partners in a firm sharing profits and losses in the ratio of 5:3. On 1st Jan. 2017 they admitted Om as a new partner. On the date of Om's admission the balance sheet of Leela and Meeta showed a balance of Rs 16,000 in general reserve and Rs 24,000 (Cr) in Profit and Loss Account. Record necessary journal entries for the treatment of these items on Om's admission. The new profit sharing ratio between Leela, Meeta and Om was 5:3:2.
8. X and Y are partners in a firm sharing profits and losses in 4:3 ratio. They admitted Z for 1/8 share. Z brought Rs. 20,000 for his capital and Rs. 7,000 for his 1/8 share of goodwill. Subsequently, X, Y, and Z decided to show goodwill in their books at Rs. 40,000. Show necessary journal entries in the books of X, Y, and Z?
9. Why is it necessary to revalue assets and reassess liabilities of a firm in case of admission of a new partner?
10. Why should a new partner contribute towards goodwill on his admission?
11. X, Y and Z are partners in a firm sharing profits in the ratio of 3 : 2 : 1 respectively. The firm was dissolved on 1.3.2013. After transferring assets (other than cash) and third party liabilities to the 'Realisation account' you are provided with the following information:
 - i. There was a balance of Rs. 18,000 in the firm's Profit and Loss Account.
 - ii. There was an unrecorded bike of Rs. 50,000 which was taken over by X.

iii. Creditors of Rs. 5,000 were paid Rs. 4,000 in full settlement of accounts.

Pass necessary Journal entries for the above at the time of dissolution of firm.

12. Journalise the following transactions regarding Realisation expenses:

- a. Realisation expenses amounted to Rs 2,500.
- b. Realisation expenses amounting to Rs 3,000 were paid by Ashok, one of the partners.
- c. Realisation expenses Rs 2,300 borne by Tarun, personally.
- d. Amit, a partner was appointed to realise the assets, at a cost of Rs 4,000. The actual amount of Realisation amounted to Rs 3,000.

13. What journal entries will be recorded for the following transactions on the dissolution of a firm:

- a. Payment of unrecorded liabilities of Rs 3,200.
- b. Stock worth Rs 7,500 is taken by a partner Rohit.
- c. Profit on Realisation amounting to Rs 18,000 is to be distributed between the partners Ashish and Tarun in the ratio of 5:7.
- d. An unrecorded asset realised Rs 5,500.

14. Adiraj and Karan were partners in a firm sharing profits and losses in the ratio 3:2.

On 31st March 2018, the firm was dissolved. After the transfer of assets (other than cash in hand and at bank) and third party liabilities to the Realization Account, the following information was provided :

- i. Furniture of Rs.70,000 was sold for Rs.68,000 by auction and auctioneer's commission amounted to Rs.2,000.
- ii. Adiraj's loan amounting to Rs.35,000 was paid.
- iii. Out of the stock of Rs.80,000, Karan 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.
- iv. A bills receivable of Rs.3,000 under discount was dishonoured as the acceptor had become insolvent and hence the bill had to be met by the firm.
- v. Profit and Loss Account showed a debit balance of Rs.56,000.
- vi. Realization expenses amounted to Rs.2,000 which were paid by Adiraj.

Pass the necessary journal entries for the above transactions on the dissolution of the firm.

15. Ashu and Harish are partners sharing profit and losses as 3:2. They decided to dissolve the firm on December 31, 2017. Their balance sheet on the above date was:

Balance Sheet of Ashu and Harish as on December 31, 2017

Liabilities		Amount Rs	Assets	Amount Rs
Capitals:			Building	80,000
Ashu	1,08,000		Machinery	70,000
Harish	54,000	1,62,000	Furniture	14,000
Creditors		88,000	Stock	20,000
Bank overdraft		50,000	Investments	60,000
			Debtors	48,000
			Cash in hand	8,000
		3,00,000		3,00,000

Ashu is to take over the building at Rs 95,000 and Machinery and Furniture is take over by Harish at value of Rs 80,000. Ashu agreed to pay Creditor and Harish agreed to meet Bank overdraft. Stock and Investments are taken by both partner in profit sharing ratio. Debtors realised for Rs 46,000, expenses of Realisation amounted to Rs 3,000. Prepare necessary ledger Account.

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Answer

1. b. Capitals of the partners, **Explanation:** In case of deficiencies or losses including deficiencies of capital are to be paid first out of the capitals of the partners. When it is difficult to recover the losses from the capitals of the partners only then their personal property can be used.
2. b. Contingency Reserve, **Explanation:** Contingency Reserves is a free reserve which is not transferred to the Realisation account at the time of dissolution of a partnership firm. Other reserves or funds (given in the above question) will be transferred to the Realisation account.
3. a. Cash Account, **Explanation:** Money realized from the sale of an unrecorded asset at the time of dissolution of partnership firm, should be shown in the credit side of realization account and debit side of cash account.
4. b. Partner's Capital A/c Dr.
To Cash/Bank A/c
Explanation: since partner capital account is being closed cash is paid to the partner so it is credited.

5. c.

Realisation A/c	9,000
To Z's Capital A/c	9,000

Explanation: Partner is getting Rs.9,000 remuneration but expenses paid by him Rs.11,500. He is paying Rs.2,500 from his pocket. In simple words, excess 2,500 will be paid and borne by the partner so it should not be recorded. We record only 9,000 which is paid by the firm.

6. A new partner can be admitted into a firm with the consent of all the existing partners. e.g. if there are five partners in a firm and all the partners except one of the partners want to admit a new partner, the new partner cannot be admitted in the firm.

7.

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Date	Particulars	L.F.	Dr. Rs.	Cr. Rs.
01.01.17	General Reserve A/c Dr.		16,000	
	Profit and Loss A/c Dr.		24,000	
	To Leela's Capital A/c			25,000
	To Meeta's Capital A/c			15,000
	(Being general reserve and the credit balance of Profit and Loss a/c distributed between old partners in their old ratio, i.e., 5 : 3.)			

8. Note: Goodwill Rs 40,000 cannot be raised.

As because according to A.S. 26 : INTANGIBLE ASSETS, Goodwill can be shown in the books only if money and money's worth is paid for it. Here no money or money's worth has been paid for Goodwill. So, we can't raise the goodwill.

But entry for capital and premium for goodwill will pass normally;

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Date	Particulars	L.F.	Dr. Rs.	Cr. Rs.
i	Cash A/c Dr.		27,000	
	To Z's Capital A/c			20,000
	To Premium for Goodwill A/c			7,000
	(Being capital and premium for goodwill brought by Z in cash.)			
ii	Premium for Goodwill A/c Dr.		7,000	
	To X's Capital A/c			4,000

	To Y's Capital A/c			3,000
	(Being premium for goodwill transferred to Old Partners in Sacrificing Ratio.)			

9. The revaluation of assets and reassessment of liabilities must take place at that point because the new partner should neither benefit nor suffer because of change in the value of assets and liabilities as on the date of admission.
10. New partner gets a share of profits, which is sacrificed by the old partners. He has to compensate the old partners for the share of profit sacrificed by them. The amount of compensation given by the new partner is known as goodwill, which may be paid by bringing cash or by debiting gaining partners capital A/c.

11. Journal Entries

Date	Particulars	L.F.	Dr.	Cr.
a	Profit and Loss A/cDr.		18,000	
	To X's capital A/c			9,000
	To Y's capital A/c			6,000
	To Z capital A/c			3,000
	(Being Profit and Loss distributed.)			
b	X's capital A/cDr.		50,000	
	To Realisation A/c			50,000
	(Being Unrecorded bike taken over by partner.)			
c	Realisation A/cDr.		4,000	
	To Bank A/c			4,000
	(Being creditors paid.)			

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	Particulars		L.F.	Amount (Rs)	Amount (Rs)
(a)	Realisation A/c	Dr.		2,500	
	To Bank A/c				2,500
	(Being Realisation expenses paid)				
(b)	Realisation A/c	Dr.		3,000	
	To Ashok's Capital A/c				3,000
	(Being Realisation expenses paid by Ashok)				
(c)	No entry, as all Realisation expenses are borne and paid personally by Tarun				
(d)	Realisation A/c	Dr.		4,000	
	To Amit's Capital A/c				4,000
	(Being Realisation expenses paid to Amit)				

It is to be noted that in case (a) the question does not specify who is to bear the dissolution expenses, then the expenses are treated to be borne and paid by the firm.

It is assumed that all the transactions are carried through Bank A/c

13.

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Date	Particulars		L.F.	Amount (Rs)	Amount (Rs)
(a)	Realisation A/c	Dr.		3,200	
	To Bank A/c				3,200
	(Being Unrecorded liabilities paid)				
(b)	Rohit's Capital A/c	Dr.		7,500	
	To Realisation A/c				7,500
	(Being Stock is taken over by Rohit)				

(c)	Realisation A/c	Dr.	18,000	
	To Ashish's Capital A/c			7,500
	To Tarun's Capital A/c			10,500
	(Being Profit on Realisation is transferred to Partners' Capital Account in ratio 5:7)			
(d)	Bank A/c	Dr.	5,500	
	To Realisation A/c			5,500
	(Being Unrecorded asset realised)			

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

14.

Journal Entries

Date	Particulars	L.F.	Dr. (Rs.)	Cr. (Rs.)
1	Bank A/c.....Dr.		66,000	
	To Realisation A/c			66,000
	(Being furniture realised.)			
2	Adiraj's loan A/c.....Dr.		35,000	
	To Bank A/c			35,000
	(being partners loan settled.)			
3	Karan's Capital A/c.....Dr.		32,000	
	To Realisation A/c			32,000
	(Being half the stock taken over by partner.)			
-	Bank A/c.....Dr.		52,000	
	To Realisation A/c			52,000
	(Being reamining stock sold at 30% profit.)			
4	Realisation A/c.....Dr.		3,000	

	To Bank A/c			3,000
	(Being dishonoured bill met.)			
5	Adiraj's Capital A/c.....Dr.		33,600	
	Karan's Capital A/c.....Dr.		22,400	
	To profit and loss A/c			56,000
	(being profit and loss debited to partners.)			
6	Realisation A/c.....Dr.		2,000	
	To Adiraj's Capital A/c			2,000
	(Being realisation expenses paid by partner.)			

15.

Books of Ashu and Harish
Realisation Account

Dr.				Cr.
Particulars		Amount Rs	Particulars	Amount Rs
To Building account		80,000	by Creditors	88,000
To Machinery account		70,000	by Bank overdraft	50,000
To Furniture account		14,000	by Ashu's Capital A/c (Assets taken)	1,43,000
To Stock account		20,000	by Harish's Capital A/c (Assets taken)	1,12,000
To Investments account		60,000	by Cash (Debtors)	46,000
To Debtors		48,000		
To Ashu's Capital A/c (Creditors)		88,000		
To Harish's Capital A/c (Bank				

Overdraft)		50,000		
To Cash (Expenses)		3,000		
To Profit transferred to				
Ashu's Capital A/c	3,600			
Harish's Capital A/c	2,400	6,000		
		4,39,000		4,39,000

Partners' Capital Account

Dr.					Cr.
Particulars	Ashu	Harish	Particulars	Ashu	Harish
To Realisation (Assets taken)	1,43,000	1,12,000	by Balance b/d	1,08,000	54,000
To Cash	56,600		By Realisation (Liabilities)	88,000	50,000
			By Realisation (Profit)	3,600	2,400
			By Cash		5,600
	1,99,600	1,12,000		1,99,600	1,12,000

Cash Account

Dr.			Cr.
Particulars	Amount Rs	Particulars	Amount Rs
To Balance b/d	8,000	by Realisation (Expenses)	3,000
To Realisation (Debtors)	46,000	by Ashu's Capital A/c	56,600
To Harish's Capital A/c	5,600		
	59,600		59,600

Working note: 1

Profit on Realisation =6000

Ashu's Capital account $(6000 \times 3/5) = 3600$

Harish capital account $(6000 \times 2/5) = 2400$

Working note 2:

Capital assets taken by Ashu

Building + (stock and investment) in profit sharing ratio

$95000 + (60000 + 20000) \times 3/5$

$= 95000 + 80000 \times 3/5$

$= 143000$

Capital Assets taken by harish

Machinery + building + (stock+investment) $\times 2/5$

$= 70000 + 14000 + (80000 \times 2/5)$

$= 84000 + 32000$

$= 112000$