CHAPTER-6DISSOLUTION OF PARTNERSHIP FIRM

FORMAT OF REALISATION A/C

Dr. Cr.

Particulars	Amount	Particulars	Amount
To Sundry Assets A/c (excluding cash, bank, fictitious assets, accumulated losses, debit balance of Partners' capital/current a/c, loans to partners)	–	By Sundry liabilities A/c (excluding partners' capital, loan from partners reserve, accumulated profit etc.)	–
To Provision on Any Liability A/c	–	By Provision on Any Assets A/c	–
To Bank/Cash A/c(amount paid for discharging liabilities)	–	By Bank/Cash A/c (amount received on realization of assets)	–
To Bank/Cash A/c (expenses on realization)	–	By Bank/Cash A/c (amount received from unrecorded assets)	–
To Partner's Capital/Current A/c(liability taken over by a partner or remuneration/commission paid to him or any expenses beared by him)	–	BY Partner's Capital A/c(assets taken over by a partner recorded or unrecorded)	–
To Partners' Capital/Current A/c (profit on realization)	–	By partner's capital/Current A/c (loss on realization)	–

TREATMENT OF REALISATION EXPENSES

(a) When Realisation expenses are paid by firm and borne by firm

Realisation A/c Dr.

To Cash/Bank A/c (Actual amount)

(b) When expenses are paid by any partner and borne by firm

Realisation A/c Dr.

To Partners Capital A/c (Actual amount)

(c) When expenses are paid by firm and borne by partner

Partners Capital A/c Dr.

To Cash/Bank A/c (Actual amount)

(d) When a partner is paid a fixed amount for the purpose of bearing realization expenses and actual expenses are borne by partner

Realisation A/c Dr.

To Partner's Capital A/c (amount fixed by firm)

(i) Partner Loan Account:

The loan advanced by a partner to the firm shall be paid off after all the outside liabilities are paid in full.

Journal Entry

Partner's Loan A/c Dr.

To Bank A/c

(ii) Partner's Capital Accounts:

Balances of partners' capital account and current account are recorded in this account.

Any asset of firm, taken over by the partner is recorded on the debit side of their capital account and any liability taken over is recorded on the credit side of their capital account.

(iii) CALCULATION OF MISSING FIGURES BY PREPARATION OF MEMORANDUM BALANCE SHEET:

When Balance sheet is not given but some items of Balance sheet are given then students should prepare Balance sheet with the help of given items and find out the missing figures as Balancing amount.

For eg. If liabilities and Capital A/C s are given then the value of assets could be found out as balancing figure.

TREATMENT OF CERTAIN OF SPECIFIC ITEMS

- Deferred Revenue Expenditure/P&L A/c loss/Advertisement Expenditure – transferred to the Dr. side of Partner's capital a/c in profit sharing ratio.
- Partner's current a/c – Transferred to Dr. side of Capital A/c if given in the assets side. Transferred to Cr. Side of capital A/c if given in the liabilities side.
- P&L A/c (profit), General Reserve – transferred to Cr. Side of Capital A/c in profit sharing ratio.
- Joint Policy Reserve A/c, Investment Fluctuation Fund, Plant and Machinery replacement reserve, Reserve for discount on Creditors – If Joint policy,

investment, plant and machinery,creditors appears in the B/s then these items will be transferred to Realisation A/c otherwise these items will be transferred to Cr. Side of capital A/cs in profit sharing ratio.

- Provident fund – It is a liability towards the workers, so it will be transferred to the Realisation Account and its payment will be made.

Treatment of Firm's Debts and Private Debts:

- **Application of Firm's Property:** Firm's property shall be applied first in payment of firm's debts then the surplus, (if any), shall be applied in the payment of partner's private debts to the extent to which the concerned partner is entitled to share in the surplus.

- **Application of Partner's Pvt Property:** Partner's private property shall be applied first in payment of his private debts and the surplus, (if any), in payment of firm's debts if the firm's liabilities exceed the form's assets.

QUESTIONS: (1 MARK)

1. A and B are partners in a firm sharing profit in the ratio 3:2. Mrs A has given a loan of Rs. 10,000 to the firm and the firm also obtains a loan of Rs. 5,000 from B. the firm was dissolved and its assets were realized for Rs. 12,500. State the order of payment of Mrs. A loan and B's loan with reason if there were no creditors of firm.

   Ans. According to sec 48, of the Indian Partnership Act, 1932, MrsA loan of Rs. 10,000 will be paid first and after that B's loan will be paid upto the available cash Rs. 2,500.

2. In case of dissolution of firm which liabilities are to be paid first?

   Ans. In case of dissolution of firm the debt of the firm to the third party (outsiders) are to be paid first.

3. When an assets are taken over by partner, why is his capital a/c dr.?

   Ans.Because the claim of capital a/c is reduced by the value of that assets.

4. When a liability is to be discharged by a partner, why is his capital a/c credited?

   Ans. Because the claim of the partner against the firm is increased by the amount of liability assumed.

(3 MARKS)

5. The firm of Ram and Mohan was dissolved on 1st March 2014. According to the agreement Ram had agreed to undertake the dissolution work for an agreed remuneration of Rs. 4,000 and bear all realization expenses. Dissolution expenses were Rs. 3,000 and the same were paid by the firm. Pass the necessary journal entry for the payment of dissolution expenses.

Ans. (1) Realisation expenses a/c	Dr.	4,000	
To Ram's Capital A/c			4,000
(2) Ram's Capital A/c	Dr.	3,000	
To Cash A/c			3,000

6. Give any four points of difference between Dissolution of Partnership and Dissolution of firm.

PRACTICAL PROBLEMS:

7. **(FOR BRIGHT STUDENTS)** The amount of sundry assets transferred to Realisation A/c was Rs. 80,000, 60% of them have been sold at a profit of Rs. 2,000. 20% of the remaining were sold at a discount of 30% and remaining were taken over by Z (a partner) at book value. Journalise.

Ans.

Bank A/c	Dr.	54,480	
To Realisation A/c			54,480
Z's Capital A/c	Dr.	25,600	
To Realisation A/c			25,600)

8. Record the necessary Journal entry

(a) Creditors worth Rs. 85,000 accepted Rs. 40,000 as cash and investments worth Rs. 43,000, in full settlement of their claim.

(b) Creditors were worth Rs. 16,000. They accepted machinery valued at Rs. 18,000 in settlement of their claim.

(c) Creditors were worth Rs. 90,000. They accepted buildings valued at Rs. 1,20,000 and paid cash to the firm Rs. 30,000.

Ans. JOURNAL

(a) Realisation A/c	Dr.	40,000	
To Cash A/c			40,000
(b) No entry			
(c) Cash A/c	Dr.	30,000	
To Realisation A/c			30,000

(6 MARKS)

9. Pass the journal entry for the following transactions of Aakash and Prakash after the various assets other than cash and outside liabilities have been transferred to Realisation A/c

(a) Bank loan Rs. 2,40,000 was paid.

(b) Stock worth Rs. 3,20,000 was taken over by Partner Prakash.

(c) Partner Aakash paid a creditor Rs. 80,000.

(d) An Asset not appearing in the books of accounts realized Rs. 2,40,000.

(e) Expenses of RealisationRs. 40,000 were paid by partner Prakash.

(f) Profit of realization Rs. 7,20,000 were distributed between partners in 5:4.

10. Pass the necessary journal entry for the following transaction on the dissolution of the firm of Sheena and Meena after the various assets other then cash and outside liabilities have been transferred to Realisation A/c

(a) Sheena agreed to pay off her husband's loan Rs. 3,80,000.

(b) A debtor whose debt of Rs. 18,000 was written off in his books was paid Rs. 15,000 in full settlement.

(c) Meena took over all investment at Rs. 2,66,000.

(d) Sundry creditors Rs. 2,00,000 were paid at 9% discount.

(e) Realisation expenses Rs. 34,000 was paid by Sheena for which she was allowed Rs. 30,000.

(f) Loss on realization Rs. 94,000 was divided between Sheena and Meena in 3:2.

(hint. (e) Realisation A/c Dr. 30,000

To Sheena's capital A/c 30,000)

(8 MARKS)

11. P, Q and R were partners in a firm sharing profits and losses in the ratio of 5:3:2. They agreed to dissolve thir partnership firm on 31st March 2014. P was deputed to realize the assets and pay the liabilities. He was paid Rs. 2,000 as commission for his services. The financial position of the firm was as follows:

Balance Sheet

As on 31st March, 2014

Liabilities	Amount	Assets		Amount
Creditors	20,000	Plant and Machinery		60,000
Bills Payable	7,400	Stock		10,100
Investment Fluctuation Fund	9,000	Investments		30,000
Capitals:		Accounts Receivable	14,200	
P 75,000		Less:	9,00	13,300
Q 30,000	1,05,000	Cash		11,200
		R's Capital		16,000
	1,41,500			20,00,000

P took over investments for Rs. 25,000. Stock and debtors were realized Rs. 23,000. Plant and Machinery were sold to Q for Rs. 45,000 for cash. Unrecorded assets realized for Rs. 3,000. Reaisation expenses paid Rs. 1,800.

Prepare necessary Ledger Accounts to close the books of the firm.

(Ans. Loss on Realisation – Rs. 13,100)

12. Ram, Mohan and Sohan are partners sharing their profits and losses in the ratio of 5:3:2. On 31st March 2014, Ram's capital and Mohan's Capital were Rs. 1,80,000 and Rs. 1,20,000 respectively. But Sohan owed Rs. 30,000 owed Rs. 30,000 to the firm. The Creditors were of Rs. 1,20,000. The assets realized Rs. 3,00,000.

Prepare Realisation Account, Partner's Capital Accounts and Bank Account.

Solution:

Dr. REALISATION ACCOUNT Cr.

PARTICULARS	Amount	PARTICULARS		Amount
To Sundry Assets A/c (W/N)	3,90,000	By Creditors		1,20,000
To Bank A/c – Creditors	1,20,000	By Bank A/c – Assets Realised		3,00,000
		BY Loss tr. To		
		Ram's Capital A/c	45,000	
		Mohan's Capital A/c	27,000	
		Sohan's Capital A/c	18,000	90,000
	5,10,000			5,10,000

Dr. PARTNER'S CAPITAL ACCOUNT Cr.

PARTICULARS	Ram Rs.	Mohan Rs.	Sohan Rs.	PARTICULARS	Ram RS	Mohan Rs.	Sohan Rs.
To bal. b/d	-----	-----	30000	By bal. c/d	180000	120000	-----
To real. A/c (loss)	45,000	27,000	18000	By Bank A/c (Amount received)			48000
To Bank A/c (amount paid)	135000	93000	-----				
	180000	120000	48000		180000	120000	48,000

BANK ACCOUNT

Dr. Cr.

PARTICULARS	Amount	PARTICULARS	Amount
To Realisation A/c – Assets realized To Sohan's capital A/c – amount received	3,00,000 48,000	By Realisation A/c – Creditors By Ram's Capital A/c – Amount paid By Mohan's Capital A/c – Amount paid	1,20,000 1,35,000 93,000
	3,48,000		3,48,000

WORKING NOTE:

Dr. MEMORANDUM BALANCE SHEET Cr.

LIABILITIES	Amount	ASSETS	Amount
Creditors Capital A/cs Ram 1,80,000 Mohan 1,20,000	1,20,000 3,00,000	Sohan's Capital Sundry Assets (B.f.)	30,000 3,90,000
	4,20,000		4,20,000

13. A and B were partners from 1st April 2014 with capitals of Rs. 600,000 and Rs. 400,000 respectively. They shared profits in the ratio of 3:2. They carried on business for two years. In the first year ended 31st March, 2013,they earned a profit of Rs. 500,000 but in the second year ended 31st March 2014 a loss of Rs. 200,000 was incurred . As the business was no longer profitable, they dissolved the firm on 31st March, 2014, creditors on that date were Rs. 20,0000. The partners withdrew for personal use Rs. 80,000 per partner per year. The assets realized Rs. 1,00,0000. The expenses of realization were Rs. 30,000.

Prepare Realisation Account, Partner's Capital Account and Cash Account.

(Ans. Realisation loss – Rs. 2,10,000, Sundry Assets – Rs. 1,18,000)