CHAPTER 6

Dissolution of a Partnership Firm

MEANING OF KEY TERMS USED IN THE CHAPTER

1. Dissolution of Partnership

It implies change in relationship of partners of the firm but the firm continues its business. In other words, there is dissolution of partnership whenever a partnership is reconstituted, *viz.*, admission, retirement, death or insolvency of a partner.

2. Dissolution of Firm

Dissolution of partnership among all the partners of a firm is called **dissolution of the firm**. In such a case the business of the firm also comes to an end.

3. Firm's Debts

Firm's Debts means the debts owed by the firm to outsiders.

4. Private Debts

Private Debts means debts owed by a partner to any other person.

5. Realisation Account

It records the realisation of assets and payments of liabilities. It is prepared to determine gain (profit)/loss on realisation of assets and settlement of liabilities.

6. Unrecorded Asset

Any asset which is not recorded in the books of the firm, is called **unrecorded asset**.

7. Unrecorded Liability

Any liability which is not recorded in the books of the firm is known as **unrecorded liability**.

SUMMARY OF THE CHAPTER

- **Dissolution of partnership between/among all the partners of a firm is called Dissolution of the Firm:** In case of dissolution of a firm, the business of the firm is closed, the assets are realised and the liabilities are paid.
- **Dissolution of partnership refers to the change in the existing relations of the partners:** The firm continues its business. It may take place on admission/retirement/death/insolvency of a partner or change in the profit-sharing ratio.

Settlement of Accounts (Section 48)

- **Treatment of Losses:** Losses including deficiencies of capital are to be paid in the following order:
  - (*i*) First out of profits of the firm;
  - (*ii*) Then out of capitals of the partners; and
  - (*iii*) Lastly by partners individually in their profit-sharing ratio. [Section 48 (a)]

- **Application of Assets:** The assets of the firm, including any sum contributed by the partners to make up the deficiencies of capital will be applied in the following manner and order:
  - (*i*) in paying firm's debts to the third parties.
  - (*ii*) in paying to each partner rateably what is due to him on account of loans and advances;
  - (*iii*) in paying to each partner rateably what is due to him on account of capital;
  - (*iv*) the surplus, if any, shall be distributed between/among the partners in their profit-sharing ratio. [Section 48(b)]

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

1. *Application of Firm's Property:* Firm's property is applied first towards the payment of firm's debts; then the surplus, if any, is applied towards the payment of partner's loan to the firm and balance towards his capital.
2. *Application of Partner's Private Property:* Partner's private property is applied first in payment of his private debts and the surplus, if any, in payment of firm's debts if the firm's liabilities exceed the firm's assets.

- **Closing of Firm's Books:** Firm's books are closed by preparing the following accounts:
  - (*i*) Realisation Account;
  - (*ii*) Loan by Partners Accounts;
  - (*iii*) Partners' Capital Accounts; and
  - (*iv*) Bank or Cash Account.
- **Realisation Account:** It is a nominal account and is prepared on the dissolution of a firm. The object of this account is to show the gain (profit) or loss on the realisation of assets and payment of liabilities.
- If Fixed Capital Account Method is followed, balance in Current Accounts is transferred to Capital Accounts of the Partners and adjustments are passed through the Capital Accounts. No adjustments are required to be passed through Current Account.
- Bank Overdraft is not to be transferred to Realisation Account.
- Bank Loan is to be transferred to Realisation Account.
- Partner's Loan Account (Loan by a partner to the firm) is to be passed through Cash or Bank Account.
- Loan given to a partner is transferred (debited) to his Capital Account.

Accounting Entries Relating to Dissolution

The following entries are passed at the time of the dissolution of the firm:

Transfer of assets (except cash and bank balance)	Realisation A/c ...Dr. To Sundry Assets A/c	At book value
Transfer of liabilities (except loans by partners, capitals and undistributed profits)	Sundry Liabilities A/c ...Dr. To Realisation A/c	At book value
Sale of assets	Cash/Bank A/c ...Dr. To Realisation A/c	At realised value
Assets taken over by partner	Partner's Capital A/c ...Dr. To Realisation A/c	At agreed value
Payment of liabilities	Realisation A/c ...Dr. To Cash/Bank A/c	Amount of payment
Any liability taken over by the partner	Realisation A/c ...Dr. To Partner's Capital A/c	At agreed value
Payment of realisation expenses	Realisation A/c ...Dr. To Cash/Bank A/c	Amount of payment
Sale of unrecorded assets	Cash/Bank A/c ...Dr. To Realisation A/c	Amount received on sale

Payment of an unrecorded liability (which does not exist in the Balance Sheet)	Realisation A/c ...Dr. To Cash/Bank A/c	Paid amount
Payment of realisation expenses by any partner	Realisation A/c ...Dr. To Partner's Capital A/c	Amount of payment
Credit balance of Realisation Account (Gain or Profit)	Realisation A/c ...Dr. To Partners' Capital A/cs	In profit-sharing ratio
Debit balance of Realisation Account (Loss)	Partners' Capital A/cs ...Dr. To Realisation A/c	In profit-sharing ratio

Notes:

1. When an asset or liability is taken to the Realisation Account any related fund or reserve is also transferred to Realisation Account and not to Partners' Capital Accounts.
2. If the question is silent about the realisation of an asset, its value is assumed to be nil.
3. If the question is silent about the payment of a liability, then it has to be paid out in full.
4. Bank overdraft is taken to the Bank/Cash A/c and not transferred to Realisation Account but bank loan is transferred to Realisation Account.
5. Loan taken from a partner is passed through Cash or Bank Account.
6. Loan given to a partner is transferred (debited) to his Capital Account.

Solved Questions

Illustration 1.

Following is the Balance Sheet of Amrit and Bose as at 31st March, 2020:

Liabilities		₹	Assets		₹
Sundry Creditors		3,00,000	Cash in Hand		5,000
Bills Payable		80,000	Cash at Bank		80,000
Mrs. Amrit's Loan		50,000	Stock-in-Trade		50,000
Mrs. Bose's Loan		1,00,000	Investments		1,00,000
General Reserve		1,00,000	Debtors	2,00,000	
Machinery Replacement Reserve		10,000	*Less*: Provision for Doubtful Debts	20,000	1,80,000
Capital A/cs:			Plant and Machinery		2,00,000
Amrit	1,00,000		Building		1,50,000
Bose	1,00,000	2,00,000	Goodwill		40,000
			Profit and Loss A/c		35,000
		8,40,000			8,40,000

The firm was dissolved on 31st March, 2020. On dissolution:

(*i*) Amrit promised to pay Mrs. Amrit's loan and took Stock-in-Trade at ₹ 40,000.

(*ii*) Bose took half the Investments at Book Value *less* 10%.

(*iii*) Debtors realised ₹ 1,90,000.

(*iv*) Creditors and Bills Payable were due on an average basis of one month after 31st March, but they were paid immediately on 31st March @ 6% p.a. discount.

(*v*) Plant realised ₹ 2,50,000; Building ₹ 4,00,000; Goodwill ₹ 60,000; and remaining Investments at ₹ 45,000.

(*vi*) There was old Furniture in the firm which had been written off completely from the books. It is now estimated to realise ₹ 3,000. It was taken by Bose at this estimated price.

(*vii*) Realisation Expenses were ₹ 10,000.

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

Solution:

Dr. REALISATION ACCOUNT *Cr.*

Particulars		₹	Particulars		₹
To Sundry Assets (Transfer):			By Sundry Liabilities (Transfer):		
Stock-in-Trade A/c	50,000		Sundry Creditors A/c	3,00,000	
Investments A/c	1,00,000		Bills Payable A/c	80,000	
Debtors A/c	2,00,000		Mrs. Amrit's Loan A/c	50,000	
Plant and Machinery A/c	2,00,000		Mrs. Bose's Loan A/c	1,00,000	
Building A/c	1,50,000		Machinery Replacement Reserve	10,000	
Goodwill A/c	40,000	7,40,000	Provision for Doubtful Debts A/c	20,000	5,60,000
To Amrit's Capital A/c (Mrs. Amrit's Loan)		50,000	By Amrit's Capital A/c (Stock)		40,000
To Bank A/c (Liabilities Paid):			By Bose's Capital A/c (Half Investments)		45,000
Creditors ₹ (3,00,000 – 1,500) (WN)	2,98,500		By Bank A/c (Assets Realised):		
Bills Payable ₹ (80,000 – 400) (WN)	79,600		Debtors	1,90,000	
Realisation Expenses	10,000		Plant	2,50,000	
Mrs. Bose's Loan	1,00,000	4,88,100	Building	4,00,000	
To Gain (Profit) transferred to:			Goodwill	60,000	
Amrit's Capital A/c	1,57,450		Investments (Remaining)	45,000	9,45,000
Bose's Capital A/c	1,57,450	3,14,900	By Bose's Capital A/c (Furniture)		3,000
		15,93,000			15,93,000

Dr. PARTNERS' CAPITAL ACCOUNTS *Cr.*

Particulars	Amrit (₹)	Bose (₹)	Particulars	Amrit (₹)	Bose (₹)
To Realisation A/c	40,000	45,000	By Balance *b/d*	1,00,000	1,00,000
To Realisation A/c	...	3,000	By Realisation A/c (Mrs. Amrit's Loan)	50,000	...
To Profit and Loss A/c	17,500	17,500	By Realisation A/c (Gain)	1,57,450	1,57,450
To Bank A/c (Final Settlement)	2,99,950	2,41,950	By General Reserve A/c	50,000	50,000
	3,57,450	3,07,450		3,57,450	3,07,450

Dr. BANK ACCOUNT *Cr.*

Particulars	₹	Particulars	₹
To Balance *b/d*	80,000	By Realisation A/c (Liabilities Paid)	4,88,100
To Cash A/c	5,000	By Amrit's Capital A/c (Final Payment)	2,99,950
To Realisation A/c (Assets Realised)	9,45,000	By Bose's Capital A/c (Final Payment)	2,41,950
	10,30,000		10,30,000

Working Note: Discount on— Creditors = ₹ 3,00,000 × 6/100 × 1/12 = ₹ 1,500

Bills Payable = ₹ 80,000 × 6/100 × 1/12 = ₹ 400.

Illustration 2.

Following is the Balance Sheet as at 31st March, 2019 of Antony, Birdy and Costello carrying on business in partnership sharing profits and losses in the ratio of 2 : 2 : 1:

Liabilities		₹	Assets	₹
Capital A/cs:			Fixed Assets	7,00,000
Antony	4,00,000		Sundry Debtors	3,00,000
Birdy	2,50,000	6,50,000	Stock	1,00,000
Mortgage Loan		4,00,000	Cash at Bank	50,000
Reserve		60,000	Costello's Capital A/c	60,000
Sundry Creditors		1,00,000		
		12,10,000		12,10,000

They decided to dissolve the partnership and the following arrangements were agreed upon:

(*i*) Fixed assets included:

(*a*) Motor Car ₹ 55,000 taken over by Birdy at an agreed value of ₹ 90,000 after the repairing costs amounted to ₹ 20,000 to be borne by the firm.

(*b*) Land and Building ₹ 5,00,000 subject to the mortgage loan, taken by Antony at an agreed value of ₹ 6,00,000 subject to the mortgage loan to be taken over at ₹ 4,00,000.

(*ii*) Other assets (excluding Cash at Bank) and Creditors are taken over by Piyush Limited in consideration of issue of 5,000 Equity Shares of ₹ 100 each fully paid. These shares are taken at a total agreed value of ₹ 4,80,000 equally by Antony and Birdy.

(*iii*) Creditors for ₹ 25,000 not provided for in the books had to be paid.

Prepare Realisation Account, Partners' Capital Accounts and Bank Account assuming that the final settlement was made by the partners bringing in the amounts due from them.

Solution:

Dr. REALISATION ACCOUNT *Cr.*

Particulars		₹	Particulars	₹
To Fixed Assets A/c		7,00,000	By Mortgage Loan A/c	4,00,000
To Sundry Debtors A/c		3,00,000	By Sundry Creditors A/c	1,00,000
To Stock A/c		1,00,000	By Birdy's Capital A/c (Motor Car)	90,000
To Bank A/c (Repair of Car)		20,000	By Antony's Capital A/c	6,00,000
To Bank A/c (Creditors)		25,000	(Land and Building)	
To Antony's Capital A/c (Mortgage Loan)		4,00,000	By Shares in Piyush Limited A/c	5,00,000
To Shares in Piyush Limited A/c (Loss)		20,000	(5,000 × ₹ 100)	
(₹ 5,00,000 – ₹ 4,80,000)				
To Gain (Profit) on Realisation transferred to:				
Antony's Capital A/c	50,000			
Birdy's Capital A/c	50,000			
Costello's Capital A/c	25,000	1,25,000		
		16,90,000		16,90,000

Dr. PARTNERS' CAPITAL ACCOUNTS *Cr.*

Particulars	Antony (₹)	Birdy (₹)	Costello (₹)	Particulars	Antony (₹)	Birdy (₹)	Costello (₹)
To Balance *b/d*	...	...	60,000	By Balance *b/d*	4,00,000	2,50,000	...
To Realisation A/c	6,00,000	90,000	...	By Reserve A/c	24,000	24,000	12,000
To Shares in Piyush Limited A/c	2,40,000	2,40,000	...	By Realisation A/c (Gain)	50,000	50,000	25,000
To Bank A/c (Bal. Fig.) (Final Payment)	34,000	...	...	By Realisation A/c	4,00,000	...	...
				By Bank A/c (Bal. Fig.)	...	6,000	23,000
	8,74,000	3,30,000	60,000		8,74,000	3,30,000	60,000

Dr. BANK ACCOUNT *Cr.*

Particulars	₹	Particulars	₹
To Balance *b/d*	50,000	By Realisation A/c (Repair of Car)	20,000
To Costello's Capital A/c (Cash Brought in)	23,000	By Realisation A/c (Creditors)	25,000
To Birdy's Capital A/c (Cash Brought in)	6,000	By Antony's Capital A/c (Final Payment)	34,000
	79,000		79,000

Illustration 3 (*Realisation Expenses are borne by a Partner*).

Partap, Gaurav and Amar are partners sharing profits and losses in the ratio of 5 : 3 : 2. They decide to dissolve the firm whose Balance Sheet is given below:

Liabilities		₹	Assets	₹
Trade Creditors		70,000	Bank	70,000
Capital A/cs:			Sundry Debtors	50,000
Partap	2,00,000		Stock	60,000
Gaurav	1,50,000		Furniture	25,000
Amar	1,50,000	5,00,000	Patents	35,000
Current A/cs:			Machinery	1,00,000
Partap	30,000		Building	3,20,000
Gaurav	20,000	50,000	Amar's Current A/c	10,000
Profit and Loss A/c		50,000	Advertisement Suspense A/c	30,000
Workmen Compensation Reserve		30,000		
		7,00,000		7,00,000

Following transactions took place at the time of dissolution:

(*i*) Gaurav took Stock for ₹ 55,000 and Amar took Building for ₹ 4,00,000.

(*ii*) Other assets realised as follows: Debtors—₹ 48,000; Furniture—₹ 17,000; Machinery—₹ 80,000.

(*iii*) Patents did not realise any amount and Trade Creditors were settled by paying them ₹ 65,000.

(*iv*) Realisation Expenses were to be borne by Partap for which it was agreed to pay him ₹ 10,000. Actual Realisation Expenses paid out of firm's Bank Account were ₹ 12,000.

Prepare Realisation Account, Partners' Current and Capital Accounts and Bank Account.

Solution:

Dr. REALISATION ACCOUNT *Cr.*

Particulars		₹	Particulars		₹
To Sundry Debtors A/c		50,000	By Trade Creditors A/c		70,000
To Stock A/c		60,000	By Gaurav's Capital A/c (Stock)		55,000
To Furniture A/c		25,000	By Amar's Capital A/c (Building)		4,00,000
To Patents A/c		35,000	By Bank A/c (Assets Realised):		
To Machinery A/c		1,00,000	Sundry Debtors	48,000	
To Building A/c		3,20,000	Furniture	17,000	
To Partap's Capital A/c (Expenses)		10,000	Machinery	80,000	1,45,000
To Bank A/c (Trade Creditors)		65,000			
To Gain (Profit) transferred to:					
Partap's Capital A/c	2,500				
Gaurav's Capital A/c	1,500				
Amar's Capital A/c	1,000	5,000			
		6,70,000			6,70,000

Dr. PARTNERS' CURRENT ACCOUNTS *Cr.*

Particulars	Partap (₹)	Gaurav (₹)	Amar (₹)	Particulars	Partap (₹)	Gaurav (₹)	Amar (₹)
To Balance *b/d*	...	...	10,000	By Balance *b/d*	30,000	20,000	...
To Partners' Capital A/cs	30,000	20,000	...	By Amar's Capital A/c	...	...	10,000
	30,000	20,000	10,000		30,000	20,000	10,000

Dr. PARTNERS' CAPITAL ACCOUNTS *Cr.*

Particulars	Partap (₹)	Gaurav (₹)	Amar (₹)	Particulars	Partap (₹)	Gaurav (₹)	Amar (₹)
To Amar's Current A/c	...	...	10,000	By Balance *b/d*	2,00,000	1,50,000	1,50,000
To Realisation A/c	...	55,000	4,00,000	By Partners' Current A/cs	30,000	20,000	...
To Advertisement Suspense A/c*	15,000	9,000	6,000	By Profit and Loss A/c	25,000	15,000	10,000
To Bank A/c (Realisation Exp.)	12,000	...	...	By Workmen Compensation Reserve A/c	15,000	9,000	6,000
To Bank A/c (Bal. Fig.) (Final Payment)	2,55,500	1,31,500	...	By Realisation A/c (Expenses)	10,000	...	...
				By Realisation A/c (Gain)	2,500	1,500	1,000
				By Bank A/c (Bal. Fig.)	...	...	2,49,000
	2,82,500	1,95,500	4,16,000		2,82,500	1,95,500	4,16,000

*Advertisement Suspense Account is a fictitious asset. Therefore, it is debited to Partners' Capital Accounts in their profit-sharing ratio.

Dr. BANK ACCOUNT *Cr.*

Particulars	₹	Particulars	₹
To Balance *b/d*	70,000	By Realisation A/c (Trade Creditors)	65,000
To Realisation A/c (Assets Realised)	1,45,000	By Partap's Capital A/c (Expenses)	12,000
To Amar's Capital A/c (Cash Brought in)	2,49,000	By Partap's Capital A/c (Final Payment)	2,55,500
		By Gaurav's Capital A/c (Final Payment)	1,31,500
	4,64,000		4,64,000

Note: Realisation expenses are borne by Partap. Therefore, no entry is passed for realisation expenses but expenses are paid by the firm on his behalf, these expenses are debited to his Capital Account.

Illustration 4.

Prakash, Kiran and Rishab are partners in a firm sharing profits and losses in the ratio of 3 : 2 : 1. Their Balance Sheet as at 31st March, 2020 stood as follows:

BALANCE SHEET *as at 31st March, 2020*

Liabilities		₹	Assets		₹
Creditors		25,000	Cash at Bank		2,000
Bills Payable		10,000	Debtors	20,000	
General Reserve		27,000	*Less:* Provision for Doubtful Debts	2,000	18,000
Workmen Compensation Fund		3,000	Stock		25,200
Mrs. Prakash's Loan		5,000	Investments		20,000
Capital A/cs:			Bills Receivable		8,000
Prakash	60,000		Machinery		60,000
Kiran	40,000	1,00,000	Goodwill		6,000
			Profit and Loss A/c		19,800
			Rishab's Capital A/c		11,000
		1,70,000			1,70,000

On the above date, the firm was dissolved and the following transactions took place:

(*i*) The Assets were sold for the following amounts:
Stock—₹ 20,200; Debtors—₹ 15,000; Machinery—₹ 40,000 and Investments—₹ 18,000.

(*ii*) Kiran took over the Bills Receivable at ₹ 7,000 and the Bills Payable at book value.

(*iii*) There was an unrecorded asset of ₹ 4,000 which was sold for ₹ 1,200.

(*iv*) Prakash agreed to pay his wife's Loan.

(*v*) A contingent liability for a bill discounted at ₹ 8,000 was settled by Prakash.

(*vi*) Creditors were settled at a discount of 10% and Goodwill realised ₹ 5,000.

(*vii*) Realisation Expenses were ₹ 2,100 which were met by Kiran.

You are required to pass necessary Journal entries, prepare Realisation Account on the dissolution of the firm and Capital Accounts of the Partners. (*ISC 2007, Modified*)

Solution:

JOURNAL

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
2020					
March 31	Realisation A/c	...Dr.		1,39,200	
	To Debtors A/c				20,000
	To Stock A/c				25,200
	To Investments A/c				20,000
	To Bills Receivable A/c				8,000
	To Machinery A/c				60,000
	To Goodwill A/c				6,000
	(Being the various assets transferred to Realisation Account)				
	Creditors A/c	...Dr.		25,000	
	Bills Payable A/c	...Dr.		10,000	
	Provision for Doubtful Debts A/c	...Dr.		2,000	
	Mrs. Prakash's Loan A/c	...Dr.		5,000	
	To Realisation A/c				42,000
	(Being the creditors, bills payable, provision for Doubtful debts and Mrs. Prakash's loan transferred to Realisation Account)				

	Bank A/c ...Dr. To Realisation A/c (Being the realisation of different assets) (Stock ₹ 20,200 + Debtors ₹ 15,000 + Machinery ₹ 40,000 + Investments ₹ 18,000 + Goodwill ₹ 5,000)		98,200	 98,200
	Kiran's Capital A/c ...Dr. To Realisation A/c (Being Kiran took over the bills receivable)		7,000	 7,000
	Realisation A/c ...Dr. To Kiran's Capital A/c (Being Kiran took over the bills payable at book value)		10,000	 10,000
	Bank A/c ...Dr. To Realisation A/c (Being the unrecorded asset sold)		1,200	 1,200
	Realisation A/c ...Dr. To Bank A/c (Being the creditors settled at 10% discount)		22,500	 22,500
	Realisation A/c ...Dr. To Prakash's Capital A/c (Being the contingent liability for a bill discounted settled by Prakash)		8,000	 8,000
	Realisation A/c ...Dr. To Prakash's Capital A/c (Being Mrs. Prakash's loan accepted by Prakash)		5,000	 5,000
	Realisation A/c ...Dr. To Kiran's Capital A/c (Being the realisation expenses met by Kiran)		2,100	 2,100
	General Reserve A/c ...Dr. To Prakash's Capital A/c To Kiran's Capital A/c To Rishab's Capital A/c (Being the general reserve distributed among partners in the profit-sharing ratio)		27,000	 13,500 9,000 4,500
	Workmen Compensation Fund A/c ...Dr. To Prakash's Capital A/c To Kiran's Capital A/c To Rishab's Capital A/c (Being the workmen compensation fund distributed among partners since there is no claim against it)		3,000	 1,500 1,000 500
	Prakash's Capital A/c ...Dr. Kiran's Capital A/c ...Dr. Rishab's Capital A/c ...Dr. To Profit and Loss A/c (Being the undistributed loss distributed among the partners in the ratio of 3 : 2 : 1)		9,900 6,600 3,300	 19,800
	Prakash's Capital A/c ...Dr. Kiran's Capital A/c ...Dr. Rishab's Capital A/c ...Dr. To Realisation A/c (Being the realisation loss transferred to Partners' Capital Accounts in the ratio of 3 : 2 : 1)		19,200 12,800 6,400	 38,400
	Bank A/c ...Dr. To Rishab's Capital A/c (Being the deficiency brought in by Rishab)		15,700	 15,700
	Prakash's Capital A/c ...Dr. Kiran's Capital A/c ...Dr. To Bank A/c (Being the final payment to partners on dissolution)		58,900 35,700	 94,600

Dr. REALISATION ACCOUNT *Cr.*

Particulars		₹	Particulars		₹
To Sundry Assets (Transfer):			By Provision for Doubtful Debts A/c		2,000
Debtors A/c	20,000		By Creditors A/c		25,000
Stock A/c	25,200		By Bills Payable A/c		10,000
Investments A/c	20,000		By Mrs. Prakash's Loan A/c		5,000
Bills Receivable A/c	8,000		By Bank A/c (Assets Realised):		
Machinery A/c	60,000		Stock	20,200	
Goodwill A/c	6,000	1,39,200	Debtors	15,000	
To Kiran's Capital A/c (Bills Payable)		10,000	Machinery	40,000	
To Prakash's Capital A/c:			Investments	18,000	
Contingent Liability	8,000		Goodwill	5,000	98,200
Mrs. Prakash's Loan	5,000	13,000	By Kiran's Capital A/c (Bills Receivable)		7,000
To Bank A/c (Creditors)		22,500	By Bank A/c (Unrecorded Asset)		1,200
To Kiran's Capital A/c (Expenses)		2,100	By Loss transferred to:		
			Prakash's Capital A/c	19,200	
			Kiran's Capital A/c	12,800	
			Rishab's Capital A/c	6,400	38,400
		1,86,800			1,86,800

Dr. PARTNERS' CAPITAL ACCOUNTS *Cr.*

Particulars	Prakash ₹	Kiran ₹	Rishab ₹	Particulars	Prakash ₹	Kiran ₹	Rishab ₹
To Balance *b/d*	...	...	11,000	By Balance *b/d*	60,000	40,000	...
To Realisation A/c (Loss)	19,200	12,800	6,400	By Workmen Compensation Fund A/c	1,500	1,000	500
To Profit and Loss A/c (Loss)	9,900	6,600	3,300	By General Reserve A/c	13,500	9,000	4,500
To Realisation A/c (B/R)	...	7,000	...	By Realisation A/c:			
To Bank A/c (Bal. Fig.) (Final Payment)	58,900	35,700	...	Contingent Liability	8,000	...	...
				Mrs. Prakash's Loan	5,000	...	...
				Realisation Exp.	...	2,100	...
				Bills Payable	...	10,000	...
				By Bank A/c (Bal. Fig.) (Cash Brought in)	...	...	15,700
	88,000	62,100	20,700		88,000	62,100	20,700

Dr. BANK ACCOUNT *Cr.*

Particulars	₹	Particulars	₹
To Balance *b/d*	2,000	By Realisation A/c (Creditors)	22,500
To Realisation A/c (Assets Realised)	98,200	By Prakash's Capital A/c (Final Payment)	58,900
To Realisation A/c (Unrecorded Asset Realised)	1,200	By Kiran's Capital A/c (Final Payment)	35,700
To Rishab's Capital A/c (Cash Brought in)	15,700		
	1,17,100		1,17,100

Illustration 5.

Following was the Balance Sheet of Fox and Wolf as at 31st March, 2018, when they decided to dissolve the firm:

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

The assets realised: Stock—₹ 10,500; Debtors—₹ 27,750; Machinery—₹ 88,500. Furniture was taken by Fox at ₹ 7,500. Bills Payable were paid in full, while Creditors were settled at 2% discount. Ms. Wolf accepted ₹ 38,500 in full settlement of her Loan Account. There was a claim for damages against the firm for ₹ 4,000 which was settled at ₹ 2,000.

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

Prepare Realisation Account, Partners' Capital Accounts and Bank Account to close the books of the firm. *(ISC 1995, Modified)*

Solution:

In the Books of Fox and Wolf

Dr. REALISATION ACCOUNT *Cr.*

Particulars		₹	Particulars		₹
To Sundry Assets (Transfer):			By Sundry Liabilities (Transfer):		
Stock A/c	18,000		Creditors A/c	88,500	
Debtors A/c	42,000		Bills Payable A/c	23,000	
Furniture A/c	12,000		Ms. Wolf's Loan A/c	40,000	1,51,500
Machinery A/c	1,06,500	1,78,500	By Bank A/c (Assets Realised):		
To Bank A/c (Liabilities Paid):			Stock	10,500	
Bills Payable	23,000		Debtors	27,750	
Creditors	86,730		Machinery	88,500	1,26,750
Ms. Wolf's Loan	38,500		By Fox's Capital A/c (Furniture Taken Over)		7,500
Claim for Damages	2,000	1,50,230	By Bank A/c (Recovery of Bad Debts)		1,800
To Bank A/c (Expenses)		2,100	By Loss on Realisation:		
			Fox's Capital A/c	21,640	
			Wolf's Capital A/c	21,640	43,280
		3,30,830			3,30,830

Dr. PARTNERS' CAPITAL ACCOUNTS *Cr.*

Particulars	Fox (₹)	Wolf (₹)	Particulars	Fox (₹)	Wolf (₹)
To Profit and Loss A/c	11,250	11,250	By Balance *b/d*	30,000	24,000
To Realisation A/c (Furniture Taken Over)	7,500	...	By Bank A/c (Balancing Figure)	10,390	8,890
To Realisation A/c (Loss)	21,640	21,640			
	40,390	32,890		40,390	32,890

Dr. BANK ACCOUNT *Cr.*

Particulars		₹	Particulars	₹
To Balance *b/d*		4,500	By Realisation A/c (Liabilities Paid)	1,50,230
To Realisation A/c:			By Realisation A/c (Expenses)	2,100
Assets Realised	1,26,750			
Recovery of Bad Debts	1,800	1,28,550		
To Fox's Capital A/c (Cash Brought in)		10,390		
To Wolf's Capital A/c (Cash Brought in)		8,890		
		1,52,330		1,52,330

Notes: 1. Profit-sharing ratio is not given. Therefore, profits/losses shall be shared equally.

2. Claim for damages was ₹ 4,000 but it was settled for ₹ 2,000. Therefore, payment of ₹ 2,000 shall be debited to Realisation Account.

Illustration 6.

X, *Y* and *Z* are sharing profits as 2 : 3 : 5 and their Balance Sheet as at 31st March, 2018 is as follows:

BALANCE SHEET
as at 31st March, 2018

Liabilities		₹	Assets	₹
Capital A/cs:			Building	10,00,000
X	3,50,000		Equipments	2,00,000
Y	4,50,000		Stock	8,00,000
Z	5,50,000	13,50,000	Sundry Debtors	6,00,000
Sundry Creditors		3,00,000	Cash at Bank	3,00,000
Bank Loan		6,00,000		
X's Loan		6,50,000		
		29,00,000		29,00,000

The firm was dissolved on the above date. Close the books of the firm on the basis of the following information:

(*i*) An unrecorded asset was realised at ₹ 75,000.

(*ii*) A debt of ₹ 2,50,000 previously written off as bad was received.

(*iii*) Sundry Creditors took a computer included in Equipments, in part payments of ₹ 2,00,000. They were paid the balance at 10% discount. The remaining Equipments were sold for ₹ 30,000.

(*iv*) Building realised ₹ 9,75,000 and Sundry Debtors realised ₹ 5,50,000.

(*v*) Bank Loan was settled by handing over the entire Stock to them along with a payment of ₹ 50,000 by cheque.

(*vi*) *Y* was to get a remuneration of ₹ 60,000 for completing the dissolution process and he had to bear Realisation Expenses which amounted to ₹ 56,000 paid by the firm.

Solution:

Dr. REALISATION ACCOUNT *Cr.*

Particulars	₹	Particulars		₹
To Building A/c	10,00,000	By Sundry Creditors A/c		3,00,000
To Equipments A/c	2,00,000	By Bank Loan A/c (Note)		6,00,000
To Stock A/c	8,00,000	By Bank A/c (Assets Realised):		
To Sundry Debtors A/c	6,00,000	Unrecorded Asset	75,000	
To Bank A/c (Bank Loan)	50,000	Bad Debts Recovered	2,50,000	
To Bank A/c (Sundry Creditors Paid)	90,000	Building	9,75,000	
(₹ 1,00,000 – ₹ 10,000)		Sundry Debtors	5,50,000	
To *Y*'s Capital A/c (Remuneration)	60,000	Equipments	30,000	18,80,000
		By Loss transferred to:		
		X's Capital A/c	4,000	
		Y's Capital A/c	6,000	
		Z's Capital A/c	10,000	20,000
	28,00,000			28,00,000

Dr. *X*'s LOAN ACCOUNT *Cr.*

Particulars	₹	Particulars	₹
To Bank A/c (Repayment of Loan)	6,50,000	By Balance *b/d*	6,50,000
	6,50,000		6,50,000

Dr. PARTNERS' CAPITAL ACCOUNTS *Cr.*

Particulars	*X* (₹)	*Y* (₹)	*Z* (₹)	Particulars	*X* (₹)	*Y* (₹)	*Z* (₹)
To Realisation A/c (Loss)	4,000	6,000	10,000	By Balance *b/d*	3,50,000	4,50,000	5,50,000
To Bank A/c (Expenses)	...	56,000	...	By Realisation A/c	...	60,000	...
To Bank A/c (Final Payment)	3,46,000	4,48,000	5,40,000				
	3,50,000	5,10,000	5,50,000		3,50,000	5,10,000	5,50,000

Dr. BANK ACCOUNT *Cr.*

Particulars	₹	Particulars	₹
To Balance *b/d*	3,00,000	By Realisation A/c (Bank Loan)	50,000
To Realisation A/c (Assets Realised)	18,80,000	By Realisation A/c (Sundry Creditors Paid)	90,000
		By *Y*'s Capital A/c (Expenses)	56,000
		By *X*'s Loan A/c (Repayment)	6,50,000
		By *X*'s Capital A/c (Final Payment)	3,46,000
		By *Y*'s Capital A/c (Final Payment)	4,48,000
		By *Z*'s Capital A/c (Final Payment)	5,40,000
	21,80,000		21,80,000

Note: Bank overdraft is not transferred to Realisation Account whereas bank loan is transferred to Realisation Account.

Illustration 7.

X, *Y* and *Z* were the partners in a firm sharing profits in the ratio of 2 : 2 : 1. The firm was dissolved on 31st March, 2018. After transfer of assets and external liabilities to Realisation Account the following transactions took place:

(*i*) *R*, a Creditor, to whom ₹ 60,000 were due to be paid, accepted Office Furniture at ₹ 40,000 and the balance was paid to him in cash.

(*ii*) *S*, a Creditor, to whom ₹ 1,60,000 were due to be paid, took over Machinery at ₹ 2,00,000. Balance was paid by him in cash.

(*iii*) *T*, an Unrecorded Creditor of ₹ 90,000 was paid by *X* at a discount of 10%.

(*iv*) An Unrecorded Computer of ₹ 20,000 was taken over by *Y* at a discount of 10%.

(*v*) Workmen Compensation Reserve ₹ 30,000; Workmen Compensation paid ₹ 15,000.

(*vi*) Prepaid Insurance of ₹ 10,000 and Goodwill of ₹ 50,000 were also appearing in the Balance Sheet but no other additional information was given related to these two items.

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

Solution:

JOURNAL

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
(*i*)	Realisation A/c ...Dr.		20,000	
	To Bank A/c			20,000
	(Being the balance cash paid to the creditor)			
(*ii*)	Bank A/c ...Dr.		40,000	
	To Realisation A/c			40,000
	(Being the net proceeds received from the creditor who took over machinery at ₹ 2,00,000)			
(*iii*)	Realisation A/c ...Dr.		81,000	
	To *X*'s Capital A/c			81,000
	(Being an unrecorded liability taken over by *X* at a discount of 10%)			
(*iv*)	*Y*'s Capital A/c ...Dr.		18,000	
	To Realisation A/c			18,000
	(Being an unrecorded computer taken over by *Y* at a discount of 10%)			
(*v*)	(*a*) Realisation A/c ...Dr.		15,000	
	To Bank A/c			15,000
	(Being the liability discharged)			
	(*b*) Workmen Compensation Reserve A/c ...Dr.		15,000	
	To *X*'s Capital A/c			6,000
	To *Y*'s Capital A/c			6,000
	To *Z*'s Capital A/c			3,000
	(Being the transfer of excess workmen compensation reserve)			
(*vi*)	No Journal entry is required since there is no realisation.			

Illustration 8.

X, *Y* and *Z* commenced business on 1st April, 2015 with capitals of ₹ 5,00,000; ₹ 4,00,000 and ₹ 3,00,000 respectively. Profits and losses were shared in the ratio of 4 : 3 : 3. Capitals carried interest at 5% p.a. During 2015–16 and 2016–17 they made profits of ₹ 2,00,000 and ₹ 2,50,000 (before allowing interest on capital). Drawings of each partner were ₹ 50,000 per year. After completion of the venture for which the firm was constituted, it was dissolved on 31st March, 2017. Creditors on that date were ₹ 1,20,000. The assets realised ₹ 13,00,000 net.

Give necessary accounts to close the books of the firm.

Solution:

In this problem, Balance Sheet on the date of dissolution is not given. Further, partners' capitals and book value of assets on the date of dissolution are also not given. Hence, first of all balances of partners' capitals will be ascertained. After that, Balance Sheet on the date of dissolution, *i.e.*, 31st March, 2017, shall be prepared to ascertain the value of assets.

Dr. PARTNERS' CAPITAL ACCOUNTS *Cr.*

Date	Particulars	*X* ₹	*Y* ₹	*Z* ₹	Date	Particulars	*X* ₹	*Y* ₹	*Z* ₹
2016 March 31	To Bank A/c (Drawings)	50,000	50,000	50,000	2015 April 1	By Bank A/c	5,00,000	4,00,000	3,00,000
	To Balance *c/d*	5,31,000	4,12,000	3,07,000	2016 March 31	By Interest on Capital A/c	25,000	20,000	15,000
						By Profit and Loss App. A/c (Net Profit) (₹ 2,00,000 – ₹ 60,000)	56,000	42,000	42,000
		5,81,000	4,62,000	3,57,000			5,81,000	4,62,000	3,57,000
2017 March 31	To Bank A/c (Drawings)	50,000	50,000	50,000	2016 April 1	By Balance *b/d*	5,31,000	4,12,000	3,07,000
	To Balance *c/d*	5,82,550	4,38,850	3,28,600	2017 March 31	By Interest on Capital A/c	26,550	20,600	15,350
						By Profit and Loss App. A/c (Net Profit) (₹ 2,50,000 – ₹ 62,500)	75,000	56,250	56,250
		6,32,550	4,88,850	3,78,600			6,32,550	4,88,850	3,78,600

MEMORANDUM BALANCE SHEET
as at 31st March, 2017

Liabilities		₹	Assets	₹
Creditors		1,20,000	Sundry Assets	14,70,000
Capital A/cs: *X*	5,82,550		(Balancing Figure)	
Y	4,38,850			
Z	3,28,600	13,50,000		
		14,70,000		14,70,000

Dr. REALISATION ACCOUNT *Cr.*

Particulars	₹	Particulars		₹
To Sundry Assets A/c	14,70,000	By Creditors A/c		1,20,000
To Bank A/c	1,20,000	By Bank A/c		13,00,000
		By Loss transferred to:		
		X's Capital A/c	68,000	
		Y's Capital A/c	51,000	
		Z's Capital A/c	51,000	1,70,000
	15,90,000			15,90,000

Dr. PARTNERS' CAPITAL ACCOUNTS (AFTER REALISATION) *Cr.*

Particulars	*X* (₹)	*Y* (₹)	*Z* (₹)	Particulars	*X* (₹)	*Y* (₹)	*Z* (₹)
To Realisation A/c (Loss)	68,000	51,000	51,000	By Balance *b/d*	5,82,550	4,38,850	3,28,600
To Bank A/c (Balancing Figure)	5,14,550	3,87,850	2,77,600				
	5,82,550	4,38,850	3,28,600		5,82,550	4,38,850	3,28,600

Dr. BANK ACCOUNT *Cr.*

Particulars	₹	Particulars	₹
To Realisation A/c	13,00,000	By Realisation A/c	1,20,000
		By *X*'s Capital A/c (Final Payment)	5,14,550
		By *Y*'s Capital A/c (Final Payment)	3,87,850
		By *Z*'s Capital A/c (Final Payment)	2,77,600
	13,00,000		13,00,000

Illustration 9 (*Considering GST*).

Kumar, Sham and Ram were partners in a firm sharing profits and losses in the ratio of 5 : 3 : 2. Due to a difference of opinion, they decided to dissolve the firm with effect from 1st April, 2018 on which date its Balance Sheet was as under:

BALANCE SHEET *as at 1st April, 2018*

Liabilities		₹	Assets	₹
Capital A/cs:			Plant and Machinery	80,000
Kumar	60,000		Furniture	45,000
Sham	40,000		Car	25,000
Ram	30,000	1,30,000	Stock-in-Trade	30,000
Current A/cs:			Sundry Debtors	71,000
Kumar	8,000		Cash at Bank	14,000
Sham	10,000	18,000	Current A/c:	
Sundry Creditors		1,20,000	Ram	3,000
		2,68,000		2,68,000

The following information is given:

(*i*) Plant and Machinery of book value ₹ 40,000 were taken by Kumar at an agreed value of ₹ 45,000 and the remaining Machinery realised ₹ 50,000.

(*ii*) Furniture realised ₹ 40,000.

(*iii*) Car was taken by Sham for ₹ 30,000.

(*iv*) Sundry Debtors included a Bad Debt for ₹ 1,200 and the rest were realised at a cash discount of 10%.

(*v*) Stock worth ₹ 5,000 was taken by Ram for ₹ 5,200 and the rest realised at 20% above their book value.

(*vi*) A Creditor for ₹ 2,000 was untraceable and other creditors accepted payment allowing 15% discount.

(*vii*) Realisation Expenses paid to an agency carrying out dissolution amounted to ₹ 5,000.

(*viii*) Sale of Plant and Machinery, Furniture, Car, Stock and Realisation Expenses are subject to levy of CGST and SGST @ 9% each.

You are required to pass the Journal entries, prepare Realisation Account, CGST and SGST Accounts, Bank Account, and Partners' Capital Accounts showing final payments to them.

Solution: JOURNAL

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
(*i*)	Realisation A/c	...Dr.		2,51,000	
	To Plant and Machinery A/c				80,000
	To Furniture A/c				45,000
	To Car A/c				25,000
	To Stock-in-Trade A/c				30,000
	To Sundry Debtors A/c				71,000
	(Being the assets transferred)				
(*ii*)	Sundry Creditors A/c	...Dr.		1,20,000	
	To Realisation A/c				1,20,000
	(Being the liability transferred)				
(*iii*)	Kumar's Capital A/c	...Dr.		53,100	
	To Realisation A/c				45,000
	To Outut CGST A/c				4,050
	To Output SGST A/c				4,050
	(Being the machinery taken by Kumar, CGST and SGST charged @ 9% each)				

(*iv*)	Bank A/c ...Dr.		59,000	
	To Realisation A/c			50,000
	To Output CGST A/c			4,500
	To Output SGST A/c			4,500
	(Being the balance machinery sold, charged CGST and SGST @ 9% each)			
(*v*)	Bank A/c ...Dr.		47,200	
	To Realisation A/c			40,000
	To Output CGST A/c			3,600
	To Output SGST A/c			3,600
	(Being the furniture sold, charged CGST and SGST @ 9% each)			
(*vi*)	Sham's Capital A/c ...Dr.		35,400	
	To Realisation A/c			30,000
	To Output CGST A/c			2,700
	To Output SGST A/c			2,700
	(Being the car sold to Sham, charged CGST and SGST @ 9% each)			
(*vii*)	Bank A/c ...Dr.		62,820	
	To Realisation A/c			62,820
	(Being the Debtors realised)			
(*viii*)	Ram's Capital A/c ...Dr.		6,136	
	To Realisation A/c			5,200
	To Output CGST A/c			468
	To Output SGST A/c			468
	(Being the stock taken by Ram, charged CGST and SGST @ 9% each)			
(*ix*)	Bank A/c ...Dr.		35,400	
	To Realisation A/c			30,000
	To Output CGST A/c			2,700
	To Output SGST A/c			2,700
	(Being the balance stock sold, charged CGST and SGST @ 9% each)			
(*x*)	Realisation A/c ...Dr.		1,00,300	
	To Bank A/c			1,00,300
	(Being the creditors paid)			
(*xi*)	Realisation A/c ...Dr.		5,000	
	Input CGST A/c ...Dr.		450	
	Input SGST A/c ...Dr.		450	
	To Bank A/c			5,900
	(Being the realisation expenses paid along with CGST and SGST @ 9% each)			
(*xii*)	Output CGST A/c ...Dr.		18,018	
	To Input CGST A/c			450
	To Bank A/c			17,568
	(Being the Output CGST deposited after setting off Input CGST)			
(*xiii*)	Output SGST A/c ...Dr.		18,018	
	To Input SGST A/c			450
	To Bank A/c			17,568
	(Being the Output SGST deposited after setting off Input SGST)			

Dr. OUTPUT CGST ACCOUNT *Cr.*

Particulars	₹	Particulars	₹
To Input CGST A/c	450	By Kumar's Capital A/c	4,050
To Bank A/c (Balancing Figure)	17,568	By Bank A/c	4,500
		By Bank A/c	3,600
		By Sham's Capital A/c	2,700
		By Ram's Capital A/c	468
		By Bank A/c	2,700
	18,018		18,018

Dr. OUTPUT SGST ACCOUNT *Cr.*

Particulars	₹	Particulars	₹
To Input SGST A/c	450	By Kumar's Capital A/c	4,050
To Bank A/c (Balancing Figure)	17,568	By Bank A/c	4,500
		By Bank A/c	3,600
		By Sham's Capital A/c	2,700
		By Ram's Capital A/c	468
		By Bank A/c	2,700
	18,018		18,018

Dr. INPUT CGST ACCOUNT *Cr.*

Particulars	₹	Particulars	₹
To Bank A/c	450	By Output CGST A/c	450

Dr. INPUT SGST ACCOUNT *Cr.*

Particulars	₹	Particulars	₹
To Bank A/c	450	By Output SGST A/c	450

Dr. REALISATION ACCOUNT *Cr.*

Particulars		₹	Particulars		₹
To Sundry Assets (Transfer):			By Sundry Creditors A/c		1,20,000
Plant and Machinery A/c	80,000		By Kumar's Capital A/c		45,000
Furniture A/c	45,000		(Plant and Machinery Taken Over)		
Car A/c	25,000		By Sham's Capital A/c		30,000
Stock-in-Trade A/c	30,000		(Car Taken Over)		
Sundry Debtors A/c	71,000	2,51,000	By Ram's Capital A/c		5,200
To Bank A/c (Payments):			(Stock Taken Over)		
Sundry Creditors—	1,00,300		By Bank A/c (Assets Realised):		
85% of ₹ (1,20,000 – 2,000)			Machinery	50,000	
Realisation Expenses	5,000	1,05,300	Furniture	40,000	
To Gain (Profit) on Realisation:			Debtors—	62,820	
Kumar's Capital A/c	13,360		90% of ₹ (71,000 – 1,200)		
Sham's Capital A/c	8,016		Stock—	30,000	1,82,820
Ram's Capital A/c	5,344	26,720	120% of ₹ (30,000 – 5,000)		
		3,83,020			3,83,020

Dr. PARTNERS' CAPITAL ACCOUNTS *Cr.*

Particulars	Kumar (₹)	Sham (₹)	Ram (₹)	Particulars	Kumar (₹)	Sham (₹)	Ram (₹)
To Partner's Current A/c	...	...	3,000	By Balance *b/d*	60,000	40,000	30,000
To Realisation A/c (Plant and Machinery)	45,000	...	...	By Partners' Current A/cs	8,000	10,000	...
To Output CGST A/c	4,050			By Realisation A/c (Gain)	13,360	8,016	5,344
To Output SGST A/c	4,050						
To Realisation A/c (Car Taken Over)	...	30,000	...				
To Output CGST A/c		2,700					
To Output SGST A/c		2,700					
To Realisation A/c (Stock Taken Over)	...	...	5,200				
To Output CGST A/c			468				
To Output SGST A/c			468				
To Bank A/c (Final Payment)	28,260	22,616	26,208				
	81,360	58,016	35,344		81,360	58,016	35,344

Dr. BANK ACCOUNT *Cr.*

Particulars	₹	Particulars	₹
To Balance *b/d*	14,000	By Realisation A/c	1,00,300
To Realisation A/c	50,000	By Realisation A/c	5,000
To Output CGST A/c	4,500	By Input CGST A/c	450
To Output SGST A/c	4,500	By Input SGST A/c	450
To Realisation A/c	40,000	By Output CGST A/c (CGST Deposited)	17,568
To Output CGST A/c	3,600	By Output SGST A/c (SGST Deposited)	17,568
To Output SGST A/c	3,600	By Kumar's Capital A/c (Final Payment)	28,260
To Realisation A/c	62,820	By Sham's Capital A/c (Final Payment)	22,616
To Realisation A/c	30,000	By Ram's Capital A/c (Final Payment)	26,208
To Output CGST A/c	2,700		
To Output SGST A/c	2,700		
	2,18,420		2,18,420

Note: Balances of Partners' Current Accounts are transferred to Capital Accounts.

Illustration 10.

A and *B* were partners sharing profits and losses in the ratio of 3 : 2. On 31st March, 2018, their Balance Sheet was as follows:

Liabilities		₹	Assets		₹
Capital A/cs:			Computers		60,000
A	2,00,000		Furniture		50,000
B	1,00,000	3,00,000	Machinery		1,50,000
General Reserve		30,000	Cash at Bank		70,000
Mrs. *A*'s Loan		50,000	Debtors	1,00,000	
Sundry Creditors		70,000	*Less:* Provision for Doubtful Debts	10,000	90,000
			Profit and Loss A/c		20,000
			Advertisement Suspense A/c		10,000
		4,50,000			4,50,000

The firm was dissolved and the assets and liabilities were settled as follows:

(*i*) Debtors realised ₹ 95,000 and machinery was sold for ₹ 1,30,000.

(*ii*) Half of the creditors accepted furniture at 25% less than the book value subject to levy of GST, which was paid by them and cash of ₹ 10,000. Remaining creditors were paid out at a discount of 10%.

(*iii*) An unrecorded asset (Bill of Exchange) of ₹ 6,900 was handed over to an unrecorded liability of ₹ 6,000 in full settlement.

(*iv*) *A* took over computers for ₹ 57,800.

(*v*) He also agreed to pay his wife's loan.

(*vi*) A liability in respect of workmen compensation of ₹ 10,000 is paid.

(*vii*) Realisation Expenses of ₹ 5,000 were paid by *B* on behalf of firm to an agency handling dissolution of the firm.

(*viii*) Sale of assets and payment of realisation expenses are subject to levy of CGST and SGST @ 9% each.

Pass the Journal entries, prepare Realisation Account, CGST and SGST (Output and Input) Accounts, Partners' Capital Accounts and Bank Account to close the books of the firm.

Solution:

JOURNAL

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
	Realisation A/c	...Dr.		3,60,000	
	To Computers A/c				60,000
	To Furniture A/c				50,000
	To Machinery A/c				1,50,000
	To Debtors A/c				1,00,000
	(Being the assets transferred)				
	Provision for Doubtful Debts A/c	...Dr.		10,000	
	Mrs. *A*'s Loan A/c	...Dr.		50,000	
	Sundry Creditors A/c	...Dr.		70,000	
	To Realisation A/c				1,30,000
	(Being the outside liabilities transferred)				
	A's Capital A/c	...Dr.		18,000	
	B's Capital A/c	...Dr.		12,000	
	To Profit and Loss A/c				20,000
	To Advertisement Suspense A/c				10,000
	(Being the debit balance of fictitious assets debited to Partners' Capital Accounts)				
	General Reserve A/c	...Dr.		30,000	
	To *A*'s Capital A/c				18,000
	To *B*'s Capital A/c				12,000
	(Being the Genaral Reserve credited to Partners' Capital Accounts)				

Bank A/c	...Dr.		95,000	
To Realisation A/c				95,000
(Being the Debtors realised)				
Bank A/c	...Dr.		1,53,400	
To Realisation A/c				1,30,000
To Output CGST A/c				11,700
To Output SGST A/c				11,700
(Being the machinery sold, CGST and SGST charged)				
Realisation A/c	...Dr.		41,500	
Bank A/c	...Dr.		6,750	
To Output CGST A/c				3,375
To Output SGST A/c				3,375
To Bank A/c				41,500
(Being the furniture given to 50% of creditors at 25% less CGST and SGST charged plus ₹ 10,000, Balance creditors paid at 10% Discount) (Note)				
No entry for (*iii*) as both assets and liability are unrecorded				
A's Capital A/c	...Dr.		68,204	
To Realisation A/c				57,800
To Output CGST A/c				5,202
To Output SGST A/c				5,202
(Being the computers taken by *A*, CGST and SGST charged)				
Realisation A/c	...Dr.		50,000	
To *A*'s Capital A/c				50,000
(Being the liability to pay Mrs. *A*'s loan assumed)				
Realisation A/c	...Dr.		10,000	
To Bank A/c				10,000
(Being the Workmen Compensation claim paid)				
Realisation A/c	...Dr.		5,000	
Input CGST A/c	...Dr.		450	
Input SGST A/c	...Dr.		450	
To *B*'s Capital A/c				5,900
(Being the realisation expenses along with CGST and SGST paid by *B*)				
Output CGST A/c	...Dr.		20,277	
To Input CGST A/c				450
To Bank A/c				19,827
(Being the output CGST deposited after setting off input CGST)				
Output SGST A/c	...Dr.		20,277	
To Input SGST A/c				450
To Bank A/c				19,827
(Being the output SGST deposited after setting off input SGST)				
A's Capital A/c	...Dr.		1,49,576	
B's Capital A/c	...Dr.		84,420	
To Bank A/c				2,33,996
(Being the final payment to the partners)				

Note: Half of creditors accepted furniture at 25% less means that creditors of ₹ 35,000 are settled by giving furniture valued at ₹ 37,500 (*i.e.*, ₹ 50,000 *less* 25%). Giving furniture to creditors means sale of furniture on which CGST and SGST @ 9% each is charged.

Therefore, ₹ 3,375 each on account of CGST and SGST is recovered.

Dr. REALISATION ACCOUNT *Cr.*

Particulars		₹	Particulars		₹
To Sundry Assets (Transfer):			By Sundry Liabilities (Transfer):		
Computer	60,000		Provision for Doubtful Debts	10,000	
Furniture	50,000		Sundry Creditors	70,000	
Machinery	1,50,000		Mrs. *A*'s Loan A/c	50,000	1,30,000
Debtors	1,00,000	3,60,000	By Bank A/c (Realisation):		
To Bank A/c (Payments):			Debtors	95,000	
Sundry Creditors		41,500	Machinery	1,30,000	2,25,000
To *A*'s Capital A/c (Mrs. *A*'s Loan)		50,000	By *A*'s Capital A/c (Computer taken)		57,800
To Bank A/c (Workmen Compensation Claim)		10,000	By Loss transferred to:		
To *B*'s Capital A/c		5,000	*A*'s Capital A/c	32,220	
			B's Capital A/c	21,480	53,700
		4,66,500			4,66,500

Dr. BANK ACCOUNT *Cr.*

Particulars		₹	Particulars	₹
To Balance *b/d*		70,000	By Realisation A/c (Creditors)	41,500
To Realisation A/c:			By Realisation A/c (Workemen Comp. Claim)	10,000
Debtors	95,000		By Output CGST A/c	19,827
Machinery	1,30,000	2,25,000	By Output SGST A/c	19,827
To Output CGST A/c		11,700	By *A*'s Capital A/c	1,49,576
To Output SGST A/c		11,700	By *B*'s Capital A/c	84,420
To Output CGST A/c		3,375		
To Output SGST A/c		3,375		
		3,25,150		3,25,150

Dr. OUTPUT CGST ACCOUNT *Cr.*

Particulars	₹	Particulars	₹
To Input CGST A/c	450	By Bank A/c (Machine)	11,700
To Bank A/c	19,827	By Bank A/c (Furniture)	3,375
		By *A*'s Capital A/c (Computer)	5,202
	20,277		20,277

Dr. OUTPUT SGST ACCOUNT *Cr.*

Particulars	₹	Particulars	₹
To Input SGST A/c	450	By Bank A/c (Machine)	11,700
To Bank A/c	19,827	By Bank A/c (Furniture)	3,375
		By *A*'s Capital A/c (Computer)	5,202
	20,277		20,277

Dr. INPUT CGST ACCOUNT *Cr.*

Particulars	₹	Particulars	₹
To *B*'s Capital A/c	450	By Output CGST A/c	450

Dr. INPUT SGST ACCOUNT *Cr.*

Particulars	₹	Particulars	₹
To *B*'s Capital A/c	450	By Output SGST A/c	450

Dr. PARTNERS' CAPITAL ACCOUNTS *Cr.*

Particulars	*A* (₹)	*B* (₹)	Particulars	*A* (₹)	*B* (₹)
To Profit and Loss A/c	12,000	8,000	By Balance *b/d*	2,00,000	1,00,000
To Advertisement Suspense A/c	6,000	4,000	By General Reserve A/c	18,000	12,000
To Realisation A/c	57,800	...	By Realisation A/c	50,000	...
To Output CGST A/c	5,202	...	(Mrs. *A*'s Loan A/c)		
To Output SGST A/c	5,202	...	By Realisation A/c (Expenses)	...	5,000
To Realisation A/c (Loss)	32,220	21,480	By Input CGST A/c	...	450
To Bank A/c	1,49,576	84,420	By Input SGST A/c	...	450
	2,68,000	1,17,900		2,68,000	1,17,900

Illustration 11.

A, *B* and *C* sharing profits in the ratio of 2 : 2 : 1 agreed upon dissolution of their partnership on 31st March, 2018 on which date their Balance Sheet was as under:

Liabilities	₹	Assets		₹
Capital A/c—*A*	80,000	Fixed Assets		1,00,000
Capital A/c—*B*	60,000	Insurance Claim Receivable		50,000
Reserve	70,000	Debtors	20,000	
Creditors	37,000	*Less:* Provision for Doubtful Debts	1,000	19,000
Outstanding Rent	4,000	Stock		16,000
Investments Fluctuation Reserve	1,000	Investments		16,000
		Bank		47,000
		Capital A/c—*C*		4,000
	2,52,000			2,52,000

(*i*) Investments were taken over by *A* at ₹ 12,000; Creditors of ₹ 20,000 were taken over by *B* who has agreed to settle account with them at ₹ 19,800. Remaining Creditors were paid at ₹ 15,000.

(*ii*) Insurance Claim received ₹ 40,000 and Fixed Assets realised ₹ 1,40,000.

(*iii*) Stock and Debtors realised ₹ 14,000 and ₹ 18,000 respectively.

(*iv*) One customer, whose account was written off as bad, now paid ₹ 1,600 which is not included in ₹ 18,000 above.

(*v*) There was one unrecorded asset estimated at ₹ 6,000, half of which was handed over to an unrecorded liability of ₹ 10,000 in settlement of claim of ₹ 5,000 and remaining half was sold in the market which realised ₹ 2,600.

B took over the responsibility of completing dissolution and he is granted salary of ₹ 800 per month. Actual Realisation Expenses amounting to ₹ 2,200 were paid by the firm but were to be borne by *B*. Dissolution was completed and final payments were made on 30th July, 2018.

You are required to prepare Realisation Account, Partners' Capital Accounts and Bank Account.

Solution:

Dr. REALISATION ACCOUNT *Cr.*

Particulars		₹	Particulars		₹
To Sundry Assets (Transfer):			By Provision for Doubtful Debts A/c		1,000
Fixed Assets A/c	1,00,000		By Investments Fluctuation Reserve A/c		1,000
Insurance Claim Receivable A/c	50,000		By Creditors A/c		37,000
Debtors A/c	20,000		By Outstanding Rent A/c		4,000
Stock A/c	16,000		By *A's* Capital A/c		12,000
Investments A/c	16,000	2,02,000	(Investments Taken Over)		
To *B's* Capital A/c (Creditors Assumed)		19,800	By Bank A/c (Assets Realised):		
To *B's* Capital A/c		3,200	Stock	14,000	
(Salary ₹ 800 × 4)			Debtors	18,000	
To Bank A/c (Liabilities Paid):			Bad Debts Recovered	1,600	
Creditors	15,000		Unrecorded Asset	2,600	
Unrecorded Liabilities	5,000		Fixed Assets	1,40,000	
Outstanding Rent	4,000	24,000	Insurance Claim	40,000	2,16,200
To Capital A/cs (Gain):					
A	8,880				
B	8,880				
C	4,440	22,200			
		2,71,200			2,71,200

Dr. PARTNERS' CAPITAL ACCOUNTS *Cr.*

Particulars	*A* ₹	*B* ₹	*C* ₹	Particulars	*A* ₹	*B* ₹	*C* ₹
To Balance *b/d*	...	...	4,000	By Balance *b/d*	80,000	60,000	...
To Realisation A/c	12,000	...	...	By Reserve Fund A/c	28,000	28,000	14,000
To Bank A/c (Actual Realisastion Exp.)	...	2,200	...	By Realisation A/c (Creditors + Salary) (₹ 19,800 + ₹ 3,200)	...	23,000	...
To Bank A/c (Final Settlement)	1,04,880	1,17,680	14,440	By Realisation A/c (Gain)	8,880	8,880	4,440
	1,16,880	1,19,880	18,440		1,16,880	1,19,880	18,440

Dr. BANK ACCOUNT *Cr.*

Particulars	₹	Particulars	₹
To Balance *b/d*	47,000	By Realisation A/c (Liabilities Paid)	24,000
To Realisation A/c (Assets Realised)	2,16,200	By *B's* Capital A/c (Expenses)	2,200
		By *A's* Capital A/c (Final Payment)	1,04,880
		By *B's* Capital A/c (Final Payment)	1,17,680
		By *C's* Capital A/c (Final Payment)	14,440
	2,63,200		2,63,200

Illustration 12.

X and *Y* are partners sharing profits and losses in the ratio of 3 : 2 as at 31st March, 2018, their Balance Sheet stood as follows:

Liabilities		₹	Assets		₹
Creditors		1,60,000	Cash		22,000
Bills Payable		40,000	Cash at Bank		50,000
Loan from *X*		10,000	Stock		1,60,000
Loan from Mrs. *X*		30,000	Debtors	1,32,000	
Employees' Provident Fund		8,000	*Less:* Provision for Doubtful Debts	12,000	1,20,000
Commission Received in Advance		2,000	Plant and Machinery		60,000
Provision for Depreciation (Machinery)		20,000	Land and Building		66,000
General Reserve		50,000	Investments (Face Value ₹ 4,000)		20,000
Profit and Loss A/c		20,000	Other Investments		10,000
X's Capital	1,68,000		Goodwill		25,000
Y's Capital	52,000	2,20,000	Prepaid Insurance		7,000
			Deferred Revenue Advertisement Expenditure		20,000
		5,60,000			5,60,000

Note: There is a bill for ₹ 2,000 under discount. The bill was received from *Z*.

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

(*i*) *Y* undertook to pay Mrs. *X's* Loan.

(*ii*) *X* took over 50% of the Stock at a discount of 20%.

(*iii*) Remaining Stock was sold at a profit of 30% on cost.

(*iv*) ₹ 24,000 of the Book Debts proved bad.

(*v*) Land and Building sold for ₹ 3,00,000 through a broker who charged 2% commission.

(*vi*) Half the Creditors accepted Plant and Machinery at an agreed value of ₹ 54,000 and accepted cash in full settlement of their claims after allowing a discount of ₹ 16,000.

(*vii*) Remaining Creditors were paid ₹ 74,000 in final settlement including an Investment worth ₹ 4,000 unrecorded in the books.

(*viii*) Bills Payable falling due on 30th April, 2018 were discharged at a discount of 18% p.a.

(*ix*) *X* was to receive ₹ 11,100 as remuneration for completing the dissolution work and was to bear Realisation Expenses. Realisation Expenses were ₹ 9,100 paid by the firm.

(*x*) *W*, an old customer, whose account was written off as bad in the previous year, paid ₹ 1,000 which is not included in the above stated Debtors.

(*xi*) *Z* proved insolvent and a first and final dividend of 25% was received from his estate.

(*xii*) Investments realised 150% of their face value and Other Investments realised ₹ 10,000.

(*xiii*) Workmen Compensation claim amounted to ₹ 2,400.

(*xiv*) Commission received in advance was returned to customers after deducting ₹ 400.

Prepare Realisation Account, Partners' Capital Accounts and Bank Account.

Solution:

Dr. REALISATION ACCOUNT *Cr.*

Particulars		₹	Particulars		₹
To Sundry Assets (Transfer):			By Provision for Doubtful Debts A/c		12,000
Stock A/c	1,60,000		By Creditors A/c		1,60,000
Debtors A/c	1,32,000		By Bills Payable A/c		40,000
Plant and Machinery A/c	60,000		By Mrs. *X*'s Loan A/c		30,000
Land and Building A/c	66,000		By Employees' Provident Fund A/c		8,000
Investments A/c	20,000		By Commission Received in Advance A/c		2,000
Other Investments A/c	10,000		By Machinery Depreciation Reserve A/c		20,000
Goodwill A/c	25,000		By *X*'s Capital A/c (Stock)		64,000
Prepaid Insurance A/c	7,000	4,80,000	By Bank A/c (Assets Realised):		
To *Y*'s Capital A/c (Mrs. *X*'s Loan)		30,000	Stock	1,04,000	
To Bank A/c (Liabilities Paid):			Debtors	1,08,000	
Creditors (₹ 10,000 + ₹ 70,000)	80,000		Land and Building	2,94,000	
Bills Payable	39,400		Investments	6,000	
EPF	8,000		Other Investments	10,000	5,22,000
Commission	1,600		By Bank A/c (Bad Debts Recovered)		1,000
Workmen			By Bank A/c (From *Z*)		500
Compensation Claim	2,400	1,31,400			
To *X*'s Capital A/c (Realisation Expenses)		11,100			
To Bank A/c (Discounted B/R)		2,000			
To Gain (Profit) on Realisation transferred to:					
X's Capital A/c	1,23,000				
Y's Capital A/c	82,000	2,05,000			
		8,59,500			8,59,500

Dr. PARTNERS' CAPITAL ACCOUNTS *Cr.*

Particulars	*X* ₹	*Y* ₹	Particulars	*X* ₹	*Y* ₹
To Realisation A/c (Stock)	64,000	...	By Balance *b/d*	1,68,000	52,000
To Bank A/c	9,100	...	By Realisation A/c (Mrs. *X*'s Loan)	...	30,000
To Deferred Revenue			By Realisation A/c (Expenses)	11,100	...
Advertisement Expenditure A/c	12,000	8,000	By Realisation A/c (Gain)	1,23,000	82,000
To Bank A/c	2,59,000	1,84,000	By General Reserve A/c	30,000	20,000
			By Profit and Loss A/c	12,000	8,000
	3,44,100	1,92,000		3,44,100	1,92,000

Dr. BANK ACCOUNT *Cr.*

Particulars	₹	Particulars	₹
To Balance *b/d*	50,000	By Realisation A/c (Liabilities Paid)	1,31,400
To Cash A/c	22,000	By *X's* Capital A/c	9,100
To Realisation A/c (Assets Realised)	5,22,000	By Realisation A/c	2,000
To Realisation A/c (Bad Debts Recovered)	1,000	By Loan from *X* A/c	10,000
To Realisation A/c	500	By *X's* Capital A/c (Final Payment)	2,59,000
		By *Y's* Capital A/c (Final Payment)	1,84,000
	5,95,500		5,95,500

Illustration 13.

Asha, Rekha and Saroj sharing profit in the proportion of 1/6 : 1/3 : 1/2 agreed upon dissolution of their partnership on 31st March, 2018 on which date their Balance Sheet was as follows:

Liabilities		₹	Assets		₹
Capital A/cs:			Sundry Assets		37,500
Asha	30,000		Debtors	7,500	
Rekha	22,500	52,500	*Less:* Provision for Discount on Debtors	375	7,125
Mrs. Asha's Husband's Loan		5,000	Stock (At Invoice Price)		7,500
Creditors		13,875	Investments		13,500
Salary Outstanding		1,500	Cash in Hand		7,625
Investments Fluctuation Reserve		10,500	Cash at Bank		17,625
Reserve		7,500	Saroj's Capital		1,500
Stock Reserve		1,500			
		92,375			92,375

Additional Information:

(*i*) Investments were taken by Asha at ₹ 12,000.

(*ii*) Creditors of ₹ 7,500 were taken over by Rekha, who has agreed to settle the account with them at ₹ 7,425. Remaining Creditors were paid ₹ 5,625.

(*iii*) Sundry Assets realised ₹ 52,500.

(*iv*) Stock and Debtors realised ₹ 5,250 and ₹ 6,750 respectively.

(*v*) A customer, whose account was written off as bad, now paid ₹ 600, which is not included in ₹ 7,500 above.

(*vi*) It was found that an Investment not recorded in the books was worth ₹ 2,250, half of which was handed over to an unrecorded liability of ₹ 3,750 in settlement of his claim of ₹ 1,875 and remaining half was sold in the market, which realised ₹ 975.

(*vii*) The Expenses of Realisation amounted to ₹ 825.

Prepare Realisation Account, Partners' Capital Accounts and Cash Account to close the books of firm. [*CA(P.E.I.) Nov., 2004, Modified*]

Solution:

Dr. REALISATION ACCOUNT *Cr.*

Particulars		₹	Particulars		₹
To Sundry Assets A/c		37,500	By Provision for Discount on Debtors A/c		375
To Debtors A/c		7,500	By Mrs. Asha's Husband's Loan A/c		5,000
To Stock A/c		7,500	By Creditors A/c		13,875
To Investments		13,500	By Salary Outstanding A/c		1,500
To Rekha's Capital A/c (Creditors)		7,425	By Investments Fluctuation Reserve A/c		10,500
To Bank A/c (Asha's Husband's Loan)		5,000	By Stock Reserve A/c		1,500
To Bank A/c (Sundry Liabilities):			By Asha's Capital A/c (Investments)		12,000
Remaining Creditors	5,625		By Bank A/c (Assets Realised):		
Unrecorded Liability (Note)	1,875		Sundry Assets	52,500	
Salary Outstanding	1,500	9,000	Stock	5,250	
To Bank A/c (Realisation Expenses)		825	Debtors	6,750	
To Gain (Profit) transferred to:			Unrecorded Investments	975	65,475
Asha's Capital A/c	3,763		By Bank A/c (Bad Debts Recovered)		600
Rekha's Capital A/c	7,525				
Saroj's Capital A/c	11,287	22,575			
		1,10,825			1,10,825

Dr. PARTNERS' CAPITAL ACCOUNTS *Cr.*

Particulars	Asha ₹	Rekha ₹	Saroj ₹	Particulars	Asha ₹	Rekha ₹	Saroj ₹
To Balance *c/d*	...	...	1,500	By Balance *b/d*	30,000	22,500	...
To Realisation A/c	12,000	...	...	By Reserve A/c	1,250	2,500	3,750
(Investment taken)				By Realisation A/c	...	7,425	...
To Bank A/c (Bal. Fig.)	23,013	39,950	13,537	(Creditors taken over)			
(Final Payment)				By Realisation A/c (Gain)	3,763	7,525	11,287
	35,013	39,950	15,037		35,013	39,950	15,037

Dr. BANK ACCOUNT *Cr.*

Particulars	₹	Particulars	₹
To Balance *b/d*	17,625	By Realisation A/c (Mrs. Asha's Husband Loan)	5,000
To Cash A/c	7,625	By Realisation A/c (Sundry Liabilities)	9,000
To Realisation A/c (Bad Debts Recovered)	600	By Realisation A/c (Realisation Expenses)	825
To Realisation A/c (Assets Realised)	65,475	By Asha's Capital A/c	23,013
		By Rekha's Capital A/c	39,950
		By Saroj's Capital A/c	13,537
	91,325		91,325

Note: Unrecorded investment worth ₹ 1,125 was given as settlement of unrecorded liability of ₹ 3,750 for a claim of ₹ 1,875. Balance amount of 1,875 has been paid in cash.

Advanced Level Questions

Illustration 14.

Lion and Tiger were in partnership sharing profits and losses in the ratio of 3 : 1. On 31st March, 2020, the Balance Sheet of the firm was as follows:

Liabilities		₹	Assets	₹
Capital A/cs:			Fixed Assets	2,10,000
Lion	2,40,000		Stock	1,12,000
Tiger	80,000	3,20,000	Sundry Debtors	1,96,000
Current A/cs:			Cash at Bank	37,200
Lion	42,000			
Tiger	20,000	62,000		
Loan (Tiger)		30,000		
Creditors		1,43,200		
		5,55,200		5,55,200

They decided to dissolve the partnership firm on the date of the Balance Sheet.

Classmate Ltd. took Stock and Fixed Assets excluding motor car having a book value of ₹ 41,000, for a consideration of ₹ 4,80,000 which is to be satisfied by payment of cash ₹ 1,60,000, allotment of 1,600 Debentures of ₹ 100 each valued at ₹ 75 per share and the balance by allotment of 1,600 Equity Shares of the face value of ₹ 100 each.

The Debtors realised ₹ 1,92,000 and the Creditors were settled for ₹ 1,40,000.

Following was the agreement between the partners:

(i) The Equity Shares should be allotted in the ratio of the Partners' Capital Accounts as per Balance Sheet.

(ii) Lion to take over the motor car at an agreed value of ₹ 42,000.

(iii) Debentures to be allotted to Tiger to the value of his loan and the remaining to be allotted equally between the partners.

(iv) Balance remaining to be settled in cash.

You are required to show Realisation Account, Partners' Capital Accounts, Classmate Ltd.'s Account, Bank Account and Statement showing distribution of shares and debentures.

Solution:

Dr. REALISATION ACCOUNT *Cr.*

Particulars		₹	Particulars	₹
To Fixed Assets A/c		2,10,000	By Creditors A/c	1,43,200
To Stock A/c		1,12,000	By Classmate Ltd.	4,80,000
To Debtors A/c		1,96,000	By Lion's Capital A/c	42,000
To Bank A/c (Creditors)		1,40,000	(Motor Car Taken Over)	
To Gain (Profit) transferred to:			By Bank A/c (Debtors)	1,92,000
Lion's Capital A/c (3/4)	1,49,400			
Tiger's Capital A/c (1/4)	49,800	1,99,200		
		8,57,200		8,57,200

Dr. PARTNERS' CAPITAL ACCOUNTS *Cr.*

Particulars	Lion ₹	Tiger ₹	Particulars	Lion ₹	Tiger ₹
To Realisation A/c (Motor Car)	42,000	...	By Balance *b/d*	2,40,000	80,000
To Debentures of Classmate Ltd. A/c (₹ 1,20,000 – ₹ 30,000 = ₹ 90,000) (divided equally) (See Statement of Distribution of Shares and Debentures)	45,000	45,000	By Current A/cs (Transfer)	42,000	20,000
To Equity Shares A/c (3 : 1)	1,50,000	50,000	By Realisation A/c (Gain)	1,49,400	49,800
To Bank A/c (Final Payment)	1,94,400	54,800			
	4,31,400	1,49,800		4,31,400	1,49,800

Dr. CLASSMATE LTD.'S ACCOUNT *Cr.*

Particulars	₹	Particulars	₹
To Realisation A/c (Stock and Fixed Assets excluding Motor Car)	4,80,000	By Bank A/c	1,60,000
		By Debentures of Classmate Ltd. A/c (1,600 × ₹ 75)	1,20,000
		By Equity Shares of Classmate Ltd. A/c (1,600 × ₹ 125*)	2,00,000
	4,80,000		4,80,000

	₹	₹
* Total purchase consideration		4,80,000
Less: Cash received	1,60,000	
Value of Debentures Received	1,20,000	2,80,000
Balance being value of 1,600 Equity Shares		2,00,000

∴ Issue price of a share = ₹ 2,00,000/1,600 = ₹ 125.

Dr. BANK ACCOUNT *Cr.*

Particulars	₹	Particulars	₹
To Balance *b/d*	37,200	By Realisation A/c (Creditors Paid)	1,40,000
To Classmate Ltd.	1,60,000	By Lion's Capital A/c (Final Payment)	1,94,400
To Realisation A/c (Debtors Realised)	1,92,000	By Tiger's Capital A/c (Final Payment)	54,800
	3,89,200		3,89,200

STATEMENT SHOWING DISTRIBUTION OF SHARES AND DEBENTURES

Particulars	Total ₹	Lion ₹	Tiger ₹
(*i*) Debentures of Classmate Ltd. 1,600 debentures of ₹ 100 each,			
valued @ ₹ 75 per debenture	1,20,000		
Less: Debentures allotted to Tiger against his Loan	30,000		
Balance Distributed between Partners equally against Capital	90,000	45,000	45,000
(*ii*) Equity Shares of Classmate Ltd. 1,600 shares of ₹ 100 each, valued @ ₹ 125 per share distributed in the ratio of capitals, *i.e.*, 2,40,000 : 80,000 or 3 : 1.		1,50,000	50,000

Illustration 15.

Cat and Rat were in partnership sharing profits and losses in the ratio of 3 : 1. On 31st March, 2020, the Balance Sheet of the firm was as follows:

Liabilities		₹	Assets	₹
Capital A/cs:			Fixed Assets	21,000
Cat		24,000		Stock
11,200				
Rat	8,000	32,000	Sundry Debtors	19,600
Current A/cs:			Cash at Bank	3,720
Cat	4,200			
Rat	2,000	6,200		
Loan (Rat)		3,000		
Creditors		14,320		
		55,520		55,520

They decided to dissolve the partnership firm as at the date of the Balance Sheet.

Elephant Ltd. agreed to take Stock and Fixed Assets excluding furniture having a book value of ₹ 4,100, for a consideration of ₹ 48,000 which is to be satisfied by payment of cash ₹ 16,000, allotment of 160 Preference Shares of ₹ 100 each valued at ₹ 75 per share and the balance by allotment of 1,600 Equity Shares of the face value of ₹ 10 each.

The Debtors realised ₹ 19,200 and the Creditors were settled for ₹ 14,000.

The following was the agreement between the partners:

(i) The Equity Shares should be allotted in the ratio of the Partners' Capital Accounts as per Balance Sheet.

(ii) Cat to take over the furniture at an agreed value of ₹ 4,200.

(iii) The Preference Shares to be allotted to Rat to the value of his loan and the remaining to be allotted equally between the partners.

(iv) Balance remaining to be settled in cash.

You are required to show: (a) Realisation Account, (b) Partners' Capital Accounts, (c) Bank Account and Statement showing distribution of shares.

Solution:

Dr. REALISATION ACCOUNT *Cr.*

Particulars		₹	Particulars	₹
To Fixed Assets A/c		21,000	By Creditors A/c	14,320
To Stock A/c		11,200	By Elephant Ltd.	48,000
To Sundry Debtors A/c		19,600	By Cat's Capital A/c	4,200
To Bank A/c (Creditors)		14,000	(Furniture Taken Over)	
To Gain (Profit) transferred to:			By Bank A/c (Debtors)	19,200
Cat's Capital A/c (3/4)	14,940			
Rat's Capital A/c (1/4)	4,980	19,920		
		85,720		85,720

Dr. PARTNERS' CAPITAL ACCOUNTS *Cr.*

Particulars	Cat ₹	Rat ₹	Particulars	Cat ₹	Rat ₹
To Realisation A/c (Furniture)	4,200	...	By Balance *b/d*	24,000	8,000
To Preference Shares of			By Current A/cs	4,200	2,000
Elephant Ltd. A/c	4,500	4,500	(Transfer)		
(₹ 12,000 – ₹ 3,000 = ₹ 9,000)			By Realisation A/c	14,940	4,980
(divided equally) (See Statement			(Gain)		
of Distribution of Equity and					
Preference Shares)					
To Equity Shares of Elephant Ltd.					
A/c (3 : 1)	15,000	5,000			
To Bank A/c (Final Payment)	19,440	5,480			
	43,140	14,980		43,140	14,980

Dr. ELEPHANT LTD.'S ACCOUNT *Cr.*

Particulars	₹	Particulars	₹
To Realisation A/c	48,000	By Bank A/c	16,000
(Stock and Fixed Assets		By Preference Shares of Elephant Ltd. A/c	12,000
excluding Furniture)		(160 × ₹ 75)	
		By Equity Shares of Elephant Ltd. A/c	20,000
		(1,600 × ₹ 12.5*)	
	48,000		48,000

	₹	₹
* Total Purchase Consideration		48,000
Less: Cash Received	16,000	
Value of Preference Shares Received	12,000	28,000
Balance being value of 1,600 Equity Shares		20,000

∴ Issue price of an Equity Share = ₹ 20,000/1,600 = ₹ 12.5.

Dr. BANK ACCOUNT *Cr.*

Particulars	₹	Particulars	₹
To Balance *b/d*	3,720	By Realisation A/c (Creditors Paid)	14,000
To Elephant Ltd.	16,000	By Cat's Capital A/c (Final Payment)	19,440
To Realisation A/c (Debtors Realised)	19,200	By Rat's Capital A/c (Final Payment)	5,480
	38,920		38,920

STATEMENT SHOWING DISTRIBUTION OF EQUITY AND PREFERENCE SHARES

Particulars	Total ₹	Cat ₹	Rat ₹
(*i*) Preference Shares of Elephant Ltd. 160 Preference Shares of ₹ 100 each, valued @ ₹ 75 each	12,000		
Less: Preference Shares allotted to Rat against his Loan	3,000		
Balance Distributed between Partners equally against Capital	9,000	4,500	4,500
(*ii*) Equity Shares of Elephant Ltd. 1,600 shares of ₹ 10 each, valued @ ₹ 12.5 per share distributed in the ratio of capitals, *i.e.*, 24,000 : 8,000 or 3 : 1.		15,000	5,000

Unsolved Questions

1. Following is the Balance Sheet as at 31st March, 2018 of *A*, *B* and *C* carrying on business in partnership sharing profits and losses in the ratio of 2 : 2 : 1:

Liabilities		₹	Assets	₹
Capital A/cs:			Fixed Assets	10,50,000
A	6,00,000		Sundry Debtors	4,50,000
B	3,75,000	9,75,000	Stock	1,50,000
Mortgage Loan		6,00,000	Cash at Bank	75,000
Reserve		90,000	*C*'s Capital A/c	90,000
Sundry Creditors		1,50,000		
		18,15,000		18,15,000

They decided to dissolve the partnership and the following arrangements were agreed upon:

(*i*) Fixed assets included:

(*a*) Machinery ₹ 82,500 taken by *B* at an agreed value of ₹ 1,35,000 after the repairing costs amounted to ₹ 30,000 to be borne by the firm.

(*b*) Land and Building ₹ 7,50,000 taken by *A* at an agreed value of ₹ 9,00,000 subject to the mortgage loan to be taken over at ₹ 6,00,000.

(*ii*) Other assets (excluding Cash at Bank) and Creditors are taken over by Welfare Limited in consideration of issue of 5,000 debentures of ₹ 150 each fully paid. These debentures are taken over at a total agreed value of ₹ 7,20,000 equally by *A* and *B*.

(*iii*) Creditors for ₹ 37,500 not provided for in the books had to be paid.

Prepare Realisation Account, Partners' Capital Accounts, Bank Account assuming that the final settlement was made by the partners bringing in the amounts due from them.

2. Give necessary Journal entries to record the discharge of following unrecorded liabilities:

(*i*) There was a contingent liability in respect of bill discounted but not matured of ₹ 10,000. An acceptor of one bill of ₹ 2,000 became insolvent and fifty paise in a rupee was recovered. The liability of the firm on account of this bill discounted has not so far been recorded.

(*ii*) There was a contingent liability in respect of a claim for damages for ₹ 15,000. Such liability was settled for ₹ 12,500 and was undertaken by a partner Mr. Ashok to pay.

(*iii*) The firm was required to pay ₹ 10,000 as compensation to an employee for an injury suffered by him, which was a contingent liability not accepted by the firm.

(*iv*) ₹ 8,000 for damages claimed by a customer against the firm. It was agreed at 50% by a compromise between the customer and the firm.

(*v*) Trade creditors were ₹ 3,20,000. Half the trade creditors accepted Plant and Machinery at the value of ₹ 1,08,000 and cash in full settlement of their claim after allowing a discount of ₹ 32,000. Remaining creditors were paid 95% in final settlement.

[**Hints:** (*i*) Dr. Realisation A/c and Cr. Bank A/c by ₹ 20,000*.

(*ii*) Dr. Realisation A/c and Cr. Bank A/c by ₹ 1,52,000.

*₹ 1,60,000 – ₹ 1,08,000 – ₹ 32,000 = ₹ 20,000.]

3. There was one unrecorded asset estimated at ₹ 20,000, half of which was handed over to an unrecorded liability of ₹ 20,000 in settlement of a claim of ₹ 13,000 and remaining half was sold in the market at a discount of ₹ 500. Give necessary Journal entries.

4. Following is the Balance Sheet of Rahul and Rohit as at 31st March, 2018:

Liabilities		₹	Assets		₹
Sundry Creditors		20,000	Goodwill		10,000
Bills Payable		20,000	Building		25,000
Bank Overdraft		10,000	Plant and Machinery		25,000
Mrs. Rahul's Loan		20,000	Investments		15,300
Rohit's Loan		10,000	Stock		8,700
Investments Fluctuation Fund		2,800	Debtors	17,000	
Employees' Provident Fund		1,200	*Less:* Provision for Doubtful Debts	2,000	15,000
General Reserve		2,000	Bills Receivable		10,000
Rahul's Capital	20,000		Cash at Bank		13,000
Rohit's Capital	20,000	40,000	Profit and Loss A/c		4,000
		1,26,000			1,26,000

The firm was dissolved on 31st March, 2018 and the following was agreed upon:

(*i*) Rahul agreed to pay off his wife's Loan.

(*ii*) Debtors realised ₹ 12,000.

(*iii*) Rohit took all Investments at ₹ 12,000.

(*iv*) Other assets realised as follows:

	₹
Plant and Machinery	20,000
Building	50,000
Goodwill	6,000

(*v*) Sundry Creditors and Bills Payable were settled at 5% discount.

(*vi*) Rahul accepted Stock at ₹ 8,000 and Rohit took over Bills Receivable at 20% discount.

(*vii*) Realisation Expenses amounted to ₹ 2,000.

Prepare Realisation Account, Partners' Capital Accounts and Bank Account.

5. Following is the Balance Sheet of *A* and *B* for the year ended 31st March, 2018:

Liabilities		₹	Assets		₹
Capital A/cs:			Goodwill		30,000
A	34,000		Building		24,000
B	28,000	62,000	Furniture		4,000
A's Loan		20,000	Stock		14,000
Reserve		12,000	Sundry Debtors	30,000	
Sundry Creditors		4,000	*Less:* Provision for Doubtful Debts	4,000	26,000
Bills Payable		10,000	Bills Receivable		6,000
			Cash		4,000
		1,08,000			1,08,000

A and *B* shared the profits and losses equally. They decided to dissolve the partnership on the above date.

The assets of the firm realised as follows:

Building ₹ 32,000; Furniture ₹ 4,000; Sundry Debtors ₹ 24,000; Goodwill Nil; Stock ₹ 10,000; Bills Receivable ₹ 5,000. Realisation Expenses amounted to ₹ 3,400.

The Creditors agreed to accept ₹ 400 less. Compensation to Employees paid by the firm amounted to ₹ 3,000. This liability was not provided for in the above Balance Sheet.

There was a printer in the firm, which was bought out of the firm's money, was not shown in the above Balance Sheet. This printer is now sold for ₹ 4,000.

Prepare Realisation Account, Partners' Capital Accounts and Cash Account.

6. *A* and *B* were partners sharing profits and losses as to 7/11th to *A* and 4/11th to *B*. They dissolved the partnership on 30th May, 2018. On that date their Capitals were: *A* ₹ 7,000 and *B* ₹ 4,000. There were also dues on Loan Account to *A* ₹ 4,500 and to *B* ₹ 750. The other liabilities amounted to ₹ 5,000. The assets proved to have been undervalued in the last Balance Sheet and actually realised ₹ 24,000.

Prepare necessary accounts showing the final settlement between partners.

7. On 1st April, 2018 *A, B* and *C* commenced business in partnership sharing profits and losses in proportion of 1/2, 1/3 and 1/6 respectively. They deposited in their Bank Account as their Capital ₹ 22,000: ₹ 10,000 by *A;* ₹ 7,000 by *B;* and ₹ 5,000 by *C*. During the year, they drew ₹ 5,000: being ₹ 1,900 by *A;* ₹ 1,700 by *B;* and ₹ 1,400 by *C*.

On 31st March, 2019 they dissolved their partnership, *A* taking up Stock at an agreed value of ₹ 5,000; *B* taking up Furniture at ₹ 2,000; and *C* taking up Debtors at ₹ 3,000. After paying up their Creditors, there remained a balance of ₹ 1,000 at Bank.

Prepare necessary accounts showing the distribution of the cash at the Bank and of the further cash brought in by any partner or partners as the case required.

8. *X* and *Y* were partners sharing profits and losses in the ratio of 3 : 2. They decided to dissolve the firm on 31st July, 2018. On that date, their Capitals were: *X* ₹ 40,000 and *Y* ₹ 30,000. Creditors amounted to ₹ 24,000.

Assets were realised for ₹ 88,500. Creditors of ₹ 16,000 were taken over by *X* at ₹ 14,000. Remaining Creditors were paid at ₹ 7,500. The cost of Realisation came to ₹ 500.

Prepare necessary accounts.

9. Rita Chowdhary and Sobha are partners in a firm, Fancy Garments Exports, sharing profits and losses equally. On 1st January, 2019 the Balance Sheet of the firm was as follows:

Liabilities	₹	Assets		₹
Sundry Creditors	75,000	Cash		6,000
Bills Payable	30,000	Bank		30,000
Mr. Chowdhary's Loan	15,000	Stock		75,000
Reserve Fund	24,000	Book Debts	66,000	
Capital A/cs:		*Less*: Provision for Doubtful Debts	6,000	60,000
Rita Chowdhary	90,000	Plant and Machinery		45,000
Sobha	30,000	Land and Building		48,000
	2,64,000			2,64,000

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

(i) Rita Chowdhary undertook to pay Mr. Chowdhary's Loan and took over 50% of the Stock at a discount of 20%.

(ii) Book Debts realised ₹ 54,000; balance of the Stock was sold off at a profit of 30% on cost.

(iii) Sundry Creditors were paid out at a discount of 10%. Bills Payable were paid in full.

(iv) Plant and Machinery realised ₹ 75,000; Land and Building ₹ 1,20,000.

(v) Rita Chowdhary took over the Goodwill of the firm at a valuation of ₹ 30,000.

(vi) Realisation Expenses were ₹ 5,250.

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

10. Atal, Jawahar and Lal entered into partnership on 1st April, 2017. They contributed Capitals ₹ 40,000; ₹ 30,000; and ₹ 20,000 respectively sharing profits in the ratio of 3 : 2 : 1. Interest on capital was to be allowed @ 15% p.a. and interest on drawings was to be charged at an average rate of 5%. During the two years ended 31st March, 2018 and 31st March 2019, the firm earned a profit of ₹ 21,600 and ₹ 25,140 respectively before allowing or charging interest on capital and drawings. The drawings of each partner were ₹ 6,000 per year.

On 31st March, 2019, the partners decided to dissolve the partnership due to a difference of opinion. On that date, the Creditors amounted to ₹ 20,000. The Assets, other than cash ₹ 2,000, realised ₹ 1,21,000. Expenses of Dissolution amounted to ₹ 760.

Draw up necessary Ledger Accounts to close the books of the firm.

GUIDE TO ANSWERS

1. Gain (Profit) on Realisation—₹ 1,87,500; Final Payment to *A*—₹ 51,000; Amount brought in by *B*—₹ 9,000 and *C*—₹ 34,500. Total of Bank A/c—₹ 1,18,500.

3. (*i*) Dr. Bank A/c and Cr. Realisation A/c—₹ 9,500*.

(*ii*) Dr. Realisation A/c and Cr. Bank A/c—₹ 7,000**.

*₹ 20,000 (Unrecorded Assets) – $\frac{1}{2}$ of ₹ 20,000 (Settlement of Liability)—₹ 500 = ₹ 9,500.

**₹ 20,000 – ₹ 13,000 = ₹ 7,000.

4. Gain (Profit) on Realisation—₹ 9,800; Final Payment: Rahul—₹ 35,900; Rohit—₹ 13,900. Total of Bank Account—₹ 1,01,000.

5. Loss on Realisation—₹ 31,000; Final Payment: *A*—₹ 24,500; *B*—₹ 18,500. Total of Cash Account—₹ 83,000.

6. Sundry Assets on the date of dissolution were: ₹ 21,250; Gain (Profit) on Realisation: ₹ 2,750; Final Payment: *A*—₹ 8,750; *B*—₹ 5,000. Total of Bank Account—₹ 24,000.

7. Loss on Realisation—₹ 6,000; Final Payment: *A*—₹ 100; *B*—₹ 1,300; Cash brought in by *C*—₹ 400. Total of Bank Account—₹ 1,400.

8. Total Sundry Assets—₹ 94,000; Loss on Realisation—₹ 3,500; *X* receives—₹ 51,900; and *Y* receives—₹ 28,600. Total of Bank Account—₹ 88,500.

9. Gain (Profit) on Realisation—₹ 1,32,000; Amount paid to Rita Chowdhary—₹ 1,23,000; Sobha—₹ 1,08,000. Total of Bank Account—₹ 3,33,750.

10. Capitals on 31st March, 2019: Atal—₹ 50,530; Jawahar—₹ 33,580; Lal—₹ 16,630; Assets on 31st March, 2019: ₹ 1,18,740; Gain (Profit) on Realisation: ₹ 1,500; Final Payment: Atal—₹ 51,280; Jawahar—₹ 34,080 and Lal—₹ 16,880; Total of Bank Account—₹ 1,23,000.