

Q.1. Why is 'Realisation Account' prepared?

(1)

Ans. Realisation Account is prepared to calculate the gain or loss on realisation of assets and repayment of third party liabilities on the dissolution' of a partnership firm.

Q.2. Distinguish between dissolution of partnership and partnership firm on the basis of 'Settlement of assets and liabilities'.

(1)

Basis	Dissolution of Partnership	Dissolution of Partnership firm
Settlement of assets & liabilities	Assets are revalued & liabilities are reassessed.	All the assets other than cash are realized & liabilities are paid.

Q.3. On Realisation of unrecorded asset in cash, what will be the treatment at

A the time of dissolution of the firm ?

(1)

Ans. Cash and Bank account will be debited and Realisation Account will be credited with the amount realized from unrecorded asset.

Q.4. A's Capital Account has a credit balance of Rs.1,00,000; Bank Balance is

Rs.4,50,000. A's Loan Account is showing a debit balance of Rs.36,000. Show

the treatment for A's Loan A/c.

(1)

Ans. A's Capital A/c Dr. 36,000

To A's Loan A/c 36,000

(Being A's Loan transferred to A's Capital A/c)

Q.5. Cheena, Beena and Teena are partners sharing profits in the ratio of 2:2:1.

Their firm was dissolved on 31.3.2015. The dissolution expenses were Rs.10,000;

Rs.4,000 were to be borne by the firm and the balance by Beena. Rs.10,000

were paid by firm.

(1)

Ans. Realisation A/c Dr. 4,000

Beena's Capital A/c Dr. 6,000

To Cash/Bank A/c 10,000

(Being the dissolution expenses paid by the firm; firm's share of expenses debited To Realisation Account and the balance to Beena's Capital Account)

Q.6. Realisation expenses were to be fully borne by A for which he is to get a credit of Rs.10,000. Actual Realisation expenses paid out of firm's Bank Account amounted to Rs.12,000. Give journal entries. (3)

Ans. (a) Realisation A/c Dr. 10,000
To A's Capital / Current A/c 10,000

(Being realization expenses born by A)

(b) A's Capital A/c Dr. 12,000
To Cash A/c 12,000

(Being actual realization expenses paid out of firm's bank account)

Q.7. List the grounds on which court may dissolve a firm.

OR

State any three reasons for the dissolution of a firm on court's order. (3)

Ans. The court may order to dissolve the firm in the following circumstances:

- (i) When a partner becomes of unsound mind.
- (ii) When a partner, other than the partners suing, has become permanently Incapable of performing his duties as partner.
- (iii) When a partner, other than the partner suing, is guilty of misconduct.
- (iv) When a partner, other than the partner suing, persistently commits breach

of partnership agreement.

(v) When a partner, other than the partner suing, has transferred his interest in the firm to a third party.

(vi) When the business of the firm cannot be carried on, except at a loss.

(vii) On any other ground which renders it just and equitable that the firm should be dissolved e.g. complete deadlock in the management of firm.

Q.8. Explain Dissolution of a firm by (i) Agreement and (ii) Notice. (3)

Ans.(i) Dissolution On by Agreement (Sec. 40)

A firm can be dissolved:

(a) With the consent of all the partners or

(b) in accordance with a contract between partners

(ii) Dissolution by Notice (Sec. 43)

In case the partnership is at will then the firm can be dissolved When a Partner gives notice in writing to other partner(s), signifying his intention of Seeking dissolution of the firm.

Q.9. State the cases when a firm is compulsorily dissolved. (3)

Ans.A firm can be compulsorily dissolved in the following circumstances (Sec 41)

(a) if all partners or all but one partner, become insolvent, rendering them incompetent to sign a contract

(b) if the business becomes unlawful

(c) if some event has taken place which makes it unlawful for the partners to carry on the business of the firm in partnership. For example, when a partner becomes Alien enemy because of declaration of war with his country and India.

Q. 10. (Transactions on Dissolution): What Journal Entries Would be passed for the following transactions on the dissolution of a firm, after various assets (other than cash) and third parties' liabilities have been transferred to Realisation Account?

(6)

- (i) A took over the Stock worth Rs.80,000.
- (ii) Firm paid Rs.40,000 as Compensation Employees.
- (iii) Sundry Creditors amounted to Rs.36,000 which was settled at a discount of 15%.
- (iv) There was an Unrecorded Bike of Rs.40,000 which was taken over by B at Rs.30,000.
- (v) Bills payable Rs.5,000.
- (vi) Profit on Realisation of Rs.42,000 was to be distributed between A and B in the ratio of 4:3.

Ans. JOURNAL

Date	Particulars	L.F.	Debit	Credit
	Case (i) A's Capital A/c Dr. To Realisation A/c (Being stock taken over by A)		80,000	80,000
	Case(ii) Realisation A/c Dr. To Bank A/c (Being compensation paid to employees)		40,000	40,000
	Case (iii) Realisation A/c Dr. To Bank a/c (Being creditors paid at a discount of 15%)		30,600	30,600
	Case (iv) B's Capital A/c To Realisation A/c. (Being undercoded assets taken over by B)		30,000	30,000

Case (v) Realisation A/c To Cash A/c (Being Bills payable paid)		5,000	5,000
Case (vi) Realisation A/c To A's Capital A/c To B's Capital A/c		42,000	24,000 18,000

Q.11.

A, B and C commenced business on 1st January 2008 with capitals of Rs 50,000, 40,000 and Rs 30,000 respectively. Profits and losses are shared in the ratio of 4:3:3. During 2008 and 2009 they made profit of Rs 20,000 and Rs 25,000 respectively. Each partner withdrew Rs 5,000 per year. On 31st December 2009, they decided to dissolve the firm. Creditors and cash on that date were Rs 12,000 and Rs 2,000 respectively. The Assets realized Rs 1,50,000. Creditors were settled for Rs 11,500 and realization expenses were Rs 500.

Prepare Realisation a/c, Capital accounts and Cash account.

(6)

Realisation account

Particulars	Rs	Particulars	Rs
Sundry Assets	1,45,000	Creditors	12,000
Cash a/c(Creditors)	11,500	Cash a/c(Assets realized)	1,50,000
Cash a/c(Expenses)	500		
Capital Accounts- A- 2,000 B- 1,500 C- 1,500	5,000		

	1,62,000		1,62,000
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Partners Capital Accounts

Particulars	A	B	C	Particulars	A	B	C
Cash a/c	60,000	45,000	35,000	Balance b/d	58,000	43,500	33,500
				Realisation a/c	2,000	1,500	1,500
	60,000	45,000	35,000		60,000	45,000	35,000

Cash account

Particulars	Rs	Particulars	Rs
Balance b/d	2,000	Realisation(Creditors)	11,500
Realisation a/c	1,50,000	Realisation a/c(expenses)	500
		A's Capital a/c	60,000
		B's Capital a/c	45,000
		C's Capital a/c	35,000
	1,52,000		1,52,000

Q-12. Anju, Manju and Sanju were partners in a firm sharing profits and losses in the ratio of 2:2:1. On 31-3-2014 their balance sheet was as follows:

BALANCE SHEET

Liabilities	Amount	Assets	Amount
Creditors	50000	Cash	60000
Bank loan	35000	Debtors	75000
Provident fund	15000	Stock	40000
Investment fluctuation fund	10000	Investment	20000
Commission received in advance	8000	Plant	50000
Capitals:		Profit and loss a/c	3000
Anju	50000		
Manju	50000		
Sanju	30000		
	248000		248000

On this date the firm was dissolved. Anju was appointed to realize the assets. Anju was to receive a commission on the sale of assets (except cash) and was to bear all expenses of realization. Anju realized the assets as follows:

Debtors: Rs. 60000, Stock: Rs. 35500, Investments: Rs. 16000, Plant-90% of the book value.

Expenses of realization amounted to Rs. 7500, commission received in advance was returned to the customers after deducting Rs. 3000.

Firm had to pay Rs. 8500 for outstanding salary not provided for, earlier.

Compensation paid to employees amounted to Rs. 17000. This liability was not provided for in the above balance sheet.

Rs. 20000 had to be paid for provident fund.

Prepare Realization Account and Partners' Capital Account.

(8)

Ans. Realisation Account.

Particulars	Amount	Assets	Amount
To Debtors	75000	By Creditors	50000
To Stock	40000	By Bank loan	35000

To Investment	20000	By P.F.	15000
To Plant	50000	BY IFF	10000
To Cash		By Adv Comm.	8000
Creditors 50000		By Cash	
Bank Loan 35000		Debtors 60000	
Provident Fund 20000		Stock 35500	
Adv Comm. 5000		Investment 16000	
O.S. Salary 8500		Plant 45000	156500
Compensation 17000	135500	By Loss	
To Anju (Comm) 156500*5%	7825	Anju	21530
		Manju	21530
		Sanju	10765
	328325		328325

PARTNERS' CAPITAL ACCOUNT

PART	Anju	MANju	Sanju	PART	Anju	Manju	Sanju
To P/L	1200	1200	600	By Bal	50000	50000	30000
To real	21530	21530	10765	By Real	7825		
To Cash (real Exp)	7500						
To cash	27595	27270	18635				
	57825	50000	30000		57825	50000	30000

Q-13.

Following is the Balance sheet of X and Y who share profits in the ratio of 4:1 as on 31st march 2010

(8)

Balance sheet

Liabilities	Rs.	Assets	Rs.
Sundry Creditors	8,000	Bank	20,000
Bank overdraft	6,000	Debtors 17,000	

		Less provision 2000	15,000
X's Brother's loan	8,000	Stock	15,000
Y's Loan	3,000	Investments	25,000
Investment Fluctuation fund	5,000	Building	25,000
Capitals- X-50,000 Y-40,000	90,000	Goodwill	10,000
		Profit and Loss a/c	10,000
	1,20,000		1,20,000

The firm was dissolved on the above date and the following was decided—

- X agreed to pay off his brother's loan
- Debtors of Rs. 5000 proved bad.
- Other assets realized as follows—Investments 20% less, and Goodwill at 60%.
- One of the creditors for Rs. 5000 was paid only Rs. 3000.
- Building was auctioned for Rs. 30,000 and the auctioneer's commission amounted to Rs. 1000.
- Y took over part of the stock at Rs. 4000 (being 20% less than the book value) Balance stock realized 50%
- Realisation expenses amounted to Rs. 2000.

Prepare Realisation account, Partners capital accounts and Bank account.

ANS:

Realisation account

Particulars	Amt(Rs.)	Particulars	Amt(Rs.)
To Sundry Assets		By Sundry Liabilities	
Debtors 17,000		Creditors – 8000	
Stock 15,000		Bank overdraft - 6000	
Investments 25,000		X's Brothers loan- 8000	
Building 25,000	92,000	Investment Fluctuation fund 5,000	
Goodwill 10,000		Provision for doubtful debts 2000	
			29000
To X's Capital(Brothers loan)	8000	By Bank a/c (Assets realized)	72,000
To Bank(Liabilities paid off)		By Y's Capital(stock)	4000
Creditors- 6000		By Loss transferred to capitals	
Bank overdraft 6000	12000	X- 7200	
		Y- 1800	9000
To Bank(Realisation expenses)	2000		
	1,14000		1,14,000

Partner's Capital Accounts

Particulars	X	Y	Particulars	X	Y
To Profit & Loss a/c	8,000	2,000	By Balance b/d	50,000	40,000
To Realisation a/c		4,000	By Realisation a/c	8,000	
To Realisation	7,200	1,800			

a/c(loss)					
To Bank a/c	42,800	32,200			
	58,000	40,000		58,000	40,000

Bank account

Particulars	Amt (Rs.)	Particulars	Amt(Rs.)
To Balance b/d	20,000	By Y's loan a/c	3,000
To Realisation a/c(assets realized)	72,000	By Realisation a/c(liabilities paid off)	12,000
		By Realisation a/c(expenses)	2,000
		By X's Capital a/c	42,800
		By Y's capital a/c	32,200
	92,000		