

## MASTER QUESTION

## ACCOUNTANCY

## Dissolution of partnership

**MASTER QUESTIONS .** our aim of the master question(s) is/are to cover or summarised the whole chapters in one or two or more numerical questions

**Important points kept in mind**

- (I) Realisation account is prepared in dissolution of the firm. Question arises which of the items will transfer or not transfer to realisation account following points should be kept in mind while transferring the assets, liabilities and other items to realisation account
- (a) transfer all the assets at book value on debit side of realisation account but except following assets will not transfer to realisation account
- (i) Cash in hand
  - (ii) Cash at bank
  - (iii) Debit balance of profit and loss account (this will be debited to partners capital account)
  - (iv) Fictitious assets like deferred revenue expenditure (this will be debited to partners capital account)
- (b) transfer all the liabilities at book value on credit side of realisation account but except following liabilities and reserve will not transfer to realisation account
- (i) General reserve (this will be credited to partners capital account)
  - (ii) Balance of profit and loss account (this will be credited to partners capital account)
  - (iii) Workmen compensation reserve (transfer to realisation account to the extent of liability only and remaining credited to partners cap)
  - (iv) Partner's loan (partners loan is shown either on the credit side of of bank account or credit side of partner's capital (discussed in point (V) and question 1(D))

**Note :-** some of the reserve against the assets will transfer to realisation account not transfer to partner's capital such as provision for dep on fixed assets, provision for bad and doubtful debts, investment fluctuation fund and JLP reserve

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- (c) All the assets including unrecorded assets realised or taken over is shown on the credit side of realisation account at realisable value
- (d) If the realisable value of any assets is not given in adjustments we will assume nil realisable value of that asset(s)
- (e) All the liabilities including unrecorded liabilities paid off/or taken over by partner's is shown on the debit side of realisation account
- (f) If the settlement of any outside liability is not given in adjustment we will pay off that liability at book value by debiting the realisation account.

**Note :-** Outside liability include creditors, bills payable, bank loan , loan from outside party including partner spouse loan, bank overdraft , employees provident fund. Outside liability does not include the reserve against the assets such as provision for dep on fixed assets, provision for bad and doubtful debts , investment fluctuation fund and JLP reserve these reserves transfer to credit side of realisation account but does not pay as these are not the outside liabilities.

- (g) Realisation expenses borne by firm debited to realisation account credited to bank account (if paid by firm) or credited to partner's capital account (if paid by partners) discussed in (II) (a) and (b)
- (h) If realisation expenses borne by partners then debited to partner's capital account credited to bank account (if paid by firm) or credited to partner's capital account (if paid by partners in other words no entry will be passed when borne by partner or paid by partners )discussed in (II) (c) (d)
- (i) If any partner is appointed for dissolving the firm for this service partner is getting the remuneration from the firm then that entry will be shown on the debit side of realisation account credited to partner capital account.
- (II) After posting all the entries of realisation account realisation account is closed and profit and loss on realisation transfer to partners capital/current account
- (III) After posting all the entries of current account( if any) current account is closed and balance of current account transfer to capital account
- (IV) Balance of capital account is transferred to bank account
- (V) Last and finally we will prepare the bank account . bank account should be closed and no balance should be left in the bank account.
- (VI) Treatment of realisation expenses:- there are the following cases happens in respect to realisation expenses

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Date	particulars	l.f	Dr amount	Cr amount
	<p>(a) Realisation expenses paid by the firm Realisation a/c _____ Dr     To bank account (Being the realisation expenses paid by the firm it is assumed borne by firm)</p> <p>(b) Realisation expenses paid by the partner Realisation a/c _____ Dr     To partners capital (being the realisation expenses paid by the partner but borne by firm)</p> <p>(c) Realisation expenses paid by the firm on the behalf of a partner. On behalf of a partner means borne by partner. Partner capital _____ Dr     To bank account</p> <p>(d) Realisation expenses borne by the partner Nothing is mentioned about payment who is paid we will assume that paid by the partner. If realisation expenses Borne and paid by the partners no entry will be passed in the firm books.</p> <p>(e) If a partner was paid remuneration to carry out the dissolution of the firm for example Rs 10,000 remuneration. Realisation _____ Dr 10,000     To partner capital                      10,000</p> <p>(f) When realisation expenses was agreed to be payable to partner A by the firm say Rs 7,000 Actual expenses for Rs 9,000 Realisation _____ Dr 7,000     To A'S capital                              7,000</p> <p>Note:- Actual realisation expenses of Rs 9,000 is irrelevant and hence ignored and we will not pass any journal entry of Rs 9,000 in the books Extra Rs 2000 spent by partner A will not get from the firm as he is agreed to get the credit of Rs 7,000 only)</p> <p>(g) When realisation expenses was agreed to be borne by partner A say Rs 7,000 Actual expenses paid by the firm for Rs 9,000 Realisation _____ Dr 7,000</p>			

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	To A'S capital 7,000 A's capital _____ Dr9,000 To cash /bank account 9,000		
	(h) When realisation expenses was agreed to be payable to one partner say partner A by another partner say partner B the entry will be B's capital _____ Dr To A's capital		
	The conclusion of above discussion of the treatment of realisation expenses is as follows :- Realisation account _____ Dr (borne by firm) Partner's capital _____ Dr (borne by partner) To bank (paid by firm) To partner's capital (paid by partners)		

The concept of realisation is clear from the following nine square table

Realisation expenses	Borne by firm	Borne by partner
Paid by firm	Realisation _____ Dr To bank	Partner's capital _____ Dr To bank
Paid by partner	Realisation _____ Dr To partner's capital	No entry

- (VII) If workmen compensation reserve is shown on the liabilities side of balance sheet and no information is given regarding the claim of workmen compensation we will assume that there is no liability of above claim and whole provision for workmen compensation is distributed among the partners in their profit sharing ratio and credited to the partners capital account. if there is any claim for workmen compensation is given under the adjustment then that claim credited to realisation and same amount is shown on the debit side of realisation account for payment and balance provision is distributed among the partners credited to their capital in the profit sharing ratio.

Note :- Question no 1(B) clear the point of workmen compensation reserve

- (VIII) Any reserve regarding assets transfer to realisation account along with assets

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For example fixed assets and provision for dep on fixed assets, debtors and provision for bad and doubtful debts, investment and investment fluctuation fund, JLP and JLP reserve

- (IX) (a) When partners shows a credit balance after all adjustments his loan account should be debited and bank account will be credited journal entry will be

Partner's loan \_\_\_\_\_ Dr  
To bank account

(b) When partners shows a debit balance after all adjustments his loan account should be transferred to his capital account to the extent of debit balance and the balance if any should be paid separately by passing same entry as above

Note :- Question 1(D) clear the point of partner's loan

- (X) if any outside liability is taken over the assets no entry will be passed for this taken over For example creditors taken over the furniture in full satisfaction of their claim no entry will be passed for it.
- (XI) Sometimes partners capital and other liabilities are given but book value of total assets are missing in such a case first ascertained book value of sundry assets by preparing the memorandum balance sheet on the date of dissolution of firm if the capital is given on 1-4-2017 but the firm are dissolved on 31-3-2019 the adjustment of profits or loss of two years, drawing of two years, interest on capital and interest on drawing of two years and any other adjustment of two years are adjusted into the capital on 1-4-2017 these two year adjustments are made by preparing the profit and loss appropriation of two years and capital account of two years and then we will get the capital on 31-3-2019 and this capital is shown in the memorandum balance sheet.

Question 1.(A) If Juggler Muggler, and smuggler are in the partnership profit sharing ratio equal the firm were dissolved Pass journal entries for following cases of realisation expenses. If

- (i) Realisation expenses amounting to Rs 2,000
- (ii) Realisation expenses amounting to Rs 5,000 were paid by juggler
- (iii) Realisation expenses amounting to Rs 5,000 were paid by the firm on the behalf of smuggler
- (iv) Muggler was paid remuneration (including expenses ) of Rs 12,000 to carry out the dissolution .Actual expenses were Rs 15,000
- (v) Dissolution expenses were Rs 15,000 Out of the expenses Rs 6,000 were to be borne by the firm and the balance by the juggler
- (vi) Dissolution expenses were Rs 15,000 Out of the expenses Rs 6,000 were to be borne by the firm and the balance by the juggler the expenses paid by the juggler
- (vii) Realisation expenses amounting to Rs 9,000 were to be borne by Muggler

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- (viii) Realisation expenses amounting to Rs 9,000 were agreed to be payable to juggler by smuggler . Actual expenses were Rs 15,000
- (ix) Juggler agreed to do dissolution work for an agreed remuneration of Rs 7,000 and the firm bears all realisation expenses which amounting to Rs 6,000.
- (x) Realisation expenses were to fully borne by smuggler for which he was to get a credit of Rs 4,000 actual realisation expenses were paid out of the firms bank account of Rs 7,000
- (xi) Muggler , a partner agreed to look after the dissolution work for a commission for Rs 5,000 .Muggler agreed to bear the dissolution expenses .Actual dissolution expenses for Rs 5,500 were paid by juggler on the behalf of muggler
- (xii) Muggler , a partner agreed to look after the dissolution work for a commission for Rs 10,000 .Muggler agreed to bear the dissolution expenses . muggler took over the motor vehicle of Rs 10,000 for his commission. Motor vehicle had already been transferred to realisation account.
- (xiii) A debtor , happy for Rs 19,000 agreed to pay the dissolution expenses which were 18,000 in full settlement of his debts
- (xiv) Dissolution expenses were Rs 8,000 Rs 3,000 were to borne by the firm and balance by juggler. The expenses were paid by him

## Question 1 (B)

Liabilities	amounts	Assets	Amounts
Workmen compensation reserve	10,000		

Case I If there is no other information in adjustments

Case II claim for workmen compensation has arise for Rs 3,000

Case III claim for workmen compensation of Rs 13,000

Question 1(C) A,B and C are equal partner how do you treat the following in dissolution

Liabilities	amounts	Assets	Amounts
Provident fund	13,000	Fixed assets	75,000
Investment fluctuation fund	7,000	Debtors	40,000
Provision for depreciation	12,000	Less provision for	
JLP reserve	90,000	bad debts	5,000
		investment	20,000
		JLP	90,000

- (a) Fixed assets realised for Rs 50,000
- (b) Investment sold for Rs 25,000
- (c) JLP surrendered and Rs 75,000 received from insurance company

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Question 1 (D) A, B and C are equal partner. Firm dissolved

Liabilities	amounts	Assets	Amounts
A's loan	10,000		

Case I A's capital credit balance after all adjustments amounting to Rs 15,000

Case II A's capital debit balance after all adjustments amounting to Rs 6,000

Case III A's capital debit balance after all adjustments amounting to Rs 16,000

Question 2

A, B and C sharing profits and losses in the ratio of 5:3:2

Balance sheet as on 31-3-2019

Capital		Land and building	90,000
A 80,000		Joint life policy	1,10,000
B 1,00,000	2,80,000	Motor vehicle	36,000
C 1,00,000		machinery	2,50,000
Creditors	60,000	Debtors	30,000
Bills payable	1,00,000	less:- reserve for bad	
Investment fluctuation reserve	20,000	debts	1000
Workmen compensation reserve	10,000	trade marks	10,000
Outstanding expenses	5,000	office equipment	5,000
General reserve	45,000	Inventory	5,000
A's loan	30,000	Investment (market.value	45,000
B's wife loan	10,000	42000)	
C's wife loan	8,000	Furniture	24,500
Bank loan	23,000	Cash at bank	90,000
JLP reserve	1,10,000	Profit and loss account	40,000
Commission received in advance	10,000		
Provident fund	23,500		
	7,34,500		7,34,500

The partnership was dissolved on the above date.

- (i) Land and building realised for Rs 80,000 by auction and auctioner commission for Rs 2,000 and motor vehicle realised for Rs 25,000 by the firm

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- (ii) A took over the office equipment for Rs 3,000
- (iii) creditors falling due on may 31<sup>st</sup> 2019 were paid at a discount of 5% p.a
- (iv) C who undertake s to carry out the dissolution proceedings is paid for Rs 5,000 remuneration and he had to bear realisation expenses which amounting to Rs 9,000 paid by the firm.
- (v) B 's agreed to pay his wife loan
- (vi) Debtors falling due on sep 30<sup>th</sup> 2019 were realised at a discount of 5% p.a Pg 6.21
- (vii) There was an old furniture which has been written off completely from the books C was agreed to take over this furniture for Rs 7,500
- (viii) JLP surrendered to the insurance company and cheque received for Rs 56,000
- (ix) Bank loan was settled by handing over the entire stock to the bank along with a payment of Rs 19,000 by cheque
- (x) Unrecorded assets valued at Rs 2,000 taken over By A for Rs 3,000
- (xi) Workmen compensation claim for Rs 4,000
- (xii) The firm retrenched their employees 2 months before the dissolution of the firm and the firm had to pay Rs 12,000 as retrenchment compensation. This liability is not recorded in the books.
- (xiii) Investment not recorded in the books worth for Rs 25,000,. The same is adjusted towards payment to bills payable and remaining liability of bills payable is paid 10% less
- (xiv) Commission received in advance was returned to the customer after deducting Rs 2,000
- (xv) Investment is realised at market value

## Question 3(A)

A,B and C are partners .profit sharing ratio 2:2:1 They are dissolved the partnership

Balance sheet as on 31-3-2019

		Assets	Amount
Sundry creditors	80,000	Sundry assets	34,000
Capital		Debtors	48,400
A	1,10,000	Less provision for bad debts	2,400
B	1,30,000	Stock	1,60,000
	2,40,000	Plant and machinery	30,000
		Motor vehicle	20,000
		C's capital	30,000
	3,20,000		3,20,000

1. A take over the debtors amounting to Rs 40,000 at Rs 34,400 and some of the sundry assets at Rs 14,400 (being 10% less than book value)

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2. C take over the remaining sundry assets at 90% of the book value less 200 discount.
3. Remaining debtors were realised at 50 % of the book value
4. B took 50% of the stock at a discount 20%
5. Remaining stock was sold off at a profit of 30% on cost
6. Half of the trade creditors accepted plant and machinery at an agreed valuation of 10% less than the book value and cash Rs 5,000 in full settlement of their claims.
7. Remaining trade creditors were paid out at a discount of 10%
8. Z an old customer whose account was written off as bad in the previous year paid Rs 1500 which is not included in above stated book debts
9. Motor vehicle sold to Rahul for Rs12,000

Prepare the realisation account capital account and bank account

Question 3 (B)

A,B and C are partners .profit sharing ratio 2:2:1 They are dissolved the partnership

## Balance sheet

As on 31-3-2019

Liabilities	Amount	Assets	amounts
Creditors	25,000	Sundry assets	1,00,000
Capital		Debtors	20,000
A            30,000			
B            35,000			
C            30,000	95,000		
	1,20,000		1,20,000

1. Sundry assets realised for Rs 1.20,000
  2. C was to receive 10% commission on the sale of sundry assets and was to bear all expenses of realisation
  3. expenses of realisation for Rs 3,000
  4. Debtors were assigned to firms creditors in full satisfaction of their claims.(no entry of this)
  5. There was an unrecorded assets of Rs 3,000 half of which is handed over to settle half of an unrecorded liability of Rs 5,000 and the balance of the un recoded liability was paid in cash. The remaining half of un recorded assets sold for Rs 1,000
- Prepare the realisation account capital account and bank account

Question 4(Ascertainment of sundry assets)

Jagu, Magu and Lagu commenced business on 1-4-2017 with capital of Rs 10,00,000 8,00,000 and 6,00,000 respectively profit and loss shared 3:2:1 . capital carried interest @ 5% p.a . During 2017-

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2018 profits is 4,00,000(before interest on capital) and during 2018-2019 firm loss for Rs 1,20,000 (before interest on capital) drawings of each partner for Rs 25,000 per year.

As on the date of 31-3-2019 Creditors were Rs 1,00,000 reserve fund for Rs 10,000 current assets for Rs 12,000(including cash and bank for Rs 3,000) sundry fixed assets were realised for Rs 22,00,000 current assets realised for Rs 5,000 and creditors are paid off 15% less. Expenses of realisation of Rs 5,000. The firm was dissolved on 31-3-2019

Give the necessary accounts to close the books of the firm.

**Question 5**

J,K and L were partners in a firm sharing profits in the ratio of 4:5:1. On 31<sup>st</sup> March, 2018 their firm was dissolved. On this date the, balance sheet showed a balance of Rs1,34,000 in debtors account and a balance of Rs14,000 in provision for bad debts account. Both the accounts were closed by transferring their balances to realisation account. Rs4,000 of the debtors became bad and nothing could be realised from them on dissolution. K agreed to look after the dissolution work for which he was allowed a remuneration of Rs16,000. K also agreed to bear dissolution expenses for which he was allowed a lumpsum payment of Rs4,000. Actual dissolution expenses were Rs6,500 and the same were paid from the firm's cash. Loss on dissolution amounted to Rs37,000.

Pass necessary journal entries for the above transactions in the books of the firm on its dissolution.

**Question 6**

Ravi, Shankar and Madhur were partner in a firm sharing profits in the ratio of 7:2:1. On 31<sup>st</sup> March,2018, the firm was dissolved, after transferring sundry assets (other than cash in hand and cash at bank) and third party liabilities in the realisation accounts the following transactions took place

- (i) Debtors amounting to Rs1,40,000 were handed over to a debt collection agency which charged 5% commission. The remaining debtors were Rs47,000 out of which debtors of Rs17,000 could not be recovered because the same become insolvent.
- (ii) Creditors amounting to Rs5,000 were paid Rs3,500 in full settlement of their claim and balance creditors were handed over stock of Rs90,000 in full settlement of their claim of Rs95,000.
- (iii) A bills receivable Rs2,000 discounted with the bank was dishonoured by its acceptor and the same had to be met by the firm.
- (iv) Profit on realisation amounted to Rs6,000.
- (v) A machinery with a book value of Rs 6,00,000 was taken over By ravi at 50% and stock worth Rs 5,000 was taken over by a creditor of Rs 9,000 in full settlement of his claim

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(vi) land and building (book value Rs 3,00,000) was sold for Rs 4,00,000 through a broker who was charged 2% commission.

(vii) ravi's loan of Rs 12,000 was settled for Rs 12,500

(viii) A liability under a suit for damages included in creditors was settled at Rs 32,000 as against only Rs 13,000 provided in the books .Trade creditors of the firm were Rs 50,000

(ix) A creditor of Rs 3,60,000 accepted machinery valued at Rs 5,00,000 and paid to the firm Rs 1,40,000

(x) A creditors amounting to Rs 90,000 accepted Rs 45,000 in cash and investment worth Rs 40,000 in full settlement of his claim

Pass necessary journal entries for the above transactions in the books of Ravi, Shankar and Madhur.

**Question 7**

Mala, Neela and Kala were partners sharing profits in the ratio of 3:2:1. On 1<sup>st</sup> March, 2015, their firm was dissolved. The assets were realized and liabilities were paid-off. The accountant prepared realisation account, partner's capital account and cash account, but forgot to post few amounts in these accounts.

You are required to complete these below given accounts by posting correct amounts.

Dr. **Realisation Account** Cr.

Particulars	Amount(Rs)	Particulars	Amount(Rs)
To Sundry Assets A/c		By provision for Doubtful Debts A/c	1,000
Machinery      10,000		By Sundry Creditors A/c	15,000
Stock           21,000		By Sheela's loan A/c	13,000
Prepaid Insurance   400		By Repairs and Renewals Reserve	1,200
Investments           3,000	54,000	A/c	
To Mala's Capital A/c	13,000	By Cash A/c (Assets sold)	
(sheela's loan)		Machinery           8,000	
To Cash A/c (creditors paid)	15,000	Stock               14,000	
To Cash A/c (Dishonoured bill paid)	5,000	Debtors             16,000	38,000
To Cash A/c (Expenses)	800	By Mala's Capital A/c (Investment)	2,000
		.....	
	88,200		88,200

Dr. **Partner's Capital Account** Cr.

Particulars	Mala(Rs)	Neela(Rs)	Kala(Rs)	Particulars	Mala(Rs)	Neela(Rs)	Kala(Rs)
s							

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.....	.....	.....	.....	.....	.....	.....	.....
To Cash A/c	12,000	9,000	.....	By Cash A/c	.....	.....	1,000
	23,000	15,000	3,000		23,000	15,000	3,000

Dr.		Cash Account		Cr.	
Particulars	Amount(Rs)	Particulars	Amount(Rs)		
To Balance B/d	2,800	By Realisation A/c (Creditors paid)	15,000		
To Realisation A/c (Sale of assets)	38,000	By Dishonoured Bill A/c	5,000		
To Kala's Capital A/c	1,000	.....	.....		
		By Mala's Capital A/c	12,000		
		By Neela's Capital A/c	9,000		
	41,800				
			41,800		