

CBSE Test Paper 01
Ch-6 Dissolution of Partnership

1. Match the following

When assets are sold for cash	(i) Bank A/c Dr To Realisation A/c
When an asset is taken over by a partner	No entry
When the assets are given to any of the creditors towards the payment of his dues	Partner Capital A/c Dr To Realisation A/c

Choose the correct option from below

- a. a(iii), b(ii), c(i)
 - b. a(i), b(iii), c(ii)
 - c. a(ii), b(iii), c(i)
 - d. a(i), b(ii), c(iii)
2. Name the Account which is prepared for finding the profit or loss on getting amount from selling of all assets and paying amount of liabilities.
- a. Dr. side of Realisation Account
 - b. Dr. side of Revaluation Account
 - c. Realisation Account
 - d. Cr.Side of Revaluation Account
3. What should be the journal entry when A takes over loan payable to Mrs. A ₹20000

a.

RealisationA/cDr.	20000
To A's CapitalA/c	20000

b.

Bank A/cDr.	58000
To A's CapitalA/c	58000

c.

RelisationA/cDr.	58000
To BankA/c	58000

d.

LoanA/cDr.	58000
To A's Capital A/c	58000

4. Bank Loan ₹29,000 was paid at the time of dissolution. What journal entry will be recorded for the same?

a.

Bank Loan A/c Dr.	29,000
To Bank Loan A/c	29,000

b.

Realisation A/c Dr.	29,000
To Bank A/c	29,000

c.

Bank A/c Dr.	29,000
To Realisation A/c	29,000

d.

Bank Loan A/c Dr.	29,000
To Bank A/c	29,000

5. As per which section of the Indian Partnership Act, 1932, at the suit of a partner, the Court may dissolve a firm?

- Section 04
- Section 44
- Section 48
- Section 31

6. At the time of the dissolution of the firm, how undistributed profits such as General Reserve, Credit Balance of P&L A/C are dealing with?

7. The firm of Ravi and Mohan was dissolved on 1.3.2013. According to the agreement Ravi had agreed to undertake the dissolution work for an agreed remuneration of Rs.2,000 and bear all realisation expenses. Dissolution expenses were Rs. 1,500 and the same were paid by the firm. Pass necessary journal entry for the payment of dissolution expenses.

8. When an asset is taken over by a partner, why is his capital account debited?

9. What is the dissolution of partnership?

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10. Identify a situation, under which court may order for dissolution of a partnership firm.
11. Pass Journal entries in the following cases-
- Expenses of Realisation Rs. 1,500
 - Expenses of Realisation Rs. 600, but paid by Mohan, a partner,
 - Mohan, one of the partners of the firm, was asked to look into the dissolution of the firm for which he was allowed a commission of Rs. 2,000.
 - Motor car of book value 50,000 taken over by creditors of the book value of Rs. 40,000 in final settlement.
12. A and B share profits and losses in the ration of 5:2. They have decided to dissolve the firm. Assets and external liabilities have been transferred to Realisation A/c. Pass the Journal Entries to affect the following:
- Bank Loan of Rs. 12,000 is paid off.
 - A was to bear all expenses of Realisation for which he is given to commission of Rs. 400.
 - Deferred Advertisement Expenditure A/c appeared in the book at Rs. 28,000.
 - Stock worth Rs. 1,600 was taken over by B at Rs. 1,200.
 - As unrecorded Computer realized Rs. 7,000.
 - There was an outstanding bill for repairs for Rs. 2,000. Which was paid off.
13. The amount of sundry assets transferred to Realisation Account was Rs 80,000. 60% of them have been sold at a profit of Rs. 2,000. 20% of the remaining were sold at a discount of 30% and remaining were taken over by Ramlal (a partner) at book value. Journalise.
14. Rohit, Kunal and Sarthak are partners in a firm. They decided to dissolve their firm. Pass necessary Journal entries for the following after various assets (other then Cash and Bank) and the third party liability have been transferred to Realisation Account:
- Kunal agreed to pay off his wife's loan of Rs. 6,000.
 - Total Creditors of the firm were Rs. 40,000. Creditors worth Rs. 10,000 were given a piece of furniture costing Rs. 8,000 in full and final settlement. Remaining Creditors allowed a discount of 10%.
 - Rohit had given a loan of Rs. 70,000 to the firm which was duly paid.
 - A machine which was not recorded in the books was taken over by Kunal at Rs. 3,000 whereas its expected value was Rs. 5,000.

- e. The firm had a debit balance of Rs. 15,000 in the Profit and Loss Account on the date of dissolution.
- f. Sarthak paid the realisation expenses of Rs. 16,000 out of his private funds, who was to get a remuneration of Rs. 15,000 for completing dissolution process and was responsible to bear all the realisation expenses.
15. Kumar, Shy am and Ratan were partners in a firm sharing profits in the ratio of 5: 3 : 2 respectively. They decided to dissolve the firm with effect from 1st April, 2013. On that date, the balance sheet of the firm was as follows

Balance Sheet
as at 1st April, 2013

Liabilities		Amt (Rs.)	Assets	Amt (Rs.)
Creditors		1,20,000	Plant	80,000
Capital A/cs			Furniture	45,000
Kumar	68,000		Motor Van	25,000
Shyam	50,000		Stock	30,000
Ratan	<u>27,000</u>	1,45,000	Debtors	71,000
			Cash	14,000
		<u>2,65,000</u>		<u>2,65,000</u>

The dissolution resulted in the following

- i. Plant of Rs. 40,000 was taken over by Kumar at an agreed value of Rs. 45,000 and remaining plant realised Rs. 50,000.
- ii. Furniture realised Rs. 40,000.
- iii. Motor van was taken over by Shyam for Rs. 30,000.
- iv. Debtors realised Rs. 1,000 less.
- v. Creditors for Rs. 20,000 were untraceable and the remaining creditors were paid in full.
- vi. Realisation expenses amounted to Rs. 5,000.

Prepare the realisation account, capital accounts of partners and bank account of the firm.

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Answer

1. b. a(i), b(iii), c(ii)

Explanation: Situation 1 : When assets are sold for cash (Bank A/c Dr. and Realisation A/c Cr.)

Situation 2 : When asset is taken over by a partner (Partner's Capital A/c Dr. and Realisation A/c Cr.)

Situation 3 : When the assets are given to any of the creditors towards the payment of his dues (No Entry in such case).

2. c. Realisation Account, **Explanation:** realisation account is nominal account. assets sold are recorded on the credit side and liabilities paid off are recorded on the debit side. if credit side is more it is profit and if the debit side is more it is loss.

3. a.

RealisationA/cDr.	20000
To A's CapitalA/c	20000

Explanation: When a liability is taken over by a partner, in such a case do not use cash/bank account for the settlement of that liability.

4. b.

Realisation A/c Dr.	29,000
To Bank A/c	29,000

Explanation: Repayment of bank loan will take place in debit side of realization account. This transaction will effect only two accounts i.e. Realisation Account and Bank Account.

5. b. Section 44, **Explanation:** Section 44 of the Indian Partnership Act, 1932 states that at the suit of a partner, the Court may dissolve a firm.
6. Undistributed profits are distributed among all partners in their profit-sharing ratio in the Cr side of respective partner's capital account.

7.

Journal

Date	Particulars	L.F.	Debit (Rs.)	Credit (Rs.)
	Ravi's Capital A/c Dr.		1,500	...
	To Bank A/c		...	1,500
	(Being expenses of realisation paid by the firm recovered from Ravi as he is supposed to bear realisation expenses)		...	...

Note: As Ravi is supposed to bear the Realisation Expenses so if these are paid by the firm; the firm has right to recover it from Ravi. Hence, Ravi's account has been debited and Bank account has been credited.

8. It is debited because the partner's claim over the firm is decreased by the amount of asset taken over by him, thus his capital account is decreased.

9. Dissolution of partnership refers to the change in the existing relations of the partners. The firm continues its business. As one or more than one can partner take over the overall business of the firm.

10. A court may order for dissolution of a partnership firm on insolvency of all the partners or all the partners except one become insolvent.

11.

Journal

Date	Particulars	L.F.	Dr.	Cr.
i	Realisation A/c.....Dr.		1,500	
	To Cash A/c			1,500
	(Being expense on realisation paid.)			
ii	Realisation A/c.....Dr.		600	
	To Mohan's Capital A/c			600
	(Being expense on realisation paid by partner.)			

iii	Realisation Account.....Dr.		2,000	
	To Mohan's Capital A/c			2,000
	(Being expense on realisation paid to Mohan.)			
iv	No Entry			

12. **Journal**

Date	Particulars	L.F.	(Rs.)	(Rs.)
(a)	Realisation A/c	Dr.	12,000	.....
	To Bank A/c (Being bank loan discharged)		.....	12,000
(b)	Realisation A/c	Dr.	400	....
	To A's Capital A/c (Being commission to A credited to A's Capital Account)		....	400
(c)	A's Capital A/c	Dr.	20,000	...
	B's Capital A/c	Dr.	8,000	....
	To Deferred Advertisement Expenditure A/c (Being the deleted advertisement expenditure written off by debiting Partner's Capital Account in Ratio 5:2, i.e. Profit Sharing Ratio)		....	28,000
(d)	B's Capital A/c	Dr.	1,200	...
	To Realisation A/c (Being Stock taken over by B at Rs. 1,200 at agreed value)		....	1,200
(e)	Bank A/c	Dr.	7,000	....
	To Realisation A/c (Being unrecorded computer sold for Rs. 7,000)		....	7,000
(f)	Realisation A/c	Dr.	2,000

	To Bank A/c (Being outstanding bill paid for repairs)		2,000
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13.

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Date	Particulars		L.F.	Amount Rs.	Amount Rs.
	Bank A/c	Dr.		54,480	
	To Realisation A/c (Being assets having the book value of Rs. 48,000 were sold for Rs. 50,000 and assets having the book value of Rs. 6,400 were sold for Rs. 4,480)				54,480
	Ramlal's Capital A/c	Dr.		25,600	
	To Realisation A/c (Being assets having the book value of Rs. 24,000 were taken over by Ramlal at this value)				25,600
	or				
	Bank A/c	Dr.		54,480	
	Ramlal's Capital A/c	Dr.		25,600	
	To Realisation A/c				80,400
	(Being assets having the book value of Rs. 48,000 were sold for Rs. 50,000 and assets having the book value of Rs. 6,400 were sold for Rs. 4,480 & assets having the book value of Rs. 24,000 were taken over by Ramlal at this value)				

Working Notes :

i. Calculation of amount realised from assets

a.

60% of Rs. 80,000	48,000
Add: Profit on Sale	2,000
	50,000

b.

30% of the remaining (i.e, (20/100 (Rs. 80,000 - Rs. 48,000))	6,400
Less: 30% Discount	1,920
	4,480

Total amount realised from assets Rs. 50,000 + Rs. 4,480 = Rs. 54,480

ii. Calculation of value of assets taken off by Ramlal

The total Book value of assets	80,000
Less: Book Values of assets sold	54,400
	25,600

14.

Journal Entries

Date	Particulars	L.F.	Dr.	Cr.
i	Realisation Account .....Dr.		6,000	
	To Kunal's Capital Account			6,000
	(Being Liabilities taken over by a partner.)			
ii	Realisation Account .....Dr.		27,000	
	To Bank Account			27,000
	(Being payments of liabilities.)			
iii	Rohit's Loan Account .....Dr.		70,000	
	To Bank Account			70,000

	(Being Partner's Loan paid.)			
iv	Kunal's Capital Account .....Dr.		3,000	
	To Realisation Account			3,000
	(Being unrecorded Assets taken over by a partner.)			
v	Rohit's Capital Account .....Dr.		5,000	
	Kunal's Capital Account .....Dr.		5,000	
	Sarthak's Capital Account .....Dr.		5,000	
	To Profit & Loss Account			15,000
	(Being P & L distributed.)			
vi	Realisation Account .....Dr.		15,000	
	To Sarthak Capital Account			15,000
	(Being realisation Expense borne by a partner.)			

15.

		Realisation Account			Cr
Particulars		Amt (Amt)	Particulars		Amt (Amt)
<u>To Sundry Assets A/c</u>			By Sundry Liabilities A/c (Creditors)		1,20,000
Plant	80,000		By Kumar's Capital A/c (Plant taken over)		45,000
Furniture	45,000		By Shyam's Capital A/c (Motor van taken over)		30,000
Motor Van	25,000		<u>By Cash A/c</u>		
Stock	30,000		Plant	50,000	
Debtors	<u>71,000</u>	2,51,000	Furniture	40,000	
To Cash A/c (Creditors WN2)		1,00,000	Debtors (71,000 - 1,000)	<u>70,000</u>	1,60,000

To Cash A/c (Expenses)		5,000	<u>By Loss on Realisation Transferred to (WN1)</u>		
			Kumar's Capital A/c	500	
			Shyam's Capital A/c	300	
			Ratan's Capital A/c	<u>200</u>	1,000
		<u>3,56,000</u>			<u>3,56,000</u>

NOTE : In the absence of any information of realisation of an asset, it has been assumed that nothing is realised from that asset (e.g. stock in this case).

Dr	Partners' Capital Account						Cr
Particular	Kumar (Rs.)	Shyam (Rs.)	Ratan (Rs.)	Particular	Kumar (Rs.)	Shyam (Rs.)	Ratan (Rs.)
To Realisation A/c (Assets taken over)	45,000	30,000	---	By Balance b/d	68,000	50,000	27,000
To Realisation A/c (Loss on the realisation)	500	300	200				
To Cash A/c (Final Payment)	22,500	19,700	26,800				
	<u>68,000</u>	<u>50,000</u>	<u>27,000</u>		<u>68,000</u>	<u>50,000</u>	<u>27,000</u>

Dr.	Cash Account		Cr
Particulars	Amt (Rs.)	Particulars	Amt (Rs.)
To Balance b/d	14,000	By Realisation A/c (Creditors)	1,00,000
To Realisation A/c (Plant, Furniture and debtors realised)	1,60,000	By Realisation A/c (Expenses)	5,000
		By Kumar's Capital A/c	

		(Final Payment)	22,500
		By Shyam's Capital A/c (Final Payment)	19,700
		By Ratan's Capital A/c (Final Payment)	26,800
	<u>1,74,000</u>		<u>1,74,000</u>

working notes:

1. Loss on Realisation = 1,000

Loss on Realisation transferred to Kumar's capital account = $1,000 \times 5/10 = 500$

Loss on Realisation transferred to Shyam's capital account = $1,000 \times 3/10 = 300$

Loss on Realisation transferred to Ratan's capital account = $1,000 \times 2 = 200$

2. Creditors = 1,20,000

Out of which 20,000 were untraceable

So the creditors were paid in full settlement amounting $1,20,000 - 20,000 = 1,00,000$