

DISSOLUTION OF PARTNERSHIP FIRM

S.NO.	TOPIC			
1.	Dissolution of partnership firm	As per 39 of the partnership act 1932, "Dissolution of the firm means dissolution of partnership among all the partners in the firm." Its means business of the firm ends. All the assets of the firm are disposed off and all outside Liabilities and partner capital are paid.		
2.	Mode of dissolution of firm	1. Dissolution by agreement 2. Compulsory Dissolution 3. On happening of an event like insolvency of a partner 4. Dissolution by notice 5. Dissolution by court		
3.	Dissolution of partnership V/S Dissolution of firm	BASIS	Dissolution of Partnership	Dissolution of firm
		1. End of business	The business of the firm continue	The business of the firm closed

		2. Settlement of assets & liabilities	Liabilities are reassessed and new balance sheet is opened	Assets are realized and liabilities are paid off.
		3. Economic relationship	Economic relationship between the partners are changed	Economic relationship between the partners are to end.
		4. Court's intervention	No intervention of the court can be dissolved by mutual agreement	A firm can be dissolved by the court's order.
		5. Closer of books and accounts	Books of accounts of the firm need not to be closed.	Books of accounts of the firm are closed.
		6. Effect	It may or may not dissolution of firm	It necessarily in dissolution of partnership.

4.	SETTLEMENT OF ACCOUNTS	<p>As per section 48 of the partnership act 1932, the following rules shall apply.</p> <ol style="list-style-type: none"> 1. Treatment of losses: losses including deficiencies of capital, shall be paid :- (i) first out of profit, (ii) next out of capital and (iii) if necessary, by the partners individually in the profit sharing ratio. 2. Application of assets: Assets of the firm shall be applied in the following manner. <ol style="list-style-type: none"> (i) In paying firm's debts to the third party. (ii) In paying each partner proportionately what is due to him on a/c of loan(i.e. partner's loan) (iii) In paying each partner proportionately what is due to him on a/c of capital (iv) The residue, if any shall be divided among the partners in their profit sharing ratio.
5.	PRIVATE DEBTS V/S FIRM'S DEBTS	<p>SEC 49 Of the act applied as follows:</p> <ol style="list-style-type: none"> (i) Firms property is applied first for settling the firms debts, surplus if any can be utilized for payment of their private debts up to received share. (ii) Private property is applied first for private debts then towards firms liability.

6.	ACCOUNTING TREATMENT ON DISSOLUTION OF FIRM	Following accounts are prepared to close the books.(i) realization A/c (ii) partner's capital A/c (iii)partner's loan A/c (iv) bank A/c
7.	REALISATION Account	It is nominal A/c opened at the time of dissolution of a firm to ascertain profit and loss from realization of assets and payment of outsider's liabilities which may be transferred to partner's capital A/c in the profit sharing ratio.
8.	SETTLEMENTS OF ASSETS	(a) Fictitious assets such as advertisement suspense, preliminary expenses etc, directly transferred to partner's capital A/c in their profit sharing ratio. (b) Unrecorded assets must be realized and shown credit side of the realization A/c
9.	SETTLEMENT OF LIABILITIES	(a) All outside liabilities must be paid off even if nothing is stated for their payment. (b) Unrecorded liabilities also paid through cash or settled by unrecorded assets or settling recorded assets. (c) Contingent liabilities discounting of B/R become liability must be settled or paid.
10.	Settlement of creditors through a recorded assets	In this case no entry in the books of A/c. if part payment is made in asset in cash , then the entry will be made for cash payment only.

11.	REALISATION EXPENSES	(i) If nothing is mentioned then paid by the firm. (ii) In case realization exp. are born by partner, clear indication should be regarding the payment there of.
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PREPARATION OF REALISATION ACCOUNT

The following Journal Entries are passed:

Journal

Date	Particulars	L.F.	Cr. (₹)	Dr. (₹)
	Realisation Dr. To sundry Assets A/c (Being assets transferred to realisation A/c)			

Note:

1. Cash and Bank balance are not transferred to Realisation Account.
2. Assets (tangible and intangible) are transferred to Realisation Account at their Gross Value
3. Fictitious Asset such as Debit balance of Profit and Loss Account or Advertisement Suspense Account etc. are not transferred to Realisation Account. These are directly debited to partners' capital accounts in their profit sharing ratio by passing following entry:

Date	Particulars	L.F.	Dr.(Rs.)	Cr.(Rs)
	Partner's capital A/c Dr. To Profit and Loss A/c To Advertisement Suspense A/c (Being balance of losses transferred to capital accounts)			

For Closing Liabilities Accounts

Journal

Date	Particular	L.F.	Dr.(Rs)	Cr.(Rs.)
	Sundry Liabilities A/c Dr. To Realisation A/c (Being sundry liabilities transferred to Realisation A/c			

1. Only third parties' liabilities/outside liabilities are transferred to Realisation A/c
2. Balance of Partner's Loan Account is not transferred to Realisation Account. Separate accounts are opened to settle such liabilities.
3. Undistributed profits and reserves are also not transferred to Realisation A/c. These are directly credited to partners' capital accounts in their profit sharing ratio by passing the following entry:

Journal

Date	Particulars	L.F.	Dr.(₹)	Cr. (₹)
	Profit and loss A/c Dr. General reserves A/c Dr. Reserve fund A/c Dr. Contingency Reserve A/c Dr. To Partner's Capital A/c's (Being balance of undistributed profits transferred to capital accounts)			

Provident Fund is a liability of the firm towards employees and hence it is transferred to Realisation A/c.

5. If any liability is expected to arise against any fund or reserve e.g., Workmen's Compensation Fund, then an amount equal to such liability is transferred to Realisation A/c and balance, if any, distributed among the partners in their profit-sharing ratio by passing the following entry.

Journal

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
	Workmen's Compensation Fund A/c Dr.			
	To Realisation A/c (Liability)			
	To Partner's Capital A/c (Balance if any)			
	(Being liability against workmen's compensation fund transferred to Realisation A/c and balance distributed among partners)			

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

Journal

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
	Workmen's Compensation Fund A/c Dr.		50,000	
	To Realisation A/c			30,000
	To A's Capital A/c			10,000
	To B's Capital A/c			10,000
	(Being liability against workmen's compensation fund transferred to Realisation A/c and balance distributed among partners)			

C. For Realisation of assets (whether recorded or unrecorded)

(a) When assets are sold for cash

Journal

Date	Particulars	L.F.	Dr.(₹)	Cr. (₹)
	Cash/ Bank A/c Dr. To Realisation A/c (Being assets sold for cash)			

(b) When assets are taken over by any partner

Journal

Date	Particulars	L.F.	Dr.(₹)	Cr. (₹)
	Partner's Capital A/c Dr.			
	To Realisation A/c			
	(Being assets taken over by any partner)			

(c) When assets are taken over by any creditor in part of full payment of his dues:

I. In case of Full Settlement:

(i) NO ENTRY is passed for the transfer of assets to the creditor.

(ii) NO ENTRY is passed for the payment to creditor

II. In case of Part Settlement:

i. NO ENTRY is passed for the transfer of assets to the creditor.

ii. The agreed amount of asset is deducted from the claims of the creditors and the balance is paid to him.

D. For Payment of Liabilities

(a) When liabilities are paid in cash

Journal

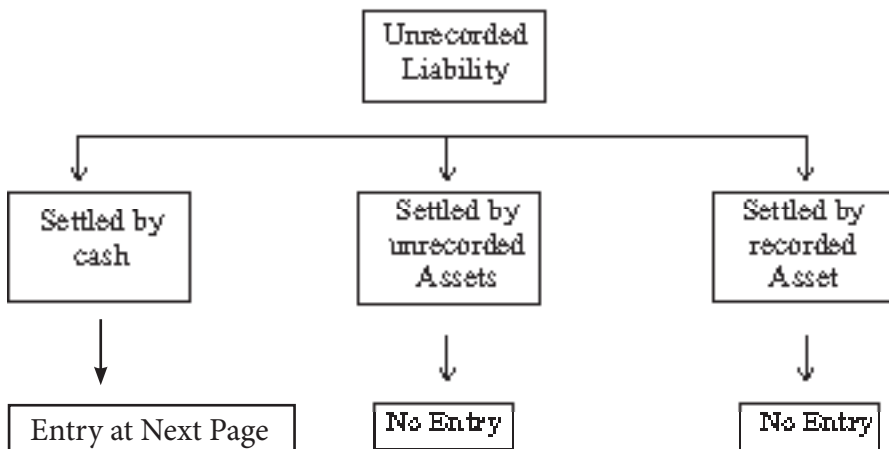
Date	Particulars	L.F.	Dr.()	Cr. ()
	Realisation A/c Dr. To Cash/ Bank A/c (Being liabilities paid in cash)			

(b.) When liabilities are taken over by any partner

Journal

Date	Particulars	L.F.	Dr.(Rs.)	Cr. (Rs.)
	Realisation A/c Dr. To Partner's capital A/c (Being liabilities taken over by a partner)			

Note: If nothing is stated regarding the settlement of any outside liability, then it should be assumed that the amount equal to book value is paid.



Journal

Date	Particular	Dr. Rs.	Cr. Rs.
	Realisation A/c Dr. To cash A/c (Being cash paid for unrecorded liability)		

PREPARATION OF PARTNERS' LOAN ACCOUNT

If a partner has given any loan to firm, his loan will be paid

- * After payment of all the outside liabilities: but
- * Before making any payment to partners on account of capital

Journal

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
	Partner's loan A/c Dr.			
	To Cash/ Bank A/c			
	(Being loan of a partner paid)			

Partner's Loan A/c

Dr.

Cr.

Particulars	Rs	Particulars	Rs
To Cash/Bank A/c	—	By Balance b/d	—
	—		—

If the firm has given a loan to any partner then such loan account will show a debit balance and will appear on the asset side of Balance Sheet of the firm. Such loan accounts are settled through partner's capital account by passing the following entry:

Journal

Date	Particulars	L.F.	Dr.(₹)	Cr. (₹)
	<div style="display: flex; justify-content: space-between;"> Partner's Capital A/c Dr. </div> <div style="margin-top: 10px;"> To Partner's Loan A/c </div> <div style="margin-top: 10px;"> (Being loan of a partner transferred to his Capital A/c) </div>			

Distinction between Revaluation Account and Realisation Account

Basis of Difference	Revaluation Account	Realisation Account
Purpose	It is prepared to show assets and liabilities in the books at their revised values.	It is prepared to ascertain profit or loss from sale of assets and repayment of Liabilities.
When to be prepared	It is prepared at the time of change in profit sharing ratio among the existing partner, admission, retirement and death of a partner.	It is prepared at the time of dissolution of a firm.
Preparation of Account	This account may be prepared at a number of times during the life of a firm.	This account is prepared once during the life of a firm.

Content	This account records only those assets and liabilities whose book values have been changed.	This account records all assets (except cash, fictitious assets etc.) and all outside liabilities.
Result	A Firm continues its business even after the preparation of revaluation account.	The business activities of a partnership firm comes to an end after preparation of realisation account

Practical Problem

Q1. Following is the Balance Sheet of X and Y, who share profits and losses in the ratio of 4.1, as at 31st March, 2015

BALANCE SHEETAs on 31st March, 2015

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

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

- (i) X agreed to pay off his wife's loan.
- (ii) Debtors of Rs. 5,000 proved bad.
- (iii) Other assets realised-Investment 20% less; and Goodwill at 60%
- (iv) One of the creditors for Rs. 5,000 was paid only ₹ 3,000
- (v) Buildings were auctioned for Rs. 30,000 and auctioneer's commission amounted to Rs. 1,000.
- (vi) Y took over part of Stock at Rs. 4,000 (being 20% less than the book value. Balance stock realised 50%.
- (vii) Realisation expenses amounted to Rs. 2,000.

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

Realisation Account

Dr.

Cr.

Particulars	Rs.	Particulars	Rs.
To Goodwill	10,000	By Investment Fluctuation	
To Buildings	25,000	Fund	5,000
To Investments	25,000	By Provision for Doubtful	
To Stock	15,000	Debts	2,000
To Debtors	17,000	By Creditors	8,000
To X's Capital A/c	8,000	By Bank overdraft	6,000
(X's wife loan)		By X's Wife Loan	8,000
To Bank A/c	6,000	By Bank A/c	
(Bank overdraft)		(Asset realised)	
To Bank A/c	6,000	Debtors 12,000	
(Creditors) (3000+3000)		Investment 20,000	
To Bank A/c	2,000	Goodwill 6,000	
(Expenses on Realisation)		Buildings 30,000	
To Bank A/c (auctioneer	1000	Stock	<u>5,000</u> 73,000
Commission)		By Y's Capital A/c (Stock)	4,000
		By Loss transferred to:	
		X's Capital A/cs	7,200
		Y's Capital A/cs	<u>1,800</u> 9,000
	1,15,000		1,15,000

Y's Loan A/c

Dr.

Cr.

Particulars	Rs.	Particulars	Rs.
To Bank A/c	3,000	By balance b/d	3,000
	3,000		3,000

Partner's Capital A/cs

Dr.

Cr.

Particulars	Rs.	Rs.	Particulars	Rs.	Rs.
To Profit and Loss A/c	8,000	2,000	By Balance b/d	50,000	40,000
To Realisation A/c (Assets taken)	—	4,000	(Cr. Balance)		
To Realisation A/c (Loss on Realisation)	7,200	1,800	(By Realisation A/c	8,000	—
To Bank A/c (Excess cash paid)	42,800	32,200	Liabilities taken)		
	58,000	40,000		58,000	40,000

Bank A/c

Dr.

Cr.

Particulars	Rs.	Particulars	Rs.
To Balance b/d (Cash at Bank)	20,000	By Balance b/d (Bank Overdraft)	6,000
To Realisation A/c (Assets Realised)	73,000	By Realisation A/c (Liabilities Paid)	1,000
		By Realisation A/c	6,000

		By Realisation A/c (Exp. Paid)	2,000
		By Y's Loan A/c (Partner's Loan Paid)	3,000
		By X' Capital A/c	42,000
		By Y's Capital A/c	32,200
	20,000		93,000

Q. Pass the necessary journal entries on the dissolution of a firm in the following cases:

- Dharama, a partner, was appointed to look after the process of dissolution at a remuneration of ₹ 12,000 and he had to bear the dissolution expenses. Dissolution expenses ₹ 11,000 were part by the Bharmar.
- Jay a partner was to look after the process of dissolution and for this work he was allowed a remuneration of ₹ 7,000 agreed to bear all dissolution expenses. Actual expenses ₹ 6000 were pound from firm's Bank A/c.
- Realisation expenses ₹ 12000 born by the partner Deepa. These expenses were paid by Deepa by drawing cash from the firm. She was allowed commission ₹ 10,000 for process of dissolution.
- Dev, a partner, agreed to do the work of dissolution for ₹ 7500. He took away stock for his commission.
- A debtor of ₹ 8,000 already transferred to realization account agreed to pay the realization expenses of ₹ 78,00 in full settlement.
- Realisation expenses amounted to ₹ 15,000 out of this ₹ 12000 were to be born by 'A' a partner and the balance by firm.

Solution:**Journal**

Date	Particular	L.F.	Dr. Amount (₹)	Cr. Amount (₹)
(1)	Realisations A/c To Dharam's capital A/c (Being remuneration allowed to partner to carry out dissolution)	Dr.	12,000	12,000
(2)	(i) Realisation A/c To Jay's capital A/c (Being the remuneration all out to partner for bear realisation expenses)	Dr.	7,000	7,000
	(ii) Jay's capital A/c To Bank A/c (Being the expenses paid by firm on behalf partner)	Dr.	6,000	6,000
(3)	(i) Realisation A/c To Deepa's capital A/c (Being the commission paid for realisation expenses to Deepa)		10,000	10,000
	(ii) Deepa's capital A/c To cash A/c (Being the cash is drawn for payment of realisation expenses by Deepa)		12,000	12,000
(4)	No Entry			
(5)	No Entry			
(6)	A's capital A/c Realisation A/c To Bank A/c (Being the payment of realization expenses by partner 'A' and Balance by firm)	Dr. Dr.	12,000 3,000	15,000

Q.5. Pass Journal entries for the following transactions in the book of the firm on its dissolution:

- Bills receivable of Rs. 20000 discounted with the bank is dishonoured as drawee was declared insolvent and 30% amount is received in cash from him.
- 100 shares of Bajaj Auto Ltd. acquired at a cost Rs. 3,600 had been written off from the books. These were valued at Rs. 12 par share, and were divided among partner's A and B in 2 : 1.
- Mr. Verma, a creditor to whom Rs. 6,000 are due, accepted office equipment at ₹ 4,000 and the balance paid to him by cash.
- Debtors of ₹ 5,00,000 and provision for doubtful debts of Rs. 20,000 transferred to realisation account. On dissolution bad debts were Rs. 1,00,000 and remaining debtors realised at 30% discount.

- e) Loan owed by B towards firm is Rs. 30,000. It was decided by the firm that B will pay to the creditor Rs. 25,000 in settlement of his loan.
- f) The firm had borrowed Rs. 35,000 from Rashmi, a partner. The firm got dissolved; Rashmi decided to take furniture against the payment of her loan.

Date	Particulars	L.F.	Amount (₹)	Amount (₹)
	(a) Cash A/c Dr. To Realisation A/c (Being 30% realized from drawer) Realisation A/c Dr. To Bank A/c (Being full amount paid to Bank)		6,000 20,000	6,000 20,000
	(b) As capital A/c Dr B's Capital A/c Dr. To Realisation A/c (Being shares taken by A and B)		800 400	12,00
	(c) Realisation A/c Dr To cash A/c (Being Net ₹2000 paid to Mr. Verma)		2,000	2,000
	(d) Cash A/c Dr To Realisation A/c (Being 70% realised from Debtors)		2,80,000	2,80,000
	(e) Realisation A/c Dr To B's Loan A/c (Being B's loan transferred)		30,000	30,000
	(f) Rashmi's Loan A/c Dr To Realisation A/c (Being loan settled by providing furniture)		35,000	35,000

Practice Question

Q.1 Pass the journal entries entries to effect the followings

- (i) bank loan of Rs. 12000 is paid off.
- (ii) Deferred advertisement expenses A/c appeared in the books at Rs.28000.
- (iii) Creditors agreed to take over the machine in full settlement of their calim. (creditors Rs. 2,50,000 and machinery Rs. 2,25,000)
- (iv) Z, an old customer, whose account was written off as bad in the previous year, paid Rs. 500.
- (v) A contingent liability (not provided for) of Rs. 1000 was also discharge.
- (vi) An unrecorded computer realized Rs. 7000.

Q.2 X and Y were partners sharing profits and losses in ratio of 4:1. Their firm was dissolved on 31.3.15. Complete the missing information:

Realisation Account

Particulars	Rs.	Particulars	Rs.
To Goodwill A/c	10,000	By Investment Fluctuation Fund A/c	5,000
To building A/c	25,000	By Provision for Doubtful Debts A/c	2,000
To Investments A/c	25,000	By Creditors A/c	8,000
To Stock A/c	15,000	By Bank Overdraft A/c	6,000
To Debtors A/c	20,000	By X's Brother Loan	8,000
To X's Capital A/c (Brother's loan)	(a)	By Bank A/c (Assets Realised) ₹	
To Bank A/c's: ₹		Debtors	12,000
Creditors	6000	Investments	20,000
Bank Overdraft	<u>6000</u>		
	12,000	Goodwill	7,000
To Bank A/c (Realisation Expenses)	(b)	Buildings	30,000
		Stock (50% of 10,000)	<u>5,000</u>
		By Y's Capital A/c(stock)	
		X's Capital A/c	(d)
		Y's Capital A/c	(e)
	(f)		(c)
			74,000
			(e)
			(f)

Partner's Capital Account

Particulars	X (₹)	Y (₹)	Particulars	X (₹)	Y (₹)
To profit & Loss A/c	8,000	2,000	By Balance b/d	50,000	40,000
To Realisation A/c (Stock)		4,000	By Realisation A/c	<u>(k)</u>	
To Realisation A/c (Loss)	<u>(g)</u>	<u>(h)</u>			
To Bank A/c (Bal. Fig.)	(i)	(j)			
	<u>(l)</u>	<u>(m)</u>		<u>(l)</u>	<u>(m)</u>

Bank Account

Particulars	Rs.	Particulars	Rs.
To Balance b/d	20,000	By Y's loan A/c	6,000
To Realisation A/c	<u>(n)</u>	By Realisation A/c (liabilities paid off)	12,000
		By Realisation Expenses A/c	2,000
		By X's Capital A/c	<u>(o)</u>
		By Y's Capital A/c	<u>(p)</u>
	<u>(q)</u>		<u>(q)</u>

Hints:

- a) Brother's Rs 8,000 (Given on Cr. Side of Realisation A/c)
- b) Realisation Expenses Rs 2,000 (From Bank A/c Cr. side)
- c) Stock Rs 4,000 (From Y's Capital A/c Dr. side)
- d) ₹ 8,000 (e) ₹ 2,000 (f) 1,17,000 (g) ₹ 8,000 (h) ₹ 2,000
- (i) ₹ 42,000 (j) ₹ 32,000 (k) ₹ 8,000 (l) ₹ 58,000 (m) ₹ 40,000
- (n) ₹ 74,000 (o) ₹ 42,000 (p) ₹ 32,000 (q) ₹ 94,000

Q.3 A and B showing profits and losses in the ratio of 3:2 agreed upon the dissolution of the firm on 31st March 2018 at which date their Balance sheet was as follows:

Liabilities	Rs. Amount	Assets	Rs. Amount
Trade creditor	60,000	Cash	6,000
Employee Provident Fund	15,000	Bank	30,000
Bills payable	25,000	Stock	80,000
Investment fluctuation reserve	24,000	Sunday Debtors	66,000
		Loss Provision for D/D	<u>6,000</u> 60,000
Profit and Loss A/c	11,000	Plant and Machinery	30,000
Capital A/c		Land and Building	33,000
A	90,000	Investment	10,000
B	30,000	Goodwill	15,000
Workman Compensation Reserve	20,000	Pre Paid Insurance	1,000
		Advertisement Expenditure	10,000
	2,75,000		2,75,000

The firm was dissolved on the given date and following transition took place :

- (1) B undertook to pay employee provident fund.
- (2) A took 60% stock at a profit of 10% and remaining stock was sold at a discount of 20% on cost.
- (3) Land and building & investments realized ₹ 1,40,000 and ₹ 8,000 respectively.
- (4) Trade creditor accepted plant & machinery loss 10% of value and cash ₹ 27,000 in full settlement of their claim.
- (5) ₹ 8,000 of Book debts proved bad bills payable were paid in full.
- (6) Realisation expenses paid by A ₹ 5,000.
- (7) There was a contingent liability of ₹ 1,000 for Bill discounted also discharged.

Prepare Realisation A/c, partner's capital A/c and Bank A/c.

(Ans. Profit of realisation ₹ 1,06,200, partner final payment ₹ 1,18,520 A, ₹ 58,800 B Total & Bank A/c 2,67,400)

Q 3. Ram, Rahim and Rehman were partners in a firm sharing profits in ratio 4 :1 :5. On 28-2-2017,, the firm was dissolved. On the date of dissolution, the Balance Sheet of the firm was as follows : Rehman was appointed to realize the assets and liabilities for which he was to be given a commission of Rs. 5000 and to bear the actual expenses of realization himself.

Liabilities	'Amount(₹)	Assets	'AmoumXRs.)
Bank loan	4,34,000	Bank	48,000
Creditors	3,80,000	Debtors 2,74,000	
General reserve	1,00,000	Less provision <u>8,000</u>	2,66.000
Ram's wife's loan	40,000	Stock	1,08,000
Capitals:		Furniture	1,32,000
Ram	14,00,000	Machinery	4,00,000
Rahim	6,00,000	Building	30,00,000
Rehman	10,00,000		
	39,54,000		39,54,000

Assets realised as follows: bad debts proved Rs. 4,000. Stock at 15% less. Furniture was taken over by Ram for 9,000. Building was sold for Rs. 29,00,000. Rehman took over 50% of the machinery at 5% less than the book value. Bank Loan was paid with interest of Rs. 79,500. A computer already written off was taken over by Rahim for rs. 3000. Creditors allowed a discount of 5%. Expenses of dissolution Rs. 7,000 were paid by Rehman. Remaining machinery was sold at 10% profit.

Pass journal entries at the time of dissolution.

Q.6. Complete the following journal at the time of a partner ship firm of A, B and C and D were sharing the profits & losses in the ratio of 1 : 2 : 2

Realisation A/c Dr.		6,50,000	
To stock A/c			40,000
To building A/c			2,10,000
To machinery A/c			2,50,0000
To Goodwill A/c			_____
To debtors A/c			12,000
To investment A/c			1,00,000
(_____			

_____)			
Creditors A/c	Dr.	45,000	
Mrs. A's Loan A/c	Dr.	1,20,000	
Bank Loan A/c	Dr.	2,00,000	
Provision for doubtful debts A/c	Dr.	2,000	
To realization A/c			_____
(_____			

_____)			
_____ Dr.		_____	
To _____			_____
(being the machinery sold at 10% less than book value, debtors realized at 20% discount and half of the investment was realized at 25% above book value)			

(being the machinery sold at 10% less than book value, debtors realized at 20% discount and half of the investment was realized at 25% above book value)		
<p>_____ Dr.</p> <p>To _____</p> <p>(creditors worth Rs. 36,000 took over the stock at valuation of Rs. 30,000)</p>	_____	_____
<p>_____ Dr.</p> <p>To _____</p> <p>(A agreed to pay off his wife's loan)</p> <p>_____ Dr.</p> <p>To _____</p> <p>(A took over the half of the investment at 10% discount)</p>	_____	_____
<p>_____ Dr.</p> <p>To _____</p> <p>(Building was sold by the bank for setting off its loan for Rs. 2,50,000 and the balance amount of cash was given to the firm)</p>		
<p>(_____ Dr. _____</p> <p>_____ To _____</p> <p>_____)</p>	_____	_____
<p>(_____ Dr. _____</p> <p>_____ To _____</p> <p>_____)</p>		
<p>B's loan A/c _____ Dr.</p> <p>To _____</p> <p>(B's loan for Rs. 50,000 _____)</p>		

Partners' Capital A/c

Particulars	A's capital	B's Capital	C's capital	Particulars	A's capital	B's Capital	C's capital
To realization A/c				By balance B/d	5000	175,000	1,15,000
To cash				By gen reserves	2,000	2,000	4,000
				By Profit & loss A/c	30000	30000	60000
				By realization A/c			
				By realization A/c			
				By cash			

Cash A/c

Particulars	Amount	Partners	Amount
balance B/d	4000		

Q. 2 Following was the balance sheet of D, G, And T on 28-2-2017

Liabilities(₹)	Amount	Assets	Amount
R's Loan	12,000	Furniture	15,000
Creditors	50,000	Land & Building	2,45,000
General Insurance	20,000	G' s Capital	20,000
G's Loan	8,000	Bank	20,000
Bills payable	10,000	Debtors	30,000
D' s Capital 1,00,000		Stock	20,000
T's Capital 1,50,000	2,50,000		
	3, 50,000		3,50,000

The firm was dissolved on the above date on the following terms:-

(i) Debtors realised Rs, 28,000 and creditors and bills payable were paid at discount of 10%

(ii) Stock was taken over by T for Rs . 15,000 and furniture was sold to N for Rs. 12,000.

(iii) Land & Building was sold for Rs. 2,80,000.

(iv) R1 Loan was Paid by Cheque for same amount ,

(v) The firm had a joint Policy of (₹) 5,00,000 with a surrender value (₹) 1,00,,000 -000 The surrender. Prepare necessary ledger A/c

Multiple Choice Question

Dissolution of Partnership Firm

Q. 1 In which condition a partnership firm is deemed to be dissolved?

(A) On a Partner's admission

(B) on retirement of a partner

C) On expiry of the period of partnership (D) On loss in partnership

Q.2 Contingent liability, when paid on dissolution of a firm is debited to :-

((A) Partner's Capital A/c

(B) Realisation Account

(C) Liabilities A/c

(D) Asset A/c

Q.3 A partnership firm is compulsory dissolved:-

(A) When the business of the firm is declared illegal

(B) When a partner of the firm dies

(C) When a partner of the firm become Insolvent

(D) When a partner transfer his share to some other person without the consent of the partner

Q.4. At the time of dissolution of Partnership firm, fictitious, assets are transferred to :-

- (A) Capital Account of Partners (B) Realisation Account
- (C) Cash Account (D) Partner's Loan Account

Q.5. On dissolution of a firm, debtor (₹) 17,000 were shown in the balance sheet out of this (₹) 2,000 become bad. One debtor become insolvent 70 % were recovered from him out of ₹) 5,000 . Full amount was recovered from the balance debtors. On account of this item loss in realisation account will be:-

- (A) ₹) 5,100 (B) ₹) 1.500
- (C) ₹) 3, 500 (D) ₹) 2,000

Q.6 Anu, Khushi and Anmol are partners, The firm had given a loan of (₹) 20,000 to khushi. On the event of dissolution, the loan will be sold by :-

- (A) Transferring it to debt side of Realisation A/c
- (B) Transferring it to credit side of Realisation A/c
- (C) Transferring it to debti side of Partner's capital.
- (D) Khushi paying Anu and Anmol Privately

Q.7 On dissolution, goodwill account is transferred to :-

- (A) In the capital accounts of partners (B) On the Credit of Cash account
- (C) On the debit of Realisation A/c (D) On Credit of Realisation A/c

Q.8 Where it is agreed that a partner will be paid a lumsum amount for dissolution expenses payment is made by the firm, the payment is debited to

- (A) Realisation Account (B) Concerned Partner's Capital Account
- (C) All Partner's Capital A/c (D) None of these

Q.9 In case of dissolution of Partnership firm, a creditor of ₹ 3,60,000 accepted machine value at ₹ 5,00,000 and paid to the firm ₹ 140,000 and a second creditor for ₹ 50,000 accepted stock ₹ 45,000. in full settlement. What amount should be shown in Realisation for above transaction.

- (A) Dr Realisation ₹ 1,40,000 Cr HIL
- (B) Dr realisation and Cr. NIL ₹ 1,40,000
- (C) Dr Realisation 1,40,000 & cr Realisation 500
- (D) Dr Realisation ₹ 5,000 & cr ₹ 14,0,000

Q.10 Retirement and Death of a partner:-

- (A) Is dissolution of partnership agreement
- (B) Is dissolution of a firm
- (C) a and b both
- (D) None of the above

Q.11 At the time of dissolution non-cash assets are credited with :-

- (A) Market value
- (B) Book Value
- (C) As the agreed amount among partner's
- (D) None of the above

Q.12 Admission of a partner is termination of and not dissolution of
(agreement, firm)

Q.13 If all partners mutually decide for the dissolution, it will be dissolution of the
(firm)

Q.14 of partner will be paid off before the settlement of partner's capital
(Loan)