25

DISSOLUTION OF PARTNERSHIP FIRM

Rakesh and Mukesh were very good friends. They were running a business as a partnerhsip firm. They were very successful. People were jealous of their relations. But one day people came to know that they have closed the business. Some dispute had arisen between the two on a trivial issue. Similarly, firm may come to an end because of dispute among the partners or firm running in losses for last few years or because of order of the court and so on. We can say that the partnership firm is dissolved. In this lesson, you will learn about the accounting treatment in case of dissolution of partnership firm.

OBJECTIVES

After going through this lesson, you will be able to:

- state the meaning of dissolution of partnership firm;
- distinguish between dissolution of partnership and dissolution of partnership firm:
- explain the Realisation account and disposal of assets and payment of liabilities;
- illustrate the treatment of unrecorded assets and liabilities; and
- prepare partners' capital accounts and bank and/or cash account.

25.1 DISSOLUTION OF PARTNERSHIP AND DISSOLUTION OF PARTNERSHIP FIRM

The term dissolution means coming to an end or discontinuation. The dissolution of the firm implies a complete breakdown of the partnership relation among all the

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partners. Dissolution of the partnership (owing to retirement, death or insolvency of a partner), merely involves change in the relation of the partners but it does not end the firm; the partnership would certainly come to an end but the firm, the reconstituted one might continue under the same name. So the dissoluton of the partnership may or may not include the dissolution of the firm but the dissoluton of the firm necessarily means the dissoluton of the partnership. On dissolution of the firm, the business of the firm ceases to exist since its affairs are wound up by selling the assets and by paying the liabilities and discharging the claims of the partners. The dissolution of partnership among all partners of a firm is called dissolution of the firm.

(i) **Dissolution by Agreement :** A firm is dissolved in case

- all the partners give consent or
- as per the terms partnership agreement .

(ii) **Compulsory dissolution :** A firm is dissolved compulsorily in the following cases

- When all the partners or all excepting one partner becomes insolvent or of unsound mind.
- When the business becomes unlawful.
- When all the partners excepting one decide to retire from the firm.
- When all the partners or all excepting one partner die.
- A firm is also dissolved compulsorily if the partnership deed includes any provision regarding the happening of the following events
  (a) expiry of the period for which the firm was formed,
  (b) completion of the specific venture or project for which the firm was formed.

(iii) **Dissolution by Notice :** In case of a partnership at will, the firm may be dissolved if any one of the partner gives a notice in writing to the other partners.

(iv) **Dissolution by Court :** A court may order a partnership firm to be dissolved in the following cases:

(a) When a partner becomes of unsound mind
(b) When a partner becomes permanently incapable of performing his/her duties as a partner,
(c) When partner deliberately and consistently commits breach of agreements relating to the management of the firm;
(d) When a partner's conduct is likely to adversely affect the business of the firm;

(e) When a partner transfers his/her interest in the firm to a third party;

(g) When the court regards dissolution to be just and equitable.

Distinction Between Dissolution of Partnership and Dissolution of Partnership Firm

You have already studied that on the occasion of admission, retirement and death existing partnership comes to an end, but the business of the firm continues under a new agreement. When a firm decides to wind up its business operations under any of the circumstances mentioned, it stands dissolved. Dissolution of a partnership firm is different from the dissolution of a partnership.

Dissolution of a firm means that the firm closes its business and comes to an end. While dissolution of a partnership means termination of old partnership agreement and a reconstitution of firm due to admission, retirement and death of a partner. In dissolution of a partnership the remaining partners may agree to carry on the business under a new agreement.

INTEXT QUESTIONS 25.1

Fill in the blanks with the appropriate word/words :

i. A partnership firm comes to an end when the activities of the firm become ....

ii. When a firm decides to close its business, it is said to be ....

iii. Dissolution of a .... is different from dissolution of ....

iv. The firm is compulsorily .... when all the partners or all excepting one partner die.

v. The firm is dissolved by .... when a partner becomes of unsound mind.

vi. The firm is dissolved by .... when all the partners give their consent.

25.2 TREATEMENT OF ASSETS AND LIABILITIES

When the partners decide to discontinue the business of the firm, it becomes necessary to settle its accounts. For this purpose, it disposes off all its assets (except cash and bank balances) for satisfying all the claims against it. For this purpose a separate account called 'Realisation Account' is opened. Realisation Account is an account in which assets excluding cash in hand and bank are transferred at their book value and all external liabilities are transferred at their book value.

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It also shows what amount were realised on the sale of assets and which liabilities were discharged at what amount.

In order to record the disposal of assets and discharge of liabilities, the following journal entries are recorded:

1. **For Transfer of Assets :** Assets account is closed by transferring it to the Realisation Account at its Book Value.

Realisation A/c	Dr.
To Assets A/c (Individually)	
(Transfer of assets)	

It is to be noted that the following items on the assets side of the Balance Sheet are not transferred to the Realisation Account :

(a) (i) Undistributed loss (i.e. Debit Balance of Profits and Loss account)

(ii) Fictitious assets or deferred revenue expenditures such as preliminary expenses .

All the above items are closed by transferring them to the partners' Capital Account in their profit sharing ratio. The Journal entry is made:

Partner's capital A/c	Dr. (Individually)
To Profit & Loss A/c	
To Fictitious Assets A/c	
(Transfer of loss and fictitious Assets)	

(b) Cash in hand, and Cash at Bank, will be the opening balance of the Cash/ Bank account;

(c) Provisions and reserves against assets should be closed by crediting the Realisation Account.

The Journal entry is made :

Provision for Doubtful Debts A/c	Dr.
Provision for Depreciation A/c	Dr.
Any other Provision A/c	Dr.
To Realisation A/c	
(Transfer of provision on assets)	

Notes

2. **For Transfer of Liabilities :** The accounts of various external liabilities are closed by transferring them to the Realisation Account. The loan given to the firm by a partner's wife is treated as an external liability and is transferred to the credit of Realisation Account. The relevant Journal entry is as under :

External Liabilities A/c	Dr. (Individually)
To Realisation A/c	
(Transfer of external liability)	

Capital and Loan account of the partners' are treated separately and so are not transferred to the Realisation Account.

3. **Treatment of Accumulated Reserves and Profit/Loss :** Any balance of accumulated reserves (e.g. general reserves), Profit and Loss Account (Cr.), Reserve Fund and other reserves on the date of dissolution will be credited to the Partners' Capital accounts on the basis of profit sharing ratio. The following journal entry will be recorded :

Profit and Loss A/c	Dr.
General Reserve A/c	Dr.
Any Other Fund	Dr.
To Partners' Capital A/c (Individually)	
(Transfer of profit and reserve)	

4. **For Sale of Assets (for cash)**

Bank/ Cash A/c	Dr. (Realised Value)
To Realisation A/c	
(Sale of assets)	

5. **For Assets taken Over by the Partner**

Partners' Capital A/c	Dr.
To Realisation A/c (Agreed Price)	
(Assets taken over by partner)	

Bank/Cash/Partners capital A/c	Dr.
To Partner's Loan A/c	
(Settlement of loan to a partner)	

6. **Settlement of loans given by the Partner**

Partners' Loan A/c	Dr.
To Bank/Cash/Partners' capital A/c	
(Settlement of loan given by the partner)	

7. Payment of Liabilities in Cash

Realisation A/c Dr.
To Cash A/c
(Payment of liabilities)

8. Payment of Liabilities by the Partner(s)

Realisation A/c Dr.
To Partner Capital A/c
(Liabilities taken over by partner)

Treatment of Unrecorded Assets and Liabilities

Sometimes, there may be some assets that have already been written off completely in previous years and thus, do not appear in the Balance Sheet but physically they still exist for operational purposes. For example, there is an old computer, which is still in working condition though its book value is zero. Similarly, there may be some liabilities, which do not appear in the Balance Sheet, but actually they are still there. For example, a bill discounted with bank, on dissolution it was dishonoured and had to be taken up by the firm for payment purposes.

It is to be kept in mind that an unrecorded asset would never be transferred to the debit of the Realisation Account, because the amount realised from its sale is in nature of a gain and the Realization Account is only credited accordingly. Similarly, an unrecorded liability need not be transferred to Realisation.

Reason being that its payment is a loss and Realisation Account is only debited with the actual payment. In such cases, the following journal entries are made:

(a) When the amount realised from the sale of an unrecorded asset.

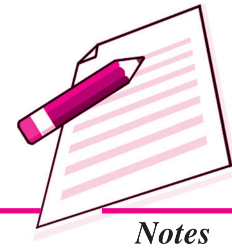
Cash/Bank A/c Dr.
To Realisation A/c
(Sale of unrecorded assets)

(b) When an unrecorded asset is taken over by a partner at an agreed value.

Partner's Capital A/c Dr.
To Realisation A/c
(Unrecorded assets taken by partner)

(c) When unrecorded liability has been discharged by the firm.

Realisation A/c Dr.
To Bank/Cash A/c
(Payment of unrecorded liabilities)



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(d) When an unrecorded liability is discharged by a partner on behalf of the firm.

Realisation A/c Dr.

To Partner's Capital A/c

(Unrecorded Liabilities payment by partner)

Payment of Realisation Expenses

(a) When realisation expenses are paid by the firm (i.e. borne by the firm). The following journal entry will be recorded:

Realisation A/c Dr.

To Bank/ Cash A/c

(Payment of realisation expenses)

(b) When Realisation expenses are paid by the partner on behalf of the firm (i.e. realisation expenses paid by the partner but borne by the firm). The following journal entry is made:

Realisation A/c Dr.

To Partners' Capital A/c

(Payment of realisation expenses by partner on behalf of firm)

(c) Realisation expenses were agreed to be paid by the partner and were paid by the firm

Partner's Capital A/c Dr.

To Cash/Bank A/c

(Realisation expenses paid and borne by partner)

Closing of Realisation Account

The balance in the realisation account would show either profit or loss on dissolution. If the total of the credit side is more than the debit side, then there is a profit and following journal entry is made :

Realisation A/c Dr. (Individually)

To Partner's Capital/ Current A/c (Individually)

(Profit on realisation transferred to capital accounts)

If, the debit side is more than credit side, then there is a loss on dissolution and following journal entry is made :

Partner's Capital/Current A/c Dr. (Individually)

To Realisation A/c

(Loss on realisation transferred to capital account)

Notes

Format of Realisation Account

Realisation Account

Dr. Cr.

Particulars	*Amount* (₹)	*Particulars*	*Amount* (₹)
All Assets A/c (Book Value) (Except Cash/Bank)		**All External Liabilities A/c** **(Book Value)**	
Cash/Bank A/c (Payment of external liabilities)		**Cash/Bank A/c** (Amount realised on sale of various assets)	
Partners Capital A/c (if any liability paid by partner)		**Partners' capital A/c** (If any asset is taken over)	
Cash/Bank A/c (Expenses on realisation)		**Partners Capital A/c** (For transferring loss on realisation)	
Partners Capital A/c (Expenses on realisation paid by a partner)			
Partners Capital A/c (For transferring profit on realisation)			

INTEXT QUESTIONS 25.2

Given below are certain statements. Some of these statement are true and some of these are false. Write T' against true statement and 'F' against false statements.

(i) At the time of dissolution an account including cash and bank are transferred to realisation account.

(ii) On dissolution of a firm, business operations of the firm are closed down.

(iii) After the preparation of realisation account, Gain or loss of realisation is transferred to Partners capital account

(iv) Amount realised from the sale of an unrecorded asset is recorded in Realisation Account.

(v) Balance of general reserve is transferred to partners' capital accounts.

(vi) Realisation expenses paid by the partners on behalf of the firm are recorded in realisation account and partners capital account.

25.3 PARTNERS' CAPITAL ACCOUNT AND CASH/BANK ACCOUNT

Notes

Settlement of Partners' Capital Accounts

After all the adjustments related to partners' capital accounts and transfer of profit or loss on realisation to the partners' capital accounts, the capital accounts are closed in the following manner:

(a) If the Partner's Capital Account shows a debit balance, the partner has to bring the necessary amount of cash. The following journal entry is made :

Bank/Cash A/c Dr.
  To Partner's Capital A/c
(Cash brought by the partner)

(b) If the Partner's Capital Account shows a credit balance, he/she is to be paid off the necessary amount of cash. The following journal entry will be made:

Partner's Capital A/c Dr.
  To Bank/Cash A/c
(Cash paid to partner)

Preparation of Cash/Bank account

After closing the partners' capital accounts, bank account is prepared and all entries pertaining to the bank/cash are posted in it including any cash brought in by the partner on the dissolution of firm. Partners' capital accounts are closed by making payment from the bank account and thereby bank account stands closed by making/receiving payment. In this way all the accounts stand closed. If cash/bank account does not show any balance, it implies that all the accounts of the dissolved firm have been closed properly.

Illustration 1

Arun and Seema are equal partners in a firm. They decided to dissolve the partnership on December 31, 2014 when the balance sheet stood as under:

Balance Sheet as on December 31, 2014

Liabilities		*Amount (₹)*	*Assets*	*Amount (₹)*
Sundry creditors		54,000	Cash at Bank	22,000
Reserve fund		20,000	Sundry Debtors	24,000
Loan		80,000	Stock	84,000
Capital :			Furniture	50,000
Arun	1,20,000		Plant	94,000
Seema	1,20,000	2,40,000	Leasehold land	1,20,000
		3,94,000		**3,94,000**

Assets were realised as follows:

	₹
Leasehold land	1,44,000
Furniture	45,000
Stock	81,000
Plant	96,000
Sundry debtors	21,000

The creditors were paid ₹ 51,000 in full settlement. Expenses of realisation amounted to ₹ 6,000.

Prepare Realisation account, Bank account, partners' capital accounts to close the books of the firm.

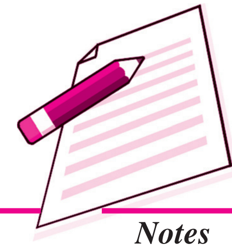
Solution :

Books of Arun and Seema

Realisation Account

Dr Cr.

Particulars		*Amount (₹)*	*Particulars*		*Amount (₹)*
Assets transferred			Sundry Creditors		54,000
Sundry Debtors	24,000		Loan		80,000
Plants	94,000		**Bank**		
Stock	84,000		Sundry Debtors	21,000	



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Leasehold land	1,20,000		Plant	96,000	
Furniture	50,000	372000	Stock	81,000	
Bank			Lease hold land	1,44,000	
Creditors	51,000		Furniture	45,000	3,87,000
Loan	80,000				
Realisation Expense	6,000	1,37,000			
Profit transferred to					
Arun Capital	6,000				
Seema Capital	6,000	12,000			
		5,21,000			5,21,000

Capital Accounts

Dr. Cr.

Particulars	*Arun (₹)*	*Seema (₹)*	*Particulars*	*Arun (₹)*	*Seema (₹)*
Bank	1,36,000	1,36,000	Balance b/d	1,20,000	1,20,000
			Reserve fund	10,000	10,000
			Realisation (Profit)	6,000	6000
	1,36,000	1,36,000		1,36,000	1,36,000

Bank Account

Dr. Cr.

Particulars	*Amount (₹)*	*Particulars*	*Amount (₹)*
Balance b/d	22,000	Realisation A/c	1,37,000
Realisation A/c	3,87,000	Arun Capital	1,36,000
		Seema Capital	1,36,000
	4,09,000		4,09,000

Illustration 2

Sonya and Mayank are partners, who shared profit as 3:2. Following is the balance sheet as on December 31, 2014

Notes

Balance Sheet as on December 31, 2014

Liabilities	*Amount (₹)*	*Assets*		*Amount (₹)*
Creditors	28,000	Cash in hand		10,500
Bills payable	20,000	Cash at Bank		30,000
Profit & Loss A/c	13,500	Stock		7,500
Sonya's Capital	32,500	Sundry debtors	21,500	
Mayank's Capital	11,500	*Less :* Provision		
		for bad debt	500	21,000
		Land & Building		36,500
	1,05,500			1,05,500

The firm was dissolved on December 31, 2014. Close the books of the firm with the following information:

(i) Debtors realised at a discount of 5%.

(ii) Stock realised at ₹ 7,000.

(iii) Building realised at ₹ 42,000.

(iv) Realisation expenses amounted to ₹ 1,500 .

(v) Creditors and bills payable are paid in full.

Prepare necessary ledger accounts.

Solution :

Books of Sonya and Mayank

Realisation Account

Dr. Cr.

Particulars		*Amount (₹)*	*Particulars*		*Amount (₹)*
Assets transferred			Provision for bad debts		500
Stock	7,500		Creditors		28,000
Sundry assets	21,500		Bills payable		20,000
Land & Building	36,500	65500	**Bank**		
Bank			Debtors	20,425	
Creditors	28,000		Stock	7,000	

Bills payable 20,000		Land & Building 42,000	69,425
Realisation [Expense] 1,500	49500		
Profit transferred to (3 : 2)			
Sonya's Capital 1,755			
Mayank's Capital 1,170	2,925		
	1,17,925		1,17,925

Notes

Capital Accounts

Dr. Cr.

Particulars	*Sonya* (₹)	*Mayank* (₹)	*Particulars*	*Sonya* (₹)	*Mayank* (₹)
Bank	42,355	18,070	Balance b/d	32,500	11,500
			Profit & Loss A/c	8,100	5,400
			Realisation (Profit)	1,755	1,170
	42,355	18,070		42,355	18,070

Bank Account

Dr. Cr.

Particulars	*Amount* (₹)	*Particulars*	*Amount* (₹)
Balance b/d	30,000	Realisation	49,500
Cash	10,500	Sonya's Capital	42,355
Realisation	69,425	Mayank's Capital	18,070
	1,09,925		1,09,925

Illustration 3

Tanu, Manu and Chetan are in partnership sharing profit in the proportion of 1/2, 1/3, 1/6 respectively. They dissolve the partnership firm on the December 31, 2014, when the balance sheet of the firm stood as under:

Balance Sheet as on December 31, 2014

Liabilities		*Amount* (₹)	*Assets*	*Amount* (₹)
Sundry Creditors		30,000	Bank	37,500
Bills payable		25,000	Sundry debtors	58,000
Manu's loan		40,000	Stock	39,500
Capital			Investment	42,000
Tanu	90,000		Machinery	48,000
Manu	75,000		Freehold property	90,000
Chetan	55,000	2,20,000		
		3,15,000		3,15,000

The machinery was taken over by Manu for ₹ 45,000, Tanu took over the investment for ₹ 40,000 and freehold property was taken over by Chetan at ₹95,000. The remaining assets realised as follows: Sundry Debtors ₹ 56,500 and Stock ₹ 36,500. Sundry creditors were settled at discount of 5%. Bills payable is taken over by Chetan for ₹ 23,000. Their liabilities amounting to ₹3,000 not shown in books are also to be paid. An office computer, not shown in the books of accounts, realised ₹ 9,000

Realisation expenses amounted to ₹ 3,000.

Prepare Realisation Account, Partners Capital account and Bank Account.

Solution:

Books of Tanu Manu and Chetan

Realisation Account

Dr. Cr.

Particulars		*Amount* (₹)	*Particulars*	*Amount* (₹)
Assets transferred			Sundry Creditors	30,000
Sundry debtors	58,000		Bills payable	25,000
Stock	39,500		Tanu Capital (Investment)	40,000
Machinery	48,000		Manu Capital (Machinery)	45,000
Investment	42,000		Chetan Capital	95,000
Freehold property	90,000	277500	(freehold property)	

Chetan Capital (Bills payable)		23,000	**Bank**		
Bank			S.Debtors	56,500	
S.Creditors	28,500		Stock	36,500	
Liabilities (Unrecorded)	3,000		Computer	9,000	1,12,000
Realisation [Expense]	6,000	37,500			
Profit transferred to					
Tanu Capital	4,500				
Manu Capital	3,000				
Chetan Capital	1,500	9,000			
		3,47,000			3,47,000

Capital Account

Dr. Cr.

Particulars	*Tanu* (₹)	*Manu* (₹)	*Chetan* (₹)	*Particulars*	*Tanu* (₹)	*Manu* (₹)	*Chetan* (₹)
Realisation (Assets)	40,000	45,000	95,000	Balance b/d	90,000	75,000	55,000
				Realisation (Assets)	—	—	23,000
Bank	54,500	33,000	—				
				Realisation (Profit)	4,500	3,000	1,500
				Bank	—	—	15,500
	94,500	78,000	95,000		94,500	78,000	79,500

Bank Account

Dr. Cr.

Particulars	*Amount* (₹)	*Particulars*	*Amount* (₹)
Balance b/d	37,500	Realisation	37,500
Realisation	1,12,000	Manu's loan	40,000
Chetan Capital	15,500	Tanu Capital	54,500
		Manu Capital	33,000
	1,65,000		1,65,000

Notes

INTEXT QUESTIONS 25.3

I. Which of the following is treated as unrecorded asset :

i. Sale of old Furniture.

ii. Goodwill appearing in the balance sheet.

iii. Bad debts recovered, written off in pervious year.

iv. Sale of Investments.

v. Sale of old computer, written off in pervious year.

II. Which of the following is treated as unrecorded liability :

i. A Bill Discounted with bank dishonoured.

ii. Repayment of Bank Loan.

iii. Creditors for stock purchase of goods.

iv. Settlement of a dispute against the firm.

v. Payment of outstanding bills.

WHAT YOU HAVE LEARNT

- When a firm decides to close its business and no business activity is carried out by the firm, it is said to be dissolved.
- Dissolution of a firm is different from the dissolution of a partnership. Dissolution of a firm means that the firm closes its business and comes to an end. While dissolution of a partnership means termination of old partnership agreement and a reconstitution of firm due to admission, retirement and death of a partner.
- On dissolution of the firm the books of accounts are closed. All assets and liabilities are transferred to an account called "Realisation Account". This account records the realisation of assets and the payment of liabilities.
- When the partners decide to discontinue the business of the firm, it becomes necessary for it to settle its accounts. For this purpose, it disposes off all its assets (except cash and bank balances) for satisfying all the claims against it.
- An unrecorded asset would never be transferred to Realisation Account, because the amount realised from its sale is in the form of a gain and the Realization Account is only credited accordingly.
- After all the adjustments related to partners' capital accounts and transfer of profit or loss on realisation to the partners capital accounts, the capital accounts are closed.

- Partners capital accounts are closed through making payment from the bank account and thereby bank account stands closed by making/ receiving payment.

TERMINAL EXERCISE

1. Answer the following questions in one sentence:
   (a) What is meant by dissolution of partnership firm ?
   (b) Why Realisation account is prepared ?
   (c) What journal entry is made in case of payment of unrecorded Liability?
   (d) What journal entry is made when expenses are agreed to be borne by the partners and paid by the firm.
2. Distinguish between dissolution of partnership firm and dissolution of partnership.
3. Under what circumstances can the court dissolve the partnership firm?
5. Sumit and Anish are equal partners in a firm. They decided to dissolve the partnership on December 31,2014 when the balance sheet is as under:

Balance Sheet as on December 31, 2014

Liabilities		*Amount* (₹)	*Assets*	*Amount* (₹)
Sundry creditors		30,000	Cash at Bank	7,000
Reserve fund		7,000	Sundry Debtors	23,000
Bills Payable		30,000	Stock	42,000
Capital			Furniture	35,000
Sumit	70,000		Plant	40,000
Anish	60,000	1,30,000	Leasehold land	50,000
		1,97,000		1,97,000

Assets were realised as :

	₹
Leasehold land	62,000
Furniture	30,500
Stock	40,500
Plant	48,000
Sundry debtors	22,500

Notes

Notes

Sundry creditors were paid ₹ 29,500 in full settlement. Bills payable paid 5% less. Expenses of realisation amounted to ₹ 2,500.

Prepare realisation account, Bank account and partners' capital accounts to close the books of the firm.

6. Ashu and Hemani are Partners sharing profit and losses in the ratio of 3 : 2. They decided to dissolve the firm on December 31 , 2014. Their balance sheet on the above date was :

Balance Sheet as on December 31, 2014

Liabilities		*Amount* (₹)	*Assets*	*Amount* (₹)
Capital			Building	90,000
Ashu	1,00,000		Machinery	60,000
Hemani	92,000	1,92,000	Furniture	10,000
Creditors		88,000	Stock	24,000
Bank overdraft		20,000	Investments	50,000
			Debtors	48,000
			Cash in hand	18,000
		3,00,000		3,00,000

Ashu is to take over the building at ₹ 98,000 and machinery and furniture is to be taken over by Hemani at value of ₹ 70,000. Ashu agreed to pay creditor and Hemani agreed to meet bank overdraft. Stock and investments are taken by both partners in their profit sharing ratio.

Debtors realised for ₹ 46,000, expenses of realisation amounted to ₹ 3,000.

Prepare necessary ledger accounts.

7. Tarun, Neeru and Vikas shared profit in the ratio of 3:2:1. On December 31, 2014 their balance sheet was as follows:

Balance Sheet as on December 31, 2014

Liabilities		*Amount* (₹)	*Assets*	*Amount* (₹)
Capital			Plant	80,000
Tarun	90,000		Debtors	70,000
Neeru	1,00,000		Furniture	22,000
Vikas	80,000	2,70,000	Stock	70,000
Creditors		60,000	Investments	60,000

Bills payable	30,000	Bills receivable	46,000
Reserve	20,000	Cash in hand	32,000
	3,80,000		3,80,000

On this date the firm was dissolved. The assets realised as follows: Plant ₹85,000, Debtors ₹69,000 Furniture ₹20,000, stock 95% of the book value, Investments ₹ 86,000 and Bills receivable ₹ 31,000. An office Electronic Typewriter, not shown in the books of accounts realised ₹ 9,000. Expenses of realisation amounted to ₹ 4,500. Creditor are taken over by Vikas at book value.

Prepare realisation account, Capital accounts and cash account

Notes

8. The following was the balance sheet of Anu and Hema as on December 31,2014:

Balance Sheet as on December 31, 2014

Liabilities		*Amount (₹)*	*Assets*	*Amount (₹)*
Sundry Creditors		42,000	Cash at Bank	13,000
Bills payable		26,000	Sundry debtors	50,000
Hema's loan		20,000	Stock	40,000
Reserve fund		6,000	Bills receivable	28,000
Provision of Bad debts		2,000	Machinery	60,000
Capital			Investment	30,000
Anu	90,000	1,52,000	Fixtures	27,000
Hema	62,000			
		2,48,000		2,48,000

The firm was dissolved on December 31, 2014 and assets realised and settlements of liabilities was as follows :

(a) The realisation of the assets were as follows:

	₹
Sundry debtors	48,000
Stock	38,000
Bills receivable	27,000
Machinery	62,000

(b) Investment was taken over by Hema at agreed value of ₹ 36,000 and agreed to pay of creditors. Bills payable is paid 3% less.

(c) Fixture are value less.

(d) The expenses incurred on realisation were ₹ 2,200.

Journalise the entries to be made on the dissolution and prepare realisation account, bank account and partners capital accounts.

Notes

9. Rohit and Tina were partners in a firm and shared profit as 3 : 2. They decided to dissolve their firm on March 31, 2014 when their balance sheet was as follows:

Balance Sheet as on March 31, 2014

Liabilities		*Amount* (₹)	*Assets*	*Amount* (₹)
Capital			Machinery	80,000
Rohit	80,000		Investments	60,000
Tina	90,000	1,70,000	Stock	22,000
Sundry creditors		70,000	Sundry Debtors	80,000
Reserve		10,000	Cash at bank	8,000
		2,50,000		2,50,000

The assets and liabilities were disposed off as follows:

(a) Machinery were given to creditors in full settlement of their account and stock is taken over by Rohit at ₹ 19,000.

(b) Investment were taken over by Tina at book value. Sundry debtors of book value ₹ 50,000 taken over by Rohit at 10% less and remaining debtors realised for ₹ 28,000.

(c) Realisation expenses amounted to ₹ 2,000 paid by Rohit.

Prepare necessary ledger accounts to close the books of the firm.

ANSWERS TO INTEXT QUESTIONS

25.1 (i) Unlawful (ii) Dissolved (iii) Firm, partnership
(iv) Dissolved (v) Court (vi) Agreement

25.2 (i) F (ii) T (iii) T (iv) T (v) T (vi) T

25.3 I. (c) and (e) II. (i) and (iv)

ANSWERS TO TERMINAL EXERCISE

5. Profit on Realisation ₹ 13,000 Total of Cash A/c ₹ 210500
6. Profit on Realisation ₹ 2000 Total of Cash A/c ₹ 64000
7. Profit on Realisation ₹ 14000 Total of Cash A/c ₹ 398500
8. Loss on Realisation ₹ 23420 Total of Cash A/c ₹ 188000
9. Loss on Realisation ₹ 92000 Total of Cash A/c ₹ 83800