

**CLASS XII ACCOUNTANCY**  
**CHAPTER 4 – DISSOLUTION OF PARTNERSHIP**

1. Third party liabilities are shown in Realisation Account :-
  - (a) Debits side of Realisation Account
  - (b) Credit side of Realisation Account
  - (c) Debit side of Partner Capital Account
  - (d) Credit side of Partner Capital Account
  
2. Accumulated Profit /Loss are transferred to Partner's Capital Account in case of dissolution in their
  - (a) New Ratio
  - (b) Gaining Ratio
  - (c) Profit Sharing Ratio
  - (d) None of the above
  
3. On Dissolution goodwill Account is transferred to :-
  - (a) Credit side of Bank Account
  - (b) Debit side of Partners Capital Account
  - (c) Debit side of Realisation Account
  - (d) Credit side of Realisation Account
  
4. Change in existing agreement between Partners is called :-
  - (a) Dissolution of Partnership
  - (b) Dissolution of Partnership Firm
  - (c) Admission of a Partner
  - (d) Death of a Partner
  
5. If a partner undertakes to pay the liability of a firm on dissolution it will be recorded as:
  - (a) RealisationA/c Dr., To Bank/CashA/c
  - (b) RealisationA/c Dr., To Partners Capital A/c
  - (c) Bank/Cash Dr., To Partners Capital A/c
  - (d) None of the above
  
6. On dissolution advertisement suspense appearing in balance sheet is shown in :-
  - (a) RealisationAccount
  - (b) Partner's Capital Account
  - (c) Bank Account
  - (d) Revaluation Account

7. If a partner has taken some of the Sundry Asset at ₹ 7,200 (being 10% less than book value), its book value is :-

- (a) ₹ 7,920
- (b) ₹ 8,000
- (c) ₹ 7,200
- (d) ₹ 7,000

8. Realisation expenses of ₹ 7,000 were to be paid by the partner. The firm will be paying him a remuneration of ₹ 7,500 for the dissolution work. The Partner's Capital Account will be credited with and Rs. :-

- (a) ₹ 7,500
- (b) ₹ 14,500
- (c) ₹ 7,000
- (d) ₹ 7,300

9. 'A' one of the Partners was to bear all the Realisation Expenses for which he was given a commission of 3% of net cash realised from Dissolution. Cash realised from Assets was Rs. 25,000. Amount paid for paying off liabilities amounted to Rs. 5,000. The amount of commission will be:-

- (a) ₹ 750
- (b) ₹ 150
- (c) ₹ 800
- (d) ₹ 600

10. If WCR was not given in balance sheet & liability arises of Rs. 10,000, the Journal Entry will be :-

- (a) WCR A/c Dr., To Partner Capital A/c
- (b) Realisation A/c Dr., To Bank A/c
- (c) Bank A/c Dr., To Realisation A/c
- (d) No Entry

11. There were investment worth Rs. 1,20,000, 75% of the investment were taken over by a Partner at 75% of their book value. The value at which the investment are taken over is:-

- (a) Rs. 90,000
- (b) Rs. 67,500
- (c) Rs. 80,000
- (d) Rs. 65,000

12. 50% of the Furniture valued at ₹ 20,000, taken by a Partner at ₹ 18,000, and remaining 50% will be sold at 20% less than the book value, amount transferred to Bank Account will be:-

- (a) Rs. 20,000

- (b) Rs. 10,000
- (c) Rs. 16,000
- (d) Rs. 18,000

13. On Dissolution of a firm, a partner paid ₹700 for firm's realization expenses. Which account will be debited?

- (a) Cash Account
- (b) Realisation A/c
- (c) Capital A/c of Partner
- (d) Profit & Loss A/c

14. In case of dissolution, total creditors of the firm were ₹ 40,000; creditors worth ₹ 10000 were given a piece of furniture costing ₹ 8000 in full and final settlement. Remaining creditors allowed a discount of 10%. What will be the amount with which cash will be credited in the Realisation account for payment to creditors:

- (a) 28,000
- (b) 27,000
- (c) 20,000
- (d) 25,000

15. In case of dissolution, 'A' one of the partners was paid only ₹ 5,000 for his loan to the firm which amounted to ₹ 5,500. ₹ 500 will be recorded in which account and on which side:

- (a) Realisation account credit side
- (b) Realisation account debit side
- (c) loan account debit side
- (d) A's capital account credit side

16. On the basis of the following data, how much final payment will be made to a partner on firm's dissolution?

Credit balance of capital account of a partner was ₹ 1,00,000; share of loss of realization amounted to ₹ 20,000 firm's liability taken over by him was for ₹ 16,000

- (a) ₹ 64,000
- (b) ₹ 96,000
- (c) ₹ 80,000
- (d) ₹ 1,04,000

17. At the time of dissolution of partnership firm, fictitious assets are transferred to :

- (a) Capital Accounts of Partners
- (b) Realisation Account
- (c) Cash Account
- (d) Partners' Loan Account

18. When realisation expenses are paid by the firm on behalf of a partner, such expenses are debited to :

- (a) Realisation Account
- (b) Partners' Capital Account
- (c) Partner's Loan Account
- (d) None of these

19. On taking responsibility of payment of a liability of ₹ 20,000 by a partner, the account credited will be :

- (a) Realisation Account
- (b) Cash Account
- (c) Capital Account of the Partner
- (d) Liability Account

20. Assertion (A): A loan from a partner is not transferred to Realisation Account.

Reason (R) : A loan from a partner is not an external liability but is discharged before repayment of capital.

- (A) Both A and R are true and R is the correct explanation of A
- (B) Both A and R are true and R is not the correct explanation of A
- (C) A is true, but R is false
- (D) A is false, but R is true

21. Assertion (A) : A loan from a relative of a partner is an external liability.

Reason (R) : It is not transferred to the Realisation Account.

- (A) Both A and R are true and R is the correct explanation of A
- (B) Both A and R are true and R is not the correct explanation of A
- (C) A is true, but R is false
- (D) A is false, but R is true

22. Assertion (A) : Any amount paid to discharge an unrecorded liability is credited to the Realisation Account.

Reason (R) : Payment made to discharge an unrecorded liability is a net loss to the firm and therefore is debited to Realisation Account.

- (A) Both A and R are true and R is the correct explanation of A
- (B) Both A and R are true and R is not the correct explanation of A
- (C) A is true, but R is false
- (D) A is false, but R is true

23. Assertion (A) : Dissolution of partnership is different from the dissolution of the Partnership firm.

Reason (R) : Dissolution of partnership doesn't dissolve the firm but the firm is dissolved in the partnership firm.

- (A) Both A and R are true and R is the correct explanation of A
- (B) Both A and R are true and R is not the correct explanation of A
- (C) A is true, but R is false
- (D) A is false, but R is true

24. Assertion (A) : Partner's loan account is prepared before partners' capital accounts.

Reason (R) : At the time of dissolution, capitals are paid off, only if, any balance is left after payment of partner's loan.

- (A) Both A and R are true and R is the correct explanation of A
- (B) Both A and R are true and R is not the correct explanation of A
- (C) A is true, but R is false
- (D) A is false, but R is true

25. On the basis of the following data, how much final payment will be made to a partner on firm's dissolution?

Credit balance of Capital Account of the partner was ₹50,000. Share of loss on realisation amounted to ₹10,000. Firm's liability taken over by him was for ₹8,000.

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

#### **Short-Answer Type Question (3 or 4 Marks)**

26. Ankit, Bobby and Kartik were partners in a firm sharing profits in the ratio 4:3:3. The firm was dissolved on 31-3-2018. Pass the necessary Journal entries for the following transactions after various assets (other than cash and bank) and third party liabilities had been transferred to Realisation Account:

- (i) The firm had stock of ₹ 80,000. Ankit took over 50% of the stock at a discount of 20% while the remaining stock was sold off at a profit of 30% on cost.
- (ii) A liability under a suit for damages included in creditors was settled at ₹ 32,000 as against only ₹ 13,000 provided in the books. Total creditors of the firm were ₹ 50,000.
- (iii) Bobby's sister's loan of ₹ 20,000 was paid off along with interest of ₹ 2,000.
- (iv) Kartik's Loan of ₹ 12,000 was settled at ₹ 12,500. (CBSE Delhi 2019)

27. Ravi and Mukesh were partners in a firm sharing profits and losses equally. On 31st March, 2019 their firm was dissolved. On the date of dissolution their Balance Sheet showed stock of ₹ 60,000 and creditors of ₹ 70,000. After transferring stock and creditors to realisation account the following transaction took place:

- (i) Ravi took over 40% of total stock at 20% discount.
- (ii) 30% of total stock was taken over by creditors of ₹ 20,000 in full settlement.
- (iii) Remaining stock was sold for cash at a profit of 25%.
- (iv) Remaining creditors were paid in cash at a discount of 10%.

Pass necessary journal entries for the above transactions in the book of the firm. (CBSE Compt. 2019)

28. The firm of Manjeet, Sujeet and Jagjeet was dissolved on 31st March, 2018. It was agreed that Sujeet will take care of the dissolution related activities and will get 10% of the value of assets realised. Sujeet agreed to bear the realisation expenses. Assets realised ₹ 10,00,750 and

realisation expenses were ₹90,000, which were paid from the firm's cash. ₹4,50,000 were paid to the creditors in full settlement of their claim.

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

(CBSE Outside Delhi 2019)

29. The firm of R, K and S was dissolved on 31.3.2019. Pass necessary journal entries for the following after various assets (other than cash and Bank) and the third party liabilities had been transferred to realisation account.

(i) K agreed to pay off his wife's loan of ₹ 6,000.

(ii) Total Creditors of the firm were ₹ 40,000. Creditors worth ₹ 10,000 were given a piece of furniture costing ₹8,000 in full and final settlement. Remaining creditors allowed a discount of 10%.

(iii) A machine that was not recorded in the books was taken over by K at ₹ 3,000 whereas its expected value was ₹ 5,000.

(iv) The firm had a debit balance of ₹ 15,000 in the profit and loss A/c on the date of dissolution.

(CBSE Sample Paper 2019-20)

30. The book value of assets (other than cash and bank) transferred to Realisation Account is ₹ 1,00,000. 50% of the assets are taken over by a partner Atul, at a discount of 20%. 40% of the remaining assets are sold at a profit of 30% on cost; 5% of the balance being obsolete, realised nothing and remaining assets are handed over to a creditor, in full settlement of his claim. You are required to record the journal entries for realisation of assets.

31. Journalise the following transactions regarding realisation expenses:

(a) Realisation expenses amounted to ₹ 2,500.

(b) Realisation expenses amounting to ₹ 3,000 were paid by Ashok, one of the partners.

(c) Realisation expenses ₹ 2,300 borne by Tarun, personally.

(d) Amit, a partner was appointed to realise the assets, at a cost of ₹ 4,000. The actual amount of realisation amounted to ₹ 3,000.

32. L and M were partners in a firm sharing profits in the ratio of 2 : 3. On 28.2.2016 the firm was dissolved. After transferring assets (other than cash) and outsider's liabilities to realisation account you are given the following information:

(i) A creditor of ₹ 1,40,000 accepted building valued at ₹ 1,80,000 and paid to the firm ₹ 40,000.

(ii) A second creditor for ₹ 30,000 accepted machinery valued at ₹ 28,000 in full settlement of his claim.

(iii) A third creditor amounting to ₹ 70,000 accepted ₹ 30,000 in cash and investments of the book value of ₹ 45,000 in full settlement of his claim.

(iv) Loss on dissolution was ₹ 4,000.

Pass necessary journal entries for the above transactions in the books of firm assuming that all payments were made by cheque. (CBSE Outside Delhi 2016)

### Long-Answer Questions (6 Marks)

33. Pradeep and Rajesh were partners in a firm sharing profits and losses in the ratio of 3:2. They decided to dissolve their partnership firm on 31st March, 2018. Pradeep was deputed to realize the assets and to pay off the liabilities. He was paid ₹ 1,000 as commission for his services. The financial position of the firm on 31st March, 2018 was as follows:

**Balance Sheet as at March 31, 2018**

Liabilities	Amount (₹)	Assets	Amount (₹)
Creditors	80,000	Building	1,20,000
Mrs Pradeep's Loan	40,000	Investment	30,600
Rajesh's loan	24,000	Debtors	34,000
Investment Fluctuation Fund	8,000	Less : Provision for Doubtful Debts	4,000
		Bills Receivable	37,400
Capitals:		Bank	6,000
Pradeep	42,000	Profit and Loss A/c	8,000
Rajesh	42,000	Goodwill	4,000
	<b>2,36,000</b>		<b>2,36,000</b>

Following terms and conditions were agreed upon:

- (i) Pradeep agreed to pay off his wife's loan.
- (ii) Half of the debtor's realized ₹ 12,000 and remaining debtors were used to pay off 25% of the creditors.
- (iii) Investment sold to Rajesh for ₹ 27,000
- (iv) Building realized ₹ 1,52,000
- (v) Remaining creditors were to be paid after two months, they were paid immediately at 10% p.a. discount
- (vi) Bill receivables were settled at a loss of ₹ 1,400
- (vii) Realization expenses amounted to ₹ 2,500

Prepare Realization Account. (CBSE Sample Paper 2018-19)

34.

Monu and Shiksha were partners sharing profits and losses in the ratio of 3:2. They decided to dissolve their firm on 31-03-2015, when their balance sheet was as follows:

BALANCE SHEET

Liabilities	Amt.	Assets	Amt.
Creditors	40,000	Cash	14,000
Monu's Brother's loan	10,000	Stock	8000
Shiksha's loan	15,000	Debtors	18000
		Less PFBDD	1000
Gen Res	5,000	Furniture	4,000
		Plant	30,000
Monu's capital	10,000	Investment	10,000
Shiksha capital	8,000	P/L A/c	5,000
	88,000		88,000

The Firm was dissolved on 1-4-2015 on the following terms:

- a) Monu took over investments at Rs. 8000 and agreed to pay off her brother's loan
- b) The assets realized as follows: stock- Rs. 2000, Debtors-Rs. 20500, Furniture- Rs. 1000 more than the book value and Plant Rs. 20000 less than its book value
- c) Realisation expenses Rs. 1200
- d) Creditors were paid off at a discount of 3%
- e) Firm had an unrecorded asset of Rs. 5000 which was accepted by an unrecorded liability of Rs. 7000 in full settlement

Prepare necessary accounts to close the books of the firm.



## Answers

1. (b) Credit side of Realisation Account
2. (c) Profit Sharing Ratio
3. (c) Debit side of Realisation Account
4. (a) Dissolution of Partnership
5. (b) Realisation A/c Dr., To Partners Capital A/c
6. (b) Partner's Capital Account
7. (b) Rs. 8,000
8. (a) ₹ 7,500
9. (d) ₹ 600
10. (b) Realisation A/c Dr., To Bank A/c
11. (b) ₹ 67,500
12. (c) ₹ 16,000
13. (b) Realisation A/c
14. (b) 27,000
15. (a) Realisation account credit side
16. (b) ₹ 96,000
17. (d) Partners' Loan Account
18. (c) Partner's Loan Account
19. (c) Capital Account of the Partner
20. (A) Both A and R are true and R is the correct explanation of A
21. (C) A is true, but R is false
22. (D) A is false, but R is true
23. (A) Both A and R are true and R is the correct explanation of A
24. (A) Both A and R are true and R is the correct explanation of A
25. (b) ₹48,000
- 26.

### In the Books of Firm

#### Journal

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
(i)	Ankit Capital A/c Dr.		32,000	
	Cash/Bank A/c Dr. To Realisation A/c (Being half stock sold & half stock taken by Anil)		52,000	84,000
(ii)	Realisation A/c Dr. To Cash/Bank A/c (Being creditor and contingent liabilities settled)		69,000	69,000
	Realisation A/c Dr. To Cash/Bank A/c (Being Bobby's sister's loan paid off along with interest)		22,000	22,000
(iv)	Kartik's Loan A/c Dr. Realisation A/c Dr. To Cash/Bank A/c (Being Kartik's loan paid off)		12,000 500	12,500

27.

**Journal**

Date	Particulars	Dr. (₹)	Cr. (₹)
(i)	Ravi's Capital A/c Dr. To Realisation A/c (Being 40% of the total stock taken over by Ravi at 20% discount)	19,200 -	- 19,200
(ii)	No Entry		
(iii)	Cash A/c Dr. To Realisation A/c (Being stock sold for cash)	22,500 -	- 22,500
(iv)	Realisation A/c Dr. To Cash A/c (Being creditors paid in cash at a discount of 10%)	45,500 -	- 45,000

28.

**Books of Manjeet, Sujeet and Jagjeet  
Journal**

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

29.

## JOURNAL

Date	Particulars	L.F.	Dr. Amount (₹)	Cr. Amount (₹)
(i)	Realization A/c To K's Capital A/c (Being wife's loan discharged by the partner)	Dr	6,000	6,000
(ii)	Realization A/c To Bank A/c (Being balance creditor's paid at a discount of 10% after part payment through furniture)	Dr	27,000	27,000
(iii)	K's Capital Account To Realization A/c (Being unrecorded machine taken over by a partner)	Dr	3,000	3,000
(iv)	R's Capital A/c K's Capital A/c S's Capital A/c To Profit and Loss A/c (being debit balance of Profit and Loss distributed amongst partners)	Dr Dr Dr	5,000 5,000 5,000	15,000

30.

## Journal

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
	Realisation A/c To various Assets A/c (Being transfer of various assets other than cash and bank to realisation A/c at their book value)	Dr.	1,00,000	1,00,000
	Atul's Capital A/c To Realisation A/c (Being 50% of the Assets taken over by Atul at 20% discount)	Dr.	40,000	40,000
	Cash/Bank A/c To Realisation A/c (Being sale of the remaining 40% assets @ 30% profit on cost)	Dr.	26,000	26,000
	(No entry is required for transfer of assets to the creditors in full settlement of his claims)			

**Working Notes:**

- (i) Total Assets = ₹ 1,00,000  
 Taken over by Atul = 50%  
 $\text{₹ } 1,00,000 \times \frac{50}{100} = \text{₹ } 50,000$   
 Remaining Assets = ₹ 1,00,000 – ₹ 50,000 = ₹ 50,000

Atul takes over the assets of ₹ 50,000 @ 20% discount

$$= ₹ 50,000 - \left( ₹ 50,000 \times \frac{20}{100} \right)$$

$$= ₹ 50,000 - ₹ 10,000 = ₹ 40,000$$

(ii) 40% assets are sold out of the remaining assets @ 30% profits on cost:

Remaining Assets = ₹ 50,000

$$\text{Assets sold} = ₹ 50,000 \times \frac{40}{100} = ₹ 20,000$$

Assets sold at 30% profits on cost:

$$= ₹ 20,000 + ₹ 20,000 \times 30\%$$

$$= ₹ 20,000 + ₹ 20,000 \times \frac{30}{100}$$

$$= ₹ 20,000 + ₹ 6,000 = ₹ 26,000$$

(iii) Remaining Assets = ₹ 50,000 - ₹ 20,000 = ₹ 30,000

$$5\% \text{ Assets are becoming value less} = ₹ 30,000 \times \frac{5}{100} = ₹ 1,500$$

31.

### Journal

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
(a)	Realisation A/c Dr. To Cash/Bank A/c (Being for the payment of realisation expenses)		2,500	2,500
(b)	Realisation A/c Dr. To Ashok's Capital A/c (Being realisation expenses paid by a partner on the behalf of the firm)		3,000	3,000
(c)	No entry is required.			
(d)	(i) Realisation A/c Dr. To Amit's Capital A/c (Being remuneration paid to Amit for the dissolution of the firm undertaken)		4,000	4,000
	(ii) Amit's Capital A/c Dr. To Cash/Bank A/c (Being actual expenses on dissolution paid off)		3,000	3,000

32.

**In the Books of L and M  
Journal**

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
(i)	Bank A/c <span style="float: right;">Dr.</span> To Realisation A/c (Being building accepted by creditors and balance paid by him)		40,000	40,000
(ii)	No Entry			
(iii)	Realisation A/c <span style="float: right;">Dr.</span> To Bank A/c (Being cash paid to creditor)		30,000	30,000
(iv)	L's Capital A/c <span style="float: right;">Dr.</span> M's Capital A/c <span style="float: right;">Dr.</span> To Realisation A/c (Being loss on dissolution distributed to partners))		1,600 2,400	4,000

33.

Dr.		Realisation Account		Cr.
Particulars	Amount (₹)	Particulars	Amount (₹)	
To building	1,20,000	By Provision on Debtors	4,000	
To Investment	30,600	By Creditors	80,000	
To Debtors	34,000	By Mrs Pradeep's Loan	40,000	
To Bills Receivable	37,400	By Investment Fluctuation Fund	8,000	
To Goodwill	4,000	By Bank A/c		
To Pradeep's Capital A/c	40,000	Debtors	12,000	
To Bank A/c (expenses)	2,500	Building	1,52,000	
To Bank A/c (creditors)	59,000	Bill Recievable	36,000	
To Pradeep's Capital A/c	1,000	By Cash A/c	27,000	
To Partner's Capital A/cs:				
Pradeep	18,300			
Rajesh	12,200			
	30,500			
	<b>3,59,000</b>		<b>3,59,000</b>	

**Working Notes:**

Payment to creditors = (₹80,000 – ₹ 20,000) – {₹ 60,000 × (10/100) × (2/12)} = ₹ 60,000 – ₹ 1,000 = ₹ 59,000

\*½ mark each for transferring assets and liabilities to realization account

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