

# Dissolution of Partnership Firm

- |  |  |
|--|--|
| 1. Introduction                        | 4. Dissolution of Partnership Firm     |
| 2. Meaning of Dissolution              | 5. Accounting Treatment of Dissolution |
| 3. Dissolution of Firm and Partnership | – Exercise                             |

## 1. Introduction

So far we have undertaken the study in context to continuation of business inspite of changes in partnership due to the admission of a partner or retirement or death of a partner. This brings to the end of a partnership, but it is not dissolution of a partnership firm.

The partnership firm and partnership automatically comes to an end when the current business is closed and all partners get separated. We will study the transactions related to dissolution in this chapter.

## 2. Meaning of Dissolution

Dissolution means end of existence. Here dissolution is to be studied in the context of dissolution of partnership and a partnership firm, where two issues are considered for dissolution.

- (i) Dissolution of a partnership firm
- (ii) Dissolution of a partnership

When a partnership firm closes down its business on a permanent basis, (or a firm becomes non-existent from legal point of view) it is known as dissolution of a partnership firm. In brief, when a running firm is closed and its business activities are closed it is dissolution of a partnership firm.

When except one partner, all partners get separated from a firm, this is also an end of a partnership. If this continuous one partner will become the owner of sole proprietor firm. In this case also a partnership firm gets dissolved. When running business of the firm is sold to a joint stock company - this is also dissolution of a partnership firm.

## 3. Dissolution of Firm and Partnership

It is essential to understand the meaning of firm dissolution and partnership dissolution, which is as follows :

**(A) Dissolution of Firm :** As per section 39 of Indian Partnership Act when all partners get separated through dissolution of firm, that brings end of their partnership - it is known as dissolution of firm. In this manner when partnership is dissolved and close down the firm, it is dissolution of firm. The business of the firm is closed down in these circumstances. As a result of dissolution, liabilities of the firm are paid from the realisation of the sale of assets. From the remaining surplus capital of partners is redeemed as per their contract.

When the entire business of the firm is sold, that is also dissolution of a partnership firm.

**(B) Dissolution of Partnership :** When business is not closed down due to retirement of a partner, death of a partner, insolvency of a partner or due to any other reasons, and remaining

partners keep business continuous, it is a dissolution of old partnership. Except outgoing partners remaining partners keep business continuous, consequently, new partnership takes place. Generally, the proportion of partnership changes between continuing partners. In these circumstances partnership firm does not get dissolved. But new partnership comes into existence due to reorganisation of partnership.

Partnership is a relation of partners. While firm is a group name of all partners.

**(C) Difference between dissolution of partnership and partnership firm :**

Base	Dissolution of Partnership	Dissolution of Partnership Firm
<b>Meaning</b>	Reorganisation of partnership means dissolution of partnership.	Permanent end of partnership firm is dissolution of partnership firm.
<b>Existence of Firm</b>	The existence of firm remains continuous.	There is end of existence of the firm.
<b>Books of Accounts</b>	Books of accounts remains continuous.	Books of accounts are closed.
<b>Settlement of Accounts</b>	No accounts are settled. But profit or loss arising due to revaluation is credited or debited respectively to partners' capital accounts. Generally accounts of outgoing partners are settled.	Accounts are settled. Through realisation account disposal of assets is done and liabilities are paid. Surplus amount is paid to partners for their final settlement.
<b>Interference of court</b>	It is voluntary dissolution of partnership. No need of court's interference.	Whenever required court interferes.
<b>Effect</b>	There may not be dissolution of firm, due to dissolution of partnership.	There is automatic dissolution of partnership, when partnership firm is dissolved.

#### 4. Dissolution of Partnership Firm

In this chapter we will undertake study of important aspects of the dissolution of a partnership firm. Subsequently we will undertake study of accounting treatments for the dissolution of a firm.

(A) Methods of dissolution of firm

(B) Legal and other provision for accounting settlement of dissolution

(C) Procedure of dissolution

**(A) Methods of dissolution of firm :**

As per Indian Partnership Act 1932 there are two methods for dissolution of partnership firm :

(1) Normal dissolution or dissolution without interference of court

(2) Dissolution by the court

**(1) Normal dissolution or dissolution without interference of court :** Through any of the following methods partnership can be dissolved without the interference of court.

(i) **By agreement** : When all partners agree to dissolve the firm, partnership firm can be dissolved at any point of time. It is voluntary dissolution.

(ii) **Dissolution as per contract** : Dissolution of a partnership firm can be done on the basis of predetermined contract between the partners.

(iii) **Dissolution as per act** : In the following conditions there is compulsory dissolution by the act.

(a) when all partners of the firm become insolvent; or except one, all partners become insolvent.

(b) when business of firm becomes illegal, this also brings dissolution of a partnership firm.

(iv) **Dissolution on happenings of certain contingencies** :

(a) if constituted for a fixed term, by the expiry of that term.

(b) if constituted to carry out specific aim, by the completion thereof.

(v) **Dissolution by notice** : Where the partnership is at will, the firm may be dissolved by any partner giving notice in writing to all the other partners of his intention to dissolve the firm. The firm is dissolved as from the date mentioned in the notice as the date of dissolution or if no date is so mentioned, as from the date of the service of the notice.

(2) **Dissolution by the court** : When any partner file a suit for dissolution of a firm on any of the following grounds and the court orders to dissolve the firm.

(i) When any partner becomes of unsound mind.

(ii) When a partner becomes permanently incapable of performing his duties as a partner.

(iii) When a partner undertakes misconduct against partnership firm or against business of firm.

(iv) When a partner willfully and persistently breaches the partnership agreement.

(v) When a partner transfers his whole interest in the partnership to a third party without the consent of other partners.

(vi) When a firm continuously incurs losses and is unable to run a business due to loss.

(vii) When the court finds any other ground to be just and equitable for the dissolution of the firm.

(B) **Legal and other provisions for accounting settlement of dissolution** :

(1) **For loss of a firm** : As per Indian Partnership Act, the loss arising including capital deficit at the time of dissolution is executed in the following manner :

(a) First of all to be written off from the profit of the firm.

(b) If profit is not sufficient, then it will be met from the capital of the partners.

(c) If capital is not sufficient, then all partners would distribute this loss in their profit-loss sharing ratio and pay from their personal assets as per need.

(2) **Liabilities of a firm and personal liabilities of partners** : The liabilities of partners is unlimited. Thus for dues towards third party partners are responsible individually and collectively. As per legal provision, assets of the firm are used to discharge the liabilities of the firm and personal assets of partners are used to discharge their personal liabilities.

Since the liability of the partners is unlimited, after making the payment of personal liability from personal asset, surplus can be used to pay the liabilities of the firm.

(3) **Partners' loan to firm** : At the time of dissolution, first of all the dissolution expenses and then the liabilities of the firm are paid from the realisation of the assets of the firm. Then from surplus, the loan of partners is redeemed. If after making the payment of firms' liabilities, the available surplus is insufficient to return back loan of more than one partner and nothing can be recovered from partners, in this case the loan of these partners is redeemed in their loan proportion.



(4) **Loan of partners' wife** : If wife of a partner has given a loan to the firm from her personal fund, this loan will be treated as a liability towards the third party and will be redeemed accordingly.

If loan is given from the personal fund of her husband, then it will be treated as a loan of a partner.

(5) **Liability of partners** : Liability of partners is unlimited. If a partner or partners becomes insolvent, solvent partners are responsible to pay the dues of the firm from their personal property.

(6) **Distribution of assets realisation of firm** : The realisation of asset of the firm is paid in the following order :

- (a) First of all dissolution expense is paid.
- (b) Next, liabilities towards third parties are paid.
- (c) Next, loan of partners paid.
- (d) Finally, capital and balances of current accounts of partners are redeemed.
- (e) Even if any surplus remains after the payment shown in (d), surplus will be distributed among all the partners in their profit-loss sharing ratio.

**(C) General procedure of dissolution :**

When a firm is dissolved, at that time all assets of the firm are sold and the payment is made in the mentioned order. Due to the accounting treatments of dissolution, books of accounts of the firm will be closed.

**5. Accounting Treatments of Dissolution**

At the time of dissolution of firm, all assets of firm are sold and liabilities are paid from the realised income. If surplus remains, capital is redeemed. Books of accounts are closed. To incorporate complete procedure the following accounting treatments are given.

(A) **Preparation of necessary accounts** : The following accounts are prepared to follow the accounting procedure of dissolution and to give the accounting treatments.

- (1) Realisation Account
- (2) Partners Loan Account (if any)
- (3) Partners Capital Accounts / Current Accounts
- (4) Cash / Bank Account

(1) **Realisation Account** : An account which is prepared at the time of dissolution to give the accounting treatments to dispose off assets and payment of liabilities, is known as 'Realisation Account'.

To close assets and liabilities excluding cash / bank account are transferred to realisation account at their book value at the time of the dissolution of a firm.

Subsequently amount realised from the sale of assets is debited to cash account and credited to the realisation account. Payment of liabilities is debited to realisation account and credited to cash account.

The difference of realisation account will be either profit or loss. This difference is allocated between the partners in their profit sharing ratio. Profit is credited to their capital account. Loss is debited to their capital account.

To incorporate above mentioned dissolution related accounting treatments, realisation account is prepared. The profit or Loss of the realisation account is allocated between the partners therefor it is type of Nominal A/C. (The specimen of realisation account is given subsequently.)

(2) **Partners' Loan Account** : Many times for financial assistance purpose partners provide loan to the business. At the time of dissolution of a firm, partners' loan are repaid prior to the redemption of the capital of partners. Thus at the time of dissolution partners' loan accounts are also prepared. (when loan is provided by the partners.)

(3) **Partners' Capital Accounts / Current Accounts** : Earlier detailed study of partners' capital accounts / current accounts is undertaken. At the time of dissolution, partners' capital is redeemed after the payment of all the liabilities.

(4) **Cash / Bank Account** : Since firm is dissolved, all transactions are done in cash form or through bank. Cash account is not transferred at the realisation account. All cash receipts and payments are recorded in this account. At last, surplus is paid to the partners.

Journal entries for the preparation of Dissolution Accounts :

- (A) Before recording journal entries prepare above stated necessary accounts
- (B) Disclose balances in partners' capital accounts and cash / bank account
- (C) Disclose balances in partners' loan accounts (if any)

**(1) Balances of accumulated reserve and undistributed profit :**

First of all balances of accumulated reserves are the shown in the balance sheet of the firm, like general reserve, workmen compensation fund, credit balance of profit and loss account, debit balance of profit and loss account etc. These amounts are not transferred to the realisation account. These amounts are transferred to the partners capital account in their profit-sharing ratio. These accounts are not either assets or liabilities, but component of capital, hence it is transferred to the capital account. Journal entry for this is as follows :

**(i) Reserves and credit balance of profit and loss account (profit) :**

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
	Reserves A/c Dr		✓	
	Investment fluctuation fund A/c Dr		✓	
	Workmen accident compensation fund A/c Dr		✓	
	Profit and loss A/c (Profit) Dr		✓	
	To Partners' capital A/c			✓
	[Being reserves and undistributed profit credited to partners' capital account in their profit and loss sharing ratio.]			

**(ii) Debit balance of profit and loss account (loss) :**

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
	Partners' capital A/c Dr		✓	
	To Profit and Loss A/c (loss)			✓
	[Being debit balance of profit and loss A/c (loss) debited to capital account of partners in their profit and loss sharing ratio.]			

**(2) When assets are closed and transferred to the realisation account :**

Assets always disclose debit balance. At the time of dissolution of a firm, except cash/bank account all assets accounts disclosed in balance sheet are transferred to the debit side of realisation account at their book value. To close assets account, their accounts are credited. e.g. Land-building, plant-machinery, furniture, investments, debtors, goodwill, patent, trademark, copyright, bills receivable etc. where journal entry will be as follows :

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
	Realisation A/c Dr		✓	
	To Land-building A/c			✓
	To Plant-machinery A/c			✓
	To Furniture A/c			✓
	To Investments A/c			✓
	To Debtors A/c			✓
	To Bills receivable A/c			✓
	To Other assets A/c			✓
	[Being assets accounts are closed and transferred to realisation account at their book value.]			

**Note :** On the date of dissolution, balance of cash or bank account disclosed in the balance sheet is not transferred to the realisation account. It's separate account is prepared and same balance is disclosed. Because realisation from sale of assets and payment of liabilities are shown in the cash account. At last, surplus is transferred to the capital account of partners.

**(3A) When accounts of provisions are closed and transferred to the realisation account :**

Provisions always disclose credit balance. At the time of dissolution of a firm all provisions account disclosed in balance sheet are transferred to the credit side of realisation account at their book value. To close provision accounts, their accounts are debited. e.g. bad debt reserve, depreciation fund account, discount reserve on debtors or bills receivable account etc.

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
	Bad debt reserve A/c Dr		✓	
	Depreciation fund A/c Dr		✓	
	Discount reserve on debtors and bills receivable A/c Dr		✓	
	To Realisation A/c			✓
	[Being provisions accounts are closed and transferred to realisation account.]			

**(3B) When liabilities accounts are closed and transferred to the realisation account :**

Liabilities always disclose credit balance. At the time of dissolution of a firm liabilities accounts disclosed in balance sheet are transferred to the credit side of the realisation account at their book value.

To close liabilities accounts their accounts are debited. e.g. creditors, bills payable, bank overdraft, providend fund, workmen profit sharing fund, outstanding expenses etc. Journal entry will be as follows :

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
	Creditors A/c Dr		✓	
	Bills payable A/c Dr		✓	
	Bank overdraft A/c Dr		✓	
	Workmen profit sharing fund A/c Dr		✓	
	Outstanding expenses A/c Dr		✓	
	To Realisation A/c			✓
	[Being liabilities accounts are closed and transferred to realisation account.]			

**Note :** Since the settlement of partners' accounts is to be done, capital accounts of partners, current accounts of parnters, loan accounts of partners are not transferred to the realisation account. Their accounts are separately opened and balances are shown there in. At last these accounts are closed in dissolution.

**(4) When assets are sold :**

**(A) Sale of assets :** In this case assets are sold in open market. The realisation of sale of assets is debited to the cash/bank account and realisation account is credited.

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
	Cash/Bank A/c Dr		✓	
	To Realisation A/c			✓
	[Being sale of assets is credited to realisation account.]			

**(B) When assets taken over by a partner :** When any asset is taken over by a partner at that time partners' account is debited and realisation account is credited.

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
	Respective Partners' capital A/c Dr		✓	
	To Realisation A/c			✓
	[Being assets taken over by partner is debited to his account and credited to realisation account.]			

**Note :** (1) The realisable value must be given of all the tangible and intangible assets at the time of dissolution of a firm. It must be indicated in question if there is no realisable value of any tangible and intangible assets.

(2) When assets recorded in the books are given to the creditors recorded in the books for their dues : This kind of asset and creditor are already transferred in the realisation account. Thus the realisable value of asset and payable amount to creditor will not be recorded.



**(C) When income is received from unrecorded asset :**

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
	Cash A/c Dr To Realisation A/c [Being amount realised on unrecorded assets.]		✓	✓

**(5) When liabilities are paid :**

**(A) Paid in cash :** When liabilities of the firm are paid in cash, realisation account is debited and cash/bank account is credited.

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
	Realisation A/c Dr To Cash / Bank A/c [Being all liabilities are paid.]		✓	✓

**(B) When liabilities payment is accepted by a partner :** When any partner pays the liability or accepts to pay the liability of the firm, in this case realisation account is debited and respective partners' capital is credited.

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
	Realisation A/c Dr To Respective partners' capital A/c [Being partner has accepted liability for payment.]		✓	✓

**Note :** When no information is given about the payment of liability at the time of dissolution it will be assumed that the liability is paid as per the book value.

**(C) When unrecorded liability is paid :**

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
	Realisation A/c Dr To Cash / Bank A/c [Being unrecorded liability is paid.]		✓	✓

**(6) When dissolution expense of partnership firm is paid :**

Generally, dissolution expense of partnership firm is borne by the firm itself. The accounting treatment of dissolution expense for different situations can be given as follows :



**(A) When dissolution expense is paid by a firm and to be borne by the firm :**

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
	Realisation A/c Dr To Cash / Bank A/c [Being dissolution expense is paid.]		✓	✓

**(B) When any partner accepts liability :**

(i) No accounting treatment is given, if the dissolution expense is to be borne and paid by any partner :

But, when any remuneration is payable to the respective partner to perform the responsibility of dissolution procedure, the following entry will be passed.

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
	Realisation A/c Dr To Respective partners' capital A/c [Being remuneration is paid to partner for performance of dissolution procedure.]		✓	✓

(ii) When the responsibility of the payment of the dissolution expense is accepted by a partner, but payment is made by the firm, in this case following journal entry will be passed.

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
	Respective partners' capital A/c Dr To Cash / Bank A/c [Being dissolution expense of the firm paid on the behalf of partner.]		✓	✓

**(7) When loan of partner is paid :**

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
	Partners' loan A/c Dr To Bank / Cash A/c [Being paid for loan of partner.]		✓	✓

**(8) Distribution of balance of realisation account :**

The balance of realisation can be in the form of profit or loss. This profit or loss is distributed to the partners' current account or capital account in the profit-loss sharing ratio.

**(A) In case of profit :**

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
	Realisation A/c Dr To Partners' current/capital A/c [Being profit of realisation account is distributed to partners' current/capital account.]		✓	✓

**(B) In case of loss :**

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
	Partners' current/capital A/c Dr To Realisation A/c [Being loss of realisation account is distributed to partners' current/capital accounts.]		✓	✓

**(9) When partners' current accounts are closed :**

At the time of dissolution, partners' current accounts are to be closed and are transferred to capital accounts :

**(i) When current accounts show credit balance :**

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
	Partners' current A/c Dr To Partners' capital A/c [Being balance current accounts of partners' are transfer to capital account.]		✓	✓

**(ii) When current accounts show debit balance :**

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
	Partners' capital A/c Dr To Partners' current A/c [Being balance of current accounts of partners' are transfer to capital account.]		✓	✓

**(10) When partners' capital accounts are closed :**

**(i) When closing balance of partners' capital account is debit balance and partner brings cash :**

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
	Bank/Cash A/c Dr To Partners' capital A/c [Being partner brought cash for his debit balance of capital account. ]		✓	✓

- (ii) When closing balance of partners' capital account is credit balance and payment is made to partner :

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
	Partners' capital A/c Dr To Bank/Cash A/c [Being cash is paid to partners for their credit balance of capital account.]		✓	✓

**Note :** All accounts will be closed after incorporation of above mentioned accounting treatments of dissolution of firm.

**(11) Accounting treatments of special transactions :**

- (i) When unrecorded assets are given to recorded creditor for his due :

In these kind of circumstances from total amount of creditors, the amount of unrecorded assets is deducted and remaining amount of creditors is paid to them. e.g. there are total creditors of ₹ 90,000. One unrecorded asset is given to the book creditor of ₹ 50,000 against his due.

Total creditors	₹ 90,000
<b>Less :</b> Unrecorded assets given to the creditors	₹ 50,000
Remaining creditors will be paid	₹ 40,000

It's journal entry will be as follows :

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
	Realisation A/c Dr To Bank/Cash A/c [Being creditors are paid.]		40,000	40,000

- (ii) When partial payment is made for unrecorded liability through unrecorded asset :

e.g. ₹ 40,000 are payable to Amul, but not recorded in the books. The unrecorded asset of ₹ 20,000 is given to him and remaining amount is paid by cheque.

₹ 40,000	Payable for unrecorded liability
— ₹ 20,000	Given unrecorded asset
₹ 20,000	Payable amount

In this case, following journal entry will be given for paid amount.

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
	Realisation A/c Dr To Bank A/c [Being amount is paid for unrecorded liability.]		20,000	20,000

**Specimen of Realisation Account**  
**Realisation Account**

Dr

Cr

Particulars	Amt. (₹)	Particulars	Amt. (₹)
<b>To Sundry Assets A/c :</b>	<b>Journal entries no.</b>	<b>By Provisions A/c :</b>	<b>Journal entries no.</b>
Land-building ✓		Bad debt reserve ✓	
Plant-machineries ✓		Depreciation fund ✓	3(A)
Furniture ✓	(2)	Discount reserve on debtors -	
Investments ✓		bills receivable ✓	✓
Debtors ✓			
Bills receivable ✓		<b>By Sundry Liabilities A/c :</b>	
Other assets ✓	✓	Creditors ✓	
To Cash/Bank A/c		Bills payable ✓	
(Payment of liabilities)	5(A)	Bank overdraft ✓	3(B)
To Partners' capital A/c		Workmen profit sharing fund ✓	
(Liability accepted by partner)	5(B)	Outstanding expense ✓	✓
To Cash/Bank A/c		By Cash/Bank A/c	
(Payment of unrecorded liabilities)	5(C)	(Sale of assets)	4(A)
To Cash/Bank A/c		By Partners' capital A/c	
(Payment of dissolution expense)	6(A)	(Asset taken over by partner)	4(B)
To Partners' capital A/c		By Cash/Bank A/c	
(Remuneration of partner)	6(B)(ii)	(Sale of unrecorded asset)	4(C)
To Partners' current/capital A/c		By Partners' current/capital A/c	
(Distribution of profit of realisation account)	8(A)	(Distribution of loss of realisation account)	8(B)
	.....		.....

**Illustration 1 :** Pass journal entries for the following transactions :

- (1) Land-building ₹ 1,00,000 and investments ₹ 50,000 are disclosed in the balance sheet at the time of dissolution. ₹ 80,000 and ₹ 60,000 are realised respectively from them.

**Ans. :**

**Journal Entries**

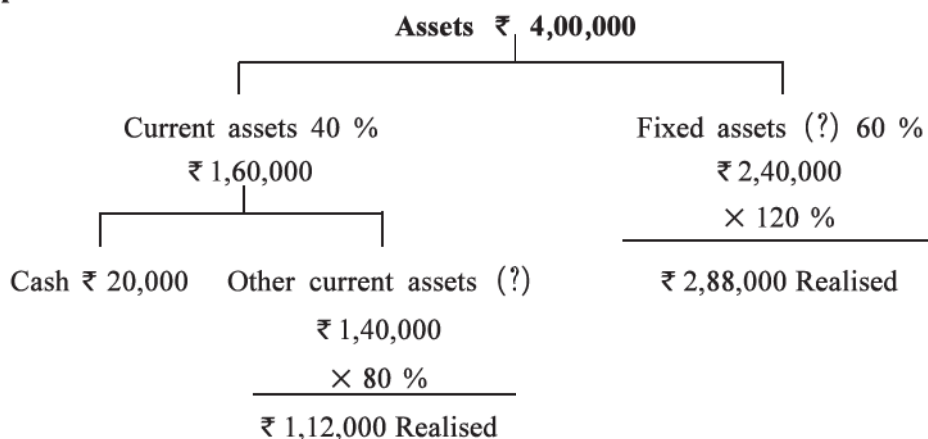
Date	Particulars	L.F.	Debit (₹)	Credit (₹)
1	Realisation A/c Dr To Land-building A/c To Investments A/c [Being at the time of dissolution land-building and investments accounts are closed and transfer them to realisation account.]		1,50,000	1,00,000 50,000



Date	Particulars	L.F.	Debit (₹)	Credit (₹)
2	Cash/Bank A/c Dr To Realisation A/c [Being amount realised from sale of land-building and investments.]		1,40,000	1,40,000

- (2) At the time of dissolution total assets of the firm are of ₹ 4,00,000. Out of that 40 % are current assets. Where cash is included of ₹ 20,000. 120 % of fixed assets are realised. 80 % are realised from current assets.

**Ans. : Explanation :**



**Journal Entries**

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
1	Realisation A/c Dr To Fixed assets A/c To Current assets A/c [Being assets accounts are closed and transferred to realisation account.]		3,80,000	2,40,000 1,40,000
2	Cash/Bank A/c Dr To Realisation A/c [Being ₹ 2,88,000 realised from fixed assets and ₹ 1,12,000 realised from current assets.]		4,00,000	4,00,000

- (3) At the time of dissolution of firm, the value of machinery was of ₹ 70,000. It is taken by one partner for ₹ 78,000.

**Ans. :**

**Journal Entries**

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
1	Realisation A/c Dr To Machinery A/c [Being machinery account closed and transferred to realisation account.]		70,000	70,000

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
2	Partners' capital A/c Dr To Realisation A/c [Being at the time of dissolution partner taken machines for ₹ 78,000.]		78,000	78,000

(4) Dissolution expense of the firm is ₹ 20,000.

Ans. : **Journal Entry**

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
1	Realisation A/c Dr To Cash/Bank A/c [Being dissolution expense paid.]		20,000	20,000

(5) At the time of dissolution of partnership firm following assets are appeared in the book :

Building ₹ 2,00,000 Furniture ₹ 40,000

Goodwill ₹ 20,000 Machinery ₹ 30,000

Realised ₹ 2,20,000 from building, ₹ 50,000 for furniture and machinery at book value. No value is realised for goodwill. Pass necessary journal entries.

Ans. : **Journal Entries**

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
1	Realisation A/c Dr To Building A/c To Furniture A/c To Goodwill A/c To Machinery A/c [Being firm is dissolved all assets are transferred to realisation account.]		2,90,000	2,00,000 40,000 20,000 30,000
2	Cash/Bank A/c Dr To Realisation A/c [Being ₹ 2,20,000 for building; ₹ 50,000 for furniture and ₹ 30,000 machinery are realised.]		3,00,000	3,00,000

(6) Bad debt of ₹ 12,000 was written off, out of which ₹ 10,000 is received.

Ans. : **Journal Entry**

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
1	Cash/Bank A/c Dr To Realisation A/c [Being amount received for bad debts.]		10,000	10,000

- (7) There is no value of goodwill in the books of a firm. But at the time of dissolution ₹ 35,000 realised for it.

Ans. :

**Journal Entry**

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
1	Cash/Bank A/c Dr To Realisation A/c [Being realised for goodwill.]		35,000	35,000

- (8) Partner Naresh accepts to pay ₹ 30,000 for bills payable.

Ans. :

**Journal Entry**

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
1	Bills payable A/c Dr To Realization A/c [Being Bill Payable Account closed]		30,000	30,000
2	Realisation A/c Dr To Naresh's Capital A/c [Being Naresh has accepted to pay bills payable.]		30,000	30,000

- (9) At the time of dissolution of the firm debtors are of ₹ 80,000 and creditors of ₹ 40,000. Partner Pratik accepts debtors at 20 % less than book-value and paid to creditors.

Ans. :

**Journal Entries**

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
1	Realisation A/c Dr To Debtors A/c [Being debtors are transferred to realisation account ]		80,000	80,000
2	Creditors A/c Dr To Realisation A/c [Being creditors are transferred to realisation account.]		40,000	40,000
3	Pratik's current/capital A/c Dr To Realisation A/c [Being Pratik has accepted debtors at 20 % less than book-value.]		64,000	64,000
4	Realisation A/c Dr To Pratik's current/capital A/c [Being Pratik has paid to creditors.]		40,000	40,000

- (10) A partner Vijay has accepted responsibility for dissolution procedure of the firm. A firm has decided to pay remuneration of ₹ 12,000 for this task. A firm has paid him ₹ 6000 for expense.

**Ans. :** **Journal Entry**

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
1	Realisation A/c Dr To Vijay's capital A/c [Being dissolution expense becomes payable to partner Vijay.]		12,000	12,000
2	Vijay's A/c Dr To Cash/Bank A/c [Being paid to Vijay for dissolution expense responsibility.]		6000	6000

- (11) Income tax liability of the partnership firm is determined for ₹ 35,000. It is not recorded in the books.

**Ans. :** **Journal Entry**

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
1	Realisation A/c Dr To Cash/bank A/c [Being unrecorded income tax liability is paid.]		35,000	35,000

- (12) At the time of liquidation, after making payment of all liabilities and partners loan, surplus of asset is ₹ 60,000. The profit-loss sharing ratio of S, B and I are 4:3:3.

**Ans. :** **Journal Entry**

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
1	Realisation A/c Dr To S's Current/capital A/c To B's Current/capital A/c To I's Current/capital A/c [Being excess of assets distributed among partners in the ratio of 4:3:3.]		60,000	24,000 18,000 18,000

- (13) Realised ₹ 25,000 for unrecorded machine, at the time of dissolution.

**Ans. :** **Journal Entry**

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
1	Cash A/c Dr To Realisation A/c [Being realised from sale of unrecorded machine.]		25,000	25,000



- (14) On due payment of ₹ 35,000, unrecorded furniture of ₹ 20,000 given to Mahesh. The remaining amount is paid in cash.

Ans. :

**Journal Entry**

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
1	Realisation A/c Dr To Cash / Bank A/c [Being creditor, Mahesh of ₹ 35,000 is given unrecorded furniture of ₹ 20,000 and remaining amount of ₹ 15,000 paid in cash.]		15,000	15,000

- (15) One partner accepts to pay loan of his wife ₹ 40,000.

Ans. :

**Journal Entry**

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
1	Smt. 's loan A/c Dr To Realization A/c (Being stm. 's loan A/c closed)		40,000	40,000
2	Realization A/c Dr To Respective partners' capital A/c [Being partner has accepted to pay his wife's loan.]		40,000	40,000

**Note :** During formation of question paper : (1) In question paper for preparation of journal entries and realization maximum 10 adjustments should be given. (2) In question paper for preparation of journal entries, necessary accounts and balance sheet maximum 5 adjustments should be given.

**Illustration 2 :** Tushar and Dipak are partners sharing profit-loss in the proportion of 4:2. The balance sheet of their firm as on 31-3-2016 is as follows :

**Balance Sheet**

Liabilities	Amt. (₹)	Assets	Amt. (₹)
<b>Capital Accounts :</b>		Land-building	67,000
Tushar 68,000		Machinery	70,000
Dipak 49,000	1,17,000	Stock	22,000
General reserve	6000	Debtors 16,000	
Creditors	80,000	— Bad debt reserve 1000	15,000
Tushar's loan	42,000	Cash balance	71,000
	<b>2,45,000</b>		<b>2,45,000</b>

Firm is dissolved on 31-3-2016. You are provided the following information :

- (1) Realised ₹ 93,000 from land-building.
- (2) Tushar took machinery at ₹ 76,000.
- (3) Realised ₹ 12,000 from stock.
- (4) ₹ 15,000 recovered from debtors.
- (5) Dissolution expense is ₹ 10,000.

Write necessary journal entries in the books of firm and prepare necessary accounts also.

Ans. :

**Journal Entries**

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
1	Realisation A/c Dr To Land-building A/c To Machinery A/c To Stock A/c To Debtors A/c [Being all assets accounts are closed and transferred them to realisation account.]		1,75,000	67,000 70,000 22,000 16,000
2	Creditors A/c Dr Bad debt reserve A/c Dr To Realisation A/c [Being liability account and provision account are closed and transferred them to realisation account.]		80,000 1000	81,000
3	General reserve A/c Dr To Tushar's capital A/c To Dipak's capital A/c [Being genral reserve distributed to partners in their profit and loss sharing ratio.]		6000	4000 2000
4	Cash/bank A/c Dr To Realisation A/c [Being amount realised from assets. (Land-building 93,000 + Stock 12,000 + debtors 15,000)]		1,20,000	1,20,000
5	Turhar's capital A/c Dr To Realisation A/c [Being machinery has taken by Tushar, transferred to his capital A/c.]		76,000	76,000
6	Realisation A/c Dr To Bank/Cash A/c [Being ₹ 80,000 paid to creditors.]		80,000	80,000

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
7	Realisation A/c Dr To Cash/Bank A/c [Being dissolution expense paid.]		10,000	10,000
8	Tushar's loan A/c Dr To Cash/Bank A/c [Being Tushar's loan returned to him.]		42,000	42,000
9	Realisation A/c Dr To Tushar's capital A/c To Dipak's capital A/c [Being profit of realisation account is distributed between partners in their profit and loss sharing ratio.]		12,000	8000 4000
10	Tushar's capital A/c Dr Dipak's capital A/c Dr To Cash/Bank A/c [Being final payment is made.]		4000 55,000	59,000

#### Realisation Account

Dr

Cr

Particulars	Amt. (₹)	Particulars	Amt. (₹)
<b>To Sundry Assets A/c :</b>		<b>By Sundry Liabilities A/c :</b>	
Land-building 67,000		Creditors 80,000	
Machinery 70,000		Bad debt reserve 1000	81,000
Stock 22,000		<b>By Cash A/c :</b>	
Debtors 16,000	1,75,000	Land-building 93,000	
<b>To Cash A/c :</b>		Stock 12,000	
To Creditors 80,000	80,000	Debtors 15,000	1,20,000
To Dissolution expense 10,000	10,000	By Tushar's capital A/c (Machinery)	76,000
<b>To Capital A/c (Profit) :</b>			
Tushar 8000			
Dipak 4000	12,000		
	<b>2,77,000</b>		<b>2,77,000</b>

### Tushar's Loan Account

Dr		Cr	
Particulars	Amt. (₹)	Particulars	Amt. (₹)
To Cash A/c	42,000	By Balance b/d	42,000
	<b>42,000</b>		<b>42,000</b>

### Partners' Capital Account

Dr			Cr		
Particulars	Tushar(₹)	Dipak(₹)	Particulars	Tushar(₹)	Dipak(₹)
To Realisation A/c (machinery)	76,000	—	By Balance b/d	68,000	49,000
To Cash/Bank A/c	4000	55,000	By General reserve	4000	2000
	<b>80,000</b>	<b>55,000</b>	By Realisation A/c (Profit)	8000	4000
				<b>80,000</b>	<b>55,000</b>

### Cash / Bank Account

Dr			Cr	
Particulars	Amt. (₹)	Particulars	Amt. (₹)	
To Balance b/d	71,000	<b>By Realisation A/c :</b>		
<b>To Realisation A/c :</b>		Creditors	80,000	
Land-building	93,000	Dissolution expense	10,000	90,000
Debtors	15,000	By Tushar's loan A/c		42,000
Stock	12,000	<b>By Capital A/c :</b>		
		Tushar	4000	
		Dipak	55,000	59,000
	<b>1,91,000</b>			<b>1,91,000</b>

### Second method for the preparation of realisation account :

It is a time consuming process to dispose off all the assets and the payment of liabilities after the dissolution of a partnership firm. In this method assets and liabilities are not transferred to realisation account. But accounts of assets and liabilities remain unaffected. Accounts of respective assets and liabilities are opened in this method.

Consequently (i) amount realised from the respective asset is debited to cash/bank account and credited to respective asset account. Any difference of respective asset account (profit or loss) is transferred to realisation account. (ii) amount paid for the respective liabilities is credited to cash/bank account and debited to respective liability account. Any difference of respective liability account (profit or loss) is transferred to the realisation account.

Dissolution expense is debited to the realisation account. At last realisation account is to be closed and the difference of realisation account is transferred to the partners capital accounts in their profit-loss sharing ratio.



**Illustration 3 :** Jhanavi, Yesha and Jvallit are partners sharing profit-loss in the proportion of 5:3:2. The firm was dissolved on 31-3-2016. On that firm has follows status :

**Balance Sheet**

Liabilities	Amt. (₹)	Assets	Amt. (₹)
<b>Capital :</b>		Sundry assets	1,48,000
Jhanavi                      50,000		Cash balance	2000
Yesha                        30,000			
Jvallit                        20,000	1,00,000		
Sundry liabilities	50,000		
	<b>1,50,000</b>		<b>1,50,000</b>

(1) ₹ 1,58,000 realised from sundry assets. (2) Liability is paid at 10 % discount. (3) The firm has paid government taxes of last two years of ₹ 3000. This was not recorded in the books. (4) Dissolution expense incurred ₹ 2000.

Prepare realisation account under second method

**Note :** This second method of realisation account is not expected theoretically and practically for exam. This is given for information purpose.

**Ans. :**

**Realisation Account**

Dr		Cr	
Particulars	Amt. (₹)	Particulars	Amt. (₹)
To Cash A/c :		By Sundry assets A/c	10,000
Government taxes	3000	By Sundry creditors A/c	5000
Dissolution expenses	2000		
To Capital A/c :			
Jhanavi	5000		
yesha	3000		
Jvallit	2000		
	10,000		
	15,000		15,000

**Sundry Assets Account**

Dr		Cr	
Particulars	Amt. (₹)	Particulars	Amt. (₹)
To Balance b/d	1,48,000	By Cash A/c	1,58,000
To Realisation A/c (Profit)	10,000		
	1,58,000		1,58,000

**Sundry Liabilities Account**

Dr		Cr	
Particulars	Amt. (₹)	Particulars	Amt. (₹)
To Cash A/c	45,000	By Balance b/d	50,000
To Realisation A/c	5000		
	50,000		50,000

### Cash Account

Dr		Cr	
Particulars	Amt. (₹)	Particulars	Amt. (₹)
To Balance b/d	2000	By Sundry liabilities A/c	45,000
To Sundry assets A/c	1,58,000	<b>By Realisation A/c :</b>	
		Government taxes	3000
		Dissolution expense	2000
			5000
		<b>By Capital A/c :</b>	
		Jhanavi	55,000
		Yesha	33,000
		Jvallit	22,000
			1,10,000
	<b>1,60,000</b>		<b>1,60,000</b>

### Partners' Capital Accounts

Dr				Cr			
Particulars	Jhanavi(₹)	Yesha (₹)	Jvallit(₹)	Particulars	Jhanavi(₹)	Yesha (₹)	Jvallit(₹)
To Cash A/c	55,000	33,000	22,000	By Balance b/d	50,000	30,000	20,000
				By Realisation A/c	5000	3000	2000
	<b>55,000</b>	<b>33,000</b>	<b>22,000</b>		<b>55,000</b>	<b>33,000</b>	<b>22,000</b>

#### Explanation :

- (1) Sundry assets account and sundry liabilities account will not be transferred to the realisation account. Their accounts will be opened and balances will be written.
- (2) Realisation of sundry assets of ₹ 1,58,000 is debited to cash account, credited to sundry assets account. The balance of sundry assets account ₹ 10,000 is profit, which credited to realisation account and debited to sundry assets account. Finally sundry assets account will be closed.
- (3) ₹ 45,000 paid for sundry liabilities. This amount is debited to sundry liabilities account and credited to cash account. The balance of sundry liabilities account of ₹ 5000 is profit debited to sundry liabilities account and credited to realisation account. Finally, sundry liabilities will be closed.
- (4) Government taxes and dissolution expense are debited to the realisation account and credited to the cash account, as they are not recorded in the books.
- (5) The closing balance of realisation account ₹ 10,000 (profit) is debited to realisation account and credited to partners capital account in their profit-loss sharing ratio. Finally realisation account will be closed.
- (6) The closing balance of partners' capital account is respectively ₹ 55,000; ₹ 33,000 and ₹ 22,000 are debited to their capital accounts and credited to cash account. At last all accounts are closed.

**Illustration 4 :** Vrushita, Dhyana and Sapana are partners sharing profit-loss in equal proportion. On 31-3-2017 partners have decided to dissolve the firm. Balance sheet of that day is given.

**Balance Sheet as on 31-3-2017**

Liabilities	Amt. (₹)	Assets	Amt. (₹)
<b>Capital :</b>		Goodwill	4000
Vrushita 56,000		Building	60,000
Dhyana 40,000		Furniture	20,000
Sapana 20,000	1,16,000	Debtors	40,000
Loan of Dhyana	8000	Stock	6000
Creditors	20,000	Cash balance	6000
Bills payable	16,000	Profit and loss A/c (Debit balance)	24,000
	<b>1,60,000</b>		<b>1,60,000</b>

Disposal of assets and liabilities is as follows :

- (1) Vrushita has taken building for ₹ 52,000 and accepted to pay for bills payable.
- (2) Sapana has taken stock for ₹ 8000.
- (3) Realised ₹ 16,000 for furniture.
- (4) ₹ 36,000 collected from debtors.
- (5) Dissolution expense incurred ₹ 6000.
- (6) Paid for unrecorded stationery bill of ₹ 2000.
- (7) Bad debts of ₹ 4000 was written off in past, out of which ₹ 2000 received.
- (8) No value is realised for goodwill.

As per partnership act, deficit of any partners' capital is to be paid immediately in cash by the partners'. Prepare necessary accounts for dissolution accounts.

**Ans. :** **Realisation Account**

Dr		Cr	
Particulars	Amt. (₹)	Particulars	Amt. (₹)
<b>To Sundry Assets :</b>		<b>By Sundry Liabilities :</b>	
Goodwill 4000		Creditors 20,000	
Building 60,000		Bills payable 16,000	36,000
Furniture 20,000		By Vrushita's capital A/c (building)	52,000
Debtors 40,000		By Sapana's capital A/c (Stock)	8000
Stock 6000	1,30,000	<b>By Cash A/c :</b>	
<b>To Cash A/c :</b>		Furniture 16,000	
Stationery bill 2000		Debtors 36,000	
Dissolution expense 6000		Bad debt return 2000	54,000
Creditors 20,000	28,000	By Partners' capital A/c (Loss)	
To Vrushita's capital A/c (Bills payable)	16,000	Vrushita 8000	
		Dhyana 8000	
		Sapana 8000	24,000
	<b>1,74,000</b>		<b>1,74,000</b>

Dhyana's Loan Account			
Dr		Cr	
Particulars	Amt. (₹)	Particulars	Amt. (₹)
To Cash A/c	8000	By Balance b/d	8000
	8000		8000

Dr

## Partners' Capital Accounts

Cr

Particulars	Vrushita (₹)	Dhyana (₹)	Sapana (₹)	Particulars	Vrushita (₹)	Dhyana (₹)	Sapana (₹)
To Profit-loss A/c (Loss)	8000	8000	8000	By Balance b/d	56,000	40,000	20,000
To Realisation A/c (building)	52,000	—	—	By Realisation A/c (Bills payable)	16,000	—	—
To Realisation A/c (Stock)	—	—	8000	By Cash A/c (Deficit)	—	—	4000
To Realisation A/c (Loss)	8000	8000	8000				
Cash A/c	4000	24,000	—				
	<b>72,000</b>	<b>40,000</b>	<b>24,000</b>		<b>72,000</b>	<b>40,000</b>	<b>24,000</b>

Dr

## Cash Account

Cr

Particulars	Amt. (₹)	Particulars	Amt. (₹)
To Balance b/d	6000	<b>By Realisation A/c :</b>	
<b>To Realisation A/c :</b>		Stationary bill	2000
Furniture A/c	16,000	Dissolution expense	6000
Debtors A/c	36,000	<b>By Realisation A/c :</b>	
Realisation A/c (Bad debt return)	2000	Creditors A/c	20,000
To Sapana's capital A/c	4000	Dhyana's loan	8000
		By Vrushita's capital A/c	4000
		By Dhyana's capital A/c	24,000
	<b>64,000</b>		<b>64,000</b>

**Illustration 5 :** Kaushal, Krina and Krupansh are partners sharing profit-loss in the proportion of 5:3:2.

The balance sheet of firm as on 30-9-2016 was as follows :

## Balance Sheet

Liabilities	Amt. (₹)	Assets	Amt. (₹)
<b>Capital :</b>		Cash	20,000
Kaushal	50,000	Krupansh's current A/c	20,000
Krina	30,000	Machinery	30,000
Krupansh	20,000	Investments	50,000
<b>Current Accounts :</b>		Goodwill	20,000
Kaushal	20,000	Stock	10,000
Krina	10,000	Debtors	1,20,000
Profit and loss A/c	1,00,000	— Bad debt reserve	20,000
Investment fluctuation fund	10,000	Land-building	2,20,000
Kaushal's loan	50,000	— Depreciation fund	20,000
Creditors	2,00,000	Motor car	1,30,000
Bills payable	60,000	— Depreciation fund	30,000
	<b>5,50,000</b>		<b>5,50,000</b>



Partners have decided to dissolve the firm on the date of balance sheet :

- (1) Dissolution expense was ₹ 20,000.
- (2) Creditors are paid at 10 % discount.
- (3) Unexpected expense paid ₹ 10,000.
- (4) ₹ 20,000 received from bad debts which was written off two years back.
- (5) Investments have taken by Kaushal for ₹ 60,000.
- (6) Realisation of assets : Land-building ₹ 2,20,000  
Motor car ₹ 80,000
- (7) Stock realised at book-value, nothing is realised from goodwill.
- (8) Full amount of debtors and machines is received.

Prepare necessary accounts.

Ans. :

### Realisation Account

Dr		Cr	
Particulars	Amt. (₹)	Particulars	Amt. (₹)
<b>To Sundry Assets :</b>		<b>By Sundry Liabilities :</b>	
Goodwill 20,000		Creditors 2,00,000	
Land-building 2,20,000		Bills payable 60,000	2,60,000
Motor car 1,30,000		<b>By Reserves and Provisions :</b>	
Machinery 30,000		Bad debt reserve 20,000	
Investments 50,000		Land-building 20,000	
Debtors 1,20,000		Motor car 30,000	70,000
Stock 10,000	5,80,000	<b>By Cash A/c :</b>	
<b>To Cash A/c :</b>		Land-building 2,20,000	
Creditors 1,80,000		Motor car 80,000	
Bills payable 60,000		Machinery 30,000	
Unexpected expense 10,000		Debtors 1,20,000	
Dissolution expense 20,000	2,70,000	Stock 10,000	4,60,000
<b>To Partners' Current A/c (Profit)</b>		<b>By Cash A/c :</b>	
Kaushal 10,000		Bad debt return	20,000
Krina 6000		By Kaushal's current A/c	
Krupansh 4000	20,000	(investments)	60,000
	<b>8,70,000</b>		<b>8,70,000</b>

### Kaushal's Loan Account

Dr		Cr	
Particulars	Amt. (₹)	Particulars	Amt. (₹)
To Cash A/c	50,000	By Balance b/d	50,000
	<b>50,000</b>		<b>50,000</b>

### Partners' Current Accounts

Dr				Cr			
Particulars	Kaushal (₹)	Krina (₹)	Krupansh (₹)	Particulars	Kaushal (₹)	Krina (₹)	Krupansh (₹)
To Balance b/d	—	—	20,000	By Balance b/d	20,000	10,000	—
To Realisation A/c (investments)	60,000	—	—	By Profit and loss A/c	50,000	30,000	20,000
To Partners' capital A/c	25,000	49,000	6000	By Investment fluctuation fund	5000	3000	2000
				By Realisation A/c	10,000	6000	4000
	<b>85,000</b>	<b>49,000</b>	<b>26,000</b>		<b>85,000</b>	<b>49,000</b>	<b>26,000</b>

### Partners' Capital Accounts

Dr				Cr			
Particulars	Kaushal (₹)	Krina (₹)	Krupansh (₹)	Particulars	Kaushal (₹)	Krina (₹)	Krupansh (₹)
To Cash A/c	75,000	79,000	26,000	By Balance b/d	50,000	30,000	20,000
				By Partners' current A/c	25,000	49,000	6000
	<b>75,000</b>	<b>79,000</b>	<b>26,000</b>		<b>75,000</b>	<b>79,000</b>	<b>26,000</b>

### Cash Account

Dr		Cr	
Particulars	Amt. (₹)	Particulars	Amt. (₹)
To Balance b/d	20,000	<b>By Realisation A/c :</b>	
<b>To Realisation A/c :</b>		By Creditors	1,80,000
To Land-building	2,20,000	By Bills payable	60,000
To Motor car	80,000	By Unexpected expense	10,000
To Machinery	30,000	By Dissolution expense	20,000
To Debtors	1,20,000	By Kaushal's loan A/c	50,000
To Stock	10,000	<b>By Capital A/c :</b>	
To Bad debt return	20,000	Kaushal	75,000
		Krina	79,000
		Krupansh	26,000
	<b>5,00,000</b>		<b>1,80,000</b>
			<b>5,00,000</b>

#### Explanation :

- (1) Provisions for assets (like depreciation fund and bad debt reserve) are closed by crediting them in realisation account. There will not be any other accounting entry of them.

- (2) Kaushal has taken over Investments for ₹ 60,000. Thus, his current account is debited and realisation account is credited.
- (3) Unexpected expense, dissolution are expenses of business. These are losses. Thus, they are debited to realisation account and credited to cash account.
- (4) Bad debts return is recovery of bad debts written off. It is considered as profit. Thus, recorded at credit side of realisation account.

**Illustration 6 :** Abhishek, Anil and Rajesh are partners sharing profit-loss in the proportion of 2:3:1. They have decided to dissolve firm on 30-6-2016. On this date balance sheet is as follow, showing status of the firm.

**Balance Sheet**

Liabilities	Amt. (₹)	Assets	Amt. (₹)
<b>Capital :</b>		Machinery	2,00,000
Abhishek                      2,00,000		Patent (Intangible assets)	2,00,000
Anil                              3,00,000		Leasehold property	1,50,000
Rajesh                          1,00,000	6,00,000	Stock	1,90,000
General reserve	60,000	Investments	2,00,000
Smt. Anil's loan	1,00,000	Debtors                              1,60,000	
Prime bank's loan	2,00,000	— Bad debt reserve              10,000	1,50,000
Provision for leasehold property	60,000	Cash balance	1,50,000
Investment fluctuation fund	30,000	Profit and loss account (loss)	60,000
Creditors	2,50,000		
	<b>13,00,000</b>		<b>13,00,000</b>

Disposal of assets and liabilities is as follow :

- (1) Abhishek has taken investments for ₹ 1,80,000.
- (2) Anil has accepted to pay loan of his wife.
- (3) ₹ 1,50,000 are recovered from debtors.
- (4) Manhar has paid ₹ 10,000 for bad debts which was written off earlier.
- (5) Remaining assets are sold for ₹ 10,80,000.
- (6) Rajesh has accepted creditors of ₹ 1,00,000 for ₹ 80,000. Remaining creditors are paid ₹ 1,00,000 and accounts are settled.
- (7) ₹ 20,000 are realised for unrecorded machine.
- (8) Unrecorded liability of ₹ 30,000 is paid.
- (9) Dissolution expense incurred ₹ 60,000. Prepare necessary accounts.

Ans. :

**Realisation Account**

Dr

Cr

Particulars	Amt. (₹)	Particulars	Amt. (₹)
<b>To Sundry Assets A/c :</b>		<b>By Sundry Liabilities A/c :</b>	
Machinery 2,00,000		Smt. Anil's loan 1,00,000	
Patent 2,00,000		Prime bank's loan 2,00,000	
Leasehold property 1,50,000		Creditors 2,50,000	5,50,000
Stock 1,90,000		<b>By Reserve's and Provisions :</b>	
Investments 2,00,000		Leasehold property 60,000	
Debtors 1,60,000	11,00,000	Bad debt reserve 10,000	70,000
To Anil's capital A/c		<b>By Abhishek's capital A/c</b>	
(Smt. Anil's loan)	1,00,000	(investments)	1,80,000
To Rajesh A/c (Creditors)	80,000	<b>By Cash A/c :</b>	
<b>To Cash A/c :</b>		Debtors 1,50,000	
Dissolution expense 60,000		Sundry assets 10,80,000	
Creditors 1,00,000		Unrecorded asset (machine) 20,000	
Prime bank's loan 2,00,000		Bad debt recovered 10,000	12,60,000
Unrecorded liability 30,000	3,90,000		
<b>To Partners' Capital A/c : (Profit)</b>			
Abhishek 1,30,000			
Anil 1,95,000			
Rajesh 65,000	3,90,000		
	<b>20,60,000</b>		<b>20,60,000</b>

**Cash Account**

Dr

Cr

Particulars	Amt. (₹)	Particulars	Amt. (₹)
To Balance b/d 1,50,000		<b>By Realisation A/c :</b>	
<b>To Realisation A/c :</b>		Dissolution expense 60,000	
Debtors 1,50,000		Creditors 1,00,000	
Bad debt return 10,000		Unrecorded liability 30,000	
Assets 10,80,000		Prime bank's loan 2,00,000	3,90,000
Unrecorded assets 20,000	12,60,000	<b>By Partners' Capital A/c :</b>	
		Abhishek 1,60,000	
		Anil 6,10,000	
		Rajesh 2,50,000	10,20,000
	<b>14,10,000</b>		<b>14,10,000</b>

### Partners' Capital Accounts

Dr

Cr

Particulars	Abhishek (₹)	Anil (₹)	Rajesh (₹)	Particulars	Abhishek (₹)	Anil (₹)	Rajesh (₹)
To Profit and loss A/c (2:3:1)	20,000	30,000	10,000	By Balance b/d	2,00,000	3,00,000	1,00,000
To Realisation A/c (investments)	1,80,000	—	—	By General reserve	20,000	30,000	10,000
To Cash A/c (return)	1,60,000	6,10,000	2,50,000	By Investment fluctuation fund	10,000	15,000	5,000
				By Realisation A/c (Smt Anil's loan)	—	1,00,000	—
				By Realisation A/c (Creditors)	—	—	80,000
				By Realisation A/c Profit (2:3:1)	1,30,000	1,95,000	65,000
	<b>3,60,000</b>	<b>6,40,000</b>	<b>2,60,000</b>		<b>3,60,000</b>	<b>6,40,000</b>	<b>2,60,000</b>

● **Illustrations of balancing figures :**

**When opening balance is not provided :** Sometimes at the time of dissolution, balance sheet is not provided in the question. In this situation non-available information is to be ascertained. Thus to find out non-available information, it is required to prepare balance on the date of dissolution.

In brief, if balance sheet is not available on the date of dissolution, firstly, prepare balance sheet and then solve the problem.

**Illustration 7 :** Dipak, Parag and Pranay are partners sharing profit-loss in the proportion of  $\frac{1}{2} : \frac{1}{3} : \frac{1}{6}$ .

They have decided to dissolve the firm on 31-5-2016. On that day, balance sheet was not prepared. But you are provided the following information.

- (1) Total assets of the firm are ₹ 20,00,000. Out of which 40 % are current assets, where cash balance of ₹ 1,00,000 included.
- (2) Liabilities are  $\frac{3}{4}$  of total current assets, in which employee provident fund of ₹ 2,00,000 is not included. At the time of dissolution of the firm, disposal of assets and liabilities was as follows.
  - (i) 120 % of fixed assets are realised while 80 % of current assets are realised.
  - (ii) 100 % provident fund paid.
  - (iii) Other liabilities are paid at 10 % discount.
  - (iv) Dissolution expense was ₹ 1,00,000.

The total capital of the firm is reported in the profit-loss sharing ratio of partners. Prepare necessary accounts.

**Ans. :** From the given details, first of all balance sheet will be prepared. The profit-loss sharing ratio for Dipak, Parag and Pranay is  $\frac{1}{2} : \frac{1}{3} : \frac{1}{6}$  respectively. By using lowest common factor, the proportion of profit and loss will be 3:2:1.



Ans. :

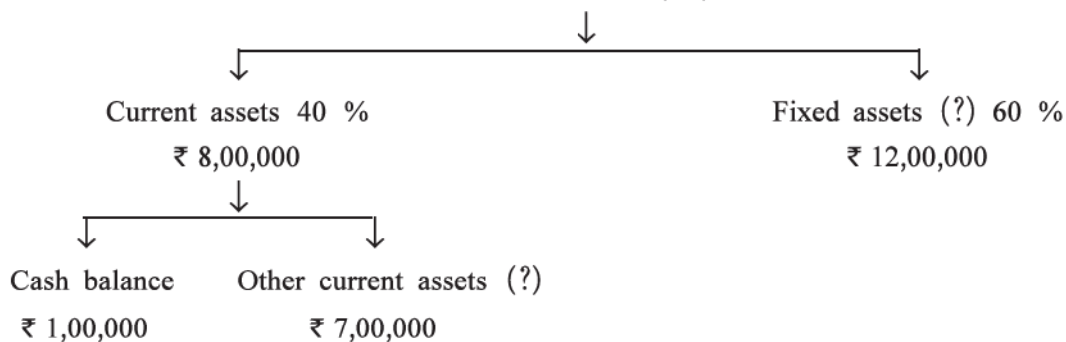
**Balance Sheet Before Dissolution of the Firm**

Liabilities	Amt. (₹)	Assets	Amt. (₹)
<b>Capital :</b>		Current assets	7,00,000
Dipak                      6,00,000		Cash balance	1,00,000
Parag                      4,00,000		Fixed assets	12,00,000
Pranay                      2,00,000	12,00,000		
Employees provident fund	2,00,000		
Liabilities	6,00,000		
	<b>20,00,000</b>		<b>20,00,000</b>

**Explanation :**

(1)

**Total Assets ₹ 20,00,000**



(2)

Liabilities = Current assets  $\frac{3}{4}$

$$\therefore ₹ 8,00,000 \times \frac{3}{4} = ₹ 6,00,000$$

(3)

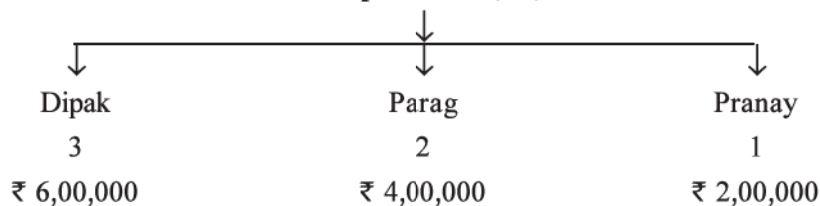
**Profit and loss sharing ratio :**

	Dipak	Parag	Pranay
	$\frac{1}{2}$	$\frac{1}{3}$	$\frac{1}{6}$
$\therefore$	$\frac{3}{6}$	$\frac{2}{6}$	$\frac{1}{6}$
$\therefore$	3	2	1

(4)

Total assets	₹ 20,00,000
— Total liabilities	₹ 8,00,000
<b>Total capital</b>	<b>₹ 12,00,000</b>

**Total Capital ₹ 12,00,000**



### Realisation Account

Dr

Cr

Particulars	Amt. (₹)	Particulars	Amt. (₹)
<b>To Sundry Assets</b>		<b>By Sundry Liabilities</b>	
To Fixed assets	12,00,000	By Employee provident fund	2,00,000
To Current assets	7,00,000	By Sundry liabilities	6,00,000
<b>To Cash A/c :</b>		<b>By Cash A/c :</b>	
To Provident fund	2,00,000	By Fixed assets	14,40,000
To Sundry liabilities	5,40,000	By Current assets	5,60,000
To Dissolution expense	1,00,000		
<b>To Partners' Capital A/c : (Profit)</b>			
Dipak	30,000		
Parag	20,000		
Pranay	10,000		
	60,000		
	<b>28,00,000</b>		<b>28,00,000</b>

### Cash Account

Dr

Cr

Particulars	Amt. (₹)	Particulars	Amt. (₹)
To Balance b/d	1,00,000	<b>By Realisation A/c :</b>	
<b>To Realisation A/c :</b>		Provident fund	2,00,000
Fixed assets	14,40,000	Sundry liabilities	5,40,000
Current assets	5,60,000		7,40,000
		<b>By Realisation A/c :</b>	
		Dissolution expense	1,00,000
		Partners' capital A/c :	
		Dipak	6,30,000
		Parag	4,20,000
		Pranay	2,10,000
	<b>21,00,000</b>		12,60,000
			<b>21,00,000</b>

### Partners' Capital Accounts

Dr

Cr

Particulars	Dipak(₹)	Parag(₹)	Pranay(₹)	Particulars	Dipak (₹)	Parag (₹)	Pranay(₹)
To Cash A/c	6,30,000	4,20,000	2,10,000	By Balance b/d	6,00,000	4,00,000	2,00,000
				By Realisation A/c (Profit)	30,000	20,000	10,000
	<b>6,30,000</b>	<b>4,20,000</b>	<b>2,10,000</b>		<b>6,30,000</b>	<b>4,20,000</b>	<b>2,10,000</b>

**Illustration 8 :** Arjun, Vaishali and Jalpa are partners sharing profit-loss in the ratio of 4:3:3. They have decided to dissolve the firm on 31-3-2016. On this date their information is as follow. Firm was loss making, thus it was dissolved.

- (1) The capital of Arjun, Vaishali and Jalpa were ₹ 3,00,000, ₹ 2,00,000 and ₹ 1,00,000 respectively.
- (2) Machinery ₹ 10,000; Debtors ₹ 2,80,000; Bills receivable ₹ 50,000; Stock ₹ 4,50,000; Sundry Creditors ₹ 3,00,000 and Bills payable ₹ 40,000.

At the time of dissolution :

- (i) Vaishali has accepted collection at 20 % discount and to pay creditors.
- (ii) Arjun has accepted stock at 10 % discount and to pay bills payable.
- (iii) Jalpa has taken bills receivable for ₹ 35,000 and machinery at 10 % depreciated value.

Prepare necessary accounts.

**Ans. :**

#### Balance Sheet of the Firm Before Dissolution

Liabilities	Amt. (₹)	Assets	Amt. (₹)
<b>Capital :</b>		Machinery	10,000
Arjun	3,00,000	Debtors	2,80,000
Vaishali	2,00,000	Bills receivable	50,000
Jalpa	1,00,000	Stock	4,50,000
Sundry creditors	3,00,000	Profit and Loss Account (?)	1,50,000
Bills payable	40,000		
	<b>9,40,000</b>		<b>9,40,000</b>

**Note :** Total of liabilities side is ₹ 9,40,000. The difference is of ₹ 1,50,000 appeared at assets side. This is debit balance of profit and loss account. The firm is loss making.

### Realisation Account

Dr

Cr

Particulars	Amt. (₹)	Particulars	Amt. (₹)
<b>To Sundry Assets A/c :</b>		<b>By Sundry Liabilities :</b>	
Machinery 10,000		Creditors 3,00,000	
Debtors 2,80,000		Bills payable 40,000	3,40,000
Bills receivable 50,000		<b>By Vaishali's Capital A/c :</b>	
Stock 4,50,000	7,90,000	Debtors	2,24,000
<b>To Vaishali's Capital A/c :</b>		<b>By Arjun's Capital A/c :</b>	
Creditors 3,00,000		Stock	4,05,000
To Arjun's capital : Bills payable 40,000		<b>By Jalpa's Capital A/c :</b>	
		Bills receivable 35,000	
		Machinery 9000	44,000
		<b>By Partners' Capital A/c (Loss) :</b>	
		Arjun 46,800	
		Vaishali 35,100	
		Jalpa 35,100	1,17,000
	<b>11,30,000</b>		<b>11,30,000</b>

### Partners' Capital Accounts

Dr

Cr

Particulars	Arjun (₹)	Vaishali (₹)	Jalpa (₹)	Particulars	Arjun (₹)	Vaishali (₹)	Jalpa (₹)
To Profit & loss A/c	60,000	45,000	45,000	By Balance b/d	3,00,000	2,00,000	1,00,000
To Realisation A/c	4,05,000	2,24,000	44,000	By Realisation A/c	40,000	3,00,000	—
To Realisation A/c	46,800	35,100	35,100	By Cash A/c	1,71,800	—	24,100
(Loss)				(Deficit)			
To Cash A/c (Payment)	—	1,95,900	—				
	5,11,800	5,00,000	1,24,100		5,11,800	5,00,000	1,24,100

### Cash Account

Dr

Cr

Particulars	Amt. (₹)	Particulars	Amt. (₹)
To Arjun's capital A/c 1,71,800		By Vaishali's capital A/c 1,95,900	
To Jalpa's capital A/c 24,100			
	<b>1,95,900</b>		<b>1,95,900</b>

**Illustration 9 :** Total assets of firm of Amar and Akbar is ₹ 6,00,000. In which cash is included of ₹ 40,000. Net assets of the firm are ₹ 4,00,000. The proportion of capital and general reserve is 4:1. The capital of Amar is excess to capital of Akbar by ₹ 80,000. The realisation account loss is ₹ 80,000. Firm is dissolved. Prepare dissolution account.

**Ans. :**

**Balance Sheet**

Liabilities	Amt. (₹)	Assets	Amt. (₹)
<b>Capital :</b>		Cash	40,000
Amar                      2,00,000		Other assets	5,60,000
Akbar                      1,20,000	3,20,000		
General reserve	80,000		
Liabilities	2,00,000		
	<b>6,00,000</b>		<b>6,00,000</b>

Net assets means surplus available after deduction of total liabilities from total assets.

∴ Net assets = Total assets – Total liabilities

Liabilities = Total assets – Net assets

$$= 6,00,000 - 4,00,000$$

$$= 2,00,000$$

Total of assets side = Total of liabilities side (Total of both sides of balance sheet are equal.)

$$6,00,000 = \text{Capital} + \text{Reserve} + \text{Liabilities (2,00,000)}$$

$$6,00,000 - 2,00,000 = \text{Capital} + \text{Reserve}$$

$$\text{Capital} + \text{Reserve} = 4,00,000$$

The proportion of capital and reserve is 4:1.

$$\text{So, Reserve} = 4,00,000 \times \frac{1}{5}$$

$$= ₹ 80,000$$

$$\text{Capital} = 4,00,000 \times \frac{4}{5}$$

$$= ₹ 3,20,000 \text{ is total capital.}$$

Assume capital of Akbar is X.

$$\therefore \text{Amar's capital} = X + 80,000.$$

$$\text{Total capital} = \text{Amar's capital} + \text{Akbar's capital (X + X + 80,000)}$$

$$3,20,000 = 2X + 80,000$$

$$\therefore 3,20,000 - 80,000 = 2X$$

$$= 2,40,000 = 2X$$

$$\therefore X = 1,20,000$$

$$\text{Akbar's capital} = 1,20,000$$

$$\text{Amar's capital} = 1,20,000 + 80,000$$

$$= 2,00,000$$



### Realisation Account

Dr

Cr

Particulars	Amt. (₹)	Particulars	Amt. (₹)
To Sundry assets A/c	5,60,000	By Liabilities A/c	2,00,000
To Cash A/c (Liabilities)	2,00,000	By Cash A/c (Assets realisation)	4,80,000
		By Partners' capital A/c : (Loss)	
		Amar	40,000
		Akbar	40,000
	<b>7,60,000</b>		<b>80,000</b>
			<b>7,60,000</b>

### Partners' Capital Accounts

Dr

Cr

Particulars	Amar (₹)	Akbar(₹)	Particulars	Amar (₹)	Akbar(₹)
To Realisation A/c (Loss)	40,000	40,000	By Balance b/d	2,00,000	1,20,000
To Cash A/c	2,00,000	1,20,000	By General reserve	40,000	40,000
	<b>2,40,000</b>	<b>1,60,000</b>		<b>2,40,000</b>	<b>1,60,000</b>

### Cash Account

Dr

Cr

Particulars	Amt. (₹)	Particulars	Amt. (₹)
To Balance b/d	40,000	By Realisation A/c	2,00,000
To Realisation A/c	4,80,000	By Amar's capital A/c	2,00,000
		By Akbar's capital A/c	1,20,000
	<b>5,20,000</b>		<b>5,20,000</b>

### EXERCISE

#### 1. Select appropriate option for each question :

- (1) How many methods are there for dissolution of a partnership firm ?
  - (a) One
  - (b) Three
  - (c) Two
  - (d) Four
- (2) Which of the following account is opened to incorporate the accounting effect of assets and liabilities of the partnership firm at the time of dissolution ?
  - (a) Profit and loss account
  - (b) Profit and loss appropriation account
  - (c) Revaluation account
  - (d) Realisation account
- (3) What is the type of realisation account ?
  - (a) Balance sheet
  - (b) personal
  - (c) Real
  - (d) Nominal

- (4) Which is the first payment made from the realisation of assets, at the time of the dissolution of a firm :
- (a) Dissolution expense (b) Loan of partner's wife  
(c) Liabilities towards third parties (d) Partners' loan
- (5) Which of the following amount will be written at the credit side of realisation account, when there is balance of debtors ₹ 24,500 and bad debt reserve of ₹ 2500 in the balance sheet at the time of the dissolution of a firm ?
- (a) ₹ 24,500 (b) ₹ 2500  
(c) ₹ 22,000 (d) ₹ 27,000
- (6) To which account credit balance of general reserve, workmen accident compensation fund, credit balance of profit and loss account is transferred at the time of the dissolution of a firm ?
- (a) Realisation A/c (b) Cash A/c  
(c) Profit and loss A/c (d) Partners' capital A/c

**2. Give answer in one line for the following questions :**

- (1) Explain the meaning of dissolution of partnership.
- (2) What is the dissolution of a partnership firm ?
- (3) What is voluntary dissolution ?
- (4) Who has to bear dissolution expense, at the time of dissolution of a firm ?
- (5) How would you deal with the providend fund balance shown in the balance sheet at the time of dissolution ?
- (6) How would you deal with bad debts return, which is written off earlier ?
- (7) Explain the meaning of realisation account.
- (8) Describe the methods of dissolution of a partnership firm.

**3. Answer the following questions in brief :**

- (1) Which accounts are prepared to close the books at the time of dissolution of a partnership firm ? Describe it.
- (2) In which circumstances court can pass the order for dissolution of a firm ? Explain.
- (3) Write short note : Realisation account
- (4) How would you deal with the following balances disclosed in the balance sheet at the time of the dissolution of a partnership firm ? Explain.
 

(i) General reserve	(ii) Investment fluctuation fund
(iii) Workmen accident compensation fund	(iv) Providend fund
(v) Debit balance of Profit and loss A/c	(vi) Depreciation fund
- (5) Describe the legal provisions pertaining to loss of dissolution of a partnership firm.
- (6) Explain the normal procedure of partnership firm dissolution.

**4. Answer the following questions as required :**

- (1) How would you undertake accounting disposal of realisation of asset and payment of liability which are not recorded in the balance sheet at the time of the dissolution of a firm ? Explain.

- (2) Give accounting treatments for goodwill of different circumstances when firm goes for dissolution.
- (3) Explain in brief, legal provisions of accounting settlement for partnership firm dissolution.
- (4) Explain methods of dissolution without the interference of court.
- (5) Total assets are ₹ 1,50,000 of firm A and B where cash of ₹ 10,000 is included. Net assets of the firm are ₹ 1,00,000. The ratio of capital and reserve is 4:1. The capital of A is more than of B by ₹ 20,000. Loss of realisation account is ₹ 20,000. Firm is dissolved. Prepare opening balance sheet and ascertain opening capital of A and B.
- (6) Prepare realisation account from question no. 5.
- (7) Total assets of the firm at the time of dissolution is ₹ 2,00,000. Out of which 40 % are current assets (including cash ₹ 10,000). 120 % realised for fixed assets. While 80 % are realised of current asset. Pass journal entries.

**5. Pass journal entries for the following transactions of firm in the case of firm's dissolution :**

- (1) At the time of dissolution the book value of goodwill is ₹ 56,000. No amount is realised.
- (2) In the balance sheet land-building ₹ 8,00,000 and investments of ₹ 2,00,000 are disclosed. Respectively ₹ 9,00,000 and ₹ 1,50,000 are realised from them.
- (3) Total assets of the firm are ₹ 2,00,000 out of which 40 % of are current assets (including cash of ₹ 10,000). Book value is realised.
- (4) Goodwill is not disclosed in the book. But ₹ 50,000 are realised during dissolution.
- (5) The value of laptop is ₹ 35,000. One partner has taken it for ₹ 25,000.
- (6) A partner has accepted to pay loan of his Smt. ₹ 40,000, which was given to the firm.
- (7) Income tax liability is now payable ₹ 30,000 it is not recorded in the book.
- (8) After making payment of all liabilities and loan of partners of firm, surplus of assets is ₹ 1,20,000. The profit and loss sharing ratio of partners A, B and C are 5:3:2.
- (9) Machine is disclosed in the book at the time of dissolution for ₹ 2,00,000. Book value is realised.
- (10) One partner has accepted responsibility to undertake dissolution procedure. In the return of it, decided to pay remuneration of ₹ 20,000. On account of expense firm has paid him ₹ 12,000.
- (11) There are debtors of ₹ 1,20,000 and creditors of ₹ 60,000 at the time of dissolution of firm. One partner has taken debtors at 20 % than book value less and accepted to pay creditors.
- (12) The profit-loss sharing ratio between partners R, B and I is 3:2:1. Undertake the disposal of the following balances : (1) General reserve ₹ 18,000 (2) Debit balance of profit and loss A/c ₹ 12,000 (3) Workmen accident compensation fund ₹ 18,000.

**6. Pass journal entries for the following transactions, when realisation account is prepared :**

- (1) Book value of machine is ₹ 50,000, which is taken over by partner Darshan for ₹ 55,000.
- (2) Partner Bimal has accepted to pay bills payable of ₹ 15,000.
- (3) Past bad debts was written off ₹ 11,000 out of which ₹ 6000 are recovered.
- (4) Book value of sundry assets is ₹ 2,70,000 and realised ₹ 2,27,000.
- (5) Sundry creditors ₹ 60,000, paid at 25 % discount.
- (6) Unrecorded tax paid ₹ 5000.
- (7) Dissolution expense paid ₹ 5000.
- (8) Goodwill is not disclosed in the books. But ₹ 20,000 realised from sale of it, at the time of dissolution.

7. Naresh and Shaivil are partners sharing profit-loss in the proportion of 2:3. On 30-9-2016, they have decided to dissolve the firm. On this date their capital was ₹ 6,00,000 and ₹ 4,00,000 respectively. Total liabilities of the firm are ₹ 6,00,000. The balance of accumulated debit balance of profit and loss account is ₹ 1,00,000 and cash balance is ₹ 1,00,000. 50 % are realised from assets of firm. Dissolution expense is ₹ 1,00,000.

Prepare necessary accounts to close books of the firm.

8. On 1-1-2015, Tarakbhai, Jethalal and Popatlal are commenced partnership firm to share profit-loss in the proportion of 5:3:2. Their capital on that date was ₹ 5,00,000; ₹ 3,00,000 and ₹ 2,00,000. On 31-12-2016, they have decided to dissolve the firm. On this date the status of the firm was as follows :

Building	₹ 5,00,000	Machinery	₹ 3,00,000
Debtors	₹ 4,00,000	Bills receivable	₹ 1,00,000
Stock	₹ 2,00,000	Creditors	₹ 6,00,000
Bills payable	₹ 1,00,000	Cash balance	₹ 1,00,000

Debit balance of profit and loss A/c ₹ 1,00,000

Since firm was loss making, it is dissolved and the disposal of assets and liabilities are as follows :

- (1) Tarakbhai has taken over building at 20 % more than book value against which accepted to pay to the creditors.
- (2) Jethalal has taken machines at 10 % less and stock at 10 % more than book value. He has accepted to pay bills payable.
- (3) Popatlal has taken debtors at 20 % less than book value.

**Note :** (1) Bills receivable becomes valueless.

(2) Outstanding government tax paid ₹ 80,000.

(3) Dissolution expense of firm ₹ 30,000.

You are asked to prepare realisation account, partners capital accounts and cash account.

9. Binal, Dharmistha and Mahesh are partners sharing profit-loss in the ratio of 4:3:2. Firm dissolved on 30-9-2016. On that day the status of the firm was as follows :

#### Balance Sheet

Liabilities	Amt. (₹)	Assets	Amt. (₹)
<b>Capital :</b>		Sundry assets	14,80,000
Bimal                      4,80,000		Cash balance	20,000
Dharmistha              3,60,000			
Mahesh                  2,40,000	10,80,000		
Creditors	4,20,000		
	<b>15,00,000</b>		<b>15,00,000</b>



- (1) ₹ 13,90,000 realised from sundry assets.
- (2) Creditors are paid ₹ 3,70,000 as a final settlement.
- (3) Dissolution expense paid ₹ 20,000.
- (4) ₹ 30,000 paid for unrecorded taxes.

Prepare necessary accounts.

10. Satyam, Shivam and Sundaram are partners sharing profit-loss in the proportion of  $\frac{1}{2} : \frac{1}{3} : \frac{1}{6}$ .

The balance sheet of their firm as on 31-12-2016 is as under :

**Balance Sheet**

Liabilities	Amt. (₹)	Assets	Amt. (₹)
<b>Capital :</b>		Land-building	2,50,000
Satyam                      50,000		Machinery	1,50,000
Shivam                      50,000		Investments	1,00,000
Sundaram                  50,000	1,50,000	Patents	5000
General reserve	60,000	Goodwill	25,000
Investment fluctuation fund	50,000	Debtors                      30,000	
Provident fund	1,00,000	— Bad debt reserve          5000	25,000
Creditors	2,00,000	Stock	15,000
<b>Current Accounts :</b>		Cash	5000
Satyam                      5000			
Shivam                      10,000	15,000		
	<b>5,75,000</b>		<b>5,75,000</b>

The firm was dissolved on 1st January, 2017. Disposal of assets and liabilities was done as under :

- (1) Sale of land and building ₹ 4,00,000; machinery ₹ 1,00,000; investments ₹ 50,000 and stock ₹ 5000.
- (2) From debtors ₹ 15,000 are received write off remaining.
- (3) Out of total creditors, a creditor of 10 % was given unrecorded investments of ₹ 10,000 and remaining amount paid in cash. Remaining creditors are paid at 10 % discount.
- (4) Unrecorded expense of stationery ₹ 6000 paid to Arihant Stationery Mart. No amount is realised for goodwill and patent.
- (5) A remuneration of ₹ 15,000 was decided to pay to Shivam to perform dissolution procedure. Actual dissolution expense ₹ 6000 paid by Shivam.

Prepare necessary accounts to close books of the firm.

