Chapter 6: Dissolution of Partnership Firm

Question: 1

Answer in one Sentence only.
What is dissolution of partnership firm?

Solution

Dissolution means termination of the existing relationship between the partners of a firm. It means that the business will come to an end and the firm will wind up its business. Accordingly, all the assets will be realised and liabilities will be paid off. It can be dissolved either voluntarily by the partners or compulsorily by the order of the court.

Question: 2

Answer in one Sentence only.
When is Realisation Account opened?

Solution

Realisation Account is opened at the time of dissolution of a partnership firm. In this account, the assets and liabilities are transferred at their book values. Also, the firm's assets are realised and liabilities are paid off.

Question: 3

Answer in one Sentence only.
Which accounts are not transferred to Realisation Account?

Solution

The following accounts are not transferred to Realisation Account:

1. Cash/Bank A/c,
2. Bank overdraft,
3. Reserve fund,
4. Credit/Debit balance of Profit & Loss Account,
5. Partners' Capital Accounts and
6. Partner's Loan Account.

Question: 4

Answer in one Sentence only.
Who is called Insolvent person?

Solution

When a person is unable to contribute fully or partially to discharge his/her liabilities out of his/her private assets, then that person is regarded as an insolvent. Thus, in the following two situations, a partner is declared as insolvent:
a. When his/her personal assets are insufficient
b. When his/her debit capital balance cannot be covered

Question: 5

Answer in one Sentence only.
What is Capital Deficiency?

Solution

The debit balance of an insolvent partner's capital account that cannot be satisfied due to lack of surplus balance is called capital deficiency. This deficiency is to be borne by all the solvent partners in their profit sharing ratio.

Question: 6

Answer in one Sentence only.
In what proportion is the balance on Realisation Account transferred to Partner's Capital Account?

Solution

The balance of the Realisation Account is to be transferred to Partners' Capital Accounts in their profit-sharing ratio. If the partnership deed is silent, then profits or losses arising from Realisation Account are to be distributed in equal proportion amongst all the partners of the firm.

Question: 7

Answer in one Sentence only.
Who should bear the capital deficiency of an insolvent partner?

Solution

The capital deficiency of an insolvent partner is borne by all other solvent partners in their profit-sharing ratio.

Question: 8

Answer in one Sentence only.
Which account is debited on repayment of Partner's Loan?

Solution

Partner's loan appearing in the Balance Sheet is not transferred to Realisation Account. In fact, a separate account named as Partner's Loan Account is maintained. At the time of repayment of partner's loan, Partner's Loan A/c is debited and Cash A/c is credited.

Question: 9

Answer in one Sentence only.
Why is Realisation Account opened?

Solution

Realisation Account is opened to determine the amount of profit or loss from the realisation of assets and payment of liabilities at the time of dissolution of a partnership firm.

Question: 10

Answer in one Sentence only.
Which account is debited on payment of dissolution expenses?

Solution

On payment of dissolution expenses, Realisation Account is to be debited. These are a firm's expenses and should be paid by the firm. However, when such expenses are paid by the firm on behalf of a partner, then the Concerned Partner's Capital Account is debited.

Question: 11

Write the word / term / phrase, which can substitute the following statements.
Debit balance in realisation account.

Solution

Realisation Loss

Explanation: Debit balance in Realisation Account is regarded as 'Loss on Realisation'. It arises when the debit side of Realisation A/c is more than its credit side. This loss is borne by all the partners' in their profit-sharing ratio.

Question: 12

Write the word / term / phrase, which can substitute the following statements.
Winding up of partnership business.

Solution

Dissolution of Partnership

Explanation: Winding-up of partnership business is known as dissolution of partnership, which means there is a change in the business relationship among the partners but the firm may continue its business.

Question: 13

Write the word / term / phrase, which can substitute the following statements.
An account opened to find out the Profit or Loss on Sale of Assets and Settlement of Liabilities.

Solution

Realisation Account

Explanation: Realisation Account is opened to find out the profit or loss on sale of assets and settlement of liabilities at the time of dissolution of the firm.

Question: 14

Write the word / term / phrase, which can substitute the following statements.
Debit balance of an insolvent Partner's Capital Account.

Solution

Capital Deficiency

Explanation: The debit balance of an insolvent partner's capital account is known as capital deficiency. This deficiency is to be borne by all the solvent partners in their profit-sharing ratio.

Question: 15

Write the word / term / phrase, which can substitute the following statements.
Credit balance in Realisation Account.

Solution

Realisation Profit

Explanation: Credit balance in Realisation Account is regarded as 'Profit on Realisation'. It arises when the credit side of Realisation A/c is more than the debit side. This profit is distributed among all the partners in their profit-sharing ratio.

Question: 16

Write the word / term / phrase, which can substitute the following statements.
Conversion of assets into cash on dissolution of firm.

Solution

Realisation

Explanation: The procedure of converting assets into cash at the time of dissolution of a firm is termed as realisation. In this procedure, Realisation Account is opened in order to determine the correct amount of profits or losses.

Question: 17

Write the word / term / phrase, which can substitute the following statements.
Liability likely to arise in future on happening of certain events.

Solution

Contingent Liabilities

Explanation: Liability likely to arise in future on happening of certain events is known as contingent liabilities. These are termed as contingent, as their occurrence is dependent upon the happening of a future event, which may or may not happen (i.e. it is uncertain). Therefore, these are not shown in a company's Balance Sheet.

Question: 18

Write the word / term / phrase, which can substitute the following statements.
Assets which are not recorded in the books of accounts.

Solution

Unrecorded Assets

Explanation: Those assets that go unrecorded or are skipped in the books of accounts are termed as unrecorded assets. Thus, as these are unrecorded in the books, they are not transferred to the Realisation Account. However, if any unrecorded asset is taken over by any partner, then it is recorded by crediting the Realisation Account and debiting the Concerned Partner's Capital Account.

Question: 19

Write the word / term / phrase, which can substitute the following statements.
The account which shows realisation of assets and discharge of liabilities.

Solution

Realisation Account

Explanation: The account that shows realisation of assets and discharge of liabilities is Realisation Account. It is opened to ascertain the profit or the loss on sale of assets and settlement of liabilities.

Question: 20

Write the word / term / phrase, which can substitute the following statement.
Expenses incurred on dissolution of a partnership firm.

Solution

Dissolution/Realisation Expenses

Explanation: Dissolution/Realisation Expenses are the expenses incurred on dissolution of a firm. These expenses belong to the firm and hence, they should be paid by the firm. However, sometimes these expenses are paid by the firm on behalf of a partner. In such cases, the Concerned Partner's Capital Account is debited.

Question: 21

State whether the following statements is True or False.

The firm is dissolved automatically on the retirement of a partner.

Options

- True
- False

Solution

False

Explanation: Change in profit sharing ratio among the existing partners, admission of a new partner, retirement or death of a partner, result in dissolution of partnership. In such instances, the existing partnership deed gets dissolved and it is replaced by a new partnership deed. However, the partnership firm continues to operate. On the other hand, in case of dissolution of a partnership firm, the whole firm is put to an end (along with the partnership deed).
Therefore, it is incorrect to say that a firm dissolves on the retirement of a partner.

Question: 22

State whether the following statement is True or False.

On dissolution Cash or Bank Account is closed automatically.

Options

- True
- False

Solution

True

Explanation: On dissolution, the Cash or Bank Account is closed automatically because if the capital accounts show any balance, then such balance is transferred to the Cash or Bank Account. This is done so that both the sides of the Cash or the Bank Account show the same balance. This is because of the double-entry system of book-keeping.

Question: 23

State whether the following statements is True or False.

On dissolution Bank Overdraft is transferred to Realisation Account.

Options

- True
- False

Solution

False

Explanation: The amount of bank overdraft is **not** transferred to Realisation Account; instead, it is shown on the credit side of Bank Account.

Question: 24

State whether the following statements is True or False.

A Solvent partner having debit balance to his Capital Account does not share the deficiency of Insolvent Partner's Capital Account.

Options

- True
- False

Solution

True

Explanation: A solvent partner who has a debit balance does not share deficiency of an insolvent partner, even though he or she may be more financially sound compared to the other solvent partners. This is because it violates the principle of natural justice and equity.

Question: 25

State whether the following statements is True or False.

At the time of dissolution of Partnership Firm all assets should be transferred to Realisation A/c.

Options

- True
- False

Solution

False

Explanation: All assets except the cash or bank balances are transferred to the Realisation Account. Therefore, the given statement is incorrect.

Question: 26

State whether the following statements is True or False.

Debit balance of insolvent Partner's Capital A/c is known as Capital Deficiency.

Options

- True
- False

Solution

True

Explanation: Debit balance of an insolvent partner’s capital account is known as capital deficiency. This deficiency is to be borne by all the solvent partners in their profit sharing ratio.

Question: 27

State whether the following statement is True or False.
At the time of dissolution loan from partner will be transferred to Realisation Account.

Options

- True
- False

Solution

False

Explanation: Partner’s loan is transferred to a separate account known as Partner’s Loan Account. This is because partner’s loan is **not** an external (outside) liability. Its payment can be made only after the settlement of external liabilities.

Question: 28

State whether the following statements is True or False.

Dissolution takes place when the relation among the partner’s comes to an end.

Options

- True
- False

Solution

True

Explanation: Dissolution takes place when the business relation among the existing partners comes to an end. This can be done either voluntarily or compulsorily, as per the order of the court of justice.

Question: 29

State whether the following statements is True or False.

The insolvency loss at the time of dissolution of the firm is shared by the Solvent Partner’s in their Profit-sharing ratio.

Options

- True

- False

Solution

True

Explanation: Insolvency loss, i.e. capital deficiency (debit balance in the capital account of an insolvent partner) is shared among the solvent partners in their profit sharing ratio.

Question: 30

State whether the following statements is True or False.

Realisation loss is not transferred to insolvent partner’s Capital Account.

Options

- True
- False

Solution

False

Explanation: Realisation loss is transferred to All Partners’ Capital Accounts (including the insolvent partner). After this, the total amount of capital deficiency is ascertained and is shared by the other solvent partners in their profit-sharing ratio.

Question: 31

Select the most appropriate alternative from those given below :

In case of dissolution assets and liabilities are transferred to ______________A/c.

Options

- Bank A/c
- Partner’s capital A/c
- Realisation A/c
- Partner’s current A/c

Solution

In case of dissolution, assets and liabilities are transferred to **Realisation** A/c.

Explanation: All the assets (except cash or bank balances) are transferred to the debit side, whereas all the liabilities (except bank overdraft) are transferred to the credit side of Realisation Account. Thereafter, at the time of realisation, the assets so realised are shown on the credit side and the settlement of liabilities is shown on the debit side.

Question: 32

Select the most appropriate alternative from those given below :

Dissolution expenses are credited to _____________A/c.

Options

- Realisation A/c
- Cash/Bank A/c
- Partner's Capital A/c
- Partner's Loan A/c

Solution

Dissolution expenses are credited to **Cash/Bank** A/c.

Explanation: Payment of realisation expenses results in outflow of cash. Therefore, they are credited to Cash/Bank A/c (as these lead to decrease in cash balance).

Question: 33

Select the most appropriate alternative from those given below :

Deficiency of Insolvent partner will be suffered by solvent partners in their ___________ ratio.

Options

- capital ratio
- profit-sharing ratio
- sale ratio
- liquidity ratio

Solution

Deficiency of Insolvent partner will be suffered by solvent partners in their **profit-sharing** ratio.

Explanation: If deficiency of insolvent partner (i.e. the debit balance in the insolvent partner's capital account) is treated as an ordinary loss, then this loss is to be borne by the other solvent partners in their profit-sharing ratio.

Question: 33

Select the most appropriate alternative from those given below :

If any asset is taken over by partner from firm his Capital A/c will be____________.

Options

- credited

- debited
- added
- none of these

Solution

If any asset is taken over by a partner from the firm, then his Capital A/c will be **debited**.

Explanation: When an asset is taken over by a partner, then the Realisation A/c is credited and the Concerned Partner’s Capital A/c is debited with the agreed price at which the asset is taken over by him.

Question: 34

Select the most appropriate alternative from those given below :

If any unrecorded liability is paid on dissolution of the firm____________ account is debited.

Options

- Cash/Bank A/c
- Realisation A/c
- Partner’s Capital A/c
- Loan A/c

Solution

If any unrecorded liability is paid on dissolution of the firm, then **Realisation** account is debited.

Explanation: All the liabilities are paid-off by debiting the Realisation A/c. This is because all the payments are made through the Realisation Account, so that the true profits or losses can be ascertained.

Question: 35

Select the most appropriate alternative from those given below :

Partnership is compulsorily dissolved when the partners of the firm become ____________

Options

- Solvent
- Insolvent
- Creditor
- None of these

Solution

Partnership is compulsorily dissolved when the partners of the firm become **insolvent**.

Explanation: When the partners of a firm become insolvent, it implies that the assets of the firm have decreased in comparison to the liabilities. Moreover, the partners do not have enough funds to make payment to the creditors; hence, the partnership is compulsorily dissolved as per the order of a court of justice.

Question: 36

Select the most appropriate alternative from those given below :

Assets and liabilities are transferred to Realisation Account at their ____________values.

Options

- Market
- purchase
- sale
- book

Solution

Assets and liabilities are transferred to the Realisation Account at their **book** values.

Explanation: In order to determine the correct amount of profit or loss on the eve of dissolution of a partnership firm, all assets and liabilities are transferred to the Realisation Account at their book values.

Question: 37

Select the most appropriate alternative from those given below :

If the number of partners in a firm falls below two, the firm stands____________

Options

- dissolved
- established
- realisation
- None of these

Solution

If the number of partners in a firm falls below two, the firm stands **dissolved**.

Explanation: As per the Indian Partnership Act of 1932, at least two people are required to form a partnership firm. Thus, if the minimum number of members falls below two, then the partnership firm gets automatically dissolved.

Question: 38

Select the most appropriate alternative from those given below :

Realisation Account is __________on realisation of assets.

Options

- debited
- credited
- deducted
- None of these

Solution

Realisation Account is **credited** on realisation of assets.

Explanation: If the assets are realised in cash, then the Realisation A/c is credited and Cash/Bank A/c is debited with the amount actually realised.

Question: 39

Select the most appropriate alternative from those given below :

All activities of the partnership firm cease (stop) on ____________ of firm.

Options

- dissolution
- admission
- retirement
- None of these

Solution

All activities of the partnership firm cease (stop) on **dissolution** of firm.

Explanation: Dissolution of a partnership firm involves discontinuance of the firm's business, besides the termination of the existing partnership deed. Thus, at the time of dissolution of a partnership firm, all the activities of the firm tend to cease.

Question: 40

Sushil and Sumit were in partnership sharing profits and losses in the proportion of 3/5 and 2/5 respectively. On 31st March, 2005 they decide to dissolve the firm when their Balance Sheet was as under:

Balance Sheet as on 31st March, 2005

Liabilities	Amount (Rs)	Assets	Amount (Rs)
Sushil’s Capital	20,000	Plant and Machinery	15,000
Sumit's Capital	18,000	Stock	15,000
General Reserve	5,000	Sundry Debtors	22,000
Sumit’s Loan A/c	2,000	Bank	3,000
Sundry Creditors	10,000		
	55,000		**55,000**

The Assets realised as follows: Stock Rs 14,000, Plant and Machinery Rs 12,000 and Debtors Rs 20,000. The Sundry Creditors were paid Rs 9,000 in full settlement.

Prepare: Realisation Account, Partners Capital Accounts and Bank Account.

Solution

Realisation Account

Dr. Cr.

Particulars			Particulars		
Sundry Assets			**Sundry Liabilities**- Sundry Creditors		10000
Plant and Machinery	15000		Bank A/c		
Stock	15000	52000	Stock	14000	
Sundry Debtors	22000		Plant and Machinery	12000	46000
Bank A/c (Sundry Creditors)		9000	Bank	20000	
			Loan transferred to:		
			Sunil’s Capital A/c	3000	5000
			Sumit’s Capital A/c	2000	
		61000			**61000**

Partners’ Capital Accounts

Dr. Cr.

Particulars	Sushil	Sushil	Particulars	Sushil	Sushil
Realisation A/c (Loss)	3000	2000	Balance b/d	20000	18000
Bank A/c	20000	18000	General Reserve	3000	2000
	23000	**20000**		**23000**	**20000**

Sumit’s Loan Account

Dr. Cr.

Particulars	Amount (Rs)	Particulars	Amount (Rs)
Bank A/c	2000	Balance b/d	2000
	2000		**2000**

Cash/Bank Account
Dr. Cr.

Particulars	Amount (Rs)	Particulars		Amount (Rs)
Balance b/d	3000	Realisation A/c (Liabilities)		9000
Realisation A/c (Assets)	46000	Loan A/c		2000
		Capital A/c		
		Sushil	20000	38000
		Sumit	18000	
	49000			**49000**

Question: 41

Ganesh and Chandan were partners sharing profits and losses in the proportion of 3:2. They dissolve the partnership firm on 31st March, 2011 when their position was as follows:

Balance Sheet as on 31st March, 2011

Liabilities	Amount (Rs)	Assets		Amount (Rs)
Sundry Creditors	25000	Debtors	112500	100000
Bank overdraft	20000	Less : R.D.D	12500	
Reserve Fund	30000	Stock		225000
Capital Accounts:		Furniture		50000
Ganesh	230000	Motor Car		75000
Chandan	150000	Cash in hand		5000
	455000			**455000**

The Assets realised as follows: Debtors Rs 90,000, Stock Rs 2,00,000, and Goodwill Rs 25,000, Motor Car was taken over by Ganesh for Rs 70,000 and Furniture by Chandan for Rs 60,000.
The Creditors were paid Rs 22,500 in full settlement. The expenses of realisation amounted to Rs 10,000.

Pass necessary journal entries in the books of the firm.

Solution

Journal Entry

Date	Particulars	L.F.	Debit Amount (Rs)	Credit Amount (Rs)
	Realisation A/c Dr To Debtors A/c To Stock A/c To Furniture A/c To Motor Car A/c (Being Assets transferred to Realisation A/c)		462500	112500 225000 50000 75000
	Sundry Creditors A/c Dr. Reserve for Doubtful Debts A/c Dr. To Realisation A/c (Being Liabilities transferred to Realisation A/c)		25000 12500	37500
	Cash A/c Dr. To Realisation A/c (Being Assets realised)		315000	315000
	Ganesh's Capital A/c Dr. To Realisation A/c (Being Motor Van Taken over by Ganesh)		70000	70000
	Chandan's Capital A/c Dr To Realisation A/c (Furniture taken over by Chandan)		60000	60000
	Realisation A/c Dr To Cash A/c (Being Realisation expenses and creditors are paid off)		32500	32500
	Ganesh's Capital A/c Dr. Chandan's Capital A/c Dr. To Realisation A/c (Being Loss transferred to Partner's capital A/c)		7500 5000	12500
	Reserve Fund A/c Dr To Ganesh's Capital A/c To Chandan's Capital A/c (Being Reserve Fund transferred to Partner's Capital A/c)		30000	18000 12000
	Bank Overdraft A/c Dr. To Cash A/c (Being Bank overdraft transferred to Cash A/c)		20000	20000
	Ganesh's Capital A/c Dr Chandan's Capital A/c Dr To Cash A/c		170500	267500

	(Being Amount paid off on account of final settlement)		97000	

Note: As per the book the amounts paid to Ganesh and Chandan are Rs 1,72,500 and Rs 95,000, respectively, however, as per the solution above these balances should be Rs 1,70,500 and Rs 97,000, respectively.

Question: 42

Anil and Sunil were partners sharing profits and losses in the ratio of 3:2. Their Balance Sheet as on 31st March, 2009.

Balance Sheet as on 31st March, 2009

Liabilities	**Amount (Rs)**	**Assets**	**Amount (Rs)**
Capital Account		Bank	30000
Anil	50000	Stock	25000
Sunil	30000	Debtors	70000
Current Account		Plant	45000
Anil	15000	Building	35000
Sunil	10000		
Creditors	87000		
Bills payable	13000		
	205000		**205000**

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

1) Stock Rs 20,000, Debtors Rs 60,000, Plant Rs 40,000 and Building Rs 30,000.

2) Anil agreed to pay off the bills payable.

3) Creditors were paid in full.

4) Dissolution expenses were Rs 7,000.

Prepare:
(i) Realisation Account
(ii) Bank Account
(iii) Current Account and Capital Account of the partners.

Solution

Realisation Account
Dr. Cr.

Particulars		**Amount (Rs)**	**Particulars**		**Amount (Rs)**
Sundry Assets:			**Sundry Liabilities:**		
Stock	25000	175000	Sundry Creditors	87000	100000

Debtors	70000		Bills Payable	13000	
Plant	45000		Bank A/c:		
Building	35000		Stock	20000	
Bank A/c-			Debtors	60000	
Creditors	87000		Plant	40000	150000
Dissolution Expenses	7000	94000	Building	30000	
Anil's Current A/c		13000	Loss transferred to :		
			Anil's Current A/c	19200	
			Sunil's Current A/c	12800	32000
		282000			**282000**

Partners' Current Accounts

Dr. **Cr.**

Particulars	**Anil**	**Sunil**	**Particulars**	**Anil**	**Sunil**
Realisation A/c (Loss)	19200	12800	Balance b/d	15000	10000
Capital A/c	8800		Realisation A/c (Bills Payable paid off)	13000	
			Capital A/c		2800
	28000	**12800**		**28000**	**12800**

Partners' Capital Accounts

Dr Cr.

Particulars	**Anil**	**Sunil**	**Particulars**	**Anil**	**Sunil**
Current A/c		2,800	Balance b/d	50,000	30,000
Bank A/c	58,800	27,200	Current A/c	8,800	
	58800	**30000**		**58800**	**30000**

Bank Account

Dr. Cr.

Particulars	**Amount (Rs)**	**Particulars**		**Amount (Rs)**
Balance b/d	30000	Realisation A/c (Liabilities)		94000
Realisation A/c (Assets)	150000	Capital A/cs:		
		Anil	58800	
		Sunil	27200	86000
	180000			**180000**

Question: 43

X, Y and Z were carrying on business. They share profits and losses in the ratio of 5:3:2 respectively. Their Balance Sheet as on 31st March, 2010 was as under:

Balance Sheet as on 31st March, 2010

Liabilities	**Amount (Rs)**	**Assets**		**Amount (Rs)**
Sundry Creditors	21000	Plant and Machinery		20000
Y's loan	5000	Investment		8000
Reserve fund	20000	Stock		
Capital Account:		Debtors	18000	17000
X	20000	Less : R.D.D	1000	
Y	10000	Cash in hand		2000
Z	4000	Cash at Bank		3000
	80000			**80000**

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

1) Investment Rs 5,000, Stock Rs 24,000 and Debtors Rs 15,000.

2) The Plant and Machinery was taken over by Mr. 'X' at book value.

3) Sundry Creditors and Mr. 'Y' loan were paid in full.

4) Realisation expenses incurred Rs 1,000.

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

Solution

Realisation Account

Dr. Cr.

Particulars		**Amount (Rs)**	**Particulars**		**Amount (Rs)**
Sundry Assets:			**Sundry Liabilities:**		
Plant and Machinery	20000	76000	Reserve for Doubtful Debts	1000	22000
Investments	8000		Sundry Creditors	21000	
Stock	30000		Bank A/c:		
Debtors	18000		Investments	5000	44000
Bank A/c			Stock	24000	
Creditors	21000	22000	Debtors	15000	
Realisation Expenses	1000		X's Capital A/c (Plant and Machinery)		20000
			Loss transferred to:		

		X’s Capital A/c	6000	12000
		Y’s Capital A/c	3600	
		Z’s Capital A/c	2400	
	98000			**98000**

Partners’ Capital Accounts

Dr. Cr.

Particulars	**X**	**Y**	**Z**	**Particulars**	**X**	**Y**	**Z**
Realisation A/c (Loss)	6000	3600	2400	Balance b/d	20000	10000	4000
Realisation A/c (Plant and Machinery)	20000			Reserve Fund	10000	6000	4000
Bank A/c	4000	12400	5600				
	30000	**16000**	**8000**		**30000**	**16000**	**8000**

Bank Account

Dr. Cr.

Particulars	**Amount (Rs)**	**Particulars**		**Amount (Rs)**
Balance b/d	3000	Realisation A/c (Liabilities)		22000
Cash A/c	2000	Capital A/cs:		
Realisation A/c (Assets)	44000	X	4000	22000
		Y	12400	
		Z	5600	
		Y’s Loan A/c		5000
	49000			**49000**

Y’s Loan Account

Dr. **Cr.**

Particulars	**Amount (Rs)**	**Particulars**	**Amount (Rs)**
Bank A/c	5000	Balance b/d	5000
	5000		**5000**

Question: 44

A, B and C were partners sharing profits and losses in the ratio of 3:2:1. On 31st March, 2010. Their Balance Sheet was as follows:

Balance Sheet as on 31st March, 2010

Liabilities	Amount (Rs)	Assets		Amount (Rs)
Sundry Creditors	15400	Cash at Bank		3500
Bills payable	3600	Stock		19800
A's loan A/c	10000	Debtors	15000	14000
Capital Account:		Less : Provision	1000	
A	20000	Join Life Policy		4000
B	16000	Plant and Machinery		43700
C	8000			
Reserve Fund	12000			
	85000			**85000**

The firm was dissolved on 31st March, 2010 and the assets realised as follows:

1) Join Life Policy was taken over by Mr. A at Rs 5,000.

2) Stock realised Rs 18,000, Debtors realised Rs 14,500, Plant and Machinery was sold for Rs 36,000.

3) Liabilities were paid in full. In addition one bill for Rs 700 under discount was dishonoured and had to be taken up by the firm.

4) There were no realisation expenses.

Give the Journal entries and necessary Ledger Accounts to close the books of the firm.

Solution

Journal Entry

Date	Particulars	L.F.	Debit Amount (Rs)	Credit Amount (Rs)
	Realisation A/c Dr. To Stock A/c To Debtors A/c To Joint Life Policy A/c To Plant and Machinery A/c (Being Sundry Assets transferred to Realisation A/c)		82500	19000 15000 4000 43700
	Sundry Creditors A/c Dr. Bills Payable A/c Dr Provision on Debtors A/c Dr To Realisation A/c (Being Sundry Liabilities transferred to Realisation A/c)		15400 3600 1000	20000
	Bank A/c Dr. To Realisation A/c		68500	68500

	(Being Assets realised)			
	Realisation A/c Dr To Bank A/c (Being Liabilities paid off)		19700	19700
	A’s Capital A/c Dr To Realisation A/c (Being Joint Life Policy taken over by Mr. A for Rs 5,000)		5000	5000
	A’s Capital A/c Dr. B’s Capital A/c Dr C’s Capital A/c Dr To Realisation A/c (Being Loss on realization transferred to Partner’s Capital A/c)		4350 2900 1450	8700
	Reserve Fund Dr To A’s Capital A/c To B’s Capital A/c To C’s Capital A/c (Being Reserve Fund transferred to Partner’s Capital A/c)		12000	6000 4000 2000
	A's Loan A/c Dr To Bank A/c (Being A’s Loan has been paid off)		10000	10000
	A’s Capital A/c Dr B’s Capital A/c Dr C's Capital A/c Dr To Bank A/c (Being Amount Paid off to partner on account of final settlement)		16650 17100 8550	42300

Realisation Account

Dr. Cr.

Particulars		Amount (Rs)	Particulars		Amount (Rs)
Sundry Assets:			**Sundry Liabilities:**		
Stock	19,800		Provision on Debtors	1,000	
Debtors	15,000	82,500	Bills Payable	3,600	20,000
Joint Life Policy	4,000		Sundry Creditors	15,400	
Plant and Machinery	43,700		Mr. A’s Capital A/c (Joint Life Policy)		5,000
Bank A/c:			Bank A/c:		
Creditors	15,400	19700	Stock	18,000	68,500
Bills Payable	3,600		Debtors	14,500	

Bill Dishonoured	700		Plant and Machinery	36,000	
			Loss transferred to:		
			A's Capital A/c	4,350	
			B's Capital A/c	2,900	8,700
			C's Capital A/c	1,450	
		93,500			**93,500**

Partners' Capital Accounts

Dr. Cr.

Particulars	**A**	**B**	**C**	**Particulars**	**A**	**B**	**C**
Realisation A/c (Loss)	4350	2900	1450	Balance c/d	20000	16000	8000
Realisation A/c (Joint Life Policy)	5000			Reserve fund	6000	4000	2000
Balance c/d	16650	17100	8550				
	26000	**20000**	**10000**		**26000**	**20000**	**10000**

Bank Account

Dr. Cr.

Particulars	**Amount (Rs)**	**Particulars**		**Amount (Rs)**
Balance b/d	3,500	Realisation A/c (Liabilities)		19700
Realisation A/c (Assets)	68500	Capital A/cs:		
		A	16650	
		B	17100	42300
		C	8550	
		A's Loan A/c		10000
	72000			**72000**

A's Loan Account

Dr. Cr.

Particulars	**Amount (Rs)**	**Particulars**	**Amount (Rs)**
Bank A/c	10000	Balance b/d	10000
	10000		**10000**

Note: As per the book amounts paid to A, B and C is Rs 16,650, Rs 16,700 and Rs 8,950 respectively but as per our solution it should be Rs 16,650, Rs 17,100 and Rs 8,550 respectively.

Question: 45

Pannalal, Babulal and Hiralal were partners sharing profits and losses in the proportion of 2:2:1, following is their Balance Sheet as on 31st March, 2008.

Balance Sheet as on 31st March, 2008

Liabilities	**Amount (Rs)**	**Assets**		**Amount (Rs)**
Capital Accounts:		Machinery		25000
Pannalal	30000	Stock		10000
Babulal	10000	Debtors	27500	26000
Hiralal	10000	Less : R.D.D	1500	
General Reserve	3000	Investment		12000
Creditors	20000	Profit and Loss A/c		9000
Pannalal's Loan A/c	4000	Bank		2000
Bills payable	7000			
	84000			**84000**

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

1) Assets were realised: Machinery Rs 22,500, Stock Rs 9,000, Investment Rs 10,500, Debtors Rs 22,500.

2) Dissolution expenses were Rs 1,500.

3) Goodwill of the firm realised Rs 12,000

Pass the necessary Journal entries in the books of the firm.

Solution

Journal Entry

Date	**Particulars**	**L.F**	**Debit Amount (Rs)**	**Credit Amount (Rs)**
	Realisation A/c Dr To Machinery A/c To Stock A/c To Debtors A/c To Investments A/c (Being Sundry Assets transferred to Realisation A/c)		74,500	25,000 10,000 27,500 12,000
	Creditors A/c Dr Bills Payable A/c Dr Reserve for Doubtful Debts A/c Dr		20000 7000	28500

	To Realisation A/c (Being Sundry Liabilities transferred to Realisation A/c)		1500	
	Bank A/c Dr. To Realisation A/c (Being Sundry Assets realised)		76500	76500
	Realisation A/c Dr To Bank A/c (Being Sundry Liabilities paid off)		28500	28500
	Realisation A/c Dr. To Pannalal's Capital A/c To To Babulal's Capital A/c To Hiralal's Capital A/c (Being Profit on Realisation transferred to Partner's Capital Account)		2000	800 800 400
	Pannalal's Capital A/c Dr. Babulal's Capital A/c Dr Hiralal's Capital A/c Dr To Profit and Loss A/c (Being Profit and Loss A/c (Dr.) transferred to Partner's Capital A/c)		3600 3600 1800	9000
	General Reserve A/c Dr To Pannalal's Capital A/c To Babulal's Capital A/c To Hiralal's Capital A/c (Being General Reserve transferred to Partner's Capital A/c)		3000	1200 1200 600
	Pannalal's Loan A/c Dr. To Bank A/c (Being Pannalal's Loan has been paid)		4000	4000
	Pannalal's Capital A/c Dr Babulal's Capital A/c Dr Hiralal's Capital A/c Dr To Bank A/c (Being Amount paid to partners on account of final settlement)		28400 8400 9200	46000

Question: 46

Mahesh, Suresh and Jayesh were partners of the firm. They decided to dissolve the firm on 31st March, 2012. Their Balance Sheet as on that date was as under:

Balance Sheet as on 31st March, 2012

Liabilities	Amount (Rs)	Assets		Amount (Rs)
Creditors	18000	Cash at Bank		9600
Loan	4500	Sundry Assets		51000
Capitals		Debtors	72600	69000

Mahesh	82500	Less : R.D.D.	3600	
Suresh	30000	Stock		23400
Jayesh	21000	Furniture		3000
	156000			**156000**

The firm was dissolved as follows:

1) Mahesh will accept furniture for Rs 2,000 and agreed accept the debtors of book value of Rs 60,000 at on agreed value of Rs 51,000.

2) Suresh will accept stock at an agreed value Rs 20,000, and Sundry Assets of Book value Rs 24,000 at Rs 23,500.

3) Jayesh will accept remaining Sundry Assets for Rs 25,000 He will further accept the liability of loan along with due interest at 12% p.a.

Interest for three months on this loan was outstanding and was not recorded in the books.

4) Expenses of dissolution were Rs 1,000 and outstanding expenses of Rs 1,200 were to be paid from the firm.

5) The remaining debtors were realised Rs 7,000.

Prepare:
1) Realisation A/c
2) Partner’s Capital A/c
3) Bank A/c

Solution

Realisation Account
Dr. Cr.

Particulars		**Amount (Rs)**	**Particulars**		**Amount (Rs)**
Sundry Assets:			**Sundry Liabilities**:		
Assets	51000	150000	Creditors	18,000	26100
Debtors	72600		Loan	4,500	
Stock	23400		Reserve for Doubtful debts	3,600	
Furniture	3000		Mahesh’s Capital A/c:		
Bank A/c:			Furniture	2,000	53000
Creditors	18,000	20200	Debtors	51,000	
Dissolution Expenses	1,000		Suresh’s Capital A/c:		
Outstanding	1,200		Stock	20,000	43500

Expenses					
Jayesh's Capital A/c (Loan with its 3 months outstanding Interest)		4635	Sundry Assets	23,500	
			Jayesh's Capital A/c (Sundry Assets)		25000
			Bank A/c (Debtors)		7000
			Loss transferred to:		
			Mahesh's Capital A/c	6745	
			Suresh's Capital A/c	6745	20235
			Jayesh's Capital A/c	6745	
		174835			**174835**

Partners' Capital Accounts

Dr. **Cr.**

Particulars	**Mahesh**	**Suresh**	**Jayesh**	**Particulars**	**Mahesh**	**Suresh**	**Jayesh**
Realisation A/c	53000	43500	25000	Balance b/d	82500	30000	21000
Realisation A/c (Loss)	6745	6745	6745	Realisation A/c (Loan paid)			4635
Bank A/c	22755			Bank A/c		20245	6110
	82500	**50240**	**31745**		**82500**	**50245**	**31745**

Bank Account

Dr. Cr.

Particulars		**Amount (Rs)**	**Particulars**	**Amount (Rs)**
Balance b/d		9,600	Realisation A/c (Liabilities)	20200
Realisation A/c (Assets)		7000	Mahesh's Capital A/c	22755
Capital A/cs:				
Suresh	20245	26355		
Jayesh	6110			
		42955		**42955**

Question: 47

Gautam, Viral and Ashwin were Partners sharing profits and losses equally. Their Balance sheet as on 31st December, 2011 was as follows:

Balance Sheet as on 31st December, 2011

Liabilities	Amount (Rs)	Assets	Amount (Rs)
Capital Accounts:		Building	73,900
Gautam	75000	Furniture	44,100
Virat	45000	Stock	25,400
Reserve Fund	27,000	Debtors	33,600
Creditors	48,500	Cash	15,000
Bank Loan	11,500	Ashwin's Capital	15,000
	207000		**207000**

The firm was dissolved due to insolvency of Ashwin and the following was the result.

(i) The realisation of Assets were as follows:

a) The stock was completely damaged and could realise worth Rs 16,500 only.

b) Building was sold for Rs 49,800.

c) Furniture was realised by the firm at Rs 23,100 less than the book value.

d) A Customer who owes Rs 14,400 became insolvent and nothing could be recovered from his private estate.

(ii) Creditors were paid for Rs 36,900 in full settlement and Bank Loan was discharged fully.

(iii) The expenses of realisation Rs 4,100

(iv) Ashwin became insolvent and the firm could recover only Rs 4,000 from his private estate.

Prepare Realisation A/c, Partner's Capital A/c and cash A/c to close the books of the firm.

Solution

Realisation Account
Dr. Cr.

Particulars		Amount (Rs)	Particulars		Amount (Rs)
Sundry Assets:			**Sundry Liabilities**:		
Building	73,900	177000	Creditors	48500	60000
Furniture	44,100		Bank Loan	11500	
Stock	25,400		Bank A/c :		
Debtors	33,600		Stock	16500	106500
Bank A/c :			Building	49800	
Creditors	36900	52500	Furniture	21000	

Bank loan	11500		Debtors	19200	
Realisation Expenses	4100		Loss transferred to:		
			Gautam's Capital A/c	21000	
			Virat's Capital A/c	21000	63000
			Ashwin's Capital A/c	21000	
		229500			**229500**

Partners' Capital Accounts

Dr. Cr.

Particulars	**Gautam**	**Virat**	**Ashwin**	**Particulars**	**Gautam**	**Virat**	**Ashwin**
Balance b/d			15000	Balanace b/d	75000	45000	
Realisation A/c (Loss)	21000	21000	21000	Reserve fund	9000	9000	9000
Ashwin's Capital A/c	11500	11500		Cash			4000
Bank A/c	51500	51500		Gautam's Capital A/c			11500
				Virat's Capital A/c			11500
	84000	**54000**	**36000**		**84000**	**54000**	**36000**

Cash/Bank Account

Dr. Cr.

Particulars	**Amount (Rs)**	**Particulars**		**Amount (Rs)**
Balance b/d	15000	Realisation A/c (Liabilities)		52500
Realisation A/c (Assets)	106500	Capital A/cs		
Ashwin's Capital A/c	4000	Gautam	51500	73000
		Virat	21500	
	125500			**125500**

Working Notes:

Calculation of Capital Deficiency

Capital Deficiency of Ashwin of Rs 23000 brought in by Gautam and Virat in their Profit Sharing Ratio

Gautam will bring $=23000\times1/2=11500$

Virat will bring$=23000\times1/2=11500$

Question: 48

(When one partner becomes insolvent)

Rahul, Rohit and Ramesh were partners in a firm sharing profit and losses in the ratio of 2:2:1 respectively.The Balance Sheet as on 31^{st} March, 2012 was as follows:

Balance Sheet as on 31^{st} December, 2011

Liabilities	Amount (Rs)	Assets		Amount (Rs)
Sundry Creditors	20000	Cash at Bank		8000
Bills payable	5000	Stock		20000
General Reserve	6000	Debtors	16000	15000
Rahul’s Loan A/c	16000	Less : R.D.D	1000	
Capital Account		Plant and Machinery		30000
Rahul	25000	Furniture		6000
Rohit	10000	Ramesh’s Capital A/c		3000
	82000			**82000**

The firm was dissolved on the above date:

1) The Assets realised as follows:

Debtors Rs 9,000, Plant and Machinery Rs 26,000, Stock Rs 14,000 and Furniture Rs 3,000.

2) The Creditors were paid Rs 18,000 in full settlement and the bills payable were paid in full.

3) The realisation expenses amounted to Rs 3,000.

4) Ramesh become insolvent and was able to bring in only Rs 1,800 from his private estate.

Prepare:
1) Realisation A/c
2) Bank A/c and
3) Partner’s Capital A/c

Solution

Realisation Account
Dr. Cr.

Particulars		Amount (Rs)	Particulars		Amount (Rs)
Sundry Assets:			**Sundry Liabilities**:		
Debtors	16000	72000	Sundry Creditors	20000	26000
Stock	20000		Bills Payable	5000	
Plant and Machinery	30,000		Reserve for Doubtful Debts	1000	
Furniture	6000				

			Bank A/c:		
Bank A/c:			Debtors	9000	52000
Sundry Creditors	18000	26000	Plant and Machinery	26000	
Bills Payable	5000		Stock	14000	
Realisation Expenses	3000		Furniture	3000	
			Loss transferred to:		
			Rahul's Capital A/c	8000	20000
			Rohit's Capital A/c	8000	
			Ramesh's Capital A/c	4000	
		98000			**98000**

Partners' Capital Accounts

Dr. Cr.

Particulars	**Rahul**	**Rohit**	**Ramesh**	**Particulars**	**Rahul**	**Rohit**	**Ramesh**
Balance b/d			3000	Balance b/d	25000	10000	
Realisation A/c (Loss)	8000	8000	4000	General Reserve	2400	2400	1200
Ramesh's Capital A/c	2000	2000		Bank A/c			1800
Bank A/c	17400	17400		Rahul's Capital A/c			2000
				Rohit's Capital A/c			2000
	27400	**12400**	**7000**		**27400**	**12400**	**7000**

Bank Account

Dr. **Cr.**

Particulars	**Amount (Rs)**	**Particulars**		**Amount (Rs)**
Balance b/d	8000	Realisation A/c (Liabilities)		26000
Realisation A/c (Assets)	52000	Capital A/cs:		
Ramesh's Capital A/c	1800	Rahul	17400	19800
		Rohit	2400	
		Rahul's Loan A/c		16000
	61800			**61800**

Rahul's Loan Account

Dr. **Cr.**

Particulars	**Amount (Rs)**	**Particulars**	**Amount (Rs)**
Bank A/c	16000	Balance b/d	16000
	16000		**16000**

Working Notes:

Capital Deficiency of Ramesh	**Rs.**
Debit balance of Ramesh	7000
Less: General Reserve	1200
	5800
Less: Cash brought in by Ramesh	1800
Capital Deficiency	**4000**

Capital Deficiency of Rs 4,000 to be distributed between Rahul and Rohit (Solvent Partners) in the ratio 2:2.

Rahul's Share = 4000×2/4=2000

Rohit's Share = 4000×2/4=2000

Question: 49

(When all partners become insolvent)

Shiv, Sadashiv and Sadanand are Partners in a firm sharing Profit and Losses equally whose Balance-sheet as on 31st December, 2011 stood as follows:

Balance Sheet as on 31st December, 2011

Liabilities	**Amount (Rs)**	**Assets**	**Amount (Rs)**
Capital Accounts		Sadanand's Capital A/c	2000
Shiv	6000	Buildings	18300
Sadashiv	4000	Machinery	12700
Parvati's Loan	10000	Debtors	9100
Sundry Creditors	30000	Bank	7900
	50000		**50000**

Shiv, Sadashiv and Sadanand were declared bankrupt and hence the firm was dissolved as on that date:

(i) The sundry Assets realised as follows:

Building Rs 10,900, Machinery Rs 8,200, Debtors Rs 6,800.

(ii) Realisation expenses amounted to Rs 1,300.

(iii) Sadanand was unable to contribute anything-

Whereas Rs 1,100 and Rs 900 were recovered from the realisation of private estate of Shiv and Sadashiv respectively.

You are required to close the books of the firm.

Solution

Realisation Account
Dr. **Cr.**

Particulars		Amount (Rs)	Particulars		Amount (Rs)
Sundry Assets:			Bank A/c:		
Building	18300	40100	Building	10900	25900
Machinery	12700		Machine	8200	
Debtors	9100		Debtors	6800	
Bank A/c (Realisation Expenses)		1300	Loss transferred to:		
			Shiv's Capital A/c	5167	15500
			Sadashiv's Capital A/c	5167	
			Sadanand's Capital A/c	5167	
		41400			**41400**

Partners' Capital Accounts
Dr. **Cr.**

Particulars	Shiv	Sadashiv	Sadanand	Particulars	Shiv	Sadashiv	Sadanand
Balance b/d			2000	Balance b/d	6000	4000	
Realisation A/c (Loss)	5167	5167	5166	Bank A/c	1100	900	
Deficiency A/c	1933			Deficiency A/c		267	7166
	7100	**5167**	**7166**		**7100**	**5167**	**7166**

Bank Account
Dr. **Cr.**

Particulars	Amount (Rs)	Particulars	Amount (Rs)

Balance b/d		7900	Realisation A/c (Realisation Expenses)	1300
Realisation A/c (Assets)		25900	Sundry Creditors	25875
Capital A/cs			Parvati’s Loan A/c	8625
Shiv	1100			
Sadashiv	900	2000		
		35800		**35800**

Sundry Creditors Account

Dr. **Cr.**

Particulars	Amount (Rs)	Particulars	Amount (Rs)
Bank A/c	25875	Balance b/d	30000
Deficiency A/c	4125		
	30000		**30000**

Parvati’s Loan Account

Dr. **Cr**

Particulars	Amount (Rs)	Particulars	Amount (Rs)
Bank A/c	8,625	Balance b/d	10,000
Deficiency A/c	1,375		
	10000		**10000**

Deficiency Account

Dr. **Cr.**

Particulars	Amount (Rs)	Particulars	Amount (Rs)
Sadashiv’s Capital A/c	267	Shiv’s Capital A/c	1933
Sadanand’s Capital A/c	7166	Sundry Creditors A/c	4125
		Parvati’s Loan A/c	1375
	7433		**7433**

Working Notes:

Amount Left for payment = 35800-1300 = 34500

Amount Paid to Sundry Creditors and Parvati's Loan Acount in the ratio 3 : 1 (i.e. 30000 : 10000)

Therefore, amount paid to sundry Creditors = $34500 \times 3/4 = 25875$

Amount Paid towards Parvati's Loan A/c $= 34500 \times 1/4 = 8625$

Question: 50

Ganga, Yamuna and Godavari are in Partnership sharing profits and losses equally. Their Balance sheet as on 31st December, 2011 was as follows:

Balance Sheet as on 31st December, 2011

Liabilities	**Amount (Rs)**	**Assets**	**Amount (Rs)**
Capital Accounts		Currnet Accounts	
Ganga	25000	Yamuna	20000
Yamuna	10000	Godavari	4000
Godavari	5000	Premises	17200
Ganga’s Currnet A/c	3000	Machinery	10800
Sundry Creditors	4000	Debtors	9600
Bank loan	3000	Cash	6400
	50000		**50000**

Godavari was declared insolvent and hence the firm was dissolved as on that date. Premises was sold at Rs 14,800, Machinery realised Rs 6,400. Bad debts and discount allowed to Debtors amounted to Rs 1,600. Sundry creditors agreed to receive 80 paise in a rupee (Rs) in full satisfaction of their claim. Bank Loan was settled at 60% of book value. During the course of dissolution a liability under an action for damages was settled for Rs 1,400 against Rs 2,100 provided in the books of the firm. The expenses of realisation amounted to Rs 900. Goodwill contributed Rs 1,900 from her private Property.

Prepare necessary ledger accounts in the books of the firm.

Solution

Realisation Account
Dr. Cr.

Particulars		**Amount (Rs)**	**Particulars**		**Amount (Rs)**
Sundry Assets:			**Sundry Liabilities**:		
Premises	17200		Sundry Creditors	4000	7000
Machinery	10800	37600	Bank Loan	3000	
Debtors	9600		Bank A/c:		
Bank A/c:			Premises	14800	
Sundry Creditors	3200		Machinery	6400	29200
Bank Loan	1800		Debtors	8000	
Realiation Expenses	900	7300	Loss transferred to:		
Damages	1400		Ganga’s Capital A/c	2900	8700
			Yamuna’s Capital	2900	

		A/c		
		Godavari's Capital A/c	2900	
	44900			**44900**

Partners' Current Accounts

Dr. **Cr.**

Particulars	**Ganga**	**Yamuna**	**Godavari**	**Particulars**	**Ganga**	**Yamuna**	**Godavari**
Balance b/d		2000	4000	Balance b/d	3000		
Realisation A/c (Loss)	2900	2900	2900	Cash A/c			1900
Capital A/c	100			Capital A/c		4900	5000
	3000	**4900**	**5000**		**3000**	**4900**	**5000**

Partners' Capital Accounts

Dr. Cr.

Particulars	**Ganga**	**Yamuna**	**Godavari**	**Particulars**	**Ganga**	**Yamuna**	**Godavari**
Current A/c		4900	5000	Balance b/d	25000	10000	5000
Cash A/c	25100	5100		Current A/c	100		
	25100	**10000**	**5000**		**25100**	**10000**	**5000**

Cash/Bank Account

Dr. **Cr.**

Particulars	**Amount (Rs)**	**Particulars**		**Amount (Rs)**
Balance b/d	6400	Realisation A/c (Liabilities)		7300
Realiation A/c (Assets)	29200	Capital A/cs:		
Godavari's Capital A/c	1900	Ganga	25100	30200
		Yamuna	5100	
	37500			**37500**

Working Notes:

Capital deficiency of Godavari	**Rs.**
Capital A/c Cr. Balance	5000
Add : Amount contributed	1900
	6900
Less: Debit Balance of current A/c	4000
	2900
Less: Realisation Loss	2900
It is needless to transfer solvent partner's	**NIL capital A/c**