

DISSOLUTION F PARTNERSHIP FIRM

Chapter 8 DISSOLUTION OF A PARTNERSHIP FIRM

COMMON ERRORS

1. Students write all the assets as Sundry Assets on the debit side and write the total in the amount column.
2. Recording provision for doubtful debts on the Credit side of Realisation a/c.
3. Treatment of provision for depreciation and investment fluctuation fund.
4. Missing out transferring Employees Provident fund on the Cr side of Realization a/c
5. Treatment of realisation expenses is done wrongly
6. Students forget to pay off in full, those external liabilities about which there is no instruction given in the question.
7. Prepares all the accounts whereas question asks about journal entries only.
8. Students are confused with treatment of goodwill appearing in the balance sheet. They transfer it to capital account.
9. Assets taken over by the creditors are again posted in the Realisation Account.
10. Cash, Bank, accumulated profits/losses and Loan from partners are transferred to Realisation account.
11. Loan taken from partner is recorded in the Realisation, Capital account of the partner.
12. If partner has advanced loan and the capital shows debit balance.
13. If firm has advanced loan to partner (partner's loan on debit side of Balance Sheet).

VERY SHORT ANSWER QUESTIONS:

(Questions carrying 1 mark)

1. What do you mean by dissolution of partnership?
2. What do you mean by dissolution of partnership firm?
3. Distinguish between dissolution of partnership firm and reconstitution of partnership firm.
4. In case of dissolution which item on the liability side is paid first?
5. In case of dissolution which item on the liability side is paid last?
6. State the liability of partners in case of dissolution of partnership firm.
7. Name the assets that is not transferred to the debit side of the realisation account but brings certain amount of cash against its disposal at the time of dissolution of partnership firm.
8. What is the nature of realisation account?
9. What is the objective of preparing realisation account at the time of dissolution of partnership firm?
10. Identify a situation under which the court may order for dissolution of partnership firm.
11. Give difference between revaluation a/c and realisation account.
12. Name the liability which is not transferred to the credit of realisation account but requires payment of cash for its disposal at the time of dissolution of partnership firm.
13. Explain the dissolution of firm by agreement.
14. Explain dissolution of firm by notice.
15. On dissolution of partnership firm, how is partner's loan appearing on the assets side treated?

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16. On dissolution of partnership firm, how is partner's loan appearing on the liabilities side treated?
17. Mention any two accounts transferred on the credit side of realisation account but do not require any cash payment.
18. Why cash and bank account are not transferred to realisation account?
19. How deficiency of creditors paid off?
20. What is compulsory dissolution?
21. What is the difference between private debt and firm's debt?
22. If no information about the amount of goodwill realised is given, what is assumed?
23. How are balance of fictitious assets and deferred revenue expenditure treated at the time of dissolution of partnership firm?
24. If the question is silent about the realisable value of tangible assets then what is assumed?
25. A, B and C are partners in affirm sharing profits in the ratio of 4:3L:3. On 1-4-18 they decided to dissolve the firm. At the time of dissolution, the firm had investments of Rs1,00,000 which were transferred to realisation account. The firm also had Investment fluctuation fund of Rs10,000. The partners have different opinions about the treatment of Investment Fluctuation Fund:
 - a. A wants it to be distributed in their profit - sharing ratio.
 - b. B is of the opinion that it should be transferred to the debit of realisation account.
 - c. C feels that it should be transferred to the credit side of the realisation account.

Who is correct and why?
26. A and B are partners in a firm sharing profits in the ratio of 3:2. Mrs A has given a loan of Rs20,000 to the firm and firm has also taken a loan of Rs10,000 from B. The firm was dissolved and its assets were realised for Rs25,000. State the order of payment of Mrs A' loan and B's loan with reason, if there were no other creditors of the firm.

SHORT ANSWER QUESTIONS:

(Questions carrying 3-4 marks)

27. Mention the reserves that are taken to realisation account with reason.
28. Discuss the provision of section 48 of Partnership act 1932.
29. Distinguish between dissolution of partnership and dissolution of partnership firm.
30. Distinguish between private debt and firm's debt.
31. List the situations in which the court may order to dissolve the partnership firm.

SHORT ANSWER QUESTIONS:

(Questions carrying 6 marks)

32. H and G were partners in a firm sharing profits in the ratio of 3:2. On 31st March 2018, their Balance Sheet was as follows:

Liabilities	amount	assets	Amount
Creditors	36,000	Bank	40,000
G's husband's loan	60,000	Debtors	76,000
H's loan	40,000	Stock	2,00,000

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Capitals		Furniture	20,000
G	2,00,000	Leasehold premises	1,00,000
H	1,00,000		
	4,36,000		4,36,000

On the above date the firm was dissolved. The various assets were realised and liabilities were settled as under:

1. G agreed to pay her husband's loan
2. Leasehold premises realised Rs1,50,000 and debtors Rs2000 less.
3. Half of the creditors agreed to accept furniture of the firm in full settlement of their claim and remaining half agreed to accept 5% less.
4. 50% Stock was taken by H on cash payment of Rs90,000 and remaining stock was sold for Rs94,000.
5. Realisation expenses of Rs10,000 were paid by G on behalf of the firm.

Pass necessary journal entries for the dissolution of the firm.

[realisation profit: 20,900; final payment to H Rs2,12,540 to G Rs1,78,360]

33. B, S and I were partners sharing profits in the ratio of 5:3:1. On 2-3-2018 their firm dissolved. The assets were realised and the liabilities were paid off. Given below are the realisation account, partners capital accounts and bank accounts. You are required to complete theses accounts by posting the correct amounts.

REALISATION A/C

Liabilities	amount	Assets	Amount
To Stock	10,000	By Provision for doubtful debts	5000
To Debtors	25,000	By Sundry creditors	16,600
To Plant and machinery	40,000	By Bills payable	3,400
To Bank:		By Mortgage loan	15,000
Sundry creditors	16,000	By Bank	
Bills payable	3,400	Stock	6,700
Mortgage loan	15,000	Debtors	12,500
To bank (Outstanding repairs)	4,00	Plant and machinery	36,000
To bank (Expenses)	620	Unrecorded assets	6,220
		By _____	_____
	1,10,420		1,10,420

PARTNERS CAPITAL ACCOUNT

Particulars	B	S	I	Particulars	B	S	I
To _____	_____	_____	_____	By bal c/d	22,000	18,000	10,000
To _____	_____	_____	_____	By general reserve	2,500	1500	500
	24,500	19,500	10,500		24,500	19,500	10,500

BANK A/C

Particulars	Amount	Particulars	Amount
To bal b/d	19,500	By realisation a/c (liabilities)	34,400
To realisation a/c (assets realised)	55,20	By realisation a/c (unrecorded liabilities)	400
		By _____	_____

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To _____	-----	By _____	_____
		By _____	_____
		By _____	_____
	80,920		80,920

[Ans: loss on realisation: 9,000; Capital a/c amount transfer to bank : B: Rs19,500; S : Rs16,500; I : Rs9,500.]

34. A and B are partners in a firm from 1-4-206 with capitals Rs60,000 and Rs40,000 respectively. They shared profits in the ratio of 3:2. They carried the business for two years. In the first year they made a profit of Rs50,000 but in the second year they incurred a loss of Rs20,000. The partners withdrew Rs8,000 per year for their personal expenses. The assets realised Rs1,00,000. The expenses on realisation were Rs3,000. Prepare realisation account and show your workings clearly.

[Ans: Loss on realisation: 21,000; Memorandum of balance sheet total: 1,18,000]

35. Pass necessary journal entries in the following cases: [realisation expenses]

- Dissolution/realisation expenses amounted to Rs20,000
- Realisation expenses RS10,000 were paid by Rohan, a partner.
- Realisation expenses paid by Ankit are Rs3600 and paid by Pawan are Rs2400. However these expenses are to be borne by the firm.
- Realisation expenses were Rs10,000. Out of the said amount , Rs4000 were to be borne by the firm and balance by Sohan, a partner. Expenses paid from firm's bank.
- Realisation expenses were Rs6,000; Rs5,000 were to be borne by the firm and balance by Seema, a partner. The expenses were paid by Seema.
- Realisation expenses were Rs7,000; Rs4000 were to be borne by the firm and balance by Rohan, a partner. Out of total realisation expenses, Rs5,000 were paid by firm and balance by Rohan.
- Hemant, partner was a allowed a commission of Rs6,000 to carry out dissolution work of the firm and bear all realisation expenses. Actual expenses paid by him amounted to Rs9,000.
- David , a partner is to bear all expoesnes of realisation for which he is allowed a commission of Rs6,000. Actual realisation expenses were Rs5,000 and were paid from firm's bank.
- Amit to bear all the expenses of realisation for which he is allowed a commission of Rs6,000. Actual realisation expenses were Rs9,000 and were paid by the firm.
- X, a partner agrees to do dissolution work for an agreed remuneration of Rs5,000 and firm was to bear realisation expenses which amounted to Rs8,000.
- Realisation expenses of Rs5,000 are to be borne by Seema , a partner. However such expenses were paid by Reena , another partner.

36. A and B were partners sharing profits in the ratio of 3:2. Show how will the following be treated at the time of dissolution of partnership firm? [workmen compensation fund]

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- a. Workmen compensation fund stood at Rs12,000 and liability for it was ascertained at Rs7,000.
 - b. Workmen compensation fund stood at Rs12,000 and liability in respect of it was ascertained at Rs15,000.
 - c. Workmen compensation fund stood at Rs12,000 and liability in respect of it was ascertained at Rs12,000.
 - d. There was no workmen compensation fund and firm had to pay Rs3,000 as compensation to the workers.
37. Pass necessary journal entries at the time of dissolution in following cases:
- a. A machinery not recorded in the books was taken over by Mohak at Rs20,000 whereas it is expected to realise Rs25,000.
 - b. An unrecorded Asset of Rs30,000 was used to pay off loan taken from Mohini, a partner.
 - c. Loan taken from Suman, a partner Rs10,000 was settled at Rs9,500.
 - d. A unrecorded liability of Rs5,000 is settled at Rs 8,000 and paid by X, a partner.
 - e. Firm had an unrecorded asset which was valued at Rs7,000 it was accepted by creditors of Rs8,000 in full settlement of their claim.
 - f. Firm had an unrecorded furniture of Rs10,000 and unrecorded liability of RS6,000. 60% of such furniture was given to settle the unrecorded liability and remaining furniture was sold at90%.
 - g. Creditors of Rs30,000 were due on an average basis, one month after dissolution of the firm. However, they were paid immediately at12% discount per annum.
 - h. Half of the creditors accepted Machinery of Rs40,000 at an agreed valuation of 10% less than the book value and cash of Rs3,000 in full settlement of their claims. Remaining creditors were paid out a discount of 10% (book value of creditors given in the balance sheet just before the dissolution is Rs1,00,000)
 - i. Bimal a partner is taken over some of the sundry assets at Rs7,200 (being 10% less than the book value) remining sundry assets are sold at 90% of the book value. [Book value of sundry assets given in the balance sheet just before dissolution is RS17,000.]
 - j. Investments were sold for Rs40,000 at a commission of 5%. [Book value of investment given in balance sheet just before dissolution RS25,000.]
 - k. 60% of stock was taken over by X a partner at an valuation of 70% and remining stock was sold at 90% less 10% selling commission. [Book value of stock given in the balance sheet just before dissolution is Rs50,000.]

LONG ANSWER QUESTIONS:

(Questions carrying 8 marks)

38. R , G and A were partners in a firm sharing profits in the ratio of 3:2:1. On 31st March 2018 their Balance Sheet was as follows:

liabilities	amount	Assets	Amount
Creditors	65,000	Cash	22,500
Bills payable	26,000	Debtors	52,300

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General reserve	20,000	Stock	36,000
Capitals		Investment	69,000
R	80,000	Plant	91,200
G	50,000		
A	30,000		
	2,71,000		2,71,000

On the above date the firm was dissolved:

1. R was appointed to realise all the assets. R was to receive commission of 5% of the value of assets realised (except cash) and was to bear all the realisation expenses.
2. Assets were realised as follows: Debtors Rs30,000; Stock Rs26,000; Plant Rs42,750.
3. Expenses on realisation amounted to Rs4,100.
4. Investment realised 85% Of the book value.
5. The firm retrenched their employees before the dissolution and the firm had to pay Rs7200 as compensation. This liability was not appearing in the above balance sheet.
6. Contingent liability in respect of bills discounted with the bank was also materialised and paid off Rs9,800.

Prepare realisation a/c, partners capital accounts and cash account.

[Ans: realisation loss: Rs1,15,970; Cash account total : 1,79,900]

39. A and B are partners sharing profits in the ratio of 3:2. On 31-3-2018 their Balance sheet stood as follows:

Liabilities	amount	Assets	Amount
Creditors	70,000	Investments	60,000
Mrs. A's loan	50,000	Furniture	50,000
Capitals		Machinery	1,50,000
A	2,00,000	Bank	70,000
B	1,00,000	Debtors	1,00,000
		Less prov. For doubtful debts	10,000
			90,000
	4,20,000		4,20,000

The firm dissolved on the above date and the assets and liabilities were settled as follows:

1. Debtors realised Rs95,000 and Machinery sold for Rs1,30,000
2. Half of the creditors accepted furniture a 25% less than the book value and cash of Rs10,000. Remaining creditors were paid out at a discount of 10%.
3. An unrecorded asset of Rs6900 was handed over to an unrecorded liability of Rs6,000 in full settlement.
4. A took over investment of the book value of Rs36,000 at a loss of 20%.
5. He also agreed to pay off his wife's loan.
6. Remaining investments were sold at a profit of Rs5,000.
7. A liability in respect of workmen compensation is ascertained at Rs10,000.

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8. Realisation expenses of Rs5,000 were paid by B Rs5,000 on behalf of the firm.

Prepare realisation account, partners capital account and Bank account to close the books of the firm.

[Ans: Realisation loss: 53,700; Bank account total: 3,24,000]

40. X and Y are partners sharing profits in the ratio of 3:2. On 31-12-2018 their Balance Sheet was as follows:

Liabilities	amount	Assets	Amount
Creditors	90,000	Stock	50,000
Bank loan	40,000	Land and building	1,80,000
Workmen compensation fund	10,000	Plant and machinery	40,000
General reserve	30,000	Debtors	50,000
Capitals:		Less provision for bad debts	5,000
X	70,000	Bank	45,000
Y	1,20,000		
	3,60,000		3,60,000

The firm was dissolved and the assets and liabilities were settled as follows:

1. Land and building were sold for Rs1,50,000 and plant and machinery was sold for Rs35,000.
2. 60% of the creditors were paid Rs5,000 less in full settlement and the remaining were paid in full.
3. Y took over some of the stock at Rs36,000 (being 10% less than the book value). Balance stock realised 40%.
4. 70% of the debtors realised at 80% and the remaining were sold to a debt collecting agency for 90% less 5% commission.
5. A liability in respect of workmen compensation is ascertained at Rs7,000.
6. Realisation expenses were Rs3,000.

Prepare Realisation account, partners capital account and Bank account to close the books of the firm.

[Ans: Realisation loss : Rs47,175 Bank account total: 2,74,825]

41. R and S were partners sharing profits and losses equally. On 31st March 2018 their Balance Sheet was as follows:

Liabilities	amount	Assets	Amount
Creditors	1,00,000	Investments	90,000
Bank loan	50,000	Stock	60,000
Employees provident fund	30,000	Machinery	1,10,000
Investment fluctuation fund	10,000	Land and Buildings	40,000
Capitals		Debtors	80,000
R	1,10,000	Less prov. For bad debts	2,000
			78,000

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S	90,000	Bank	12,000
	3,90,000		3,90,000

The firm was dissolved on the above date and the following settled:

1. Stock was sold at 25% less than the book value and machinery realised 20% more than the book value.
 2. Debtors of Rs10,000 proved bad and rest paid the amount due.
 3. A typewriter which was fully depreciated is now valued at Rs3,000 and it is taken over by R at this value.
 4. S took over 40% of investments at 15% discount and remaining investments were handed over to a creditor of Rs60,000. The balance payment to creditor was made in cash.
 5. R was appointed to realise the assets and pay off liabilities for which he was to be paid a commission of Rs2,500.
 6. Land and Buildings were valued at Rs70,000, bank took it to settle off the loan of Rs50,000 and paid the balance amount of Rs20,000 to the firm.
- Prepare realisation account, partners capital account and bank account to close the books of accounts.

[Ans: Profit on realisation : Rs40,100; bank total: 2,79,000]

42. A and B entered into partnership on 1.1.2018 sharing profits in the ratio of 3:2. Their capitals were Rs 50,000 and Rs 30,000 respectively. They decided to dissolve the firm on 31.12.2018 on which date their position was:

Bank Rs 5,000; Debtors Rs 20,000; B/R Rs 8,000; stock Rs 25,000; furniture Rs 5,000; plant Rs 27,000; creditors Rs 25,000 and B/P Rs 6,000.

A took over stock at 10% discount and took over creditors. B took over debtors amounting to Rs 15,000 for Rs 13,000 and remaining debtors realised below 10%. B/P were due after 2 months and B/R after 3 months so B/P were paid and B/R realised at a rebate of 12 p.a. Plant realised Rs 20,000 and furniture Rs 4,500. Partners also agreed to allow interest on Capital@ 10% p.a.

Prepare necessary accounts to close the books of accounts.

[Ans: Memorandum B/S : Profit and loss (asset side) balancing figure: Rs21,000; Realisation loss: Rs12,620; bank a/c: Rs41,760]

FILL IN THE BLANKS QUESTIONS

1. Asha and Neha are partners sharing profit and loss in the ratio 4:3. They decided to dissolved their firm as on 31st March, 2018. From the missing information given below, complete realisation a/c, partners capital a/c and bank a/c. [6]

Realisation A/c

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particular	Rs	Particulars	Rs
To Assets		By Creditors	40000
Machinery	560000	By Asha's Husband	
Stock	90000	loan	25000
Debtors	55000	By Bank :	
To Bank (Creditors)	-----	Machinery	480000
To Asha's Capital A/c		Debtors	10000
Husband's loan	34000	By Asha's capital A/c	490000
To Neha's Capital A/c		Stock	128000
Realisation expenses	7000	Typewriter	70000
To profit transferred to		By Neha's Capital A/c	198000
Asha's Capital 4000		Debtors	40000
Neha's Capital 3000	7000		
	793000		793000

Partners Capital Account

Particulars	Asha	Neha	Particulars	Asha	Neha
To Realisation A/c	-----	-----	By-----	-----	-----
			By-----	-----	-----
Bank A/c	400000	450000	By-----	-----	-----
Total	-----	-----		-----	-----

Bank Account

Particulars	Rs.	Particulars	Rs.
To Bal. b/d	-----	By Realisation A/c	-----
To Realisation A/c	490000	By Asha' loan A/c	4000
		By Asha;s Capital A/c	400000
		By Neha's Capital A/c	-----
Total	-----	Total	-----

Q15. Priya and Riya were partners in a firm sharing profits equally. In spite of repeated reminders by the authorities they kept evading taxes. The court ordered dissolution of their partnership firm on 31st March, 2018. Priya was deputed the assets and to pay the liabilities. She was paid Rs 1,000 as commission for her services. They were having Rs 8,000 in Profit and Loss A/c on the date of dissolution. From the information given below complete Realisation A/c, Partners' Capital A/c and Cash A/c.

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Realisation A/c

Particulars	Rs	Particulars	Rs
To Building	-----	By Prov. for Doubtful Debts	4,000

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To Investments	28,600	By Creditors	80,000
To Debtors	24,000	By Mr. Priya's Loan	40,000
To Bills Receivable	17,400	By Investment Fluctuation Fund	8,000
To Goodwill	20,000	By Cash A/c (Assets realised)	
To Priya's Capital (Wife's Loan)	-----	Debtors	24,000
To Cash A/c:		Building	-----
Creditors	-----	Bills Receivable	<u>36,000</u>
Realisation Expenses	<u>2,500</u>	By Riya's Capital A/c	2,12,000
To Priya's Capital A/c (Commission)	-----	(Investments)	27,000
To Profit transferred to :	-----		
Priya's Capital A/c	-----		
Riya's Capital A/c	-----		

	3,71,000		3,71,000

Partner's Capital A/cs

Particulars	Priya	Riya	Particulars	Priya	Riya
To Realisation A/c		----	By Balance b/d	40,000	42,000
To cash A/c	-----	----	By Realisation A/c (Profit)	-----	-----
			By Realisation A/c	-----	
			By Realisation A/c	-----	
			By Profit & Loss A/c	-----	-----
	-----	-----		-----	-----

Cash A/c

Particulars	Rs	Particulars	Rs
To Balance b/d	6,000	By Riya's Loan A/c	24,000
To Realisation A/c	-----	By Realisation A/c (Cr. & Exp)	
		By Priya's Capital A/c	-----
		By Riya's Capital A/c	-----

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