

ACCOUNTANCY

CLASS XII (2024-25)

**STUDY NOTES WITH QUESTION BANK
ON
RETIREMENT AND DEATH OF PARTNER
&
DISSOLUTION OF PARTNERSHIP FIRM**

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Chapter – 4 Retirement and Death of a Partner

Retirement of a Partner

Retirement of a partner means retiring from the firm. It is also the reconstitution of the partnership under which partnership comes to an end and new partnership among continuing partners, comes into existence.

A partner may retire from the firm: -

- (i) If there is an agreement to that effect;
- (ii) If all the partners are agreed to his retirement, or

If the partnership is at will, by giving a written notice to the remaining partners of his decision of retire.

Adjustment required on Retirement of a Partner

1. Determining New Profit-Sharing Ratio and Gaining Ratio
2. Valuation and Adjustment of Goodwill on retirement or death
3. Revaluation of Assets and Reassessment of Liabilities
4. Accounting Treatment of Reserves and Accumulated Profits or Losses
5. Computation of amount due to Retiring Partner

New Profit-Sharing Ratio

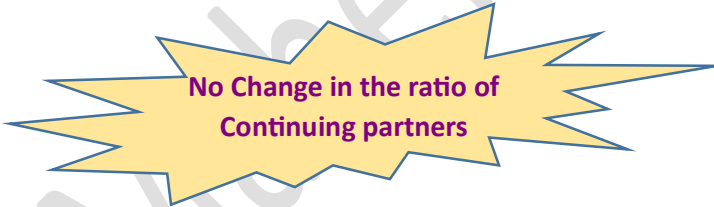
New profit-sharing ratio on retirement of a partner is the ratio in which the remaining partners decide to share future profits and losses.

For Calculation of New Profit-Sharing Ratio there may be following situations: -

1. When one partner retires and the new profit-sharing ratio among the remaining partner is not given
2. When the remaining partners acquire share of the retiring partner in specified ratio

1. When one partner retires and the new profit-sharing ratio among the remaining partner is not given

In this case the old ratio of the remaining partners will be the new profit-sharing ratio of remaining partners.



No Change in the ratio of
Continuing partners

Illustration

A, B and C are partners sharing profits and losses in the ratio of 4:3:2. Calculate New Profit-Sharing Ratio, If

- (a) A retires
- (b) B retires
- (c) C retires

Solution

- (a) New Ratio of B and C will be 3:2
- (b) New Ratio of A and C will be 4:2 or 2:1
- (c) New Ratio of A and B will be 4:3

2. When the remaining partners acquire share of the retiring partner in specified ratio

X, Y and Z are partners sharing profits and losses in the ratio of 5:3:2. Y retires and his share is taken by X and Z in the ratio of 2:1. Calculate new profit sharing ratio.

Solution:- X gets from $Y = \frac{3}{10} \times \frac{2}{3} = \frac{2}{10}$

$$Z \text{ gets from } Y = \frac{3}{10} \times \frac{1}{3} = \frac{1}{10}$$

$$X's \text{ new share} = \frac{5}{10} + \frac{2}{10} = \frac{5+2}{10} = \frac{7}{10}$$

$$Z's \text{ new share} = \frac{2}{10} + \frac{1}{10} = \frac{2+1}{10} = \frac{3}{10}$$

$$\text{New profit sharing ratio} = \frac{7}{10} : \frac{3}{10} = 7:3$$

Gaining Ratio

The Ratio in which the continuing partners acquire the retiring partner's share is called the gaining ratio.

$$\text{Gaining Ratio} = \text{New share} - \text{old share}$$

For Calculation of Gaining Ratio there may be following situations: -

1. When there is no agreement exists
2. When new profit-sharing ratio is given

1. When there is no agreement exist

A, B and C are partners sharing profits and losses in the ratio of 4:3:2. Calculate gaining ratio, If

- (a) A retires
- (b) B retires
- (c) C retires

Solution

- (a) Gaining Ratio of B and C will be 3:2
- (b) Gaining Ratio of A and C will be 4:2 or 2:1
- (c) Gaining Ratio of A and B will be 4:3

2. When New Profit-Sharing Ratio is Given

P, Q and R are partners sharing profits and losses in the ratio of 2:2:1. R retires, P and Q decide to share future profits and losses in the ratio of 2:1 respectively. Calculate the gaining ratio

Solution: - $\text{Gaining Ratio} = \text{New share} - \text{Old share}$

$$P's \text{ Gain} = \frac{2}{3} - \frac{2}{5} = \frac{10-6}{15} = \frac{4}{15}$$

$$Q's \text{ Gain} = \frac{1}{3} - \frac{2}{5} = \frac{5-6}{15} = -\frac{1}{15} = \frac{1}{15} \text{ (Sacrify)}$$

Valuation and Accounting treatment of Goodwill

As per AS-26 'Intangible Assets' prescribes that goodwill should be recorded in the books only when consideration in money or money's worth is paid for it or say goodwill purchased.

Goodwill is an intangible asset which enables a firm to earn higher profit than the normal profit earned by the other firm. It is due to efforts made by the existing partners in the past and this goodwill is known as self-generated goodwill.

At the time of retirement of a partner goodwill may be adjusted through capital accounts of the partners or Goodwill Account may be opened and immediately written off.

Accounting treatment of Goodwill at the time of Retirement of a Partner

Accounting treatment of goodwill at the time of retirement of a partner will be: -

1. When Goodwill does not appear in the books
2. When Goodwill appears in the books

1. When goodwill does not appear in the books

When goodwill is not given in the Balance Sheet of the partnership firm, there may be three ways in which the retiring partner is credited for his share of goodwill:-

- (a) Goodwill Account is not raised in the books of account
- (b) Goodwill is raised at its full value and written off
- (c) Goodwill is raised to the extent of retiring or deceased partner's share and written off.

(a) Goodwill Account is not raised in the books of account

The following journal entries will be made: -

Gaining Partner's Capital A/c Dr.

To Retiring or Deceased Partner's Capital A/c

(for the share of goodwill credited to retiring or deceased partner's capital account in gaining ratio)

P, Q, R and S are partners sharing profits and losses in the ratio of 2:1:2:1. On the retirement of R, goodwill was valued at Rs.72,000. P, Q and S decided to share future profits equally. Pass necessary adjustment entry for goodwill without opening Goodwill Account.

Journal Entries

| Date | Particulars | L.F. | Dr. Amt. | Cr. Amt. |
|------|---|------|------------------|----------|
| | Q's Capital A/c Dr. S's Capital A/c Dr. To R's Capital A/c (for the share of goodwill credited to retiring or deceased partner's capital account in gaining ratio) | | 12,000 12,000 | 24,000 |

Goodwill of the firm= Rs. 72,000

R's share of Goodwill= $72,000 \times \frac{2}{6} = 24,000$

P's Gain= $\frac{1}{3} - \frac{2}{6} = \frac{2-2}{6} = \frac{0}{6}$ Q's Gain= $\frac{1}{3} - \frac{1}{6} = \frac{2-1}{6} = \frac{1}{6}$ S's Gain= $\frac{1}{3} - \frac{1}{6} = \frac{2-1}{6} = \frac{1}{6}$

2. When goodwill appears in the books

Goodwill appears in the books means it is purchased goodwill, because self-generated goodwill is not recorded in the books of accounts. The following journal entry will be made for goodwill appeared in the books: -

| Date | Particulars | L.F. | Dr. Amt. | Cr. Amt. |
|------|---|------|----------|----------|
| | All Partner's Capital A/c Dr. To Goodwill A/c (for the existing goodwill written off) | | | |

Illustration: -

Pankaj, Kiran and Ravi are partners sharing profits in the ratio of 2:3:5. Goodwill is appearing in the books at a value of Rs.50,000. Pankaj retires and on the day of Pankaj's retirement, goodwill valued at Rs.45,000. Kiran and Ravi decided to share future profits in the ratio of 3:2. Pass necessary journal entries.

Journal Entries

| Date | Particulars | L.F. | Dr. Amt. | Cr. Amt. |
|------|---|------|----------------------------|----------------|
| | Pankaj's Capital A/c Dr. Kiran's Capital A/c Dr. Ravi's Capital A/c Dr. To Goodwill A/c (for goodwill appearing in the books written off) | | 10,000 15,000 25,000 | 50,000 |
| | Kiran's Capital A/c Dr. To Pankaj's Capital A/c To Ravi's Capital A/c | | 13,500 | 9,000 4,500 |

| | | | | |
|--|--|--|--|--|
| | (for goodwill is adjusted for the retiring and sacrificing partners) | | | |
|--|--|--|--|--|

Pankaj's share in goodwill = $45,000 \times \frac{2}{10} = 9,000$

Kiran's gain = $\frac{3}{5} - \frac{3}{10} = \frac{6-3}{10} = \frac{3}{10}$; Ravi's gain = $\frac{2}{5} - \frac{5}{10} = \frac{4-5}{10} = \frac{1}{10}$ (sacrify)

Ravi's share in goodwill for $\frac{1}{10}$ th share = $45,000 \times \frac{1}{10} = 4,500$

Hidden Goodwill

Goodwill appears in the books means it is purchased goodwill, because self-generated goodwill is not recorded in the books of accounts. The following journal entry will be made for goodwill appeared in the books: -

| Date | Particulars | L.F. | Dr. Amt. | Cr. Amt. |
|------|--|------|----------|----------|
| | All Partner's Capital A/c Dr. To Goodwill A/c (for the existing goodwill written off) | | | |

Accounting Treatment of Reserves and Accumulated Profits or Losses

If at the time of Retirement or Death of a Partner, reserves and accumulated profits or losses are given in the books of the firm, they will be transferred to the all-partners' capital or current account in their old profit-sharing ratio.

Journal Entries: -

1. For transfer of Reserve and Accumulated Profits: -

Reserve A/c Dr.
Contingency Reserves A/c Dr.
Profit and Loss A/c (Cr. Balance) Dr.
Workmen Compensation Reserve A/c Dr.
Investment Fluctuation Reserve A/c Dr.
 To All Partners' Capital/Current A/c

2. For transfer of Accumulated losses: -

All Partner's Capital A/c Dr
 To Profit and Loss A/c (Dr. Balance)
 To Deferred Revenue Expenditure A/c

Workmen Compensation Reserve

This is a reserve set aside out of firm's profits to meet possible liability to pay compensation to employees, if it arises. The claim may or may not arise. Excess of Workmen Compensation Reserve over the workmen compensation liability is credited to all partner's capital account in their old profit sharing ratio.

Account Treatment of Workmen Compensation Reserve

(A) If no claim against Workmen Compensation Reserve Exists: -

Workmen Compensation Reserve A/c Dr.
 To All Partner's Capital/Current A/c

(For the amount of Workmen Compensation Reserve Transferred to All Partners' Capital/Current A/c in old profit sharing ratio)

(B) If claim for Workmen Compensation Exists: -

There can be three possible situations:

- (i) If the claim is less than the amount of Workmen Compensation Reserve
- (ii) If the claim is equal to the amount of Workmen Compensation Reserve
- (iii) If the claim is more than the amount of Workmen Compensation Reserve

(i) If the claim is less than the amount of Workmen Compensation Reserve

Workmen Compensation Reserve A/c Dr.
 To Provision for Worker's Claim A/c
 To All Partner's Capital/Current A/c

(For provision for estimated claim is made and balance transferred to all partners' capital account in old ratio)

(ii) If the claim is equal to the amount of Workmen Compensation Reserve

Workmen Compensation Reserve A/c Dr.
 To Provision for Worker's Claim A/c

(For provision for estimated claim is made)

(iii) If the claim is more than the amount of Workmen Compensation Reserve

Workmen Compensation Reserve A/c Dr.
Revaluation A/c Dr.
 To Provision for Worker's Claim A/c

(For the amount of claim debited to Workmen Compensation Reserve and Revaluation A/c)

All Partners' Capital A/c Dr.
 To Revaluation A/c

(For loss on revaluation transferred to Capital/Current A/c in old ratio)

Investment Fluctuation Reserve

Investment Fluctuation Reserve is created out of profit to meet the fall in the market value of investment. At the time of admission of a partner, the accounting treatment of Investment Fluctuation Reserve is as follows: -

- (i) If book value is equal to market value
- (ii) If market value is less than the book value
- (iii) If market value is more than the book value

(i) If book value is equal to market value

Investment Fluctuation Reserve A/c Dr.
 To All Partners' Capital/Current A/c

(For the amount of Investment Fluctuation Reserve transferred to all partners' capital account in old ratio)

(ii) If market value is less than the book value

Investment Fluctuation Reserve A/c Dr.
 To Investment A/c
 To All Partners' Capital/Current A/c

(For fall in the value of investment is met out and balance is transferred to Capital/Current A/c in old ratio)

(iii) If market value is more than the book value

Investment Fluctuation Reserve A/c Dr.
 To All Partners' Capital/Current A/c

(For the amount of Investment Fluctuation Reserve transferred to old partners' capital account in their old ratio)

Investment A/c Dr.
 To Revaluation A/c

(For increase in the value of investment)

Revaluation A/c Dr.
 To All Partners' Capital A/c

(For profit on revaluation transferred to all partners' capital account in their old ratio)

Accounting treatment of Accumulated Profits, Reserves and Losses through an Adjustment Entry

(i) In case of net accumulated profit

Gaining Partners' Capital/Current A/c Dr.
 To Retiring/Deceased Partners' Capital/Current A/c

(For adjustment entry is made for accumulated profits)

(ii) In case of net accumulated losses

Retiring/Deceased Partners' Capital/Current A/c Dr.
 To Gaining Partners' Capital/Current A/c

(For adjustment entry is made for accumulated losses)

Methods of Amount due to the Retiring Partner

The amount due to retiring partner can be settled in the following two ways: -

- (i) Payment of Full Amount in Lump Sum
- (ii) Transfer of Balance of Retiring Partner in his Loan Account and Payment in Installments

(i) Payment in Full Amount in Lump Sum

If the amount payable to the retiring partner is paid in full at the time of retirement following entry is passed:

Retiring Partner's Capital/Current A/c Dr.
 To Cash/Bank A/c

(For balance of retiring partner is paid)

(ii) Transfer of Balance of Retiring Partner in his Loan Account and Payment in Installments

It may be agreed that the amount payable to the retiring partner will be paid in installment. In such a case, balance in his capital account is transferred to his loan account and interest is credited to the loan account on the basis of the amount outstanding in the beginning of the year and installment amount is paid with interest.

Retiring Partners' Capital/Current A/c Dr.
 To Retiring Partner's Loan A/c

(For balance of retiring partner is transferred to his loan account)

Death of Partner

Accounting procedure on the death of a partner is similar to that of retirement of a partner. Accounting treatment of goodwill, reserves, accumulated profits or losses and revaluation of assets and reassessment of liabilities are same like retirement of a partner.

Computation of Amount due to Deceased Partner

When a partner dies, his heirs/successors/nominees are entitled to the amount due and the right which a retiring partner has. The heir of deceased partner is entitled to the following:-

- (a) Amount of capital given in the balance sheet.
- (b) His share in the goodwill of the firm.
- (c) His share of profit on revaluation account.
- (d) His share of accumulated profits and reserves.
- (e) Interest on capital upto the date of death, if provided.
- (f) His Salary or commission upto the date death, if provided.

The following amount is debited to his account: -

- (a) His share of loss on revaluation account.
- (b) His share of accumulated losses.
- (c) His drawings
- (d) Interest on drawings upto the date of death, if provided.
- (e) Advance or loan taken by him from the firm, if any.

Journal Entry: -

| | | | |
|-----------------|--------------------|-------|-------|
| A's Capital A/c | Dr. | 1,200 | |
| B's Capital A/c | Dr. | 300 | |
| | To C's Capital A/c | | 1,500 |

(for share in profit of C till the date of death is credited)

2. Turnover or Sales Basis

For calculating the share in profits of deceased partner by using this method, three things are require:-

- Sales for the previous accounting year
- Profit of the previous year
- Sale of the current year upto the date of death of partner

Question: - X, Y and Z are partners sharing profits in the ratio of 2:2:1. Y died on 30th June, 2020. Accounts are closed on 31st March each year. Sales for the year ended 31st March, 2020 was Rs.6,00,000. Sales of Rs.2,00,000 amounted between the period from 1st April to 30th June, 2020. The profit for the year ended 31st March, 2020 was Rs.60,000. Calculate deceased partner's share in the profit of the firm.

Solution: -

Profit up to the death of Y = $\frac{60,000}{6,00,000} \times 2,00,000 = \text{Rs. } 20,000$

Y's share in Profit = $20,000 \times \frac{2}{5} = \text{Rs. } 8,000$

Journal Entry: -

| | | | |
|------------------------------|--------------------|-------|-------|
| Profit and Loss Suspense A/c | Dr. | 8,000 | |
| | To Y's Capital A/c | | 8,000 |

(for share in profit of Y till the date of death is credited)

A, B and C are partners sharing profits in the ratio of 2:2:1. On 31st March, 2020, their Balance Sheet was as follows:

| Liabilities | Rs. | Assets | Rs. |
|---------------|-----------------|-------------------------------------|-----------------|
| Creditors | 1,20,000 | Bank Balance | 1,50,000 |
| Bills Payable | 80,000 | Stock | 1,00,000 |
| Reserves | 60,000 | Debtors | 80,000 |
| Capitals:- | | Land and Building | 5,00,000 |
| A | 2,50,000 | Profit and Loss A/c | 1,60,000 |
| B | 2,50,000 | (loss for the year ended 31.3.2020) | |
| C | <u>2,30,000</u> | | |
| | <u>9,90,000</u> | | <u>9,90,000</u> |

B died on 30th June, 2020. The Partnership Deed provides for the following to the following: -

- Stock to be increased to Rs.1,30,000 and Land and Building to be reduced by 5%.
- Provision for Doubtful Debts to be created at 5% on debtors.
- Goodwill of the firm was valued at Rs.1,20,000.
- B's share of profit from 1st April, 2020 to till his death was to be calculated on the basis of profit or loss of the previous year's profits or losses.

Prepare Partner's Capital Account and Balance Sheet of new firm.

Revaluation A/c

| Particulars | Rs. | Particulars | Rs. |
|---|---------------|-------------|---------------|
| To Land & Building | 25,000 | By Stock | 30,000 |
| To Provision for D/D | 4,000 | | |
| To Profit transfer to partner's capital account | 1,000 | | |
| A 400 | | | |
| B 400 | | | |
| C <u>200</u> | | | |
| | <u>30,000</u> | | <u>30,000</u> |

Capital A/c

| Particulars | A | B | C | Particulars | A | B | C |
|--------------------------|-----------------|-----------------|-----------------|----------------|-----------------|-----------------|-----------------|
| To P & L A/c | 64,000 | 64,000 | 32,000 | By Balance b/d | 2,50,000 | 2,50,000 | 2,30,000 |
| To P & L Sus. A/c | | 16,000 | | By Reserve | 24,000 | 24,000 | 12,000 |
| To B's Cap A/c | 32,000 | | 16,000 | By Revaluation | 400 | 400 | 200 |
| To B's Executor Loan A/c | | 2,42,400 | | By A's Cap A/c | | 16,000 | |
| To Balance c/d | 1,78,400 | | 1,94,200 | By C's Cap A/c | | 32,000 | |
| | <u>2,74,400</u> | <u>3,22,400</u> | <u>2,42,200</u> | | <u>2,74,400</u> | <u>3,22,400</u> | <u>2,42,200</u> |

Balance Sheet As at 31st March, 2019

| Liabilities | Rs. | Assets | Rs. |
|-------------------------------|-----------------|-----------------------------------|-----------------|
| Creditors | 1,20,000 | Bank Balance | 1,50,000 |
| Bills Payable | 80,000 | Stock | 1,30,000 |
| Profit & Loss Suspense A/c | 16,000 | Debtors 80,000 | |
| B's Executor's Loan A/c | 2,42,400 | Less: Provision <u>4,000</u> | 76,000 |
| Capitals:- | 3,72,600 | Land and Building | 475,000 |
| A 1,78,400 | | | |
| C <u>1,94,200</u> | | | |
| | <u>8,31,000</u> | | <u>8,31,000</u> |

Multiple Choice Questions (MCQs)

- Anmol, Bhavya and Chanakya were partners in a firm sharing profit and losses in the ratio of 5:3:2. Chanakya retired and his capital balance after adjustments regarding reserves, accumulated profits and losses and his share of gain on revaluation was ₹2,50,000. Chanakya was paid ₹3,22,000 including his share of goodwill. The amount credited to Chanakya's capital account on his retirement for goodwill will be: -

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(a) ₹72,000 (b) ₹7,200 (c) ₹24,000 (d) ₹36,000
- Rey and Ley Associates is having three partners named as Rakesh, Leena and Sanjana. Their capitals were ₹4,00,000; ₹2,40,000 and ₹1,60,000 respectively. Sanjana retired on March 31, 2023 and sold her share of profits by taking ₹30,000 from Rakesh and ₹20,000 from Leena. Determine the new ratio.

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(a) 1 : 1 (b) 7 : 8 (c) 3 : 2 (d) 8 : 7

3. Section 37 of the Partnership Act states that the outgoing partner is entitled to: -

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- (a) Proportionate share in profits (c) Immediate payment of dues
(b) Interest on Loan dues @ 6% p.a. (d) Either (a) or (b)

4. An amount of ₹50,000 was payable to the retiring partner and it was brought in by the remaining partners in the ratio 3 : 2. What will be the effect on bank/cash balance in the reconstituted balance sheet?

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- (a) Increase in Balance by ₹50,000 (c) No change in Cash Balance
(b) Decrease in Balance by ₹50,000 (d) Decrease in Balance by ₹1,00,000

5. A, B and C were partners in a firm. C died on 31st July 2023. His share of profit or losses was to be calculated on the basis of previous year's profit or loss. Loss for the year ended 31st March, 2023 was ₹8,10,000. Which of the following is correct option.

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- (a) C to be debited by ₹2,70,000 (c) C to be credited by ₹2,70,000
(b) C to be debited by ₹90,000 (d) C to be credited by ₹90,000

6. Aman, Balraj and Chetan are partners sharing profits and losses in the ratio of 5:4:3. Chetan retires and is credited for ₹9,000 as goodwill. How much will be debited to Aman in respect of goodwill adjustment: -

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- (a) ₹20,000 (b) ₹16,000 (c) ₹5,000 (d) ₹4,000

7. Eena, Meena and Deeka are partners sharing profits and losses in the ratio of 5:4:1. Meena retired on 31st March, 2023 and her dues came out to be ₹7,20,000. Amount of ₹1,20,000 was paid immediately and balance was to be paid in three equal annual instalments together with interest @ 10% p.a. Determine the amount payable to Meena on 31st March, 2025.

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- (a) ₹2,00,000 (b) ₹2,60,000 (c) ₹2,40,000 (d) ₹2,88,000

8. Neil, Nitin and Nitesh were partners in the firm sharing profits and losses equally. Neil retires from the firm and on his retirement, he is entitled for the payment due to him after all the adjustments. At the time of retirement, if nothing is mentioned about the payment made due to him, in which account, the amount will be transferred: -

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- (a) Retiring Partner's Current A/c (c) Retiring Partner's Loan A/c
(b) Retiring Partner's Capital A/c (d) Retiring Partner's Bank A/c

9. G, S and T were partners sharing profits in the ratio 3:2:1. G retired and his dues towards the including capital balance, accumulated profits and losses share, revaluation gain amounted to ₹5,80,000. G was being paid ₹7,00,000 in full settlement. For giving that additional amount of ₹1,20,000. S was debited for ₹40,000. Determine goodwill of the firm.

(CBSE Sample Paper 2023-24)

- (a) ₹1,20,000 (b) ₹80,000 (c) ₹2,40,000 (d) ₹3,60,000

10. Pooja, Nita and Anita were partners in a firm sharing profits and losses in the ratio of 3:2:1. Pooja retired and her share is taken up by Nita and Anita equally. The new profit sharing ratio of Nita and Anita will be: -

(CBSE Sample Paper 2022-23)

- (a) 2:1 (b) 7:5 (c) 1:1 (d) 3:2

11. Gurpreet, Vishal and Ananya are partners in a firm sharing profits in ratio of 2:3:1. Vishal retires and the balance in his capital account after making necessary adjustments on account of reserves, revaluation of assets and re-assessment of liabilities is ₹1,20,000. Gurpreet and Ananya agreed to pay him ₹1,80,000 in full settlement of his claim. Vishal's share of goodwill of the firm, on his retirement is: -

(CBSE Sample Paper 2022-23)

- (a) ₹1,20,000 (b) ₹60,000 (c) ₹30,000 (d) ₹15,000

12. A, B and C were partners sharing profits and losses equally. B died on 31st August, 2023 and total amount transferred to B's executors was ₹13,20,000. B's executors were being paid ₹1,20,000 immediately and balance was to be paid in four equal semi-annual instalments together with interest

@10% p.a. Total amount of interest to be credited to B's executors Account for the year ended March 31, 2024 will be?

- (a) ₹70,000 (c) ₹60,000
(b) ₹67,500 (d) ₹77,000

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13. Aman, Aadhar and Avinash were partners and sharing profits in the ratio of 3:2:1. Avinash retired from the firm on 1st July, 2022. On the date of Avinash's retirement, the Balance Sheet showed a debit balance of ₹1,20,000 in the Profit and Loss A/c. For calculating the amount payable to Avinash, this balance will be transferred: -

(CBSE Sample Paper 2022-23)

- (a) To the debit side of the capital accounts of Aman and Aadhar in old profit sharing ratio.
(b) To the debit side of the capital accounts of Aman, Aadhar and Avinash in old profit sharing ratio.
(c) To the credit side of the capital accounts of Aman and Aadhar in new profit sharing ratio.
(d) To the credit side of the capital accounts of Aman and Aadhar in their gaining ratio.
14. X, Y and Z are partners sharing profits and losses in the ratio of 2:2:1. Y retired from the firm. At that time goodwill of the firm was valued at ₹30,000. What contribution has to be made by X and Z to pay Y?

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- (a) ₹20,000 and ₹10,000 (c) ₹15,000 and ₹15,000
(b) ₹8,000 and ₹4,000 (d) ₹6,000 and ₹6,000
15. Nita, Suman and Harish were partners in a firm sharing profits in the ratio of 3:2:1. Suman retired from the firm. On the date of Suman's retirement ₹30,000 was due to her. The remaining partners decided to pay her in three yearly instalments starting from the end of the first year. ₹30,000 will be transferred to which of the following account?

- (a) Suman's Loan A/c (c) Suman's Bank A/c
(b) Suman's Executors A/c (d) Suman's Current A/c
16. Khushi, Namita and Manvi were partners in a firm sharing profits and losses in the ratio of 5:3:2. On 30th June 2022, Khushi died. The partnership deed provided that on the death of a partner, her share of profit till the date of death was to be calculated on the basis of average profit of last three years less ₹10,000. Profit on 31st March, 2020 ₹1,20,000; loss on 31st March 2021 ₹50,000; profit on 31st March 2022 ₹1,70,000. Khushi's share of profit till the date of her death was: -

- (a) ₹35,000 (b) ₹9,583 (c) ₹28,750 (d) ₹8,750
17. **Statement I:** In case of retirement of a partner, profit or loss on revaluation of assets and reassessment of liabilities is distributed among old partners in gaining ratio.

Statement II: Gaining Ratio is the ratio in which the continuing partners acquire the share from the retiring/deceased partner.

- (a) Both the statements are true.
(b) Both statements are false.
(c) Statement I is true, Statement II is false
(d) Statement I is false, Statement II is true.

(NVSRO Bhopal Pre-Board 2, 2024)

18. **Assertion (A):** The retiring or deceased partner is entitled to his share of goodwill.

Reason (R): The goodwill has been earned by the firm with efforts of all the existing partners.

- (a) Both (A) and (R) are true and (R) is correct explanation of (A).
(b) Both (A) and (R) are true and (R) is not the correct explanation of (A).
(c) Both (A) and (R) are false.
(d) (A) is false, but (R) is true.

(NVSRO Bhopal Pre-Board 2, 2024)

Short Answer Type Questions (3 or 4 Marks)

19. Mac, Jack and Lac were partners in a firm sharing profits and losses in the ratio of 2:2:1

CBSE Add. Sample Paper 2023-24

**Balance Sheet (extract)
As at 31st March, 2023**

| Liabilities | ₹ | Assets | ₹ |
|--------------------------------|----------|--------|---|
| Workmen's Compensation Reserve | 5,00,000 | | |

On Jack's retirement from the firm on 1st April, 2023, he had a balance of ₹8,00,000 (Cr.) in his capital account. The liability of Workmen's Compensation Reserve was ₹5,75,000. You are required to pass journal entries and show how much amount is transferred to his loan account?

20. Manya, Sanket and Roopam were partners sharing profits in the ratio of 2:2:1. On 31st March, 2023 their Balance Sheet was as follows: **CBSE Add. Sample Paper 2023-24**

| Liabilities | ₹ | Assets | ₹ |
|---------------------|------------------|--------------|------------------|
| Creditors | 6,00,000 | Fixed Assets | 14,00,000 |
| Contingency Reserve | 2,00,000 | Debtors | 3,00,000 |
| Capitals | | Stock | 4,00,000 |
| Manya | 8,00,000 | Cash at Bank | 7,00,000 |
| Sanket | 7,00,000 | | |
| Roopam | <u>5,00,000</u> | | |
| | <u>20,00,000</u> | | |
| | <u>28,00,000</u> | | <u>28,00,000</u> |

Sanket died on 15th June 2023. According to partnership deed, his executors were entitled to:

- (a) Balance in his capital account.
- (b) His share of goodwill will be calculated on the basis of thrice the average of past 4 year's profit.
- (c) His share in profits up to the date of death on the basis of average profits of last two years.
- (d) Interest on capital @ 12% p.a. up to date of death.

The firm's profit for the last four years were: -

| | | | |
|---------|-----------|---------|-----------|
| 2019-20 | ₹1,20,000 | 2020-21 | ₹2,00,000 |
| 2021-22 | ₹2,60,000 | 2022-23 | ₹2,20,000 |

Sanket's executors were paid the amount immediately. Prepare Sanket's Capital account to be presented to his executors.

21. A, B and C are partners sharing profits in the ratio of 2:3:5. Goodwill is appearing in their books at a value of ₹6,00,000. A retires and on the day of A's retirement Goodwill is valued at ₹4,50,000. B and C decided to share future profits equally. Pass the necessary journal entries and also calculate gaining ratio. **(Term-1NVS 2023-24)**

22. Sudhir, Deepak and Naveen were partners in a firm sharing profits and losses in the ratio of 2:2:1. On 31st March, 2022 their Balance Sheet was as under: - **(CBSE Sample Paper 2022-23)**

| Liabilities | ₹ | Assets | ₹ |
|-----------------|-----------------|----------------------------|-----------------|
| Creditors | 50,000 | Land and Building | 2,10,000 |
| General Reserve | 1,00,000 | Machinery | 1,90,000 |
| Loan | 1,20,000 | Stock | 30,000 |
| Capitals | | Investment | 1,70,000 |
| Sudhir | 1,60,000 | Advertisement Suspense A/c | 1,20,000 |
| Deepak | 1,50,000 | | |
| Naveen | <u>1,40,000</u> | | |
| | <u>4,50,000</u> | | |
| | <u>7,20,000</u> | | <u>7,20,000</u> |

Sudhir died on 30th June, 2022. The partnership deed provided for the following on the death of a partner: -

- (a) Goodwill of the firm was to be valued at 2 ½ years purchase of average profits of the previous four years which were ₹1,80,000.

(b) Sudhir's share of profit or loss till the date of death was to be calculated on the basis of sales. Sales for the year ended 31st March, 2022 amounted to ₹4,00,000 and that from 1st April, 2022 to 30th June, 2022 amounted to ₹1,50,000. The profit for the year ended 31st March, 2022 was ₹1,00,000.

(c) Interest on capital was to be provided @ 7% p.a.

Prepare Sudhir's capital account to be rendered to his executors.

23. M, B and V were partners in a firm sharing profits and losses in the ratio of 6:3:1. On 30th September, 2022, V died. Their partnership deed provided for the following payments on the death of a partner: -

(a) Balance of partner's capital account. Balance in V's capital account on 31st March 2022 was ₹1,50,000.

(b) Salary till the date of death. V was allowed a monthly salary of ₹50,000.

(c) Share of goodwill which will be calculated on the basis of three years purchase of average profits of three completed years prior to death. The total profit of last three completed years was ₹1,50,000.

(d) Share in the profits of the firm till the date of death calculated on the basis of average profits of the last three completed years.

(e) V has withdrawn ₹10,000 on 1st July, 2022 for personal use. Interest on her drawings amounted to ₹500.

Firm closes its accounts every year on 31st March.

Prepare V's capital account to be presented to her executors.

(CBSE Final Exam 2023)

24. Following is the Balance Sheet of Punita, Rashi and Seema who are sharing profits in the ratio of 2:1:2 as on 31st March, 2023. **(NVSRO Bhopal Pre-Board 2, 2024)**

| Liabilities | | ₹ | Assets | | ₹ |
|---------------|-----------------|-----------------|---------------------|--|-----------------|
| Creditors | | 38,000 | Buildings | | 2,40,000 |
| Bills Payable | | 2,000 | Stock | | 65,000 |
| Capitals | | | Debtors | | 30,000 |
| Punita | 1,44,000 | | Cash at Bank | | 5,000 |
| Rashi | 92,000 | | Profit and Loss A/c | | 60,000 |
| Seema | <u>1,24,000</u> | <u>3,60,000</u> | | | |
| | | <u>4,00,000</u> | | | <u>4,00,000</u> |

Punita died on 30th September, 2023. Her share of profit or loss till the date of death was to be calculated on the basis of the profit or loss of the last year. The profits for the year ended 2019-20, 2020-21 and 2021-22 were ₹30,000, ₹70,000 and ₹80,000 respectively.

Calculate Punita's share of profit till the date her death and pass necessary journal entry to record the same.

25. A, B and C were partners sharing profits and losses in the ratio of 2:2:1. C died on 1st July, 2023 on which date the capitals of A, B and C after all necessary adjustments stood at ₹74,000; ₹63,750 and ₹42,250 respectively. A and B continued to carry on the business for six months without settling the accounts of C. During the period of six months from 1st July, 2023, a profit of ₹20,500 is earned using the firm's property. State which of the two options available u/s 37 of the Indian Partnership Act, 1932 should be exercised by executors of C and why?

CBSE Sample Paper 2024-25

26. Bat, Cat and Rat were partners sharing profits and losses in the ratio of 5:3:2. Cat retired and on that date there was a balance of Investment of ₹4,00,000 and Investment Fluctuation Reserve of ₹1,00,000 was appearing in the balance sheet. Pass necessary journal entries for Investment Fluctuation Reserve in the following cases:

CBSE Sample Paper 2024-25

(i) Market value of Investment was ₹4,80,000

(ii) Market value of Investment was ₹3,80,000

(iii) Market value of Investment was ₹2,90,000

27. X, Y and Z were partners sharing profits and losses equally. Y died on 1st October, 2023 and total amount transferred to Y's executors was ₹15,60,000. Y's executors were being paid ₹3,60,000 immediately and balance was to be paid in four equal quarterly instalments, together with interest @ 6% p.a. Pass necessary entries till payment of first two instalments. **CBSE Sample Paper 2024-25**

Long Answer Type Questions (6 Marks)

1. The Balance Sheet of P, Q and R who were sharing profits and losses in the ratio of 5:3:2 as at 31st March, 2023 **CBSE Add. Sample Paper 2023-24**

| Liabilities | | ₹ | Assets | | ₹ |
|--------------------------|--------|-----------------|--------------|--|-----------------|
| Creditors | | 50,000 | Bank | | 40,000 |
| Employees Provident Fund | | 10,000 | Debtors | | 1,00,000 |
| Profit & Loss A/c | | 85,000 | Stock | | 80,000 |
| Capitals | | | Fixed Assets | | 60,000 |
| P | 40,000 | | | | |
| Q | 62,000 | | | | |
| R | 33,000 | | | | |
| | | <u>1,35,000</u> | | | |
| | | <u>2,80,000</u> | | | <u>2,80,000</u> |

P retired on 31st March, 2023 and Q and R decided to share profits in future in the ratio of 2:3 respectively. The other terms on retirement were as follows:

- Goodwill of the firm is to be valued at ₹80,000.
- Fixed assets are to be depreciated by ₹2,500.
- A provision for doubtful debts on debtors was to be provided for ₹5,000.
- A liability for claim included in creditors for ₹10,000 is settled at ₹8,000 and immediately paid by cheque.
- The amount will be paid to P in the following manner: Q will contribute ₹1,150 and R will contribute the rest by cheque and maintaining a minimum balance of ₹15,000 in Bank Account.

Pass necessary journal entries and prepare Balance Sheet.

2. Mark, Musk and Alen were partners in a firm sharing profits in 2:2:1 ratio. On 31st March, 2023 Alen retires from the firm. On the date Alen's retirement, the Balance Sheet of the firm was as follows: -

CBSE Add. Sample Paper 2023-24

| Liabilities | | ₹ | Assets | | ₹ |
|-----------------------------|---------------|-----------------|-------------------------|------------|-----------------|
| Creditors | | 54,000 | Bank | | 55,000 |
| Bills Payable | | 24,000 | Debtors | 12,000 | |
| Outstanding Rent | | 4,400 | Less: Provision for D/D | <u>800</u> | 11,200 |
| Provisions for Legal Claims | | 12,000 | Stock | | 18,000 |
| Capitals | | | Furniture | | 8,200 |
| Mark | 92,000 | | Premises | | 1,94,000 |
| Musk | 60,000 | | | | |
| Alen | <u>40,000</u> | | | | |
| | | <u>1,92,000</u> | | | |
| | | <u>2,86,400</u> | | | <u>2,86,400</u> |

On Alen's retirement it was agreed that:

- Premises will be appreciated by 5%.
- Furniture will be appreciated by ₹2,000.
- Stock will be depreciated by 10%.
- Provision for bad debts was to be made at 5% on debtors.
- Goodwill of the firm is valued at ₹48,000.
- ₹50,000 from Alen's Capital A/c will be transferred to his loan A/c and balance will be paid by cheque.

Prepare Revaluation A/c, Partner's Capital A/c and Balance Sheet of Mark and Must after Alen's retirement.

3. Ester, Emma and Lucy were partners in a firm sharing profits in the ratio of 2:2:1. The firm closes its books on 31st March every year. On 30th September, 2022 Lucy died. The partnership deed provided that on the death of a partner her executor will be entitled to the following: -

CBSE Add. Sample Paper 2023-24

- (a) Balance in her capital which amounted to ₹3,15,000 and interest on capital @ 9%.
- (b) Her share in the profits of the firm till the date of her death amounted to ₹70,000.
- (c) Her share in the goodwill of the firm. The goodwill of the firm on Lucy's death was valued at ₹1,50,000.

You are required to calculate the amount to be transferred to Lucy's Capital A/c.

4. P, Q and R were partners in a firm sharing profits and losses in the ratio of 5:3:2. Their Balance Sheet on 31st March, 2020 was as follows: - **(Term-1 NVS 2023-24)**

| Liabilities | ₹ | Assets | ₹ |
|----------------------------|----------|------------------------|----------|
| Creditors | 66,500 | Land | 3,00,000 |
| Bills Payable | 10,000 | Debtors | 20,000 |
| Profit and Loss A/c | 22,500 | Less Provision for D/D | 500 |
| Provision for Legal Claims | 57,500 | Stock | 20,000 |
| P's Capital | 1,20,000 | Furniture | 10,000 |
| Q's Capital | 97,000 | Patents | 45,000 |
| R's Capital | 71,000 | Bank | 50,000 |
| | 4,44,500 | | 4,44,500 |

On the above date, R retired. The terms of retirement were: -

- (i) Goodwill of the firm was valued at ₹80,000.
- (ii) Land will be appreciated by 10% and furniture will be depreciated by 5%.
- (iii) Provision for legal claims will be made at ₹61,000.
- (iv) ₹90,000 from R's Capital Account will be transferred to his Loan Account and the balance will be paid to him by cheque.

Prepare Revaluation Account, Partner's Capital Account and Balance Sheet of new firm.

5. Dev, Anu and Sudha are partners in a firm sharing profits and losses in the ratio of 5:3:2. Their books are closed on March 31st Every year. **(Term-1, NVS 2023-24)**

Dev died on September 30th, 2019. The executors of Dev are entitled to: -

- (i) His share of Capital i.e. ₹5,00,000 along with his share of goodwill. The goodwill of the firm was valued at ₹60,000.
- (ii) His share of profit up to his date of death on the basis of sales till date of death. Sales for the year ended March 31, 2019 was ₹2,00,000 and profit for the same year was 10% on sales. Sales shows a growth trend of 20% and percentage of profit earning is reduced by 1%.
- (iii) ₹3,35,400 was paid to Dev's executor's immediately and remaining amount paid to his executor in two annual equal instalments starting from 31st March, 2020 with interest @ 6% p.a.

Prepare Dev's capital A/c and his Executor's Account till the final payment.

6. L, M and N were partners in a firm sharing profit and losses in the ratio of 2:2:3. On 31st March, 2023, their balance sheet was as follows: - **(CBSE Sample Paper 2023-24)**

| Liabilities | ₹ | Assets | ₹ |
|-----------------|----------|-------------------|----------|
| Creditors | 80,000 | Land and Building | 5,00,000 |
| Bank Overdraft | 22,000 | Machinery | 2,50,000 |
| Long-term Debts | 2,00,000 | Furniture | 3,50,000 |
| Capitals: - | | Investments | 1,00,000 |
| L | 6,25,000 | Stock | 4,00,000 |

| | | | | |
|--------------------------|-----------------|------------------|------------------------------------|------------------|
| M | 4,00,000 | | Debtors | 2,00,000 |
| N | <u>5,25,000</u> | 15,50,000 | Bank | 20,000 |
| | | 38,000 | | <u>70,000</u> |
| Employees Provident Fund | | <u>18,90,000</u> | Deferred Advertisement Expenditure | <u>18,90,000</u> |

On 31st March, 2023, M retired from the firm and remaining partners decided to carry on business. It was decided to revalue assets and liabilities as under: -

- Land and building be appreciated by ₹2,40,000 and Machinery be depreciated 10%.
- 50% of investments were taken by the retiring partner at book value.
- Provision for doubtful debts was to be made at 5% on debtors.
- Stock will be valued at market price which is ₹1,00,000 less than the book value.
- Goodwill of the firm be valued at ₹5,60,000. L and N decided to share future profits and losses in the ratio of 2:3.
- Total capital of the new firm will be ₹32,00,000 which will be in proportion of profit sharing ratio of L and N.
- Gain on revaluation account amounted to ₹1,05,000.

Prepare Partner's Capital account and Balance Sheet of firm after M's retirement.

- Sandeep, Mandeep and Amandeep were partners in a firm sharing profits in the ratio of 2:2:1. The firm closes its books on 31st March every year. On 30th June, 2020 Mandeep died. The partnership deed provided that on the death of a partner his executors will be entitled to the following: -
 - Balance in his capital account which amounted to ₹1,15,000 and interest on capital till date of death which amounted to ₹5,000.
 - His share in the profits of the firm till the date of his death amounted to ₹20,000.
 - His share in the goodwill of the firm. The goodwill of the firm on Mandeep's death was valued at ₹1,50,000.
 - Loan to Mandeep amounted ₹20,000.

It was agreed that the amount will be paid to his executor in three equal yearly instalments with interest @ 10% p.a. The first instalment was to be paid on 30.06.2021.

Calculate the amount to be transferred to Mandeep's Executor's Account and prepare Mandeep's Executor's A/c till it is finally settled. **(CBSE Sample Paper 2023-24)**

- Reyansh, Aayushman and Sabhya were partners sharing profits and losses in the ratio of 5:3:2. Their Balance Sheet as at 31st March, 2022 was as under: - **(CBSE Sample Paper 2022-23)**

| Liabilities | | ₹ | Assets | | ₹ |
|------------------|-----------------|------------------|-------------------------|---------------|------------------|
| Sundry Creditors | | 2,20,000 | Cash | | 1,60,000 |
| Genral Reserve | | 1,20,000 | Debtors | 1,80,000 | |
| Capitals | | | Less: Provision for D/D | <u>20,000</u> | 1,60,000 |
| Reyansh | 8,00,000 | | Stock | | 2,00,000 |
| Aayushman | 7,00,000 | | Machinery | | 6,00,000 |
| Sabhya | <u>5,00,000</u> | 14,00,000 | Building | | 4,00,000 |
| | | | Patents | | 1,20,000 |
| | | | Profit and Loss A/c | | <u>1,00,000</u> |
| | | <u>17,40,000</u> | | | <u>17,40,000</u> |

Reyansh retired on the above date and it was agreed that: -

- Goodwill of the firm on Reyansh's retirement was valued at ₹12,00,000.
- Aayushman and Sabhya will share future profits in the ratio of 2:3.
- An unrecorded creditor of ₹40,000 will be taken into account.

(d) Debtors of ₹30,000 will be written off as bad debts. Amount payable to Reyansh was to be transferred to his loan account.

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

9. The Balance Sheet of Mohit, Neeraj and Sohan who are partners in a firm sharing profits according to their capitals as on March 31, 2023 was as under: - **(NVSRO Bhopal Pre-Board 2, 2024)**

| Liabilities | | ₹ | Assets | | ₹ |
|------------------|---------------|-----------------|-------------------------|--------------|-----------------|
| Creditors | | 21,000 | Building | | 1,00,000 |
| General Reserves | | 80,000 | Machinery | | 50,000 |
| Capitals | | | Stock | | 18,000 |
| Mohit | 40,000 | | Debtors | 20,000 | |
| Neeraj | 40,000 | | Less: Provision for D/D | <u>1,000</u> | 19,000 |
| Sohan | <u>20,000</u> | 1,00,000 | Cash at Bank | | 14,000 |
| | | <u>2,01,000</u> | | | <u>2,01,000</u> |

On that date, Neeraj decided to retire from the firm and was paid for his share in the firm subject to the following: -

- Building to be appreciated by 20%, Provision for Bad Debts to be increased to 15% on debtors.
- Machinery to be depreciated by 20%.
- Goodwill of the firm is valued at ₹72,000 and the retiring partner's share is adjusted through the capital accounts of remaining partners.

Prepare Revaluation A/c, Partner's Capital A/cs and the Balance Sheet after retirement of Neeraj.

10. Megha, Mehak and Mandeep were partners in a firm whose Balance Sheet as on 31st March, 2023 was as under: **CBSE Sample Paper 2024-25**

| Liabilities | | ₹ | Assets | | ₹ |
|------------------|---------------|---------------|-----------|--|---------------|
| Creditors | | 28,000 | Furniture | | 5,000 |
| General Reserves | | 7,500 | Stock | | 28,000 |
| Capitals | | | Debtors | | 20,000 |
| Mohit | 20,000 | | Cash | | 27,000 |
| Neeraj | 14,500 | | | | |
| Sohan | <u>10,000</u> | 44,500 | | | |
| | | <u>80,000</u> | | | <u>80,000</u> |

Mehak retired on this date subject to the following: -

- To reduce stock and furniture by 5% and 10% respectively.
- To provide for doubtful debts at 10% on debtors.
- Goodwill was valued at ₹12,000.
- Creditors of ₹8,000 were settled at ₹7,100.
- Mehak should be paid off and the entire sum payable to Mehak shall be brought in by Meghna and Mandeep in such a way that their capitals should be in their new profit-sharing ratio and a balance of ₹25,000 is maintained in the cash account.

Prepare Revaluation Account and Partners' Capital Account of the new firm

Chapter - 5 Dissolution of Partnership Firm

Meaning of Dissolution of Partnership Firm

“Dissolution of Partnership Firm means dissolution of partnership among all the partners in the firm.” In such an event, all the assets of the firm are realised, i.e., sold and liabilities are paid. The balance, if any, is paid to the partners in settlement of their accounts. If there is shortfall in meeting outside liabilities, it is met by the partners from their private assets.

Difference between Dissolution of Firm and Dissolution of Partnership

| S. No. | Basis | Dissolution of Firm | Dissolution of Partnership |
|--------|------------------------------|--|---|
| 1 | Meaning | Closure of the firm and end of business relationship among all the partners. | Change in the business relationship among the partners. The firm continue its business. |
| 2 | Court’s Intervention | It can be either voluntarily or compulsorily by order of court. | It is always voluntary. |
| 3 | Closure of books of accounts | Books of accounts are closed | No need to close the books of accounts |
| 4 | Business Conditions | Business of the firm comes to an end. | Business of the firm continues. |
| 5 | Economic Relationship | Economic relationship of partners come to an end. | Economic relationship of the partners changes. |
| 6 | Assets and Liabilities | Assets are sold and liabilities are paid. | Assets are revalued and liabilities are reassessed. |
| 7 | Effect | Dissolution of firm also means dissolution of partnership. | Dissolution of partnership may or may not involve dissolution of the firm. |

Modes of Dissolution of a Firm

The modes by which a firm may be dissolved are: -

1. By Mutual Agreement
2. Compulsory Dissolution
3. By Notice
4. On Happening of an Event
5. Dissolution by Court

1. By Mutual Agreement: - A firm may be dissolved when all the partners agree for the dissolution. A partnership firm is set up by an agreement, similarly, it can be dissolved by an agreement.

2. Compulsory Dissolution: -

- (i) When all the partners or all the partners except one become insolvent.
- (ii) When business of the firm become unlawful.

3. By Notice: - In case partnership is at will, the firm may be dissolved by any partner giving notice in writing to all the other partners of his intention to dissolve the firm (**Section-43**)

4. On Happening of an Event: - A firm may be dissolved in any of the following events, if partnership deed so provides: -

- (i) On expiry of the term for which the firm was constituted.
- (ii) On completion of the venture.
- (iii) On death of a partner.
- (iv) On adjudication of a partner as insolvent.

5. Dissolution by Court: - Court may pass order for the dissolution of the firm when: -

- (a) A partner becomes a person of unsound mind.
- (b) A partner becomes permanently incapable of performing his duties as a partner.
- (c) A partner is found guilty of misconduct, which is likely to adversely affect the business of the firm.
- (d) Partnership agreement is breached persistently by a partner or partners.
- (e) Court finds dissolution of the firm justified.
- (f) When the business of the firm cannot be carried on except at a loss.

Settlement of Accounts (Section 48)

Section 48 of the Indian Partnership Act, 1932 deals with the settlement of accounts when the firm is dissolved. These are as follow: -

1. **Treatment of Losses:** - Loss, including deficiencies of capitals, is paid first out of profit, then out of capital and lastly, if necessary, by the partners individually in the proportion in which they share profits.
2. **Application of Assets:** - Assets of the firm, including amount contributed by the partners to make up deficiencies of capital, are applied in the following orders: -
 - (a) for payment of firm's debts to the third parties;
 - (b) for payment of partner's loan or advances;
 - (c) for payment of partner's capital;
 - (d) if profit any, is distributed among the partners in their profit-sharing ratio.

Payment of Firm's Debt and Private Debts (Section 49)

Debts which the firm owes to outsiders are known as firm's debts, whereas the debts which a partner owes in his personal capacity are known as private debts.

Following provisions apply in case of firm's debts and partner's private debts:

1. Firm's property is applied first towards payment of firm's debts then the surplus, if any, is applied towards payment of partner's private debts to the extent the concerned partner is entitled to share in the surplus.
2. Private property of each partner is applied first towards the payment of his private debts and surplus, if any, is applied towards payment of firm's debts.

Difference between Firm's Debt and Private Debts

| S. No. | Basis | Firm's Debts | Private Debts |
|--------|--------------------------------|---|--|
| 1 | Meaning | Firm's debt means the debt owed by the firm to outsiders. | Private debt means debt owed by a partner in his capacity to any other person. |
| 2 | Liability | All the partners are liable jointly and severally for firm's debts. | Concerned partner is liable personally for his private debts. |
| 3 | Application of Firm's Property | Firm's property is applied first for setting firm's debts. | Excess of firm's property over firm's debts can be applied for private debts. |

| | | | |
|---|---------------------------------|--|--|
| 4 | Application of Private Property | Excess of private property over private debts can be applied for firm's debts. | Private property is applied first for private debts then towards firm's debts. |
|---|---------------------------------|--|--|

Accounting Treatment on Dissolution of Firm

Dissolution process starts by opening the following accounts in the firm's books: -

1. Realisation Account
2. Partner's Loan Account
3. Partner's Capital Account
4. Bank or Cash Account

Realisation Account: - The account which is opened at the time of dissolution of firm to determine gain or loss on the realization of assets and payment of liabilities is called Realisation Account. It is a nominal nature account. First of all, all the assets and liabilities are transferred to this account and then assets are realized (sold) and liabilities paid.

Accounting Entries: -

(i) For closing of the Asset Account: -

Realisation A/c Dr.
 To Assets A/c

(For the assets transferred to Realisation Account)

All the recorded assets (including Goodwill) which are given in the balance are transferred to realization account except Fictitious Assets, Cash in hand, Cash at Bank, Profit and Loss A/c (Dr. Balance) Capital/Current Account (Dr. Balance).

(ii) For closing the liabilities accounts: -

Liabilities A/c Dr.
 To Realisation A/c

(For the liabilities are transferred to Realisation Account)

Liabilities related to third party or the outsiders are transferred to realization account. In outsider liabilities Partner's Loan Account, Partner's capital Account, Accumulated Profits and Reserves are not included. So, these will not be transferred to Realisation Account, these will be shown in partner's capital account.

(iii) Treatment of Provision against an Asset: -

Provision against an asset includes Investment Fluctuation Reserve and Provision for Doubtful Debts etc. Accounting treatment of these will be: -

Investment Fluctuation Reserve A/c Dr.
Provision for Doubtful Debts A/c Dr.
 To Realisation A/c

(For provision against assets are transferred to Realisation A/c)

(iv) Treatment of Fictitious Assets: - These are the Deferred Revenue Expenditure, Accumulated Losses etc.

Partners' Capital A/c Dr.
 To Fictitious Assets A/c

(For fictitious assets transferred to partner's capital account)

Workmen Compensation Reserve

It is reserve created out of profit to meet claims for compensation by workmen. At the time of dissolution following situation may exist: -

- (i) No liability against Workmen Compensation Reserve
- (ii) Amount of liability is less than the Workmen Compensation Reserve
- (iii) Amount of Liability is equal to Workmen Compensation Reserve
- (iv) Amount of liability is more than the Workmen Compensation Reserve

(i) No liability against Workmen Compensation Reserve

Workmen Compensation Reserve A/c Dr.
 To Partners' Capital A/c

(For the amount of Workmen Compensation Reserve transferred to partners' capital account)

(ii) Amount of liability is less than the Workmen Compensation Reserve

Workmen Compensation Reserve A/c Dr.
 To Realisation A/c

(For Workmen Compensation Reserve transferred to Realisation A/c)

Realisation A/c Dr.
 To Cash/Bank A/c

(For liability against Workmen Compensation Reserve paid)

(iii) Amount of Liability is equal to Workmen Compensation Reserve

or

(iv) Amount of liability is more than the Workmen Compensation Reserve

Workmen Compensation Reserve A/c Dr.
 To Realisation A/c

(For Workmen Compensation Reserve transferred to Realisation A/c)

Realisation A/c Dr.
 To Cash/Bank A/c

(For liability against Workmen Compensation Reserve paid)

Realisation of Assets

(i) When assets are sold

Cash/Bank A/c Dr.
 To Realisation A/c

(For amount realized from the sale of assets)

(ii) When assets taken by any of the partner

Partner's Capital A/c Dr.
 To Realisation A/c

(For assets taken by a partner)

Transfer of Assets to Settle Liabilities: -

Sometimes the creditors or lenders may agree to take an asset of the firm in full settlement of their claims. In such a case the entry is not passed in the books of account. For example, Machinery of Rs.1,00,000 given to a creditor at 10% discount. In this case no entry will be made. But if the transaction, Machinery of Rs.1,00,000 given to a creditor of Rs.50,000 given at 10% discount then entry will be: -

Cash/Bank A/c Dr. 40,000
 To Realisation A/c 40000

(For amount (90,000-50,000) = Rs.40,000 realized from the creditor)

Payment of Liabilities

(i) When liabilities are paid

Realisation A/c Dr.
 To Cash/Bank A/c
(For amount paid for the liabilities)

(ii) When liabilities are paid by any of the partner

Realisation A/c Dr.
 To Partner's Capital A/c
(For liability paid by a partner)

Payment of Realisation Expenses

(i) When realization expenses are borne and paid by the firm

Realisation A/c Dr.
 To Cash/Bank A/c
(For amount paid for the realization expenses)

(ii) When realization expenses are borne by the firm and paid by any of the partner

Realisation A/c Dr.
 To Partner's Capital A/c
(For realization expenses paid by a partner)

(iii) When the firm pays fixed amount of remuneration to a partner for dissolution of the firm and the partner is to bear the dissolution expenses

Realisation A/c Dr.
 To Partner's Capital A/c
(For remuneration due to the partner)

If realization expenses are paid by firm on behalf of the partner

Partner's Capital A/c Dr.
 To Cash/Bank A/c
(For realization expenses paid by firm on behalf of a partner)

(iv) When the firm pays remuneration to a partner for dissolution of the firm and the firm is to bear the dissolution expenses

Realisation A/c Dr.
 To Partner's Capital A/c
(For remuneration due to the partner)

Realisation A/c Dr.
 To Cash/Bank A/c
(For realization expenses paid by firm)

(v) When realization expenses borne by one partner (A) and paid by another partner (B)

A's Capital A/c Dr.
 To B's Capital A/c
(For realization expenses borne by A and paid by B)

Format of Realisation Account

| Particulars | ₹ | Particulars | ₹ |
|----------------------------|-------|-------------------------|-------|
| To Land and Building A/c | ----- | By Provision for D/D | ----- |
| To Plant and Machinery A/c | ----- | By Sundry Creditors A/c | ----- |

| | | | |
|---|-------|---|-------|
| To Stock A/c | ----- | By Bills Payable A/c | ----- |
| To Furniture A/c | ----- | By Outstanding Exp. A/c | ----- |
| To Debtors A/c | ----- | By Loans A/c | ----- |
| To Goodwill A/c | ----- | By Bank Overdraft A/c | ----- |
| To Investment A/c | ----- | By Investment Fluctuation Reserve | ----- |
| To Cash/Bank A/c (liability paid) | ----- | By Cash/Bank A/c (assets realized) | ----- |
| To Cash/Bank A/c (expenses paid) | ----- | By Partner's Capital A/c (asset taken) | ----- |
| To Partner's Capital A/c (liability taken) | ----- | By Loss transfer to Partner's Capital A/c | ----- |
| To Partner's Capital A/c (realization expenses paid) | ----- | | |
| To Profit transferred to partner's capital account) | ----- | | |
| | ===== | | ===== |
| | ===== | | ===== |
| | ===== | | ===== |

Partner's Loan Account

| Particulars | ₹ | Particulars | ₹ |
|--|-------|---|-------|
| To Cash/ Bank A/c | ----- | By Balance b/d | ----- |
| To Realisation A/c (If credit side is more) | ----- | By Realisation A/c (If debit side is more) | ----- |
| | ===== | | ===== |
| | ----- | | ----- |
| | ===== | | ===== |

Partner's Capital Account

| Particulars | ₹ | Particulars | ₹ |
|---------------------------------------|-------|--|-------|
| To Realisation A/c (Assets taken) | ----- | By Balance b/d | ----- |
| To Realisation A/c (Realisation loss) | ----- | By General Reserve | ----- |
| To Accumulated Loss | ----- | By Realisation A/c (Liabilities taken) | ----- |
| To Cash/Bank A/c (Final Payment) | ----- | By Realisation A/c (Realisation profit) | ----- |
| | ===== | By Cash/Bank A/c (Cash brought in) | ----- |
| | ----- | | ----- |
| | ===== | | ===== |

Cash/Bank Account

| Particulars | ₹ | Particulars | ₹ |
|--|-------|---|-------|
| To Balance b/d | ----- | By Balance b/d (overdraft balance) | ----- |
| To Realisation A/c (assets realised) | ----- | By Realisation A/c (Liabilities paid) | ----- |
| To Realisation A/c (unrecorded assets) | ----- | By Realisation A/c (Realisation expenses paid) | ----- |
| To Partner's Capital A/c (Capital brought in) | ----- | By Realisation A/c By Partner's Loan A/c | ----- |

| | | | |
|--|-------|---|-------|
| | | By Partner's Capital A/c (Final payment) | |
| | _____ | | _____ |
| | ----- | | ----- |
| | ===== | | ===== |

Multiple Choice Questions

- On dissolution of a firm, a partner took over ₹17,000 investment for ₹14,000. Which of the following account will be debited/credited with how much amount? **(Term 1 2023-24)**
 - Partner's Capital Account Debit with ₹14,000
 - Partner's Capital Account Credit with ₹17,000
 - Realisation Account Credit with ₹17,000
 - Realisation Account Credit with ₹3,000
- Which of the following is correct profit or loss in case the amount received from the sale of assets is ₹50,000, total assets is ₹60,000, total liabilities ₹20,000 and realization expenses ₹2,000?

(Educart Sample paper 2)

- ₹12,000 loss (b) ₹32,000 profit (c) ₹30,000 loss (d) ₹12,000 profit
- At the time of dissolution of a firm, there is a loan from partner outstanding in the Balance Sheet. Partner's Loan is paid after payment of outside liabilities. What journal entry is recorded in the books of accounts at the time of dissolution of firm?

(Educart Sample paper 1)

| | Particulars | L.F. | Debit (₹) | Credit (₹) |
|-----|---|------|-----------|------------|
| (a) | Partner's Loan A/c To Bank A/c | Dr. | | |
| (b) | Partner's Capital A/c To Realisation A/c | Dr. | | |
| (c) | Bank A/c To Partner's Loan A/c | Dr. | | |
| (d) | None of these | | | |

- Sundry Debtors are appearing at ₹2,16,000 and Provision for Doubtful Debts at ₹12,000 in the Balance Sheet before dissolution. The Sundry Debtors will be transferred at which figure in realization account: - **(Pre-board 1 - 2023-24 KVS)**

- ₹1,16,000 (b) ₹2,04,000 (c) ₹2,16,000 (d) ₹2,00,000

- On the basis of the following data, how much final payment will be made to a partner on the firm's dissolution? Credit Balance of the Capital account of the partner was ₹50,000. Share of loss on realization amounted to ₹10,000. Firm's liability taken over by him was ₹8,000. **(Pre-board 1 - 2023-24 NVS)**

- ₹32,000 (b) ₹48,000 (c) ₹40,000 (d) ₹52,000

- In which of the following cases is the business of firm **not** dissolve compulsorily?

(CBSE Comp 2023)

- When all but one partner become insolvent.
- When the business of the firm becomes illegal
- When there is a change in profit sharing ratio between existing partners
- When a partner who is a citizen of a country becomes as alien enemy because of the declaration of war with his country and India.

- On the dissolution of a partnership firm there existed a balance of ₹45,000 in Sundry Debtors Account and a balance of ₹8,000 in Provision for Bad Debts Account in the books of the firm. The amount by which realization account will be debited for closing Sundry Debtors Account will be:

(CBSE Comp 2023)

- ₹45,000 (b) ₹37,000 (c) ₹8,000 (d) ₹53,000

8. In which of the following cases is the business of a firm **not** dissolved by court?

(CBSE Comp 2023)

- (a) When a partner becomes insane
- (b) With the consent of all the partners
- (c) When a partner becomes permanently incapable of performing his duties as a partner
- (d) When a partner is guilty of misconduct which is likely to adversely affect the business of the firm.

9. In which of the following condition is a partnership firm dissolved by 'Agreement'?

(CBSE Comp 2023)

- (a) In accordance with a contract between the partners
- (b) When a partner becomes insane
- (c) When the business of the firm becomes illegal
- (d) If any one of the partners gives a notice in writing to the other partners

10. At the time of dissolution of a firm, creditors are ₹70,000; firm's capital is ₹1,20,000; cash balance is ₹10,000. Other assets realized ₹1,50,000. Gain/loss in the realization account will be:

CBSE Sample Paper 2023-24

- (a) ₹30,000 gain
- (b) ₹40,000 gain
- (c) ₹40,000 loss
- (d) ₹30,000 loss

11. At the time of dissolution Machinery appears at ₹10,00,000 and accumulated depreciation for the machinery appears at ₹6,00,000 in the balance sheet of a firm. This machine is taken over by a creditor of ₹5,40,000 at 5% below the net value. The balance amount of the creditor was paid through bank. By what amount should the bank account be credited for this transaction?

CBSE Sample Paper 2024-25

- (a) ₹60,000
- (b) ₹1,60,000
- (c) ₹5,40,000
- (d) ₹4,00,000

12. Dada, Yuvi and Viru were partners sharing profits and losses in the ratio of 3:2:1. Their books showed Workmen Compensation Reserve of ₹1,00,000. Workmen claim amounted to ₹60,000. How it will affect the books of accounts at the time of dissolution of firm?

CBSE Sample Paper 2024-25

- (a) Only ₹40,000 will be distributed amongst partner's capital account.
- (b) ₹1,00,000 will be credited to Realisation Account and ₹60,000 will be paid off.
- (c) ₹60,000 will be credited to Realisation Account and will be even paid off. Balance ₹40,000 will be distributed amongst partners.
- (d) Only ₹60,000 will be credited to Realisation Account and will be even paid off

13. Rama, a partner took over Machinery of ₹50,000 in full settlement of her Loan of ₹60,000. Machinery was already transferred to Realisation Account. How it will affect the realization account?

CBSE Sample Paper 2024-25

- (a) Realisation Account will be credited by ₹60,000
- (b) Realisation Account will be credited by ₹10,000
- (c) Realisation Account will be credited by ₹50,000
- (d) No effect on Realisation Account.

14. At the time of dissolution, Harry, a creditor of the firm agreed to take over the furniture of the book value of ₹1,00,000 at ₹89,000 and the balance in cash in full settlement of his account of ₹1,10,000. Which journal entry will be passed for the balance to be paid in cash?

CBSE Add. Sample Paper 2023-24

| | | | | | |
|-----|--------------------------------|-----|--|--------|--------|
| (a) | Realisation A/c To Bank A/c | Dr. | | 35,000 | 35,000 |
| (b) | Realisation A/c To Bank A/c | Dr. | | 21,000 | 21,000 |
| (c) | Realisation A/c To Bank A/c | Dr. | | 11,000 | 11,000 |
| (d) | Realisation A/c To Bank A/c | Dr. | | 15,000 | 15,000 |

15. Realisation expenses amounted to ₹15,000 were paid by partner Rahul. Vijay, another partner was appointed to look after dissolution process for which he was allowed remuneration of ₹8,000 and Vijay was to bear realisation expenses. What amount will be debited to realisation account for the above?
CBSE Add. Sample Paper 2023-24
(a) ₹15,000 (b) ₹8,000 (c) ₹23,000 (d) ₹7,000
16. Manav and Daksh were partners sharing profits and losses in the ratio of 5:3. Their firm was dissolved on March 31, 2023. On the date of dissolution, Daksh's loan to the firm amounted to ₹80,000 and was settled at ₹75,000.
CBSE Add. Sample Paper 2023-24
Assertion (A) Daksh's Loan will be debited by ₹75,000 only.
Reason (R) Daksh's Loan to be closed by the amount paid to him.
(a) Both (A) and (R) are correct and (R) is the correct explanation of (A)
(b) Both (A) and (R) are correct and (R) is not the correct explanation of (A)
(c) (A) is incorrect but (R) is correct
(d) Both (A) and (R) are incorrect
17. On the day of dissolution of the firm 'Roop Brothers' had partner's capital amounting to ₹1,50,000, external liabilities ₹35,000, cash balance ₹8,000 and P&L A/c (Dr.) ₹7,000. If realization expenses and loss on realization amounted to ₹5,000 and ₹25,000 respectively, the amount realized by sale of assets is
CBSE Sample Paper 2023-24
(a) ₹1,64,000 (b) ₹1,45,000 (c) ₹1,57,000 (d) ₹1,50,000
18. Which of the following will be transferred to Realisation Account at the time of dissolution of firm?
(CBSE Sample Paper 2022-23)
(i) Provision for Doubtful Debts
(ii) Partner's Loan
(iii) General Reserve
(iv) Goodwill
Options: -
(a) (i) and (iv) (b) (i), (ii) and (iv) (c) (i), (iii) and (iv) (d) (i), (ii) and (iii)
19. At the time of dissolution, total assets were of ₹24,00,000 and external liabilities were of ₹9,60,000. If assets realized 120% and realization expenses were ₹32,000. Then gain or loss on realization will be: -
(Educart Sample Paper 2024)
(a) Gain ₹4,80,000 (b) Loss ₹4,80,000 (c) Loss ₹4,48,000 (d) Gain ₹4,48,000
20. On dissolution of the partnership firm of A, B and C, the accumulated profits of ₹40,000 will be transferred to which of the following account?
(CBSE Final Exam 2023)
(a) Revaluation A/c (b) Realisation A/c (c) Bank A/c (d) Partner's Capital A/c
21. On dissolution of a firm, bank overdraft is transferred to:
(NVS Pre-Board 2, 2024)
(a) Cash A/c (b) Bank A/c (c) Realisation A/c (d) Partner's Capital A/c

Short Answer Type Questions (4 marks)

1. Carol and Lacy were partners. They decided to dissolve their firm. Pass the journal entries for the following after various assets and external liabilities have been transferred to Realisation A/c: -
CBSE Add. Sample Paper 2023-24
(a) Carol took over half of the investments worth ₹30,000 at 2% discount and the remaining investments were sold at a profit of 18% of the book value.
(b) Lacy is allowed a remuneration of ₹13,000 for dissolution work and is to bear all the expenses of realization which amounted to ₹5,000 were paid by the firm.
(c) Carol had given a loan of ₹89,000 to the firm which was duly paid.

- (d) Lacy agreed to pay off her brother's loan of ₹13,000 at a discount of 5%.
2. Sun and Kiran are partners sharing profits and losses equally. They decided to dissolve their firm. Assets and liabilities have been transferred to Realisation Account. Pass necessary journal entries for the following: - **(CBSE Sample Paper 2022-23)**
- (a) All partners are agreed that the process of realization at the time of dissolution will be accomplished by Sun for which he will be paid ₹10,000 along with the amount of expense which amounted to 2% of total value realized from the assets on dissolution. Some assets were sold for cash at a cumulative value of ₹12,00,000 and the remaining were taken over by creditors at a valuation of ₹3,00,000.
- (b) Deferred Advertisement Expenditure A/c appeared in the books at ₹28,000.
- (c) Out of the Stock of ₹1,20,000; Kiran (a partner) took over $\frac{1}{3}$ of the stock at a discount of 25% and 50% of remaining stock was taken over by a Creditor of ₹30,000 in full settlement of his claim. Balance amount of stock realized at ₹25,000.
- (d) An outstanding bill for repairs and renewal of ₹3,000 was settled through an unrecorded asset which was valued at ₹10,000. Balance being settled in cash.
3. Rashmi and Rohini were partners sharing profits and losses in the ratio of 3:2. They decided to dissolve their partnership firm on 31st March, 2023. Rashmi took the responsibility of realization. She was paid ₹1,000 as commission for her services. The balance sheet as on that date stood as follows: - **(Educart Sample Paper 2024)**

| Liabilities | | ₹ | Assets | | ₹ |
|--------------------------|---------------|-----------------|---------------------|--|-----------------|
| Outstanding Expenses | | 15,000 | Machinery | | 28,000 |
| Creditors | | 40,000 | Furniture | | 15,000 |
| Employees Provident Fund | | 10,000 | Debtors | | 46,000 |
| Bank Loan | | 65,000 | Stock | | 55,000 |
| Capitals | | | Cash at Bank | | 56,000 |
| Rashmi | 60,000 | | Profit and Loss A/c | | 30,000 |
| Rohini | <u>40,000</u> | <u>1,00,000</u> | | | |
| | | <u>2,30,000</u> | | | <u>2,30,000</u> |

The following was agreed upon: -

- (a) Rashmi agreed to take over furniture at 80% of book value.
- (b) Debts of ₹6,000 proved bad.
- (c) Rashmi took over half of stock at 10% less. The remaining stock was sold at 15% less than book value.
- (d) Machinery was sold for ₹30,000.
- (e) Creditors were settled for ₹36,000.
- (f) Bank loan was paid along with interest of ₹6,500.
- (g) Other liabilities were paid in full.
- (h) The expenses on realization amounted to ₹1,200.

Prepare Realisation Account, Partner's Capital Account and Bank Account to close the books of the firm.

4. Rusting, a partner of a firm under dissolution was to get a remuneration 2% of the total assets realized other than cash and 10% of the amount distributed to the partners. Sundry assets (including cash ₹8,000) realized at ₹1,16,000 and sundry liabilities to be paid ₹31,340. Calculate Rusting's remuneration and show your workings clearly. Also pass necessary journal entry for remuneration. 3

CBSE Sample Paper 2024-25

Long Answer Type Questions (6 marks)

1. Akum and Bakum are partners sharing profits and losses in the ratio of 3:2. The Balance Sheet of the firm on 31st March 2023 was as follows: - **CBSE Add. Sample Paper 2023-24**

| Liabilities | | ₹ | Assets | | ₹ |
|--------------------------|---------------|-----------------|-------------------|--|-----------------|
| Creditors | | 60,000 | Cash in Hand | | 10,000 |
| Bills Payable | | 20,000 | Debtors | | 70,000 |
| Employees Provident Fund | | 50,000 | Stock | | 70,000 |
| Reserve Fund | | 20,000 | Plant & Machinery | | 40,000 |
| Capitals | | | Building | | 80,000 |
| Akum | 90,000 | | Profit and Loss | | 20,000 |
| Bakum | <u>70,000</u> | 1,60,000 | Loan to Rajan | | 20,000 |
| | | <u>3,10,000</u> | | | <u>3,10,000</u> |

The partners decided to dissolve their firm. Assets are realized as follows: -

- Debtors realized ₹50,000; stock realized ₹80,000.
- Akum took away the machinery at an agreed value of ₹30,000.
- Bakum takes over the building at a valuation of ₹1,00,000 and agrees to pay off creditors at a discount of ₹5,000.
- An unrecorded liability of ₹20,000 was discharged by unrecorded asset of ₹35,000 in full settlement.
- The expenses of realization came to ₹5,000 and were paid by Bakum, however as per agreement they were to be borne by Akum.

Prepare Realisation Account, Partner's Capital Account and Cash Account.

2. P and Q were partners in a firm sharing profits in the ratio of 3:2. On 31st March, 2021 the Balance Sheet of the firm was as follows: - **(Term-1 NVS 2023-24)**

| Liabilities | | ₹ | Assets | | ₹ |
|-------------|-----------------|-----------------|-----------|--|-----------------|
| Creditors | | 97,000 | Building | | 2,40,000 |
| P's Loan | | 20,000 | Furniture | | 1,75,000 |
| Capitals: | | | Debtors | | 80,000 |
| P | 3,00,000 | | Stock | | 75,000 |
| Q | <u>2,00,000</u> | 5,00,000 | Cash | | 47,000 |
| | | <u>6,17,000</u> | | | <u>4,44,500</u> |

The firm was dissolved on 1st April, 2021 and the assets and liabilities were settled as following: -

- Building was taken over by the creditors as their full and final payment,
- P accepted an unrecorded asset of ₹25,000 in full settlement of his loan.
- Furniture was taken over by Q for cash payment at 5% less than the book value.
- Debtors were collected by a debt collection agency at a cost of ₹5,000.
- Stock realised at ₹70,500.
- Q agreed to bear all realisation expenses. For this service Q is to be allowed ₹500. Actual expenses on realisation ₹1,000 were paid by Q

Prepare Realisation Account and Partner's Capital Account on dissolution of the partnership firm.

3. G and M were partners sharing profits and losses in the ratio of 3:2. On 31st March 2022, their balance sheet was as follows: - **(CBSE Final Exam 2023)**

| Liabilities | | ₹ | Assets | | ₹ |
|------------------------------|--|-----------|----------------------|--|-----------|
| Creditors | | 50,000 | Bank | | 75,000 |
| 9% Loan | | 15,00,000 | Other Current Assets | | 4,80,000 |
| Outstanding Expenses | | 45,000 | Machinery | | 7,00,000 |
| Provision for Doubtful Debts | | 5,000 | Land & Building | | 15,00,000 |

| | | | | |
|-----------|-----------------|------------------|-------------------|------------------|
| Capitals: | | | Patents | 10,000 |
| G | 6,00,000 | | Profit & Loss A/c | 15,000 |
| M | <u>7,00,000</u> | 13,00,000 | Goodwill | <u>1,20,000</u> |
| | | <u>29,00,000</u> | | <u>29,00,000</u> |

On the above date, the firm was dissolved. Other current assets realised 10% less. Land & Building and machinery were sold at their book value. 9% loan was discharged with unrecorded interest of ₹1,35,000. Expenses on dissolution amounted to ₹10,000.

Prepare Realisation Account.

4. Pass the necessary journal entries for the following transactions on the dissolution of the partnership firm of Tina and Rina after various assets (other than cash) and external liabilities have been transferred to Realisation Account: - **(CBSE Final Exam 2023)**

- An unrecorded asset of ₹18,000 was taken over by Tina at ₹18,000.
- Rina agreed to pay her brother's loan of ₹23,000.
- Stock of ₹30,000 was taken over by a creditor of ₹40,000 in full settlement.
- Expenses of dissolution ₹40,000 were paid by Rina.
- Creditors were paid ₹18,800 in full settlement of their account of ₹20,000.
- Tina's loan of 15,000 was paid through a cheque.

5. Anju, Manju and Sanju sharing profits in 3:1:1 decided to dissolve their firm. On March 31, 2023 their position was as follows: - **(NVSRO Bhopal Pre-Board 2, 2024)**

| Liabilities | ₹ | Assets | ₹ |
|-------------|-----------------|------------------------|-----------------|
| Creditors | 60,000 | Bank | 35,000 |
| loan | 15,000 | Debtors | 2,42,000 |
| Capitals | | Less: Provision of D/D | <u>12,000</u> |
| Anju | 2,75,000 | Stock | 83,000 |
| Manju | 1,10,000 | Furniture | 12,000 |
| Sanju | <u>1,00,000</u> | Buildings | 2,00,000 |
| | 4,85,000 | | |
| | <u>5,60,000</u> | | <u>5,60,000</u> |

It is agreed that: -

- Anju takes over the furniture at ₹10,000 and debtors amounting to ₹2,00,000 at 1,85,000.
- Anju also agrees to pay the creditors.
- Manju is to take over stock at book value and buildings at book value less 10%.
- Sanju is to take over remaining debtors at 80% of book value and responsible for discharge of loan.
- The expenses of dissolution amounted to ₹2,200.

Prepare Realisation Account, Partner's Capital Account and Bank Account.

6. Sunny and Bobby were partners in a firm sharing profits and losses in the ratio of 3:2, their balance sheet as at 31st March, 2012: **CBSE Sample Paper 2024-25**

| Liabilities | ₹ | Assets | ₹ |
|--------------------------------|-----------------|------------------------|-----------------|
| Creditors | 1,90,000 | Bank | 5,000 |
| Bills Payable | 1,10,000 | Debtors | 1,77,000 |
| Employees Provident Fund | 50,000 | Less: Provision of D/D | <u>12,000</u> |
| Mrs. Sunny's Loan | 55,000 | Stock | 86,000 |
| Bobby's Loan | 85,000 | Investment | 1,04,000 |
| Investment Fluctuation Reserve | 30,000 | Fixed Deposits | 70,000 |
| Capitals | | Other Fixed Assets | 3,80,000 |
| Sunny | 2,20,000 | Deferred Revenue Exp. | 35,000 |
| Bobby | <u>1,20,000</u> | Sunny's Loan | 15,000 |
| | 3,40,000 | | |
| | <u>8,60,000</u> | | <u>8,60,000</u> |

The firm was dissolved on 31st March, 2012. The assets were realised and the liabilities were paid as under:

- (a) Sunny promised to pay off Mrs. Sunny's Loan.
- (b) Bobby took away stock at 20% discount and 80% of the investments at 10% discount.
- (c) Dharam, a debtor of ₹60,000 had to pay the amount due 2 months after the date of dissolution. He was allowed a discount of 9% p.a. for making immediate payment.
- (d) Creditors were paid ₹1,75,000 in full settlement of their claim.
- (e) 90% of other fixed assets realised ₹1,98,000 and remaining were realised at discount of 15%.
- (f) Balance of Investment were sold at 75% value and Fixed Deposits were realised at 110%.
- (g) There was an old furniture which has been written off completely from the books, Bobby took away the same for ₹41,000 against his loan and balance to him was given in cash.
- (h) Realisation expenses ₹20,000 were paid by Sunny and Bobby equally on behalf of the firm.

You are required to prepare Realisation Account.