

6. Dissolution Of Partnership Firm

Q. 1 Objective Questions:

A) Select most appropriate answer from the alternatives given below and rewrite the sentences.

1) In case of dissolution, assets and liabilities are transferred to Account.

- (a) Bank Account
- (b) Partner's Capital Account
- (c) Realisation Account**
- (d) Partner's Current Account

2) Dissolution expenses are credited to Account.

- (a) Realisation Account
- (b) Cash / Bank Account**
- (c) Partner's Capital Account
- (d) Partner's Loan Account

3) Deficiency of insolvent partner will be suffered by solvent partners in their ratio.

- (a) Capital ratio
- (b) Profit sharing ratio**
- (c) Sale ratio
- (d) Liquidity ratio

4) If any asset is taken over by partner from firm his capital account will be

- (a) Credited
- (b) Debited**
- (c) Added
- (d) Divided

5) If any unrecorded liability is paid on dissolution of the firm account is debited.

- (a) Cash / Bank Account
- (b) Realisation Account**
- (c) Partners capital Account
- (d) Loan Account

6) Partnership is completely dissolved when the partners of the firm become.....

- (a) Solvent

(b) Insolvent

(c) Creditor

(d) Debtors

7) Assets and liabilities are transferred to Realisation account at their values.

(a) Market

(b) Purchases

(c) Sale

(d) Book

8) If the number of partners in a firm falls below two, the firm stands

(a) Dissolved

(b) Established

(c) Realisation

(d) Restructured

B] Give the word/ term/phrase which can substitute each of the following statement.

1. Debit balance of Realisation account.

Ans: Realisation Loss

2. Winding up of partnership business.

Ans: Dissolution of Partnership

3. An account opened to find out the Profit or Loss on realisation of Assets and settlement of Liabilities.

Ans: Realisation

4. Debit balance of an Insolvent Partner's Capital Account.

Ans: Capital Deficiency

5. Credit balance of Realisation Account.

Ans: Realisation Profit

6. Conversion of asset into cash on dissolution of firm.

Ans: Realisation

7. Liability likely to arise in future on happening of certain event.

Ans: Contingent Liabilities

8. Assets which are not recorded in the books of account.

Ans: Unrecorded Assets

9. The Accounts which show realisation of Assets and discharge of Liabilities.

Ans: Realisation A/c

10. Expenses incurred on dissolution of firm

Ans: Dissolution/Realisation Expenses

(C) State whether the following statements are True or False with reasons :

(1) The firm must be dissolved on the retirement of a partner.

Ans. This statement is False.

On the retirement of a partner, if partnership agreement allows, continue the business activities. It means firm is not to be dissolved.

(2) On dissolution Cash/Bank Account is closed automatically.

Ans. This statement is True.

As firm is dissolved, there is no question of any business activities to be carried out further and so Cash/Bank Account is also not necessary. Therefore on dissolution Cash/ Bank Account closed automatically.

(3) On dissolution Bank overdraft is transferred to Realisation Account

Ans. This statement is True.

Transferred to Realisation Account the time of dissolution and paid as third party Liability.

(4) A solvent partner having debit balance to his Capital Account does not share the deficiency. As a sundry liability of the business, bank overdraft is a liability of a firm and hence, it is of insolvent partner Capital Account.

Ans. This statement is False.

In the partnership, partner's liability is unlimited so, a solvent partner having debit balance to his Capital Account should share the deficiency of insolvent partner capital account.

(5) At the time of dissolution of partnership all assets should be transferred to Realisation Account.

Ans. This statement is False.

At the time of dissolution of partnership, cash account and Bank A/c are not transferred to Realisation A/c. Similarly, if any asset is taken over by partner or by

any creditor then that asset is transferred to the concern person's account and not to the Realisation Account.

(6) Debit balance of insolvent partner's Capital Account is known as capital deficiency.

Ans. This statement is True.

Debit balance of Partners' Capital Account means excess of drawings than the capital credit balance, In case of insolvent partner, debit balance of Capital Account means liabilities which he cannot pay. It means capital deficiency.

(7) At the time of dissolution, loan from partner will be transferred to Realisation Account. At the time of dissolution, loan from partner will be paid after the payment of liabilities of third parties the firm. It is not transferred to Realisation Account. Partner's Loan A/c is separately

Ans. This statement is False.
opened and paid accordingly.

(8) Dissolution takes place when the relation among the partner's comes to an end.

Ans. This statement is True.

As per definition. Dissolution means to windup or to close down, and it is possible only when relations among the partners in a partnership firm comes to an end.

(9) The insolvency loss at the time of dissolution of the firm is shared by the solvent partner's in their profit sharing ratio.

Ans. This statement is True.

In the partnership. partners liability is unlimited and in case of insolvency loss, partners are ultimately liable and are suppose to bear the loss of insolvent partner sharing ratio.

(10) Realisation loss is not transferred to insolvent partner's Capital Account.

Ans. This statement is False.

All partners of the firm are responsible for Loss on realisation and hence loss on realization is supposed to be transferred to all Partners' Capital Account without any discrimination of solvent or insolvent.

(D) Calculate the following:

(1) Vinod, Vijay and Vishal are partners in a firm sharing profit and losses in the

ratio of 3:2:1. Vishal becomes insolvent and his capital deficiency is 6000. Distribute the capital deficiency among the solvent partner.

Ans. Here, capital deficiency of ₹6000 is to be distributed among continuing partners in their profit and loss sharing ratio. Le 3:2

Share of deficiency for Vinod

$$= 6,000 \times \frac{3}{5} = ₹3,600$$

Share of deficiency for Vijay

$$6,000 \times \frac{2}{5} = ₹2,400$$

Vinod and Vijay will bear ₹ 3,600 and ₹ 2,400 of Vishal's capital deficiency

(2) Creditors ₹30,000, Bills Payable ₹20,000 and Bank Loan ₹10,000. Available Bank balance ₹40,000. What will be the amount that creditors will get in case of all partners insolvency ?

Ans. Ratio of creditors, Bills payable and Bank Loan = 30,000 : 10,000: 10,000 i.e. 3:2:1 Amount received by creditors

$$= \frac{3}{3+2+1} \times 40,000 = \frac{3}{6} \times 40,000 \\ = ₹20,000$$

(3) Insolvent Partner Capital Ac debit side total is ₹10,000 and credit side total is ₹6,000 Calculate deficiency.

Ans. Deficiency of insolvent partner

= Debit side total - Credit side total

$$= 10,000 - 6000 = ₹4,000.$$

(4) Insolvent Partners Capital A/c debit side is ₹ 15,000 and insolvent partner brought cash 76,000. Calculate the amount of insolvency loss to be distributed among the solvent partners.

Ans. ₹9,000 (15,000 - 6,000) is the amount of Insolvency loss to be distributed among the solvent partners.

(5) Realisation profit of a firm is ₹ 6,000, partners share profit and loss in the ratio of 3:2:1. Calculate the amount of realisation profit to be credited to Partners' Capital A/c.

Ans. Distribution of 6.000 in 3:2:1 ratio

$$6,000 \times \frac{3}{6} = ₹3,000,$$

$$6,000 \times \frac{2}{6} \times ₹2,000$$

$$6,000 \times \frac{1}{6} \times ₹1,000$$

Amount of realisation profit ₹3,000, ₹2,000 and ₹1,000 is to be credited to Partner's Capital A/C respectively.

(E) Answer in one sentence only:

(1) What is dissolution of the partnership firm?

Ans. Dissolution of the partnership firm means complete closure of business activities and stoppage of partnership relations among all the partners.

(2) When is Realisation Account opened ?

Ans. Realisation Account is opened at the time of dissolution of partnership firm.

(3) Which accounts are not transferred to Realisation Account?

Ans. Cash/Bank balance, Reserve funds. Profit and Loss A/c balance, Partners' Loan accounts, etc. are not transferred to Realisation Account.

(4) Who is called insolvent person?

Ans. Whose capital A/c shows debit balance and who is not in a position to meet his capital deficiency even from his private property is called an insolvent person.

(5) What is capital deficiency?

Ans. The debit balance of insolvent partner's Capital Account which insolvent partner cannot pay is called capital deficiency.

(6) In what proportion is the balance on Realisation Account transferred to Partners' Capital / Current Accounts ?

Ans. The balance on Realisation Account is transferred to Partners Capital / Current Accounts in their profit sharing ratio.

(7) Who should bear the capital deficiency of insolvent partner?

Ans. The capital deficiency of insolvent partner should be borne by the solvent

(8) Which account is debited on repayment of partner's loan?

Ans. Partner's Loan Account is debited on repayment of partner's loan.

(9) Which account is debited on payment of dissolution expenses?

Ans. Realisation Account is debited on payment of dissolution expenses.

F. Complete the table.

Debit side total of realization A/c	Credit side total of realization A/c	Loss on realization
₹ 20,000	<u>₹ 16,000</u>	₹ 4,000

Creditors	Bills payable	Third party liabilities
₹ 16,000	₹ 12,000	<u>₹ 28,000</u>

Credit side total of realization A/c	Debit side total of realization A/c	Profit on realization
₹ 21,000	₹ 21,000	<u>₹ 5,000</u>

Debit side total of capital A/c	Credit side total of A/c	Cash brought by partner
₹ 51,000	<u>₹ 34,000</u>	₹ 17,000

Capital deficiency	Cash brought by insolvent partner	Insolvent loss
<u>₹ 28,000</u>	₹ 7,000	₹ 21,000