

Chapter 5 Dissolution of a Partnership Firm

Question 1

A, B and C were partners in a company sharing profits in the ratio 4:3:3. On 1-4-2015 they decided to dissolve the company. On that date, A's capital was ₹1,25,000, B's capital was ₹45,000 and C's capital was ₹15,000(Dr.). The creditors amounted to ₹23,150 and cash in hand was ₹3,920. The assets realized ₹1,44,910 and the expenses of dissolution were ₹1,860. Prepare realization account and show your working clearly.

Solution:

| Balance Sheet as on 1st April 2015 | | | | |
|------------------------------------|----------|----------|-------------------------------|----------|
| Liabilities | | ₹ | Assets | ₹ |
| Creditors | | 23,150 | Cash in Hand | 3,920 |
| Capital Accounts: | | | C's Capital (Dr.) | 15,000 |
| A | 1,25,000 | | Sundry Assets(Balancing Fig.) | 1,74,230 |
| B | 45,000 | 1,70,000 | | |
| | | 1,93,150 | | 1,93,150 |

| Dr. | Realization Account | | | Cr. |
|--------------------------|---------------------|--|--------|----------|
| Particular | ₹ | Particular | | ₹ |
| To Sunder Assets | 1,74,230 | By Creditors | | 23,150 |
| To Cash (Creditors paid) | 23,150 | By Cash (Assets realized) | | 1,44,910 |
| To Cash (Expenses) | 1,860 | By Loss on Realization transferred to: | | |
| | | A's Capital A/c | 12,472 | |
| | | B's Capital A/c | 9,354 | |
| | | C's Capital A/c | 9,354 | 31,180 |
| | 1,99,240 | | | 1,99,240 |

Question 2

Give the necessary journal entries in each of the following alternative cases:

- (i) Realization expenses amounted to 500
- (ii) Realization expenses paid by the company amounted to ₹500 and the partner has to bear the realization expenses
- (iii) 'A' one of the partners was to bear all the realization expenses for which he was given a commission of 2% of net cash realized from dissolution. Cash realized from assets was ₹25,000 and cash paid for liabilities amounted to ₹5,000

Solution:

| Journal | | | | | |
|---------|-------------|--|-----|--------|--------|
| Date | Particulars | | L.F | Dr.(₹) | Cr.(₹) |

| | | | | |
|-------|--|-----|--------|--------|
| (i) | Realization A/c | Dr. | 500 | |
| | To Bank A/c | | | 500 |
| | (Payment of realization expenses) | | | |
| (ii) | Partner's Capital A/c | Dr. | 500 | |
| | To Bank A/c | | | 500 |
| | (Payment of realization expenses by the firm on behalf of the partner) | | | |
| (iii) | Bank A/c | Dr. | 25,000 | |
| | To Realization A/c | | | 25,000 |
| | (Amount realized on the sale of assets) | | | |
| | Realization A/c | Dr. | 5,000 | |
| | To Bank A/c | | | 5,000 |
| | (Amount paid for liabilities) | | | |
| | Realization A/c | Dr. | 400 | |
| | To A's Capital A/c | | | 400 |
| | (Commission allowed to A @2% on ₹20,000 i.e 25,000 – 5,000) | | | |

Question 3

A and B share profits and losses in the ratio of 3:2. They have decided to dissolve the firm. Assets and external liabilities have been transferred to realization A/c. Pass the journal entries to affect the following.

- (1) Bank Loan of ₹12,000 is paid off.
- (2) A was to bear all expenses of realization for which he is given a commission of ₹400
- (3) Deferred Advertisement Expenditure A/c appeared in the book at 28,000
- (4) Stock worth ₹1,600 was taken over by B at ₹1,200
- (5) An unrecorded computer realized ₹7,000
- (6) There was an outstanding bill of repairs for ₹2,000, which was paid off.

Solution:

| Journal | | | | | |
|---------|---|-----|-----|--------|--------|
| Date | Particulars | | L.F | Dr.(₹) | Cr.(₹) |
| 1 | Realization A/c | Dr. | | 12,000 | |
| | To Bank A/c (Bank loan discharged) | | | | 12,000 |
| 2 | Realization A/c | Dr. | | 400 | |
| | To A's Capital A/c (Commission payable to A) | | | | 400 |
| 3 | A's Capital A/c | Dr. | | 16,800 | |
| | B's Capital A/c | Dr. | | 11,200 | |
| | To Deferred Advertisement Expenditure A/c (Transfer of fictitious asset to partner's capital accounts) | | | | 28,000 |
| 4 | B's Capital A/c | Dr. | | 1,200 | |
| | To Realization A/c (Stock taken over by B) | | | | 1,200 |
| 5 | Bank A/c | Dr. | | 7,000 | |
| | To Realization A/c (Amount realized from unrecorded computers) | | | | 7,000 |
| 6 | Realization A/c | Dr. | | 2,000 | |
| | To Bank A/c (Payment of outstanding repairs) | | | | 2,000 |

Question 4

If the total assets are ₹5,00,000, total liabilities are ₹1,00,000, the amount realized on the sale of assets is ₹ 4,20,000 and realization expenses are ₹5,000, what will be the profit or loss on realization?

Solution:

Profit and loss of realization can be calculated by preparing a realization account as follows.

| Realization Account | | | |
|----------------------------------|----------|--------------------------|----------|
| Particular | ₹ | Particular | ₹ |
| To Assets | 5,00,000 | By liabilities | 1,00,000 |
| To Bank(Liabilities paid) | 1,00,000 | By Bank(Assets realized) | 4,20,000 |
| To Bank(expenses of realization) | 5,000 | | |
| | | By Capital A/c | |
| | | (Loss on realization) | 85,000 |
| | 6,05,000 | | 6,05,000 |