Chapter 4: Dissolution of Partnership Firm

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Exercise 1.1 — Short & Long Answer Questions

Q1 State the difference between dissolution of partnership and dissolution of partnership firm.

Dissolution of partnership changes the existing relationship among partners but the firm may continue its business. It occurs on admission, retirement, death, insolvency or change in profit-sharing ratio of a partner. Dissolution of a partnership firm, by contrast, means the complete closure of the firm's business. All assets are sold, all liabilities are paid off, and the books of account are closed permanently. While dissolution of a firm necessarily involves dissolution of partnership, the converse is not true.

Q2 State the accounting treatment at the time of dissolution of a firm for: i. Unrecorded assets ii. Unrecorded liabilities

i. Unrecorded assets: When an asset not appearing in the books is realised in cash, Bank A/c is debited and Realisation A/c is credited with the amount received. If such an unrecorded asset is taken over by a partner, the concerned Partner's Capital A/c is debited and Realisation A/c is credited at the agreed value.

ii. Unrecorded liabilities: When an unrecorded liability is paid in cash, Realisation A/c is debited and Bank A/c is credited with the amount paid. If a partner agrees to discharge such a liability, Realisation A/c is debited and Partner's Capital A/c is credited.

Q3 On dissolution, how will you deal with partner's loan if it appears on the (a) assets side of the balance sheet, (b) liabilities side of balance sheet.

(a) Partner's loan on the assets side means the firm has given a loan to a partner. On dissolution, this loan is realised by collecting cash from the partner: Bank A/c is debited and Loan to Partners A/c is credited.

(b) Partner's loan on the liabilities side means the partner has given a loan to the firm. It is not transferred to Realisation Account. Instead, as per the order of settlement (Section 48 of the Partnership Act 1932), it is repaid to the partner after paying off outside creditors but before repaying capital: Partner's Loan A/c is debited and Bank A/c is credited.

Q4 Distinguish between firm's debts and partner's private debts.

Firm's debts are liabilities owed by the partnership firm to outsiders such as creditors, bank loans, and bills payable. Partner's private debts are personal liabilities of an individual partner unrelated to the firm. As per Section 49 of the Partnership Act 1932: (i) The firm's property is applied first to pay the firm's debts; any surplus goes to partners and may be used for their private debts. (ii) A partner's private property is first applied to pay his private debts; any surplus may be used toward the firm's debts if the firm's assets are insufficient.

Q5 State the order of settlement of accounts on dissolution.

As per Section 48 of the Partnership Act 1932, on dissolution the assets of the firm (including contributions from partners to cover capital deficiencies) are applied in the following order: (i) First, in paying the debts of the firm to third parties (outside creditors); (ii) Next, in paying each partner proportionately what is due for advances or loans made by them to the firm (partner's loan); (iii) Then, in paying each partner proportionately what is due on account of capital; and (iv) Finally, the residue, if any, is divided among the partners in their profit-sharing ratio.

Q6 On what account realisation account differs from revaluation account.

Revaluation Account is prepared at the time of reconstitution of a firm (admission, retirement or death of a partner). It records the increase or decrease in the value of assets and liabilities; the firm continues thereafter and a new balance sheet is prepared. Realisation Account is prepared at the time of dissolution of the firm. It records the actual sale proceeds of all assets (except cash/bank), payment of all liabilities, and realisation expenses. The balance represents actual profit or loss on winding up, which is transferred to partners' capital accounts in their profit-sharing ratio, and then all accounts are permanently closed.

Q7 Explain the process of dissolution of a partnership firm.

Dissolution of a partnership firm is the complete winding up of the firm's business, bringing all economic relationships among partners to an end. As per Section 39 of the Partnership Act 1932, it occurs when all partners cease to be associated with the firm. A firm may be dissolved by agreement (with consent of all partners or per a contract); compulsorily (when all or all but one partner become insolvent, or the business becomes illegal); on the happening of contingencies (expiry of fixed term, completion of venture, death or insolvency of a partner); by notice (in a partnership at will); or by court order (insanity, permanent incapacity, misconduct, persistent breach of agreement, transfer of interest, perpetual losses, or on just and equitable grounds). Once dissolved, all assets are sold through Realisation Account, outside liabilities are paid in order (third-party debts first, then partners' loans, then capital), and the residue is distributed among partners. Books of account are then permanently closed.

Q8 What is a Realisation Account?

Realisation Account is a nominal account prepared when a partnership firm is dissolved. Its purpose is to ascertain the net profit or loss arising from the realisation of assets and the discharge of liabilities. All assets (except cash, bank, and fictitious assets) are transferred to the debit side at book value, and all external liabilities (including provisions) are transferred to the credit side. The account is then debited with amounts paid to settle liabilities and realisation expenses, and credited with amounts received on sale of assets. If a partner takes over an asset, their capital account is credited; if a partner assumes a liability, their capital account is debited. The balancing figure is profit (if credit side exceeds debit) or loss (if debit exceeds credit), which is transferred to partners' capital accounts in their profit-sharing ratio.

Q9 Reproduce the format of Realisation Account.

Realisation Account (Dr. side): Intangible assets, Land and Building, Plant and Machinery, Furniture and Fittings, Loans to other parties, Bills Receivable, Sundry Debtors, Cash/Bank (payment of liabilities), Cash/Bank (payment of unrecorded liabilities), Partner's Capital A/c (liability assumed by the partner), Profit transferred to partners' capital accounts in profit-sharing ratio.

Realisation Account (Cr. side): Bank Loan/Mortgage, Sundry Creditors, Bills Payable, Bank Overdraft, Outstanding Expenses, Provision for Doubtful Debts, Cash/Bank (sale of assets), Partner's Capital A/c (assets taken over by a partner), Investment Fluctuation Fund, Loss transferred to partners' capital accounts.

The difference between the two sides is the profit or loss on realisation.

Q10 How deficiency of creditors is paid off at the time of dissolution of firm.

At dissolution, the liabilities to outside creditors are settled from the assets realised. As per Section 48 of the Partnership Act 1932, third-party debts are paid first. If the assets of the firm are insufficient to pay all creditors in full, the partners must contribute from their private net assets (private assets minus private liabilities) in their profit-sharing ratio to make up the deficiency. The private property of a partner is first applied to his own private debts; only the surplus is available to meet the firm's deficiency. If a partner is unable to contribute (i.e., is insolvent), the shortfall is treated as a capital loss borne by the remaining solvent partners in the ratio of their capitals (as per the Garner vs. Murray rule, in the absence of any contrary agreement).

Exercise 1.2 — Numerical Questions

Q1 Journalise the following transactions regarding realisation expenses:
[a] Realisation expenses amounted to Rs.2,500.
[b] Realisation expenses amounting to Rs.3,000 were paid by Ashok, one of the partners.
[c] Realisation expenses Rs.2,300 borne by Tarun, personally.
[d] Amit, a partner was appointed to realise the assets, at a cost of Rs.4,000. The actual amount of realisation expenses amounted to Rs.3,000.

SOLUTION

Journal Entries — Realisation Expenses

Dr. Account	Amount (Rs.)	Cr. Account	Amount (Rs.)
[a] Realisation A/c Dr	2,500	Cash/Bank A/c	2,500
[b] Realisation A/c Dr	3,000	Ashok's Capital A/c	3,000

[c] No entry in firm's books — Tarun bears expenses personally; firm makes no payment.
[d] Realisation A/c Dr | 4,000 | Amit's Capital A/c | 4,000

Narrations and Explanations:

[a] Realisation expenses paid by the firm out of cash/bank.
Entry: Realisation A/c Dr 2,500 | Cash/Bank A/c Cr 2,500

[b] Realisation expenses paid by partner Ashok on behalf of the firm.
The firm owes Ashok Rs.3,000, so his Capital A/c is credited.
Entry: Realisation A/c Dr 3,000 | Ashok's Capital A/c Cr 3,000

[c] Tarun bears expenses personally (out of his own pocket, not on behalf of the firm).
The firm has no obligation to Tarun for these expenses.
Result: No entry is required in the firm's books.

[d] Amit is appointed to realise assets and will be paid an agreed sum of Rs.4,000.
The firm credits Amit's Capital A/c with the agreed amount (Rs.4,000).
Amit personally bears the actual expenses (Rs.3,000); the excess Rs.1,000 is his gain.
Entry: Realisation A/c Dr 4,000 | Amit's Capital A/c Cr 4,000

(No separate entry for the actual Rs.3,000 — that is Amit's personal outflow.)

Q2 Record necessary journal entries in the following cases:
[a] Creditors worth Rs.85,000 accepted Rs.40,000 as cash and Investment worth Rs.43,000, in full settlement of their claim.
[b] Creditors were Rs.16,000. They accepted Machinery valued at Rs.18,000 in settlement of their claim.
[c] Creditors were Rs.90,000. They accepted Buildings valued Rs.1,20,000 and paid cash to the firm Rs.30,000.

SOLUTION

Journal Entries — Settlement of Creditors

[a] Creditors Rs.85,000 accept Cash Rs.40,000 + Investments Rs.43,000 in full settlement.

Total paid = Rs.40,000 + Rs.43,000 = Rs.83,000; Discount received = Rs.85,000 - Rs.83,000 = Rs.2,000.

(Assets transferred to Realisation A/c at start — so Realisation A/c is credited when creditors take assets/cash.)

Step 1 — Creditors transferred to Realisation A/c (at start of dissolution):
Sundry Creditors A/c Dr | 85,000 | Realisation A/c | 85,000

Step 2 — Payment to creditors in full settlement:

Realisation A/c Dr	40,000	Cash/Bank A/c	40,000
Realisation A/c Dr	43,000	Investments A/c	43,000

(Discount of Rs.2,000 remains as gain in Realisation A/c.)

[b] Creditors Rs.16,000 accept Machinery Rs.18,000 in full settlement.
creditors owed Rs.16,000; they accept machinery worth Rs.18,000.

This means creditors are OVERPAID by Rs.2,000 (firm gives more than owed).
Machinery BV is on Dr of Realisation; creditors on Cr of Realisation.

Step 1 — Creditors transferred to Realisation A/c:
Sundry Creditors A/c Dr | 16,000 | Realisation A/c | 16,000

Step 2 — Machinery handed to creditors:
Realisation A/c Dr | 18,000 | Machinery A/c | 18,000

(Machinery already on Dr of Realisation at BV; if BV = Rs.18,000, this step is

already recorded.)

Net: Realisation shows excess Dr of Rs.2,000 for this transaction — a loss.

Single combined entry at settlement:

Realisation A/c Dr	2,000	(Loss — machinery BV exceeds creditor claim)	
Creditors A/c Dr	16,000	Realisation A/c Cr	18,000

[c] Creditors Rs.90,000 accept Buildings valued Rs.1,20,000 and pay Rs.30,000 cash to firm.

Net settlement: Rs.1,20,000 (building) - Rs.30,000 (cash received) = Rs.90,000 ✓ (exact claim).

Step 1 — Creditors transferred to Realisation A/c:

Sundry Creditors A/c Dr | 90,000 | Realisation A/c | 90,000

Step 2 — Settlement (creditors take building, pay cash to firm):

Realisation A/c Dr	1,20,000	Buildings A/c	1,20,000
Cash/Bank A/c Dr	30,000	Realisation A/c	30,000

Net effect on Realisation: Dr 1,20,000 - Cr 90,000 - Cr 30,000 = 0 (no gain or loss on this settlement).

Alternative single settlement entry:

Realisation A/c Dr	90,000	Cash/Bank A/c	30,000
	Realisation A/c	60,000 (building Cr offset)	
[Recorded as: Creditors A/c Dr 90,000, Cash A/c Dr 30,000	Buildings A/c Cr 1,20,000]		

Q3 There was an old computer which was written-off in the books of accounts in the previous year. The same has been taken over by a partner Nitin for Rs.3,000. Journalise the transaction when the firm has been dissolved.

SOLUTION

Journal Entry — Unrecorded Asset taken by Partner

The old computer was fully written off — it does not appear in the books.
It is therefore an UNRECORDED asset at the time of dissolution.

Treatment at dissolution:
Step 1: Credit Realisation A/c when the unrecorded asset is recovered/taken by partner.
Step 2: Debit the partner's Capital A/c with the agreed value.

Dr. Account	Amount (Rs.)	Cr. Account	Amount (Rs.)
Nitin's Capital A/c Dr	3,000	Realisation A/c	3,000

Narration: Nitin took over the old computer (an unrecorded asset) at Rs.3,000.

Note: Since the asset was not in the books, it was never transferred to Realisation A/c on the Dr side.
Crediting Realisation A/c directly records the gain of Rs.3,000 on realisation of an unrecorded asset.

Q4 What journal entries will be recorded for the following transactions on the dissolution of a firm:
[a] Payment of unrecorded liabilities of Rs.3,200.
[b] Stock worth Rs.7,500 is taken over by a partner Rohit.
[c] Profit on Realisation amounting to Rs.18,000 is to be distributed between the partners Ashish and Tarun in the ratio of 5:7.
[d] An unrecorded asset realised Rs.5,500.

SOLUTION

Journal Entries — Miscellaneous Dissolution Transactions

[a] Payment of unrecorded liabilities Rs.3,200:
Unrecorded liabilities were not transferred to Realisation A/c (they were not in the books).
Realisation A/c Dr | 3,200 | Cash/Bank A/c | 3,200

(Realisation A/c is debited because this is an additional cost of dissolution not anticipated.)

[b] Stock Rs.7,500 taken over by partner Rohit:

Stock already transferred to Realisation A/c Dr at BV = Rs.7,500.

Rohit's Capital A/c Dr | 7,500 | Realisation A/c | 7,500

(Rohit's capital is debited as he takes the asset — an asset comes out to him.)

[c] Profit on Realisation Rs.18,000 distributed between Ashish and Tarun in ratio 5:7:

Total parts = 5 + 7 = 12

Ashish's share = 18,000 × 5/12 = Rs.7,500

Tarun's share = 18,000 × 7/12 = Rs.10,500

Verification: 7,500 + 10,500 = 18,000 ✓

Realisation A/c Dr	18,000	Ashish's Capital A/c	7,500
	Tarun's Capital A/c	10,500	

[d] Unrecorded asset realised Rs.5,500:

Since the asset was not in the books, it was never debited to Realisation A/c.

Cash/Bank A/c Dr | 5,500 | Realisation A/c | 5,500

(Realisation A/c is credited — this is a gain from an asset not previously recorded.)

Q5 Give journal entries for the following transactions:

1. To record the realisation of various assets and liabilities.
2. A Firm has a Stock of Rs.1,60,000. Aziz, a partner took over 50% of the Stock at a discount of 20%.
3. Remaining Stock was sold at a profit of 30% on cost.
4. Land and Building (book value Rs.1,60,000) sold for Rs.3,00,000 through a broker who charged 2% commission on the deal.
5. Plant and Machinery (book value Rs.60,000) was handed over to a Creditor at an agreed valuation of 10% less than the book value.
6. Investment whose face value was Rs.4,000 was realised at 50%.

SOLUTION

Journal Entries — Asset Realisation Transactions

Transaction 1 — Opening Entry: Transfer all assets and liabilities to Realisation

A/c

Realisation A/c Dr	[Total BV of Assets]	Various Asset A/cs	[respective BVs]
Various Liability A/cs Dr	[respective amounts]	Realisation A/c	[Total Liabilities]

(Standard opening dissolution entry — actual amounts depend on the Balance Sheet.)

Transaction 2 — Aziz takes 50% of Stock at 20% discount:
Stock book value = Rs.1,60,000
Aziz takes = 50% × 1,60,000 = Rs.80,000 (BV)
Discount = 20% × 80,000 = Rs.16,000
Aziz pays = 80,000 - 16,000 = Rs.64,000

Aziz's Capital A/c Dr | 64,000 | Realisation A/c | 64,000

(Stock was already debited to Realisation at BV. Aziz's Capital is debited at agreed value Rs.64,000.)

Transaction 3 — Remaining 50% Stock sold at 30% profit on cost:
Remaining stock BV = 1,60,000 - 80,000 = Rs.80,000
Profit = 30% × 80,000 = Rs.24,000
Sale proceeds = 80,000 + 24,000 = Rs.1,04,000

Cash/Bank A/c Dr | 1,04,000 | Realisation A/c | 1,04,000

Transaction 4 — Land and Building sold through broker (2% commission):
BV of L&B = Rs.1,60,000 (already debited to Realisation A/c)
Sale price = Rs.3,00,000
Brokerage = 2% × 3,00,000 = Rs.6,000
Net proceeds = 3,00,000 - 6,000 = Rs.2,94,000

Cash/Bank A/c Dr	2,94,000	Realisation A/c	2,94,000
Realisation A/c Dr	6,000	Cash/Bank A/c	6,000

(Brokerage is a cost charged to Realisation A/c.)

Transaction 5 — Plant and Machinery handed to Creditor at 10% below BV:
BV = Rs.60,000
Agreed value = 60,000 - 10% × 60,000 = 60,000 - 6,000 = Rs.54,000
Creditors already on Cr of Realisation; P&M on Dr of Realisation.
Net entry for settlement: Creditors A/c Dr (at their claim value) Cr Realisation

Realisation A/c Dr | 54,000 | Creditors A/c | 54,000

(If creditor's claim = Rs.54,000, this settles exactly. Loss of Rs.6,000 on P&M stays in Realisation.)

Transaction 6 — Investment (face value Rs.4,000) realised at 50%:

Realised = 50% × 4,000 = Rs.2,000

Cash/Bank A/c Dr | 2,000 | Realisation A/c | 2,000

(Investment was debited to Realisation at face/book value Rs.4,000; only Rs.2,000 recovered — loss of Rs.2,000 in Realisation.)

Q6 How will you deal with the realisation expenses of the firm of Rashim and Bindiya in the following cases:
1. Realisation expenses amount to Rs.1,00,000.
2. Realisation expenses amounting to Rs.30,000 are paid by Rashim, a partner.
3. Realisation expenses are to be borne by Rashim and he will be paid Rs.70,000 as remuneration for completing the dissolution process. The actual expenses incurred by Rashim were Rs.1,20,000.

SOLUTION

Journal Entries — Realisation Expenses (Rashim and Bindiya)

Case 1 — Realisation expenses Rs.1,00,000 paid by the firm:

Realisation A/c Dr | 1,00,000 | Cash/Bank A/c | 1,00,000

(Expenses paid out of firm's cash — debited to Realisation A/c.)

Case 2 — Realisation expenses Rs.30,000 paid by partner Rashim on behalf of the firm:

Realisation A/c Dr | 30,000 | Rashim's Capital A/c | 30,000

(Firm owes Rashim — credit his Capital A/c; expense is charged to Realisation A/c.)

Case 3 — Rashim agrees to bear all expenses personally; firm pays Rs.70,000 as remuneration:

Agreed remuneration to Rashim = Rs.70,000

Actual expenses incurred by Rashim = Rs.1,20,000 (borne by him personally)

Treatment:

The firm is obligated only to pay the agreed remuneration of Rs.70,000.

Rashim bears the full actual expenses (Rs.1,20,000) himself — the excess (Rs.50,000) is his personal loss.

No entry is needed for the actual expenses in the firm's books.

Journal Entry:
Realisation A/c Dr | 70,000 | Rashim's Capital A/c | 70,000
(Only the agreed remuneration of Rs.70,000 is charged to Realisation A/c.)

Note: The actual expenses of Rs.1,20,000 exceed the remuneration of Rs.70,000.

Rashim personally absorbs the shortfall of Rs.50,000 — this does not affect the firm's accounts.

Q7 The book value of assets (other than cash and bank) transferred to Realisation Account is Rs.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.

SOLUTION

Journal Entries — Realisation of Assets

Total BV of assets transferred to Realisation A/c = Rs.1,00,000

Step 1 — Opening entry (already done): Realisation A/c Dr 1,00,000 | Various Assets Cr 1,00,000

Step 2 — Atul takes 50% of assets at 20% discount:
BV of assets taken by Atul = 50% × 1,00,000 = Rs.50,000
Discount = 20% × 50,000 = Rs.10,000
Atul pays = 50,000 - 10,000 = Rs.40,000

Journal Entry:
Atul's Capital A/c Dr | 40,000 | Realisation A/c | 40,000

Step 3 — 40% of remaining assets sold at 30% profit on cost:
Remaining after Atul = 1,00,000 - 50,000 = Rs.50,000
BV of assets sold = 40% × 50,000 = Rs.20,000
Profit = 30% × 20,000 = Rs.6,000
Sale proceeds = 20,000 + 6,000 = Rs.26,000

Journal Entry:
Cash/Bank A/c Dr | 26,000 | Realisation A/c | 26,000

Step 4 — 5% of balance (obsolete, realised nothing):

Balance after Step 3 = 50,000 - 20,000 = Rs.30,000

Obsolete assets BV = 5% × 30,000 = Rs.1,500

Realised = Rs.0

No cash entry — loss of Rs.1,500 is absorbed in Realisation A/c (already on Dr side at BV).

No journal entry required for obsolete assets (they simply realise nothing).

Step 5 — Remaining assets handed to Creditor in full settlement:

Remaining after obsolete = 30,000 - 1,500 = Rs.28,500

These assets (BV Rs.28,500) are handed to the creditor in full settlement of his claim.

Assuming creditor's claim = Rs.28,500 (full settlement at BV):

Creditors A/c Dr | 28,500 | Realisation A/c | 28,500

Summary of Realisation Account entries (Cr side):

Atul's Capital (assets at agreed value)	40,000
Cash/Bank (sale of 40% remaining)	26,000
Creditors (remaining assets at BV)	28,500

Total Cr = 94,500 (Dr was 1,00,000 — loss of Rs.5,500 on Atul's discount Rs.10,000 offset by profit Rs.6,000 minus loss on obsolete Rs.1,500)

Q8 Record necessary journal entries to realise the following unrecorded assets and liabilities in the books of Paras and Priya:
1. There was an old furniture in the firm which had been written-off completely in the books. This was sold for Rs.3,000.
2. Ashish, an old customer whose account for Rs.1,000 was written-off as bad in the previous year, paid 60% of the amount.
3. Paras agreed to takeover the firm's goodwill (not recorded in the books of the firm), at a valuation of Rs.30,000.
4. There was an old typewriter which had been written-off completely from the books. It was estimated to realise Rs.400. It was taken away by Priya at an estimated price less 25%.
5. There were 100 shares of Rs.10 each in Star Limited acquired at a cost of Rs.2,000 which had been written-off completely from the books. These shares are valued @ Rs.6 each and divided among the partners in their profit sharing ratio.

SOLUTION

Journal Entries — Unrecorded Assets and Liabilities (Paras and Priya)

General rule for unrecorded assets: they were never debited to Realisation A/c. When realised or taken by partner → Credit Realisation A/c (gain).

Item 1 — Old furniture (written off) sold for Rs.3,000:
Cash/Bank A/c Dr | 3,000 | Realisation A/c | 3,000

Item 2 — Bad debt recovery from Ashish (Rs.1,000 written off); paid 60%:
Amount received = 60% × 1,000 = Rs.600
Cash/Bank A/c Dr | 600 | Realisation A/c | 600
(Bad debt was written off earlier — it is an unrecorded asset; recovery credited to Realisation A/c.)

Item 3 — Paras takes over firm's goodwill (unrecorded) at Rs.30,000:
Paras's Capital A/c Dr | 30,000 | Realisation A/c | 30,000
(Goodwill not in books = unrecorded asset; Paras's Capital debited at agreed value.)

Item 4 — Old typewriter (written off), estimated realisation Rs.400; Priya takes at 25% below estimate:
Estimated price = Rs.400
Priya pays = 400 - 25% × 400 = 400 - 100 = Rs.300
Priya's Capital A/c Dr | 300 | Realisation A/c | 300

Item 5 — 100 shares in Star Ltd (written off, now valued Rs.6 each) divided among partners in PSR:

Total value = 100 × Rs.6 = Rs.600

Shares are distributed in profit-sharing ratio (say PSR = p:q — amounts split accordingly).

Partners' Capital A/cs Dr (in PSR) | 600 | Realisation A/c | 600

Example if Paras:Priya = 1:1 (equal):

Paras's Capital A/c Dr	300	Realisation A/c	600
Priya's Capital A/c Dr	300		

(Actual PSR not given in the question — use the firm's agreed ratio.)

Q9 All partners wish to dissolve the firm. Yastin, a partner wants that her loan of Rs.2,00,000 must be paid off before the payment of capitals to the partners. But, Amart, another partner wants that the capitals must be paid before the payment of Yastin's loan. You are required to settle the conflict giving reasons.

SOLUTION

Settlement of Conflict — Order of Payment on Dissolution

Legal Position under Section 48 of the Indian Partnership Act, 1932:

The statutory order of application of assets on dissolution of a firm is as follows:

1. Payment of debts due to THIRD PARTIES (outsiders/external creditors).
2. Payment of loans and advances made by PARTNERS to the firm (e.g., partner's loan).
3. Payment of CAPITAL of partners.
4. Any residual surplus is distributed among partners in their profit-sharing ratio.

Decision:

Yastin's loan of Rs.2,00,000 is a PARTNER'S LOAN to the firm — it is not her capital.

As per Section 48, a partner's loan ranks ABOVE the repayment of partners' capital.

Therefore, Yastin is CORRECT — her loan must be paid BEFORE the capitals are returned.

Amart's contention is wrong in law. Capitals come after partner loans.

The correct order here (after paying outside creditors) is:

Step 1: Pay Yastin's loan = Rs.2,00,000

Step 2: Return capitals to Yastin, Amart, and other partners (if any assets remain).

Conclusion:

Yastin's demand is legally correct and must be honoured.

Amart's demand contradicts Section 48 of the Indian Partnership Act, 1932 and cannot be accepted.

Q10 What journal entries would be recorded for the following transactions on the dissolution of a firm of Arti and Karim after various assets (other than cash) and the third party liabilities have been transferred to Realisation account.

1. Arti took over the Stock worth Rs.80,000 at Rs.68,000.
2. There was unrecorded Bike of Rs.40,000 which was taken over by Mr. Karim.
3. The firm paid Rs.40,000 as compensation to employees.
4. Sundry creditors amounting to Rs.36,000 were settled at a discount of 15%.
5. Loss on realisation Rs.42,000 was to be distributed between Arti and Karim in the ratio of 3:4.

SOLUTION

Journal Entries — Dissolution of Arti and Karim

(Assets and third-party liabilities already transferred to Realisation A/c.)

Item 1 — Arti takes Stock (BV Rs.80,000) at Rs.68,000:

Stock is already on Dr side of Realisation A/c at Rs.80,000.

Arti's agreed price = Rs.68,000.

Arti's Capital A/c Dr | 68,000 | Realisation A/c | 68,000

(Loss of Rs.12,000 = 80,000 - 68,000 remains in Realisation A/c.)

Item 2 — Unrecorded Bike (Rs.40,000) taken over by Karim:

Bike was not in the books — not transferred to Realisation A/c.

Being unrecorded, it is an unrecorded asset realised by partner.

Karim's Capital A/c Dr | 40,000 | Realisation A/c | 40,000

Item 3 — Compensation to employees Rs.40,000:

This is an unrecorded/contingent liability paid at dissolution.

Realisation A/c Dr | 40,000 | Cash/Bank A/c | 40,000

Item 4 — Sundry creditors Rs.36,000 settled at 15% discount:

Discount = 15% × 36,000 = Rs.5,400
Cash paid = 36,000 - 5,400 = Rs.30,600
Creditors already on Cr of Realisation A/c (transferred in opening entry).
Payment entry: Realisation A/c Dr | 30,600 | Cash/Bank A/c | 30,600
(Discount of Rs.5,400 is a gain — it stays in Realisation A/c as the Cr already recorded Rs.36,000.)

Item 5 — Loss on Realisation Rs.42,000 distributed in ratio 3:4:
Total ratio = 3 + 4 = 7
Arti's share = 42,000 × 3/7 = Rs.18,000
Karim's share = 42,000 × 4/7 = Rs.24,000
Verification: 18,000 + 24,000 = 42,000 ✓

Arti's Capital A/c Dr	18,000	Realisation A/c	42,000
Karim's Capital A/c Dr	24,000		

(Loss is debited to partners' Capital A/cs in PSR; Realisation A/c is closed.)

Q11 Rose and Lily shared profits in the ratio of 2:3. Their Balance Sheet on March 31, 2017 was as follows:

Liabilities: Creditors 40,000 | Lily's Loan 32,000 | Profit and Loss 50,000 | Capital — Lily 1,60,000 | Capital — Rose 2,40,000 | Total 5,22,000

Assets: Cash 16,000 | Debtors 80,000 | Less: Provision for Doubtful Debts 3,600 = Net 76,400 | Inventory 1,09,600 | Bills Receivable 40,000 | Buildings 2,80,000 | Total 5,22,000

Rose and Lily decided to dissolve the firm on the above date. Assets (except Bills Receivable) realised Rs. 4,84,000. Creditors agreed to take Rs. 38,000. Cost of realisation was Rs. 2,400. There was a Motor Cycle in the firm which was bought out of the firm's money but not shown in the books — it was now sold for Rs. 10,000. There was a contingent liability in respect of outstanding electric bill of Rs. 5,000 which was paid. Bills Receivable were taken over by Rose at Rs. 33,000.

Show Realisation Account, Partners' Capital Account, Loan Account and Cash Account.

SOLUTION

Given: Profit-sharing ratio Rose : Lily = 2 : 3.

Step 1 — Transfer assets and liabilities to Realisation Account.
Assets transferred (Dr Realisation): Debtors 80,000 + Inventory 1,09,600 + Bills Receivable 40,000 + Buildings 2,80,000 = Rs. 5,09,600.
Liabilities transferred (Cr Realisation): Creditors 40,000 + Provision for Doubtful Debts 3,600 = Rs. 43,600.

Step 2 — Cash and non-cash realisations (Cr side entries):
Assets (except BR) realised in cash: Rs. 4,84,000.
Unrecorded Motor Cycle sold: Rs. 10,000.
Bills Receivable taken over by Rose: Rs. 33,000 (Dr Rose Capital, Cr Realisation).

Step 3 — Cash payments (Dr side entries):
Creditors paid: Rs. 38,000.
Realisation expenses: Rs. 2,400.
Outstanding electric bill (contingent liability): Rs. 5,000.

Step 4 — Compute Profit on Realisation.
Dr side total = 5,09,600 (assets) + 38,000 (creditors paid) + 2,400 (expenses) + 5,000 (electric bill) = Rs. 5,55,000.
Cr side total (before profit) = 40,000 (creditors transferred) + 3,600 (prov DD) + 4,84,000 (assets cash) + 10,000 (motor cycle) + 33,000 (BR — Rose) = Rs. 5,70,600.
Profit on Realisation = 5,70,600 − 5,55,000 = Rs. 15,600.
Python check: 570600 − 555000 = 15,600 ✓

Step 5 — Distribute profit (2 : 3).
Rose (2/5): 15,600 × 2/5 = Rs. 6,240.
Lily (3/5): 15,600 × 3/5 = Rs. 9,360.

Step 6 — P&L credit balance on Liabilities side = Rs. 50,000 (profit already earned).
Transfer to Partners: Rose 50,000 × 2/5 = Rs. 20,000; Lily 50,000 × 3/5 = Rs. 30,000.

Realisation Account

Dr. Particulars	Rs.	Cr. Particulars	Rs.
To Debtors A/c	80,000	By Creditors A/c	40,000
To Inventory A/c	1,09,600	By Provision for DD	3,600
To Bills Receivable A/c	40,000	By Cash A/c (assets realised)	4,84,000
To Buildings A/c	2,80,000	By Cash A/c (Motor Cycle)	10,000
To Cash A/c (Creditors paid)	38,000	By Rose's Capital A/c (BR)	33,000
To Cash A/c (Expenses)	2,400	By Profit transferred:	
To Cash A/c (Electric bill)	5,000	Rose's Capital (2/5)	6,240
		Lily's Capital (3/5)	9,360
	5,55,000		5,55,000 + 15,600 = 5,70,600

Note: Profit 15,600 is added to Cr side total to balance both sides at 5,70,600.

Partners' Capital Accounts

Dr. Particulars	Rose (Rs.)	Lily (Rs.)	Cr. Particulars	Rose (Rs.)	Lily (Rs.)
To Bills Receivable	33,000	—	By Balance b/d	2,40,000	1,60,000
To Cash A/c	2,33,240	1,99,360	By P&L A/c	20,000	30,000
			By Realisation (profit)	6,240	9,360
	2,66,240	1,99,360		2,66,240	1,99,360

Lily's Loan Account

Dr. Particulars	Rs.	Cr. Particulars	Rs.
To Cash A/c	32,000	By Balance b/d	32,000

Cash Account

Dr. Particulars	Rs.	Cr. Particulars	Rs.
To Balance b/d	16,000	By Realisation A/c (Creditors)	38,000
To Realisation A/c (assets)	4,84,000	By Realisation A/c (expenses)	2,400
To Realisation A/c (Motor Cycle)	10,000	By Realisation A/c (elec. bill)	5,000
		By Lily's Loan A/c	32,000
		By Rose's Capital A/c	2,33,240
		By Lily's Capital A/c	1,99,360
	5,10,000		5,10,000

Verification: Cash Dr = 16,000 + 4,84,000 + 10,000 = 5,10,000 ✓; Cash Cr = 38,000 + 2,400 + 5,000 + 32,000 + 2,33,240 + 1,99,360 = 5,10,000 ✓

Q12 Shilpa, Meena and Nanda decided to dissolve their partnership on March 31, 2017. Their profit-sharing ratio was 3:2:1 and their Balance Sheet was as under:

Liabilities: Capital — Shilpa 80,000 | Capital — Meena 40,000 | Bank Loan 20,000 | Creditors 37,000 | Provision for Doubtful Debts 1,200 | General Reserve 12,000 | Total 1,90,200

Assets: Land 81,000 | Stock 56,760 | Debtors 18,600 | Nanda's Capital (Dr balance) 23,000 | Cash 10,840 | Total 1,90,200

Note: Nanda's Capital appears on the Assets side, indicating a debit (deficiency) balance of Rs. 23,000.

The stock of value Rs. 41,660 was taken over by Shilpa for Rs. 35,000 and she agreed to discharge the bank loan. The remaining stock was sold for Rs. 14,000 and debtors amounting to Rs. 10,000 realised Rs. 8,000. Land was sold for Rs. 1,10,000. The remaining debtors realised 50% of their book value. Cost of realisation amounted to Rs. 1,200. There was a typewriter not recorded in the books worth Rs. 6,000 which was taken over by one of the Creditors at this value.

Prepare Realisation Account.

SOLUTION

Given: Profit-sharing ratio Shilpa : Meena : Nanda = 3 : 2 : 1.
Nanda has a debit balance of Rs. 23,000 (on Assets side of Balance Sheet).

Step 1 — General Reserve distributed (3:2:1).
Shilpa: 12,000 × 3/6 = Rs. 6,000.
Meena: 12,000 × 2/6 = Rs. 4,000.
Nanda: 12,000 × 1/6 = Rs. 2,000.

Step 2 — Identify asset and liability transfers.
Assets transferred to Realisation (Dr): Land 81,000 + Stock 56,760 + Debtors 18,600 = Rs. 1,56,360.
Liabilities transferred to Realisation (Cr): Creditors 37,000 + Provision for DD 1,200 = Rs. 38,200.
Bank Loan (20,000): Shilpa agrees to discharge it — treated as Dr Bank Loan, Cr Shilpa Capital (outside Realisation A/c).

Step 3 — Realisation proceeds and expenses.
Shilpa takes stock (41,660) at Rs. 35,000: Dr Shilpa Capital 35,000, Cr Realisation 35,000.
Remaining stock (56,760 − 41,660 = 15,100) sold: Rs. 14,000 cash.
Debtors (10,000) realised: Rs. 8,000 cash.
Land sold: Rs. 1,10,000 cash.
Remaining debtors (18,600 − 10,000 = 8,600) at 50%: Rs. 4,300 cash.
Typewriter (unrecorded, 6,000) taken by Creditor in part-settlement of their claim.
→ Creditors' cash payment = 37,000 − 6,000 = Rs. 31,000.
Realisation expenses: Rs. 1,200 cash.

Step 4 — Compute Profit on Realisation.
Dr side: Assets BV 1,56,360 + Creditors paid in cash 31,000 + Expenses 1,200 = Rs. 1,88,560.
Cr side (before profit): Provision DD 1,200 + Creditors transferred 37,000 + Shilpa Capital (stock) 35,000
+ Cash (rem. stock 14,000 + debtors 8,000 + land 1,10,000 + rem. debtors 4,300) 1,36,300 = Rs. 2,09,500.
Profit on Realisation = 2,09,500 − 1,88,560 = Rs. 20,940.
Python check: 209500 − 188560 = 20,940 ✓

Step 5 — Distribute profit (3:2:1).
Shilpa (3/6): 20,940 × 3/6 = Rs. 10,470.

Meena (2/6): 20,940 × 2/6 = Rs. 6,980.
Nanda (1/6): 20,940 × 1/6 = Rs. 3,490.

Realisation Account

Dr. Particulars	Rs.	Cr. Particulars	Rs.
To Land A/c	81,000	By Provision for DD A/c	1,200
To Stock A/c	56,760	By Creditors A/c	37,000
To Debtors A/c	18,600	By Shilpa's Capital A/c (stock)	35,000
To Cash A/c (Creditors — net)	31,000	By Cash A/c (remaining stock)	14,000
To Cash A/c (Expenses)	1,200	By Cash A/c (Debtors — 10,000)	8,000
		By Cash A/c (Land)	1,10,000
		By Cash A/c (Rem. debtors 50%)	4,300
		By Profit transferred:	
		Shilpa's Capital (3/6)	10,470
		Meena's Capital (2/6)	6,980
		Nanda's Capital (1/6)	3,490
	1,88,560 + 20,940		2,09,500

Note: The typewriter (unrecorded, Rs. 6,000) is not separately debited/credited to Realisation; instead, it reduces the cash paid to Creditors from 37,000 to 31,000 (Creditors accept typewriter in part-settlement). Bank Loan (20,000) does not pass through Realisation — Shilpa bears it personally (Dr Bank Loan 20,000, Cr Shilpa Capital 20,000).

Q13 Surjit and Rahi were sharing profits (losses) in the ratio of 3:2. Their Balance Sheet as on March 31, 2017 is as follows:

Liabilities: Creditors 38,000 | Mrs. Surjit's Loan 10,000 | Reserve 15,000 | Rahi's Loan 5,000 | Capital — Surjit 10,000 | Capital — Rahi 8,000 | Total 86,000

Assets: Bank 11,500 | Stock 6,000 | Debtors 19,000 | Furniture 4,000 | Plant 28,000 | Investment 10,000 | Profit and Loss (Dr balance) 7,500 | Total 86,000

Note: Profit and Loss on the Assets side is a Debit balance (accumulated loss) = Rs. 7,500.

The firm was dissolved on March 31, 2017 on the following terms:
1. Surjit agreed to take the Investments at Rs. 8,000 and to pay Mrs. Surjit's loan.
2. Other assets were realised as follows: Stock Rs. 5,000 | Debtors Rs. 18,500 | Furniture Rs. 4,500 | Plant Rs. 25,000.
3. Expenses on realisation amounted to Rs. 1,600.
4. Creditors agreed to accept Rs. 37,000 as final settlement.

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

SOLUTION

Given: Profit-sharing ratio Surjit : Rahi = 3 : 2.

Step 1 — Preliminary adjustments before Realisation.
Reserve (15,000) credited to partners: Surjit 15,000 × 3/5 = Rs. 9,000; Rahi 15,000 × 2/5 = Rs. 6,000.
P&L debit balance (loss, 7,500) charged to partners: Surjit 7,500 × 3/5 = Rs. 4,500; Rahi 7,500 × 2/5 = Rs. 3,000.

Step 2 — Mrs. Surjit's Loan: Surjit agrees to pay it personally.
Entry: Dr Mrs. Surjit's Loan 10,000, Cr Surjit's Capital 10,000.
(This does not pass through Realisation A/c; Surjit gets credit for assuming the firm's liability.)

Step 3 — Realisation Account.
Assets transferred (Dr): Stock 6,000 + Debtors 19,000 + Furniture 4,000 + Plant 28,000 + Investment 10,000 = Rs. 67,000.
Cash proceeds (Cr): Stock 5,000 + Debtors 18,500 + Furniture 4,500 + Plant

25,000 = Rs. 53,000.
Surjit takes Investment at Rs. 8,000: Dr Surjit Capital 8,000, Cr Realisation 8,000.
Creditors paid: Rs. 37,000 cash (discount Rs. 1,000).
Expenses: Rs. 1,600 cash.

Dr side: Assets 67,000 + Creditors paid 37,000 + Expenses 1,600 = Rs. 1,05,600.
Cr side (before loss): Creditors transferred 38,000 + Cash (assets) 53,000 + Surjit Capital (invest.) 8,000 = Rs. 99,000.
Loss on Realisation = 1,05,600 − 99,000 = Rs. 6,600.
Python check: 105600 − 99000 = 6,600 ✓

Step 4 — Distribute loss (3:2).
Surjit (3/5): 6,600 × 3/5 = Rs. 3,960.
Rahi (2/5): 6,600 × 2/5 = Rs. 2,640.

Realisation Account

Dr. Particulars	Rs.	Cr. Particulars	Rs.
To Stock A/c	6,000	By Creditors A/c	38,000
To Debtors A/c	19,000	By Cash A/c (Stock)	5,000
To Furniture A/c	4,000	By Cash A/c (Debtors)	18,500
To Plant A/c	28,000	By Cash A/c (Furniture)	4,500
To Investment A/c	10,000	By Cash A/c (Plant)	25,000
To Cash A/c (Creditors paid)	37,000	By Surjit's Capital (Investment)	8,000
To Cash A/c (Expenses)	1,600	By Loss transferred:	
		Surjit's Capital (3/5)	3,960
		Rahi's Capital (2/5)	2,640
	1,05,600		1,05,600

Partners' Capital Accounts

Dr. Particulars	Surjit (Rs.)	Rahi (Rs.)	Cr. Particulars	Surjit (Rs.)	Rahi (Rs.)
To P&L A/c (Dr balance)	4,500	3,000	By Balance b/d	10,000	8,000
To Investment A/c	8,000	—	By Reserve A/c	9,000	6,000
To Realisation (loss)	3,960	2,640	By Mrs. Surjit's Loan A/c	10,000	—
To Bank A/c	12,540	8,360			
	29,000	14,000		29,000	14,000

Rahi's Loan Account

Dr. Particulars	Rs.	Cr. Particulars	Rs.
To Bank A/c	5,000	By Balance b/d	5,000

Bank Account

Dr. Particulars	Rs.	Cr. Particulars	Rs.
To Balance b/d	11,500	By Realisation A/c (Creditors)	37,000
To Realisation A/c (assets)	53,000	By Realisation A/c (Expenses)	1,600
		By Rahi's Loan A/c	5,000
		By Surjit's Capital A/c	12,540
		By Rahi's Capital A/c	8,360
	64,500		64,500

Verification: Bank Dr = 11,500 + 53,000 = 64,500 ✓; Bank Cr = 37,000 + 1,600 + 5,000 + 12,540 + 8,360 = 64,500 ✓

Q14 Rita, Geeta and Ashish were partners in a firm sharing profits/losses in the ratio of 3:2:1. On March 31, 2017 their Balance Sheet was as follows:

Liabilities: Capital — Rita 80,000 | Capital — Geeta 50,000 | Capital — Ashish 30,000 (total 1,60,000) | Creditors 65,000 | Bills Payable 26,000 | General Reserve 20,000 | Total 2,71,000

Assets: Cash 22,500 | Debtors 52,300 | Stock 36,000 | Investments 69,000 | Plant 91,200 | Total 2,71,000

On the above date the firm was dissolved:
1. Rita was appointed to realise the assets. Rita was to receive 5% commission on the sale of assets (except cash) and was to bear all expenses of realisation.
2. Assets were realised as follows: Debtors Rs. 30,000 | Stock Rs. 26,000 | Plant Rs. 42,750.
3. Investments were realised at 85% of book value.
4. Expenses of realisation amounted to Rs. 4,100.
5. Firm had to pay Rs. 7,200 for outstanding salary not provided for earlier.
6. Contingent liability in respect of bills discounted with the bank was also materialised and paid off Rs. 9,800.

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

SOLUTION

Given: Profit-sharing ratio Rita : Geeta : Ashish = 3 : 2 : 1.

Step 1 — Preliminary adjustments.
General Reserve (20,000) credited to partners:
Rita (3/6 = 1/2): Rs. 10,000 | Geeta (2/6 = 1/3): Rs. 6,666.67 | Ashish (1/6): Rs. 3,333.33.

Step 2 — Rita's commission and expenses.
Assets realised (except cash): Debtors 30,000 + Stock 26,000 + Plant 42,750 + Investments (85% of 69,000 = 58,650) = Rs. 1,57,400.
Rita's commission = 5% of Rs. 1,57,400 = Rs. 7,870.
Entry: Dr Realisation A/c 7,870, Cr Rita's Capital 7,870.
Expenses borne by Rita personally (Rs. 4,100) — do NOT pass through firm's books.
(Rita bears her own expenses; the firm's Cash Account is not debited.)

Step 3 — Realisation Account.
Assets transferred (Dr): Debtors 52,300 + Stock 36,000 + Investments 69,000 + Plant 91,200 = Rs. 2,48,500.
Additional Dr entries: Outstanding salary 7,200 + Contingent liability 9,800 + Rita's commission 7,870.
Total Dr = 2,48,500 + 7,200 + 9,800 + 7,870 = Rs. 2,73,370.

Cash received from asset realisations (Cr): Debtors 30,000 + Stock 26,000 + Plant 42,750 + Investments 58,650 = Rs. 1,57,400.
Total Cr (before loss) = 1,57,400.
Loss on Realisation = 2,73,370 − 1,57,400 = Rs. 1,15,970.
Python verification: (52,300−30,000)+(36,000−26,000)+(91,200−42,750)+(69,000−58,650) = 22,300+10,000+48,450+10,350 = 91,100 (asset losses) + 7,200+9,800+7,870 = 24,870 (additional) = 1,15,970 ✓

Step 4 — Distribute loss (3:2:1).
Rita (3/6): 1,15,970/2 = Rs. 57,985.
Geeta (2/6): 1,15,970/3 = Rs. 38,656.67.
Ashish (1/6): 1,15,970/6 = Rs. 19,328.33.

Realisation Account

Dr. Particulars	Rs.	Cr. Particulars	Rs.
To Debtors A/c	52,300	By Cash A/c (Debtors)	30,000
To Stock A/c	36,000	By Cash A/c (Stock)	26,000
To Investments A/c	69,000	By Cash A/c (Plant)	42,750
To Plant A/c	91,200	By Cash A/c (Investments)	58,650
To Cash A/c (Outstanding salary)	7,200	By Loss transferred:	
To Cash A/c (Contingent liability)	9,800	Rita's Capital (3/6)	57,985
To Rita's Capital A/c (Commission)	7,870	Geeta's Capital (2/6)	38,656.67
		Ashish's Capital (1/6)	19,328.33
	2,73,370		2,73,370

Partners' Capital Accounts

Dr. Particulars	Rita (Rs.)	Geeta (Rs.)	Ashish (Rs.)	Cr. Particulars	Rita (Rs.)	Geeta (Rs.)	Ashish (Rs.)
To Realisation (loss)	57,985	38,656.67	19,328.33	By Balance b/d	80,000	50,000	30,000
To Cash A/c	39,885	18,010	14,005	By General Reserve	10,000	6,666.67	3,333.33
				By Realisation (commission)	7,870	—	—
	97,870	56,666.67	33,333.33		97,870	56,666.67	33,333.33

Cash Account

Dr. Particulars	Rs.	Cr. Particulars	Rs.
To Balance b/d	22,500	By Creditors A/c	65,000
To Realisation A/c (Debtors)	30,000	By Bills Payable A/c	26,000
To Realisation A/c (Stock)	26,000	By Realisation A/c (Salary)	7,200
To Realisation A/c (Plant)	42,750	By Realisation A/c (Contingent)	9,800
To Realisation A/c (Investments)	58,650	By Rita's Capital A/c	39,885
		By Geeta's Capital A/c	18,010
		By Ashish's Capital A/c	14,005
	1,79,900		1,79,900

Verification: Cash Dr = 22,500+30,000+26,000+42,750+58,650 = 1,79,900 ✓; Cash Cr = 65,000+26,000+7,200+9,800+39,885+18,010+14,005 = 1,79,900 ✓

Q15 Anup and Sumit are equal partners in a firm. They decided to dissolve the partnership on March 31, 2017. The Balance Sheet is as under:

Liabilities: Sundry Creditors 27,000 | General Reserve 10,000 | Loan 40,000 | Capital — Anup 60,000 | Capital — Sumit 60,000 | Total 1,97,000

Assets: Cash at Bank 11,000 | Sundry Debtors 12,000 | Plants 47,000 | Stock 42,000 | Lease Hold Land 60,000 | Furniture 25,000 | Total 1,97,000

The Assets were realised as follows: Lease Hold Land Rs. 72,000 | Furniture Rs. 22,500 | Stock Rs. 40,500 | Plant Rs. 48,000 | Sundry Debtors Rs. 10,500.

The Creditors were paid Rs. 25,500 in full settlement. Expenses of realisation amount to Rs. 2,500.

Prepare Realisation Account, Bank Account, Partners' Capital Accounts to close the books of the firm.

SOLUTION

Given: Anup and Sumit are EQUAL partners (ratio 1:1).

Step 1 — General Reserve distributed equally.
Anup: Rs. 5,000 | Sumit: Rs. 5,000.

Step 2 — Realisation Account.
Assets transferred (Dr): Debtors 12,000 + Plants 47,000 + Stock 42,000 + Lease Hold Land 60,000 + Furniture 25,000 = Rs. 1,86,000.
Cash to Creditors (Dr): Rs. 25,500 (full settlement; discount = 27,000 − 25,500 = Rs. 1,500).
Cash Expenses (Dr): Rs. 2,500.
Total Dr = 1,86,000 + 25,500 + 2,500 = Rs. 2,14,000.

Creditors transferred (Cr): Rs. 27,000.
Cash realised (Cr): Lease Hold Land 72,000 + Furniture 22,500 + Stock 40,500 + Plant 48,000 + Debtors 10,500 = Rs. 1,93,500.
Total Cr (before profit) = 27,000 + 1,93,500 = Rs. 2,20,500.
Profit on Realisation = 2,20,500 − 2,14,000 = Rs. 6,500.
Python check: 220500 − 214000 = 6,500 ✓

Step 3 — Distribute profit equally.

Anup: Rs. 3,250 | Sumit: Rs. 3,250.

Realisation Account

Dr. Particulars	Rs.	Cr. Particulars	Rs.
To Sundry Debtors A/c	12,000	By Sundry Creditors A/c	27,000
To Plants A/c	47,000	By Bank A/c (Lease Hold Land)	72,000
To Stock A/c	42,000	By Bank A/c (Furniture)	22,500
To Lease Hold Land A/c	60,000	By Bank A/c (Stock)	40,500
To Furniture A/c	25,000	By Bank A/c (Plant)	48,000
To Bank A/c (Creditors)	25,500	By Bank A/c (Debtors)	10,500
To Bank A/c (Expenses)	2,500	By Profit transferred:	
		Anup's Capital (1/2)	3,250
		Sumit's Capital (1/2)	3,250
	2,14,000		2,14,000 + 6,500 = 2,20,500

Partners' Capital Accounts

Dr. Particulars	Anup (Rs.)	Sumit (Rs.)	Cr. Particulars	Anup (Rs.)	Sumit (Rs.)
To Bank A/c	68,250	68,250	By Balance b/d	60,000	60,000
			By General Reserve	5,000	5,000
			By Realisation (profit)	3,250	3,250
	68,250	68,250		68,250	68,250

Bank Account

Dr. Particulars	Rs.	Cr. Particulars	Rs.
To Balance b/d	11,000	By Realisation A/c (Creditors)	25,500
To Realisation A/c (assets)	1,93,500	By Realisation A/c (Expenses)	2,500
		By Loan A/c	40,000
		By Anup's Capital A/c	68,250
		By Sumit's Capital A/c	68,250
	2,04,500		2,04,500

Verification: Bank Dr = 11,000+1,93,500 = 2,04,500 ✓; Bank Cr = 25,500+2,500+40,000+68,250+68,250 = 2,04,500 ✓

Q16 Ashu and Harish are partners sharing profit and losses as 3:2. They decided to dissolve the firm on March 31, 2017. Their Balance Sheet on the above date was:

Liabilities: Capital — Ashu 1,08,000 | Capital — Harish 54,000 (total 1,62,000) | Creditors 88,000 | Bank Overdraft 50,000 | Total 3,00,000

Assets: Building 80,000 | Machinery 70,000 | Furniture 14,000 | Stock 20,000 | Investments 60,000 | Debtors 48,000 | Cash in Hand 8,000 | Total 3,00,000

Ashu is to take over the Building at Rs. 95,000 and Harish is to take over Machinery and Furniture at a total value of Rs. 80,000. Ashu agreed to pay Creditors and Harish agreed to meet Bank Overdraft. Stock and Investments are taken by both partners in their profit-sharing ratio. Debtors realised Rs. 46,000; expenses of realisation amounted to Rs. 3,000.

Prepare necessary ledger accounts.

SOLUTION

Given: Profit-sharing ratio Ashu : Harish = 3 : 2.

Step 1 — Allocation of Stock and Investments between partners.
Stock + Investments = 20,000 + 60,000 = Rs. 80,000.

Ashu (3/5): 80,000 × 3/5 = Rs. 48,000.
Harish (2/5): 80,000 × 2/5 = Rs. 32,000.

Step 2 — Partners assume firm liabilities.
Ashu pays Creditors (88,000): Dr Realisation 88,000, Cr Ashu's Capital 88,000.
Harish meets Bank Overdraft (50,000): Dr Realisation 50,000, Cr Harish's Capital 50,000.
(Note: these appear on BOTH sides of Realisation and net to zero — they do not affect profit/loss.)

Step 3 — Realisation Account (with netting of assumed liabilities).
Assets transferred (Dr): Building 80,000 + Machinery 70,000 + Furniture 14,000 + Stock 20,000 + Investments 60,000 + Debtors 48,000 = Rs. 2,92,000.
Expenses (Dr): Rs. 3,000.
Total Dr (net, liabilities cancel) = Rs. 2,95,000.

Ashu takes Building at 95,000: Cr Realisation 95,000, Dr Ashu Capital 95,000.
Harish takes Machinery+Furniture at 80,000: Cr Realisation 80,000, Dr Harish Capital 80,000.
Ashu takes Stock+Inv (48,000): Cr Realisation 48,000, Dr Ashu Capital 48,000.
Harish takes Stock+Inv (32,000): Cr Realisation 32,000, Dr Harish Capital 32,000.
Debtors realised in cash: Rs. 46,000.
Total Cr (net) = 95,000+80,000+48,000+32,000+46,000 = Rs. 3,01,000.
Profit on Realisation = 3,01,000 − 2,95,000 = Rs. 6,000.
Python check: 301000 − 295000 = 6,000 ✓

Step 4 — Distribute profit (3:2).
Ashu (3/5): 6,000 × 3/5 = Rs. 3,600.
Harish (2/5): 6,000 × 2/5 = Rs. 2,400.

Step 5 — Partners' Capital Accounts.
Ashu Cr side: Opening 1,08,000 + Profit 3,600 + Creditors assumed 88,000 = Rs. 1,99,600.
Ashu Dr side: Building 95,000 + Stock/Inv 48,000 = Rs. 1,43,000. Cash to Ashu = 1,99,600 − 1,43,000 = Rs. 56,600.
Harish Cr side: Opening 54,000 + Profit 2,400 + Bank OD assumed 50,000 = Rs. 1,06,400.
Harish Dr side: Mach+Furn 80,000 + Stock/Inv 32,000 = Rs. 1,12,000.
Harish capital = 1,06,400 − 1,12,000 = −Rs. 5,600 (deficiency — Harish must pay Rs. 5,600 to firm).

Realisation Account

Dr. Particulars	Rs.	Cr. Particulars	Rs.
To Building A/c	80,000	By Ashu's Capital A/c (Building)	95,000
To Machinery A/c	70,000	By Harish's Capital A/c (M+F)	80,000
To Furniture A/c	14,000	By Ashu's Capital A/c (Stock+Inv)	48,000
To Stock A/c	20,000	By Harish's Capital A/c (Stock+Inv)	32,000
To Investments A/c	60,000	By Cash A/c (Debtors)	46,000
To Debtors A/c	48,000	By Profit transferred:	
To Cash A/c (Expenses)	3,000	Ashu's Capital (3/5)	3,600
		Harish's Capital (2/5)	2,400
	2,95,000		2,95,000 + 6,000 = 3,01,000

Partners' Capital Accounts

Dr. Particulars	Ashu (Rs.)	Harish (Rs.)	Cr. Particulars	Ashu (Rs.)	Harish (Rs.)
To Realisation A/c (assets taken)	1,43,000	1,12,000	By Balance b/d	1,08,000	54,000
To Cash A/c	56,600	—	By Realisation (profit)	3,600	2,400
			By Creditors (Ashu)	88,000	—

Dr. Particulars	Ashu (Rs.)	Harish (Rs.)	Cr. Particulars	Ashu (Rs.)	Harish (Rs.)
			By Bank OD (Harish)	—	50,000
	1,99,600	1,12,000	By Cash A/c (deficiency)	—	5,600
				1,99,600	1,12,000

Cash/Bank Account

Dr. Particulars	Rs.	Cr. Particulars	Rs.
To Balance b/d	8,000	By Realisation A/c (Expenses)	3,000
To Realisation A/c (Debtors)	46,000	By Ashu's Capital A/c	56,600
To Harish's Capital A/c (deficiency)	5,600		
	59,600		59,600

Verification: Cash Dr = 8,000+46,000+5,600 = 59,600 ✓; Cash Cr = 3,000+56,600 = 59,600 ✓

Q17 Sanjay, Tarun and Vineet shared profit in the ratio of 3:2:1. On March 31, 2017 their Balance Sheet was as follows:

Liabilities: Capital — Sanjay 1,00,000 | Capital — Tarun 1,00,000 | Capital — Vineet 70,000 (total 2,70,000) | Creditors 80,000 | Bills Payable 30,000 | Total 3,80,000

Assets: Plant 90,000 | Debtors 60,000 | Furniture 32,000 | Stock 60,000 | Investments 70,000 | Bills Receivable 36,000 | Cash in Hand 32,000 | Total 3,80,000

On this date the firm was dissolved. Sanjay was appointed to realise the assets. Sanjay was to receive 6% commission on the sale of assets (except cash) and was to bear all expenses of realisation.

Sanjay realised the assets as follows: Plant Rs. 72,000 | Debtors Rs. 54,000 | Furniture Rs. 18,000 | Stock 90% of book value | Investments Rs. 76,000 | Bills Receivable Rs. 31,000. Expenses of realisation amounted to Rs. 4,500.

Prepare Realisation Account, Capital Accounts and Cash Account.

SOLUTION

Given: Profit-sharing ratio Sanjay : Tarun : Vineet = 3 : 2 : 1.

Step 1 — Compute assets realised.
Plant 72,000 + Debtors 54,000 + Furniture 18,000 + Stock (90% of 60,000 = 54,000) + Investments 76,000 + Bills Receivable 31,000 = Rs. 3,05,000.

Step 2 — Sanjay's commission.
Commission = 6% of Rs. 3,05,000 = Rs. 18,300.
Entry: Dr Realisation A/c 18,300, Cr Sanjay's Capital A/c 18,300.
Expenses (Rs. 4,500) borne by Sanjay personally — do NOT pass through firm's books.

Step 3 — Realisation Account.
Assets transferred (Dr): Plant 90,000 + Debtors 60,000 + Furniture 32,000 + Stock 60,000 + Investments 70,000 + BR 36,000 = Rs. 3,48,000.
Commission to Sanjay (Dr): Rs. 18,300.
Total Dr = 3,48,000 + 18,300 = Rs. 3,66,300.

Cash realised (Cr): Rs. 3,05,000.

Sanjay Capital (commission Cr): Rs. 18,300.
Loss on Realisation = 3,66,300 − (3,05,000 + 18,300) = 3,66,300 − 3,23,300 = Rs. 43,000.

Note on NCERT answer: NCERT states loss = Rs. 61,300. That figure omits the commission from the Cr side
(treating commission as a pure cost without a Cr entry in Realisation). In that treatment:
Dr = 3,48,000 + 18,300 = 3,66,300; Cr = 3,05,000 (cash only); Loss = 61,300.
Partners' capital amounts (Sanjay 87,650, Tarun 79,567, Vineet 59,783) reconcile with loss = 61,300:

Sanjay: 1,00,000 + 18,300 (commission) − 61,300×3/6 (30,650) = 87,650 ✓
Tarun: 1,00,000 − 61,300×2/6 = 79,567 (rounded) ✓
Vineet: 70,000 − 61,300×1/6 = 59,783 (rounded) ✓

Loss used below = Rs. 61,300 (matching NCERT's format where commission appears only on Dr side).

Loss distribution (3:2:1):
Sanjay (3/6): 61,300/2 = Rs. 30,650.
Tarun (2/6): 61,300/3 = Rs. 20,433 (rounded to Rs. 20,433).
Vineet (1/6): 61,300/6 = Rs. 10,217 (rounded to Rs. 10,217).

Realisation Account

Dr. Particulars	Rs.	Cr. Particulars	Rs.
To Plant A/c	90,000	By Cash A/c (Plant)	72,000
To Debtors A/c	60,000	By Cash A/c (Debtors)	54,000
To Furniture A/c	32,000	By Cash A/c (Furniture)	18,000
To Stock A/c	60,000	By Cash A/c (Stock)	54,000
To Investments A/c	70,000	By Cash A/c (Investments)	76,000
To Bills Receivable A/c	36,000	By Cash A/c (Bills Receivable)	31,000
To Sanjay's Capital A/c (commission)	18,300	By Loss transferred:	
		Sanjay's Capital (3/6)	30,650
		Tarun's Capital (2/6)	20,433

Dr. Particulars	Rs.	Cr. Particulars	Rs.
		Vineet's Capital (1/6)	10,217
	3,66,300		3,66,300

Partners' Capital Accounts

Dr. Particulars	Sanjay (Rs.)	Tarun (Rs.)	Vineet (Rs.)	Cr. Particulars	Sanjay (Rs.)	Tarun (Rs.)	Vineet (Rs.)
To Realisation (loss)	30,650	20,433	10,217	By Balance b/d	1,00,000	1,00,000	70,000
To Cash A/c	87,650	79,567	59,783	By Realisation (commission)	18,300	—	—
	1,18,300	1,00,000	70,000		1,18,300	1,00,000	70,000

Cash Account

Dr. Particulars	Rs.	Cr. Particulars	Rs.
To Balance b/d	32,000	By Creditors A/c	80,000
To Realisation A/c (assets)	3,05,000	By Bills Payable A/c	30,000
		By Sanjay's Capital A/c	87,650
		By Tarun's Capital A/c	79,567
		By Vineet's Capital A/c	59,783
	3,37,000		3,37,000

Verification: Cash Dr = 32,000+3,05,000 = 3,37,000 ✓; Cash Cr = 80,000+30,000+87,650+79,567+59,783 = 3,37,000 ✓

Q18 The following is the Balance Sheet of Gupta and Sharma as on March 31, 2017:

Liabilities: Sundry Creditors 38,000 | Mrs. Gupta's Loan 20,000 | Mrs. Sharma's Loan 30,000 | General Reserve 6,000 | Provision for Doubtful Debts 4,000 | Capital — Gupta 90,000 | Capital — Sharma 60,000 | Total 2,48,000

Assets: Cash at Bank 12,500 | Sundry Debtors 55,000 | Stock 44,000 | Bills Receivable 19,000 | Machinery 52,000 | Investment 38,500 | Fixtures 27,000 | Total 2,48,000

The firm was dissolved on December 31, 2017 and assets realised / liabilities settled as follows:
(a) Assets realised: Sundry Debtors Rs. 52,000 | Stock Rs. 42,000 | Bills Receivable Rs. 16,000 | Machinery Rs. 49,000 | Fixtures Rs. 20,000.
(b) Investment taken over by Gupta at agreed value of Rs. 36,000; Gupta also agreed to pay off Mrs. Gupta's Loan.
(c) Sundry Creditors paid off at 3% discount.
(d) Realisation expenses incurred Rs. 1,200.

Journalise the entries to be made on the dissolution and prepare Realisation Account, Bank Account and Partners' Capital Accounts.

SOLUTION

Given: Gupta and Sharma are EQUAL partners (ratio 1:1, as implied by the problem).

Step 1 — Preliminary adjustments.
General Reserve (6,000) credited equally: Gupta Rs. 3,000 | Sharma Rs. 3,000.

Step 2 — Mrs. Gupta's Loan: Gupta agrees to pay it personally.
Entry: Dr Mrs. Gupta's Loan A/c 20,000, Cr Gupta's Capital A/c 20,000.
(Gupta gets credit in Capital for assuming the firm's liability; does not pass through Cash.)

Step 3 — Realisation Account.
Assets transferred (Dr): Debtors 55,000 + Stock 44,000 + BR 19,000 + Machinery 52,000 + Investment 38,500 + Fixtures 27,000 = Rs. 2,35,500.
Cash to Creditors at 3% discount: 38,000 × 0.97 = Rs. 36,860 (Dr Realisation).

Cash Expenses (Dr): Rs. 1,200.
Total Dr = 2,35,500 + 36,860 + 1,200 = Rs. 2,73,560.

Provision for DD transferred (Cr): Rs. 4,000.
Creditors transferred (Cr): Rs. 38,000.
Gupta's Capital (Investment taken at 36,000): Cr Realisation 36,000.
Cash realised (Cr): 52,000+42,000+16,000+49,000+20,000 = Rs. 1,79,000.
Total Cr (before loss) = 4,000 + 38,000 + 36,000 + 1,79,000 = Rs. 2,57,000.
Loss on Realisation = 2,73,560 − 2,57,000 = Rs. 16,560.
Python check: 273560 − 257000 = 16,560 ✓

Note: NCERT answer hint states Rs. 36,560. The textbook hint appears to have a misprint —
computed loss is Rs. 16,560 (difference = Rs. 20,000 = Mrs. Gupta's Loan, which does not pass through Realisation).
Partners' cash amounts (Gupta 68,720; Sharma 54,720) and Cash A/c total (1,91,500) are consistent only with loss = Rs. 16,560.

Step 4 — Distribute loss equally.
Gupta: 16,560/2 = Rs. 8,280 | Sharma: 16,560/2 = Rs. 8,280.

Journal Entries

1. Dr Realisation A/c 2,35,500	Cr Debtors 55,000 + Stock 44,000 + BR 19,000 + Mach 52,000 + Inv 38,500 + Fix 27,000 (Transfer assets)	
2. Dr Creditors 38,000	Dr Prov DD 4,000	Cr Realisation A/c 42,000 (Transfer liabilities)
3. Dr Bank A/c 1,79,000	Cr Realisation A/c 1,79,000 (Assets realised in cash)	
4. Dr Gupta's Capital 36,000	Cr Realisation A/c 36,000 (Investment taken by Gupta)	

1. Dr Realisation A/c 2,35,500	Cr Debtors 55,000 + Stock 44,000 + BR 19,000 + Mach 52,000 + Inv 38,500 + Fix 27,000 (Transfer assets)	
5. Dr Realisation A/c 36,860	Cr Bank A/c 36,860 (Creditors paid at discount)	
6. Dr Realisation A/c 1,200	Cr Bank A/c 1,200 (Expenses paid)	
7. Dr Mrs. Gupta's Loan 20,000	Cr Gupta's Capital 20,000 (Gupta assumes Mrs. Gupta's loan)	
8. Dr Mrs. Sharma's Loan 30,000	Cr Bank A/c 30,000 (Firm pays Mrs. Sharma's loan)	
9. Dr Gupta's Capital 8,280	Dr Sharma's Capital 8,280	Cr Realisation A/c 16,560 (Loss distribution)
10. Dr Gupta's Capital 68,720	Dr Sharma's Capital 54,720	Cr Bank A/c 1,23,440 (Partners paid off)

Realisation Account

Dr. Particulars	Rs.	Cr. Particulars	Rs.
To Debtors A/c	55,000	By Provision for DD A/c	4,000
To Stock A/c	44,000	By Creditors A/c	38,000
To Bills Receivable A/c	19,000	By Gupta's Capital (Investment)	36,000

Dr. Particulars	Rs.	Cr. Particulars	Rs.
To Machinery A/c	52,000	By Bank A/c (assets realised)	1,79,000
To Investment A/c	38,500	By Loss transferred:	
To Fixtures A/c	27,000	Gupta's Capital (1/2)	8,280
To Bank A/c (Creditors paid)	36,860	Sharma's Capital (1/2)	8,280
To Bank A/c (Expenses)	1,200		
	2,73,560		2,73,560

Partners' Capital Accounts

Dr. Particulars	Gupta (Rs.)	Sharma (Rs.)	Cr. Particulars	Gupta (Rs.)	Sharma (Rs.)
To Investment A/c	36,000	—	By Balance b/d	90,000	60,000
To Realisation (loss)	8,280	8,280	By General Reserve	3,000	3,000
To Bank A/c	68,720	54,720	By Mrs. Gupta's Loan	20,000	—
	1,13,000	63,000		1,13,000	63,000

Bank Account

Dr. Particulars	Rs.	Cr. Particulars	Rs.
To Balance b/d	12,500	By Realisation A/c (Creditors)	36,860
To Realisation A/c (assets)	1,79,000	By Realisation A/c (Expenses)	1,200
		By Mrs. Sharma's Loan A/c	30,000
		By Gupta's Capital A/c	68,720
		By Sharma's Capital A/c	54,720
	1,91,500		1,91,500

Verification: Bank Dr = 12,500+1,79,000 = 1,91,500 ✓; Bank Cr = 36,860+1,200+30,000+68,720+54,720 = 1,91,500 ✓

Q19 Ashok, Babu and Chetan are in partnership sharing profit in the proportion of 1/2, 1/3, 1/6 respectively. They dissolve the partnership on December 31, 2017, when the Balance Sheet of the firm is as under:

Liabilities: Sundry Creditors 20,000 | Bills Payable 25,500 | Chetan's Loan 30,000 | Capital — Ashok 70,000 | Capital — Babu 55,000 | Capital — Chetan 27,000 (total 1,52,000) | Current A/c — Ashok 10,000 (Cr) | Current A/c — Babu 5,000 (Cr) | Current A/c — Chetan 3,000 (Cr) | Total 2,45,500

Assets: Bank 7,500 | Sundry Debtors 58,000 | Stock 39,500 | Machinery 48,000 | Investment 42,000 | Freehold Property 50,500 | Total 2,45,500

The machinery was taken over by Babu for Rs. 45,000; Ashok took over the Investment for Rs. 40,000; Freehold Property taken over by Chetan at Rs. 55,000. The remaining assets realised: Sundry Debtors Rs. 56,500 and Stock Rs. 36,500. Sundry Creditors were settled at a discount of 7%. A Office computer, not shown in the books of accounts, realised Rs. 9,000. Realisation expenses amounted to Rs. 3,000.

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

SOLUTION

Given: Profit-sharing ratio Ashok : Babu : Chetan = 1/2 : 1/3 : 1/6 = 3 : 2 : 1.

Step 1 — Cash realised.
Sundry Debtors 56,500 + Stock 36,500 + Unrecorded computer 9,000 = Rs. 1,02,000.

Step 2 — Creditors settled at 7% discount.
Cash paid to creditors = 20,000 × 0.93 = Rs. 18,600.

Step 3 — Realisation Account.
Assets transferred (Dr): Debtors 58,000 + Stock 39,500 + Machinery 48,000 + Investment 42,000 + Freehold 50,500 = Rs. 2,38,000.
Cash to Creditors (Dr): Rs. 18,600.
Cash Expenses (Dr): Rs. 3,000.

Total Dr = 2,38,000 + 18,600 + 3,000 = Rs. 2,59,600.

Creditors transferred (Cr): Rs. 20,000.
Cash realised in cash (Cr): Rs. 1,02,000.
Babu's Capital (Machinery 45,000): Cr Rs. 45,000.
Ashok's Capital (Investment 40,000): Cr Rs. 40,000.
Chetan's Capital (Freehold 55,000): Cr Rs. 55,000.
Total Cr (before profit) = 20,000 + 1,02,000 + 45,000 + 40,000 + 55,000 = Rs. 2,62,000.
Profit on Realisation = 2,62,000 − 2,59,600 = Rs. 2,400.
Python check: 262000 − 259600 = 2,400 ✓

Step 4 — Distribute profit (3:2:1).
Ashok (3/6 = 1/2): Rs. 1,200. | Babu (2/6 = 1/3): Rs. 800. | Chetan (1/6): Rs. 400.

Step 5 — Partners' Capital/Current Accounts (combined).
Ashok: Opening Capital 70,000 + Current A/c 10,000 + Profit 1,200 − Investment taken 40,000 = Rs. 41,200 (cash to Ashok).
Babu: Opening Capital 55,000 + Current A/c 5,000 + Profit 800 − Machinery taken 45,000 = Rs. 15,800 (cash to Babu).
Chetan: Opening Capital 27,000 + Current A/c 3,000 + Profit 400 − Freehold taken 55,000 = −Rs. 24,600 (deficiency).

Chetan's Loan (30,000) set off against Chetan's deficiency (24,600):
Net paid to Chetan for his loan = 30,000 − 24,600 = Rs. 5,400.

Note: NCERT hint shows Ashok = Rs. 41,800. Our computed value is Rs. 41,200 (difference of Rs. 600 is a likely misprint in the textbook's answer key). All other figures — Profit Rs. 2,400, Babu Rs. 15,800, Chetan's loan paid Rs. 5,400 — agree with the NCERT hint.

Realisation Account

Dr. Particulars	Rs.	Cr. Particulars	Rs.
To Sundry Debtors A/c	58,000	By Sundry Creditors A/c	20,000
To Stock A/c	39,500	By Bank A/c (Debtors)	56,500
To Machinery A/c	48,000	By Bank A/c (Stock)	36,500
To Investment A/c	42,000	By Bank A/c (Computer)	9,000

Dr. Particulars	Rs.	Cr. Particulars	Rs.
To Freehold Property A/c	50,500	By Babu's Capital A/c (Machinery)	45,000
To Bank A/c (Creditors — net)	18,600	By Ashok's Capital A/c (Investment)	40,000
To Bank A/c (Expenses)	3,000	By Chetan's Capital A/c (Freehold)	55,000
		By Profit transferred:	
		Ashok's Capital (3/6)	1,200
		Babu's Capital (2/6)	800
		Chetan's Capital (1/6)	400
	2,59,600		2,59,600 + 2,400 = 2,62,000

Partners' Capital Accounts

Dr. Particulars	Ashok (Rs.)	Babu (Rs.)	Chetan (Rs.)	Cr. Particulars	Ashok (Rs.)	Babu (Rs.)	Chetan (Rs.)
To Investment/Mach/Freehold	40,000	45,000	55,000	By Capital b/d	70,000	55,000	27,000
To Chetan's Loan A/c (deficit)	—	—	24,600	By Current A/c	10,000	5,000	3,000
To Bank A/c	41,200	15,800	—	By Realisation (profit)	1,200	800	400
	81,200	60,800	79,600		81,200	60,800	30,400

Chetan's Loan Account

Dr. Particulars	Rs.	Cr. Particulars	Rs.
To Chetan's Capital A/c (deficit set off)	24,600	By Balance b/d	30,000
To Bank A/c (partial payment)	5,400		
	30,000		30,000

Bank Account

Dr. Particulars	Rs.	Cr. Particulars	Rs.
To Balance b/d	7,500	By Bills Payable A/c	25,500
To Realisation A/c (assets)	1,02,000	By Realisation A/c (Creditors)	18,600
		By Realisation A/c (Expenses)	3,000
		By Chetan's Loan A/c	5,400
		By Ashok's Capital A/c	41,200
		By Babu's Capital A/c	15,800
	1,09,500		1,09,500

Verification: Bank Dr = 7,500+1,02,000 = 1,09,500 ✓; Bank Cr = 25,500+18,600+3,000+5,400+41,200+15,800 = 1,09,500 ✓

Q20 The following is the Balance Sheet of Tanu and Manu, who share profit and losses in the ratio of 5:3, on March 31, 2017:

Liabilities: Sundry Creditors 62,000 | Bills Payable 32,000 | Bank Loan 50,000 | General Reserve 16,000 | Capital — Tanu 1,10,000 | Capital — Manu 90,000 | Total 3,60,000

Assets: Cash at Bank 16,000 | Sundry Debtors 55,000 | Stock 75,000 | Motor Car 90,000 | Machinery 45,000 | Investment 70,000 | Fixtures 9,000 | Total 3,60,000

On the above date the firm is dissolved and the following agreement was made: Tanu agreed to pay the bank loan and took away the Sundry Debtors (at book value). Sundry Creditors accepted the Stock and paid Rs. 10,000 to the firm. Machinery is taken over by Manu for Rs. 40,000 and Manu agreed to pay Bills Payable at a discount of 5%. Motor Car was taken over by Tanu for Rs. 60,000. Investment realised Rs. 76,000 and Fixtures Rs. 4,000. The expenses of dissolution amounted to Rs. 2,200.

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

SOLUTION

Given: Profit-sharing ratio Tanu : Manu = 5 : 3.

Step 1 — General Reserve distributed (5:3).
Tanu (5/8): 16,000 × 5/8 = Rs. 10,000.
Manu (3/8): 16,000 × 3/8 = Rs. 6,000.

Step 2 — Partners assume firm liabilities.
Tanu pays Bank Loan (50,000): Dr Bank Loan A/c 50,000, Cr Tanu's Capital 50,000.
Manu pays Bills Payable at 5% discount — amount actually paid = 32,000 × 0.95 = Rs. 30,400.
Entry: Dr Realisation A/c 30,400, Cr Manu's Capital 30,400.
(BP transferred to Realisation Cr at 32,000; net Cr to Realisation = 32,000 − 30,400 = 1,600 discount gain.)

Step 3 — Cash inflows.
Creditors accept Stock (75,000) and pay Rs. 10,000 cash → firm receives Rs. 10,000.

Investment realised: Rs. 76,000.
Fixtures realised: Rs. 4,000.
Total Cash receipts from realisation (excluding opening bank) = Rs. 90,000.

Step 4 — Realisation Account.
Assets transferred (Dr): Debtors 55,000 + Stock 75,000 + Motor Car 90,000 + Machinery 45,000 + Investment 70,000 + Fixtures 9,000 = Rs. 3,44,000.
Manu assumes BP (at net 30,400) — Dr Realisation 30,400.
Expenses (Dr): Rs. 2,200.
Total Dr = 3,44,000 + 30,400 + 2,200 = Rs. 3,76,600.

Bills Payable transferred (Cr): Rs. 32,000.
Creditors transferred (Cr): Rs. 62,000.
Cash from creditors (stock settlement): Rs. 10,000.
Tanu takes Debtors at BV 55,000 (Cr Realisation): Rs. 55,000.
Tanu takes Motor Car at Rs. 60,000 (Cr Realisation): Rs. 60,000.
Manu takes Machinery at Rs. 40,000 (Cr Realisation): Rs. 40,000.
Tanu assumes Bank Loan 50,000: Dr Bank Loan A/c 50,000, Cr Tanu's Capital 50,000 (outside Realisation).
Cash from Investment 76,000 + Fixtures 4,000 = Rs. 80,000.
Total Cr (before loss) = 32,000 + 62,000 + 10,000 + 55,000 + 60,000 + 40,000 + 80,000 = Rs. 3,39,000.
Loss on Realisation = 3,76,600 − 3,39,000 = Rs. 37,600.
Python check: 376600 − 339000 = 37,600 ✓

Step 5 — Distribute loss (5:3).
Tanu (5/8): 37,600 × 5/8 = Rs. 23,500.
Manu (3/8): 37,600 × 3/8 = Rs. 14,100.

Realisation Account

Dr. Particulars	Rs.	Cr. Particulars	Rs.
To Sundry Debtors A/c	55,000	By Sundry Creditors A/c	62,000
To Stock A/c	75,000	By Bills Payable A/c	32,000
To Motor Car A/c	90,000	By Bank A/c (from Creditors)	10,000
To Machinery A/c	45,000	By Tanu's Capital A/c (Debtors)	55,000

Dr. Particulars	Rs.	Cr. Particulars	Rs.
To Investment A/c	70,000	By Tanu's Capital A/c (Motor Car)	60,000
To Fixtures A/c	9,000	By Manu's Capital A/c (Machinery)	40,000
To Manu's Capital A/c (BP at 30,400)	30,400	By Bank A/c (Investment)	76,000
To Bank A/c (Expenses)	2,200	By Bank A/c (Fixtures)	4,000
		By Loss transferred:	
		Tanu's Capital (5/8)	23,500
		Manu's Capital (3/8)	14,100
	3,76,600		3,76,600

Partners' Capital Accounts

Dr. Particulars	Tanu (Rs.)	Manu (Rs.)	Cr. Particulars	Tanu (Rs.)	Manu (Rs.)
To Debtors taken	55,000	—	By Balance b/d	1,10,000	90,000
To Motor Car taken	60,000	—	By General Reserve	10,000	6,000
To Mach taken	—	40,000	By Bank Loan assumed	50,000	—
To Realisation (loss)	23,500	14,100	By Realisation (BP assumed)	—	30,400
To Bank A/c	31,500	72,300			
	1,70,000	1,26,400		1,70,000	1,26,400

Bank Account

Dr. Particulars	Rs.	Cr. Particulars	Rs.
To Balance b/d	16,000	By Realisation A/c (Expenses)	2,200
To Realisation A/c (Creditors pay)	10,000	By Tanu's Capital A/c	31,500
To Realisation A/c (Investment)	76,000	By Manu's Capital A/c	72,300
To Realisation A/c (Fixtures)	4,000		
	1,06,000		1,06,000

Verification: Bank Dr = 16,000+10,000+76,000+4,000 = 1,06,000 ✓; Bank Cr = 2,200+31,500+72,300 = 1,06,000 ✓