

VIDYA BHAWAN BALIKA VIDYA PITH

शक्तिउत्थानआश्रमलखीसरायबिहार

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Dissolution of Partnership Firm

Question 1:

Journalise the following transactions regarding Realisation expenses:

[a] Realisation expenses amounted to Rs 2,500.

[b] Realisation expenses amounting to Rs 3,000 were paid by Ashok, one of the partners.

[c] Realisation expenses Rs 2,300 borne by Tarun, personally.

[d] Amit, a partner was appointed to realise the assets, at a cost of Rs 4,000. The actual amount of Realisation amounted to Rs 3,000.

ANSWER:

Journal

	Particulars	L.F.	Amount Rs	Amount Rs
(a)	Realisation A/c To Bank A/c (Realisation expenses paid)	Dr.	2,500	2,500
(b)	Realisation A/c To Ashok's Capital A/c (Realisation expenses paid by Ashok)	Dr.	3,000	3,000
(c)	No entry, as all Realisation expenses are borne personally by Tarun			
(d)	Realisation A/c To Amit's Capital A/c (Realisation expenses paid to Amit)	Dr.	4,000	4,000

Question 2:

Record necessary journal entries in the following cases:

[a] Creditors worth Rs 85,000 accepted Rs 40,000 as cash and Investment worth Rs 43,000, in full settlement of their claim.

[b] Creditors were Rs 16,000. They accepted Machinery valued at Rs 18,000 in settlement of their claim.

[c] Creditors were Rs 90,000. They accepted Buildings valued Rs 1,20,000 and paid cash to the firm Rs 30,000.

ANSWER:

Journal

	Particulars	L.F.	Amount Rs	Amount Rs
(a)	Realisation A/c Dr. To Cash A/c (Creditors worth Rs 85,000 accepted 40,000 as cash and investment worth Rs 43,000 in their full settlement)		40,000	40,000
(b)	No Entry (Creditors Rs 16,000 accepted Machinery Rs 18,000 in the full settlement. No entry is required since both asset and liability are already transferred to the Realisation Account)			
(c)	Cash A/c Dr. To Realisation A/c (Creditors worth Rs 90,000 accepted buildings worth Rs 1,20,000 and returned Rs 30,000 as cash after settlement of claim to the firm)		30,000	30,000

Question 3:

There was an old computer which was written-off in the books of Accounts in the pervious year. The same has been taken over by a partner Nitin for Rs 3,000. Journalise the transaction, supposing. That the firm has been dissolved.

ANSWER:

Journal

Particulars	L.F.	Amount Rs	Amount Rs
Nitin's Capital A/c To Realisation A/c (Unrecorded computer taken over by Nitin)	Dr.	3,000	3,000

Question 4:

What journal entries will be recorded for the following transactions on the dissolution of a firm:

[a] Payment of unrecorded liabilities of Rs 3,200.

[b] Stock worth Rs 7,500 is taken by a partner Rohit.

[c] Profit on Realisation amounting to Rs 18,000 is to be distributed between the partners Ashish and Tarun in the ratio of 5:7.

[d] An unrecorded asset realised Rs 5,500.

ANSWER:

Journal

	Particulars	L.F.	Amount Rs	Amount Rs
(a)	Realisation A/c To Bank A/c (Unrecorded liabilities paid)	Dr.	3,200	3,200
(b)	(Rohit's Capital A/c To Realisation A/c (Stock is taken over by Rohit)	Dr.	7,500	7,500
(c)	Realisation A/c	Dr.	18,000	

	To Ashish's Capital A/c To Tarun's Capital A/c (Profit on Realisation is transferred to Partners' Capital Account)			7,500 10,500
(d)	Bank A/c To Realisation A/c (Unrecorded asset sold)	Dr.	5,500	5,500

Question 5:

Give journal entries for the following transactions:

- To record the Realisation of various assets and liabilities,
- A Firm has a Stock of Rs 1,60,000. Aziz, a partner took over 50% of the Stock at a discount of 20%,
- Remaining Stock was sold at a profit of 30% on cost,
- Land and Building (book value Rs 1,60,000) sold for Rs 3,00,000 through a broker who charged 2% commission on the deal,
- Plant and Machinery (book value Rs 60,000) was handed over to a Creditor at an agreed valuation of 10% less than the book value,
- Investment whose face value was Rs 4,000 was realised at 50%.

ANSWER:

Journal

	Particulars	L.F.	Amount Rs	Amount Rs
1) (a)	For Transfer of Assets Realisation A/c To Assets A/c (Individually) (Assets transferred to Realisation Account)	Dr.	-	-
(b)	For Transfer of Liabilities Liabilities A/c (Individually) To Realisation A/c	Dr.	-	-

	(Liabilities transferred to Realisation Account)			
(c)	For sale of Asset Cash/Bank A/c To Realisation A/c (Assets sold)	Dr.	-	-
(d)	For liability paid Realisation A/c To Cash/Bank A/c (Liabilities paid)	Dr.	-	-
2)	Aziz's Capital A/c To Realisation A/c (Aziz, a partner took over 50% of stock at 20% discount, the value of the total stock was Rs 1,60,000) [$1,60,000 \times (50/100) \times (80/100) = \text{Rs } 64,000$]	Dr.	64,000	64,000
3)	Bank A/c To Realisation A/c (Stock worth Rs 80,000 sold at a profit of 30% on cost) [$80,000 \times (130/100) = \text{Rs } 1,04,000$]	Dr.	1,04,000	1,04,000
4)	Bank A/c To Realisation A/c (Land and Building sold for Rs 3,00,000 and 2% commission paid to the broker)	Dr.	2,94,000	2,94,000
5)	No entry (Plant and Machinery Rs 60,000 handed over to the creditors at a discount of 10%. No entry is required as both the asset and liability are already transferred to the Realisation Account)			
6)	Bank A/c To Realisation A/c (Investments worth Rs 4,000 were realised at 50%)	Dr.	2,000	2,000

NOTE: In this chapter, it has been assumed that all receiving and payments are made through bank.

Question 6:

How will you deal with the Realisation expenses of the firm of Rashim and Bindiya in the following cases:

1. Realisation expenses amounts to Rs 1,00,000,
2. Realisation expenses amounting to Rs 30,000 are paid by Rashim, a partner.
3. Realisation expenses are to be borne by Rashim for which he will be paid Rs 70,000 as remuneration for completing the dissolution process. The actual expenses incurred by Rashim were Rs 1,20,000.

ANSWER:

Books of Rashim and Bindiya

Journal

	Particulars	L.F.	Amount Rs	Amount Rs
1)	Realisation A/c To Bank A/c (Realisation expenses paid)	Dr.	1,00,000	1,00,000
2)	Realisation A/c To Rashim's Capital A/c (Realisation expenses borne by Rashim)	Dr.	30,000	30,000
3)	Realisation A/c To Rashim's Capital A/c (Realisation expenses borne by Rashim and remuneration to him for dissolution Rs 70,000)	Dr.	70,000	70,000

Question 7:

The book value of assets (other than cash and bank) transferred to Realisation Account is Rs 1,00,000. 50% of the assets are taken over by a partner Atul, at a discount of 20%; 40% of the remaining assets are sold at a profit of 30% on cost; 5% of the balance being obsolete, realised nothing and remaining assets are handed over to a Creditor, in full settlement of his claim.

You are required to record the journal entries for Realisation of assets.

ANSWER:

Journal

Particulars	L.F.	Amount Rs	Amount Rs
Realisation A/c To Sundry Assets A/c (Assets other than cash and bank transferred to Realisation Account)	Dr.	1,00,000	1,00,000
Atul's Capital A/c To Realisation A/c (Atul took over 50% of assets worth Rs 1,00,000 at 20% discount) [1,00,000 × (50/100) × (80/100)]	Dr.	40,000	40,000
Bank A/c To Realisation A/c (Assets worth Rs 20,000, i.e. 40% of assets of Rs 50,000 are sold at a profit of 30%) [50,000 × (40/100) × (130/100)]	Dr.	26,000	26,000
No entry is made for obsolescence of the assets and the assets given to the creditors in the full settlement as these are already transferred to the Realisation Account and adjusted)			

Question 8:

Record necessary journal entries to record the following unrecorded assets and liabilities in the books of Paras and Priya:

1. There was an old furniture in the firm which had been written-off completely in the books. This was sold for Rs 3,000,
2. Ashish, an old customer whose Account for Rs 1,000 was written-off as bad in the previous year, paid 60%, of the amount,
3. Paras agreed to take over the firm's goodwill (not recorded in the books of the firm), at a valuation of Rs 30,000,
4. There was an old typewriter which had been written-off completely from the books. It was estimated to realize Rs 400. It was taken away by Priya at an estimated price less 25%,
5. There were 100 shares of Rs 10 each in Star Limited acquired at a cost of Rs 2,000 which had been written-off completely from the books. These shares are valued @ Rs 6 each and divided among the partners in their profit sharing ratio.

ANSWER:

Books of Paras and Priya

Journal

	Particulars	L.F.	Amount Rs	Amount Rs
1)	Bank A/c To Realisation A/c (Unrecorded furniture sold)	Dr.	3,000	3,000
2)	Bank A/c To Realisation A/c (Bad Debt recovered which was previously written off as bad)	Dr.	600	600
3)	Paras's Capital A/c To Realisation A/c (Unrecorded goodwill taken over by Paras)	Dr.	30,000	30,000
4)	Priya's Capital A/c	Dr.	300	

	To Realisation A/c (Unrecorded Typewriter estimated Rs 400 taken over by Priya at 25% less price)			300
5)	Paras's Capital A/c	Dr.	300	
	Priya's Capital A/c	Dr.	300	
	To Realisation A/c (100 shares of Rs 10 each which were not recorded in the books taken @ Rs 6 each by Paras and Priya and divided between them in their profit sharing ratio)			600

Question 9:

All partners wish to dissolve the firm. Yastin, a partner wants that her loan of Rs 2,00,000 must be paid off before the payment of capitals to the partners. But, Amart, another partner wants that the capitals must be paid before the payment of Yastin's loan. You are required to settle the conflict giving reasons.

ANSWER:

As per section 48 of Partnership Act 1932, at the time of dissolution, loans and advances from the partners must be paid off before the settlement of their capital accounts. Hence, Yastin's argument is correct that her loan of Rs 2,00,000 must be paid off before the payment of partners' capital.

Question 10:

What journal entries would be recorded for the following transactions on the dissolution of a firm after various assets (other than cash) on the third party liabilities have been transferred to Realisation Account.

1. Arti took over the Stock worth Rs 80,000 at Rs 68,000.
2. There was unrecorded Bike of Rs 40,000 which was taken over By Mr. Karim.
3. The firm paid Rs 40,000 as compensation to employees.
4. Sundry creditors amounting to Rs 36,000 were settled at a discount of 15%.

5. Loss on Realisation Rs 42,000 was to be distributed between Arti and Karim in the ratio of 3:4.

ANSWER:

Journal

	Particulars	L.F.	Amount Rs	Amount Rs
1	Arti's Capital A/c To Realisation A/c (Arti took over stock worth Rs 80,000 at Rs 68,000)	Dr.	68,000	68,000
2.	Karim's Capital A/c To Realisation A/c (Karim took over an unrecorded bike of Rs 40,000)	Dr.	40,000	40,000
3.	Realisation A/c To Bank A/c (Compensation paid to the employees)	Dr.	40,000	40,000
4.	Realisation A/c To Bank A/c (Creditors amounting Rs 36,000 were settled at a discount of 15%) [36,000 × (85/100)]	Dr.	30,600	30,600
5.	Arti's Capital A/c Karim's Capital A/c To Realisation A/c (Loss on Realisation transferred to Partners' Capital Account)	Dr. Dr.	18,000 24,000	42,000