Chapter 6
Dissolution of a partnership firm

Example. Workmen's Compensation Funds show in the liability side of Balance Sheet is Rs. 50,000. At the time of dissolution liability against this fund is estimated at Rs. 30,000. Pass necessary Journal Entry:

Solution:

Journal

Date	Particulars	Debit (Rs.)	Credit (Rs.)
	Workmen's Compensation Fund A/c Dr. To Realisation A/c To A's Capital A/cs To B's Capital A/cs (Being liability against workmen's compensation fund transferred to Reabsation A/c and balance distributed among parties.)	50,000	30,000 10,000 10,000

1. Following is the Balance Sheet of X and Y, who share profits and losses the ratio of 4.1, as at 31st March, 2015.

Solution:

BALANCE SHEET

As on 31st March, 2015

Particulars	(Rs.)	Particulars	(Rs.)

Sundry Creditors	8,000	Bank	20,000
Bank Overdraft	6,000	Debtors 17,000 Less :	15,000
X's Wife Loan	8,000	Provision (2,000) Stock	15,000
Y's Loan	3,000	Investments	25,000
Investment Fluctuation fund	5,000	Buildings	25,000
Capital	50,000	Goodwill	10,000
X	40,000	Profit and Loss A/c	10,000
Y	1,20,000		1,20,000

The firm dissolved on the above date and the following arrangement were decided upon :

(i)X agreed to pay off his wife's loan.

(ii)Debtors of Rs. 5,000 proved bad.

(iii)Other assets realized – Investment 20% less; and Goodwill at 60%

(iv)One of the creditors for Rs. 5,000 Was paid only Rs. 3,000

(v)Building were auctioned for Rs. 30,000 and auctioneer's commission amounted to Rs. 1,000.

(vi)Y took over part for Stock at Rs. 4,000 (being 20% less that the book value) Balance stock realized 50%.

(vii)Realisation expenses amounted to Rs. 2,000.

Prepare Realisation A/c, Partner's Capital A/cs and Bank A/c

Revolution Account

Particulars	(Rs.)	Particulars	(Rs.)

To Goodwill To Buildings To Investments To Stock To Debtors To X's Capital A/c (X's wife loan) To Bank A/c (Bank overdraft) To Bank A/c (Creditors) (3000+3000) To Bank A/c (Expenses on Realisation To Bank A/c auctioneer Commission	 10,000 25,000 25,000 15,000 17,000 8,000 6,000 6,000 2,000 1,000	By Investmen: Fluctuation Fund By Provision for Doubtful Debts By Creditors By Bank overdraft By X's Wife Loan By Bank A/c (Asset realized) Debtors12,000 Investment20,000 Goodwill 6,000 Buildings30,000 Stock 5,000 By Y's Capital A/c (Stock) By Loss transferred to: X's Capital A/cs7,200 Y's Capital A/cs1,800	 5,000 2,000 8,000 6,000 8,000 73,000 4,000 9,000
	1,15,000		1,15,000

Y's Loan A/c

Particulars	(Rs.)	Particulars	(Rs.)
To Bank A/c	3,000	By Balance b/d	3,000

Partner's A/c

Particulars	(Rs.)	(Rs.)	Particulars	(Rs.)	(Rs.)
To Profit and Loss A/c To Realisation A/c (Assets taken) To Realisation A/c	8,000 - 7,200 42,800	3,000 4,000 1,800 32,200	By balance bid (Cr. Balance) (By Realisation A/c	50,000 8,00	40,000

(Loss on Realisation) To Bank A/c (Excess cash paid)			Liabilities taken)		
	58,000	58,000		58,000	58,000

Cash/Bank A/c

Particulars	(Rs.)	Particulars	(Rs.)
To Balance A/c (Cash at Bank) To Realisation A/c (Assets taken)	20,000 73,000	By balance b/d (Bank Overdraft) (By Realisation A/c Liabilities taken) By Realisation A/c By Realisation A/c (Exp. Paid) By Y's Loan A/c (partner's Loan Paid) By X' Capital A/c By Y' Capital A/c	6,000 1,000 6,000 2,000 3,000 42,800 32,200
	93,000		93,000

2. A and B were partners in a firm from 1-4-2008 with capitals of Rs. 60,000 and Rs. 40,000 respectively. They shared profits and losses in the ratio of 3:2. The carried on business for 2 years. In the first year, they made a profit of Rs. 50,000 and in the 2nd year ending on 31st March, 2010, they incurred a loss of Rs. 20,000. As the business was no longer profitable, they decided to wind up. Creditors on that date were Rs. 20,000. The partners withdrew Rs. 8,000 each poer year for their Rs. 3,000. Prepare Realisation A/c and Partner's Capital A/c and show your working clearly.

Solution:

Cash/Bank A/c

Particulars	(Rs.)	Particulars	(Rs.)
To Sundry Assets To Bank A/c (Creditors) To Bank A/c (Expanses on Realisation)	1,18,000 20,000 3,000	By Creditors By Bank A/c (Assets realized) By Loss transferred to: A' Capital A/cs12600 B' Capital A/cs8,400	20,000 1,00,000 21,000
	1,41,000		1,41,000

Working Noteds : (i)

Partner's A/c

Date	Particulars	A (Rs.)	B (Rs.)	Date	Particulars
2008 31.03.09 2009 31.03.09 31.03.09 31.03.09 01.04.10 01.04.10	To Bank A/c (Drawing) To Balance c/d To Bank A/c (Drawings) To Profit and Loss A/c To Balance C/d To Realisation A/c (Loss) To Bank A/c	8,000 82,000	8,000 82,000	1.04.08 31.3.01 1.04.09 1.04.10	By cash A/c By Profit and Loss A/c By Balance b/d By Balance b/d
		90,000	60,000		
		8,000 12,000 62,000	8,000 8,000 36,000		
		82,000	52,000		
		12,600 49,400	8,400 27,600		

	62,000	36,000	

Memorandum Balance Sheet

Liabilities	(Rs.)	Assets	(Rs.)
Capital Rs. A62,000 B 36,000 Creditors	98,000 20,000	Sundry Assets (Balancing Figure)	1,18,000
	1,18,000		1,18,000

Q3. 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:

(a) Bank Loan of Rs. 12,000 is paid off.

(b) A was to bear all expenses of Realisation for which he is given to commission of Rs. 400.

(c) Deferred Advertisement Expenditure A/c appeared in the book at Rs. 28,000.

(d) Stock worth Rs. 1,600 was taken over by B at Rs. 1,200.

(e) As unrecorded Computer realized Rs. 7,000.

(f) There was an outstanding bill for repairs for Rs. 2,000. Which was paid off.

Solution:

Date	Particulars	L.F.	(Rs.)	(Rs.)
	Realisation A/cDr. To Bank A/c (Being bank loan discharged)			

(a) (b)	 Realisation A/cDr. To A's Capital A/c (Being commission credited to A)		12,000 400	12,000 400
(c)	A's Capital A/cDr. B's Capital A/cDr. To Deferred Advertisement Expenditure A/c (Being the deleted advertisement expenditure written off)		20,000 8,000	28,000
(d)	B's Capital A/cDr. To Realisation A/c (Being Stock taken over by B at Rs. 1,2000)		1,200	1,200
(e)	Bank A/cDr. To Realisation A/c (Being unrecorded computer sold for Rs. 7,000)		7,000	7,000
(f)	Realisation A/cDr. To Bank A/c (Being Bank loan discharged)		2,000	2,000

Important Questions Part-1
Dissolution of Partnership

1. **Distinguish between Dissolution of Partnership and Dissolution of Partnership firm**

Dissolution of Partnership	Dissolution of partnership firm
a) The Partnership is dissolved but the business continues. The Business is not terminated	a) The firm winds up the business.
b) Assets and liabilities are revalued through revaluation account and the Balance sheet is prepared	b) Assets are sold and the liabilities are paid off through Realisation account.
c) The Books of accounts are not closed as the business is not terminated.	d) The Books of accounts are closed.

2. **State the provisions of Section 48 of the Partnership Act 1932 regarding settlement of Accounts during the Dissolution of Partnership firm.**
   Ans. According to section 48-
   a. Losses including the deficiencies of Capitals are to be paid---
      i. First out of profits
      ii. Next out of Capitals of the partners
      iii. Lastly if required, by the partners individually in their profit sharing ratio(as their liability is unlimited)
   b. **The Assets of the firm and the amount contributed by the partners to make up the deficiency of capital shall be applied for –**
      i. First to pay the debts of the firm to the third parties.
      ii. Next, Partners Loan(Partner has advanced to the firm)
      iii. Partners capitals
      iv. The residue, if any shall be distributed among the partners in their profit sharing ratio.
3. **Distinguish between Realisation account and Revaluation account**

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.

4. A and B are partners sharing profits and losses equally. They decided to dissolve their firm. Assets and Liabilities have been transferred to Realisation Account. Pass necessary Journal entries for the following.
    a. A was to bear all the expenses of Realisation for which he was given a commission of Rs 4000.
    b. Advertisement suspense account appeared on the asset side of the Balance sheet amounting Rs 28000
    c. Creditors of Rs 40,000 agreed to take over the stock of Rs 30,000 at a discount of 10% and the balance in cash.
    d. B agreed to take over Investments of Rs 5000 at Rs 4900
    e. Loan of Rs 15000 advanced by A to the firm was paid off.
    f. Bank loan of Rs 12000 was paid off.

JOURNAL

Sn.	Particulars	L.F.	Debit (Rs.)	Credit (Rs.)
(a)	Realisation Account – Dr		4,000	
	A’s Capital Account			4,000
	(Being Commission given to A)			
(b)	A’s Capital Account – Dr.		14,000	
	B’s Capital Account - Dr.		14,000	
	Advertisement Suspense Account			28,000
	(Being Advertisement suspense written off)			
(c)	Realisation account – Dr.		13,000	

	Cash Account			13,000
	(Being Creditors paid off)			
(d)	B's Capital account – Dr.		4,900	
	Cash Account			4,900
	(Being assets taken over by the partner)			
(e)	A's Loan Account – Dr.		15,000	
	Cash Account			15,000
	(Being Partners loan paid off)			
(f)	Realisation account – Dr.		12,000	
	Cash Account			12,000
	(Being Bank Loan paid off)			

5. 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.

Sn.	Particulars	L.F	Debit (Rs.)	Credit (Rs.)
(a)	Cash Account – Dr.		40,000	

	Realisation account			40,000
	(Being cash Received from the creditor)			
(b)	Cash a/c – Dr.		400	
	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	
	Realisation A/c			1800
	(Being Investment taken over by the partners)			
(d)	Realisation a/c Dr.		42,000	
	X's Capital A/c			21,000
	Y's Capital A/c			21,000
	(Being Profit on Realisation distributed among the partners)			
(e)	Cash a/c-Dr		2,94,000	
	Realisation a/c			2,94,000
	(Being Land and Building realized)			
(f)	NO JOURNAL ENTRY			

LONG QUESTIONS—6-8 Marks

6. **Following is the Balance sheet of Karan and Sandeep who share profits and losses equally as on 31st march 2010**

Liabilities	Rs	Assets	Rs
Capitals--		Bank	40,000
Karan	1,00,000	Debtors	25,000
Sandeep	50,000	Stock	35,000

Creditors	30,000	Machinery	60,000
Workmen compensation fund	15,000	Furniture	40,000
Bank loan	5000		
	2,00,000		2,00,000

he firm was dissolved on the above date.

1. Karan agreed to take over 50% of the stock at 10% less on its book value, the remaining stock was sold at a gain of 15%. Furniture and machinery realized for Rs 30,000 and 50,000 respectively.
2. There was unrecorded Investments which was sold for Rs 25,000.
3. Debtors realized Rs 31,500 (with interest) and Rs 1200 was recovered for bad debts written off last year.
4. There was an outstanding bill for repairs which had to be paid Rs 2000. Prepare necessary Ledger accounts to close the books of the firm.

Realisation account

Particulars	**Rs**	**Particulars**	**Rs**
Sundry assets Debtors-25000 Stock-35,000 Furniture-40,000 Machinery-60,000	1,60,000	Liabilities: Creditors: 30,000 Bank loan: 5000	35000
Bank a/c (outstanding repair bill)	2000	Karan's Capital a/c	15750
Bank (Creditors & Bank loan)	35,000	Bank a/c(stock)	20125
Capital accounts- Karan: 5787.5 Sandeep: 5787.5		Bank a/c (Assets realized)	80,000
	11575	Bank a/c(Debtors)	32700

		Bank a/c(Investments)	25,000
	208575		208575

Partners Capital accounts

Particulars	Karan	Sandeep	Particulars	Karan	Sandeep
Realisation a/c(stock)	15750		Balance b/d	1,00,000	50,000
			Workmen‘s compensation fund	7500	7500
Bank account	97537.5	63287.5	Realisation a/c	5787.5	5787.5
	113287.5	63287.5		113287.5	63287.5

Bank Account

Particulars	Amount	Particulars	Amount
Balance b/d	40,000	Realisation a/c (repair bill, creditors and bank loan)	37000
Realisation a/c(stock)	20125	Karan‘s capital	97537.5
Realisation a/c (Machinery & furniture)	80,000	Sandeep‘s capital	63287.5
Realisation a/c(Debtors)	32700		
Bank(Investments)	25,000		
	197825		197825

6. **The firm was dissolved on the above date and the following was decided—**

Liabilities	Rs.	Assets	Rs.
Sundry Creditors	8,000	Bank	20,000
		Debtors 17,000	

Bank Overdraft	6,000	Less Provision 2,000	15,000
X's Brother's Loan	8,000	Stock	15,000
Y's Loan	3,000	Investment	25,000
Investment Fluctuation fund	5,000	Building	25,000
Capitals- X 50,000 Y 40,000	90,000	Goodwill	10,000
		Profit and Loss A/c	10,000
	1,20,000		1,20,000

a. X agreed to pay off his brother's loan
b. Debtors of Rs 5000 proved bad.
c. Other assets realized as follows—Investments 20% less, and Goodwill at 60%.
d. One of the creditors for Rs 5000 was paid only Rs 3000.
e. Building was auctioned for Rs 30,000 and the auctioneer's commission amounted to Rs 1000.
f. Y took over part of the stock at Rs 4000(being 20% less than the book value) Balance stock realized 50%
g. Realisation expenses amounted to Rs 2000.

Prepare Realisation account, Partners capital accounts and Bank account.

Realisation account

Particulars	Amt (Rs.)	Particulars	Amt (Rs.)
Sundry Assets		Sundry Liabilities	
Debtors 17,000		Creditors 8,000	
Stock 15,000		Bank overdraft 6,000	
Investment 25,000		X's Brothers Loan 8,000	
Building 25,000		Investment Fluctuation fund 5,000	

Goodwill 10,000	92,000	Provision for doubtful debts 2000	29,000
X's Capital (Brothers Loan)	8,000	Bank a/c (Assets realized)	72,000
Bank (Liabilities Paid off)		Y's Capital (Stock)	4,000
Creditors 6,000		Loss transferred to Capitals	
Bank overdraft 6,000	12,000	X 7200 Y 1800	9000
Bank (Realisation expenses)	2,000		
	1,14,000		1,14,000

Partner's Capital Accounts

Particulars	**X**	**Y**	**Particulars**	**X**	**Y**
Profit & Loss a/c	8,000	2,000	Balance b/d	50,000	40,000
Realisation a/c		4,000	Realisation a/c	8,000	
Realisation a/c(loss)	7,200	1,800			
Bank a/c	42,800	32,200			
	58,000	40,000		58,000	40,000

Bank account

Particular	**Amt (Rs)**	**Particular**	**Amt (Rs)**
Balance b/d	20,000	Y's loan a/c	3,000
	72,000	Realisation a/c (liabilities paid off)	12,000
		Realisation a/c	2,000
		X's Capital a/c	42,800
		Y's capital a/c	32,200
	92,000		92,000

7. A, B and C commenced business on 1st January 2008 with capitals of Rs 50,000, 40,000 and Rs 30,000 respectively. Profits and losses are shared in the ratio of 4:3:3. During 2008 and 2009 they made profit of Rs 20,000 and Rs 25000 respectively. Each partner withdrew Rs 5000 per year.

   On 31st December 2009, they decided to dissolve the firm. Creditors and cash on that date were Rs 12,000 and Rs 2000 respectively. The Assets realized Rs 1,50,000. Creditors were settled for Rs 11,500 and realization expenses were Rs 500.
   Prepare Realisation a/c, Capital accounts and Cash account.

Realisation account

Particular	**(Rs)**	**Particular**	**(Rs)**
Sundry Assets	1,45,000	Creditors	12,000
Cash a/c (Creditors)	11,500	Cash A/c (Assets)	1,50,000
Cash a/c (Expenses)	500		
Capital Accounts- A-2,000 B-1,500 C-1,500	5,000		
	1,62,000		1,62,000

Partners Capital Accounts

Particular	**A**	**B**	**C**	**Particular**	**A**	**B**	**C**
Cash a/c	60,000	45,000	35,000	Balance b/d	58,000	43,500	33,500
				Realisation a/c	2,000	1,500	1,500
	60,000	45,000	35,000		60,000	45,000	35,000

Cash account

Particular	**Rs**	**Particular**	**Rs**
Balance b/d	2,000	Realisation (Creditors)	11,500

Realisation a/c	1,50,000	Realisation a/c (expenses)	500
		A’s Capital a/c	60,000
		B’s Capital a/c	45,000
		C’s Capital a/c	35,000
	1,52,000		1,52,000

Working Note: Calculate of closing (Capital as on 31/12/2009)

Particular	A	B	C
Opening Capital	50,000	40,000	30,000
Add Profits (of two yrs)	18,000	13,500	13,500
Less Drawing (of2 yrs)	10,000	10,000	10,000
Closing Capital	58,000	43,500	33,500

Memorandum Balance sheet as on 31/12/2009

Liabilities	Rs	Assets	Rs
	1,35,000	Cash	2000
	12,000	Sundry Assets (Balancing fig)	1,45,000
	1,47,000		1,47,000

Important Questions Part-2
Dissolution of Partnership Firm

1. **Given any one difference between the dissolution of partnership and dissolution of a partnership firm.**
   Ans. Dissolution of firm means dissolution of partnership between all the partners in the firm and business is closed down. Dissolution of partnership means change in the present agreement and business will be continued by the remaining partners.
2. **Explain dissolution of a firm by (i) Agreement and (ii) Notice.**
   Ans. 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)
   Dissolution by the Court. At the suit of a partner, the Court may dissolve a firm on any of the following grounds, namely:
   a. A partner has become of unsound mind
   b. A partner has become permanently incapable of performing his duties as partner.
   c. A partner is found guilty of misconduct
   d. Breach of Agreement by partner
   e. Partner transfer his right
   f. That the business of the firm cannot be carried on save at a loss.
   g. On any other ground which renders it just and equitable that the firm should be dissolved.
3. **What is Realization Account?**
   Ans. 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. Main purpose is to calculate the profit/loss after realizing the assets and payment of liabilities. Profit or loss calculated in Realisation Account is distributed among the all the partners.
4. **When an asset is taken over by a partner, why is his Capital Account debited?**
   Ans. The main purpose is to reduce the capital account of the concerned partner by the amount of asset taken over by him. It means amount of that asset is charged from the concerned partner's capital account.

5. **When a liability is to be discharged by a partner, why is his Capital Account credited?**
   Ans. By debiting the partner's capital account the claim of the partner against the firm will be increased with the amount of liability discharged by the partner.
6. **In case of dissolution of a firm, which liabilities are to be paid first?**
   Ans. At the time of dissolution external liabilities i.e. debts of the third parties are to be paid first.
7. **In case of dissolution of a firm, which item on the liabilities side are to be paid last?**
   Ans. At the time of dissolution all external liabilities are paid first and internal liabilities i.e. amounts due to the partners will be paid at the end.
8. **State the liability of partners in case of dissolution of a firm.**
   Ans. At the time of dissolution, this is the liability of the partners to pay first to the outsiders or external debts from the amount realised from the sale of assets.
9. **When Realisation Expenses are paid by a partner why is the capital account credited?**
   Ans. When a partner pays the realisation expenses on behalf of the firm from his personal account, he is entitled to received it from the firm that is why his account is credited for the same amount.
10. **Give two cases of compulsory dissolution of a firm.**
    Ans.
    i. If all the partners become insolvent/insane OR all except one partner, become insolvent or insane. In such a situation they cannot sign a contract.
    ii. If the business is not legal.
11. **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.**
    Ans. 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 adjusted and Paid)			

12. **Mohan and Kanwar are partners in a firm. Their firm was dissolved on 1.1.2014. Mohan was assigned the work of dissolution. For this work Mohan was to be paid Rs.500. Mohan paid dissolution expenses of Rs.400 from his own pocket. Will any Journal entry be passed for Rs.400 paid by Mohan? If yes, pass the entry. If no, give reason.**
Ans. Realisation Expenses by Mohan Rs.400 from his own pocket on behalf of the firm. He is entitled to recover that amount form the firm because Rs.500 received by him are not concerned with these expenses. He has done extra work to received that amount (Rs.500) and he is not responsible for the realisation expenses.

Date	Particulars	L.F.	Debit (Rs.)	Credit (Rs.)
	Realisation A/c Dr.		400	
	To Mohan's Capital A/c			400
	(Being expenses paid by Mohan)			

13. **State any six situations in which the court may order to dissolve a partnership firm.**
Ans. Court may dissolve a firm on any of the following grounds, namely:
 a. A partner has become of unsound mind
 b. A partner has become permanently incapable of performing his duties as partner.
 c. A partner is found guilty of misconduct
 d. Breach of Agreement by partner
 e. A Partner transfer his right
 f. That the business of the firm cannot be carried on save at a loss.
14. **All the partners want to dissolve the firm. Vinod wants that his loan of Rs.40,000 must be paid off before the payment of capitals to the partners. But Amit wants that capitals must be paid before the payment of Vinod's Loan. Comment.**
Ans. Vinod is correct because according to the Indian Partnership Act, 1956, at the time of dissolution of a partnership firm liabilities will be paid in the following manners:
 a. Outsiders or External debts
 b. Partner's Loan (if any)

c. Partners Capital

15. **Distinguish between Firm’s Debt and Private Debt.**

Ans. Difference between Firm’s debt and Private debt:

Basis	Firm’s Debts	Private Debts
Meaning	Amounts payable by the firm or liabilities of the firm is known as Firms debts	These debts are personal debts and are not recorded in the books of the firm
Who will pay	All partners are responsible for the debts of the firm	Only particular partner is responsible for his debts
Use of property to pay the debts	Property of the firm shall be applied first to pay the debts of the firm. Only excess of partners property may be applied to pay the debts of the firm	Private property shall be applied first to pay his personal debts. Only excess of firms property may be applied to pay the personal debts

16. **Give any two objectives of preparing realisation account in the dissolution of a firm?**

Ans.

i. To Close the accounts of various assets and liabilities

ii. To ascertain the profit or loss on realisation after realisation of assets and settlement of all liabilities.

Important Questions Part-3
Dissolution of Partnership Firm

1. **Distinguish between Dissolution of Partnership and Dissolution of partnership firm**
   Ans.

Dissolution of Partnership	Dissolution of partnership firm
a) The Partnership is dissolved but the business continue. The Business is not terminated	a) The firm winds up the business.
b) Assets and liabilities are revalued through revaluation account and the Balance sheet is prepared	b) Assets are sold and the liabilities are paid off through Realisation account.
c) The Books of accounts are not closed as the business is not terminated.	d) The Books of accounts are closed.

2. **State the provisions of Section 48 of the Partnership Act 1932 regarding settlement of Accounts during the Dissolution of Partnership firm.**
   Ans. According to section 48—
   a. a) Losses including the deficiencies of Capitals are to be paid-
      i. First out of profits
      ii. Next out of Capitals of the partners
      iii. Lastly if required, by the partners individually in their profit sharing ratio (as their liability is unlimited)
   b. The Assets of the firm and the amount contributed by the partners to make up the deficiency of capital shall be applied for –
      i. First to pay the debts of the firm to the third parties.
      ii. Next, Partners Loan(Partner has advanced to the firm)
      iii. Partners capitals
      iv. The residue, if any shall be distributed among the partners in their profit sharing ratio.
3. **Distinguish between Realisation account and Revaluation account**
   Ans.

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.

4. **A and B are partners sharing profits and losses equally. They decided to dissolve their firm. Assets and Liabilities have been transferred to Realisation Account. Pass necessary Journal entries for the following.**

Journal

SN	Particulars	LF	Debit(Rs)	Credit(Rs)
a)	Realisation account -Dr A’s Capital account (Being commission given to A)		4000	4000
b)	A‘s Capital account –Dr		14000	
	B‘s Capital account –Dr		14000	
	Advertisement Suspense account (Being Advertisement suspense written off)			28000
c)	Realisation account –Dr		13000	
	Cash account			13000
	(Being creditors paid off)			
d)	B‘s Capital account –Dr		4900	
	Realisation account			4900
	(Being asset taken over by the partner)			
e)	A‘s Loan account –Dr		15000	
	Cash account			15000
	(Being partners loan paid off)			
f)	Realisation account -- Dr		12000	
	Cash account			12000

	(Being Bank loan paid off)			

a. A was to bear all the expenses of Realisation for which he was given a commission of Rs 4000.
b. Advertisement suspense account appeared on the asset side of the Balance sheet amounting Rs 28000
c. Creditors of Rs 40,000 agreed to take over the stock of Rs 30,000 at a discount of 10% and the balance in cash.
d. B agreed to take over Investments of Rs 5000 at Rs 4900
e. Loan of Rs 15000 advanced by A to the firm was paid off.
f. Bank loan of Rs 12000 was paid off.

5. **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 Rs100,000. 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**
   c. **year paid 40% of the amount.**
   d. **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.**
   e. **Profit on Realisation Rs 42000 was divided among the partners.**
   f. **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.**
   g. **Plant and machinery (Book value Rs 60,000) was handed over to the creditor in full settlement of his claim.**

S.N	Particulars	LF	Debit (Rs)	Credit (Rs)
a)	Cash account –Dr		40000	
	Realisation account			40000
	(Being cash received from the creditor)			
b)	Cash a/c –Dr		400	
	Realisation a/c			400

	(Being cash received from a debtor whose account was written off earlier)			
c)	X's Capital a/c –Dr		900	1800
	Y's Capital a/c –Dr		900	
	Realisation a/c			
	(Being Investments taken over by the partners)			
d)	Realisation a/c –Dr		42000	
	X's Capital a/c			21000
	Y's capital a/c			21000
	(Being profit on Realisation distributed among the partners)			
e)	Cash a/c—Dr		294000	
	Realisation a/c			294000
	(Being Land and Building realized)			
f)	NO JOURNAL ENTRY			

LONG QUESTIONS—6-8 Marks

6. **Following is the Balance sheet of Karan and Sandeep who share profits and losses equally as on 31st march 2010**

Liabilities	Rs	Assets	Rs
Capitals--		Bank	40,000
Karan	1,00,000	Debtors	25,000
Sandeep	50,000	Stock	35,000
Creditors	30,000	Machinery	60,000
Workmen compensation fund	15,000	Furniture	40,000
Bank loan	5000		
	2,00,000		2,00,000

The firm was dissolved on the above date.

1. Karan agreed to take over 50% of the stock at 10% less on its book value, the remaining stock was sold at a gain of 15%. Furniture and machinery realized for Rs

30,000 and 50,000 respectively.

2. There was unrecorded Investments which was sold for Rs 25,000.
3. Debtors realized Rs 31,500 (with interest) and Rs 1200 was recovered for bad debts written off last year.
4. There was an outstanding bill for repairs which had to be paid Rs 2000.

   Prepare necessary Ledger accounts to close the books of the firm.

Ans. Realsation account

Particulars	Rs	Particulars	Rs
Sundry assets		Liabilities:	
Debtors-25000		Creditors : 30,000	
Stock-35,000		Bank loan : 5000	35000
Furniture-40,000			
Machinery-60,000	1,60,000		
Bank	2000	Karan's Capital a/c	15750
a/c(outstanding repair bill)			
Bank(Creditors &		Bank a/c(stock)	20125
Bank loan)	35,000		
Capital accounts		Bank a/c(Assets	80,000
Karan : 5787.5		realized)	
Sandeep: 5787.5			
	11575	Bank a/c(Debtors)	32700
		Bank a/c(Investments)	25,000
	208575		208575

Partners Capital accounts

Particular	Karan	Sandeep	Particulars	Karan	Sandeep

Realisation a/c(stock)	15750		Balance b/d	1,00,000	50,000
			Workmen‘s compensation fund	7500	7500
Bank account	97537.5	63287.5	Realisation a/c	5787.5	5787.5
	113287.5	63287.5		113287.5	63287.5

Bank account

Particulars	Amount	Particular	Amount
Balance b/d	40,000	Realisation a/c (repair bill, creditors and bank loan)	37000
Realisation a/c(stock)	20125	Karan‘s capital	97537.5
Realisation a/c(Machinery & furniture)	80,000	Sandeep‘s capital	632875.5
Realisation a/c(Debtors)	32700		
Bank(Investments)	25,000		
	197825		197825

7. Following is the Balance sheet of X and Y who share profits in the ratio of 4:1 as on 31st march 2010

Balance Sheet

Liabilities	Rs	Assets	Rs

Sundry Creditors	8,000	Bank	20,000
Bank overdraft	6,000	Debtors 17,000	15,000
		Less provision 2000	
X's Brother's loan	8,000	Stock	15,000
Y's Loan	3,000	Investments	25,000
Investment Fluctuation fund	5,000	Building	25,000
Capitals- X-50,000 y-40,000	90,000	Goodwill	10,000
		Profit and Loss a/c	10,000
	1,20,000		1,20,000

The firm was dissolved on the above date and the following was decided—

a. X agreed to pay off his brother's loan
b. Debtors of Rs 5000 proved bad.
c. Other assets realized as follows—Investments 20% less, and Goodwill at 60%.
d. One of the creditors for Rs 5000 was paid only Rs 3000.
e. Building was auctioned for Rs 30,000 and the auctioneer's commission amounted to Rs 1000.
f. Y took over part of the stock at Rs 4000(being 20% less than the book value)Balance stock realized 50%
g. Realisation expenses amounted to Rs 2000.

Prepare Realisation account, Partners capital accounts and Bank account.
Ans.

Realisation account

Particulars	Amt(Rs)	Particulars	Amt(Rs)
Sundry Assets		Sundry Liabilities	
Debtors 17,000		Creditors – 8000	
Stock 15,000		Bank overdraft - 6000	

Investments 25,000		X's Brothers loan- 8000	
Building 25,000	92,000	Investment Fluctuation	
Goodwill 10,000		fund – 5,000	29,000
		Provision for doubtful debts - 2000	72,000
X's Capital(Brothers loan)	8000	Bank a/c (Assets realized)	72,000
Bank(Liabilities paid off) Creditors- 6000 Bank overdraft 6000	12000	Y's Capital(stock) Loss transferred to capitals X- 7200 Y- 1800	4000 9000
Bank (Realisation expenses)	2000		
	1,14000		1,14,000

Partner's Capital Accounts

Particulars	X	Y	Particulars	X	Y
Profit & Loss a/c	8,000	2,000	Balance b/d	50,000	40,000
Realisation a/c		4,000	Realisation a/c	8,000	
Realisation a/c(loss)	7,200	1,800			
Bank a/c	42,800	32,200			
	58,000	40,000		58,000	40,000

Bank account

Particulars	Amt (Rs)	Particulars	Amt (Rs)
Balance b/d	20,000	Y's loan a/c	3,000
Realisation a/c (assets realized)	72,000	Realisation a/c(liabilities paid off)	12,000
		Realisation	2,000

		a/c(expenses)	
		X's Capital a/c	42,800
		Y's capital a/c	32,200
	92,000		92,000

8. A, B and C commenced business on 1st January 2008 with capitals of Rs 50,000, 40,000 and Rs 30,000 respectively. Profits and losses are shared in the ratio of 4:3:3. During 2008 and 2009 they made profit of Rs 20,000 and Rs 25000 respectively. Each partner withdrew Rs 5000 per year.

   Ans. On 31st December 2009, they decided to dissolve the firm. Creditors and cash on that date were Rs 12,000 and Rs 2000 respectively. The Assets realized Rs 1,50,000. Creditors were settled for Rs 11,500 and realization expenses were Rs 500.

   Prepare Realisation a/c, Capital accounts and Cash account.

Realisation account

Particulars	Rs	Particulars	Rs
Sundry Assets	1,45,000	Creditors	12,000
Cash a/c(Creditors)	11,500	Cash a/c(Assets realized)	1,50,000
Cash a/c(Expenses)	500		
Capital Accounts A- 2,000 B- 1,500			
C- 1,500	5,000		
	1,62,000		1,62,000

Partners Capital Accounts

Particulars	A	B	C	Particulars	A	B	C
Cash a/c	60,000	45,000	35,000	Balance b/d	58,000	43,500	33,500
				Realisation a/c	2,000	1,500	1,500
	60,000	45,000	35,000		60,000	45,000	35,000

Cash account

Particulars	Rs	Particulars	Rs
Balance b/d	2,000	Realisation(Creditors)	11,500
Realisation a/c	1,50,000	Realisation a/c(expenses)	500
		A's Capital a/c	60,000
		B's Capital a/c	45,000
		C's Capital a/c	35,000
	1,52,000		1,52,000

Working Note: Calculation of Closing capital (Capital as on 31/12/2009)

Particulars	A	B	C
Opening Capital	50,000	40,000	30,000
Add Profits(of two yrs)	18,000	13,500	13,500
Less Drawings(of 2 yrs)	10,000	10,000	10,000
Closing Capital	58,000	43,500	33,500

Memorandum Balance sheet as on 31/12/2009

Liabilities	Rs	Assets	Rs
CapitalsX- 58000 Y-43500 Z-33500	1,35,000	Cash	2000
Creditors	12,000	Sundry Assets(Balancing fig)	1,45,000
	1,47,000		1,47,000