**Following are the ways in which dissolution of a partnership firm takes place:**

**1. Dissolution by Agreement**

A firm may be dissolved if all the partners agree to the dissolution. Also, if there exists a [contract](https://www.toppr.com/guides/business-laws/indian-contract-act-1872-part-i/what-is-a-contract/) between the partners regarding the dissolution, the dissolution may take place in accordance with it.

**2. Compulsory Dissolution**

**In the following cases the dissolution of a firm takes place compulsorily:**

* Insolvency of all the partners or all but one partner as this makes them incompetent to enter into a contract.
* When the [business](https://www.toppr.com/guides/business-studies/nature-and-purpose-of-business/concept-and-characteristics-of-business/) of the firm becomes illegal due to some reason.
* When due to some event it becomes unlawful for the partnership firm to carry its business. For example, a partnership firm has a partner who is of another country and [India](https://www.toppr.com/guides/general-knowledge/overview-of-india/india-an-overview/) declares war against that country, then he becomes an enemy. Thus, the business becomes unlawful.

**3. When certain contingencies happen**

**The dissolution of the firm takes place subject to a contract among the partners, if:**

* The firm is formed for a fixed term, on the expiry of that term.
* The firm is formed to carry out specific venture, on the completion of that venture.
* A partner dies.
* A partner becomes insolvent.

**4. Dissolution by Notice**

When the partnership is at will, the dissolution of a firm may take place if any one of the partners gives a [notice](https://www.toppr.com/guides/english/writing/notice/) in writing to the other partners stating his intention to dissolve the firm.

**5. Dissolution by Court**

When a partner files a suit in the court, the court may order the dissolution of the firm on the basis of the following grounds:

* In the case where a partner becomes insane
* In the case where a partner becomes permanently incapable of performing his duties.
* When a partner becomes guilty of misconduct and it affects the firm’s business adversely.
* When a partner continuously commits a breach of the partnership agreement.
* In a case where a partner transfers the whole of his interest in the partnership firm to a third party.
* In a case where the business cannot be carried on except at a [loss](https://www.toppr.com/guides/maths/compairing-quantities/profit-and-loss/)
* When the court regards the dissolution of the firm to be just and equitable on any ground.

**Difference between the Dissolution of Partnership and Dissolution of Firm**

|  |  |  |
| --- | --- | --- |
| **Basis** | **Dissolution of Partnership** | **Dissolution of Firm** |
| 1. Closure of business | The business of the firm continues there is no closure. | The business of the firm gets discontinued. |
| 2. Settling of assets and liabilities | There is a revaluation of assets and liabilities. Hence, they are shown at revalued figures in the Balance Sheet. | The liabilities are paid-off and assets are realized. |
| 3. Intervention by court | In this case, there is no intervention by the court as the dissolution of partnership takes place by the mutual consent of all the partners. | The court may or may not intervene in this case. |
| 4. Relationship | The relationship between the partners continues to exist though it may change its form. | The relationship between the partners ceases to exist. |
| 5. The closing of Books of [accounts](https://www.toppr.com/guides/fundamentals-of-accounting/accounting-process/types-of-accounts/) | There is no closure of books as the business continues. | The books need closure as the business ceases to continue. |

**Settlement of accounts on Dissolution:**

Section 48,49and55 of the partnership act specify the mode of settlement of accounts on the dissolution of a partnership firm. These are as  follows:

**1.**The amount of loss including the deficiency of capital shall be paid out of profit, next out of capital.

**2.**Amount realised from the sale of the assets of the firm ,shall be applied in the following manner:

        Outside debts of firm will be paid ,first of all

        Out of the remaining amount, the loans advanced by partners will be paid off.

        Thereafter the  balance of partners capital accounts will be returned .

        If some amount remains , it will be divided among the partners in their profit sharing ratio.

**\*Payment of firm debts and separate debts:**

                                                           The amount realised from the sale of private property of partners will be used first to pay the private debts of the partners  and if there is any surplus available . it will be used in paying off the firms liabilities.

**\*Accounting  procedure on Dissolution of firm:**

  The following accounts are opened in the order to close the books.

1.      realisation account

2.      partner’s loan account

3.      partner’s capital account

4.      cash or bank account

**1 Realisation account:-**This account is opened for disposing of all the assets of the firms and making payment to all the creditors. It is nominal account.

         For closing assets accounts:-

Realisation  a/c     Dr.

     To assets a/c (except cash and bank balance)

                      (Assets transferred to realisation a/c at book values)

   Fictitious assets are transferred to the partner’s capital accounts. Such as accumulated losses:

Partner’s capital a/c       Dr.

       To profit & loss a/c

       To  Deferred Revenue expenditure a/c

   If there exists a Provision against any assets. The assets should be transferred to Realisation account.

1.      Realisation  a/c                             Dr

          To Debtors a/c

2. Provision for  Doubtful Debts a/c   Dr.

              To Realisation  a/c

**Following entry is passed for the transfer of such provisions:**

Provision for bad debts a/c                            Dr.

Provision for Depreciation a/c                       Dr.

Machinery Replacement Reserve  a/c            Dr.

Investment fluctuation fund a/c                     Dr.

 Joint life policy reserve  a/c                          Dr.

                       To Realisation  a/c

**For closing Liabilities account:-**

           Liabilities a/c                      Dr.

               To Realisation a/c

Following  points should be kept in mind :-

   Only those liabilities related  to third parties are transferred to Realisation account

   Partner’s loan account are not transferred to realisation account.

  Entry for transfer of undistributed profits and reserves

 General reserve a/c                                           Dr.

                       Reserve fund    a/c                                          Dr.

                       Contingency  Reserve a/c                                Dr.

                        Profit &  loss  a/c                                             Dr.

                        Workmen compensation  reserve a/c               Dr.

                                       To Partner’s capital a/c

                      (undistributed profits transferred to capital a/cs)

**Entries for realisation of assets:**

        When assets are sold for cash

Cash / bank a/c                   Dr.

          To  Realisation a/c

        When assets is taken away by one of the partners:

Partner’s capital a/c        Dr.

          To realisation  a/c

        No entry is passed  for the transfer of assets to the creditor.

**Entries of payment of Liabilities :**

        When liabilities are paid in cash :

Realisation a/c              Dr.

      To cash  / bank  a/c

        When any partner agrees to take over some liabilities :

Realisation a/c          Dr.

       To partner’s capital a/c

**For payment of realisation expenses:**

         When expenses are paid in cash:

  Realisation a/c            Dr.

         To cash / bank a/c

         When expenses of realisation are paid by a partner :

Realisation a/c        Dr.

    To partner’s capital a/c

**For closing realisation account :**

         When realisation  account discloses profit :

       Realisation a/c         Dr.

               To partner’s capital a/c

         When realisation account  discloses loss:

Partner’s capital a/c   Dr.

      To realisation a/c

**Format of Realisation account:**

|  |  |  |  |
| --- | --- | --- | --- |
| **Particulars** | **Amount** | **Particular** | **Amount** |
| To All Assets [excluding cash / bank balance , fictitious assets, debit balance of P & L account, debit balance of Partner’s capital / current account, Loan to partner]  To Bank / Cash  a/c  [Amount paid for discharging liability ]  To Bank / Cash a/c  [Amount paid for unrecorded liabilities]  To Partner’s capital a/c  [Liability taken over by a partner or any expenses paid by him or remuneration / commission payable to him]  To Partner’s capital a/c  [for transferring profit on realisation] |  | By All Liabilities [excluding credit balance of profit and loss a/c ,reserve, Partner ‘s capital /current accounts, Loan from Partners]  By Provision on any assets  By bank / cash a/c  [Amount received on realisation of assets]  By Partner’s capital a/c  [Assets taken over by a partner ]  By Partner’s capital a/c  [for transferring loss on realisation] |  |

\***Difference between  Revalution account and Realisation Account:**

|  |  |  |
| --- | --- | --- |
| **s.no.** | **Revalution account** | **Realisation account** |
| **1.** | It is prepared on the admission , retirement or death of a partner. | it is prepared on the Dissolution of partnership firm. |
| **2.** | To record necessary adjustments in the value of assets and liabilities . | It is prepared to find out profit or loss on the sale of assets and repayment of liabilities. |
| **3.** | The firm continues to function though with a changed relationship among the partners. | The firm comes to an end after preparation of this account. |
| **4.** | Difference between the book value and revised values of assets and liabilities is recorded is this account. | The realised value of assets and the actual payment of liabilities is recorded in this account. |
| **5.** | It is prepared many times during the life time of a firm. | It is prepared only once during the life time of a firm. |

**\*Partner’s Loan account:**Partners loan will be paid off after the outside liabilities   are paid in full.

Partner’s    loan a/c      Dr.

             To cash / bank

**\*Partner’s capital account:**After the transfer of profit or loss on realisation , undistributed profits , reserve etc. to the  capital account of partner’s the balance of capital accounts are closed.

         When a partner is required to clear off his Debit balance:-

           Cash / bank a/c        Dr.

                To Partner’s capitals a/c

         When a partner is paid the credit balance of  his account:-

              Partner’s capital a/c     Dr.

                  To  cash / bank a/c

**\*Cash or bank account:**Opening balance of cash and bank account and all the receipts are entered on the debit side of this account and all the payments are entered on the credit side of this account. Total of the both side must be equal.

**\*Treatment of Goodwill:**

         If goodwill already appearing in the balance sheet .

               Realisation  a/c       Dr.

                   To Goodwill a/c

         If goodwill is not appearing in balance sheet , the above mentioned entry will not be passed .

         When some amount is realised for goodwill

           Cash / Bank a/c           Dr.

                    To Realisation a/c

* If goodwill is taken over by any of the partners.

       Partner’s capital a/c       Dr.

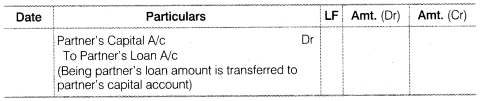
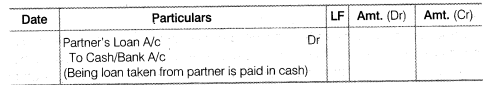
              To Realisation a/c

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.

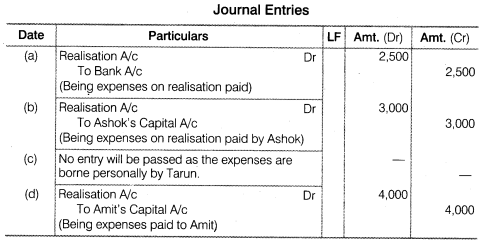
1.When a person is unable to contribute fully or partially to discharge his/her liabilities out of his/her private assets, then that person is regarded as **an insolvent**. Thus, in the following two situations, a partner is declared as insolvent:  
a. When his/her personal assets are insufficient  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

2. 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.

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

**3. On dissolution, how will you deal with partner’s loan if it appears on the**  
**(a) assets side of the balance sheet,**  
**(b) liabilities side of balance sheet.**  
**Answer (a)** When loan amount is shown in the assets side of the balance sheet, it indicate that the loan has been granted by the firm to the partner. In that case, at the time of dissolution the amount of loan will be transferred to the concerned partner’s capital account. The following Journal Entry will be passed  
  
**(b)** When the amount of loan appears in the liabilities side of the balance sheet, it indicate that the respective partner or partners have given loan to the firm. In this case, partner’s loan will be paid off after paying all the external liabilities first. Here, it is worth mentioning that the partner’s loan will not be transferred to the realisation account, in fact, it will be paid in cash. The following accounting entry will be passed in this regard  


**1. Journalise the following transactions regarding realisation expenses :**  
**[a] Realisation expenses amounted to Rs.2,500.**  
**[b] Realisation expenses amounting to Rs.3,000 were paid by Ashok, one of the partners.**  
**[c] Realisation expenses Rs.2,300 borne by Tarun, personally.**  
**[d] Amit, a partner was appointed to realise the assets, at a cost of Rs.4,000. The actual amount of realisation amounted to Rs.3,000.**



Record necessary journal entries in the following cases:

[a] Creditors worth Rs 85,000 accepted Rs 40,000 as cash and Investment worth Rs 43,000, in full settlement of their claim.

[b] Creditors were Rs 16,000. They accepted Machinery valued at Rs 18,000 in settlement of their claim.

[c] Creditors were Rs 90,000. They accepted Buildings valued Rs 1,20,000 and paid cash to the firm Rs 30,000.

**ANSWER:**

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| **Journal** | | | | | | |  |
|  | **Particulars** | | | **L.F.** | **Amount**  **Rs** | **Amount**  **Rs** | |
| (a) | Realisation A/c | | Dr. |  | 40,000 |  | |
|  | To Cash A/c | |  |  |  | 40,000 | |
|  | (Creditors worth Rs 85,000 accepted 40,000 as cash and investment worth Rs 43,000 in their full settlement) | | |  |  |  | |
|  |  |  |  |  |  |  | |
| (b) | No Entry | |  |  |  |  | |
|  | (Creditors Rs 16,000 accepted Machinery Rs 18,000 in the full  settlement. No entry is required since both asset and liability are  already transferred to the Realisation Account) | | |  |  |  | |
|  |  |  |  |  |  |  | |
| (c) | Cash A/c | | Dr. |  | 30,000 |  | |
|  | To Realisation A/c | |  |  |  | 30,000 | |
|  | (Creditors worth Rs 90,000 accepted buildings worth Rs 1,20,000 and  returned Rs 30,000 as cash after settlement of claim to the firm) | | |  |  |  | |
|  |  | | |  |  |  | |
|  |  |  |  |  |  |  |  |

What journal entries will be recorded for the following transactions on the dissolution of a firm:

[a] Payment of unrecorded liabilities of Rs 3,200.

[b] Stock worth Rs 7,500 is taken by a partner Rohit.

[c] Profit on Realisation amounting to Rs 18,000 is to be distributed between the partners Ashish and Tarun in the ratio of 5:7.

[d] An unrecorded asset realised Rs 5,500.

**ANSWER:**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Journal** | | | | | | |
|  | **Particulars** | | | **L.F.** | **Amount**  **Rs** | **Amount**  **Rs** |
| (a) | Realisation A/c | | Dr. |  | 3,200 |  |
|  | To Bank A/c | |  |  |  | 3,200 |
|  | (Unrecorded liabilities paid) | | |  |  |  |
|  |  |  |  |  |  |  |
| (b) | (Rohit’s Capital A/c | | Dr. |  | 7,500 |  |
|  | To Realisation A/c | |  |  |  | 7,500 |
|  | (Stock is taken over by Rohit) | | |  |  |  |
|  |  |  |  |  |  |  |
| (c) | Realisation A/c | | Dr. |  | 18,000 |  |
|  | To Ashish’s Capital A/c | |  |  |  | 7,500 |
|  | To Tarun’s Capital A/c | |  |  |  | 10,500 |
|  | (Profit on Realisation is transferred to Partners’ Capital Account) | | |  |  |  |
|  |  |  |  |  |  |  |
| (d) | Bank A/c | | Dr. |  | 5,500 |  |
|  | To Realisation A/c | |  |  |  | 5,500 |
|  | (Unrecorded asset sold) | |  |  |  |  |
|  |  | |  |  |  |  |

**Page No 253:**

**Question 5:**

Give journal entries for the following transactions:

1. To record the Realisation of various assets and liabilities,

2. A Firm has a Stock of Rs 1,60,000. Aziz, a partner took over 50% of the Stock at a discount of 20%,

Azizs capital dr. 64000

To realisation 64000

160000\*20/100=32000,,,,

128000\*50/100=

3. Remaining Stock was sold at a profit of 30% on cost,

80000\*130/100=104000

Cash a/c Dr. 104000

To realisation 104000

[for sale of stock]

4. Land and Buildging (book value Rs 1,60,000) sold for Rs 3,00,000 through a broker who charged 2%, commission on the deal,

Cash a/c Dr. 294000

To [realisation] land and building 294000

[land and building sold]

5. Plant and Machinery (book value Rs 60,000) was handed over to a Creditor at an agreed valuation of 10% *less*than the book value,

6. Investment whose face value was Rs 4,000 was realised at 50%.

Cash/bank a/c Dr. 2000

To realisation[investment] 2000

|  |  |  |  |
| --- | --- | --- | --- |
|  |  |  |  |
|  | Realisation a/c Dr.  To Asset  [being transfer of assets in to realisation ]  Liabilities A/c Dr.  To reaslisation |  |  |

**ANSWER:**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Journal** | | | | | | |
|  | **Particulars** | | | **L.F.** | **Amount**  **Rs** | **Amount**  **Rs** |
| 1) |  | |  |  |  |  |
| (a) | For Transfer of Assets | |  |  |  |  |
|  | Realisation A/c | | Dr. |  | - |  |
|  | To Assets A/c (Individually) | |  |  |  | - |
|  | (Assets transferred to Realisation Account) | | |  |  |  |
|  |  |  |  |  |  |  |
| (b) | For Transfer of Liabilities | |  |  |  |  |
|  | Liabilities A/c (Individually) | | Dr. |  | - |  |
|  | To Realisation A/c | |  |  |  | - |
|  | (Liabilities transferred to Realisation Account) | | |  |  |  |
|  |  |  |  |  |  |  |
| (c) | For sale of Asset | |  |  |  |  |
|  | Cash/Bank A/c | | Dr. |  | - |  |
|  | To Realisation A/c | |  |  |  | - |
|  | (Assets sold) | |  |  |  |  |
|  |  | |  |  |  |  |
| (d) | For liabilitiy paid | |  |  |  |  |
|  | Realisation A/c | | Dr. |  | - |  |
|  | To Cash/Bank A/c | |  |  |  | - |
|  | (Liabilities paid) | |  |  |  |  |
|  |  | |  |  |  |  |
| 2) | Aziz’s Capital A/c | | Dr. |  | 64,000 |  |
|  | To Realisation A/c | |  |  |  | 64,000 |
|  | (Aziz, a partner took over 50% of stock at 20% discount, the value  of the total stock  was Rs 1,60,000)  [1,60,000 × (50/100) × (80/100) = Rs 64,000] | | |  |  |  |
|  |  | |  |  |  |  |
| 3) | Bank A/c | | Dr. |  | 1,04,000 |  |
|  | To Realisation A/c | |  |  |  | 1,04,000 |
|  | (Stock worth Rs 80,000  sold at a profit of 30% on cost)  [80,000 × (130/100 = Rs 1,04,000)] | | |  |  |  |
|  |  | |  |  |  |  |
| 4) | Bank A/c | | Dr. |  | 2,94,000 |  |
|  | To Realisation A/c | |  |  |  | 2,94,000 |
|  | (Land and Building sold for Rs 3,00,000 and 2% commission  paid to the broker) | | |  |  |  |
|  |  | |  |  |  |  |
| 5) | No entry | |  |  |  |  |
|  | (Plant and Machinery Rs 60,000 handed over to the creditors at a  discount of 10%.  No entry is required as both the asset and liability  are already transferred to the Realisation Account) | | |  |  |  |
|  |  | |  |  |  |  |
| 6) | Bank A/c | | Dr. |  | 2,000 |  |
|  | To Realisation A/c | |  |  |  | 2,000 |
|  | (Investments worth Rs 4,000 were realised at 50%) | | |  |  |  |
|  |  | | |  |  |  |

**NOTE**: In this chapter, it has been assumed that all receiving and payments are made through bank.

 How will you deal with the Realisation expenses of the firm of Rashim and Bindiya in the following cases:

1. Realisation expenses amounts to Rs 1,00,000,

2. Realisation expenses amounting to Rs 30,000 are paid by Rashim, a partner.

3. Realisation expenses are to be borne by Rashim for which he will be paid Rs 70,000 as remuneration for completing the dissolution process. The actual expenses incurred by Rashim were Rs 1,20,000.

**ANSWER:**

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| **Books of Rashim and Bindiya**    **Journal** | | | | | | |  |
|  | **Particulars** | | | **L.F.** | **Amount**  **Rs** | **Amount**  **Rs** | |
| 1) | Realisation A/c | | Dr. |  | 1,00,000 |  | |
|  | To Bank A/c | |  |  |  | 1,00,000 | |
|  | (Realisation expenses paid) | | |  |  |  | |
|  |  |  |  |  |  |  | |
| 2) | Realisation A/c | | Dr. |  | 30,000 |  | |
|  | To Rashim’s Capital A/c | |  |  |  | 30,000 | |
|  | (Realisation expenses borne by Rashim) | | |  |  |  | |
|  |  |  |  |  |  |  | |
| 3) | Realisation A/c | | Dr. |  | 70,000 |  | |
|  | To Rashim’s Capital A/c | |  |  |  | 70,000 | |
|  | (Realisation expenses borne by Rashim and remuneration to him  for dissolution Rs 70,000) | | |  |  |  | |
|  |  | | |  |  |  | |
|  |  |  |  |  |  |  |  |

**Page No 254:**

**Question 7:**

The book value of assets (other than cash and bank) transferred to Realisation Account is Rs 1,00,000.

Realisation a/c Dr. 100000

To Assets 100000

50% of the assets are taken over by a partner Atul, at a discount of 20%;

Atul partners capital a/c Dr. 40000

To realisation 40000

[atul a partner taken over an asset]

40% of the remaining assets are sold at a profit of 30% on cost;

Cash a/c Dr. 26000

To realisation 26000

[40% of asstets realised]

[50000\*40/100=20000

20000\*130/100=26000]

5% of the balance being obsolete, realised nothing and remaining assets are handed over to a Creditor, in full settlement of his claim.

No journal entry

You are required to record the journal entries for Realisation of assets.

**ANSWER:**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Journal** | | | | | |  |
| **Particulars** | | | **L.F.** | **Amount**  **Rs** | **Amount**  **Rs** | |
| Realisation A/c | | Dr. |  | 1,00,000 |  | |
| To Sundry Assets A/c | |  |  |  | 1,00,000 | |
| (Assets other than cash and bank transferred to Realisation Account) | | |  |  |  | |
|  |  |  |  |  |  | |
| Atul’s Capital A/c | | Dr. |  | 40,000 |  | |
| To Realisation A/c | |  |  |  | 40,000 | |
| (Atul took over 50% of assets worth Rs 1,00,000 at 20% discount)  [1,00,000 × (50/100) × (80/100)] | | |  |  |  | |
|  |  |  |  |  |  | |
| Bank A/c | | Dr. |  | 26,000 |  | |
| To Realisation A/c | |  |  |  | 26,000 | |
| (Assets worth Rs 20,000, i.e. 40% of assets of Rs 50,000 are sold  at a profit of 30%) [50,000 × (40/100) × (130/100)] | | |  |  |  | |
|  | |  |  |  |  | |
| No entry is made for obsolescence of the assets and the assets given  to the creditors in the full settlement as these are already transferred to  the Realisation Account and adjusted) | | |  |  |  | |
|  | |  |  |  |  | |
|  |  |  |  |  |  |  |

**Page No 254:**

**Question 8:**

Record necessary journal entries to record the following unrecorded assets and liabilities in the books of Paras and Priya:

1. There was an old furniture in the firm which had been written-off completely in the books. This was sold for Rs 3,000,

2. Ashish, an old customer whose Account for Rs 1,000 was written-off as bad in the previous year, paid 60%, of the amount,

3. Paras agreed to take over the firm’s goodwill (not recorded in the books of the firm), at a valuation of Rs 30,000,

4. There was an old typewriter which had been written-off completely from the books. It was estimated to realize Rs 400. It was taken away by Priya at an estimated price less 25%,

5. There were 100 shares of Rs 10 each in Star Limited acquired at a cost of Rs 2,000 which had been written-off completely from the books. These shares are valued @ Rs 6 each and divided among the partners in their profit sharing ratio.

**ANSWER:**

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| **Books of Paras and Priya**    **Journal** | | | | | | |  |
|  | **Particulars** | | | **L.F.** | **Amount**  **Rs** | **Amount**  **Rs** | |
| 1) | Bank A/c | | Dr. |  | 3,000 |  | |
|  | To Realisation A/c | |  |  |  | 3,000 | |
|  | (Unrecorded furniture sold) | | |  |  |  | |
|  |  |  |  |  |  |  | |
| 2) | Bank A/c | | Dr. |  | 600 |  | |
|  | To Realisation A/c | |  |  |  | 600 | |
|  | (Bad Debt recovered which was previously written off as bad) | | |  |  |  | |
|  |  |  |  |  |  |  | |
| 3) | Paras’s Capital A/c | | Dr. |  | 30,000 |  | |
|  | To Realisation A/c | |  |  |  | 30,000 | |
|  | (Unrecorded goodwill taken over by Paras) | | |  |  |  | |
|  |  | |  |  |  |  | |
| 4) | Priya’s Capital A/c | | Dr. |  | 300 |  | |
|  | To Realisation A/c | |  |  |  | 300 | |
|  | (Unrecorded Typewriter estimated Rs 400 taken over by Priya at  25% less price) | | |  |  |  | |
|  |  | |  |  |  |  | |
| 5) | Paras’s Capital A/c | | Dr. |  | 300 |  | |
|  | Priya’s Capital A/c | | Dr. |  | 300 |  | |
|  | To Realisation A/c | |  |  |  | 600 | |
|  | (100 shares of Rs 10 each  which were not recorded in the books  taken @ Rs 6 each by Paras and Priya and divided between them in  their profit sharing ratio) | | |  |  |  | |
|  |  | | |  |  |  | |
|  |  |  |  |  |  |  |  |

**• Tick  the correct answer**  
**Question 1. On dissolution of a firm, bank overdraft is transferred to**  
**(a) cash account (b) bank account**  
**(c) realisation account (d) partner’s capital account**

**Answer** (c) Realisation account

**Question 2. On dissolution of a firm, partner’s loan account is transferred to**  
**(a) realisation account (b) partner’s capital account (c) partner’s current account (d) None of these**  
**Answer** (d) None of these

**Question 3. After transferring liabilities like creditors and bills payables in the realisation account, in the absence of any information regarding then payment, such liabilities are treated as**  
**(a) never paid (b) fully paid (c) partly paid (d) None of these**  
**Answer** (b) Fully paid

**Question 5. Unrecorded assets when taken over by a partner are shown in**  
**(a) debit of realisation account**  
**(b) debit of bank account**  
**(c) credit of realisation account**  
**(d) dredit of bank account**  
**Answer** (c) Credit of realisation account

**Question 6. Unrecorded liabilities when paid are shown in**  
**(a) debit of realisation account**  
**(b) debit of bank account**  
**(c) credit of realisation account**  
**(d) credit of bank account**  
**Answer** (a) Debit of realisation account

**Question 7. The accumulated profits reserves are transferred to**  
**(a) realisation account (b) partners’ capital account**  
**(c) bank account (d) None of these**  
**Answer** (b) Partners’ capital account

**Question 8. On dissolution of the firm, partner’s capital accounts are closed through**  
**(a) realisation account (b) drawings account**  
**(c) bank account (d) loan account**  
**Answer** (c) Bank account

**TEST YOUR UNDERSTANDING – III**

**• Fill in the correct word(s)**  
**1**. All assets (except cash/bank and fictitious assets) are transferred to the ————— (Debit/Credit) side of ——————— Account (Realisation/Capital).  
**Answer:Answer Debit, Realisation**

**3**. Accumulated losses are transferred to ————— (Current/Capital Accounts) in —————— (equal ratio/profit sharing ratio).  
**Answer Capital account, Profit sharing ratio**

**4**. If a liability is assumed by a partner, such Partner’s Capital Account is ––––––– ——— (debited/credited)..  
**Answer Credited**

**5**. If a partner takes over an asset, such (Partner’s Capital Account) is ———————— (debited/credited).  
**Answer Debited**

**6**. No entry is required when a ——————— (partner/creditor) accepts a fixed asset in payment of his dues.

**7**. When creditor accepts an asset whose value is more than the amount due to him, he will ———————— (pay/not pay) the excess amount which will be credited ———————— Account.  
**Answer Pay, Realisation**

**8**. When the firm has agreed to pay the partner a fixed amount for realisation work irrespective of the actual amount spent, such fixed amount is debited to (Realisation/Capital) Account and Credited to (Capital/Bank) Account.  
**Answer Realisation, Capital**

**9**. Partner’s loan is —————— (recorded/not recorded) in the (Realisation Account).  
**Answer Not recorded**

**10**. Partner’s current accounts are transferred to respective ———————— Partners’ (Loan/Capital) Accounts.  
**Answer Capital**

**5. Give journal entries for the following transactions:**

**1. To record the Realisation of various liabilities and assets,**

**2. A Firm has a Stock of ₹ 1, 60,000. Aziz, a partner took over 50% of the Stock at a discount of 20%,**

**3. Remaining Stock was sold at a profit of 30% on cost,**

**4. Land and Building (book value ₹ 1,60,000) sold for ₹ 3,00,000 through a broker who charged 2%, commission on the deal,**

**5. Plant and Machinery (book value ₹ 60,000) was handed over to a Creditor at an agreed valuation of 10% *less*than the book value,**

**6. Investment whose face value was ₹ 4,000 was realised at 50%.**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Journal** | | | | | | |
|  | **Particulars** | | | **L.F.** | **Amount**  **₹** | **Amount**  **₹** |
| 1) |  | |  |  |  |  |
| (a) | For Transfer of Assets | |  |  |  |  |
|  | Realisation A/c | | Dr. |  | – |  |
|  | To Assets A/c (Individually) | |  |  |  | – |
|  | (Assets transferred to Realisation Account) | | |  |  |  |
|  |  |  |  |  |  |  |
| (b) | For Transfer of Liabilities | |  |  |  |  |
|  | Liabilities A/c (Individually) | | Dr. |  | – |  |
|  | To Realisation A/c | |  |  |  | – |
|  | (Liabilities transferred to Realisation Account) | | |  |  |  |
|  |  |  |  |  |  |  |
| (c) | For sale of Asset | |  |  |  |  |
|  | Cash/Bank A/c | | Dr. |  | – |  |
|  | To Realisation A/c | |  |  |  | – |
|  | (Assets sold) | |  |  |  |  |
|  |  | |  |  |  |  |
| (d) | For liabilitiy paid | |  |  |  |  |
|  | Realisation A/c | | Dr. |  | – |  |
|  | To Cash/Bank A/c | |  |  |  | – |
|  | (Liabilities paid) | |  |  |  |  |
|  |  | |  |  |  |  |
| 2) | Aziz’s Capital A/c | | Dr. |  | 64,000 |  |
|  | To Realisation A/c | |  |  |  | 64,000 |
|  | (Aziz, a partner took over 50% of stock at 20% discount, the value  of the total stock  was ₹ 1,60,000)  [1,60,000 × (50/100) × (80/100) = ₹ 64,000] | | |  |  |  |
|  |  | |  |  |  |  |
| 3) | Bank A/c | | Dr. |  | 1,04,000 |  |
|  | To Realisation A/c | |  |  |  | 1,04,000 |
|  | (Stock worth ₹ 80,000  sold at a profit of 30% on cost)  [80,000 × (130/100 = ₹ 1,04,000)] | | |  |  |  |
|  |  | |  |  |  |  |
| 4) | Bank A/c | | Dr. |  | 2,94,000 |  |
|  | To Realisation A/c | |  |  |  | 2,94,000 |
|  | (Land and Building sold for ₹ 3,00,000 and 2% commission  paid to the broker) | | |  |  |  |
|  |  | |  |  |  |  |
| 5) | No entry | |  |  |  |  |
|  | (Plant and Machinery ₹ 60,000 handed over to the creditors at a  discount of 10%.  No entry is required as both the asset and liability  are already transferred to the Realisation Account) | | |  |  |  |
|  |  | |  |  |  |  |
| 6) | Bank A/c | | Dr. |  | 2,000 |  |
|  | To Realisation A/c | |  |  |  | 2,000 |
|  | (Investments worth ₹ 4,000 were realised at 50%) | | |  |  |  |
|  |  | | |  |  |  |

Anup and Sumit are equal partners in a firm. They decided to dissolve the partnership on December 31, 2017. When the balance sheet is as under:

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Balance Sheet of Anup and Sumit as on December 31, 2017** | | | | |  |
| **Liabilities** | | **Amount**  **Rs** | **Assets** | **Amount**  **Rs** | |
| Sundry Creditors | | 27,000 | Cash at bank | 11,000 | |
| Reserve fund | | 10,000 | Sundry Debtors | 12,000 | |
| Loan | | 40,000 | Plants | 47,000 | |
| Capital |  |  | Stock | 42,000 | |
| Anup | 60,000 |  | Lease hold land | 60,000 | |
| Sumit | 60,000 | 1,20,000 | Furniture | 25,000 | |
|  |  | 1,97,000 |  | 1,97,000 | |
|  |  |  |  |  | |
|  |  |  |  |  |  |

The Assets were realised as follows:

|  |  |
| --- | --- |
|  | Rs |
| Lease hold land | 72,000 |
| Furniture | 22,500 |
| Stock | 40,500 |
| Plant | 48,000 |
| Sundry Debtors | 10,500 |

The Creditors were paid Rs 25,500 in full settlement. Expenses of Realisation amount to Rs 2,500.

Prepare Realisation Account, Bank Account, Partners Capital Accounts to close the books of the firm.

Realisation account

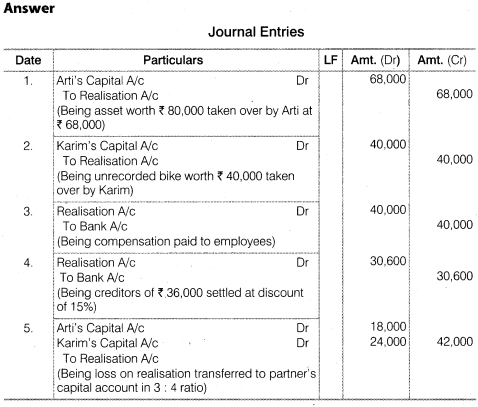
|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Date | Particulars | Amount | Particulars | Amount |
|  | Sundry debtors  Plants  Stock  Lease holdland  Furniture  To Bank/cash[paid liability]  Creditors  Expenses  Loan | 12000  47000  42000  60000  25000  25500  2500  40000 | Sundry creditors  Loan  By Bank/cash[assets realised]  Lease hold land72000  Furniture 22500  Stock 40500  Plant 48000  Sundry debtors10500 | 27000  40000  193500 |

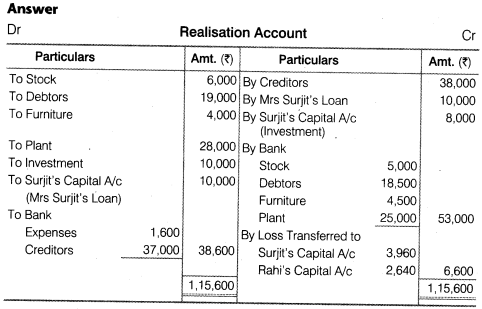
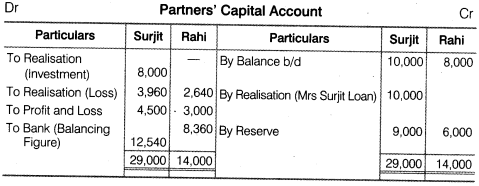
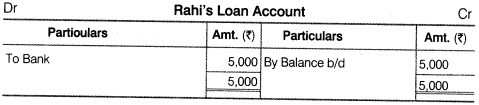
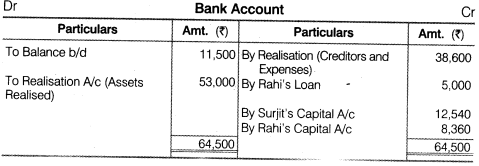
**ANSWER:**

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Books of Anup and Sumit**    **Realisation Account** | | | | | | | |  |
| **Dr.** |  | | | | | | **Cr.** |  |
| **Particulars** | | | **Amount**  **Rs** | **Particulars** | | **Amount**  **Rs** | | |
| Sundry Debtors | | | 12,000 | Sundry Creditors | | 27,000 | | |
| Plants | | | 47,000 | Loan | | 40,000 | | |
| Stock | | | 42,000 | Bank: | |  | | |
| Lease hold land | | | 60,000 | Lease hold Land | 72,000 |  | | |
| Furniture | | | 25,000 | Furniture | 22,500 |  | | |
| Bank: | | |  | Stock | 40,500 |  | | |
| Creditors | | 25,500 |  | Plant | 48,000 |  | | |
| Loan | | 40,000 |  | Sundry Debtors | 10,500 | 1,93,500 | | |
| Expenses | | 2500 | 68,000 |  |  |  | | |
| Profit transferred to | |  |  |  | |  | | |
| Anup’s Capital A/c | | 3,250 |  |  | |  | | |
| Sumit’s Capital A/c | | 3250 | 6,500 |  | |  | | |
|  | | |  |  | |  | | |
|  | | | 2,60,500 |  | | 2,60,500 | | |
|  | | |  |  | |  | | |
|  |  |  |  |  |  |  |  |  |

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Partners’ Capital Account** | | | | | | | |  |
| **Dr.** |  | | | | | | **Cr.** |  |
| **Particulars** | | **Anup** | **Sumit** | **Particulars** | **Anup** | **Sumit** | | |
| Bank | | 68,250 | 68,250 | Balance b/d | 60,000 | 60,000 | | |
|  | |  |  | Reserve Fund | 5,000 | 5,000 | | |
|  | |  |  | Realisation | 3,250 | 3,250 | | |
|  | |  |  |  |  |  | | |
|  | | 68,250 | 68,250 |  | 68,250 | 68,250 | | |
|  | |  |  |  |  |  | | |
|  |  |  |  |  |  |  |  |  |

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Bank Account** | | | | | |  |
| **Dr.** |  | | | | **Cr.** |  |
| **Particulars** | | **Amount**  **Rs** | **Particulars** | **Amount**  **Rs** | | |
| Balance b/d | | 11,000 | Realisation (Expenses and Liabilities) | 68,000 | | |
| Realisation (Assets ) | | 1,93,500 | Anup’s Capital A/c | 68,250 | | |
|  | |  | Sumit’s Capital A/c | 68,250 | | |
|  | |  |  |  | | |
|  | | 2,04,500 |  | 2,04,500 | | |
|  | |  |  |  | | |

**What journal entries would be recorded for the following transactions on the dissolution of a firm after various assets (other than cash) on the third party liabilities have been transferred to Reliasation account.**  
**1. Arti took over the Stock worth Rs. 80,000 at Rs. 68,000.**  
**2. There was unrecorded Bike of Rs. 40,000 which was taken over By Mr. Karim.**  
**3. The firm paid Rs. 40,000 as compensation to employees.**  
**4. Sundry creditors amounting to Rs. 36,000 were settled at a discount of 15%.**  
**5. Loss on realisation Rs. 42,000 was to be distributed between Arti and Karim in the ratio of 3:4.**  


**Surjit and Rahi were sharing profits (losses) in the ratio of 3:2, their Balance Sheet as on March 31, 2004 is as follows:**  
  
**The firm was dissolved on March 31, 2006 on the following terms:**  
**1. Surjit agreed to take the investments at Rs. 8,000 and to pay Mrs. Surojit’s loan.**  
**2. Other assets were realised as follows:**  
**Stock                             Rs.5,000**  
**Debtors                        Rs. 18,500**  
**Furniture                    Rs. 4,500**  
**Plant                             Rs. 25,000**  
**3. Expenses on realisation amounted to Rs. 1,600.**  
**4. Creditors agreed to accept Rs. 37,000 as a final settlement. You are required to prepare Realisation account, Partner’s Capital account and Bank account**  
  
  
  


Rita, Geeta and Ashish were partners in a firm sharing profits/losses in the ratio of 3:2:1. On March 31, 2017 their balance sheet was as follows:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Liabilities** | | **Amount**  **Rs** | **Assets** | **Amount**  **Rs** |
| Capitals: |  |  | Cash | 22,500 |
| Rita | 80,000 |  | Debtors | 52,300 |
| Geeta | 50,000 |  | Stock | 36,000 |
| Ashish | 30,000 | 1,60,000 | Investments | 69,000 |
| Creditors |  | 65,000 | Plant | 91,200 |
| Bills payable |  | 26,000 |  |  |
| General reserve |  | 20,000 |  |  |
|  |  | 2,71,000 |  | 2,71,000 |
|  |  |  |  |  |

On the date of above mentioned date the firm was dissolved:

1. Rita was appointed to realise the assets. Rita was to receive 5% commission on the rate of assets (except cash) and was to bear all expenses of Realisation,

2. Assets were realised as follows:

|  |  |
| --- | --- |
|  | Rs |
| Debtors | 30,000 |
| Stock | 26,000 |
| Plant | 42,750 |

3. Investments were realised at 85% of the book value,

4. Expenses of Realisation amounted to Rs 4,100,

5. Firm had to pay Rs 7,200 for outstanding salary not provided for earlier,

6. Contingent liability in respect of bills discounted with the bank was also materialised and paid off Rs 9,800,

Prepare Realisation Account, Capital Accounts of Partners’ and Cash Account.

**ANSWER:**

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **In the books of Rita, Geeta and Ashish**    **Realisation Account** | | | | | | | | |  |
| **Dr.** |  | | | | | | | **Cr.** |  |
| **Particulars** | | | | **Amount**  **Rs** | **Particulars** | | **Amount**  **Rs** | | |
| Debtors | | | | 52,300 | Creditors | | 65,000 | | |
| Stock | | | | 36,000 | Bills Payable | | 26,000 | | |
| Investment | | | | 69,000 | Cash: | |  | | |
| Plant | | | | 91,200 | Debtors | 30,000 |  | | |
| Cash: | | | |  | Stock | 26,000 |  | | |
| Outstanding Salaries | | | 7,200 |  | Plant | 42,750 |  | | |
| Discounted Bill | | | 9,800 |  | Investment | 58,650 | 1,57,400 | | |
| Creditors | | | 65,000 |  |  | |  | | |
| Bills Payable | | | 26,000 | 1,08,000 | Loss transferred to | |  | | |
| Rita’s Capital A/c | | |  | 7,870 | Rita’s Capital A/c | 57,985 |  | | |
| (Commission- 1,57,400  5/100) | | | |  | Geeta’s Capital A/c | 38,657 |  | | |
|  | |  | |  | Ashish’s Capital A/c | 19,328 | 1,15,970 | | |
|  | |  | |  |  |  |  | | |
|  | |  | | 364370 |  |  | 364370 | | |
|  | |  | |  |  |  |  | | |
|  |  |  |  |  |  |  |  |  |  |

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Partners’ Capital Account** | | | | | | | | |  |
| **Dr.** |  | | | | | | | **Cr.** |  |
| **Particulars** | | **Rita** | **Geeta** | **Ashish** | **Particulars** | **Rita** | **Geeta** | **Ashish** | |
| Realisation (Loss) | | 57,985 | 38,657 | 19,328 | Balance b/d | 80,000 | 50,000 | 30,000 | |
| Bank | | 39,885 | 18,010 | 14,005 | General Reserve | 10,000 | 6,667 | 3,333 | |
|  | |  |  |  | Realisation | 7,870 |  |  | |
|  | |  |  |  |  |  |  |  | |
|  | | 97,870 | 56667 | 33333 |  | 97870 | 56,667 | 33,333 | |
|  | |  |  |  |  |  |  |  | |
|  |  |  |  |  |  |  |  |  |  |

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Cash Account** | | | | | |  |
| **Dr.** |  | | | | **Cr.** |  |
| **Particulars** | | **Amount**  **Rs** | **Particulars** | **Amount**  **Rs** | |  |
| Balance b/d | | 22,500 | Realisation A/c | 1,08,000 | |  |
| Realisation | | 1,57,400 | Rita’s Capital | 39,885 | |  |
|  | |  | Geeta’s Capital A/c | 18,010 | |  |
|  | |  | Ashish’s Capital A/c | 14,005 | |  |
|  | |  |  |  | |  |
|  | | 1,79,900 |  | 1,79,900 | |  |
|  | |  |  |  | |  |
|  |  |  |  |  |  |  |

**NOTE:**As per the solution, the total of Cash Account should be Rs 1,79,900; however, the answer given in the book shows Rs 1,65,705.

Ashu and Harish are partners sharing profit and losses as 3:2. They decided to dissolve the firm on December 31, 2017. Their balance sheet on the above date was:

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Balance Sheet of Ashu and Harish as on December 31, 2017** | | | | |  |
| **Liabilities** | | **Amount**  **Rs** | **Assets** | **Amount**  **Rs** | |
| Capitals: |  |  | Building | 80,000 | |
| Ashu | 1,08,000 |  | Machinery | 70,000 | |
| Harish | 54,000 | 1,62,000 | Furniture | 14,000 | |
| Creditors |  | 88,000 | Stock | 20,000 | |
| Bank overdraft |  | 50,000 | Investments | 60,000 | |
|  |  |  | Debtors | 48,000 | |
|  |  |  | Cash in hand | 8,000 | |
|  |  | 3,00,000 |  | 3,00,000 | |
|  |  |  |  |  | |
|  |  |  |  |  |  |

Ashu is to take over the building at Rs 95,000 and Machinery and Furniture is take over by Harish at value of Rs 80,000. Ashu agreed to pay Creditor and Harish agreed to meet Bank overdraft. Stock and Investments are taken by both partner in profit sharing ratio. Debtors realised for Rs 46,000, expenses of Realisation amounted to Rs 3,000. Prepare necessary ledger Account.

**ANSWER:**

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| **Books of Ashu and Harish**    **Realisation Account** | | | | | | |  |
| **Dr.** |  | | | | | **Cr.** |  |
| **Particulars** | | | **Amount**  **Rs** | **Particulars** | **Amount**  **Rs** | | |
| Building | | | 80,000 | Creditors | 88,000 | | |
| Machinery | | | 70,000 | Bank overdraft | 50,000 | | |
| Furniture | | | 14,000 | Ashu’s Capital A/c (Assets taken) | 1,43,000 | | |
| Stock | | | 20,000 | Harish’s Capital A/c (Assets taken) | 1,12,000 | | |
| Investments | | | 60,000 | Cash  (Debtors) | 46,000 | | |
| Debtors | | | 48,000 |  |  | | |
| Ashu’s Capital A/c (Creditors) | | | 88,000 |  |  | | |
| Harish’s Capital A/c (Bank Overdraft) | | | 50,000 |  |  | | |
| Cash (Expenses) | | | 3,000 |  |  | | |
| Profit transferred to | | |  |  |  | | |
| Ashu’s Capital A/c | | 3,600 |  |  |  | | |
| Harish’s Capital A/c | | 2,400 | 6,000 |  |  | | |
|  | | | 4,39,000 |  | 4,39,000 | | |
|  | | |  |  |  | | |
|  |  |  |  |  |  |  |  |

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Partners’ Capital Account** | | | | | | | |  |
| **Dr.** |  | | | | | | **Cr.** |  |
| **Particulars** | | **Ashu** | **Harish** | **Particulars** | **Ashu** | **Harish** | | |
| Realisation (Assets taken) | | 1,43,000 | 1,12,000 | Balance b/d | 1,08,000 | 54,000 | | |
| Cash | | 56,600 |  | Realisation (Liabilities) | 88,000 | 50,000 | | |
|  | |  |  | Realisation (Profit) | 3,600 | 2,400 | | |
|  | |  |  | Cash |  | 5,600 | | |
|  | | 1,99,600 | 1,12,000 |  | 1,99,600 | 1,12,000 | | |
|  | |  |  |  |  |  | | |
|  |  |  |  |  |  |  |  |  |

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Cash Account** | | | | | |  |
| **Dr.** |  | | | | **Cr.** |  |
| **Particulars** | | **Amount**  **Rs** | **Particulars** | **Amount**  **Rs** | | |
| Balance b/d | | 8,000 | Realisation (Expenses) | 3,000 | | |
| Realisation (Debtors) | | 46,000 | Ashu’s Capital A/c | 56,600 | | |
| Harish’s Capital A/c | | 5,600 |  |  | | |
|  | | 59,600 |  | 59,600 | | |
|  | |  |  |  | | |
|  |  |  |  |  |  |  |

**NOTE**:As per the solution, the Profit on Realisation is Rs 6,000; however, the answer mentioned in the book is Rs 6,000 as loss on realisation.

**Working Notes:**

|  |  |  |
| --- | --- | --- |
|  | **Ashu** | **Harish** |
| Building | 95,000 |  |
| Machinery and Furniture |  | 80,000 |
| Stock (3:2) | 12,000 | 8,000 |
| Investment (3:2) | 36,000 | 24,000 |
|  | Rs 1,43,000 | Rs 1,12,000 |

