VAISHALI EDUCATION POINT

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DISSOLUTION OF PARTNERSHIP FIRM

Class :- XII **Subject :- Accountancy**

General Instructions

QNo.	Questions
1	The following is the Balance Sheet of A and B as at 31st Dec. 1980. The profit sharing ratios of the partners are 3 : 2.

Liabilities		Rs.	Assets		Rs.
Creditors		97,500	Land & Buildings		30,000
Capital Accounts:			Motor Vehicles		18,300
A	85,000		Stock		72,800
B	63,000	1,48,000	Debtors	1,13,200	
			Less: Provision for		
			Bad Debts	2,450	1,10,550
			Cash at Bank		13,650
		2,45,500			2,45,500

The partners decided to dissolve the firm on and from the date of the Balance Sheet. Motor Vehicles and Stock were sold for cash at Rs. 16,950 and Rs. 77,600 respectively and all Debtors were realised in full. Land & Buildings were sold at Rs. 43,500. Creditors were paid off subject to discount of Rs. 1,700. Expenses of realisation were Rs. 1,250.

Prepare Realisation Account, Bank Account and Partners' Capital Accounts to close the books of the firm as a result of its dissolution

2 A, B and C were in partnership sharing profit in the ratio of 2 : 1 : 1. Their Balance Sheet showed the following position on the date of dissolution:

Liabilities		Rs.	Assets		Rs.
Creditors		40,000	Building		50,000
A's Loan		46,000	Stock		60,000
Reserve Fund		12,000	Debtors	30,000	
Capital:	*A*	50,000	Less: Provision	2,000	28,000
	B	25,000	Machinery		30,000
	C	25,000	Furniture		20,000
			Cash at Bank		10,000
		1,98,000			1,98,000

1. Machinery is sold for Rs. 15,000 and furniture at 20% less than the book value.

	2. Building realised Rs. 1,25,000 and stock Rs. 40,000 3. Bad Debts amounted to Rs. 5,000. 4. Expenses of realisation were Rs. 3,000. Creditors were paid at a discount of 5%. 5. There was a claim of Rs. 8,000 for damages against the firm. It had to be paid. Prepare necessary accounts.
3	Mrs. Rita Chowdhary and Miss Shobha are partners in a firm, 'Fancy Garments Exports' sharing profits and losses equally. On 1st January, 1984, the Balance Sheet of the firm was as follows:

Liabilities	*Rs.*	*Assets*		*Rs.*
Sundry Creditors	75,000	Bank		36,000
Bills Payable	30,000	Stock		75,000
Mr. Chowdhary's Loan	15,000	Book Debts	66,000	
Reserve Fund	24,000	*Less* : Provision for		
Mrs. Rita Chowdhary's Capital	90,000	Doubtful Debts	6,000	60,000
Miss Shobha's Capital	30,000	Plant & Machinery		45,000
		Land & Buildings		48,000
	2,64,000			2,64,000

The firm was dissolved on the date given above. The following transactions took place:

(1) Mrs. Rita Chowdhary undertook to pay to pay Mr. Chowdhary's Loan and took over 50 per cent of stock at a discount of 20 per cent.

(2) Book-debts realised Rs. 54,000; balance of the stock was sold off at a profits of 30 per cent on cost.

(3) Sundry Creditors were paid out at a discount of 10 per cent. Bills payable were paid in full.

(4) Plant and Machinery realised Rs. 75,000 and Land and Building Rs. 1,20,000.

(5) Mrs. Rita Chowdhary took over the goodwill of the firm at a valuation of Rs. 30,000.

(6) Realisation expenses were Rs. 5,250.

Show the Realisation Account, Bank Account and Partner's Capital Accounts in the books of the firm.

4	The following is the Balance Sheet of A and B on 31st December, 1996:

Liabilities	Rs.	Assets		Rs.
Ms. A's Loan	15,000	Cash		4,200
Mrs. B's Loan	10,000	Bank		3,400
Trade Creditors	30,000	Debtors	30,000	
Bills payable	10,000	*Less* : Provision	2,000	28,000
Outstanding Expenses	5,000	Investments		10,000
A : Capital	1,00,000	Stock		40,000
B : Capital	80,000	Truck		75,000
		Plant and Machinery		80,000
		B : Drawings		9,400
	2,50,000			2,50,000

1. Half the stock was sold at 10% less than the book value and the remaining half was taken over by A at 20% more than the book value.
2. During the course of dissolution a liability under action for damages was settled at Rs. 12,000 against Rs. 10,000 included in the creditors.
3. Assets realised as follows:
Plant & Machinery - Rs. 1,00,000; Truck – Rs. 1,20,000; Goodwill was sold for Rs. 25,000; Bad Debts amounted to Rs. 5,000. Half the investments were sold at book value.
4. A promised to pay off Mrs. A's Loan and took away half the investments at 10% discount.
5. Trade Creditors and Bills Payable were due on average basis of one month after 31st December, but were paid immediately on 31st December, at 12% discount per annum.
Prepare necessary accounts.

5 A and B were in partnership sharing profits and losses in the proportion of 4/7 and 3/7 respectively, decided to dissolve the firm as on 31st December,1987. At the time of dissolution A's capital was Rs1,25,030, B's Rs 2,070;the creditors amounted to Rs 23,150 and cash Rs 4,520. Remaining assets realised Rs1,24,910 and expenses of dissolution were Rs1,860.A & B both were solvent. Prepare the balance sheet as on the date of dissolution and the accounts necessary to close the books of firm. Show the final adjustment of cash between partners.

6 On 1stJanuary ,1986, A, B and C commenced business in partnership sharing profits and losses in proportion of 1/2, 1/3, and 1/6 respectively. They paid into their bank A/c as their capital Rs 22,000 being Rs10,000 by A, Rs 7,000 by B and Rs 5,000 by C. During the year they drew Rs 5,000 being Rs1,900 by A, Rs1,700 by B and Rs1,400 by C.
On 31st December 1986, they dissolved their firm. A taking up stock at an agreed valuation of Rs 5,000, B taking up furniture at Rs 2,000 and C taking up debtors at Rs 3,000. After paying up their creditors, there remained a balance of Rs1,000 at Bank. Prepare the necessary accounts showing the distribution of cash at the bank and of the further cash brought in by any partner as the case required.

7 A, B and C were partners from 1stApril 2002 with capitals of Rs 3,00,000; Rs 2,00,000 and Rs1,50,000 respectively. They shared profits in the ratio of 2 :2 : 1. They

	carried on business for 2 years. In the first year on 31st March 2003, they made a profit of Rs 2,00,000 but in second year ending on 31st March 2004, a loss of Rs 60,000 was incurred. As the business was no longer profitable they dissolved the firm on 31st March 2004. Creditors on the date was Rs 75,000. The partners withdrew for personal use Rs 40,000 per partner per year. The assets realised Rs 4,00,000. The expenses of realisation were Rs 5,000. Prepare Realisation Account and show your workings clearly.
8	A, B and C were partners in a firm sharing profits & losses in the ratio of 2 : 2 : 1. The Balance Sheet of the firm on the date of dissolution was as follows:

Liabilities	*Rs.*	*Assets*	*Rs.*
Bank Overdraft	21,000	Debtors	40,000
Creditors	86,000	Stock	60,000
Provident Fund	18,000	Investments	25,000
Capital Accounts:		Machinery	80,000
A	1,05,000	Prepaid Expenses	3,200
B	42,000	Goodwill	38,800
		C's Capital Account	25,000
	2,72,000		2,72,000

You are informed that:
(1) They appointed B to realise the assets. He is to receive 5% of the amounts realised from Debtors, Stock and Machinery, and is to bear all expenses of realisation.
(2) Bad Debts amounted to Rs. 2,000; Stock realised Rs. 36,000 and Machinery realised Rs. 46,000. There was an unrecorded asset of Rs. 10,000 which was taken over by A at Rs. 8,000.
(3) Market value of Investment was ascertained to be Rs. 20,000, and one of the creditors agreed to accept the Investments at this value. Remaining creditors were paid at a discount of Rs. 6,000.
(4) An office typewriter, not shown in the books of accounts, realised Rs. 20,000.
(5) There were outstanding expenses amounting to Rs. 6,000. These were settled for Rs. 4,500. Expenses of realisation amounted to Rs. 2,000.
Prepare necessary accounts.

9	Give journal entries in each of the following alternative cases on the dissolution of a firm: (1) Realisation expenses paid by X on behalf of the firm. (2) Realisation expenses paid by firm Rs 1,000.However, the expenses were to be borne by partner X for which he was to be given a commission of 5% on net cash realised on dissolution. Cash realised from assets was Rs 2,00,000 and cash paid for liabilities was Rs 40,000. (3) General reserve appearing in the balance sheet was Rs 20,000. (4) Sundry creditors amounted to Rs15,000. These were paid at a discount of 2%.
10	P and Q were partners in a firm sharing profits and losses equally. On 15th March 1999 the firm was dissolved. The dissolution resulted in a loss of Rs 60,000. On that

date the Capital accounts of P and Q showed credit balances of Rs 70,000 and Rs 50,000 respectively. There was a bank balance of Rs 60,000.
Pass the necessary Journal entries for (1) transfer of loss to the capital accounts of partner, and (2) making final payments to the partners.

11 L and M were partners in a firm sharing profits in the ratio of 4 : 3. The firm was dissolved on 28.2.2004.
Pass the necessary journal entries for the following transactions:
(1) Debtors Rs 20,000 were taken over by L for Rs18,000.
(2) Creditors Rs15,000 were paid at a discount of 5%.
(3) Expenses of dissolution Rs1,000 were paid by M.
(4) Loss on realisation were Rs7,000.

12 Ram, Rahim and Rehman were partners in a firm sharing profits in the ratio of 4 : 1 : 5. On 28.2.2010 the firm was dissolved. On the date of dissolution the Balance Sheet of the firm was as follows:

Liabilities		Rs.	Assets		Rs.
Bank Loan		4,34,000	Bank		48,000
Creditors		3,80,000	Debtors	2,74,000	
General Reserve		1,40,000	Less : Provision for		
Capitals :			bad debts	8,000	2,66,000
Ram	14,00,000		Stock		1,08,000
Rahim	6,00,000		Furniture		1,32,000
Rehman	10,00,000	30,00,000	Machinery		4,00,000
			Building		30,00,000
		39,54,000			39,54,000

Assets realised as follows: Debtors Rs. 2,70,000, Stock at 15% less, Furniture was taken over by Ram for Rs. 79,000. Building was sold for Rs. 29,00,000. Rehman took over 50% of the machinery at 5% less than the book-value.
Bank loan was paid with interest Rs. 9,500. Creditors allowed a discount of 5%.
Expenses of dissolution Rs. 7,000 were paid by Rehman. Remaining machinery was sold at 50% profit.
Prepare Realisation Account, Partners’ Capital Accounts and Bank Account.

13 D and T who share profits and losses in the ratio of 5 : 3 agree to dissolve the firm on 30.6.1990. The position of the firm is indicated by the following Balance Sheet:

Liabilities		Rs.	Assets	Rs.
Creditors		9,316	Goodwill	4,000
Loan from *D*		3,684	Fixtures	1,000
Loan from *T*		400	Machinery	2,000
Capitals:			Stock	9,200
D	8,000		Debtors	10,000
T	5,400	13,400	Cash at Bank	600
		26,800		26,800

The assets realised as follows:
Goodwill Rs. 2,000; Fixtures Rs. 800; Stock Rs. 8,500; Debtors Rs. 9,200; Machinery Rs. 2,100.
Creditors were paid Rs. 9,290 in full settlement. Realisation expenses amounted to Rs. 150. A bill for rs. 160 due for sales tax was received during the course of realisation and was also paid. Close the ledger of the firm.

14 A, B C are partners sharing profit and losses in the ratio of 3 : 2 : 1. On 31st Dec., 1991, their Balance Sheet was as follows:

Liabilities		Rs.	Assets		Rs.
Creditors		46,200	Cash at Bank		10,500
Bills Payable		10,800	Stock		59,400
A's Loan		57,000	Debtors	57,000	
Capitals:			*Less* : Provision	3,000	54,000
A	60,000		Plant and Machinery		1,31,100
B	12,000				
C	60,000	1,32,000			
Workmen Compensation Reserve		9,000			
		2,55,000			2,55,000

The firm was dissolved on 1st January, 1992.
There was an unrecorded asset of Rs. 60,000. It was sold for Rs. 15,000. The assets were realised as under: Stock Rs. 45,000; Goodwill Rs. 12,000; Debtors 60% of the book value; Machinery Rs. 90,000; Liabilities were paid in full. In addition, a bill for Rs. 6,000 under discount was dishonoured and had to be taken up by the firm.
The expenses on realisation amounted to Rs. 2,400.
You are required to prepare the Realisation A/c, Partner's Capital Account, and Bank A/c.

15 A, B and C are in partnership sharing profits and losses in the proportions of 1/2, 1/3

and 1/6 respectively. On 31st January, 1992 they decide to dissolve the partnership, and the position of the firm on this date is represented by the following Balance Sheet:

Liabilities	Rs.	*Assets*	Rs.
Creditors	40,000	Land and Building	57,000
Loan Account : *A*	10,000	Stock	50,000
Capital Account :		Sundry Debtors	50,000
A	60,000	Cash at Bank	3,000
B	40,000		
C	1,0,000		
	1,60,000		1,60,000

During the course of realisation, a liability under a suit for damages is settled at Rs. 20,000 as against Rs. 5,000 only provided for in the books of the firm.
Land and Building were sold for Rs. 40,000 and the Stock and Sundry Debtors realised Rs. 30,000 and Rs. 42,000 respectively. The expenses of realisation amounted to Rs. 1,200. You are required to prepare Realisation Account, Cash Account and Partners' Capital Accounts in the books of the firm.

16 M, N and O were partners in a firm sharing profits and losses in the ratio of 1/2: 1/3: 1/6 respectively. They agreed to dissolve their firm on 31st December, 1991, on which date their Balance Sheet was as under:

Liabilities		Rs.	*Assets*		Rs.
Capital Accounts:			Machinery		1,21,500
M	1,20,000		Stock		22,650
N	60,000	1,80,000	Investments		44,490
Mrs. M's Loan		30,500	Debtors	27,900	
Creditors		55,000	*Less* : Provision	1,800	26,100
			O's Capital		34,500
			Cash at Bank		16,260
		2,65,500			2,65,500

The investments are taken over by M for Rs. 52,500. M agrees to discharge the loan of his wife. N takes over all the stock at Rs. 21,000 and debtors amounting to Rs. 15,000 at Rs. 12000. Machinery is sold for Rs. 2,01,000. The remaining debtors realise 50% of the book value. The expenses of realisation amounted to Rs. 1,800. The investments of the value of Rs. 9,000 were not recorded in the books. These were taken over by the creditors.
Prepare Realisation A/c, Bank A/c and the Capital A/cs of the partners closing the books of the firm.

17 X, Y and Z decided to dissolve partnership. The position as on 31st December, 1995,

the date of dissolution was as follows:

Liabilities			Rs.	Assets	Rs.
Creditors			20,000	Freehold Property	40,000
Bank Loan			5,000	Machinery	40,000
Capital :	X	70,000		Investments	16,000
	Y	40,000		Stock	30,000
	Z	20,000	1,30,000	Debtors	30,000
Current Accounts:				Cash	10,000
	X	12,000		Loss in Business	20,000
	Y	7,500	19,500	Current Account : Z	4,500
Reserve for Contingency			10,000		
Commission Received in Advance			6,000		
			1,90,500		1,90,500

They shared profit in the ratio of x : 1/2, Y: 3/10 and Z : 1/5. X agreed to bear all realisation expenses. For this service X is paid Rs. 2,000. Actual expenses amounted to Rs. 3,200 which was withdrawn by him from the firm.

Other informations are:

(1) Assets, with the exception of investments and Cash, are sold for Rs. 1,25,100. 75% of the investments are taken over by X at 75% of their book value. He also agrees to discharge the Bank Loan. The remaining investments were taken over by Y at the market value of 120%.

(2) There were outstanding expenses amounting to Rs. 5,000. These were settled for Rs. 2,000.

(3) A B/R for Rs. 10,000 was received from a customer Mr. Surender Kumar and the bill was discounted from the bank. Surender became insolvent and 75 paise per Rs. Were received from his estate.

(4) Commission received in advance was returned to the customers after deducting 60% for work done.

You are required to prepare the necessary accounts.

18 A and B share profits in the ratio of 7 : 3. They dissolved the partnership and appointed A to realise the assets. A is to receive 6% commission on the amount realised from Stock, Debtors, B/R and Share.

The position of the firm was as follows:

Liabilities	Rs.	Assets	Rs.
Creditors	60,000	Plant and Machinery	20,000
Repairs and Renewals Reserve	4,000	Prepaid Insurance	1,200
Bank Loan	20,000	Stock	60,000
A's Capital A/c	50,000	100 Shares in D.C.M. Ltd.	5,000
B's Capital A/c	20,000	Sundry Debtors	38,000
		B/R	6,000
		Cash at Bank	8,800
		A's Drawings	5,000
		Advertisement Suspense A/c	10,000
	1,54,000		1,54,000

Informations:
1. A realised the assets as follows:- Full amount from Sundry Debtors and B/R except from one for Rs. 2,000 being insolvent. Stock realised Rs. 52,000; Shares in D.C.M. were sold for Rs. 60 each.
2. Half the trade creditors accepted plant and machinery at an agreed valuation of 10% less than the book value and cash of Rs. 7,000 in full settlement of their claims.
3. Remaining creditors were paid off at a discount of 10%. Expenses of realisation amounted to Rs. 700.
4. One quarter's tax amounting to Rs. 1,500 was due and had to be paid.
5. There was a contingent liability amounting to Rs. 13,000. It was settled for Rs. 6,000.
6. Bank Loan was discharged along with interest due for two months @ 18% p.a.
Prepare necessary accounts.

19 A, B and C were partners in a firm sharing profits in the ratio of 5 : 3 : 2. On 1-4-05 they decided to dissolve the firm. On that date A's capital was Rs 2,00,000, B's capital was Rs10,000 (Dr.) and C's capital was Rs 25,000(Dr.). the creditors amounted to Rs 80,000 and cash balance was Rs12,000. The assets realised Rs 2,00,000; Creditors were paid at a discount of 10% and the expenses of dissolution were Rs1,240. All partners were solvent. Prepare realisation account, partner's capital accounts and the cash account.

20 Peter, Roberts and sunny commenced business on 1stApril 1991 with Capitals of Rs 60,000; Rs 50,000 and Rs 40,000 respectively. Profit for the first year was Rs 48,000 while losses in the second year amounted to Rs12,000. Drawings per partner were Rs 7,000 per annum.
The firm was dissolved on the first day of the third year, 1stApril 1993. Creditors on that day were Rs 14,000 who were paid Rs12,500in full and final settlement. Cash amounted to Rs 5,000 on that date. Other assets realised Rs1,62,000. Expenses

amounted to Rs 3,000.
Prepare realisation account.

21 A and B dissolve their partnership. Their position as at 31st Dec., 1996 was as follows:

	Rs.
A's Capital	60,000
B's Capital	40,000
Sundry Creditors	25,000
Cash at Bank	2,000

The balance of A's Loan Account to the firm stood at Rs. 20,000. The realisation expenses amounted to Rs. 800. Stock realised Rs. 40,000 and Debtors Rs. 30,000. B took a machine at the agreed valuation of Rs. 20,000. Other fixed assets realised Rs. 60,000.
Prepare necessary accounts.

22 Arun, Tarun and Varun shared profits in the ratio of 2 : 2 : 1. On 31.12.1996 their Balance Sheet was as follows:

Liabilities		*Rs.*	*Assets*	*Rs.*
Creditors		50,000	Cash	30,000
Bills Payable		30,000	Debtors	50,000
Provident Fund		20,000	Stock	36,000
Investment Fluctuation Fund		8,000	Investments	20,000
Commission Received in Advance		12,000	Profit & Loss A/c	34,000
Capitals:				
Arun	50,000			
Tarun	60,000			
Varun	30,000	1,40,000		
		2,60,000		2,60,000

On this date the firm was dissolved. Arun was appointed to realise the assets. Arun was to receive 5% commission on the sale of assets (except cash) and was to bear all expenses of realisation.
Arun realised the assets as follows:
Stock Rs. 36,000, Debtors Rs. 45,000, Investments 80% of the book value, Plant Rs. 65,500. Expenses of realisation amounted to Rs. 5,500. Commission received in advance was returned to the customers after deducting Rs. 4,000. Firm had to pay Rs. 8,000 for outstanding wages. This liability was not provided for in the above Balance Sheet. Rs. 20,000 had to be paid for provident fund.
Prepare Realisation Account, Capital Accounts and Cash Account.

23 The following was the Balance Sheet of Fox and Wolf as on 31st March, 1994, when they decided to dissolve the firm:

Liabilities		Rs.	Assets	Rs.
Capital :			Cash at Bank	4,500
Fox	30,000		Stock	18,000
Wolf	24,000	54,000	Debtors	42,000
Creditors		88,500	Furniture	12,000
Mrs. Wolf's Loan		40,000	Machinery	1,06,500
Bills Payable		23,000	Profit & Loss A/c	22,500
		2,05,500		2,05,500

The assets realised:

Stock	Rs. 10,500
Debtors	Rs. 27,750
Machinery	Rs. 88,500

Furniture was taken over by Fox at Rs. 7,500. Bills payable were paid in full, while creditors were settled at 2% discount. Mrs. Accepted Rs. 38,500 in full settlement of her Loan Account.

There was a claim of damages against the firm for Rs. 4,000 which was settled at Rs. 2,000.

One customer, whose account was written off as bad, now paid Rs. 1,800, which is not included in Rs. 27,750 given above. Actual realisation expenses amounted to Rs. 2,100.

Prepare (a) Realisation A/c, (b) Capital Accounts of Partners, (c) Bank Account to close the Books of the firm.

24 J , S and R were in partnership sharing profits and losses in the ratio of 3 : 2 : 1. Their Balance Sheet as on 31st December, 1994 was as follows:

BALANCE SHEET

Liabilities	Rs.	Assets	Rs.
Capital Accounts:		Buildings	10,000
J	12,000	Plant	22,000
S	8,600	Stock	12,200
R	10,400	Debtors	5,000
Reserve Fund	3,000	Accrued Interest	1,000
Employee's Provident Fund	3,000	Cash	2,800
Depreciation Provision	5,000		
Creditors	11,000		
	53,000		53,000

It was agreed to dissolve the firm, and the terms of the dissolution were:

(1) J took over Building at book value and agreed to pay off creditors.

(2) Accrued interest was not collected whereas there was a contingent liability of Rs. 600 which was met.

(3) Other assets realised : Plant : Rs. 25,000, stock : Rs. 11,200, Debtors : Rs. 4,600.

(4) Realisation expenses Rs. 600.

Prepare Realisation Account, Capital Accounts and Cash Account.