Chapter 4

Dissolution of Partnership Firm

EXERCISE-4.1

1 Marks

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.

2. **A partnership is dissolved when there is a death of a partner.**
Answer True
As a new partnership deed is to be made.

3. **A firm is dissolved when all partners give consent to it.**
Answer True
As all partners agree to it.

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.

5. Dissolution of a firm necessarily involves dissolution of partnership.
Answer True
When firm does not exist then partners have no business to do.

6. A firm is compulsorily dissolved when all partners or when all except one partner become involvent.
Answer True
As the partner becomes incompetent to sign the contract.

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.

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
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

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

3. After transferring liabilities like creditors and bills payables in the realisation account, in the absence of any information regarding then payment, such liabilities are treated as
(a) never paid (b) fully paid (c) partly paid (d) None of these
Answer (b) Fully paid

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) dredit of bank account
Answer (c) Credit of realisation account

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

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

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:Answer Debit, Realisation

2. All ——————— (internal/external) liabilities are transferred to the ——————— (Debit/Credit) side of ————————acccount (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

1. For closure of assets accounts.
Answer
Realisation A/c Dr
To Assets A/c

2. For closure of liabilities accounts.
Answer
Liabilities A/c Dr
To Realisation A/c

3. For sale of assets.
Answer

Bank A/c Dr
To Realisation A/c

4. For settlement of a creditor by transfer of fixed assets to him.
Answer No entry

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

6. When a partner discharges the liability of the firm.
Answer
Realisation A/c Dr
To Partner's Capital A/c

7. For payment of partner's loan.
Answer Partner's Loan A/c Dr
To Bank A/c

8. For settlement of capital accounts.
Answer
Partner's Capital A/c Dr
To Bank A/c

EXERCISE-4.2

2 Marks

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.

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 Dr To Realisation A/c (Being unrecorded assets sold for cash)			

(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 Dr To Realisation A/c (Being unrecorded assets taken over by the partner)			

(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 Dr To Cash A/c (Being unrecorded liability paid in cash)			

(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 Dr To Partner's Capital A/c (Being unrecorded liability taken over by the partner)			

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 Dr To Partner's Loan A/c (Being partner's loan amount is transferred to partner's capital account)			

(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 Dr To Cash/Bank A/c (Being loan taken from partner is paid in cash)			

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.

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.

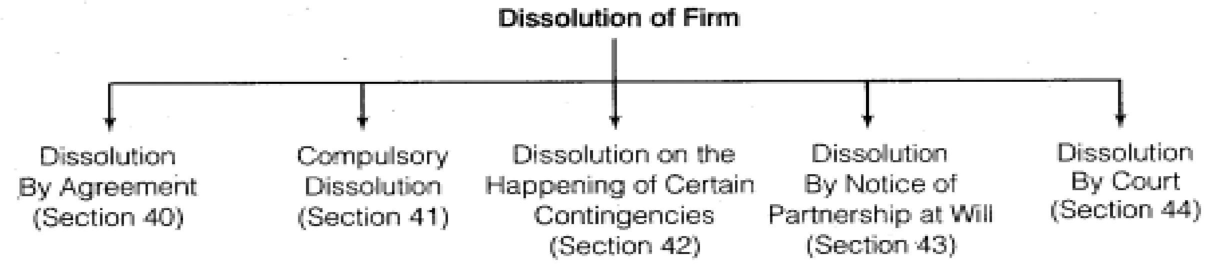
6. On what account Realisation Account differs from Revaluation Account?
Answer There is the following difference between Realisation Account and Revaluation Account

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 S

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 losses 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.

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. (₹)
Assets	–	**Liabilities**	–
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)	–
Total	–	**Total**	–

3. Reproduce the format of Realisation Account.

Answer

Format for Realisation Account

Particulars	Amt. (₹)	Particulars	Amt. (₹)
Assets		**Liabilities**	
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)	–
Total	–	**Total**	–

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 S

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 Dr To Bank A/c (Being expenses on realisation paid)		2,500	2,500
(b)	Realisation A/c Dr To Ashok's Capital A/c (Being expenses on realisation paid by Ashok)		3,000	3,000
(c)	No entry will be passed as the expenses are borne personally by Tarun.		—	—
(d)	Realisation A/c Dr To Amit's Capital A/c (Being expenses paid to Amit)		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 Dr To Cash A/c (Being creditors worth ₹ 85,000 settled with ₹ 40,000 cash and investment worth ₹ 43,000)		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 Dr 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)		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 Dr To Realisation A/c (Being unrecorded asset taken by partner Nitin)		3,000	3,000

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	Dr		3,200	
	To Bank A/c				3,200
	(Being unrecorded liabilities paid)				
(b)	Rohit's Capital A/c	Dr		7,500	
	To Realisation A/c				7,500
	(Being stock taken over by partner)				
(c)	Realisation A/c	Dr		18,000	
	To Ashish's Capital A/c				7,500
	To Tarun's Capital A/c				10,500
	(Being profit on realisation transferred to partners' capital account)				
(d)	Bank A/c	Dr		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 Buildging (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)	**For Transfer fo Assets to Realisation and Payment of Liabilities** 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)	**For Transfer of Liabilities to Realisation and Sale of Assets** 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)	**For Sale of Assets** Cash/Bank A/c Dr To Realisation A/c (Being assets sold)			
(iv)	**For Liability Paid** 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	Dr		1,00,000	
	To Sundry Assets A/c				1,00,000
	(Being assets transferred to realisation except cash/bank)				
2.	Atul's Capital A/c	Dr		40,000	
	To Realisation A/c				40,000
	(Being 50% of asset worth ₹ 1,00,000 taken over by Atul of 20% discount)				
3.	Bank A/c	Dr		26,000	
	To Realisation A/c				26,000
	(Being 40% of remaining asset sold at profit of 30% on cost i.e., 20,000+6,000)				
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	Dr		3,000	
	To Realisation A/c				3,000
	(Being unrecorded furniture sold)				
2.	Bank A/c	Dr		600	
	To Realisation A/c				600
	(Being bad debts previously written off now recovered 60%)				
3.	Paras's Capital A/c	Dr		30,000	
	To Realisation A/c				30,000
	(Being unrecorded goodwill taken over by a partner)				
4.	Priya's Capital A/c	Dr		300	
	To Realisation A/c				300
	(Being unrecorded typewriter worth ₹ 400 taken over at 25% less by Priya)				
5.	Paras's Capital A/c	Dr		300	
	Priya's Capital A/c	Dr		300	
	To Realisation A/c				600
	(Being 100 shares of ₹ 10 each unrecorded in the books taken @ ₹ 6 each by Paras and Priya in their profit sharing ratio)				

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, their 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 Reliasation 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 Dr 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 Dr To Realisation A/c (Being unrecorded bike worth ₹ 40,000 taken over by Karim)		40,000	40,000
3.	Realisation A/c Dr To Bank A/c (Being compensation paid to employees)		40,000	40,000
4.	Realisation A/c Dr To Bank A/c (Being creditors of ₹ 36,000 settled at discount of 15%)		30,600	30,600
5.	Arti's Capital A/c Dr Karim's Capital A/c Dr To Realisation A/c (Being loss on realisation transferred to partner's capital account in 3 : 4 ratio)		18,000 24,000	42,000

EXERCISE-4.3

4 Marks

1. 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)	76,400
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 continigent 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	45,400			
To Profit transferred to					
Rose' 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	4,94,000	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.*

2. 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

Dr **Realisation Account** 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	32,200	Debtors (8,000+4,300)	12,300	
To Profit Transferred to			Land	1,10,000	1,36,300
Shilpa's Capital A/c	10,470				
Meena's Capital A/c	6,980				
Nanda's Capital A/c	3,490	20,940			
		2,29,500			2,29,500

Dr **Partners' Capital Account** 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

Dr **Cash Account** 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'a Capital A/c	17,510	By Meena's Capital A/c	50,980
	1,64,650		1,64,650

3. 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	
			Furniture	4,500	
To Bank			Plant	25,000	53,000
Expenses	1,600		By Loss Transferred to		
Creditors	37,000	38,600	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			
To Bank (Balancing Figure)	12,540	8,360	By Reserve	9,000	6,000
	29,000	14,000		29,000	14,000

Dr **Rahi's Loan Account** Cr

Partioulars	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

4.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	1,60,000	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:
1. 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,
2. Assets were realised as follows:

	Rs.
Debtors	**30,000**
Stock	**26,000**
Plant	**42,750**

3. Investments were realised at 85% of the book value,
4. 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

Dr **Realisation Account** 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	1,57,400
Creditors	65,000		By Loss Transferred to		
Bills Payable	26,000	1,08,000	Rita's Capital A/c	57,985	
To Rita's Capital A/c		7,870	Geeta's Capital A/c	38,657	
(Commission 1,57,400×5/100)			Ashish Capital A/c	19,328	1,15,970
		3,64,370			3,64,370

Dr **Partners' Capital Account** 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

Dr **Cash Account** 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.*