

ACCOUNTANCY

Chapter 4: Dissolution of Partnership Firm



Dissolution of Partnership Firm

Introduction:

Dissolution of partnership firm is a process in which relationship between partners of firm is dissolved or terminated. If a relationship between all the partners of firm is dissolved then it is known as dissolution of firm. In case of dissolution of partnership firm, the firm ceases to exist.

According to Section 39 of the Indian Partnership Act, 1932, the dissolution of partnership between all the partners of a firm is called "Dissolution of the Firm". A firm may be dissolved with the consent of all the partners or in accordance with a contract between the partners.

Modes of Dissolution of a Firm:

- A firm can be dissolved either voluntarily or by an order from the Court.
- Voluntary Dissolution of a Firm (without the order of the Court):- (Section 40-43)

By Agreement (Section 40):

According to Section 40 of the Indian Partnership Act, 1932, partners can dissolve the partnership by agreement and with the consent of all the partners. Partners can also dissolve the partnership based on a contract that has already been made.

Compulsory Dissolution (Section 41):

An event can make it unlawful for the firm to carry on its business. In such cases, it is compulsory for the firm to dissolve. However, if a firm carries on more than one undertakings and one of them becomes illegal, then it is not compulsory for the firm to dissolve. It can continue carrying out the legal undertakings. Section 41 of the Indian Partnership Act, 1932, specifies this type of voluntary dissolution.

On the happening of certain contingencies (Section 42):

According to Section 42 of the Indian Partnership Act, 1932, the happening of any of the following contingencies can lead to the dissolution of the firm:

- Some firms are constituted for a fixed term. Such firms will dissolve on the expiry of that term.

- Some firms are constituted to carry out one or more undertaking. Such firms are dissolved when the undertaking is completed.
- Death of a partner.
- Insolvency of a partner.

By notice of partnership at will (Section 43):

According to Section 43 of the Indian Partnership Act, 1932, if the partnership is at will, then any partner can give notice in writing to all other partners informing them about his intention to dissolve the firm. In such cases, the firm is dissolved on the date mentioned in the notice. If no date is mentioned, then the date of dissolution of the firm is the date of communication of the notice.

Dissolution of the Firm by the Court (Section 44):

According to Section 44 of the Indian Partnership Act, 1932, the Court may dissolve a firm on the suit of a partner on any of the following grounds:

Insanity/Unsound mind: If an active partner becomes insane or of an unsound mind, and other partners file a suit in the court, then the court may dissolve the firm.

Two things to remember here:

- The partner is not a sleeping partner.
- The sickness is not temporary.

Permanent Incapability: If a partner becomes permanently incapable of performing his duties as a partner, and other partners file a suit in the court, then the court may dissolve the firm. Also, the incapacity may arise from a physical disability, illness, etc.

Misconduct: When a partner is guilty of conduct which is likely to affect prejudicially the carrying on of the business and the other partners file a suit in the court, then the court may dissolve the firm. Further, it is not important that the misconduct is related to the conduct of the business. The court looks at the effect of the misconduct on the business along with the nature of the business.

Persistent Breach of the Agreement:

A partner may will fully or persistently commit a breach of the agreement relating to:

- The management of the affairs of the firm, or

- A reasonable conduct of its business,
- Conduct himself in matters relating to business that is not reasonably practicable for other partners to carry on the business in partnership with him.

In such cases, the other partners may file a suit against him in the court and the court may order to dissolve the firm.

The following acts fall in the category of breach of agreement:

1. Embezzlement.
2. Keeping erroneous accounts.
3. Holding more cash than allowed.
4. Refusal to show accounts despite repeated requests, etc.

Transfer of Interest: A partner may transfer all his interest in the firm to a third party. Now, if the other partners file a suit against him in the court, then the court may dissolve the firm

Continuous/Perpetual losses: If a firm is running under losses and the court believes that the business of the firm cannot be carried on without a loss in the future too, then it may dissolve the firm.

Just and equitable ground: The court may find other just and equitable grounds for the dissolution of the firm.

Some such grounds are:

- **Deadlock in management:** It occurs, when two process competing for two resources in opposite order. It is a situation in which two computer programs sharing the same resources are effectively preventing each other from accessing the resource resulting in both programs ceasing to function.
- Partners not being in talking terms with each other
- Gambling by a partner on the stock exchange.

Difference between dissolution of partnership and dissolution of a firm:

BASIS FOR COMPARISON	DISSOLUTION OF PARTNERSHIP	DISSOLUTION OF FIRM
Meaning	Dissolution of a partnership refers to the discontinuance of the relation between partner and other partners of the firm.	Dissolution of firm implies that entire firm ceases to exist, including the relation among all the partners.
Nature	Voluntary	Voluntary or Compulsory
Business	Business of the firm continues as before.	Business of the firm comes to an end.
Economic relationship	Continues to exist but in a changed form.	Comes to an end.
Account	Revaluation account is created.	Realisation account is prepared.
Books of accounts	Books of accounts are not closed	Books of accounts are closed.

Settlement of Accounts In Case Of Dissolution of Firm: (Section 48):

1. **Treatment of Losses: [Section 48(a)]:** Losses including deficiencies of capital shall be paid in the following manner:
 - a) Out of Profit
 - b) Out of Capita
 - c) Lastly, if necessary, by the partners individually in their profit sharing ratio.
2. **Application of Assets: [Section 48(b)]:** The assets of the firm, including any sum contributed by the partners to make up the deficiencies, shall be applied in the following manner:
 - a) To pay the firm's debt (outside liabilities)
 - b) To pay the Partner's Loan
 - c) To pay the capitals of the Partners
 - d) Finally, the surplus (if any) shall be distributed among the partners in their profit sharing ratio.

Treatment of Firm's Debts and Private Debts (Section 49)

- **Firm's Debt:** It is the amount which the Firm owes to its outsiders.
- **Private Debt:** It is the amount which a partner owes in his personal capacity.

Where both the debts co-exist, the following rules, as per Section 49 of the Indian Partnership Act, 1932, shall apply:

1. Firm's property is applied first in payment of firm's debts and if there is any surplus, then the share of each partner is applied in the payment of his private debts or paid to him.
2. Partner's private property is applied first in payment of his private debts and the surplus (if any) in payment of firm's debts (if the firm's liabilities exceed the firm's assets)

Journal Entries on Dissolution of a Firm:

1. **For transfer of assets to Realization Account:** (All assets excluding Cash/Bank, fictitious assets, accumulated losses are transferred to Realization Account).

Note:

- a. Cash and Bank balance will not be transferred, as it is already in realized form.
(ii) Fictitious assets and accumulated losses are transferred to Partner's Capital Account. As, these are not to be realized.
- b. Assets against which a provision or reserve has been created should be transferred at its gross figure and the provisions are to be transferred to the opposite side (Credit side) of the Realization Account.

2. **For transfer of liabilities to Realization Account:** (All outside liabilities are transferred to Realization Account)

Note:

- a. Items on the liability side of Balance Sheet i.e. Accumulated Profits and Reserves are transferred to Partner's Capital Account.
- b. Loan from a relative or spouse of a partner is an external liability and will be transferred to Realization Account.
- c. Loan from a partner is not an external liability and is to be paid after the payment of external liability; to be transferred to Partner's Loan Account.

3. **For transfer of Specific Reserves:**

For Workmen Compensation Fund:

1. When claim against Workmen Compensation Fund is not given: In that case, WCR will be transferred to Partner's Capital Account.
2. When claim against Workmen Compensation Fund is given:
 - a. If, Amount of claim < Amount of WC Reserve:- WCR equal to the amount of

claim will be transferred to Realization Account.

- b. If, Amount of claim = Amount of WC Reserve:- WCR equal to the amount of claim will be transferred to Realization Account.
- c. If, Amount of claim > Amount of WC Reserve:- Full WCR will be transferred to Realization Account.

Note: In all the above cases, the amount of claim will be paid as:

Realization Account Dr.
To Bank Account

For Investment Fluctuation Fund:

1. When both Investment and Investment Fluctuation Fund given in the Balance Sheet: Investment Fluctuation Fund will be transferred to Realization Account.
2. When only Investment Fluctuation Fund is given in the Balance Sheet: Investment Fluctuation Fund will be transferred to Partner's Capital Account.

For transfer of Assets to Realization Account Realization Account Dr. To Assets Account	For transfer of Liabilities to Realization Account Liabilities Account Dr. To Realization Account
For Sale of Assets Bank/Cash Account Dr. To Realization Account	For Payment of Liabilities Realization Account Dr. To Bank/Cash Account
For sale of unrecorded Assets Bank/Cash Account Dr. To Realization Account	For Payment of unrecorded Liabilities Realization Account Dr. To Bank/Cash Account
For Assets taken over by Partner Partner's Capital/Current Account Dr. To Realization Account	For discharge of liabilities by partner Realization Account Dr. To Partner's Capital/Current Account
For Payment of Realization Exp. by the Firm Realization Account Dr. To Bank/Cash Account	For Payment of Realization Exp. by the partner Realization Account Dr. To Partner's Capital Account
For Realization Profit transferred to Partner's Capital/Current Account Realization Account Dr. To Partner's Capital/Current Account	For Realization Loss transferred to Partner's Capital/Current Account Partner's Capital/Current Account Dr. To Realization Account

Treatment of Different cases for Realization Expense:

Case:1 When Realization Exp. are paid by the firm on its own behalf Realization Account Dr. To Bank/Cash Account	
Case:2 When Realization Exp. are paid by the partner on Firm's behalf Realization Account Dr. To Partner's Capital/Current Account (Concerned Partner's Capital/Current Account)	
Case:3 When Realization Exp. are paid by the firm on behalf of a partner who has to bear such Exp. Partner's Capital/Current Account Dr. To Bank/Cash Account	
Case:4 When Realization exp. are paid by the partner and borne by the partner No Journal Entry required in this case	
Case:5 When a partner is paid a fixed amount for the purpose of bearing realization expenses and actual expenses are borne by the partner. Realization Account Dr. To Partner's Capital/Current Account	
Case:6 When a partner is paid a fixed amount for the purpose of bearing Realization Expenses and the actual expenses are borne by the firm:	
Realization Account Dr. To Partner's Capital Account (with the fixed amount)	Realization Account Dr. To Bank/Cash Account (with the Actual exp. amount)
Case:7 When Expenses are paid by one partner on behalf of another partner Partner's Capital/Current Account Dr. (the partner who bears the Exp.) To Partner's Capital/Current Account (the partner who paid the Exp.)	
Preparation of Accounts at the Time of Dissolution	
1. Realization Account	2. Partner's Loan Account
3. Partner's Capital Account	4. Bank/Cash Account

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Realisation Account

Particulars	Amount (Rs.)	Particulars	Amount (Rs.)
Land and Building	xxx	Sundry creditors	xxx
Plant and Machinery	xxx	Bills payables	xxx
Furniture and Fittings	xxx	Bank overdraft	xxx
Bills receivables	xxx	Outstanding expenses	xxx
Sundry debtors	xxx	Provision for doubtful debts	xxx
Cash/Bank	xxx	Cash/Bank (sale of assets)	xxx
(payment of liabilities)		Partner's capital account	xxx
Cash/Bank	xxx	(assets taken by the partner)	
(payment of unrecorded liabilities)		Loss (transferred to partners capital accounts)	xxx
Partner's capital account (liability assumed by the partner)	xxx		
Profit (transferred to partners' capital account's in their profit sharing ratio)	xxx		
Total	xxxxxx	Total	xxxxxx


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Partner's Loan Account

Particulars	Amount	Particulars	Amount
To Bank/Cash A/c (For payment of loan to the partners)		By Balance b/d (Opening Balance)	

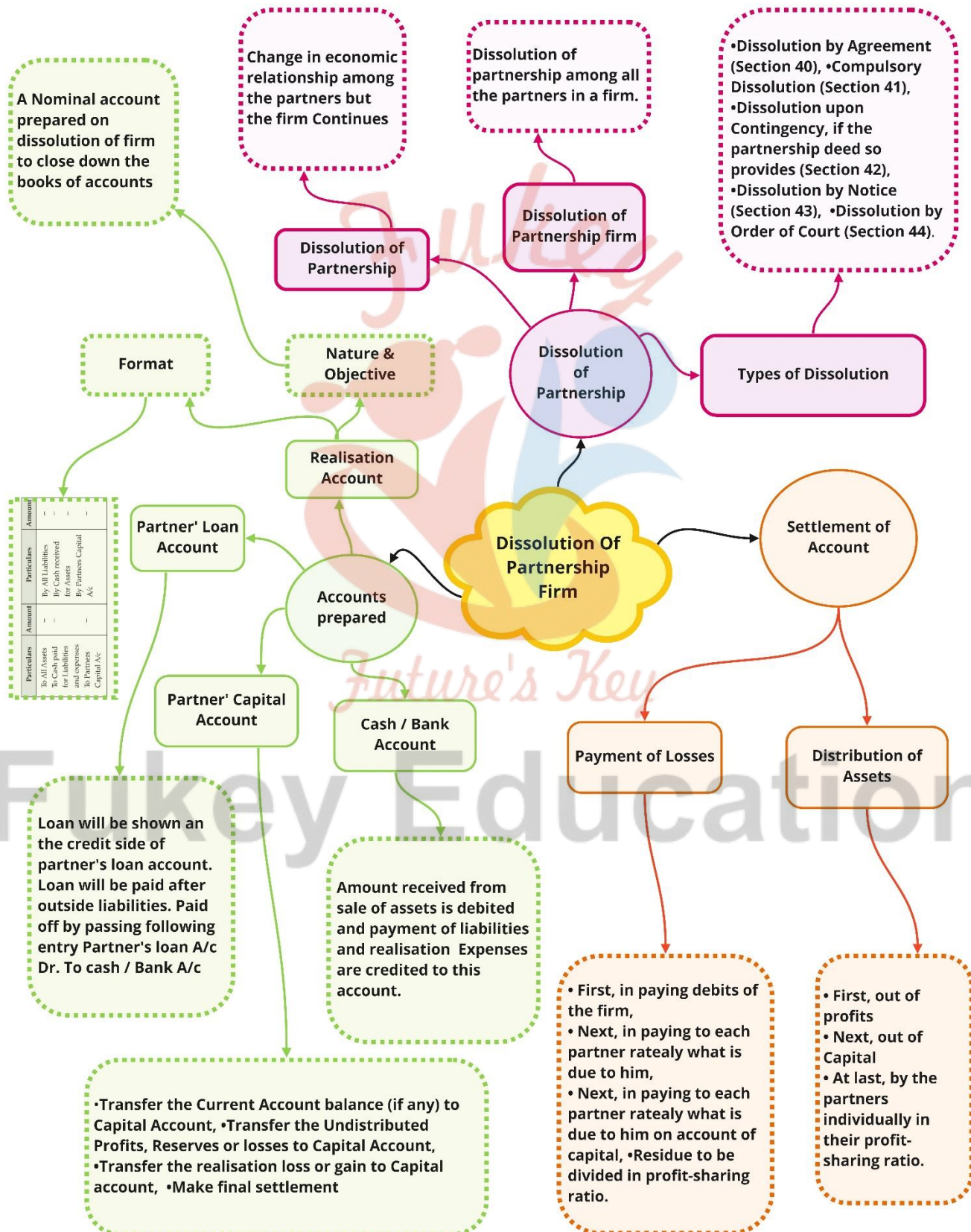
Partner's Capital Account

Particulars	A	B	Particulars	A	B
To Balance b/d			By Balance b/d		
To Profit and Loss			By Reserves		
To Advertisement			By Profit and Loss		
Suspense A/c			By WCR/IFF		
To Realization A/c (Assets taken over)			By Realization A/c (Liabilities taken)		
To Realization (Loss on Realization)			By Realization A/c (Profit on Realization)		
To Bank/Cash A/c (Excess cash paid)			By Bank/Cash A/c (Cash brought in)		

Bank/Cash Account

Particulars	Amount	Particulars	Amount
To Balance b/d (opening balance)		By Realization A/c (Payment of liabilities)	
To Realization A/c (Assets Realized)		By Realization A/c (Payment of realization Exp.)	
To Partner's Capital A/c (Cash brought in)		By Partner's Loan A/c (Amount of loan paid to the Partner)	
		By Partner's Capital A/c (Final cash paid to the partner)	

Class : 12th Accounts
Chapter - 5 : Dissolution Of Partnership Firm



Important Questions

Multiple Choice questions-

Question 1. Revaluation account and realisation account are _____ accounts.

- (a) same
- (b) opposite
- (c) different
- (d) real

Question 2. Realisation account is a _____ account

- (a) real
- (b) personal
- (c) nominal
- (d) cash.

Question 3. At the time of dissolution of a partnership firm _____ account is prepared.

- (a) revaluation
- (b) realisation
- (c) profit & loss
- (d) trading

Question 4. At the time of dissolution of a partnership firm, all assets (except fictitious) are transferred to _____ account.

- (a) realisation
- (b) revaluation
- (c) capital
- (d) loan.

Question 5. At the time of dissolution, partner's loan account is closed by _____.

- (a) transferring in realisation
- (b) payment
- (c) abolished
- (d) none of these.

Question 6. At the time of dissolution of partnership firm, balance of cash and bank will be transferred to _____ account.

- (a) realisation
- (b) revaluation
- (c) bank
- (d) capital

Question 7. At the time of dissolution of partnership firm _____ account is prepared.

- (a) realisation
- (b) partners capital
- (c) bank

(d) All of these

Question 8. After the dissolution of firm, business of the firm will automatically _____.

- (a) continued
- (b) closed
- (c) extended
- (d) None of these

Question 9. Realisation account can be prepared _____ in the life of firm.

- (a) many
- (b) once
- (c) two
- (d) three

Question 10. Revaluation account can be prepared _____ time(s) in the firm.

- (a) many
- (b) one
- (c) two
- (d) three

Very Short Questions-

1. Differentiate between Dissolution of Partnership and Dissolution of a Partnership Firm on the basis of 'Court's Intervention'
2. State any two situations when a partnership firm can be compulsorily dissolved.
3. Distinguish between 'Reconstitution of Partnership' and 'Dissolution of Partnership Firm' on the basis of 'Closure of books'.
4. State the basis of calculating the amount of profit payable to the legal representative of a deceased partner in the year of death.
5. State any two grounds on the basis of which court may order for the dissolution of partnership firm.
6. State any two contingencies that may result into dissolution of a partnership firm.
7. Why is cash balance not transferred to Realisation Account on dissolution of a partnership firm?
8. In case of dissolution of a firm which liabilities are to be paid first?
9. In case of dissolution of a firm, which item on the liabilities side is to be paid last?
10. State any one occasion for the dissolution of the firm on court's orders when a partner becomes.

Short Questions-

1. State the difference between dissolution of partnership and dissolution of partnership firm.
2. State the accounting treatment for:
 - (a) Unrecorded assets. (b) Unrecorded liabilities.
3. On dissolution, how you deal with partner's loan if it appears on the:
 - (a) Assets side of the Balance Sheet (b) Liabilities side of the Balance Sheet
4. Distinguish between firm's debts and partner's private debts.
5. State the order of settlement of accounts on dissolution.
6. On what account realisation account differs from revaluation account.
7. The firm of Manjeet, Sujeet and Jagjeet was dissolved on 31st March, 2018. It was agreed that Sujeet will take care of the dissolution related activities and will get 10% of the value of assets realised. Sujeet agreed to bear the realisation expenses. Assets realised ₹ 10,00,750 and realisation expenses were ₹90,000, which were paid from the firm's cash. ₹4,50,000 were paid to the creditors in full settlement of their claim.

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

8. Rose and Lily shared profits in the ratio of 2:3. Their Balance Sheet on March 31, 2017 was as follows:

Long Questions-

1. Explain the process of dissolution of a partnership firm?
2. What is a Realisation Account?
3. Reproduce the format of Realisation Account.
4. A, B and C were partners sharing profits and losses in the ratio of 2 : 2 : 1. Their balance Sheet as at 31st March, 2018 was as follows:

**Balance Sheet of A, B and C
as at 31st March, 2018**

Liabilities		Amt (₹)	Assets		Amt (₹)
Capitals A/cs			Cash at Bank		3,00,000
A	7,50,000		Sundry Debtors	1,95,000	
B	3,00,000		(-) Provision for Bad Debts	(5,000)	1,90,000
C	2,50,000	13,00,000	Stock		3,00,000
Creditors		2,00,000	Fixed Assets		7,10,000
		15,00,000			15,00,000

On the above date, they dissolved the firm and following amounts were realised:

Fixed Assets ₹ 6,75,000; Stock ₹ 3,39,000; Debtors ₹ 1,35,000; Creditors were paid ₹ 1,85,000 in full settlement of their claim. Expenses on realisation amounted to ₹ 19,000.

Pass the necessary journal entries on the dissolution of the firm.

5. Give the necessary journal entries for the following transactions on dissolution of the firm of Aman and Rajat on 31 st March, 2016, after the transfer of various assets (other than cash) and the third party liabilities to Realisation Account. They shared profits and losses in the ratio of 2 : 1.
 - (a) There was a bill of exchange of ₹ 10,000 under discount. The bill was received from Derek who became insolvent.
 - (b) Bills payable of ₹ 30,000 falling due on 30th April, 2016 were discharged at ₹ 29,550.
 - (c) Creditors of ₹ 30,000 took over stock of ₹ 10,000 at 10% discount and the balance was paid to them in cash.
 - (d) There was an old typewriter which had been written off completely. It was estimated to realize ₹ 600. It was taken away by Rajat at 25% less than the estimated price.
 - (e) Aman agreed to take over the responsibility of completing dissolution at an agreed remuneration of ₹ 1,000 and to bear all realization expenses. Actual realisation expenses ₹ 800 were paid by the firm.
 - (f) Loss on realization was ₹ 54,000.

Assertion Reason Questions-

1. For two statements are given-one labelled Assertion and the other labelled Reason. Select the correct answer to these questions from the codes (a), (b), (c)

and (d) as given below.

- a. Assertion and Reason both are correct and Reason is the correct explanation of assertion
- b. Assertion and Reason both are correct but Reason is not correct explanation of assertion
- c. Assertion is correct but Reason is not correct.
- d. Both Assertion and Reason are False.

Assertion: Partnership is the relation between persons who have agreed to share the profits of a business carried on by all or any of them acting for all.

Reason (R): It is defined in the Partnership Act, 1932.

2. For two statements are given-one labelled Assertion and the other labelled Reason. Select the correct answer to these questions from the codes (a), (b), (c) and (d) as given below.

- a. Assertion and Reason both are correct and Reason is the correct explanation of assertion
- b. Assertion and Reason both are correct but Reason is not correct explanation of assertion
- c. Assertion is correct but Reason is not correct.
- d. Both Assertion and Reason are False.

Assertion: Partners distribute profits and losses in their profit sharing ratio and not in the ratio of their capitals.

Reason (R): If The amount of appropriations, is more than the amount of profit available for distribution, profit is distributed in the ratio of appropriations.

MCQ Answers-

1. Answer: (c) different
2. Answer: (c) nominal
3. Answer: (b) realisation
4. Answer: (a) realisation
5. Answer: (b) payment
6. Answer: (c) bank
7. Answer: (d) All of these
8. Answer: (b) closed
9. Answer: (b) once
10. Answer: (a) many

Very Short Answers-

1. Answer:

Base	Dissolution of Partnership	Dissolution of Firm
Court's Intervention	Court does not intervene because partnership is dissolved by mutual agreement.	A firm can be dissolved by court's order.

2. Answer:

A firm is compulsorily dissolved in the following cases:

- i. When all the partners or all but one partner become insolvent.
- ii. When the business of the firm becomes illegal.

3. Answer:

Basics	Reconstitution of Partnership	Dissolution of Partnership Firm
Closure of Books	Does not require because the business is not terminated.	The books of the accounts are closed.

4. Answer:

Profit may be estimated:

- i. On the basis of Last year's profit/Average profits of last given no. of years
- ii. On the basis of Turnover/Sales.

5. Answer: At the suit of a partner, the court may order a partnership firm to be dissolved on any of the following grounds:

- i. When a partner becomes insane;
- ii. When a partner becomes permanently incapable of performing his duties as a partner.

6. Answer: Contingencies that may result into dissolution of a partnership firm:
- If the firm is constituted for a fixed term, on the expiry of that term
 - If constituted to carry out one or more ventures, on the completion of the venture.
7. Answer: Cash is a liquid asset.
8. Answer: Debts of third parties.
9. Answer: Partners' capital.
10. Answer: Partner becomes permanently incapable of performing his duties as a partner.

Short Answers-

1.

Basis of Comparison	Dissolution of Partnership	Dissolution of Partnership firm
Meaning	It refers to the stage where a partner/partners discontinue their relationship with the firm.	It refers to the situation that all the relation between a firm and its partners cease to exist
Discontinuation	Business continues as usual	Discontinuation of business due to dissolving of firm
Accounts	Revaluation account is created	Realization account is created
Liabilities and assets	Revaluation is done	Sold off to pay for the liabilities
Economic Relationship	Continues	It comes to an end
Nature	Such type of event is voluntary in nature	It can be sometimes compulsory and sometimes voluntary
Effect	Firm is not dissolved	Both firm and partnership are dissolved

2.

(a) For Unrecorded Assets:

An unrecorded asset is such an asset whose value is written off from books of accounts, but

it is in usable form. It is shown as:

1. If sold by cash

Cash A/c Dr.

To Realisation A/c

(Unrecorded asset sold off for cash)

2. If taken over by any partner

Partner's Capital A/c Dr.

To Realisation A/c

(Partner takes over unrecorded asset)

(b) For unrecorded liabilities:

Liabilities that are not recorded in books of firm are called unrecorded liabilities. It can be shown in records as.

1. When unrecorded liability is paid off

Realisation A/c Dr.

To Cash A/c

(Paid in cash the price of unrecorded liability)

2. When undertaken by a partner

Realisation A/c Dr.

To Partner's Capital A/c

(Liability that is unrecorded is taken over by partner)

3.

(a) When a partner's loan is on the asset side of balance sheet, it means that partner has borrowed some amount from business and needs to pay back the same. In this instance, the loan amount gets transferred to the partners' capital account. It is shown as:

Partner's Capital A/c Dr.

To Partner's Loan A/c

(Loan account of partner transferred to partner capital account)

(b) When a partner's loan appears on liabilities side of balance sheet, it means that partner has provided loan to the business and the business has to pay back the amount which it has got from the partner. The loan is paid in cash after full filling payment of all external liabilities.

Partner's Loan A/c Dr.

To Cash/Bank A/c

(Loan taken from partner paid in cash)

4.

Basis of Comparison	Firm's Debts	Partner's Private Debts
Meaning	Debts that are owed by a firm to the outsiders	Debts that are owed by a partner to any other person outside the firm.
Liability	Liability of firm's debt lies with all the partners jointly as well as individually.	The liability of repaying debt rest only with the partner who has taken the debt.
Debt Settlement by private assets	Whenever debts of firm exceeds the assets of firm, the partner's private assets may be utilized in order to pay firms debt, only on the condition that the partner's asset is more than his debts	The debts that are private will be settled by private assets of the partner. If any surplus happens it will be used in paying for firms debts
Debt settlement by firm's assets	Debts of firms' are settles using assets' of firm. If any asset remains after clearing the debt, it gets distributed between the partners.	Partner can utilize their share of surplus assets obtained after clearing all debts from firm for personal use.

5. Following rules are applicable on settlement of accounts after a firm is dissolute as per Section 48 of Partnership Act, 1932.

Amount which is received on sale of assets should be used in this sequence:

- i. Paying off all external expenses and liabilities.
- ii. Loans and advances that are owed to partners should be cleared.

iii. Capitals of all the partners must be paid off.

Any amount that still remains after paying off all these items must be distributed among partners of the dissolve firm in their original profit sharing ratio.

In case of loss and capital deficiency, the following must be paid in this order:

- i. Adjust loss and capital deficiency against profits of firm
- ii. Adjust against the total capital of the firm
- iii. If any loss or deficiencies is present after all the adjustments, the next course of action will be to bear the loss as per individual profit sharing ratio.

6.

Basis of Comparison	Realisation Account	Revaluation Account
Meaning	It is an account that is prepared to determine the net profit or loss on sale of assets and discharging of liabilities of the firm	It is an account that is prepared to determine variation in value of liabilities and assets of a firm.
Comprises of	All Liabilities and assets	Only those liabilities and assets that are revaluated
Time of preparation	During dissolution of firm	During firm restructuring
Frequency of Preparation	One time, when firm is dissolved.	As and when a new partner is introduced or an existing partner leaves the firm
Effect	All accounts related to liabilities and assets are closed	There is no account closure when revaluation happens
Records	Records all the Liabilities and assets	Records liabilities and assets whose value changed over a period.

7.

**Books of Manjeet Sujeet and Jagjeet
Journal**

Date	Particulars	LF	Dr. (₹)	Cr. (₹)
(a)	Bank A/c To Realisation A/c (assets realised)	Dr.	10,00,750	10,00,750
(b)	Realisation A/c To Sujeet's Capital A/c (10% of assets realised paid as remuneration)	Dr.	1,00,075	1,00,075
(c)	Sujeet's Capital A/c To Bank/Cash Capital A/c (realisation expense paid on behalf of Sujeet)	Dr.	90,000	90,000
(d)	Realisation A/c To Bank A/c (Creditors paid in full settlement)	Dr.	4,50,000	4,50,000

8.

Balance Sheet of Rose and Lily as on March 31, 2017

Liabilities	Amount Rs	Assets	Amount Rs
Creditors	40,000	Cash	16,000
Lily's loan	32,000	Debtors	80,000
Profit and Loss	50,000	Less: Provision for doubtful Debts	3,600
Capitals:			76,400
Lily	1,60,000	Inventory	1,09,600
Rose	2,40,000	Bills Receivable	40,000
		Buildings	2,80,000
	5,22,000		5,22,000

Long Answers-

1. Dissolution of a partnership firm results in the business being discontinued.

Dissolution consists of disposing off assets, clearing payment for liabilities and distributing the profit or loss among all partners.

A firm may be dissolved by the following ways:

- (a) Dissolution by agreement which can be with consent of all partners or a contract between all partners.
- (b) Dissolution which becomes compulsory when all partners become insolvent or any changes in government policies making the business illegal.
- (c) Dissolution that is based on certain condition such as a fixed period, purpose, death of a partner or insolvency of a partner/partners
- (d) Dissolution by a written notice given by a partner with the intention to dissolve the firm.
- (e) Dissolution by court on account of a partner becoming lunatic, indulged in illegal activities, found guilty of misconduct, incapable to perform duties or dissolution reason found justified.

Following rules are applicable on settlement of accounts after a firm is dissolute as per Section 48 of Partnership Act, 1932.

- (a) Amount which is received on sale of assets should be used in the following order:
 - i. Paying off all external expenses and liabilities
 - ii. Loans and advances that are owed to partners should be cleared.
 - iii. Capitals of all the partners should be paid off.

Any amount that still remains after paying off all these items should be distributed among partners of the dissolute firm in their original profit sharing ratio.

- (b) In case of loss and capital deficiency, the following should be paid in order:
 - i. Adjust loss and capital deficiency against profits of firm
 - ii. Adjust against the total capital of the firm
 - iii. If there exists any loss or deficiencies after all the adjustments, the next course of action will be to bear the loss as per individual profit sharing ratio.

2. When a firm is dissolved, it results in closing of all accounts, assets are sold off and liabilities are paid off. To maintain a record of all such activities, a nominal account is

prepared which is called as Realisation Account. Its main purpose is to determine profit or loss that happens due to settling off assets and liabilities. If this exercise results in profit or loss, it gets transferred to the Partners' Capital Account with their original profit sharing ratio.

The main objectives of preparing a realisation account is:

- To ensure all accounts are closed.
- To record all transactions that is related to sale of assets and paying off liabilities.
- Determining whether profit or loss is happening due to sale of assets and paying off liabilities.

The format of realisation account is as follows:

Format of Realisation Account			
Dr.		Cr.	
Particulars	Amount ₹	Particulars	Amount ₹
Various Assets (Excluding Cash/Bank, fictitious assets, Debit balance of P and L A/c, partner Capital A/c, Current A/c, Loan to Partner)	—	Various Liabilities (Excluding Partner Capital account, reserves, P and L A/c, Current A/c, Loan to Partner)	—
Cash/Bank (Payment for realisation expenses)	—	Provision on assets (like, Provision for doubtful debts; Provision for depreciation)	—
Cash/Bank (Payment to outside and unrecorded liabilities)	—	Cash/Bank (Amount received from realisation of assets and unrecorded assets)	—
Partner's Capital A/c (If any liability taken on expenses paid by him or remuneration payable to him)	—	Partner 's Capital A/c (If any asset taken over by any partner)	—
Partner Capital A/c (Profit on realisation distributed in the profit sharing ratio among all the partners)	—	Partner Capital A/c (Loss on realisation borne by all the partners in their profit sharing ratio)	—
	—		—

3.

Format of Realisation Account			
Dr.		Cr.	
Particulars	Amount ₹	Particulars	Amount ₹
Various Assets (Excluding Cash/Bank, fictitious assets, Debit balance of P and L A/c, partner Capital A/c, Current A/c, Loan to Partner)	-	Various Liabilities (Excluding Partner Capital account, reserves, P and L A/c, Current A/c, Loan to Partner)	-
Cash/Bank (Payment for realisation expenses)	-	Provision on assets (like, Provision for doubtful debts; Provision for depreciation)	-
Cash/Bank (Payment to outside and unrecorded liabilities)	-	Cash/Bank (Amount received from realisation of assets and unrecorded assets)	-
Partner's Capital A/c (If any liability taken on expenses paid by him or remuneration payable to him)	-	Partner 's Capital A/c (If any asset taken over by any partner)	-
Partner Capital A/c (Profit on realisation distributed in the profit sharing ratio among all the partners)	-	Partner Capital A/c (Loss on realisation borne by all the partners in their profit sharing ratio)	-
	-		-

4.

JOURNAL

Date	Particulars	LF	Amt (Dr)	Amt (Cr)
	Realisation A/c Dr To Stock A/c To Debtors A/c To Fixed Assets A/c (Being assets transferred to realisation account)		12,05,000	3,00,000 1,95,000 7,10,000
	Creditors A/c Dr Provision for Bad Debts Dr To Realisation A/c (Being liabilities transferred to realisation account)		2,00,000 5,000	2,05,000
	Cash/Bank A/c Dr To Realisation A/c (Being assets realised)		11,49,000	11,49,000
	Realisation A/c Dr To Cash/Bank A/c (Being creditors paid-off)		1,85,000	1,85,000
	Realisation A/c Dr To Cash A/c (Being realisation expenses paid)		19,000	19,000
	A's Capital A/c Dr B's Capital A/c Dr C's Capital A/c Dr To Realisation A/c (Being loss transferred to partners' capital account)		22,000 22,000 11,000	55,000

5.


 Future's Key

Fukey Education

Books of the Aman and Rajat Journal

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
	(a) Realisation A/c To Bank A/c (Payment of a dishonoured B/R under discount)	Dr.	10,000	10,000
	(b) Realisation A/c To Bank A/c (Bills payable discharged)	Dr.	29,550	29,550
	(c) Realisation A/c To Bank A/c (Creditors took over stock and balance paid in cash)	Dr.	21,000	21,000
	(d) Rajat's capital A/c To Realisation A/c (Unrecorded old typewriter taken over By Rajat)	Dr.	450	450
	(e) (i) Realisation A/c To Aman's Capital A/c (Remuneration given to Aman for completing dissolution work)	Dr.	1,000	1,000
	(ii) Aman's Capital A/c To Bank A/c (Expenses paid by the firm but borne by Aman)	Dr.	800	800
	(f) Aman's Capital A/c Rajat's Capital A/c To Realisation A/c (Loss on realization)	Dr. Dr.	36,000 18,000	54,000

Assertion Reason Questions-

- (a) Assertion and Reason both are correct and Reason is the correct explanation of assertion.
- (b) Assertion and Reason both are correct but Reason is not correct explanation of assertion.