CHAPTER 6

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 mental 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	As per sectin 48 of the partnership act 1932, the following rules shall apply. 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. (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	SEC 49 Of the act applied as follows: (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.

Dissolution of a Partnership Firm

Settlement of Accounts

Section 48 of the Indian Partnership Act, 1932 deals with the settlement of accounts when the firm is dissolved.

In brief, when firm is dissolved, assets are realised, liabilities are paid and the balance, if any, is distributed among the partne₹

On dissolution of the firm, the accounting treatment involves preparation of following accounts:

- ❑ Realisation A/c
- ❑ Loan by Partner A/c(If any)
- ❑ Loan by firm to Partner A/c(If any)
- ❑ Partners' Capital/Current A/c
- ❑ Cash/Bank A/c

REALISATION ACCOUNT

- ❑ It is prepared on the dissolution of a firm.
- ❑ It is prepared to find out Gain/loss on the realisation of assets and payment of liabilities.
- ❑ It's a nominal A/c.

STEPS INVOLVED IN PREPARATION OF REALISATION ACCOUNT

1. Transfer all assets from balance sheet to the debit side of realisation A/c except:

   Cash/Bank balance, Loan to partner(s). Partners" capital/current a/c,Partners' Drawings. Accumulated losses, Fictitious assets.

2. Transfer all liabilities from balance sheet to the credit side ot realisation A/c Except:

   Partners' capital/current A/c,Loan by partner(s),General reserve,Accumulated Profits,Workmen compensation reserve (surplus only).

3. Record the sale of assets at given realised value and assets(s) taken over by the partner(s) against credit side of realisation account.

   As per CBSE Tangible assets are realised either at given value or. Book values

4. Record the payment of liabilities or agreed to be paid by partner (whether recorded or unrecorded) to the debit side of realisation A/c except investment fluctuation reserve, provision for doubtful debts, provision for depreciation, Provision for discount on debtors.

   If amount payable is not given for a liability then it is paid at book value.

5. Record Dissolution expenses and remuneration payable to a partner (if any).
6. Find gain/loss on account of realisation of assets and repayment of liabilities by balancing the account and distribute it among partners in their profit sharing ratio.

STEP:1 TO TRANSFER THE ASSETS TO REALISATION A/c

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

STEP : 2 TRANSFER THE LIABILITIES TO REALISATION A/c

Date	Particulars	L.F.	Dr.	Cr.
	Liabilities (individually) Dr. To Realisation A/c (Being liabilities are transferred to realisation A/c)			

STEP:3a For sale of assets

Date	Particulars	L.F.	Dr.	Cr.
	Cash/Bank A/c Dr. To Realisation A/c (Being assets sold at given value)			

STEP:3b Asset(s) taken over by the partner

Date	Particulars	L.F.	Dr.	Cr.
	Partners capital/current A/c Dr. To Realisation A/c (Being asset(s) taken over by the partner at an agreed value)			

STEP:4a To pay liability

Date	Particulars	L.F.	Dr.	Cr.
	Realisation A/c Dr. To Bank A/c (Being liability paid)			

STEP:4b Liability assumed by the partner

Date	Particulars	L.F.	Dr.	Cr.
	Realisation A/c To Partners' capital/current A/c (Being liability assumed by the partner)			

STEP:5 Remuneration to a Partner

Data	Particulars	L.F.	Dr.	Cr.
	Realisation A/c To Partners' capital/current A/c (Being partner credited for remuneration)			

TEP:6 TO DISTRIBUTE GAIN ON REALISATION

Date	Particulars	L.F.	Dr.	Cr.
	Realisation A/c Dr. To Partners' capital/current A/c (Being partners credited for gain on realisation in old ratio)			

To distribute

Loss on Realisation

Partners Capital/current A/c Dr.

To Realisation A/c

* Accumulated Profits, Losses & Reserves

(1) General Reserve, P & L A/c credit Balance, Contingening Reserve

General Reserve A/c Dr.

P & L A/c Dr.

Contingeny Resere A/c Dr.

To Partners capital A/c

(2) P & L A/c Debit Balance, Advertisment suspense A/c

Partner's capital A/c Dr.

To profit and loss A/c

To deferred revenve expendture

(Advestisement suspense A/c)

(3) Workmen Compensation Reserve

(i) Workmen compensation Reserve

To Realisation A/c (To the extant of claim) (if any)

(ii) Workmen compensation A/c Dr.

To partner's capital Aics

(Surplus in workman compensation reserve A/c after claim)

JOURNAL ENTRIES FOR FEW IMPORTANT ITEMS

1. TO SETTLE LOAN GIVEN BY PARTNER TO THE FIRM

Date	Particulars	L.F.	Dr.	Cr.
	Partners' loan A/c Dr. To Cash/Bank / Realisation A/c (for asset given against loan) To Realisation A/c (if any, difference) (Being partners' loan discharged)			

2. TO SETTLE LOAN GIVEN TO PARTNER BY THE FIRM

Date	Particulars	L.F.	Dr.	Cr.
	Bank/ Capital A/c (if liability assumed against the loan) A/c Dr. Realisation A/c (if any, difference) Dr. To Partners' loan A/c (Being loan to partner recovered)			

Note : Until unless specified Loan to partner is not debited to his/her capital/current A/c but received in cash/bank.

3. Asset(s) taken over by the creditor

In full settlement of his/her claim

No Entry

1. Claim > value of asset(s) Entry for bal. amount due to creditors
Realisation A/c Dr.
To cash/bank A/c

Other

1. Claim > value of asset(s) Entry for bal. amount due to creditors
Cash/bank A/c Dr.
To Realisation A/c

4. **Realisation Expenses**

To be Borne by	Paid paid by
1. Firm	Firm
2. Firm	Partner
3. Partner	Same Partner
4. Partner	Firm
5. Partner	Another partner

For Realistion Expenses Journal

Date	Particulars	L.F.	Dr.	Cr.
	Bearing Party A/c Dr. (In case of firm-Realisation A/c) In case of partner-partners capital A/c partners current A/c To Paying Party A/c (In case of firm-cash A/c or realistion A/c for asset given for expenses) In case of partner-partners capital A/c Partners current A/c			

Note: If it is not mentioned that who is bearing expenses it is assumed to be borne by FIRM

Illust. 1. Record necessary journal entries in the following cases:

(a) Creditors were ₹16,000. They accepted Machinery valued at ₹18,000 in full settlement of their claim.

(b) Creditors worth ₹85,000 accepted ₹40,000 as cash and Investment worth ₹43,000, in full settlement of their claim.

(c) Creditors were ₹90,000. They accepted Buildings valued ₹1,20,000 and paid cash to the firm ₹30,000.

JOURNAL

Date	Particulars	LF.	Dr.	Cr.
a.	NO ENTRY			
b.	Realisation A/c Dr.		40,000	
	To Cash A/c (Being balance due paid in cash to creditors)			40,000
	Cash A/c		30,000	
	To Realisation A/c (Being balance received in cash from creditors)			30,000

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

Illust. 2: 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	(₹)	Assets		(₹)
Sundry Creditors	8,000	Bank		20,000
Bank Overdraft	6,000	Debtors	17,000	
X's Wife Loan	8,000	Less : Provision	(2,000)	15,000
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 ₹ 5,000 proved bad.

(iii) Other assets realised-Investment 20% less; and Goodwill at 60%

(iv) One of the creditors for ₹ 5,000 was paid only ₹ 3,000

(v) Buildings were auctioned for ₹ 30,000 and auctioneer's commission amounted to ₹ 1,000.

(vi) Y took over part of Stock at ₹ 4,000 (being 20% less that the book value. Balance stock realised 50%.

(vii) Realisation expenses amounted to ₹ 2,000.

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

Realisation Account

Dr. **Cr.**

Particulars	₹	**Particulars**		₹
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 Commission)	1000	Stock	5,000	73,000
		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	1,800	9,000
	1,15,000			1,15,000

Y’s Loan A/c

Dr. **Cr.**

Particulars	₹	**Particulars**	₹
To Bank A/c	3,000	By balance b/d	3,000
	3,000		3,000

Partner’s Capital A/cs

Dr. Cr.

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

Bank A/c

Dr. Cr.

Particulars	₹	Particulars	₹
To Balance b/d	20,000	By Balance b/d	6,000
(Cash at Bank)		(Bank Overdraft)	
To Realisation A/c	73,000	By Realisation A/c	1,000
(Assets Realised)		(Liabilities Paid)	
		By Realisation A/c	6,000
		By Realisation A/c	2,000
		(Exp. Paid)	
		By Y’s Loan A/c	3,000
		(Partner’s Loan Paid)	
		By X’ Capital A/c	42,000
		By Y’s Capital A/c	32,200
	93,000		93,000

Illust. 3 Pass the necessary journal entries on the dissolution of a firm in the following cases:

(a) 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 Bharma.

(b) 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.

(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.

(d) Dev, a partner, agreed to do the work of dissolution for ₹ 7500. He took away stock for his commission.

(e) A debtor of ₹ 8,000 already transferred to realization account agreed to pay the realization expenses of ₹ 78,00 in full settlement.

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

Illust. 4 Pass Journal entries for the following transactions in the book of the firm on its dissolution:

A) Bills receivable of ₹ 20000 discounted with the bank is dishonoured as drawee was declared insolvent and 30% amount is received in cash from him.

b) 100 shares of Bajaj Auto Ltd. acquired at a cost ₹ 3,600 had been written of from the books. These were valued at ₹ 12 par share, and were divided among partner's A and B in 2 : 1.

c) Mr. Verma, a creditor to whom ₹ 6,000 are due, accepted office equipment at ₹ 4,000 and the balance paid to him by cash.

d) Debtors of ₹ 5,00,000 and provision for doubtul debts of ₹ 20,000 transferred to realisation account. On dissolution bad debts were ₹ 1,00,000 and remaining debtors realised at 30% discount.

e) Loan owed by B towards firm is ₹ 30,000. It was decided by the firm that B will pay to the creditor ₹ 25,000 in settlement of his loan.

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

Practice Question

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

(i) bank loan of ₹ 12000 is paid off.

(ii) Deferred advertisement expenses A/c appeared in the books at ₹28000.

(iii) Creditors agreed to take over the machine in full settlement of their calim. (creditors ₹ 2,50,000 and machinery ₹ 2,25,000)

(iv) Z, an old customer, whose account was written off as bad in the previous year, paid ₹ 500.

(v) A contingent liability (not provided for) of ₹ 1000 was also discharge.

(vi) An unrecorded computer realized ₹ 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	₹	**Particulars**	₹
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: ₹ Creditors 6000 Bank Overdraft 6000	12,000	Debtors 12,000 Investments 20,000 Goodwill 7,000 Buildings 30,000 Stock (50% of 10,000) 5,000	74,000
To Bank A/c (Realisation Expenses)	**(b)**	By Y's Capital A/c(stock)	**(c)**
		X's Capital A/c **(d)** Y's Capital A/c **(e)**	
	(f)		**(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
			By Realisation A/c	**(k)**	
To Realisation A/c (Stock)		4,000			
To Realisation A/c (Loss)	**(g)**	**(h)**			
To Bank A/c (Bal. Fig.)	(i)	(j)			
	(l)	**(m)**		**(l)**	**(m)**

Bank Acconut

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

Hints:

a) Brother's ₹ 8,000 (Given on Cr. Side of Realisation A/c)

b) Realisation Expenses ₹ 2,000 (From Bank A/c Cr. side)

c) Stock ₹ 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 an 31st march 2018 at which date thair Balance sheet was as follows:

Liabilities	₹ Amount	Assets	₹ Amount
Trade creditor	60,000	Cash	6,000
Employee Provident Fund	15,000	Bank	30,000
Bills payable	25,000	Stock	80,000
Investment flutuation reserve	24,000	Sunday Debtors 66,000 Loss Provision for D/D 6,000	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	1,20,000	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 dissolve 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 ₹ 27000 in full settlement of their claim.

(5) ₹ 8,000 of Book debts proved bad bills payable were point in full.

(6) Realisation expenses paid by A ₹ 5000.

(7) There were a contingent liability of ₹ 1,000 for Bill discounted also discharge.

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, ₹ 5880 B Total & Bank A/c 2,67,400)

Q.4. 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 ₹ 5000 and to bear the actual expenses of realization himself.

Liabilities	Amount(₹)	Assets	Amoumt (₹)
Bank loan	4,34,000	Bank	48,000
Creditors	3,80,000	Debtors 2,74,000	
General reserve	1,00,000	Less provision 8,000	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 ₹ 4,000. Stock at 15% less. Furniture was taken over by Ram for 9,000. Building was sold for ₹ 29,00,000. Rehman took over 50% of the machinery at 5% less than the book value. Bank Loan was paid with interest of ₹ 79,500. A computer already written off was taken over by Rahim for ₹ 3000. Creditors allowed a discount of 5%. Expenses of dissolution ₹ 7,000 were paid by Rehman. Remaining machinery was sold at 10% profit.

Pass journal entries at the time of dissolution.

Q.5. 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. To stock A/c To building A/c To machinery A/c To Goodwill A/c To debtors A/c To investment A/c (——)	6,50,000	 40,000 2,10,000 2,50,0000 ———— 12,000 1,00,000
Creditors A/c Dr. A's Loan A/c Dr. Bank Loan A/c Dr. Provision for doubtful debts A/c Dr. To realization A/c (——)	45,000 1,20,000 2,00,000 2,000	 ————
———— 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)		
____________ Dr. To ____________ (creditors worth ₹ 36,000 took over the stock at valuation of ₹ 30,000)	________	________
____________ Dr. To ____________ (A agreed to pay off his wife's loan) ____________ Dr. To ____________ (A took over the half of the investment at 10% discount)	________ ________	________ ________
____________ Dr. To ____________ (Building was sold by the bank for setting off its loan for ₹ 2,50,000 and the balance amount of cash was given to the firm)		
(____________Dr.____________ ________To ____________ ________________________ ____________)	________	________
(____________Dr____________ ________To____________ ____________)		

B's loan A/c ——————————— Dr. To —————— (B's loan for ₹ 50,000 —————)		

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

Cash A/c

Particulars	**Amount**	**Partners**	**Amount**
balance B/d	4000		

Q. 6 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 ₹ 28,000 and creditores and bills payable were paid at discount of 10%

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

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

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

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, ficitious, 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 debto₹ On account of this item loss in realisiation account will be:-

(A) ₹) 5,100 (B) ₹) 1.500

(C) ₹) 3, 500 (D) ₹) 2,000

Q.6 Anu, Khusi and Anmol are partners, The firm had given a loan of (₹) 20,000 to khushi. On the event of dissolution, the loan will be selled 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) Khusi 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 dissiolution 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 ared 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 mutaually 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)