Dissolution of Partnership Firm

Standard difficulty · 20 questions · 40 marks · Time: 43 minutes

Name: _____ Date: _____ Score: ____ / 40

Show your working for Sections B and C. Answers are on the last page — try every question first!

Section A — Choose the correct answer — 8 × 1 = 8 marks

1. On dissolution, assets and outside liabilities are transferred to the:
   (a) Profit and Loss Appropriation Account **(b)** Capital Reserve
   (c) Revaluation Account **(d)** Realisation Account

2. A firm is dissolved because a partner of a partnership at will gives notice to dissolve it. This is:
   (a) dissolution by notice
   (b) dissolution of partnership only
   (c) dissolution on the happening of a contingency
   (d) dissolution by the court

3. On dissolution, a partner pays the realisation expenses. The journal entry is:
   (a) Bank A/c Dr. To Realisation A/c
   (b) Partners' Capital A/cs Dr. To Realisation A/c
   (c) Partner's Capital A/c Dr. To Realisation A/c
   (d) Realisation A/c Dr. To Partner's Capital A/c

4. On dissolution, which of these is transferred to the DEBIT of the Realisation Account?
   (a) buildings **(b)** bank loan
   (c) outstanding expenses **(d)** creditors

5. Assets other than cash of ₹3,24,000 were sold for ₹3,15,000. Creditors of ₹60,000 were paid ₹60,000, and realisation expenses were ₹1,500. What is the result of realisation?
   (a) loss of ₹12,000 **(b)** profit of ₹10,500
   (c) loss of ₹10,500 **(d)** loss of ₹9,000

6. Arjun and Vikram share profits 5 : 2. On dissolution, the loss on realisation is ₹14,000. How much is debited to Arjun's capital account?
   (a) ₹10,000 **(b)** ₹4,000 **(c)** ₹14,000 **(d)** ₹7,000

7. On dissolution, creditors of ₹20,000 accepted payment at a discount of 20%. How much cash is paid to them?
   (a) ₹16,000 **(b)** ₹4,000 **(c)** ₹20,000 **(d)** ₹18,000

8. On dissolution, a firm had cash of ₹14,000. It realised ₹2,66,000 from its other assets, paid creditors ₹36,000 and realisation expenses of ₹1,000. How much cash is left to pay the partners?
   (a) ₹2,39,000 **(b)** ₹2,44,000 **(c)** ₹2,29,000 **(d)** ₹2,43,000

Section B — Short answer — 8 × 2 = 16 marks

9. Distinguish between dissolution of partnership and dissolution of the firm.

10. Give an example of each: (a) dissolution by the court (b) compulsory dissolution

11. On dissolution: assets (other than cash) of ₹3,69,000 realised ₹3,65,000; creditors of ₹80,000 were paid ₹76,000; realisation expenses were ₹1,200. Find the profit or loss on realisation.

12. On dissolution of the firm, partner Isha takes over a computer at an agreed value of ₹40,000. Pass the journal entry.

13. Partner Isha is to carry out the dissolution for a remuneration of ₹10,000 and bear the realisation expenses. The actual expenses of ₹8,500 are paid by the firm on Isha's behalf. Pass the journal entries for the remuneration and the expenses paid.

14. Vikram, Zoya and Isha share profits 4 : 3 : 2. On dissolution, the loss on realisation is ₹45,000. How much does each partner bear? (a) Vikram (b) Zoya (c) Isha

15. Priya and Asha share profits 3 : 2. At dissolution Priya's capital is ₹60,000, the general reserve is ₹25,000 and the realisation shows a loss of ₹6,000. How much is finally paid to Priya?

16. On dissolution, creditors of ₹64,000 accept furniture valued at ₹34,000 in part payment, and the rest in cash. How much cash is paid to them?

Section C — Word problems — 4 × 4 = 16 marks

17. Explain the different modes of dissolution of a partnership firm.

18. Ananya and Vikram share profits 5 : 2 and dissolve their firm. Balance sheet: Capitals: Ananya ₹1,20,000, Vikram ₹1,40,000; General reserve ₹7,000; Creditors ₹60,000. Assets: Cash ₹7,000, Stock ₹24,000, Debtors ₹39,000, Machinery ₹2,57,000. Stock realised ₹28,000, debtors ₹32,000 and machinery ₹2,56,000. Creditors were paid at a discount of 10%. Realisation expenses were ₹1,300. Prepare the Realisation Account.

19. Rahul and Ananya share profits 5 : 3 and dissolve their firm. Balance sheet: Capitals: Rahul ₹1,10,000, Ananya ₹60,000; General reserve ₹32,000; Creditors ₹80,000. Assets: Cash ₹3,000, Stock ₹30,000, Debtors ₹18,000, Machinery ₹2,31,000. Stock realised ₹29,000, debtors ₹15,000 and machinery ₹2,24,000. Creditors were paid in full. Realisation expenses were ₹1,000. Find the amount finally paid to (a) Rahul (b) Ananya, and check it against the cash available.

20. Rahul and Zoya share profits 1 : 1 and dissolve their firm. Balance sheet: Capitals: Rahul ₹1,10,000, Zoya ₹40,000; General reserve ₹2,000; Creditors ₹20,000. Assets: Cash ₹9,000, Stock ₹28,000, Debtors ₹27,000, Machinery ₹1,08,000. Stock realised ₹33,000, debtors ₹20,000 and machinery ₹1,09,000. Creditors were paid in full. Realisation expenses were ₹1,000. Pass the journal entries for (i) transfer of the assets (ii) transfer of the creditors (iii) the assets realised (iv) the creditors paid and expenses (v) the result of realisation.

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Answer key

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Q	Answer	Working
1	**(d) Realisation Account**	—
2	**(a) dissolution by notice**	—
3	**(d) Realisation A/c Dr. To Partner's Capital A/c**	—
4	**(a) buildings**	—
5	**(c) loss of ₹10,500**	₹3,15,000 − ₹3,24,000 + ₹60,000 − ₹60,000 − ₹1,500
6	**(a) ₹10,000**	₹14,000 × 5/7
7	**(a) ₹16,000**	₹20,000 × 80/100
8	**(d) ₹2,43,000**	₹14,000 + ₹2,66,000 − ₹36,000 − ₹1,000
9	**Dissolution of partnership changes the relation among partners while the firm continues; dissolution of the firm ends the business and the relation of all partners.**	—
10	**(a) a partner becomes of unsound mind and another partner applies to the court (b) all the partners, or all but one, become insolvent**	—
11	**loss of ₹1,200**	₹3,65,000 + ₹80,000 − ₹3,69,000 − ₹76,000 − ₹1,200
12	**Isha's Capital A/c Dr. ₹40,000 To Realisation A/c ₹40,000**	the asset is already in the Realisation Account at book value
13	**(i) Realisation A/c Dr. ₹10,000 To Isha's Capital A/c ₹10,000 (ii) Isha's Capital A/c Dr. ₹8,500 To Bank A/c ₹8,500**	the remuneration is a realisation expense; expenses paid for the partner are charged to the partner
14	**(a) ₹20,000; (b) ₹15,000; (c) ₹10,000**	₹45,000 shared 4 : 3 : 2
15	**₹71,400**	₹60,000 + reserve ₹15,000 − ₹3,600
16	**₹30,000**	₹64,000 − ₹34,000; only the cash paid is entered in the Realisation Account
17	**By agreement; compulsory dissolution (insolvency, illegal business); on a contingency (end of term, completion of venture, death or insolvency of a partner); by notice in a partnership at will; by order of the court.**	—
18	**Dr. side: Stock ₹24,000, Debtors ₹39,000, Machinery ₹2,57,000; Bank (creditors) ₹54,000; Bank (expenses)**	result profit of ₹700, shared 5 : 2

Q	Answer	Working
	₹1,300; Profit — Ananya ₹500, Vikram ₹200; total ₹3,76,000 **Cr. side: Creditors ₹60,000; Bank (assets realised) ₹3,16,000; total ₹3,76,000**	
19	**(a) ₹1,22,500; (b) ₹67,500**	realisation loss of ₹12,000; Rahul: ₹1,10,000 + ₹20,000 − ₹7,500; Ananya: ₹60,000 + ₹12,000 − ₹4,500; cash ₹3,000 + ₹2,68,000 − ₹80,000 − ₹1,000 = ₹1,90,000
20	**(i) Realisation A/c Dr. ₹1,63,000** **To Stock A/c ₹28,000** **To Debtors A/c ₹27,000** **To Machinery A/c ₹1,08,000** **(ii) Creditors A/c Dr. ₹20,000** **To Realisation A/c ₹20,000** **(iii) Bank A/c Dr. ₹1,62,000** **To Realisation A/c ₹1,62,000** **(iv) Realisation A/c Dr. ₹21,000** **To Bank A/c ₹21,000** **(v) Rahul's Capital A/c Dr. ₹1,000** **Zoya's Capital A/c Dr. ₹1,000** **To Realisation A/c ₹2,000**	creditors paid ₹20,000 + expenses ₹1,000; loss of ₹2,000 shared 1 : 1