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 - (A) *Simple Dissolution.*
 - (B) *Dissolution Under Insolvency Situation.*

Competency Statements

- ☐ *The Students are able to :*
- *Understand the meaning and Reasons of dissolution of partnership firm.*
- *Know the effects of dissolution of Partnership firm.*
- *Learn various accounting treatment for settlement of accounts.*
- *Learn accounting procedure under simple dissolution and insolvency of partner.*

6.1 Introduction :

Dissolution means to windup or to close down. When business relations among the partners in a Partnership Firm comes to an end, it is known as Dissolution of Partnership. When one or more partner/partners take decision to close the Partnership Firm, it is known as Dissolution of Partnership firm. When all partners decide to discontinue from partnership firm, it results in to dissolution of partnership. The relationship between partners is referred to as Partnership. While all the partners collectively are called firm. Dissolution of a firm is different from dissolution of partnership.

In short, dissolution of partnership may not include dissolution of the firm, but dissolution of the firm means dissolution of the Partnership.

Meaning and Definition :

Meaning - In Legal terms dissolution has multiple meaning. A word “DISSOLUTION” comes from the Latin word “DISSOLUTIO”, means “A dissolving of something”. Dissolution is the last stage of closure of business.

Definition :

1. Indian Partnership Act 1932, Sec. 39, provides that, “The dissolution of the partnership between all the partners of a firm is called the dissolution of a firm.” It implies the complete breakdown of the relation of Partnership between all the partners.
2. “The act or process of ending an official organization or legal agreement.”
3. “The dissolution of partnership firm indicates the discontinuance function as a firm”.

6.2 Reasons For Dissolution of Partnership Firm :

1. By Voluntary act of partners themselves.
2. When the period (Duration) of partnership firm is expired.
3. Partnership can be dissolved after the completion of specific Venture for which it was formed.
4. Insolvency of all partners or all partners except one results in to dissolution.
5. Illegal or unlawful business activity results into dissolution.
6. Partnership at will can be dissolved by giving notice of 14 days.

In addition to the above circumstances, Honorable Court can order to dissolve the partnership on legal grounds. For example - Guilt of misconduct : Partner becomes of unsound mind, breach of agreement etc.

6.3 Difference Between Dissolution of Partnership and Dissolution of firm.

Basic of Comparison	Dissolution of Partnership	Dissolution of Firm.
Meaning	It may or may not involve dissolution of firm.	It implies dissolution of Partnership
Nature	The nature of Dissolution of Partnership is Voluntary	The nature of Dissolution of firm's voluntary or compulsory.
Continuation of Business	The business continues However the partnership is reconstituted	The Business discontinues completely.
Requirements	It requires revaluation of assets and liabilities for reconstitution of firm.	It requires realization of assets and liabilities for closure of the firm.
Final closure of Books	It does not require final closure of the books of accounts.	It necessitates final closure of the books of accounts.
Court Order	A court order cannot dissolves a Partnership.	A court order can dissolve a firm.

6.4 Accounting Treatment / Settlement of accounts on dissolution of firm :

When firm is dissolved all assets are realised and the proceeds from it, are to be paid for the liabilities of the partnership firm. According to Indian Partnership Act 1932 Sec. 48 the liabilities are paid as per the order given below.

- (a) Realisation (Dissolution) expenses to be paid first.
- (b) Outside liabilities (Third party liabilities) to be paid e. g. Sundry Creditors, Bills payable, Bank overdraft, Loan from others, Outstanding expenses etc.
- (c) After paying all outside liabilities, if there is any surplus cash available, to be paid for loans given by the partners to the firm. If all the partners' loan are not fully repaid due to insufficient funds, they are entitled to share proportionately.
- (d) If still surplus cash remains that should be distributed to the partners' capital in profit sharing ratio.

6.5 Accounting Procedure

The dissolution of partnership firm is to be studied under the following two heads.

- (A) SIMPLE DISSOLUTION.
- (B) DISSOLUTION UNDER INSOLVENCY SITUATION.

6.5 (A) SIMPLE DISSOLUTION.

When all partners of partnership firm are solvent and they decided to dissolve their firm due to any reason it is called as Simple Dissolution of Partnership Firm. Under simple dissolution of a partnership firm following accounts are opened in the books of a firm.

- 1) Realisation Account.
- 2) Partners Capital Account.
- 3) Partners Currents Account. (If capital method is fixed.)
- 4) Partners Loan Account (If necessary).
- 5) Cash or Bank Account.

- 1 Realisation Account :** While preparing Realisation account all Sundry assets and all third party liabilities are transferred. Realisation is the process of converting assets into cash. Assets realised are credited and liabilities settled are debited to this account. The purpose of this account is to show the gain (profit) or loss on realisation and is, therefore a Nominal Account. The account is closed by transferring the gain (profit) or loss on realisation to partners Capital / Current Account in their profit sharing ratio. The debit balance of Realisation A/c is Loss and credit balance is Profit.
- 2 Partners Capital Account :** Capital balance of all the partners appearing in the Balance Sheet should be shown on credit side or debit side to the respective partners capital account as “By Balance b/d” or “To Balance b/d”, also transfer Reserves, Accumulated Profits or losses, Realisation Profit or loss. After making all the adjustments the balance represents the amount due to partners or due from partner. The accounts are closed after the partners receive cash or pay cash.
- 3 Partners Current Account :** All Partners Current Account is opened, when fixed capital method is given. Current Account shows a Debit Balance or Credit Balance. At the end closing balances of Partners Current Account are transferred to Partners Capital Account.
- 4 Partners Loan Account :** Credit Balance of Partner’s Loan Account is not transferred to Realisation Account credit side but it is paid off through a separate account after payment of all the amounts owed to outsiders (third party) of the firm. However debit balance of Partners Loan should be debited to partners Capital / Current Account directly.
- 5 Cash / Bank Account :** Cash / Bank Account is opened in the books of firm. Debit balance of Cash / Bank appearing in the balance sheet asset side should be shown on cash / Bank Account debit side as “To Balance b/d”. After incorporating all the amounts to cash or Bank, the balance of this account must be equal to the amount due to the partners. All cash receipts in process of dissolution is debited and all payments made by firm are credited to cash / Bank A/c.

Accounting Entries To Close The Books Of Accounts -

On dissolution of partnership firm, the books of accounts are to be closed permanently, and Balance Sheet is to be prepared. If the Balance Sheet last drawn and the date of dissolution differs on the date of dissolution one fresh Balance Sheet is to be prepared for closing books of the partnership firm. If the date of dissolution and the date of Balance Sheet remains the same, one should not prepare a revised Balance Sheet. The procedure of simple dissolution may be divided into three stages as under.

i) Transfer Stage :

Under this stage closing Balance Sheet’s all Assets. (Except cash / Bank debit balance, fictitious assets viz formation expenses, profit and loss A/c (Debit Balance, advertising suspense etc.) and all liabilities (except partner’s capital, partners loan and any undistributed profit etc.) are transferred to

Realisation Account at their Book value or Balance sheet value. All the Assets are transferred on the debit side and all the Liabilities are transferred on credit side of Realisation Account.

Specimen Journal Entries :

1. For Transferring Assets to Realisation Account :

Realisation A/c.Dr. (With the book value or Balance Sheet value)

To Assets A/c (Individually)

(Baing transfer of various assets at book value to Realisation Account.)

2. For Transferring Liabilities to Realisation Account :

All the liabilities to third parties are closed by transfer to Realisation Account.

Sundry Creditors A/c..... Dr. At

Bills Payable A/c Dr. Book

Bank Overdraft A/c Dr. Values

Outsider's Loan A/c (other than partner) Dr.

Outstanding Expenses A/c Dr.

To Realisation A/c

(Being transfer of liabilities to Realisation Account.)

3. For Transfer of Provision against closing Assets :

The various assets against which provision i. e. R. D. D., Provision for Depreciation, Contingency Reserve etc exist should be transferred separately to the Realisation Account because these are separate accounts in the Books. The entry will be.

Provision for Doubtful Debts A/c Dr.

Provision for Discount A/c Dr. (At

Provision for Depreciation A/c Dr. Book

Contingency Reserve A/c Dr. Value)

Joint Life Policy Reserve A/c Dr.

Investment Fluctuation Fund A/c..... Dr.

To Realisation A/c

(Being transfer of various provisions to Realisation Accounts)

4. For Transfer of Accumulated Profit and Reserves :

Accumulated profits means undistributed e. g. General Reserve, Reserve Fund, Profit and loss A/c (credit balance). It should be transferred to Partners Capital Account or Partners Current Account in their profit sharing ratio. The entry is :

General Reserve A/c Dr. (In Profit

Reserve Fund A/c Dr. Sharing

Profit and Loss A/c..... Dr. Ratio)

To all Partners Capital / Current A/c.

(Being accumulated Profit and Reserves transferred to all partners Capital / Current A/c in their profit sharing ratio.)

5. For Transfer of Accumulated Loss :

Accumulated loss are the losses suffered by the partnership firm not distributed among the partners e. g. Profit and Loss a/c debit balance such Accumulated Loss is transferred to Partners Capital Account or Partners Current Account. The entry will be :

All Partner's Capital / Current A/cDr.

To Profit and Loss A/c (Debit balance)

To Advertising Suspense A/c

(Being accumulated loss transfer to all partners Capital Accounts in their Profit Sharing Ratio.)

ii) **REALISATION / DISPOSAL STAGE :**

Under this stage all assets including the unrecorded assets in the Balance Sheet of the firm is sold out (Realised) or may be taken over by any partner, liabilities and realisation / Dissolution expenses are paid or any liability taken over by any partner and partners loan is also paid.

SPECIMEN JOURNAL ENTRIES :

1. If the Assets are sold for cash -

Cash / Bank A/cDr. (Selling Price)

To Realisation A/c.

(Being assets sold for cash.)

2. If the Assets are taken over by any partner -

Partner's Capital / Current A/c.....Dr. (Agreed value)

To Realisation A/c.

(Being assets taken over by the partner.)

NOTE : If any assets is taken over by any creditors in part or full payment of the amount due to him, the value placed on the asset taken over is deducted from the amount due to the creditor and the balance of the amount due will be paid to him. Entry for the asset taken over by the creditor is not made but entry for the net payment to the creditor is made.

3. For Payment of Liabilities -

A) For Payment to outsiders liabilities (Third party)

Realisation A/c.....Dr. (Actual payment.)

To Cash / Bank A/c.

(Being third party Liabilities paid.)

B) If any partner discharges any liabilities of the firm -

Realisation A/c.....Dr. (Actual amount paid)

To Partners Capital / Current A/c.

(Being Liability taken over by a partner.)

Note: If nothing is mentioned about payment of any liability by then it is paid at Book Value.

4. For Payment of Realisation Expenses -

A) Realisation Expenses is borne by firm :

Realisation A/c.....Dr. (Actual expenses.)

To Cash / Bank A/c.

(Being Realisation expenses paid by firm.)

B) Realisation Expenses is borne by any Partner :

Realisation A/c.....Dr. (Actual expenses.)

To Concerned Capital / Current A/c.

(Being Realisation expenses paid by partner.)

5. If commission is given to any Partner for realising assets :

Realisation A/c.....Dr. (Agreed value)
 To Partner's Capital / Current A/c.
(Being commission paid for realising the assets)

6. If Any Contingent Liability is paid (i.e. liability not included in Balance Sheet) :

Realisation A/c.....Dr. (Actual payment)
 To Cash / Bank A/c.
(Being contingent Liability paid.)

7. For Payment of Partner's Loan -

As per section 48 of the Partnership Act 1932 Partners loan shall be paid after making the payment to third parties. It should not be transferred to realisation account, the loan due to a partner is paid and the entry is :

Partner's Loan A/c.....Dr. (Actual payment)
 To Cash / Bank A/c.
(Being repayment of Partner's loan.)

iii) DISTRIBUTION STAGE :

Under this stage first realisation account is closed and the profit or loss on realisation account is transferred to Partner's Capital / Current Account in their agreed Profit Sharing Ratio. After making all the adjustments related to all partners Partner's Capital Account is closed by setting the balance.

1. For Closing Realisation Account : Realisation Account is a Nominal Account; it is closed to find out profit or loss made / suffered on realisation of asset and payment of outside liabilities.

A) For Transfer of Profit on Realisation Account :

If the credit side of the Realisation Account is more than the debit side a Profit has been made and should be transfer to all Partners Capital / Current Account. The entry is :

Realisation A/c.....Dr. (In profit sharing ratio)
 To All Partner's Capital / Current A/c.

(Being Profit on realisation transferred to all partners Capital / Current Account in their profit sharing ratio)

B) For Transfer of Loss on Realisation Account :

If the debit side of the Realisation Account is more than the credit side a Loss has been incurred and the entry will be :

All Partner's Capital / Current A/c.....Dr. (In profit sharing ratio)
 To Realisation A/c.

(Being loss on realisation transferred to all partners Capital / Current Account in their profit sharing ratio)

2. For Closing Current Accounts : Current Accounts of the partners (if any) should be closed by transferring the balance to Capital Account of the partners. The entry is :

A) If Current Account shows Credit Balance :

Partner's Current A/c.....Dr.
 To Partner's Capital A/c.

(Being transfer of credit balance to Partner's Capital account)

B) If Current Account shows Debit Balance :

Partner's Capital A/c. Dr.

To Partner's Current A/c.

(Being transfer of debit balance to Partner's Capital account)

3. For Closing Capital Account :

A) As the Capital Accounts of the partners shows a debit balance partner should bring in cash to settle his account with the firm. The entry is :

Cash / Bank A/c. Dr.

To Partner's Capital A/c.

(Being amount due from the partner received)

B) If cash paid to Partner to settle the Capital Account :

Partner's Capital A/c. Dr.

To Cash / Bank A/c.

(Being amount due to partners paid as final settlement.)

Treatment of Unrecorded (Undisclosed) Assets and Liabilities -

On the date of dissolution there may be some assets and liabilities which may not be appearing in the books. Such assets and liabilities have not been recorded in the books, so question of their transfer to Realisation Account does not arise. But entries are recorded when such assets or liabilities are realised or paid.

1. For any unrecorded assets Realised (sold out) -

Cash / Bank A/c. Dr. (Value realised)

To Realisation A/c.

(Being unrecorded assets realised.)

2. If unrecorded assets are taken over by any partner -

Partner's Capital / Current A/c..... Dr. (Agreed value)

To Realisation A/c.

(Being unrecorded assets taken over by partner.)

3. If unrecorded liabilities are paid off by any partner -

Realisation A/c. Dr. (Actual payment)

To Partner's Capital / Current A/c.

(Being unrecorded liabilities paid off by partner.)

4. If unrecorded liabilities are paid by Firm -

Realisation A/c. Dr. (Actual payment made)

To Bank / Cash A/c.

(Being unrecorded liabilities paid off by the firm.)

Treatment of Goodwill on Dissolution -

There is no need to give a special treatment to Goodwill in case dissolution. It should be treated as any other asset. If it already appears in books, it will be transferred, like all other assets, to the debit side of realisation account. If it does not appear, there is no question of transfer on sale the amounts actually received will be debited to Cash / Bank Account and credited to Realisation Account.

A. If Goodwill Account Appears in the Balance Sheet :**1. Transfer of Goodwill to Realisation Account.**

Realisation A/c. Dr.

To Goodwill A/c.

(Being goodwill transferred.)

2. If Goodwill is realised on dissolution -

Cash / Bank A/c. Dr.

To Realisation A/c.

(Being goodwill realised)

B. If Goodwill Account Does Not Appear in the Balance Sheet:

When goodwill account does not appear in the Balance Sheet, there is no question of transfer But on sale the amount is actually received, The entry will be :

1. Transfer of Goodwill realised on dissolution -

Cash / Bank A/c. Dr.

To Realisation A/c.

(Being goodwill realised)

2. If a Partner Purchases Goodwill -

Partner's Capital / Current A/c. Dr.

To Realisation A/c.

(Being goodwill purchased by a Partner.)

PROFORMA OF REALISATION ACCOUNT

Dr.		Realisation Account		Cr.	
Particulars	Amount ₹	Particulars	Amount ₹		
To Sundry Assets A/c. (Transferred all assets, excluding cash, bank, Fictitious assets, accumulated losses, debit balance of Partners Capital / Current A/c. Loan to partner(s))	(Book Value)	By Sundry Liabilities A/c. (Transferred third party liabilities, excluding Partners Capital, Reserves, Accumulated Profit, Loan from partner(s)).	(Book Value)		
To Provision on Any liabilities A/c. (Reserve for discount on creditors)	(Book Value)	By Provision on Any Assets A/c. (Reserve for Doubtful Dets (R. D. D.))	(Book Value)		
To Cash / Bank A/c. (Discharge Sundry liabilities)	(Agreed-Value)	By Cash / Bank A/c. (Received amount on realisation of assets.)	(Re-alised Value)		
To Cash / Bank A/c. (Payment of unrecorded liabilities.)	(Agreed-Value)	By Cash / Bank A/c. (Received amount from unrecorded assets.)	(Actual Value)		
To Cash / Bank A/c. (Payment of Dissolution / Realisation Expenses.)	(Agreed-Value)	By Partners Capital / Current A/c. (Any Assets taken over by a partner recorded or unrecorded.)	(Agreed-Value)		

To Partners Capital / Current A/c. (Any liability taken over by a Partner.)	(Agreed-Value)	By Partners Capital / Current A/c. (Loss on realisation transferred at Profit Sharing Ratio.)	xxx
To Partners Capital / Current A/c. (Profit on realisation transferred at Profit Sharing Ratio.)	xxx		xxx
Total	xxx	Total	xxx

Illustrations

1. Riddhi and Siddhi are sharing profits and losses in the ratio of 2:1. The following is their Balance Sheet as on 31st March 2019.

Balance Sheet as on 31st March 2019

Liabilities	Amount ₹	Assets	Amount ₹
Capital A/c :		Building	60,000
Riddhi	80,000	Furniture	24,000
Siddhi	60,000	Machinery	20,000
Reserve Fund	16,000	Debtors	17,600
Siddhi's Loan A/c	4,000	Less : R. D. D.	1,600
Creditors	30,000	Stock	40,000
		Investment	8,000
		Interest Receivable	2,000
		Bank	20,000
	1,90,000		1,90,000

The firm was dissolved on 31st March 2019.

- Assets realised as follows :
Machinery ₹ 22,000, Building ₹ 28,000, Stock ₹ 38,000 and Debtors ₹ 15,000.
- Riddhi took over the Investment at ₹ 10,000 and Furniture at Book value.
- Siddhi agreed to accept ₹ 3,000 in full settlement of her Loan Account.
- Dissolution Expenses amounted to ₹ 4,000.
- Interest Receivable could not be recovered

Prepare Realisation Account, Partners' Capital Account, Siddhi's Loan Account and Bank Account

Solution**In the books of Riddhi and Siddhi****Dr.****Realisation Account****Cr.**

Particulars	Amount ₹	Amount ₹	Particulars	Amount ₹	Amount ₹
To Sundry Assets A/c			By Sundry Liabilities A/c		
Building	60,000		Creditors		30,000
Furniture	24,000		By R. D. D.		1,600
Machinery	20,000		By Bank A/c.		
Debtors	17,600		Building	28,000	
Stock	40,000		Debtors	15,000	
Investment	8,000		Stock	38,000	
Interest Receivable	2,000	1,71,600	Machinery	22,000	1,03,000
To Bank A/c			By Riddhi's Capital A/c.		
Creditors	30,000		Investment	10,000	
Realisation Exp.	4,000	34,000	Furniture	24,000	34,000
			By Siddhi's Loan A/c		1,000
			By Partner's Capital A/c.		
			(Loss on Realisation transferred.)		
			Riddhi	24,000	
			Siddhi	12,000	36,000
		2,05,600			2,05,600

Dr.**Partners' Capital Account****Cr.**

Particulars	Riddhi ₹	Siddhi ₹	Particulars	Riddhi ₹	Siddhi ₹
To Realisation A/c	34,000		By Balance b/d	80,000	60,000
To Realisation A/c			By Reserve Fund A/c	10,667	5,333
(Loss on Realisation)	24,000	12,000			
To Bank A/c	32,667	53,333			
	90,667	65,333		90,667	65,333

Dr.**Bank Account****Cr.**

Particulars	Amount ₹	Particulars	Amount ₹
To Balance b/d	20,000	By Realisation A/c	34,000
To Realisation A/c	1,03,000	By Siddhi's Loan A/c	3,000
		By Riddhi's Capital A/c	32,667
		By Siddhi's Capital A/c	53,333
	1,23,000		1,23,000

Dr.	Siddhi's Loan Account		Cr.
Particulars	Amount ₹	Particulars	Amount ₹
To Bank	3,000	By Balance b/d	4,000
To Realisation A/c	1,000		
	4,000		4,000

- 2 A firm consisting of partners Mahesh, Suresh and Yogesh decided to dissolve the partnership. They decided to take over certain assets and liabilities and continue business separately. The Balance Sheet was as under.

Balance Sheet as on 31st March 2017

Liabilities	Amount ₹	Assets	Amount ₹
Capital A/c :		Furniture	2,000
Mahesh	55,000	Sundry Assets	34,000
Suresh	20,000	Debtors	48,400
Yogesh	14,000	Less : R. D. D.	2,400
Creditors	12,000	Stock	15,600
Loan	3,000	Cash	6,400
	1,04,000		1,04,000

It was agreed as under :

1. Mahesh is to take Furniture at ₹ 1,600 and the Debtors amounting to ₹ 40,000 at ₹ 34,400 only. He accepted the Creditors of ₹ 12,000 at that figure.
2. Suresh is to take over all Stock at ₹ 14,000 and Sundry Assets worth ₹ 16,000 at ₹ 14,400 only.
3. Yogesh is to takeover the remaining Sundry Assets at ₹ 16,000 and assume the responsibility for the discharge of the loan together with accrued interest on loan of ₹ 60, which has not been recorded in accounts.
4. The dissolution expenses were ₹ 540.
5. The remaining Debtors realized ₹ 4,200 only.
6. The necessary Adjustments were made by partners to settle their accounts.

Prepare Realisation Account, Partners Capital Account, and Cash Account, after giving effect to the above adjustments.

Solution :**In the books of Mahesh, Suresh and Yogesh****Dr.****Realisation Account****Cr.**

Particulars	Amount (₹)	Amount (₹)	Particulars	Amount (₹)	Amount (₹)
To Sundry Assets A/c			By Sundry Liabilities A/c		
Sundry Assets	34,000		Creditors	12,000	
Furniture	2,000		Loans	3,000	15,000
Debtors	48,400				
Stock	15,600	1,00,000	By R. D. D.		2,400
To Mahesh's Capital A/c (Creditors)		12,000	By Mahesh's Capital A/c		
			Furniture	1,600	
			Debtors	34,400	36,000
To Yogesh's Capital A/c			By Suresh's Capital A/c		
Loan	3,000		Stock	14,000	
Interest on loan	60	3,060	Sundry Assets	14,400	28,400
			By Yogesh's Capital A/c		
To Cash A/c (Dissolution Expenses)		540	(Sundry Assets)		16,000
			By Cash A/c (Debtors)		4,200
			By Partners' Capital A/c (Loan on Realisation Transferred.)		
			Mahesh	4,533	
			Suresh	4,533	
			Yogesh	4,534	13,600
		1,15,600			1,15,600

Dr.**Partners' Capital Account****Cr.**

Particulars	Mahesh (₹)	Suresh (₹)	Yogesh (₹)	Particulars	Mahesh (₹)	Suresh (₹)	Yogesh (₹)
To Realisation A/c	36,000	28,400	16,000	By Balance b/d	55,000	20,000	14,000
To Realisation A/c (Loss)	4,533	4,533	4,534	By Realisation A/c	12,000		3,060
To Cash A/c	26,467			By Cash A/c		12,933	3,474
	67,000	32,933	20,534		67,000	32,933	20,534

Dr.		Cash Account		Cr.	
Particulars	Amount ₹	Particulars	Amount ₹		
To Balance b/d	6,400	By Realisation A/c	540		
To Realisation A/c	4,200	By Mahesh's Capital A/c	26,467		
To Suresh's Capital A/c	12,933				
To Yogesh's Capital A/c	3,474				
	27,007				
			27,007		

- 3 **Rajiv and Sanjeev are partners Sharing Profits and losses equally. They decided to dissolve their firm on 31st March 2019. The Balance Sheet of the firm on 31st March 2019 was as under.**

Balance Sheet as on 31st March 2017

Liabilities	Amount ₹	Assets	Amount ₹
Reserve Fund	8,000	Building	20,000
Creditors	12,800	Furniture	6,000
Bills payable	7,200	Debtors	18,000
Capital A/c's		Stock	20,000
Rajeev	20,000	Bills Receivable	2,000
Sanjeev	24,000	Cash	6,000
	72,000		72,000

The Assets realised as under :

Stock ₹ 18,400, Debtors ₹ 16,600, Bill Receivable ₹ 1,980. Sanjeev agreed to takeover the Building for ₹ 18,000 and Rajeev agreed to takeover the Furniture for ₹ 5,400. The realisation expenses amounted to ₹ 600.

Pass necessary Journal Entries and write up the Realisation A/c and Partners' Capital A/c.

Solution :

In the books of Rajeev and Sanjeev.
Journal Entries

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
1.	Realisation A/c.....Dr. To Building A/c To Furniture A/c To Debtors A/c To Stock A/c To Bills Receivable A/c (Being Sundry Assets transferred to Realisation A/c)		66,000	20,000 6,000 18,000 20,000 2,000
2.	Creditors A/cDr. Bills PayableDr. To Realisation A/c (Being Sundry Liabilities transferred to Realisation A/c)		12,800 7,200	20,000
3.	Reserves fund A/cDr. To Rajeev's Capital A/c To Sanjeev's Capital A/c (Being General Reserve transferred to Partners Capital A/c)		8,000	4,000 4,000
4.	Cash A/c.....Dr. To Realisation A/c (Being assets realised.)		36,980	36,980
5.	Sanjeev's Capital A/cDr. To Realisation A/c (Being Building taken over by Sanjeev)		18,000	18,000
6.	Rajeev's Capital A/cDr. To Realisation A/c (Being Furniture taken over by Rajeev)		5,400	5,400
7.	Realisation A/c.....Dr. To Cash A/c (Being Sundry Liabilities Paid)		20,000	20,000
8.	Realisation A/c.....Dr. To Cash A/c (Being Realisation expenses Paid)		600	600
9.	Rajeev's Capital A/cDr. Sanjeev's Capital A/cDr. To Realisation A/c (Being Realisation loss transferred to partners Capital A/c)		3,110 3,110	6,220
10.	Rajeev's Capital A/cDr. Sanjeev's Capital A/cDr. To Cash A/c (Being final settlement made.)		15,490 6,890	22,380

In the books of Rajeev and Sanjeev.

Dr. **Realisation Account** **Cr.**

Particulars	Amount (₹)	Amount (₹)	Particulars	Amount (₹)	Amount (₹)
To Sundry Assets A/c			By Sundry Liabilities A/c		
Building	20,000		Creditors	12,800	
Furniture	6,000		Bills Payable	7,200	20,000
Debtors	18,000		By Cash A/c		
Stock	20,000		Stock	18,400	
Bills Receivable	2,000	66,000	Debtors	16,600	
To Cash A/c			Bill Receivable	1,980	36,980
Creditors	12,800		By Sanjeev's Capital A/c		18,000
Bills Payable	7,200	20,000	(Building taken)		
To Cash A/c		600	By Rajeev's Capital A/c		5,400
(Realisation Expenses Paid)			(Furniture taken)		
			By Partners 'Capital A/c		
			(Loss on Realisation transferred.)		
			Rajeev	3,110	
			Sanjeev	3,110	6,220
		86,600			86,600

Dr. **Partners' Capital Account** **Cr.**

Particulars	Rajeev (₹)	Sanjeev (₹)	Particulars	Rajeev (₹)	Sanjeev (₹)
To Realisation A/c	5,400	18,000	By Balance b/d	20,000	24,000
To Realisation A/c	3,110	3,110	By General Reserve A/c	4,000	4,000
(Loss on Realisation)					
To Cash A/c	15,490	6,890			
	24,000	28,000		24,000	28,000

Working Note :

Dr. **Cash Account** **Cr.**

Particulars	Amount ₹	Particulars	Amount ₹
To Balance b/d	6,000	By Realisation A/c	20,000
To Realisation A/c	36,980	By Realisation A/c	600
		By Rajeev's Capital A/c	15,490
		By Sanjeev's Capital A/c	6,890
	42,980		42,980

4 The following is the Balance Sheet of Swara and Swaraj as on 31st March 2018.

Balance Sheet as on 31st March 2018.

Liabilities	Amount ₹	Assets	Amount ₹
Capital Account :		Furniture	6,000
Swara	6,000	Patents	1,200
Swaraj	5,000	Goodwill	2,000
General Reserve	2,000	Debtors	3,800
Swara's Loan A/c	2,000	Less : R. D. D.	200
Creditors	3,000	Stock	5,000
Bills Payable	1,000	Bank	1,200
	19,000		19,000

On 1st April 2018 the firm was dissolved.

- Swara took over Patents at a value of ₹ 2,000.
- The assets were realised as under :
Furniture ₹ 7,000, Goodwill ₹ 3,000, Stock ₹ 4,000 and Debtors ₹ 3,000.
- Creditors were paid off at a discount of 10% and other liabilities were paid in full.
- Expenses for realisation amounted to ₹ 1,500 which is borne by Swaraj.

Prepare Realisation A/c, Partners' Capital A/c and Bank A/c

Solution 4

In the books of Swara and Swaraj

Dr.			Realisation Account			Cr.		
Particulars		Amount (₹)	Amount (₹)	Particulars		Amount (₹)	Amount (₹)	
To Sundry Assets A/c				By Sundry Liabilities A/c				
Furniture		6,000		Creitors		3,000		
Patents		1,200		Bills Payable		1,000	4,000	
Goodwill		2,000		By R. D. D.			200	
Debtors		3,800		By Swara's Capital A/c			2,000	
Stock		5,000	18,000	(Patents taken over)				
To Swaraj's Capital A/c			1,500	By Bank A/c :				
(Realisation Expenses)				Furniture		7,000		
				Goodwill		3,000		
To Bank A/c				Stock		4,000		
Creditors		2,700		Debtors		3,000	17,000	
Bill Payable		1,000	3,700					
			23,200				23,200	

Dr. Partner's Capital Account			Cr.		
Particulars	Swara (₹)	Swaraj (₹)	Particulars	Swara (₹)	Swaraj (₹)
To Realisation A/c (Patents taken over)	2,000		By Balance b/d	6,000	5,000
To Bank A/c	5,000	7,500	By General Reserve	1,000	1,000
			To Realisation A/c		1,500
	7,000	7,500		7,000	7,500

Dr. Bank Account			Cr.	
Particulars	Amount (₹)	Particulars	Amount (₹)	
To Balance b/d	1,200	By Realisation A/c		
To Realisation A/c (Assets Realised)	17,000	(Creditors & Bill payable paid)	3,700	
		By Swara's Loan A/c	2,000	
		By Swara's Capital A/c	5,000	
		By Swaraj's Capital A/c	7,500	
	18,200		18,200	

Working Note :

Dr. Swara's Loan Account			Cr.	
Particulars	Amount ₹	Particulars	Amount ₹	
To Bank A/c	2,000	By Balance b/d	2,000	
	2,000		2,000	

- 5 Sun, Moon and Star are partners in a firm sharing Profits and Losses in the ratio of 5:3:2. They agreed to dissolve the firm on 31st March 2019 on which date their Balance Sheet was as under.

Balance Sheet as on 31st March 2019.

Liabilities	Amount ₹	Assets	Amount ₹
Capital :		Furniture	20,000
Sun	35,000	Goodwill	13,000
Star	85,000	Joint Life Policy	30,000
Reserve Fund	15,000	(At surrendered value)	
Joint Life Policy Fund	30,000	Sundry Debtors	60,000
Sundry Creditors	26,000	Stock	22,000
Outstanding Rent	4,000	Cash at Bank	40,000
		Capital Account : Moon	10,000
	1,95,000		1,95,000

During the dissolution following were the Cash and Non-Cash transactions.

- Furniture and Stock were taken over by Sun at an agreed value of ₹ 35,000 and ₹ 28,000 respectively.
- Joint Life Policy was surrendered and Sundry Debtors were realised in full after allowing a discount of 20%

- C. Sundry Creditors were taken over by Moon at ₹ 24,000.
D. The Realisation Expenses amounted to ₹ 2,000

You are required to prepare necessary Ledger Account in the Books of firm.

5

In the books of Sun, Moon and Star

Dr.			Realisation Account			Cr.		
Particulars		Swara (₹)	Swaraj (₹)	Particulars		Swara (₹)	Swaraj (₹)	
To Sundry Assets A/c				By Sundry Liabilities A/c				
Furniture		20,000		Creditors		26,000		
Goodwill		13,000		Joint Life Policy Fund		30,000		
Joint Life Policy		30,000		Outstanding Rent		4,000	60,000	
Sundry Debtors		60,000						
Stock		22,000	1,45,000					
To Moon's Capital A/c			24,000	By Sun's Capital A/c				
(Sundry Creditors				Furniture		35,000		
taken over)				Stock		28,000	63,000	
To Bank A/c				(taken over)				
Outstanding Rent		4,000						
Realisation Expenses		2,000	6,000	By Bank A/c :				
To Partner's Capital A/c :				Joint Life Policy		30,000		
(Profit on Realisation				Sundry Debtors		48,000	78,000	
transferred.)								
Sun		13,000						
Moon		7,800						
Star		5,200	26,000					
			2,01,000				2,01,000	

Dr.				Partners' Capital Account				Cr.			
Particulars		Sun (₹)	Moon (₹)	Star (₹)	Particulars		Sun (₹)	Moon (₹)	Star (₹)		
To Balance b/d		63,000	10,000	93,200	By Balance b/d		35,000		85,000		
To Realisation A/c			By Reserve Fund		7,500	4,500	3,000				
To Bank A/c			26,300		By Realisation A/c			24,000			
					By Realisation A/c (Profit on Realisation)		13,000	7,800	5,200		
					By Bank A/c		7,500				
		63,000	36,300	93,200			63,000	36,300	93,200		

Dr.	Bank Account		Cr.
Particulars	Amount ₹	Particulars	Amount ₹
To Balance b/d	40,000	By Realisation A/c	6,000
To Realisation A/c	78,000	By Moon's Capital A/c	26,300
To Sun's Capital A/c	7,500	By Star's Capital A/c	93,200
	1,25,500		1,25,500

- 6 Nerle and Patil were partners sharing Profit and Losses in the ratio 3:1. They decided to dissolve the partnership on 31st March 2020 on which date their Balance Sheet stood as follows.

Balance Sheet as on 31st March 2020.

Liabilities	Amount ₹	Assets	Amount ₹
Capital A/c :		Building	60,000
Nerle	1,14,000	Machinery	50,000
Patil	50,000	Stock	30,000
Profit and Loss A/c	8,000	Sundry Debtors	44,000
Sundry Creditors	32,000	Cash at Bank	20,000
	2,04,000		2,04,000

The firm was dissolved on the above date and the assets were realised as under -

1. Nerle took over 50% of the Machinery at a discount of 10% and 1/4th Stock at a discount of 20%
2. Patil took over Building at ₹ 70,000 and Debtors worth ₹ 20,000 at ₹ 16,000. He also agreed to pay Creditors at a discount of 5%.
3. Balance of Machinery was sold at a loss of ₹ 4,000.
4. Balance of Stock was sold at 10% profit and remaining Debtors realised at 95%.

You are required to prepare Realisation A/c, Partners Capital A/c and Bank A/c.

Solution 6

In the books of Nerle and Patil

Dr.

Realisation Account

Cr.

Particulars	Amount (₹)	Amount (₹)	Particulars	Amount (₹)	Amount (₹)
To Sundry Assets A/c			By Sundry Liabilities A/c		
Building	60,000		Creditors		32,000
Machinery	50,000				
Stock	30,000		By Nerle's Capital A/c :		
Sundry Debtors	44,000	1,84,000	Machinery	22,500	
			Stock	6,000	28,500
To Patil's Capital A/c :			By Patil's Capital A/c :		
Creditors		30,400	Building	70,000	
To Partner's Capital A/c			Debtors	16,000	86,000
(Profit on Realisation					
transferred.)					
Nerle	488		By Bank A/c :		
Patil	162	650	Machinery	21,000	
			Stock	24,750	
			Debtors	22,800	68,550
		2,15,050			2,15,050

Dr.

Partner's Capital Account

Cr.

Particulars	Nerle (₹)	Patil (₹)	Particulars	Nerle (₹)	Patil (₹)
To Realisation A/c	28,500	86,000	By Balance b/d	1,14,000	50,000
			By Profit and Loss A/c	6,000	2,000
To Bank A/c	91,988		By Realisation A/c		30,400
			By Realisation A/c (Profit	488	162
			on realisation)		
			By Bank A/c		3,438
	1,20,488	86,000		1,20,488	86,000

Dr.

Bank Account

Cr.

Particulars	Amount ₹	Particulars	Amount ₹
To Balance b/d	20,000	By Nerle's Capital A/c	91,988
To Realisation A/c	68,550		
To Patil's Capital A/c	3,438		
	91,988		91,988

Working Note :

1. Machinery - 50,000

50% ₹ 25,000 (Nettle)	50% ₹ 25,000 (Realised)
(less) 10% ₹ 2,500 (Discount)	(less) ₹ 4,000 (Loss)
₹ 22,500	₹ 21,000

2. Stock - 30,000

$\left(\frac{1}{4}\right)$ ₹ 7,500 (Nettle)	$\left(\frac{3}{4}\right)$ ₹ 22,500 (Realised)
(less) 20% ₹ 1,500 (Discount)	(Add) 10% ₹ 2,250 (Profit)
₹ 6,000	₹ 24,750

3. Creditors paid at 5% Discount.

$$= ₹ 32,000 \times \frac{5}{100} = ₹ 1,600$$
$$= ₹ 32,000 - 1,600 = ₹ 30,400$$

4. Total Debtors (B/S)

	₹ 44,000
Less : Patil taken over	₹ 20,000
Remaining Balance	₹ 24,000
95% Debtors Realised	₹ 22,800

6.5 B) Dissolution Under Insolvency Situation :

Insolvency - In legal terminology, the situation where the liabilities of a person or firm exceeds its assets. In practice however insolvency is the situation where an individual or a firm cannot raise enough cash to meet its obligations, or to pay debts as they become due for payment.

At the time of dissolution if the Partner's Capital Account shows a debit balance after making adjustments he is to bring cash in order to settle his account. If he is unable to clear his debit balance either wholly or in part the unrecoverable portion of the said partner must be borne by the solvent partners.

6.5 C) Some Important Concepts :

A. Solvent Partner : "A Partner whose assets are more than his liabilities"

A person is said to be solvent, when he is able to pay off his liabilities out of his assets.

A solvent partner means a partner who is able to meet his financial obligations.

B. Insolvent Partner :

"Insolvent Partner means a partner whose Liabilities are more than his Assets."

"A person is said to be insolvent when he is unable to satisfy his liabilities out of his assets".

C. Capital Deficiency : Capital deficiency means that one or more partner has a debit balance in his capital account at the point of final cash distribution. As per Partnership Act 1932 The liability of partners in a firm is unlimited as well as joint and several, so when a partners becomes insolvent his private property is acquired and sold out. If he is unable to pay his dues to firm his deficiency is borne by solvent partners in their profit sharing ratio.

6.5 D) Fixed and Fluctuating Capital Method

Fixed Capital Method : Under Fixed Capital Method a separate Current Account is prepared for each partner. All the adjustment are made in the Current Accounts. Then the balance on Current Account is transferred to Capital Account of the partner.

Accounting Procedure :

1. Transfer the balance on insolvent partner's Current Account to Capital Account. The entry will be
Insolvent Partner's Current A/cDr.
 To Insolvent Partner's Capital A/cDr.
(Being insolvent partners Current A/c transferred to Capital A/c)
2. Transfer the deficiency on Insolvent Partners Capital account to solvent partners Capital Accounts in their Profit sharing ratio.
Solvent Partners Capital A/cDr.
 To Insolvent Partners capital A/cDr.
(Being insolvent partners deficiency transferred to solvent partners)
3. Transfer the balance of solvent partners Current Account to their Capital Accounts.
Solvent Partners Current A/cDr.
 To Solvent Partners Capital A/cDr.
(Being Current Account balance transferred.)
4. Final settlement of Solvent Partners Capital account.
Solvent Partner's Capital A/cDr.
 To Cash / Bank A/cDr.
(Being Final settlement made by paying cash)

6.5 E) Fluctuating Capital Method

Under Fluctuation Capital Method, no Current Accounts are opened. All the adjustment are made in the Capital Account of the partners. Deficiency of insolvent partner's capital account is transferred to solvent partner's capital accounts in their Profit Sharing Ratio.

Solvent Partner's Capital A/cDr.
 To Solvent Partners Capital A/cDr.
(Being insolvent partner's capital A/c transferred)

(When one Partner become Insolvent)

Illustrations

- 1 Vidya, Sharmila and Megha are partners sharing Profit and Losses in the ratio 5:3:2. Their Balance Sheet as on 31st March 2019 was as under.

Balance Sheet as on 31st March 2019.

Liabilities	Amount ₹	Assets	Amount ₹
Capital A/c		Sundry Assets	1,28,000
Vidya	50,000	Bank	16,000
Sharmila	40,000	Current A/c : Megha	26,000
Megha	30,000		
Current A/c : Vidya	6,000		
: Sharmila	6,000		
Sundry Creditors	28,000		
Bill Payable	10,000		
	1,70,000		1,70,000

They decided to dissolve the partnership firm on the above date as under.

1. Sundry Assets realised at 80% of book value.
2. Unrecorded outstanding expenses ₹ 8,000 paid off.
3. Realisation expenses amounted to ₹ 6,000
4. Sundry Creditors and Bills Payable were paid for ₹ 34,000.
5. Megha become insolvent and ₹ 2,000 were recovered from her private estate.

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

Solution :

In the books of Vidya, Sharmila and Megha

Dr.

Realisation Account

Cr.

Particulars	Amount (₹)	Amount (₹)	Particulars	Amount (₹)	Amount (₹)
To Sundry Assets A/c		1,28,000	By Sundry Liabilities A/c		
To Bank A/c :			Creditors	28,000	
Creditors and Bills payable	34,000		Bills Payable	10,000	38,000
Outstanding Expenses	8,000	42,000	By Bank A/c		1,02,400
To Bank A/c		6,000	(Sundry Assets)		
(Realisation Expenses)			By Partners' Current A/c :		
			(Loss on Realisation		
			transferred.)		
			Vidya	17,800	
			Sharmila	10,680	
			Megha	7,120	35,600
		1,76,000			1,76,000

Dr. Partners' Current Account				Cr.			
Particulars	Vidya (₹)	Sharmila (₹)	Megha (₹)	Particulars	Vidya (₹)	Sharmila (₹)	Megha (₹)
To Balance b/d			26,000	By Balance b/d	6,000	6,000	
To Realisation A/c (Loss)	17,800	10,680	7,120	By Partner's Capital A/c	11,800	4,680	33,120
	17,800	10,680	33,120		17,800	10,680	33,120

Dr. Partners' Capital Account				Cr.			
Particulars	Vidya (₹)	Sharmila (₹)	Megha (₹)	Particulars	Vidya (₹)	Sharmila (₹)	Megha (₹)
To Partner's Current A/c	11,800	4,680	33,120	By Balance b/d	50,000	40,000	30,000
To Megha's Capital A/c	700	420		By Bank A/c :			2,000
To Bank A/c	37,500	34,900		By Vidya's Capital A/c			700
				By Sharmila's Capital A/c			420
	50,000	40,000	33,120		50,000	40,000	33,120

Dr. Bank Account		Cr.	
Particulars	Amount ₹	Particulars	Amount ₹
To Balance b/d	16,000	By Realisation A/c	42,000
To Realisation A/c	1,02,400	By Realisation A/c	6,000
To Megha's Capital A/c	2,000	By Vidya's Capital A/c	37,500
		By Sharmila's Capital A/c	34,900
	1,20,400		1,20,400

Working Note :

Capital Deficiency of Megha - ₹ 1,120

Vidya ₹ 1,120 × 5/8 = ₹ 700

Sharmila ₹ 1,120 × 3/8 = ₹ 420

2. Following is the Balance Sheet of Kadam, Shinde and Chavan as on 31st March 2019.
They were sharing Profit and Losses in ratio 1/2, 1/6, 1/3.

Balance Sheet as on 31 st March 2019.

Liabilities	Amount ₹	Assets	Amount ₹
Capital A/c :		Building	28,500
Kadam	36,000	Machinery	20,250
Shinde	32,250	Furniture	4,500
General Reserve	18,000	Stock	30,750
Kadam's Loan	11,250	Debtors	15,000
Sundry Creditors	18,750	Bills Receivable	9,000
Bills Payable	11,250	Bank	4,500
		Profit and Loss account	2,250
		Chavan's Capital account	12,750
	1,27,500		1,27,500

On the above date the firm was dissolved and the assets realised as under.

1. Building ₹ 27,000, Machinery ₹ 18,000, Debtors ₹ 7,500, and Goodwill ₹ 1,350
2. Kadam took over Furniture and Stock at ₹ 30,000 and agreed to pay Creditors at a discount of ₹ 750
3. Shinde took over Bills Receivable at ₹ 7,800 and paid Bills Payable in full.
4. Dissolution expenses amounted to ₹ 2,400
5. Chavan become insolvent. No amount was recovered from his estate.

Show Realisation Account, Partners Capital Account and Bank Account.

Solution**In the books of Kadam, Shinde and Chavan****Dr.****Realisation Account****Cr.**

Particulars	Amount (₹)	Amount (₹)	Particulars	Amount (₹)	Amount (₹)
To Sundry Assets A/c			By Sundry Liabilities A/c		
Building	28,500		Creditors	18,750	
Machinery	20,250		Bills payable	11,250	30,000
Furniture	4,500		By Bank A/c		
Stock	30,750		Building	27,000	
Debtors	15,000		Machinery	18,000	
Bill Receivable	9,000	1,08,000	Debtors	7,500	
			Goodwill	1,350	53,850
To Kadam's Capital A/c (Creditors taken)		18,000	By Kadam's Capital A/c (Furniture and Stock taken.)		30,000
To Shinde's Capital A/c (Bills payable taken)		11,250	By Shinde's Capital A/c (Bills Receivable taken)		7,800
To Bank A/c (Realisation Expenses)		2,400	By Partner's Capital A/c (Loss transferred to)		
			Kadam	9,000	
			Shinde	3,000	
			Chavan	6,000	18,000
		1,39,650			1,39,650

Dr.**Partners' Capital Account****Cr.**

Particulars	Kadam (₹)	Shinde (₹)	Chavan (₹)	Particulars	Kadam (₹)	Shinde (₹)	Chavan (₹)
To Balance b/d			12,750	By Balance b/d	36,000	32,250	
To Profit and loss A/c (Loss)	1,125	375	750	By General Reserve	9,000	3,000	6,000
To Realisation A/c (Loss on realisation)	9,000	3,000	6,000	By Realisation A/c	18,000	11,250	
To Realisation A/c	30,000	7,800		By Kadam's Capital A/c			10,125
To Chavan's Capital A/c	10,125	3,375		By Shinde's Capital A/c			3,375
To Bank A/c	12,750	31,950					
	63,000	46,500	19,500		63,000	46,500	19,500

Dr.		Bank Account		Cr.	
Particulars	Amount ₹	Particulars	Amount ₹		
To Balance b/d	4,500	By Realisation A/c	2,400		
To Realisation A/c	53,850	By Kadam's Capital A/c	12,750		
		By Shinde's Capital A/c	31,950		
		By Kadam's Loan A/c	11,250		
	58,350		58,350		

Dr.		Kadam's Loan Account		Cr.	
Particulars	Amount ₹	Particulars	Amount ₹		
To Bank A/c	11,250	By Balance b/d	11,250		
	11,250		11,250		

3. Shubhangi, Manisha and Shital are partners. They share Profit and Losses equally. Their Balance Sheet as on 31st March 2018 was as follows :

Balance Sheet as on 31 st March 2018.

Liabilities	Amount ₹	Assets	Amount ₹
Capital Account :		Machinery	62,500
Shubhangi	62,500	Stock	37,500
Manisha	37,500	Debtors	27,500
Reserve fund	22,500	Less R. D. D.	2,500
Creditors	37,500	Bills Receivable	22,500
Bills Payable	12,500	Cash at Bank	12,500
		Shital's Capital	12,500
	1,72,500		1,72,500

On the above date it was decided to dissolve the firm

The assets realised were as follows :

1. Stock ₹ 31, 250, Machinery ₹ 37,500, Debtors ₹ 21,250 and Bills Receivable ₹ 18,000.
2. Creditors were paid at a discount of 2% and Bills Payable were paid in full.
3. Realisation expenses amounted to ₹ 6,250.
4. Shital was declared insolvent and 50 paise in rupees could be recovered from her private estate.

Prepare : Realisation Account, Partner's Capital Account and Bank Account.

Solution**In the books of Shubhangi, Mahisha and Shital****Dr.****Realisation Account****Cr.**

Particulars	Amount (₹)	Amount (₹)	Particulars	Amount (₹)	Amount (₹)
To Sundry Assets A/c			By Sundry Liabilities A/c		
Machinery	62,500		Creditors	37,500	
Stock	37,500		Bills payable	12,500	50,000
Debtors	27,500		By R. D. D. A/c		2,500
Bill Receivable	22,500	1,50,000	By Bank A/c		
To Bank A/c			Stock	31,250	
Creditors	36,750		Machinery	37,500	
Bills Payable	12,500	49,250	Debtors	21,250	
To Bank A/c			Bill Receivable	18,000	1,08,000
Realisation Expenses		6,250	By Partner's Capital A/c (Loss transferred to)		
			Shubhangi	15,000	
			Manisha	15,000	
			Shital	15,000	45,000
		2,05,500			2,05,500

Dr.**Partners' Capital Account****Cr.**

Particulars	Shu bhangi (₹)	Man- isha (₹)	Shital (₹)	Particulars	Shu bhangi (₹)	Man- isha (₹)	Shital (₹)
To Balance b/d			12,500	By Balance b/d	62,500	37,500	
To Realisation A/c (Loss on realisation)	15,000	15,000	15,000	By General Reserve	7,500	7,500	7,500
To Shital's Capital A/c	5,000	5,000		By Bank A/c			10,000
To Bank A/c	50,000	25,000		By Shubhangi's Capital A/c			5,000
				By Manisha's Capital A/c			5,000
	70,000	45,000	27,500		70,000	45,000	27,500

Dr.**Bank Account****Cr.**

Particulars	Amount ₹	Particulars	Amount ₹
To Balance b/d	12,500	By Realisation A/c	49,250
To Realisation A/c	1,08,000	By Realisation A/c	6,250
To Shital's Capital A/c	10,000	By Shubhangi's Capital A/c	50,000
		By Manisha's Capital A/c	25,000
	1,30,500		1,30,500

(When Two Partners become Insolvent)

- 1 Narendra, Devendra and Mahendra are partners sharing Profit and Losses at 3:3:2. The Business is dissolved on 31st March 2020. When their Balance Sheet stands as below :

Balance Sheet as on 31 st March 2020.

Liabilities	Amount ₹	Assets	Amount ₹
Capital Account:		Plant and Machinery	1,00,000
Narendra	20,000	Motor Car	20,000
Devendra	80,000	Sundry Debtors	90,000
Mehendra	40,000	Stock	1,20,000
Sundry Creditors	2,00,000	Cash at Bank	10,000
	3,40,000		3,40,000

They decided to dissolve the partnership on the above date as follows.

1. Machinery and Stock are sold for ₹ 50,000 and ₹ 36,000 respectively.
2. Debtors realised for ₹ 40,000
3. Motor Car is taken by Devendra for ₹ 26,000.
4. Realisation expenses amounted to ₹ 2,000.
5. Deficiency of any partner in capital account is to be met by other partners in profit sharing ratio.
6. Narendra became insolvent and Mahendra could bring in ₹ 10,000 only.

Prepare necessary ledger accounts in the books of firm.

Solution :

In the books of Narendra, Devendra and Mahendra

Dr.

Realisation Account

Cr.

Particulars	Amount (₹)	Amount (₹)	Particulars	Amount (₹)	Amount (₹)
To Sundry Assets A/c			By Sundry Liabilities A/c :		
Plant and Machinery	1,00,000		Creditors		2,00,000
Motor Car	20,000		By Bank A/c :		
Sundry Debtors	90,000		Machinery	50,000	
Stock	1,20,000	3,30,000	Stock	36,000	
			Debtors	40,000	1,26,000
			By Devendra's		
			Capital A/c		26,000
To Bank A/c			(Motor car taken)		
Creditors paid	2,00,000		By Partners' Capital A/c		
Expenses paid	2,000	2,02,000	(Loss on Realisation		
			transferred.)		
			Narendra	67,500	
			Devendra	67,500	
			Mahendra	45,000	1,80,000
		5,32,000			5,32,000

Dr. Partners' Capital Account				Cr.			
Particulars	Narendra (₹)	Devendra (₹)	Mahendra (₹)	Particulars	Narendra (₹)	Devendra (₹)	Mahendra (₹)
To Realisation A/c (Loss on realisation)	67,500	67,500	45,000	By Balance b/d	20,000	80,000	40,000
To Realisation A/c		26,000		By Bank A/c			10,000
To Narendra's Capital A/c		28,500	19,000	By Devendra's Capital A/c	28,500		
To Mahendra's Capital A/c		14,000		By Mahendra's Capital A/c	19,000		
				By Devendra's Capital A/c			14,000
				By Bank A/c		56,000	
	67,500	1,36,000	64,000		67,500	1,36,000	64,000

Dr. Bank Account				Cr.	
Particulars	Amount ₹	Particulars	Amount ₹		
To Balance b/d	10,000	By Realisation A/c	2,00,000		
To Realisation A/c	1,26,000	By Realisation A/c	2,000		
To Mahendra's Capital A/c	10,000				
To Devendra's Capital A/c	56,000				
	2,02,000				
			2,02,000		

Working Note :

- Deficiency of Narendra** - Capital Deficiency of Narendra ₹ 47,500 distributed among Devendra and Mahendra in their profit sharing ratio i.e. 3:2
Devendra ₹ $47,500 \times \frac{3}{5} = ₹ 28,500$
Mahendra ₹ $47,500 \times \frac{2}{5} = ₹ 19,000$
- Deficiency of Mahendra** - Because of payment of Narendra's Capital Deficiency, Mahendra become insolvent therefore his Capital Deficiency is borne by Devendra ₹ 14,000.

6.6 B) (When All Partners Are Insolvent)

If all the partners are insolvent, then the third party liabilities cannot be expected to be paid in full. All the cash available, together with whatever can be recovered from the private estate of the partners, will be paid to the third party liabilities after the expenses of realisation are met. The Realisation Account should be prepared as usual but third party liabilities should not be transferred to Realisation Account nor will payment to third party liabilities be debited to this account. The loss on realisation should be transferred proportionately to the Capital Account of partners in the profit sharing ratio. The available cash should then be paid to the third party liabilities in their liability ratio. The amount remaining unpaid should be transferred to Deficiency Account. The final balances of Partners' Capital Accounts should also be transferred to Deficiency Account. Thus the books will be closed.

1. For closing the Liabilities A/c
 Liabilities A/cDr.
 To Cash / Bank A/c (Unpaid amount paid)
 To Deficiency A/c (Unpaid amount)
 (Being liabilities paid and remaining amount transferred to deficiency A/c.)
 2. For closing partner's Capital A/c
 Deficiency A/cDr.
 To Partner's Capital Accounts
 (Being balance of Partners Capital Account transferred to Deficiency A/c)
- 1. Recovery from insolvent partner :** If any amount is recovered from him by the firm, the entry will be as follows;
 Cash / Bank A/cDr.
 To Insolvent Partners Capital A/c
 (Being amount received from insolvent partners)
- 2. Distribution of capital deficiency of insolvent partner :** Point to be remembered before making distribution of capital deficiency of insolvent partners.
- a. Transfer Sundry assets to Realisation A/c
 - b. Don't transfer outside liabilities to Realisation A/c Open Third Party liabilities Accounts (Sundry Creditors, Bills Payable, Bank Loan etc.) separately
 - c. Open Deficiency A/c and transfer debit balance of Partners Capital Account to Deficiency A/c
 - d. The available cash is to be distributed among third party liabilities, if these are more than one then in their due proportion. e.g. Creditors 30,000 and Bills Payable 20,000 in this case the available cash will be distributed in the ratio 3:2. Thus, the third party liabilities are discharged only up to the possible limit and not fully.
- 1** The Balance Sheet of Rupali, Dipali and Mitali who are sharing Profits and Losses in the ratio of 2:2:1. was as follows :

Balance Sheet as on 31 st March 2018.

Liabilities	Amount ₹	Assets	Amount ₹
Capital :		Fixed Assets	2,18,000
Rupali	60,000	Goodwill	60,000
Dipali	40,000	Stock	1,20,000
Sundry Creditors	2,40,000	Bank	2,000
Bank Loan (with a charge on Stock)	1,00,000	Capital : Mitali	40,000
	4,40,000		4,40,000

On the above date the firm was dissolved and assets realised as under.

Fixed Assets were sold for ₹ 1,80,000 and Stock realised ₹ 1,04,000. Realisation expenses amounted to ₹ 6,000.

Assuming that all the partners are insolvent. **Prepare Realisation A/c, Partners' Capital A/c, Bank A/c, Sundry Creditors A/c, Bank Loan A/c, Deficiency A/c**

Solution :

In the books of Rupali, Dipali and Mitali's

Dr. Realisation Account			Cr.		
Particulars	Amount (₹)	Amount (₹)	Particulars	Amount (₹)	Amount (₹)
To Sundry Assets A/c			By Bank A/c		1,80,000
Fixed Assets	2,18,000		(Fixed Assets Realised)		
Goodwill	60,000		By Bank A/c		
Stock	1,20,000	3,98,000	(Stock realised)		1,04,000
			By Partners' Capital A/c		
			(Loss on Realisation transferred.)		
To Bank A/c			Rupali	48,000	
Realisation Expenses		6,000	Dipali	48,000	
			Mitali	24,000	1,20,000
		4,04,000			4,04,000

Dr. Partners' Capital Account				Cr.			
Particulars	Rupali (₹)	Dipali (₹)	Mitali (₹)	Particulars	Rupali (₹)	Dipali (₹)	Mitali (₹)
To Balance b/d			40,000	By Balance b/d	60,000	40,000	
To Realisation /c	48,000	48,000	24,000	By Deficiency A/c		8,000	64,000
(Loss on Realisation)							
To Deficiency A/c	12,000						
	60,000	48,000	64,000		60,000	48,000	64,000

Dr. Bank Account			Cr.	
Particulars	Amount ₹	Particulars	Amount ₹	
To Balance b/d	2,000	By Realisation A/c	6,000	
To Realisation A/c	1,80,000	By Bank Loan A/c	1,00,000	
To Realisation A/c	1,04,000	By Creditors A/c	1,80,000	
	2,86,000		2,86,000	

Dr. Creditors Account			Cr.	
Particulars	Amount ₹	Particulars	Amount ₹	
To Bank A/c	1,80,000	By Balance b/d	2,40,000	
To Deficiency A/c	60,000			
	2,40,000		2,40,000	

Dr. Bank Loan Account		Cr.	
Particulars	Amount ₹	Particulars	Amount ₹
To Bank A/c (Stock Realised)	1,00,000	By Balance b/d	1,00,000
	1,00,000		1,00,000

Dr. Deficiency A/c		Cr.	
Particulars	Amount ₹	Particulars	Amount ₹
To Dipali's Capital A/c	8,000	By Rupali's Capital A/c	12,000
To Mitali's Capital A/c	64,000	By Creditors A/c	60,000
	72,000		72,000

Note : Bank loan charged (secured) on stock, so on dissolution Bank Loan discharged on realisation of Stock.

2 Following in the Balance Sheet of M/s Rane, Kane and Mane as on 31st March 2019

Balance Sheet as on 31 st March 2019.

Liabilities	Amount ₹	Assets	Amount ₹
Capital :		Furniture	6,000
Rane	10,000	Debtors	40,000
Kane	6,000	Stocks	48,000
Sundry Creditors	80,000	Cash	2,000
Rane's Loan	20,000	Capital : Mane	20,000
	1,16,000		1,16,000

Due to the inability to pay the creditors, the firm is dissolved, Kane and Mane cannot pay anything. Rane can contribute only ₹ 3,000 from his private estate. Stock realised ₹ 30,000. Debtors realised ₹ 32,000 and Furniture is sold for ₹ 2,000. Realisation Expenses amounted to ₹ 6,000.

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

Solution No. 2

In the books of Rane, Kane and Mane

Dr. Realisation Account			Cr.		
Particulars	Amount (₹)	Amount (₹)	Particulars	Amount (₹)	Amount (₹)
To Sundry Assets A/c			By Cash A/c		
Furniture	6,000		Stock	30,000	
Debtors	40,000		Debtors	32,000	
Stock	48,000	94,000	Furniture	2,000	64,000
			By Partners' Capital A/c		
To Cash A/c		6,000	(Loss on Realisation transferred.)		
(Realisation Expenses paid)			Rane	12,000	
			Kane	12,000	
			Mane	12,000	36,000
		1,00,000			1,00,000

Dr. Partners' Capital Account				Cr.			
Particulars	Rane (₹)	Kane (₹)	Mane (₹)	Particulars	Rane (₹)	Kane (₹)	Mane (₹)
To Balance b/d			20,000	By Balance b/d	10,000	6,000	
To Realisation A/c	12,000	12,000	12,000	By Rane loan A/c	20,000		
(Loss on Realisation)				By Cash A/c	3,000		
To Deficiency A/c	21,000			By Deficiency A/c		6,000	32,000
	33,000	12,000	32,000		33,000	12,000	32,000

Dr. Cash Account		Cr.	
Particulars	Amount ₹	Particulars	Amount ₹
To Balance b/d	2,000	By Realisation A/c	6,000
To Rane's Capital A/c	3,000	By Creditors A/c	63,000
To Realisation A/c	64,000		
	69,000		69,000

Dr. Creditors Account		Cr.	
Particulars	Amount ₹	Particulars	Amount ₹
To Cash A/c	63,000	By Balance b/d	80,000
To Deficiency A/c	17,000		
	80,000		80,000

Dr. Deficiency A/c		Cr.	
Particulars	Amount ₹	Particulars	Amount ₹
To Kane's Capital A/c	6,000	By Rane's Capital A/c	21,000
To Mane's Capital A/c	32,000	By Creditors A/c	17,000
	38,000		38,000

- 3 Dinesh, Mangesh and Ramesh are partners sharing Profits and Losses in the ratio 2:2:1. They decided to dissolved the firm on 31st March 2018. When their position was as under.

Balance Sheet as on 31st March 2018.

Liabilities	Amount ₹	Assets	Amount ₹
Capital :		Building	78,000
Dinesh	26,000	Computer	45,000
Mangesh	22,000	Debtors	20,000
Ramesh	18,000	Goodwill	35,000
Creditors	80,000	Bank	8,000
Bill Payable	40,000		
	1,86,000		1,86,000

The firm was dissolved on above date and the following is the result of realisation.

- The assets were realised as Building ₹ 40,000, Computer ₹ 30,000, Debtors ₹ 10,000.
- Realisation expenses amounted to ₹ 2,000.

3. All partners were insolvent. The following amount was recovered from them Dinesh ₹ 2,000 and Mangesh ₹ 2,000.

Prepare necessary ledger account to close the books of the firm.

Solution :

In the books of Dinesh, Mangesh and Ramesh

Dr. Realisation Account			Cr.		
Particulars	Amount (₹)	Amount (₹)	Particulars	Amount (₹)	Amount (₹)
To Sundry Assets A/c			By Bank A/c		
Building	78,000		Building	40,000	
Computer	45,000		Computer	30,000	
Debtors	20,000		Debtors	10,000	80,000
Goodwill	35,000	1,78,000	By Partners' Capital A/c		
To Bank A/c		2,000	(Loss on Realisation transferred.)		
(Realisation Expenses paid)			Dinesh	40,000	
			Mangesh	40,000	
			Ramesh	20,000	1,00,000
		1,80,000			1,80,000

Dr. Partners' Capital Account				Cr.			
Particulars	Dinesh (₹)	Mangesh (₹)	Ramesh (₹)	Particulars	Dinesh (₹)	Mangesh (₹)	Ramesh (₹)
To Realisation A/c	40,000	40,000	20,000	By Balance b/d	26,000	22,000	18,000
(Loss on Realisation)				By Bank A/c	2,000	2,000	
				By Deficiency A/c	12,000	16,000	2,000
	40,000	40,000	20,000		40,000	40,000	20,000

Dr. Bank Account		Cr.	
Particulars	Amount ₹	Particulars	Amount ₹
To Balance b/d	8,000	By Realisation A/c	2,000
To Dinesh's Capital A/c	2,000	By Creditors A/c	60,000
To Mangesh's Capital A/c	2,000	By Bills Payable A/c	30,000
To Realisation A/c	80,000		
	92,000		92,000

Dr. Creditors Account		Cr.	
Particulars	Amount ₹	Particulars	Amount ₹
To Bank A/c	60,000	By Balance b/d	80,000
To Deficiency A/c	20,000		
	80,000		80,000

Dr. Bills Payable Account		Cr.	
Particulars	Amount ₹	Particulars	Amount ₹
To Bank A/c	30,000	By Balance b/d	40,000
To Deficiency A/c	10,000		
	40,000		40,000

Dr. Deficiency A/c		Cr.	
Particulars	Amount ₹	Particulars	Amount ₹
To Dinesh's Capital A/c	12,000	By Creditors A/c	20,000
To Mangesh's Capital A/c	16,000	By Bills Payable A/c	10,000
To Ramesh's Capital A/c	2,000		
	30,000		30,000

EXERCISE - 6

Q. 1 Objective Questions :

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

- In case of dissolution, assets and liabilities are transferred to Account.
 - Bank Account
 - Partner's Capital Account
 - Realisation Account
 - Partner's Current Account
- Dissolution expenses are credited to Account.
 - Realisation Account
 - Cash / Bank Account
 - Partner's Capital Account
 - Partner's Loan Account
- Deficiency of insolvent partner will be suffered by solvent partners in their ratio.
 - Capital ratio
 - Profit sharing ratio
 - Sale ratio
 - Liquidity ratio
- If any asset is taken over by partner from firm his capital account will be
 - Credited
 - Debited
 - Added
 - Divided
- If any unrecorded liability is paid on dissolution of the firm account is debited.
 - Cash / Bank Account
 - Realisation Account
 - Partners capital Account
 - Loan Account
- Partnership is completely dissolved when the partners of the firm become
 - Solvent
 - Insolvent
 - Creditor
 - Debtors
- Assets and liabilities are transferred to Realisation account at their values.
 - Market
 - Purchases
 - Sale
 - Book
- If the number of partners in a firm falls below two, the firm stands
 - Dissolved
 - Established
 - Realisation
 - Restructured

- 9) Realisation account is on realisation of asset.
 (a) Debited (b) Credited
 (c) Deducted (d) Closed
- 10) All activities of partnership firm ceases on of firm.
 (a) Dissolution (b) Admission
 (c) Retirement (d) Death

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

1. Debit balance of Realisation account.
2. Winding up of partnership business.
3. An account opened to find out the Profit or Loss on realisation of Assets and settlement of Liabilities.
4. Debit balance of an Insolvent Partner's Capital Account.
5. Credit balance of Realisation Account.
6. Conversion of asset into cash on dissolution of firm.
7. Liability likely to arise in future on happening of certain event.
8. Assets which are not recorded in the books of account.
9. The Accounts which show realisation of Assets and discharge of Liabilities.
10. Expenses incurred on dissolution of firm.

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

- 1) The firm must be dissolved on the retirement of a partner.
- 2) On dissolution Cash / Bank Account is closed automatically.
- 3) On dissolution Bank Overdraft is transferred to Realisation Account.
- 4) A solvent partner having debit balance to his capital account does not share the deficiency of insolvent partners capital account.
- 5) At the time of dissolution of partnership firm all assets should be transferred to Realisation account.
- 6) Debit balance of insolvent partner's capital account is known as capital deficiency.
- 7) At the time of dissolution, Loan from partner will be transferred to Realisation account.
- 8) Dissolution takes place when the relation among the partner's 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.
- 10) Realisation Loss is not transferred to insolvent partner's capital account.

D) Calculate the following :

- 1) Vinod, Vijay and Vishal are partners in a firm, sharing profit & Losses in the ratio 3:2:1. Vishal becomes insolvent and his capital deficiency is ₹ 6,000. Distribute the capital deficiency among the solvent partners.
- 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.
- 3) Insolvent Partners Capital A/c debit side total is ₹ 10,000 & Credit side total is ₹ 6,000 Calculate deficiency

- 4) Insolvent partners capital A/c Debit side is ₹ 15,000 & insolvent partner brought cash ₹ 6,000. Calculate the amount of Insolvency Loss to be distributed among the solvent partners.
- 5) Realisation profit of a firm is ₹ 6,000, partners share Profit & Loss in the ratio of 3:2:1. Calculate the amount of Realisation Profit to be credited to Partners Capital A/c

E) Answer in one sentence only.

1. What is dissolution of partnership firm?
2. When is Realisation Account opened?
3. Which accounts are not transferred to Realisation account?
4. Who is called Insolvent person?
5. What is capital deficiency?
6. In what proportion is the balance on Realisation A/c transferred to Partners capital / Current Account?
7. Who should bear the capital deficiency of insolvent partner?
8. Which account is debited on repayment of Partner's Loan?
9. Which account is debited on payment of dissolution expenses?

F) Complete the table.

1)	Debit side total of Realisation A/c ₹ 20,000	Credit side total of Realisation A/c ?	Loss on Realisations ₹ 4,000
2)	Creditors ₹ 16,000	Bills Payable ₹ 12,000	Third Party Liabilities ?
3)	Credit side total of Realisation A/c ₹ 21,000	Debit side total of Realisation A/c ₹ 16,000	Profit on Realisation ?
4)	Debit side total of Capital A/c ₹ 51,000	Credit side total of Capital A/c ?	Cash brought by partner ₹ 17,000
5)	Capital Deficiency ?	Cash brought by Insolvent Partner ₹ 7,000	Insolvent Loss ₹ 21,000

Practical Problems

(Simple Dissolution)

1. Ganesh and Kartik are partners sharing Profits and Losses equally. They decided to dissolve the firm on 31st March 2018. Their Balance Sheets was as under :

Balance Sheet as on 31st March 2018.

Liabilities	Amount ₹	Assets	Amount ₹
Creditors	18,400	Building	88,000
Bills Payable	5,600	Furniture	12,000
Reserve Fund	20,000	Debtors	32,000
Capital A/c :		Stock	24,000
Genesh	40,000	Bills Receivable	4,000
Kartik	80,000	Cash	4,000
	1,64,000		1,64,000

Assets were realised as under :

Building ₹ 82,000, Debtors ₹ 22,000, Stock ₹ 20,000. Bills Receivable ₹ 3,200 and Ganesh agreed to take over Furniture for ₹ 10,000. Realisation Expenses amounted to ₹ 2,000.

Show Realisation A/c, Partners' Capital A/c and Cash A/c.

(Ans : Realisation Loss - ₹ 24,800, Cash A/c total ₹ 1,31,200,

Amount paid to Ganesh - ₹ 27,600 and Kartik ₹ 77,600)

2. Leela, Manda and Kunda are partners in the firm 'Janki Stores' sharing Profits and Losses in the ratio of 3:2:1 respectively. On 31st March 2018 they decided to dissolve the firm when their Balance Sheet was as under.

Balance Sheet as on 31st March 2018.

Liabilities	Amount ₹	Assets	Amount ₹
Creditors	28,800	Building	1,02,000
Bills Payable	21,600	Machinery	73,000
Capital A/c's		Motor Car	1,67,600
Leela	2,27,160	Goodwill	45,600
Manda	1,44,000	Investment	62,400
Kunda	1,08,000	Debtors	30,600
		Stock	45,000
		Bank	3,360
	5,29,560		5,29,560

Leela agreed to take over the Building at ₹ 1,23,600. Manda took over Goodwill, Stock and Debtors at Book values and agreed to pay Creditors and Bills payable. Motor Car and Machinery realised ₹ 1,51,080 and ₹ 31,680 respectively. Investments were taken by Kunda at an agreed value of ₹ 55,440. Realisation expenses amounted to ₹ 6,800

Pass necessary entries in the books of 'Janki Stores.'

Ans : (Reaslistion Loss 50,000, Amount to Leela - ₹ 78,560, Manda - ₹ 56,533 and Kunda - ₹ 44,227.)

3. Shailesh and Shashank were partners sharing Profits and Losses in the ratio of 3:2. Their Balance Sheet as on 31st March 2019 was as follows :

Balance Sheet as on 31st March 2019.

Liabilities	Amount ₹	Assets	Amount ₹
Capital Account :		Building	7000
Shailesh	10,000	Plant	9,000
Shashank	6,000	Debtors	14,000
Current Account :		Stock	5,000
Shailesh	3,000	Bank	6,000
Shashank	2,000		
Creditors	17,400		
Bills payable	2,600		
	41,000		41,000

The firm was dissolved on the above date and the assets realised as under.

1. Plant ₹ 8,000, Building ₹ 6,000, Stock ₹ 4,000 and Debtors ₹ 12,000.
2. Shailesh agreed to pay of the Bills Payable.
3. Creditors were paid in full.
4. Dissolution expenses were ₹ 1,400.

Prepare Realisation A/c, Partners Current A/c, Partners Capital A/c and Bank A/c

(Ans : Realisation Loss - ₹ 6,400, Bank A/c Total - ₹ 36,000.

Amount to Shailesh ₹ 11,760 and Shashank - ₹ 5,440)

4. Asha, Usha and Nisha were partners sharing Profits and Losses in the ratio of 2:2:1. The following is the Balance Sheet as on 31st March 2019.

Balance Sheet as on 31st March 2019.

Liabilities	Amount ₹	Assets	Amount ₹
Capital Accounts :		Machinery	1,00,000
Asha	1,20,000	Investment	48,000
Usha	40,000	Debtors	1,10,000
Nisha	40,000	Less : R. D. D.	6,000
General Reserve	12,000	Stock	40,000
Creditors	80,000	Profit and Loss A/c	36,000
Asha's Loan A/c	16,000	Bank	8,000
Bills payable	28,000		
	3,36,000		3,36,000

On the above date the partners decided to dissolve the firm.

1. Assets were realised as under Machinery ₹ 90,000, Stock ₹ 36,000, Investment ₹ 42,000 and Debtors ₹ 90,000.
2. Dissolution expenses were ₹ 6,000.
3. Goodwill of the firm realised ₹ 48,000.

Pass Journal Entries to close the books of firm. :

(Ans : Realisation Profit - ₹ 8,000, Asha - ₹ 1,13,600, Usha - ₹ 33,600 and Nisha - ₹ 36,800)

5. Seeta and Geeta are partners in the firm sharing Profits and Losses in the ratio of 4:1. They decided to dissolve the partnership on 31st March 2020 on which date their Balance Sheet stood as follows.

Balance Sheet as on 31st March 2020

Liabilities	Amount ₹	Assets	Amount ₹
Capital		Furniture	14,000
Seeta	90,000	Plant	65,000
Geeta	40,000	Trademark	8,000
Sundry Creditors	35,000	Sundry Debtors	48,000
Bank Loan	15,000	Less - R. D. D.	3,000
		Stock	30,000
		Cash in hand	10,000
		Advertisement Suspense	8,000
	1,80,000		1,80,000

Additional Information :

1. Plant and Stock taken over by Seeta ₹ 78,000, and ₹ 22,000 respectively
2. Debtors Realised 90% of the Book Value and Trademark at ₹ 5,000. and Goodwill was realised for ₹ 7,000.
3. Unrecorded assets estimated ₹ 4,500 was sold for ₹ 1,500.
4. ₹ 1,000 Discount were allowed by creditors while paying their claim.
5. The Realisation Expenses amounted to ₹ 3,500

You are required to prepare Realisation A/c, Cash A/c and Partners Capital A/c

(Ans : Realisation Loss - ₹ 7,800, Cash A/c Total - ₹ 89,340,

Amount paid to Geeta - ₹ 36,840. Amount received from Seeta - ₹ 22,640)

6. Sangeeta, Anita and Smita were in partnership sharing Profits and Losses in the ratio 2:2:1. Their Balance Sheet as on 31st March 2019 was as under :

Balance Sheet as on 31st March 2019.

Liabilities	Amount ₹	Assets	Amount ₹
Capital :		Land	2,10,000
Sangeeta	60,000	Plant	20,000
Anita	40,000	Goodwill	15,000
Smita	30,000	Debtors	1,25,000
Sangeeta's Loan A/c	1,20,000	Loans and Advances	15,000
Sundry Creditors	1,20,000	Bank	5,000
Bills Payable	20,000		
	3,90,000		3,90,000

They decided to dissolve the firm as follows :

1. Assets realised as; Land recovered ₹ 1,80,000; Goodwill for ₹ 75,000; Loans and Advances realised ₹ 12,000; 10% of the Debts proved bad;
2. Sangeeta took Plant at book value.
3. Creditors and Bills payable paid at 5% discount.
4. Sangeeta's Loan was discharged along with ₹ 6,000 as Interest.
5. There was a contingent Liability in respect of bills of ₹ 1,00,000 which was under discount. Out of them, a holder of one bill of ₹ 20,000 became insolvent.

Show Realisation Account, Partners Capital Account and Bank Account.

(Ans : Realisation Loss - ₹ 4,500, Bank - ₹ 3,84,500,

Amount paid to Sangeeta - ₹ 38,200, Anita ₹ 38,200, Smita ₹ 29,100.)

7. Saiesh, Sumit and Hemant were in partnership sharing Profits and Losses in the ratio 2:2:1. They decided to dissolve their partnership firm on 31st March 2019 and their Balance Sheet on that date stood as;

Balance Sheet as on 31st March 2019.

Liabilities	Amount ₹	Assets	Amount ₹
Capital :		Plant	1,20,000
Saiesh	90,000	Debtors	45,000
Sumit	60,000	Stock	75,000
Hemant	30,000		
Loan	12,000		
Sundry Creditors	9,000		
Bank Overdraft	39,000		
	2,40,000		2,40,000

It was agreed that;

1. Saiesh to discharge Loan and to take Debtors at book value.
2. Plant realised ₹ 1,35,000.
3. Stock realised ₹ 72,000.
4. Creditors were paid off at a discount of ₹ 45

Show Realisation A/c, Partners' Capital A/c and Bank A/c

(Ans : (Realisation Profit - ₹ 12,045, Bank - ₹ 2,07,000,

Amount paid to Saiesh - ₹ 61,818, Sumit ₹ 64,818, Hemant ₹ 32,409.)

(When one Partner Became Insolvent)

8. Sitaram, Gangaram and Rajaram are partners sharing Profits and Losses in the ratio of 4:2:3. On. 1st April 2019 they agreed to dissolve the partnership, their Balance Sheet was as follows :

Balance Sheet as on 31st March 2019

Liabilities	Amount ₹	Assets	Amount ₹
Capital :		Building	55,000
Sitaram	65,000	Machinery	25,000
Gangaram	45,000	Furniture	12,000
Rajaram	7,000	Investment	15,000
Reserve Fund	18,000	Bills Receivable	3,500
Profit and Loss Account	5,400	Sundry Debtors	21,000
Loan from Tukaram	10,000	Stock	28,000
Sundry Creditors	12,000	Cash in hand	5,500
Bills Payable	4,600	Cash at Bank	2,000
	1,67,000		1,67,000

The assets realised : Building ₹ 46,750 Machinery ₹ 18,550 Furniture ₹ 9,600; Investment ₹ 10,650 Bill Receivable and Debtors ₹ 20,750; All the liabilities were paid off. The cost of realisation was ₹ 800. Rajaram becomes bankrupt and ₹ 1,100 only was recovered from his estate.

Show Realisation Account, Bank Account and Capital Account of the partners.

(Ans : Realisation Loss - ₹ 54,000, Bank - ₹ 1,14,900,
Amount paid to Sitaram - ₹ 50,000, Gangaram ₹ 37,500)

9. Following is the Balance Sheet of Vaibhav, Sanjay and Santosh

Balance Sheet as on 31st March 2019

Liabilities	Amount ₹	Assets	Amount ₹
Capital Accounts :		Machinery	6,000
Vaibhav	36,000	Goodwill	9,000
Sanjay	27,000	Stock and Debtors	57,000
Creditors	12,000	Profit and Loss Account	18,000
Bank Overdraft	18,000	Santosh's Capital	3,000
	93,000		93,000

Santosh is declared insolvent so firm is dissolved and assets realised as follows :

1. Stock and Debtors ₹ 54,000, Goodwill - NIL, Machinery at Book value.
2. Creditors allowed discount at 10%.
3. Santosh could pay only 25 paise in rupee of the balance due.
4. Profit sharing ratio was 8:4:3.
5. A contingent liability against the firm ₹ 9,000 is cleared.

Give Ledger Account to close the books of the firm.

(Ans : (Realisation Loss - ₹ 19,800, Bank - ₹ 62,640,
Amount to Vaibhav - ₹ 10,560, Sanjay ₹ 14,280)

(When Two Partners become Insolvent)

- 10. Shweta, Nupur and Sanika are partners sharing Profits and Losses in the ratio of 3:2:1. Their Balance Sheet as on 31st March 2019 was as follows :**

Balance Sheet as on 31st March 2019.

Liabilities	Amount ₹	Assets	Amount ₹
Capital A/c		Sundry Assets	1,60,000
Shweta	65,000	Cash at Bank	5,000
Nupur	15,000	Capital A/c : Sanika	10,000
Sundry Creditors	95,000		
	1,75,000		1,75,000

The firm is dissolved as on 31st March 2019. Sundry Assets realised @ 60% of its book value. Realisation expenses ₹ 2000 paid by Shweta, Nupur and Sanika both are insolvent.

Nupur's private estate has got a surplus of ₹ 3,000 and that of Sanika ₹ 8,000.

Show necessary ledger accounts to close the books of the firm.

(Ans : Realisation Loss - ₹ 66,000, Bank - ₹ 1,12,000, Deficiency of Nupur - ₹ 4,000, Sanika ₹ 13,000, Amount paid to Sweta - ₹ 17,000)

(When All partner become insolvent)

- 11. Following is the Balance Sheet as on 31st March, 2019 of a firm having Three equal partners Priti, Priya and Prachi.**

Balance Sheet as on 31st March 2019.

Liabilities	Amount ₹	Assets	Amount ₹
Capital		Machinery	23,000
Priti	40,000	Furniture	16,000
Priya	35,000	Stock	47,000
Prachi	25,000	Cash at Bank	10,000
Trade Creditors	50,000	Profit and Loss Account	84,000
Loan (secured by Machinery)	30,000		
	1,80,000		1,80,000

The firm was dissolved due to insolvency of all the partners. Machinery was sold for ₹ 18,000, while Furniture fetched ₹ 14,000, Stock realised ₹ 35,000. Realisation expenses amounted to ₹ 2,000. Nothing could be recovered from Priya and Prachi, but ₹ 3,400 could be collected from Priti's private estate.

Close the books of accounts of the firm.

(Ans. : Realisation Loss - ₹ 21,000, Bank - ₹ 80,400, Deficiency of Priti - ₹ 8,400, Prachi ₹ 10,000)

12. Shashwat and Shiv are equal partners. Their Balance Sheet stood as under :

Balance Sheet as on 31st March 2019.

Liabilities	Amount ₹	Assets	Amount ₹
Shaswat's Capital A/c	6,000	Plant and Machinery	14,750
Creditors	39,000	Furniture	4,000
		Debtors	5,000
		Stock	6,250
		Cash at Bank	3,000
		Shiv's Capital	12,000
	45,000		45,000

Due to weak financial position all partners were declared bankrupt.

The Assets were realised as follows :

Stock ₹ 3,500, Furniture ₹ 2,000, Debtors ₹ 5,000 and Machinery ₹ 7,000

The cost of collection and distributing the estate amounted to ₹ 1,500. Shashwat's private estate is not sufficient even to pay his private debts, whereas in Shiv's private estate there is a surplus of ₹ 500

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

(Ans : Realisation Loss - ₹ 14,000, Bank - ₹ 21,000,

Deficiency of Shashwat- ₹ 1,000, Shiv ₹ 18,500)

Activity :

1. Visit any Chartered Accountant's (C. A.) office and collect the information about the procedure of dissolved partnership firm.
2. Visit any Chartered Accountant (C. A.) office to know the practical reasons of dissolution and its impact on Accounting.
3. Write a report on settlement of Liabilities and its sequence in case of dissolution of a firm.

