

Dissolution of Partnership Firm

Question 1.

What Journal entries would you pass in the following cases?

- a. Expenses of realisation Rs.1,500.
- b. Expenses of realisation Rs.600 but paid by Mohan, a partner.
- c. Mohan, one of the partners of the firm, was asked to look into the dissolution of the firm for which he was allowed a commission of Rs.2,000.
- d. Motor car of book value Rs.50,000 taken over by creditors of the book value of Rs.40,000 in final settlement.

Solution:

Journal

| S. No. | Particulars | L.F. | Debit ₹ | Credit ₹ |
|--------|--|------|------------|-------------|
| (a) | Realisation Dr. To Cash A/c (Being realisation expenses paid) | | 1,500 | 1,500 |
| (b) | Realisation A/c Dr. To Mohan's Capital A/c (Being realisation expenses paid by Mohan) | | 600 | 600 |
| (c) | Realisation A/c Dr. To Mohan Capital A/c (Being commission allowed to Mohan on dissolution of the firm) | | 2,000 | 2,000 |
| (d) | No Entry Dr. (No journal entry is passed because both motor car and creditors accounts have already been transferred to Realisation Account and nothing is recovered or paid in terms of Cash and Bank) | | | |

Question 2.

Pass Journal entries for the following:

- a. Realisation expenses of Rs.10,000 were paid by Ajay, a partner.
- b. Realisation expenses of Rs.15,000 were to be met by Rahul, a partner, but were paid by the firm.
- c. Ramesh, a partner, was paid remuneration of Rs.25,000 and he was to meet all expenses.
- d. Anuj, a partner, was paid remuneration of Rs.20,000 and he was to meet all expenses. Firm paid an expense of Rs.5,000.

Solution:

Journal

| S. No. | Particulars | L.F. | Debit ₹ | Credit ₹ |
|--------|---|------|------------|-------------|
| (a) | Realisation A/c Dr. To Ajay A/c (Being expenses on realisation paid by ajay) | | 10,000 | 10,000 |
| (b) | Rahul Capital A/c Dr. To Cash A/c (Being realisation expense paid by rahul) | | 15,000 | 15,000 |
| (c) | Realisation A/c Dr. To Ramesh Capital A/c (Being remuneration allowed to ramesh on account of taking responsibility of dissolution) | | 25,000 | 25,000 |
| (d) | Realisation A/c Dr. To Anju Capital A/c (Being remuneration allowed to Anju Capital A/c) | | 20,000 | 20,000 |
| | Anju's Capital A/c Dr. To Bank A/c (Being remuneration expenses paid by the firm on behalf of Anju) | | 5,000 | 5,000 |

Question 3.

Pass Journal entries for the following:

- Realisation expenses amounted to Rs.10,000 was paid by the firm on behalf of Alok, a partner, with whom it was agreed at Rs.7,500.
- Realisation expenses amounted to Rs.5,000. It was agreed that the firm will pay Rs.2,000 and balance by Ravinder, a partner.
- Dissolution expenses amounted to Rs.10,000 were paid by Amit, a partner, on behalf of the firm.

Solution:

Journal

| S. No. | Particulars | L.F. | Debit ₹ | Credit ₹ |
|--------|--|------|----------------|----------------|
| (a) | Realisation A/c Dr. To Alok's Capital A/c (Being realisation allowed to alok capital A/c) | | 7,500 | 7,500 |
| | Alok's Capital A/c Dr. To Bank A/c (Being expenses paid by the firm on behalf of Alok) | | 10,000 | 10,000 |
| | Alternatively, only one single entry can also be passed instead of above two entries Realisation A/c Dr. Alok's Capital A/c Dr. To Bank A/c (Being realisation expense paid) | | 7,500 2,500 | 10,000 |
| (b) | Realisation A/c Dr. To Ravinder's Capital A/c To Bank A/c (Being realisation expense paid) | | 5,000 | 3,000 2,000 |
| (c) | Realisation A/c Dr. To Amit Capital A/c (Being realisation expense paid by Amit on behalf of the firm) | | 10,000 | 10,000 |

Question 4.

Pass Journal entries for the following at the time of dissolution of a firm:

- Sale of Assets-Rs.50,000.
- Payment of Liabilities-Rs.10,000.
- A commission of 5% allowed to Mr. X, a partner, on sale of assets.
- Realisation expenses amounted to Rs.15,000. The firm had agreed with Amrit, a partner, to reimburse him up to Rs.10,000.
- Z, an old customer, whose account for Rs.6,000 was written off as bad in the previous year, paid 60% of the amount written off.
- Investment (Book Value Rs.10,000) realised 150%.

Solution:**Journal**

| S. No. | Particulars | L.F. | Debit Rs. | Credit Rs. |
|--------|--|------------|-----------------|---------------|
| (a) | Bank A/c To Realisation A/c (Being assets realized for cash) | Dr. | 50,000 | 50,000 |
| (b) | Realisation A/c To Bank A/c (Being payment of liabilities made) | Dr. | 10,000 | 10,000 |
| (c) | Realisation A/c To X's Capital A/c (Being 5% commission allowed to X's on sale of assets of Rs.50,000) | Dr. | 2,500 | 2,500 |
| (d) | Realisation A/c To Amrit Capital A/c (Being Amrit was allowed remuneration on account of realisation) | Dr. | 10,000 | 10,000 |
| | Amrit Capital A/c To Bank A/c (Being realisation expense paid on behalf Amrit) | Dr. | 15,000 | 15,000 |
| | Alternatively, only one single entry can also be passed instead of above two entries Realisation A/c Amrit Capital A/c To Bank A/c (Being realisation expenses paid) | Dr. Dr. | 10,000 5,000 | 15,000 |
| (e) | Bad debts Recovered A/c To Realisation A/c (Being bad debts recovered) | | 3,600 | 3,600 |
| (f) | Cash A/c To Realisation A/c (Being investments are realized at 150%) | | 15,000 | 15,000 |

Question 5.

Pass necessary Journal entries for the following transactions on the dissolution of the firm of P and Q after the various assets (other than cash) and outside liabilities have been transferred to Realisation Account.

- Bank Loan Rs.12,000 was paid.
- Stock worth Rs.16,000 was taken over by partner Q.
- Partner P paid a creditor Rs. 4,000.
- An asset not appearing in the books of accounts realised Rs.1,200.
- Expenses of realisation Rs.2,000 were paid by partner Q.
- Profit on realisation Rs.36,000 was distributed between P and Q in 5:4 ratio.

Journal

| S. No. | Particulars | L.F. | Debit ₹ | Credit ₹ |
|--------|--|------|------------|------------------|
| (a) | Realisation A/c Dr. To Bank A/c (Being bank loan paid at the time of dissolution) | | 12,000 | 12,000 |
| (b) | Q's capital A/c Dr. To Realisation A/c (Being stock taken over by Q) | | 16,000 | 16,000 |
| (c) | Realisation A/c Dr. To P's Capital A/c (Being 5% commission allowed to X's on sale of assets of ₹50,000) | | 4,000 | 4,000 |
| (d) | Bank A/c Dr. To Realisation A/c (Being unrecorded assets realised) | | 1,200 | 1,200 |
| (e) | Realisation A/c Dr. To Q' Capital A/c (Being bad debts recovered) | | 2,000 | 2,000 |
| (f) | Realisation A/c Dr. To P's Capital A/c To Q's Capital A/c (Being realisation Profit distributed) | | 36,000 | 20,000 16,000 |

Question 6.

X, Y and Z are partners in a firm sharing profits in the ratio of 3:2:1 respectively. The firm was dissolved on 1.3.2013. After transferring assets (other than cash) and third party liabilities to the 'Realisation Account' you are provided with the following information:

- There was a balance of Rs.18,000 in the firm's Profit and Loss Account.
 - There was an unrecorded bike of Rs.50,000 which was taken over by X.
 - Creditors of 5,000 were paid Rs.4,000 in full settlement of accounts.
- Pass necessary Journal entries for the above at the time of dissolution of firm.

Solution:

Journal

| S. No. | Particulars | L.F. | Debit ₹ | Credit ₹ |
|--------|--|------|------------|-------------------------|
| (a) | Profit and Loss A/c** Dr. To X's capital A/c To Y's capital A/c To Z's capital A/c (Being balance in P and L A/c divided among Partners in the ratio of 3:2:1) | | 18,000 | 9,000 6,000 3,000 |
| (b) | X's capital A/c Dr. To Realisation A/c (Being unrecorded asset taken over by X) | | 50,000 | 50,000 |
| (c) | Realisation A/c Dr. To Bank A/c (Being creditors were paid Rs. 4,000 in full settlement of their claim of ₹5,000) | | 4,000 | 4,000 |

**Balance in Profit and Loss A/c always mean positive balance i.e. credit balance.

Question 7.

Rohit, Kunal and Sarthak are partners in a firm. They decided to dissolve their firm. Pass necessary Journal entries for the following after various assets (other than Cash and Bank) and the third party liability been transferred to Realisation Account:

- Kunal agreed to pay off his wife's loan of Rs.6,000.
- Total Creditors of the firm were Rs.40,000. Creditors worth Rs.10,000 were given a piece of furniture costing Rs.8,000 in full and final settlement. Remaining Creditors allowed a discount of 10%.
- Rohit had given a loan of Rs.70,000 to the firm which was duly paid.
- A machine which was not recorded in the books was taken over by Rs.Kunal at Rs.3,000, whereas expected value was Rs.5,000.
- The firm had a debit balance of Rs.15,000 in the Profit and Loss Account on the date of dissolution.
- Sarthak paid the realisation expenses of Rs.16,000 out of his private funds, who was to get remuneration of Rs.15,000 for completing dissolution process and was responsible to bear all the realisation expenses

Solution:**Journal**

| Date | Particulars | L.F. | Debit ₹ | Credit ₹ |
|------|---|------|-------------------------|-------------|
| | Realisation A/c Dr. To Kunal's capital A/c (Being Kunal agrees to pay off his wife's loan) | | 6,000 | 6,000 |
| | Realisation A/c Dr. To Cash A/c (Being creditors worth ₹30,000 paid off at a discount of 10%) | | 27,000 | 27,000 |
| | Rohit Loan A/c Dr. To Cash A/c (Being loan paid by firm) | | 70,000 | 70,000 |
| | Kunal Capital A/c Dr. To Realisation A/c (Being asset taken over by Kunal) | | 3,000 | 3,000 |
| | Rohit Capital A/c Dr. Kunal Capital A/c Dr. Sarthak Capital A/c Dr. To Profit and Loss A/c (Being loss distributed equally) | | 5,000 5,000 5,000 | 15,000 |
| | Realisation A/c Dr. To Sarthak's Capital A/c (Being remuneration of ₹15,000 paid for completion of dissolution process) | | 15,000 | 15,000 |

Question 8. Solution:

| Realisation Account | | | |
|---------------------------|-----------|------------------------------------|-----------|
| Dr. | | | Cr. |
| Particulars | ₹ | Particulars | ₹ |
| To Sundry Assets- | | By Creditors A/c | 1,70,000 |
| Debtors 2,40,000 | | By Ramesh's Current A/c (Stock) | 55,000 |
| Stock 1,30,000 | | By Cash A/c (Assets Realised) | |
| Furniture 2,00,000 | | Stock 50,000 | 50,000 |
| Machinery 9,30,000 | 15,00,000 | Machinery 4,50,000 | |
| | | Debtors 2,28,000 | 7,28,000 |
| To Cash A/c (Liabilities) | | By Umesh's Current A/c (Furniture) | 50,000 |
| Creditors 1,70,000 | | By Realisation Loss: | |
| Outstanding Bill 1,40,000 | 3,10,000 | Ramesh's Current A/c 5,64,900 | |
| | | Umesh's Current A/c 2,42,100 | 8,07,000 |
| | 18,10,000 | | 18,10,000 |

Question 9.

Balance Sheet of firm as at 31st March, 2016, when it was decided to dissolve the same was:

| Liabilities | ₹ | Assets | ₹ |
|---------------------------|--------|--------------|--------|
| Sundry Creditors | 14,000 | Cash at Bank | 640 |
| Reserve for Contingencies | 500 | Stock | 4,740 |
| Capital A/c s: | | Debtors | 5,540 |
| X 4,000 | | Machinery | 10,580 |
| Y 3,000 | 7,000 | | |
| | 21,500 | | 21,500 |

₹19,500 were realised from all assets except Cash at Bank. The cost of winding up came to ₹440.

X and Y shared profits in the ratio of 2:1 respectively.

Prepare Realisation Account and Capital Accounts of Partners.

Solution:

| Realisation Account | | | |
|---------------------|--------|-------------------------------|--------|
| Dr. | | | Cr. |
| Particulars | ₹ | Particulars | ₹ |
| To Machinery A/c | 10,580 | By Sundry Creditors A/c | 14,000 |
| To Stock A/c | 4,740 | By Bank A/c (Assets Realised) | 19,500 |
| To Debtors A/c | 5,540 | By Loss transferred to: | |
| To Bank A/c: | | X's Capital A/c 1,200 | |
| Creditors 14,400 | | Y's Capital A/c 600 | 1,800 |
| Expenses A/c 440 | 14,400 | | |
| | 35,300 | | 35,300 |

| Partners' Capital Account | | | | | |
|---------------------------|-------|-------|----------------------------------|-------|-------|
| Dr. | | | | | Cr. |
| Particulars | X | Y | Particulars | X | Y |
| To Realisation A/c (Loss) | 1,200 | 600 | By Balance b/d | 4,000 | 3,000 |
| | | | By Reserve for contingencies A/c | 333 | 167 |
| To Bank A/c | 3,133 | 2,567 | | | |
| | 4,333 | 3,167 | | 4,333 | 3,167 |

| Bank Account | | | |
|--------------------|--------|--------------------|--------|
| Dr. | | | Cr. |
| Particulars | ₹ | Particulars | ₹ |
| To Balance b/d | 640 | By Realisation A/c | 14,400 |
| To Realisation A/c | 19,500 | By X's Capital A/c | 3,133 |
| | | By Y's Capital A/c | 2,567 |
| | 20,140 | | 20,140 |

Question 10.

Achal and Vichal were parents in a firm sharing profits in the ratio 3:5. On 31st March, 2016, their Balance Sheet was as follows:

| Liabilities | ₹ | Assets | ₹ |
|---------------------------|-----------|-------------------|-----------|
| Capital A/cs: | | Land and Building | 4,00,000 |
| Achal | 3,00,000 | Machinery | 3,00,000 |
| Vichal | 5,00,000 | Debtors | 2,22,000 |
| Creditors | | Cash at Bank | 78,000 |
| Employees' Provident Fund | | | |
| | 1,79,000 | | |
| | 21,000 | | |
| | 10,00,000 | | 10,00,000 |

The firm was dissolved on 1st April, 2016 and the Assets and Liabilities were settled as follows:

- Land and Building realised ₹4, 30,000.
- Debtors realised ₹2, 25,000 (with interest) and ₹1,000 were recovered for Bad Debts written off last year.
- There was an Unrecorded Investment which was sold for ₹25,000.
- Vichal took over Machinery at ₹2,80,000 for cash.
- 50% of the Creditors were paid ₹4,000 less in full settlement and the remaining Creditors were paid full amount.

Pass necessary Journal entries for dissolution of the firm

Solution:

Journal

| Date | Particulars | L.F. | Debit Rs. | Credit Rs. |
|------|---|------|--------------|---------------|
| | Realisation A/c Dr. | | 9,22,000 | |
| | To Land and Building A/c | | | 4,00,000 |
| | To Machinery A/c | | | 3,00,000 |
| | To Debtors A/c | | | 2,22,000 |
| | (Being assets transferred) | | | |
| | Creditors A/c Dr. | | 1,79,000 | |
| | Employees' Provident Fund A/c Dr. | | 21,000 | |
| | To Realisation A/c | | | 2,00,000 |
| | (Being liabilities transferred) | | | |
| | Bank A/c Dr. | | 4,30,000 | |
| | To Realisation A/c | | | 4,30,000 |
| | (Being Land and Building realized) | | | |
| | Bank A/c (2,25,000 + 1,000) Dr. | | 2,26,000 | |
| | To Realisation A/c | | | 2,26,000 |
| | (Being debtors realized along with Bad- debts recovered) | | | |
| | Bank A/c Dr. | | 25,000 | |
| | To Realisation A/c | | | 25,000 |
| | (Being unrecorded investment sold) | | | |
| | Bank A/c Dr. | | 2,80,000 | |
| | To Realisation A/c | | | 2,80,000 |
| | (Being machinery took over by Vichal for Cash) | | | |
| | Realisation A/c Dr. | | 1,96,000 | |
| | To Bank A/c (85,000 + 89,500 + 21,00) | | | 1,96,000 |
| | (Being 50% creditors of Rs.89,500 were paid at a discount of Rs.4,000 and remaining 50% were settled in full and EPF) | | | |
| | Realisation A/c Dr. | | 43,000 | |
| | To Achal's Capital A/c | | | 16,125 |
| | To Vichal's Capital A/c | | | 26,875 |
| | (Being profits on realization transferred) | | | |
| | Achal's Capital A/c Dr. | | 3,16,125 | |
| | Vichal's Capital A/c Dr. | | 5,26,875 | |
| | To Bank A/c | | | 8,43,000 |
| | (Being partners paid off) | | | |

Question 11.

Bale and Yale are equal partners of a firm. They decide to dissolve their partnership on 31st March, 2016 at which date their Balance Sheet stood as:

| Liabilities | ₹ | Assets | ₹ |
|-----------------|----------|-----------|----------|
| Capital A/cs: | | Building | 45,000 |
| Bale | 50,000 | Machinery | 15,000 |
| Yale | 40,000 | Furniture | 12,000 |
| General Reserve | | Debtors | 8,000 |
| Bale Loan A/c | | Stock | 24,000 |
| Creditors | | Bank | 11,000 |
| | 1,15,000 | | 1,15,000 |

a. The assets realised were:

Stock ₹22,000; Debtors ₹7,500; Machinery ₹16,000; Building ₹35,000.

b. Yale took over the Furniture at ₹9,000.

c. Bale agreed to accept ₹2,500 in full settlement of his Loan Account.

d. Dissolution Expenses amounted to ₹2,500.

Prepare the:

i. Realisation Account;

ii. Bale's Loan Account;

iii. Capital Accounts of Partners;

iv. Bank Account.

Solution:**Realisation Account**

| Dr. | | | | Cr. |
|------------------|----------|-----------------------------------|----------|--------|
| Particulars | ₹ | Particulars | ₹ | |
| To Building A/c | 45,000 | By Sundry Creditors A/c | 14,000 | |
| To Machinery A/c | 15,000 | By Bank A/c: | | |
| To Furniture A/c | 12,000 | Stock | 22,000 | |
| To Debtors A/c | 8,000 | Debtors | 7,500 | |
| To Stock A/c | 24,000 | Machinery | 16,000 | |
| | | Building | 35,000 | 80,500 |
| To Bank A/c: | | By Bale's Loan A/c | 500 | |
| Creditors | 14,400 | By Yale's Capital A/c (Furniture) | 9,000 | |
| Expenses | 2,500 | By Loss transferred to: | | |
| | 16,500 | Bale's Capital A/c | 8,250 | |
| | | Yale's Capital A/c | 8,250 | 16,500 |
| | 1,20,500 | | 1,20,500 | |

Partners' Capital Account

| Partners' Capital Account | | | | | |
|---------------------------|--------|--------|---------------------------------------|--------|--------|
| Dr. | | | | Cr. | |
| Particulars | Bale | Yale | Particulars | X | Y |
| To Realisation A/c (Loss) | 8,250 | 8,250 | By Balance b/d | 50,000 | 40,000 |
| To Realisation A/c | - | 9,000 | By General Reserve A/c (Old Ratio) | 4,000 | 4,000 |
| To Bank A/c | 45,750 | 26,750 | | | |
| | 54,000 | 44,000 | | 54,000 | 44,000 |

Bale's Loan Account

| Dr. | | | Cr. |
|--------------------|-------|----------------|-------|
| Particulars | ₹ | Particulars | ₹ |
| To Bank A/c | 2,500 | By Balance b/d | 3,000 |
| To Realisation A/c | 500 | | |
| | 3,000 | | 3,000 |

Bank Account

| Dr. | | Cr. | |
|--------------------|--------|-----------------------|--------|
| Particulars | ₹ | Particulars | ₹ |
| To Balance b/d | 11,000 | By Balance b/d | 2,500 |
| To Realisation A/c | 80,500 | By Realisation A/c | 16,500 |
| | | By Bale Capital A/c | 45,750 |
| | | By Yale's Capital A/c | 26,750 |
| | 91,500 | | 91,500 |

Question 12.

Jathi, Sethi and Rathi were sharing profits in the ratio of 5: 3: 2 respectively. On 31st March, 2016 their Balance Sheet was:

| Liabilities | ₹ | Assets | ₹ |
|------------------|--------|------------------------------|--------|
| Jathi's Capital | 28,000 | Furniture | 11,000 |
| Sethi's Capital | 19,000 | Investments | 7,000 |
| Rathi Capital | 8,000 | Stock | 38,000 |
| Sundry Creditors | 9,500 | Debtors | 8,000 |
| | | Less: Provision for Doubtful | 400 |
| | | Debts | |
| | | Cash | 900 |
| | 64,500 | | 64,500 |

The firm was dissolved. Rathi took over Investments at an agreed value of Rs.7,500. Furniture, Stock and Debtors realised Rs.48,400. Rs.9,000 were paid to Sundry Creditors in full settlement. The expenses of realisation were Rs.600. The partners' accounts were settled by receipt or payment of cash. Show Realisation Account, Partners' Capital Accounts and Cash Account to close the books of the firm.

Solution:

Realisation Account

| Dr. | | Cr. | |
|----------------------|--------|-------------------------------------|--------|
| Particulars | ₹ | Particulars | ₹ |
| To Furniture A/c | 11,000 | By Provision for Bad Debts A/c | 400 |
| To Investments A/c | 7,000 | By Sundry Creditors A/c | 9,500 |
| To Stock A/c | 38,000 | | |
| To Debtors A/c | 8,000 | By Rathi's Capital A/c (Investment) | 7,500 |
| | | By Cash A/c | 48,400 |
| | | (Furniture, debtors, Stock) | |
| To Cash A/c: | | | |
| Sundry Creditors A/c | 9,000 | By Loss transferred to: | |
| Creditors A/c | 600 | Jathi's Capital A/c | 3,900 |
| | | Sethi's Capital A/c | 2,340 |
| | | Rathi's Capital A/c | 1,560 |
| | | | 7,800 |
| | 73,600 | | 73,600 |

Partner's Capital Accounts

| Dr. | | | | Cr. | | | |
|---------------------------|--------|--------|-------|----------------|--------|--------|-------|
| Particulars | Jathi | Sethi | Rathi | Particulars | Jathi | Sethi | Rathi |
| To Realisation A/c (Loss) | 3,900 | 2,340 | 1,560 | By Balance b/d | 28,000 | 19,000 | 8,000 |
| To Realisation A/c | - | - | 7,500 | | | | |
| To Cash A/c | 24,100 | 16,600 | - | By Cash A/c | - | - | 1,060 |
| | 28,000 | 19,000 | 9,060 | | 28,000 | 19,000 | 9,060 |

Cash Account

| Dr. | | Cr. | |
|----------------------|--------|------------------------|--------|
| Particulars | ₹ | Particulars | ₹ |
| To Balance b/d | 900 | By Realisation A/c | 9,600 |
| To Realisation A/c | 48,400 | By Jathi's Capital A/c | 24,100 |
| To Rathi Capital A/c | 1,060 | By Sethi's Capital A/c | 16,600 |
| | 50,360 | | 50,360 |