

# CHAPTER - 4

## DISSOLUTION OF PARTNERSHIP FIRM

### TEST YOUR UNDERSTANDING -I

**Question 1.** Dissolution of a partnership is different from dissolution of a firm.

**Answer** True

In dissolution of partnership, business continues whereas in dissolution of firm, the business is closed.

**Question 2. A partnership is dissolved when there is a death of a partner.**

**Answer** True

As a new partnership deed is to be made.

**Question 3. A firm is dissolved when all partners give consent to it.**

**Answer** True

As all partners agree to it.

**Question 4: A firm is compulsorily dissolved when a partner decide to retire.**

**Answer** False

The remaining partners may continue the business hence, it not necessary to dissolve the firm.

**Question 5. Dissolution of a firm necessarily involves dissolution of partnership.**

**Answer** True

When firm does not exist then partners have no business to do.

**Question 6. A firm is compulsorily dissolved when all partners or when all except one partner become involent.**

**Answer** True

As the partner becomes incompetent to sign the contract.

**Question 7. Court can order a firm to be dissolved when a partner becomes insane.**

**Answer** True

The court can order for dissolution when any partner files a suit for it.

**Question 8.** Dissolution of partnership can not take place without intervention of the court.

**Answer** False

Partnership can be dissolved with the consent of the partners also.

### TEST YOUR UNDERSTANDING -II

• Tick the correct answer

**Question 1.** On dissolution of a firm, bank overdraft is transferred to

- (a) cash account
- (b) bank account
- (c) realisation account
- (d) partner's capital account

**Answer** (c) Realisation account

**Question 2. On dissolution of a firm, partner's loan account is transferred to  
(a) realisation account (b) partner's capital account (c) partner's current account (d) None of these**

**Answer** (d) None of these

**Question 3. After transferring liabilities like creditors and bills payables in the realisation account, in the absence of any information regarding their payment, such liabilities are treated as**

**(a) never paid (b) fully paid (c) partly paid (d) None of these**

**Answer** (b) Fully paid

**Question 5. Unrecorded assets when taken over by a partner are shown in**

**(a) debit of realisation account**

**(b) debit of bank account**

**(c) credit of realisation account**

**(d) credit of bank account**

**Answer** (c) Credit of realisation account

**Question 6. Unrecorded liabilities when paid are shown in**

**(a) debit of realisation account**

**(b) debit of bank account**

**(c) credit of realisation account**

**(d) credit of bank account**

**Answer** (a) Debit of realisation account

**Question 7. The accumulated profits reserves are transferred to**

**(a) realisation account (b) partners' capital account**

**(c) bank account (d) None of these**

**Answer** (b) Partners' capital account

**Question 8. On dissolution of the firm, partner's capital accounts are closed through**

**(a) realisation account (b) drawings account**

**(c) bank account (d) loan account**

**Answer** (c) Bank account

## **TEST YOUR UNDERSTANDING – III**

• **Fill in the correct word(s)**

1. All assets (except cash/bank and fictitious assets) are transferred to the -----  
(Debit/Credit) side of ----- Account (Realisation/Capital).

**Answer: Debit, Realisation**

2. All ----- (internal/external) liabilities are transferred to the ----- (Debit/Credit) side of  
----- account (Bank/Realisation).

**Answer External, Credit, Realisation**

3. Accumulated losses are transferred to ----- (Current/Capital Accounts) in -----  
(equal ratio/profit sharing ratio).

**Answer Capital account, Profit sharing ratio**

4. If a liability is assumed by a partner, such Partner's Capital Account is -----  
(debited/credited)..

**Answer Credited**

5. If a partner takes over an asset, such (Partner's Capital Account) is -----  
(debited/credited).

**Answer Debited**

6. No entry is required when a ----- (partner/creditor) accepts a fixed asset in payment of his dues.

**Answer Creditor**

7. When creditor accepts an asset whose value is more than the amount due to him, he will ----- (pay/not pay) the excess amount which will be credited ----- Account.

**Answer Pay, Realisation**

8. When the firm has agreed to pay the partner a fixed amount for realisation work irrespective of the actual amount spent, such fixed amount is debited to (Realisation/Capital) Account and Credited to (Capital/Bank) Account.

**Answer Realisation, Capital**

9. Partner's loan is ----- (recorded/not recorded) in the (Realisation Account).

**Answer Not recorded**

10. Partner's current accounts are transferred to respective ----- Partners' (Loan/Capital) Accounts.

**Answer Capital**

## **DO IT YOURSELF**

**Question 1. For closure of assets accounts.**

**Answer**

Realisation A/c Dr  
To Assets A/c

**Question 2. For closure of liabilities accounts.**

**Answer**

Liabilities A/c Dr  
To Realisation A/c

**Question 3. For sale of assets.**

**Answer**

Bank A/c Dr  
To Realisation A/c

**Question 4. For settlement of a creditor by transfer of fixed assets to him.**

**Answer** No entry

**Question 5. For expenses of realisation when actual expenses are paid by the partner on behalf of the firm.**

**Answer**

Realisation A/c Dr  
To Partner's Capital A/c

**Question 6. When a partner discharges the liability of the firm.**

**Answer**

Realisation A/c Dr

To Partner's Capital A/c

**Question 7. For payment of partner's loan.**

**Answer** Partner's Loan A/c Dr

To Bank A/c

**Question 8. For settlement of capital accounts.**

**Answer**

Partner's Capital A/c Dr

To Bank A/c

## SHORT ANSWER TYPE QUESTIONS

**Question 1. State the difference between dissolution of Partnership and Dissolution of Partnership firm.**

**Answer** The difference between the Dissolution of Partnership and Dissolution of Partnership Firm is as follows.

Basis of Difference	Dissolution of Partnership	Dissolution of Partnership Firm
Meaning	It means change in the partnership deed (or the agreement) among the partners.	It means that the business is wound up and the firm is dissolved.
Discontinuation of business	It does not affect the continuation of business.	It affects the business. Firm is closed in this case.
Assets and liabilities	Assets and Liabilities are revalued. New balance sheet is prepared.	Assets are sold and realised. Liabilities are paid off.
Intervention by court	There is no intervention by the court.	Court has inherent power to intervene. By its order, a firm can be dissolved.
Economic relationship	Economic relationship among partners may remain or change.	Economic relationship among partner comes to an end.
Closure of books of accounts	No need to close account books, as the business continues to operate.	All books of account are closed.

**Question 2. State the accounting treatment for**

**(i) Unrecorded assets (ii) Unrecorded liabilities.**

**Answer (i)** Accounting Treatment for Unrecorded Assets Unrecorded asset is an asset, which have not been shown in the books of account or which has been written off in the books of

accounts, but the asset is still available in physical condition. Sometimes it is sold outside for cash and sometimes it is taken away by the partner. The accounting treatment for unrecorded asset will be there according to the situation.

**(a)** When the unrecorded asset is sold for cash the following Journal Entry will be there

Date	Particulars	LF	Amt. (Dr)	Amt. (Cr)
	Cash A/c To Realisation A/c (Being unrecorded assets sold for cash)	Dr		

**(b)** When the unrecorded asset is taken over by any partner the following Journal Entry will be there

Date	Particulars	LF	Amt. (Dr)	Amt. (Cr)
	Partner's Capital A/c To Realisation A/c (Being unrecorded assets taken over by the partner)	Dr		

(ii) Accounting Treatment for Unrecorded Liabilities Unrecorded liabilities are those liabilities, which have not been shown in the books of account. But at the time of dissolution they are required to be paid off. The following Journal Entry will be there as per situation.

(a) When the unrecorded liability is paid off the following Journal Entry will be there

Date	Particulars	LF	Amt. (Dr)	Amt. (Cr)
	Realisation A/c To Cash A/c (Being unrecorded liability paid in cash)	Dr		

(b) When the unrecorded liability is taken over by a partner. The following Journal Entry will be there

Date	Particulars	LF	Amt. (Dr)	Amt. (Cr)
	Realisation A/c To Partner's Capital A/c (Being unrecorded liability taken over by the partner)	Dr		

**Question 3. On dissolution, how will you deal with partner's loan if it appears on the**

**(a) assets side of the balance sheet,**

**(b) liabilities side of balance sheet.**

**Answer (a)** When loan amount is shown in the assets side of the balance sheet, it indicate that the loan has been granted by the firm to the partner. In that case, at the time of dissolution the amount of loan will be transferred to the concerned partner's capital account. The following Journal Entry will be passed

Date	Particulars	LF	Amt. (Dr)	Amt. (Cr)
	Partner's Capital A/c To Partner's Loan A/c (Being partner's loan amount is transferred to partner's capital account)	Dr		

**(b)** When the amount of loan appears in the liabilities side of the balance sheet, it indicate that the respective partner or partners have given loan to the firm. In this case, partner's loan will be paid off after paying all the external liabilities first. Here, it is worth mentioning that the partner's loan will not be transferred to the realisation account, in fact, it will be paid in cash. The following accounting entry will be passed in this regard

Date	Particulars	LF	Amt. (Dr)	Amt. (Cr)
	Partner's Loan A/c To Cash/Bank A/c (Being loan taken from partner is paid in cash)	Dr		

**Question 4. Distinguish between Firm's Debts and Partner's Private Debts.**

**Answer** The difference between Firm's Debts and Partner's Private Debts is as follows

Basis of Difference	Firm's Debts	Partner's Private Debts
Meaning	Debts owed by a firm to outsiders.	Debt owed by partner to any other person.
Liability	All the partners are liable jointly and severally to firm's debt.	Only the concerned partner is held responsible to pay the liability.
Application of firm's property	Firm's debts will be applied first.	Excess, if any will be applied to private debts.
application of private property	Last priority, i.e., after the disposal of private debts.	First priority to individual, i.e., private debts.

**Question 5. State the order of settlement of accounts on dissolution.**

**Answer** In case of dissolution of a firm, the firm ceases to conduct business and has to settle its accounts. For this purpose, it disposes off all its assets for satisfying all the claims against it. In this context, it should be noted that, subject to agreement among the partners, the following rules as provided in Section 48 of the Partnership Act, 1932 shall apply. As per those rules, the following order of settlement will be followed.

**(i) Treatment of Losses**

Note Losses, including deficiencies of capital, shall be paid

- (a) First out of profits,
- (b) Next out of capital of partners, and
- (c) Lastly, if necessary, by the partners individually in their profits sharing ratio.

**(ii) Application of Assets** The assets of the firm, including any sum contributed by the partners to make up deficiencies of capital, shall be applied in the following manner and order

- (a) In paying the debts of the firm to the third parties;
- (b) In paying each partner proportionately what is due to him/her from the firm for advances as distinguished from capital (i.e., partner's loan);
- (c) In paying to each partner proportionately what is due to him on account of capital; and
- (d) The residue, if any, shall be divided among the partners in their profit sharing ratio.

**Question 6. On what account Realisation Account differs from Revaluation Account?**

**Answer** There is the following difference between Realisation Account and Revaluation Account

Basis of Difference	Revaluation Account	Realisation Account
Meaning	It records the effect of revaluation of assets and liabilities.	It records the actual realisation of assets and settlement of all liabilities.
Time of preparation	It is prepared at the time of admission, retirement and death of a partner.	It is prepared at the time of dissolution of a firm.
Item to be recorded	In this accounts, only the items that cause change in the value of change of assets and liabilities are recorded.	In this account, all the items - all assets and liabilities are recorded.
Number of times	This may be prepared on a number of occasions during the lifetime of the firm.	This is prepared only once, i.e., at the time of dissolution of the firm.
Aim or objective	Its main objective is to make necessary adjustment and liabilities.	Its main objective is to determine the net profit/loss on realisation of assets and settlement of liabilities.

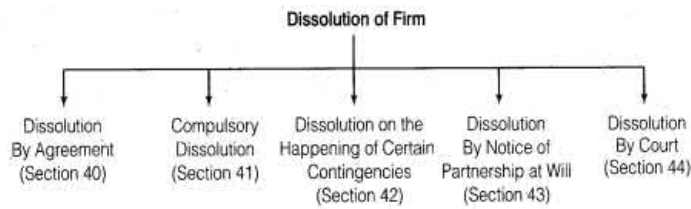
## LONG ANSWER TYPE QUESTIONS

**Question 1. Explain the process of dissolution of partnership firm.**

**Answer** Dissolution means breaking of relationship among the partners. As per Section 39 of the Indian Partnership Act 1932, the dissolution of firm implies that not only partnership is dissolved but the firm loses its existence, i.e., after dissolution the firm does not remain in business.

Dissolution of partnership firm implies discontinuation of the business of the partnership firm.

Dissolution involves winding up of business, disposal of assets and paying off the liabilities and distribution of any surplus or borne of loss by the partners of the firm. As per the Partnership Act 1932, a partnership firm may be dissolved in the following manners.



**(i) Dissolution by Agreement** As a firm is formed with the consent of all partners with a mutual agreement. Dissolution can also be there with the help of agreement. It happens in following two ways.

A firm may be dissolved

- (a) When all the partners agree to dissolve the firm.
- (b) When there is any term related to dissolution of firm in the partnership agreement.

**(ii) Compulsory Dissolution** A firm may be dissolved compulsorily in the following condition

- (a) In case, all the partners or all except one partner become insolvent or insane.
- (b) If the business becomes illegal.
- (c) Where all the partners except one decide to retire from the firm.
- (d) Where all the partners except one die.

**(iii) Dissolution by Notice** When partnership is at will then the partnership firm may be dissolved, if any partner give notice in writing to all the other partners expressing his/her intention to dissolve the firm.

**(iv) Dissolution by Court** A court may order for dissolution if a suit is filed by a partner, as per Section 44 of Indian Partnership Act, 1932. The court may order to dissolve a partnership in following conditions

- (a) A partner becomes insane.
- (b) A partner commits breach of agreement wilfully.
- (c) When a partner's conduct affects the business.
- (d) When a partner transfers his interest to a third party.
- (e) If business cannot be continued.
- (f) If a partner becomes incapable of doing business.
- (g) If court thinks dissolution to be just and equitable on any ground.

Besides these, above mentioned circumstances, a partnership firm may be dissolved if the court at any stage finds dissolution of the firm to be justified and inevitable.

## Question 2. What is a Realisation Account?

**Answer** On dissolution of a firm, all the books of account are closed, all assets are sold and all liabilities are paid off. In order to record the sale of assets and discharge of liabilities, a nominal account is opened named realisation account. The main purpose to open realisation account is to ascertain the profit or loss due to the realisation of assets and liabilities. Realisation profit (if credit side > debit side) or realisation loss (if debit side > credit side) are transferred to the partner's capital account in their profit sharing ratio.

Concisely, following are the important objectives of preparing realisation account

- (i) To close all the books of account.
- (ii) To record transactions relating to the sale of assets and discharge of liabilities.
- (iii) To determine profit or loss due to the realisation of assets and liabilities.

### Features of Realisation Account

- (i) In realisation account, sale of assets is recorded at their realised value.
- (ii) Payment to liabilities (creditors) is recorded at their settlement value.
- (iii) After all the transactions have been recorded, there will be balance, which may be profit or loss.

- (iv) Profit arises in two situations
- (a) When assets are realised at more than their book value.
- (b) When liabilities are settled at less than their book value.
- (v) If the two conditions are vice versa, the net result will be loss.
- (vi) The net profit or loss on realisation is to be transferred to the partner's capital accounts in their profit sharing ratio.

The format for realisation account is as follows

**Format for Realisation Account**

Particulars	Amt. (₹)	Particulars	Amt. (₹)
<b>Assets</b>	-	<b>Liabilities</b>	-
To Land and Building	-	By Sundry Creditors	-
To Plant and Machinery	-	By Bills Payables	-
To Furniture and Fitting	-	By Bank Overdraft	-
To Bills Receivables	-	By Outstanding Expenses	-
To Sundry Debtors	-	By Provision for Doubtful Debts	-
To Cash/ Bank (Payment of Liabilities)	-	By Cash/Bank (Sale Proceed of Assets)	-
Particulars	Amt. (₹)	Particulars	Amt. (₹)
To Partner's Capital A/c (Liability Assumed by the Partner)	-	By Partner's Capital Account (Assets Taken by the Partner)	-
To Profit (Transferred to Partner's Capital Account in their Profit Sharing Ratio)	-	By Loss (Transferred to Partners' Capital Account)	-
<b>Total</b>	-	<b>Total</b>	-

**Question 3. Reproduce the format of Realisation Account.**

**Answer**

**Format for Realisation Account**

Particulars	Amt. (₹)	Particulars	Amt. (₹)
<b>Assets</b>		<b>Liabilities</b>	
To Land and Building	-	By Sundry Creditors	-
To Plant and Machinery	-	By Bills Payables	-
To Furniture and Fitting	-	By Bank Overdraft	-
To Bills Receivables	-	By Outstanding Expenses	-
To Sundry Debtors	-	By Provision for Doubtful Debts	-
To Cash/ Bank (Payment of Liabilities)	-	By Cash/Bank (Sale Proceed of Assets)	-
To Partner's Capital A/c (Liability Assumed by the Partner)	-	By Partner's Capital Account (Assets Taken by the Partner)	-
To Profit (Transferred to Partner's Capital Account in their Profit Sharing Ratio)	-	By Loss (Transferred to Partners Capital Account)	-
<b>Total</b>	-	<b>Total</b>	-

**Question 4. How deficiency of creditors is paid off?**

**Answer** When a firm gets into the situation of dissolution, first of all the amount received from the sale of firm's assets are utilised to pay the creditors. After that, if the sale receipts of assets fall short, then partners' private assets are used for settling the dues of the firm's creditors. Even if some portion of the amount due to creditors is left unpaid, then there arises deficiency of

creditors. This deficiency is handled in the following two ways

- (i) In first case, deficiency is transferred to the Deficiency Account.
- (ii) In second case, the deficiency is transferred to the partner's capital account.

In first case, a separate account is prepared for the firm's creditors. Then in order to ascertain the firm's cash balance accruing from the sale of the firm's assets and partners' private assets, cash account is prepared. After ascertaining the cash availability with the firm, the creditors and the external liabilities are paid proportionately



(partially). The remaining unpaid creditors or the deficiency is transferred to the Deficiency Account.

In the second case, the creditors are paid by the cash available with the firm including the partners' individual contribution. The deficiency or unpaid creditors amount is transferred to the partner's capital account. Thus, the deficiency of the creditors is borne by all the partners in their profit sharing ratio. If any partner becomes insolvent and is unable to bear the deficiency, then this will be regarded as a capital loss to the firm.

' If the partnership deed is silent, about such capital loss in the fact of insolvency of a partner, the deficiency on the insolvent partner's capital ' account must be borne by the other solvent partners, in proportion to their capital. In that case, we should apply Garner vs Murray decision in solving problems in partnership.

## NUMERICAL QUESTIONS

1. 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.

### Journal Entries

Date	Particulars	LF	Amt. (Dr)	Amt. (Cr)
(a)	Realisation A/c To Bank A/c (Being expenses on realisation paid)	Dr	2,500	2,500
(b)	Realisation A/c To Ashok's Capital A/c (Being expenses on realisation paid by Ashok)	Dr	3,000	3,000
(c)	No entry will be passed as the expenses are borne personally by Tarun.		—	—
(d)	Realisation A/c To Amit's Capital A/c (Being expenses paid to Amit)	Dr	4,000	4,000

2. Record necessary journal entries in the following cases:

[a] Creditors worth Rs.85,000 accepted Rs.40,000 as cash and Investment worth Rs.43,000, in full settlement of their claim.

[b] Creditors were Rs.16,000. They accepted Machinery valued at Rs.18,000 in settlement of their claim.

[c] Creditors were Rs.90,000. They accepted Buildings valued Rs.1,20,000 and paid cash to the firm Rs.30,000.

### Journal Entries

Date	Particulars	LF	Amt. (Dr)	Amt. (Cr)
(a)	Realisation A/c To Cash A/c (Being creditors worth ₹ 85,000 settled with ₹ 40,000 cash and investment worth ₹ 43,000 )	Dr	40,000	40,000
(b)	No entry will be passed as Liability is settled against asset without any cash/bank transaction		—	—
(c)	Cash A/c To Realisation A/c (Being creditors worth ₹ 90,000 accepted building worth ₹ 1, 20,000 and paid back ₹ 30,000 in cash to firm after settlement of their claim)	Dr	30,000	30,000

3. There was an old computer which was written-off in the books of accounts in the pervious year. The same has been taken over by a partner Nitin for Rs.3,000.

Journalise the transaction, supposing. That the firm has been dissolved.

**Journal Entry**

Date	Particulars	LF	Amt. (Dr)	Amt. (Cr)
	Nitin's Capital A/c <span style="float: right;">Dr</span>		3,000	
	To Realisation A/c			3,000
	(Being unrecorded asset taken by partner Nitin)			

4. 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.

**Answer**

**Journal Entries**

Date	Particulars	LF	Amt. (Dr)	Amt. (Cr)
(a)	Realisation A/c <span style="float: right;">Dr</span>		3,200	
	To Bank A/c			3,200
	(Being unrecorded liabilities paid)			
(b)	Rohit's Capital A/c <span style="float: right;">Dr</span>		7,500	
	To Realisation A/c			7,500
	(Being stock taken over by partner)			
(c)	Realisation A/c <span style="float: right;">Dr</span>		18,000	
	To Ashish's Capital A/c			7,500
	To Tarun's Capital A/c			10,500
	(Being profit on realisation transferred to partners' capital account)			
(d)	Bank A/c <span style="float: right;">Dr</span>		5,500	
	To Realisation A/c			5,500
	(Being unrecorded asset sold)			

5. Give journal entries for the following transactions :

1. To record the realisation of various assets and liabilities,
2. A Firm has a Stock of Rs. 1,60,000. Aziz, a partner took over 50% of the Stock at a discount of 20%,
3. Remaining Stock was sold at a profit of 30% on cost,
4. Land and Building (book value Rs. 1,60,000) sold for Rs. 3,00,000 through a broker who charged 2%, commission on the deal,
5. Plant and Machinery (book value Rs. 60,000) was handed over to a Creditor at an agreed valuation of 10% less than the book value,
6. Investment whose face value was Rs. 4,000 was realised at 50%

### Journal Entries

Date	Particulars	LF	Amt. (Dr)	Amt. (Cr)
1. (i)	<b>For Transfer to Assets to Realisation and Payment of Liabilities</b> Realisation A/c Dr To Assets (Separately) To Cash/Bank (Liability paid) (Being assets transferred to realisation and liabilities paid)			Book value Actual value paid
(ii)	<b>For Transfer of Liabilities to Realisation and Sale of Assets</b> Liabilities A/c (Separately) Dr Cash/Bank A/c Dr To Realisation A/c (Being liabilities transferred to realisation and assets sold)		Book value Amount realised	
(iii)	<b>For Sale of Assets</b> Cash/Bank A/c Dr To Realisation A/c (Being assets sold)			
(iv)	<b>For Liability Paid</b> Realisation A/c Dr To Cash/Bank A/c (Being liabilities paid)			
2.	Aziz's Capital A/c Dr To Realisation A/c (Being 50% of stock taken over by partner Aziz at 20% discount)		64,000	64,000

Date	Particulars	LF	Amt. (Dr)	Amt. (Cr)
3.	Bank A/c Dr To Realisation A/c (Being 50% remaining stock worth ₹ 80,000 sold at 30% profit i.e., 24,000+80,000)		1,04,000	1,04,000
4.	Bank A/c Dr To Realisation A/c (Being land and building sold for ₹ 3,00,000 and paid 2% commission to broken out of it)		2,94,000	2,94,000
5.	No entry will be passed as no cash/bank is involved		—	—
6.	Bank A/c Dr To Realisation A/c (Being investments worth ₹ 4,000 realised at 50% of book value)		2,000	2,000

6. How will you deal with the realisation expenses of the firm of Rashim and Bindiya in the following cases:

1. Realisation expenses amounts to Rs. 1,00,000,
2. Realisation expenses amounting to Rs. 30,000 are paid by Rashim, a partner.
3. Realisation expenses are to be borne by Rashim for which he will be paid Rs. 70,000 as remuneration for completing the dissolution process. The actual expenses incurred by Rashim were Rs. 1,20,000.

### Journal Entries

Date	Particulars	LF	Amt. (Dr)	Amt. (Cr)
1.	Realisation A/c Dr To Bank A/c (Being expenses on realisation paid)		1,00,000	1,00,000
2.	Realisation A/c Dr To Rashim's Capital A/c (Being expenses on realisation borne by Rashim)		30,000	30,000
3.	Realisation A/c Dr To Rashim's Capital A/c (Being expenses of realisation borne by Rashim and remuneration fixed for dissolution)		70,000	70,000

7. The book value of assets (other than cash and bank) transferred to Realisation Account is Rs. 1,00,000. 50% of the assets are taken over by a partner Atul, at a discount of 20%; 40% of the remaining assets are sold at a profit of 30% on cost; 5% of the balance being obsolete, realised nothing and remaining assets are handed over to a Creditor, in full settlement of his claim. You are required to record the journal entries for realisation of assets.

**Answer****Journal Entries**

Date	Particulars	LF	Amt. (Dr)	Amt. (Cr)
1.	Realisation A/c To Sundry Assets A/c (Being assets transferred to realisation except cash/bank)	Dr	1,00,000	1,00,000
2.	Atul's Capital A/c To Realisation A/c (Being 50% of asset worth ₹ 1,00,000 taken over by Atul of 20% discount)	Dr	40,000	40,000
3.	Bank A/c To Realisation A/c (Being 40% of remaining asset sold at profit of 30% on cost i.e., 20,000+6,000)	Dr	26,000	26,000
4.	No entry will be passed for 5% of remaining asset being absolute and remaining asset handed over to creditors in full settlement)			

8. Record necessary journal entries to record the following unrecorded assets and liabilities in the books of Paras and Priya:

1. There was an old furniture in the firm which had been written-off completely in the books. This was sold for Rs. 3,000,
2. Ashish, an old customer whose account for Rs. 1,000 was written-off as bad in the previous year, paid 60%, of the amount,
3. Paras agreed to takeover the firm's goodwill (not recorded in the books of the firm), at a valuation of Rs. 30,000,
4. There was an old typewriter which had been written-off completely from the books. It was estimated to realize Rs. 400. It was taken away by Priya at an estimated price less 25%,
5. There were 100 shares of Rs. 10 each in Star Limited acquired at a cost of Rs. 2,000 which had been written-off completely from the books. These shares are valued @ Rs. 6 each and divided among the partners in their profit sharing ratio.

**Journal Entries**

Date	Particulars	LF	Amt. (Dr)	Amt. (Cr)
1.	Bank A/c To Realisation A/c (Being unrecorded furniture sold)	Dr	3,000	3,000
2.	Bank A/c To Realisation A/c (Being bad debts previously written off now recovered 60%)	Dr	600	600
3.	Paras's Capital A/c To Realisation A/c (Being unrecorded goodwill taken over by a partner)	Dr	30,000	30,000
4.	Priya's Capital A/c To Realisation A/c (Being unrecorded typewriter worth ₹ 400 taken over at 25% less by Priya)	Dr	300	300
5.	Paras's Capital A/c Priya's Capital A/c To Realisation A/c (Being 100 shares of ₹ 10 each unrecorded in the books taken @ ₹ 6 each by Paras and Priya in their profit sharing ratio)	Dr Dr	300 300	600

**Note** As no information is given, hence profit sharing ratio for 5th entry is taken as equal.

9. All partners wishes to dissolve the firm. Yastin, a partner wants that her loan of Rs. 2,00,000 must be paid off before the payment of capitals to the partners. But, Amart, another partner wants that the capitals must be paid before the payment of Yastin's loan. You are required to settle the conflict giving reasons.

**Answer** According to Section 48 of Partnership Act 1932, there is a sequence of preferences given which tells the priority of payment at time of dissolution. In the above condition, the loans and advances of partner's i.e., Rs.2,00,000 will be paid before and payment of capital is always done at last

**10. What journal entries would be recorded for the following transactions on the dissolution of a firm after various assets (other than cash) on the third party liabilities have been transferred to Realisation account.**

1. Arti took over the Stock worth Rs. 80,000 at Rs. 68,000.
2. There was unrecorded Bike of Rs. 40,000 which was taken over By Mr. Karim.
3. The firm paid Rs. 40,000 as compensation to employees.
4. Sundry creditors amounting to Rs. 36,000 were settled at a discount of 15%.
5. Loss on realisation Rs. 42,000 was to be distributed between Arti and Karim in the ratio of 3:4.

**Answer**

**Journal Entries**

Date	Particulars	LF	Amt. (Dr)	Amt. (Cr)
1.	Arti's Capital A/c <span style="float: right;">Dr</span> To Realisation A/c (Being asset worth ₹ 80,000 taken over by Arti at ₹ 68,000)		68,000	68,000
2.	Karim's Capital A/c <span style="float: right;">Dr</span> To Realisation A/c (Being unrecorded bike worth ₹ 40,000 taken over by Karim)		40,000	40,000
3.	Realisation A/c <span style="float: right;">Dr</span> To Bank A/c (Being compensation paid to employees)		40,000	40,000
4.	Realisation A/c <span style="float: right;">Dr</span> To Bank A/c (Being creditors of ₹ 36,000 settled at discount of 15%)		30,600	30,600
5.	Arti's Capital A/c <span style="float: right;">Dr</span> Karim's Capital A/c <span style="float: right;">Dr</span> To Realisation A/c (Being loss on realisation transferred to partner's capital account in 3 : 4 ratio)		18,000 24,000	42,000

**11. Rose and Lily shared profits in the ratio of 2:3. Their Balance Sheet on March 31, 2006 was as follows:**

**Balance Sheet of Rose and Lily  
as on March 31, 2006**

Liabilities	Amt. (₹)	Assets	Amt. (₹)
Creditors	40,000	Cash	16,000
Lily's Loan	32,000	Debtors	80,000
Profit and Loss	50,000	(-) Provision for Doubtful Debts	(3,600)
Capitals		Inventory	1,09,600
Lily	1,60,000	Bills Receivable	40,000
Rose	2,40,000	Buildings	2,80,000
	5,22,000		5,22,000

Rose and Lily decided to dissolve the firm on the above date. Assets (except bills receivables) realised Rs. 4,84,000. Bills receivable were taken over by Rose at X 30,000. Creditors agreed to take Rs 38,000. Cost of realisation was Rs 2400. There was a Motor Cycle in the firm which was brought out of the firm's money, was not shown in the books of the firm. It was now sold for Rs 10,000. There was a contingent liability in respect of outstanding electric bill of Rs 5,000. Bill receivable taken over by Rose at Rs 33,000. Show realisation account, partners' capital account, loan account and cash account.

**Answer**

Dr		Realisation Account		Cr	
Particulars	Amt. (₹)	Particulars	Amt. (₹)		
To Debtors	80,000	By Provision for Doubtful Debts	3,600		
To Inventory	1,09,600	By Creditors	40,000		
To Bills Receivables	40,000	By Cash			
To Buildings	2,80,000	Motor cycle	10,000		
To Cash		Other Assets	4,84,000	4,94,000	
To Outstanding Electricity Bill	5,000	By Rose's Capital (Bills Receivable)	33,000		
Creditors	38,000				
Expenses	2,400				
To Profit transferred to Rose's Capital	6,240				
Lily's Capital	9,360				
	15,600				
	5,70,600			5,70,600	

Dr		Partners' Capital Account				Cr	
Particulars	Rose	Lily	Particulars	Rose	Lily		
To Realisation (Bills Receivable)	33,000		By Balance b/d	2,40,000	1,60,000		
To Cash A/c	2,33,240	1,99,360	By Profit and Loss	20,000	30,000		
			By Realisation (Profit)	6,240	9,360		
	2,66,240	1,99,360		2,66,240	1,99,360		

Dr		Lily's Loan Account		Cr	
Particulars	Amt. (₹)	Particulars	Amt. (₹)		
To Cash	32,000	By Balance b/d	32,000		
	32,000		32,000		

Dr		Cash Account		Cr	
Particulars	Amt. (₹)	Particulars	Amt. (₹)		
To Balance b/d	16,000	By Realisation			
To Realisation		Creditors	38,000		
Motor Cycle	10,000	Outstanding Electricity Bill	5,000		
Other Assets	4,84,000	Expenses	2,400	45,400	
		By Lily's Loan		32,000	
		By Rose's Capital A/c		2,33,240	
		By Lily's Capital A/c		1,99,360	
	5,10,000			5,10,000	

**Note** The question has given bill receivable to partner Rose at ₹ 30,000 and again at ₹ 33,000 by mistake. In this solution, bills receivable have been considered at ₹ 33,000.

12. Shilpa, Meena and Nanda decided to dissolve their partnership on March 31, 2006. Their profit sharing ratio was 3:2:1 and their Balance Sheet was as under:

**Balance Sheet of Shilpa, Meena and Nanda**  
as on March 31, 2006

Liabilities	Amt. (₹)	Assets	Amt. (₹)
Capitals		Land	81,000
Shilpa	80,000	Stock	56,760
Meena	40,000	Debtors	18,600
Bank loan	20,000	Nanda's capital	23,000
Creditors	37,000	Cash	10,840
Provision for Doubtful Debts	1,200		
General Reserve	12,000		
	1,90,200		1,90,200 -

The stock of value of Rs. 41,660 are taken over by Shilpa for Rs. 35,000 and she agreed to discharge bank loan. The remaining stock was sold at Rs. 14,000 and debtors amounting to Rs. 10,000 realised Rs. 8,000. land is sold for Rs. 1,10,000. The remaining debtors realised 50% at their book value. Cost of realisation amounted to Rs. 1,200. There was a typewriter not recorded in the books worth Rs. 6,000 which were taken over by one of the Creditors at this value. Prepare Realisation Account

Realisation Account			
Dr		Cr	
Particulars	Amt. (₹)	Particulars	Amt. (₹)
To Land	81,000	By Bank Loan	20,000
To Stock	56,760	By Creditors	37,000
To Debtors	18,600	By Provision for Doubtful Debts	1,200
To Shilpa's Capital A/c (Bank loan)	20,000	By Shilpa's Capital A/c (Stock)	35,000
To Cash		By Cash	
Creditors	31,000	Stock	14,000
Realisation Expenses	1,200	Debtors (8,000+4,300)	12,300
To Profit Transferred to		Land	1,10,000
Shilpa's Capital A/c	10,470		1,36,300
Meena's Capital A/c	6,980		
Nanda's Capital A/c	3,490		
	20,940		
	2,29,500		2,29,500

Partners' Capital Account							
Dr				Cr			
Particulars	Shilpa	Meena	Nanda	Particulars	Shilpa	Meena	Nanda
To Balance b/d	—	—	23,000	By Balance b/d	80,000	40,000	—
To Realisation (Stock)	35,000			By General Reserve	6,000	4,000	2,000
To Cash (Balancing Figure)	81,470	50,980		By Realisation (Bank Loan)	20,000		
				By Realisation (Profit)	10,470	6,980	3,490
				By Cash (Balancing Figure)	—	—	17,510
	1,16,470	50,980	23,000		1,16,470	50,980	23,000

Cash Account			
Dr		Cr	
Particulars	Amt. (₹)	Particulars	Amt. (₹)
To Balance b/d	10,840	By Realisation (Expenses)	32,000
To Realisation (Assets)	1,36,300	By Shilpa's Capital A/c	81,470
To Nanda's Capital A/c	17,510	By Meena's Capital A/c	50,980
	1,64,650		1,64,650

13. Surjit and Rahi were sharing profits (losses) in the ratio of 3:2, their Balance Sheet as on March 31, 2004 is as follows:

**Balance Sheet of Surjit and Rahi**  
as on March 31, 2012

Liabilities	Amt. (₹)	Assets	Amt. (₹)
Creditors	38,000	Bank	11,500
Mrs Surjit loan	10,000	Stock	6,000
Reserve	15,000	Debtors	19,000
Rahi's loan	5,000	Furniture	4,000
Capital's		Plant	28,000
Surjit	10,000	Investment	10,000
Rahi	8,000	Profit and Loss	7,500
	86,000		86,000

The firm was dissolved on March 31, 2006 on the following terms:

1. Surjit agreed to take the investments at Rs. 8,000 and to pay Mrs. Surojit's loan.
2. Other assets were realised as follows:

Stock                      Rs. 5,000

Debtors                    Rs. 18,500

Furniture                 Rs. 4,500

Plant                      Rs. 25,000

3. Expenses on realisation amounted to Rs. 1,600.

4. Creditors agreed to accept Rs. 37,000 as a final settlement. You are required to prepare Realisation account, Partner's Capital account and Bank account

**Answer**

Dr Realisation Account Cr			
Particulars	Amt. (₹)	Particulars	Amt. (₹)
To Stock	6,000	By Creditors	38,000
To Debtors	19,000	By Mrs Surjit's Loan	10,000
To Furniture	4,000	By Surjit's Capital A/c (Investment)	8,000
To Plant	28,000	By Bank	
To Investment	10,000	Stock	5,000
To Surjit's Capital A/c (Mrs Surjit's Loan)	10,000	Debtors	18,500
To Bank		Furniture	4,500
Expenses	1,600	Plant	25,000
Creditors	37,000	By Loss Transferred to Surjit's Capital A/c	3,960
		Rahi's Capital A/c	2,640
			6,600
	1,15,600		1,15,600

Dr Partners' Capital Account Cr					
Particulars	Surjit	Rahi	Particulars	Surjit	Rahi
To Realisation (Investment)	8,000	—	By Balance b/d	10,000	8,000
To Realisation (Loss)	3,960	2,640	By Realisation (Mrs Surjit Loan)	10,000	
To Profit and Loss	4,500	3,000	By Reserve	9,000	6,000
To Bank (Balancing Figure)	12,540	8,360			
	29,000	14,000		29,000	14,000

Dr Rahi's Loan Account Cr			
Particulars	Amt. (₹)	Particulars	Amt. (₹)
To Bank	5,000	By Balance b/d	5,000
	5,000		5,000

Dr Bank Account Cr			
Particulars	Amt. (₹)	Particulars	Amt. (₹)
To Balance b/d	11,500	By Realisation (Creditors and Expenses)	38,600
To Realisation A/c (Assets Realised)	53,000	By Rahi's Loan	5,000
		By Surjit's Capital A/c	12,540
		By Rahi's Capital A/c	8,360
	64,500		64,500

14. Rita, Geeta and Ashish were partners in a firm sharing profits/losses in the ratio of 3:2:1.

On March 31, 2006 their balance sheet was as follows:

Liabilities	Amt. (₹)	Assets	Amt. (₹)
Capitals		Cash	22,500
Rita	80,000	Debtors	52,300
Geeta	50,000	Stock	36,000
Ashish	30,000	Investments	69,000
Creditors	65,000	Plant	91,200
Bills Payable	26,000		
General Reserve	20,000		
	2,71,000		2,71,000

On the date of above mentioned date the firm was dissolved:

- Rita was appointed to realise the assets. Rita was to receive 5% commission on the rate of assets (except cash) and was to bear all expenses of realisation,
- Assets were realised as follows:

Rs.

Debtors	30,000
Stock	26,000
Plant	42,750

- Investments were realised at 85% of the book value,
- Expenses of realisation amounted to Rs. 4,100,



5. Firm had to pay Rs. 7,200 for outstanding salary not provided for earlier,  
 6. Contingent liability in respect of bills discounted with the bank was also materialised and paid off Rs. 9,800, Prepare Realisation account, Capital Accounts of Partner's and Cash Account.

**Answer**

Realisation Account			
Dr		Cr	
Particulars	Amt. (₹)	Particulars	Amt. (₹)
To Debtors	52,300	By Creditors	65,000
To Stock	36,000	By Bills Payable	26,000
To Investment	69,000	By Cash	
To Plant	91,200	Debtors	30,000
To Cash		Stock	26,000
Outstanding Salaries	7,200	Plant	42,750
Discounted Bill	9,800	Investment	58,650
Creditors	65,000	By Loss Transferred to	
Bills Payable	26,000	Rita's Capital A/c	57,985
To Rita's Capital A/c	7,870	Geeta's Capital A/c	38,657
(Commission $1,57,400 \times 5/100$ )		Ashish Capital A/c	19,328
	3,64,370		1,15,970
			3,64,370

Partners' Capital Account							
Dr				Cr			
Particulars	Rita	Geeta	Ashish	Particulars	Rita	Geeta	Ashish
To Realisation (Loss)	57,985	38,657	19,328	By Balance b/d	80,000	50,000	30,000
To Bank (Balancing figure)	39,885	18,010	14,005	By General Reserve	10,000	6,667	3,333
				By Realisation (Commission)	7,870		
	97,870	56,667	33,333		97,870	56,667	33,333

Cash Account			
Dr		Cr	
Particulars	Amt. (₹)	Particulars	Amt. (₹)
To Balance b/d	22,500	By Realisation A/c	1,08,000
To Realisation	1,57,400	By Rita's Capital A/c	39,885
		By Geeta's Capital A/c	18,010
		By Ashish's Capital A/c	14,005
	1,79,900		1,79,900

**Note** No treatment will be done for expenses on realisation ₹ 4,100 as the firm has already paid 5% of assets realised as commission for dissolution to Rita. ₹ 4,100 actual expense will be paid by Rita personally.

15. Anup and Sumit are equal partners in a firm. They decided to dissolve the partnership on December 31, 2006. When the balance sheet is as under :

**Balance Sheet of Anup and Sumit**  
as on December 31, 2012

Liabilities	Amt. (₹)	Assets	Amt. (₹)
Sundry Creditors	27,000	Cash at Bank	11,000
Reserve Fund	10,000	Sundry Debtors	12,000
Loan	40,000	Plants	47,000
Capital		Stock	42,000
Anup	60,000	Lease Hold Land	60,000
Sumit	60,000	Furniture	25,000
	1,20,000		
	1,97,000		1,97,000

The Assets were realised as follows :

Rs.

Lease hold land	72,000
Furniture	22,500
Stock	40,500
Plant	48,000

Sundry Debtors 10,5000

The Creditors were paid Rs. 25,500 in full settlement. Expenses of realisation amount to Rs. 2,500. Prepare Realisation Account, Bank Account, Partners Capital Accounts to close the

books of the firm.

**Answer**

Dr		Realisation Account		Cr	
Particulars	Amt. (₹)	Particulars	Amt. (₹)		
To Sundry Debtors	12,000	By Sundry Creditors	27,000		
To Plants	47,000	By Loan	40,000		
To Stock	42,000	By Bank			
To Lease Hold Land	60,000	Lease Hold Land	72,000		
To Furniture	25,000	Furniture	22,500		
To Bank		Stock	40,500		
Creditors	25,500	Plant	48,000		
Loan	40,000	Sundry Debtors	10,500	1,93,500	
Expenses	2,500				
To Profit Transferred to					
Anup's Capital A/c	3,250				
Sumit's Capital A/c	3,250				
	6,500				
	2,60,500				2,60,500

Dr		Partners' Capital Account				Cr	
Particulars	Anup	Sumit	Particulars	Anup	Sumit		
To Bank	68,250	68,250	By Balance b/d	60,000	60,000		
			By Reserve Fund	5,000	5,000		
			By Realisation	3,250	3,250		
	68,250	68,250		68,250	68,250		

Dr		Bank Account		Cr	
Particulars	Amt. (₹)	Particulars	Amt. (₹)		
To Balance b/d	11,000	By Realisation (Expenses and Liabilities)	68,000		
To Realisation (Assets)	1,93,500	By Anup's Capital A/c	68,250		
		By Sumit's Capital A/c	68,250		
	2,04,500				2,04,500

**Note** Loan ₹ 40,000 can be paid directly through loan account without transferring to realisation account.

16. Ashu and Harish are partners sharing profit and losses as 3:2. They decided to dissolve the firm on December 31, 2006. Their balance sheet on the above date was:

**Balance Sheet of Ashu and Harish**  
as on December 31, 2012

Liabilities	Amt. (₹)	Assets	Amt. (₹)
Capitals		Building	80,000
Ashu	1,08,000	Machinery	70,000
Harish	54,000	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.

**Answer**

Dr		Realisation Account		Cr	
Particulars	Amt. (₹)	Particulars	Amt. (₹)		
To Building	80,000	By Creditors	88,000		
To Machinery	70,000	By Bank Overdraft	50,000		
To Furniture	14,000	By Ashu's Capital A/c (Assets Taken)	1,43,000		
To Stock	20,000	By Harish's Capital A/c (Assets Taken)	1,12,000		
To Investments	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				
	<u>4,39,000</u>				<u>4,39,000</u>

Dr		Partners' Capital Account				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 (Balancing Figure)	56,600		By Realisation (Liabilities)	88,000	50,000		
			By Realisation (Profit)	3,600	2,400		
			By Cash (Balancing Figure)		5,600		
	<u>1,99,600</u>	<u>1,12,000</u>		<u>1,99,600</u>	<u>1,12,000</u>		