## EXERCISE - 6 [PAGE 241]

## Exercise - 6 | Q 1 | Page 241

## Select the most appropriate answer from the alternative given below and rewrite the sentence.

In case of dissolution assets and liabilities are transferred to \_\_\_\_\_\_A/c.

- 1. Bank A/c
- 2. Partner's capital A/c
- 3. Realisation A/c
- Partner's current A/c
  Solution: In case of dissolution, assets and liabilities are transferred to <u>Realisation</u> A/c.

**Explanation:** All the assets (except cash or bank balances) are transferred to the debit side, whereas all the liabilities (except bank overdraft) are transferred to the credit side of Realisation Account. Thereafter, at the time of realisation, the assets so realised are shown on the credit side and the settlement of liabilities is shown on the debit side.

## Exercise - 6 | Q 2 | Page 241

#### Select the most appropriate alternative from those given below :

Dissolution expenses are credited to \_\_\_\_\_

- 1. Realisation account
- 2. Cash/Bank account
- 3. Partners' capital account
- 4. Partners' loan account

Solution: Dissolution expenses are credited to Cash/Bank account.

**Explanation:** Payment of realisation expenses results in outflow of cash. Therefore, they are credited to Cash/Bank A/c (as these lead to decrease in cash balance).

## Exercise - 6 | Q 3 | Page 241

#### Select the most appropriate alternative from those given below :

Deficiency of Insolvent partner will be suffered by solvent partners in their \_\_\_\_\_\_ ratio.





- 1. capital ratio
- 2. profit-sharing ratio
- 3. sale ratio
- 4. liquidity ratio

**Solution:** Deficiency of Insolvent partner will be suffered by solvent partners in their **profit-sharing ratio.** 

**Explanation:** If deficiency of insolvent partner (i.e. the debit balance in the insolvent partner's capital account) is treated as an ordinary loss, then this loss is to be borne by the other solvent partners in their profit-sharing ratio.

## Exercise - 6 | Q 4 | Page 241

## Select the most appropriate answer from the alternatives given below and rewrite the sentence.

If an asset is taken over by partner from firm his capital account will be \_\_\_\_\_

- 1. credited
- 2. debited
- 3. added
- 4. none of these

**Solution:** If an asset is taken over by partner from firm his capital account will be <u>debited.</u>

**Explanation:** When an asset is taken over by a partner, then the Realisation A/c is credited and the Concerned Partner's Capital A/c is debited with the agreed price at which the asset is taken over by him.

## Exercise - 6 | Q 5 | Page 241

## Select the most appropriate answer from the alternatives given below and rewrite the sentence.

If any unrecorded liability is paid on dissolution of the firm \_\_\_\_\_\_ is debited.

- 1. Cash/Bank Account
- 2. Realization Account
- 3. Partners' Capital Account
- 4. Partners' Loan Account





**Solution:** If any unrecorded liability is paid on dissolution of the firm, then **<u>Realisation</u>** account is debited.

**Explanation:** All the liabilities are paid-off by debiting the Realisation A/c. This is because all the payments are made through the Realisation Account, so that the true profits or losses can be ascertained.

#### Exercise - 6 | Q 6 | Page 241

# Select the most appropriate answer from the alternative given below and rewrite the sentence.

Partnership is completely dissolved when the partners of the firm become \_\_\_\_\_

- 1. Solvent
- 2. Insolvent
- 3. Creditor
- 4. Debtors

**Solution:** Partnership is completely dissolved when the partners of the firm become **insolvent** 

#### Exercise - 6 | Q 7 | Page 241

## Select the most appropriate answer from the alternative given below and rewrite the sentence.

Assets and liabilities are transferred to Realisation Account at their \_\_\_\_\_\_ value.

- 1. market
- 2. purchase
- 3. sale
- 4. book

**Solution:** Assets and liabilities are transferred to Realisation Account at their **book** value.

**Explanation:** In order to determine the correct amount of profit or loss on the eve of dissolution of a partnership firm, all assets and liabilities are transferred to the Realisation Account at their book values.

#### Exercise - 6 | Q 8 | Page 241





# Select the most appropriate answer from the alternatives given below and rewrite the sentence.

If the number of partners in a firm falls below two, the firm stands\_\_\_\_\_\_

- 1. dissolved
- 2. established
- 3. realisation
- 4. None of these

Solution: If the number of partners in a firm falls below two, the firm stands dissolved.

**Explanation:** As per the Indian Partnership Act of 1932, at least two people are required to form a partnership firm. Thus, if the minimum number of members falls below two, then the partnership firm gets automatically dissolved.

## Exercise - 6 | Q 9 | Page 241

## Select most appropriate answer from the alternative given below and rewrite the sentence.

Realisation account is \_\_\_\_\_\_ on realisation of assets.

- 1. Debited
- 2. Credited
- 3. Deducted
- 4. Closed

Solution: Realisation account is <u>credited</u> on realisation of assets.

## Exercise - 6 | Q 10 | Page 241

Select most appropriate answer from the alternative given below and rewrite the sentence.

All activities of partnership firm cease on \_\_\_\_\_\_ of firm.

- 1. Dissolution
- 2. Admission
- 3. Retirement
- 4. Death

Solution: All activities of partnership firm cease on dissolution of firm.





## EXERCISE - 6 [PAGE 242]

#### Exercise - 6 | Q 1 | Page 242

Give the word/term/phrase which can substitute the following statement. Debit balance of Realisation account. Solution: Debit balance of Realisation account. - Realisation Loss

#### Exercise - 6 | Q 2 | Page 242

Give the word/term/phrase which can substitute the following statement. Winding up of partnership business. Solution: Dissolution of Partnership

**Explanation:** Winding-up of partnership business is known as dissolution of partnership, which means there is a change in the business relationship among the partners but the firm may continue its business.

#### Exercise - 6 | Q 3 | Page 242

#### Give the word/term/phrase which can substitute the following statement.

An account opened to find out the Profit or Loss on realisation of Assets and settlement of Liabilities.

**Solution:** An account opened to find out the Profit or Loss on realisation of Assets and settlement of Liabilities. - **Realisation A/c** 

#### Exercise - 6 | Q 4 | Page 242

Write the word / term / phrase, which can substitute the following statement. Debit balance of an insolvent Partner's Capital Account.

**Solution:** Debit balance of an insolvent Partner's Capital Account. - **Capital Deficiency Explanation:** The debit balance of an insolvent partner's capital account is known as capital deficiency. This deficiency is to be borne by all the solvent partners in their profitsharing ratio.

#### Exercise - 6 | Q 5 | Page 242

Give the word/term/phrase which can substitute the following statement.





Credit balance of realisation Account.

Solution: Credit balance of realisation Account - Realisation Profit.

### Exercise - 6 | Q 6 | Page 242

#### Write the word / term / phrase, which can substitute the following statement.

Conversion of assets into cash on dissolution of firm.

**Solution:** Conversion of assets into cash on dissolution of firm. - **Realisation Explanation:** The procedure of converting assets into cash at the time of dissolution of a firm is termed as realisation. In this procedure, Realisation Account is opened in order to determine the correct amount of profits or losses.

#### Exercise - 6 | Q 7 | Page 242

#### Write the word / term / phrase, which can substitute the following statement.

Liability likely to arise in future on happening of certain events.

Solution: Liability likely to arise in future on happening of certain events. - Contingent Liabilities

**Explanation:** Liability likely to arise in future on happening of certain events is known as contingent liabilities. These are termed as contingent, as their occurrence is dependent upon the happening of a future event, which may or may not happen (i.e. it is uncertain). Therefore, these are not shown in a company's Balance Sheet.

#### Exercise - 6 | Q 8 | Page 242

#### Give the word/term/phrase which can substitute the following statement.

Assets which are not recorded in the books of account.

Solution: Assets which are not recorded in the books of account. - Unrecorded Assets

**Explanation:** Those assets that go unrecorded or are skipped in the books of accounts are termed as unrecorded assets. Thus, as these are unrecorded in the books, they are not transferred to the Realisation Account. However, if any unrecorded asset is taken over by any partner, then it is recorded by crediting the Realisation Account and debiting the Concerned Partner's Capital Account.

#### Exercise - 6 | Q 9 | Page 242

#### Give the word/term/phrase which can substitute the following statement.

The account which shows realisation of assets and discharge of liabilities.





Solution: The account which shows realisation of assets and discharge of liabilities. -

#### **Realisation Account**

**Explanation:** The account that shows realisation of assets and discharge of liabilities is Realisation Account. It is opened to ascertain the profit or the loss on sale of assets and settlement of liabilities.

### Exercise - 6 | Q 10 | Page 242

#### Give the word/term/phrase which can substitute the following statement.

Expenses incurred on dissolution of firm.

Solution: Expenses incurred on dissolution of firm. - Dissolution/realisation

#### Expenses

EXERCISE - 6 [PAGE 242]

#### Exercise - 6 | Q 1 | Page 242

#### State whether the following statement is True or False with reason.

The firm must be dissolved on the retirement of a partner.

- 1. True
- 2. False

#### Solution: This statement is False.

On the retirement of a partner, if partnership agreement allows, then the remaining partner can continue the business activities. It means firm is not to dissolve.

Exercise - 6 | Q 2 | Page 242

#### State whether the following statement is True or False.

On dissolution Cash or Bank Account is closed automatically.

- 1. True
- 2. False

#### Solution: This statement is True.

**Explanation:** On dissolution, the Cash or Bank Account is closed automatically because if the capital accounts show any balance, then such balance is transferred to the Cash or Bank Account. This is done so that both the sides of the Cash or the Bank Account show the same balance. This is because of the double-entry system of bookkeeping.





## Exercise - 6 | Q 3 | Page 242

#### State whether the following statement is True or False.

On dissolution Bank Overdraft is transferred to Realisation Account.

- 1. True
- 2. False

#### Solution: This statement is True.

As a sundry liability of the business, bank overdraft is a liability of a firm and hence, it is transferred to realisation Account at the time of dissolution and paid as third party Liability.

#### Exercise - 6 | Q 4 | Page 242

#### State whether the following statement is True or False with reason.

A solvent partner having debit balance to his Capital Account does not share the

deficiency of insolvent partner Capital Account.

- 1. True
- 2. False

#### Solution: This statement is False.

In the partnership, the partner's liability is unlimited so, a solvent partner having the debit balance to his Capital Account should share the deficiency of insolvent partner capital account.

#### Exercise - 6 | Q 5 | Page 242

#### State whether the following statement is True or False with reason.

At the time of the dissolution of partnership, all assets should be transferred to

Realisation Account.

- 1. True
- 2. False

#### Solution: This statement is False.

At the time of the dissolution of the partnership, a cash account and Bank A/c are not transferred to realization A/c. Similarly, if an asset is taken over by a partner or by any creditor then that asset is transferred to the concerned person's account and not to the realization Account.

#### Exercise - 6 | Q 6 | Page 242



## State whether the following statement is True or False with reason.

The debit balance of insolvent partner's Capital Account is known as a capital deficiency.

- 1. True
- 2. False

#### Solution: This statement is True.

Debit balance of Partners' Capital Account means an excess of drawings than the capital credit balance. In the case of an insolvent partner, the debit balance of Capital Account means liabilities which he cannot pay. It means capital deficiency.

#### Exercise - 6 | Q 7 | Page 242

#### State whether the following statement is True or False with reason.

At the time of dissolution, a loan from the partner will be transferred to Realisation Account.

- 1. True
- 2. False

#### Solution: This statement is False.

At the time of dissolution, a loan from a partner will be paid after the payment of liabilities of third parties to the firm. It is not transferred to realisation Account. Partner's Loan A/c is separately opened and paid accordingly.

#### Exercise - 6 | Q 8 | Page 242

#### State whether the following statement is True or False with reason.

Dissolution takes place when the relation among the partner's comes to an end.

#### 1. True

2. False

#### Solution: This statement is True.

**Explanation:** Dissolution takes place when the business relation among the existing partners comes to an end. This can be done either voluntarily or compulsorily, as per the order of the court of justice.

## Exercise - 6 | Q 9 | Page 242

State whether the following statement is True or False with reason.





The insolvency loss at the time of dissolution of the firm is shared by the solvent partners in their profit sharing ratio.

- 1. True
- 2. False

#### Solution: This statement is True.

In the partnership, partners' liability is unlimited and in case of insolvency loss, legally solvent partners are ultimately liable and are suppose to bear the loss of an insolvent partner in their profit sharing ratio.

#### Exercise - 6 | Q 10 | Page 242

#### State whether the following statement is True or False with reason.

Realisation Loss is not transferred to the insolvent partner's capital account.

- 1. True
- 2. False

#### Solution: This statement is False.

All partners of the firm are responsible for Loss on realisation and hence loss on realisation is supposed to be transferred to all Partners' Capital Account, without any discrimination of solvent or insolvent.

#### EXERCISE - 6 [PAGE 242]

#### Exercise - 6 | Q 1 | Page 242

#### Calculate the following :

Vinod, Vijay, and Vishal are partners in a firm, sharing profit & Losses in the ratio 3:2:1. Vishal becomes insolvent and his capital deficiency is ₹ 6,000. Distribute the capital deficiency among the solvent partners.

#### Solution:

Here, capital deficiency of ₹ 6000 is to be distributed among continuing partners in their profit and loss sharing ratio. i.e. 3:2

Share of deficiency for Vinod = 6,000 x3/5 = ₹ 3,600

Share of deficiency for Vijay = 6,000 ×2/5 = ₹ 2,400

Vinod and Vijay will bear ₹ 3,600 and ₹ 2,400 of Vishal's capital deficiency.





## Exercise - 6 | Q 2 | Page 242

#### Calculate the following :

Creditors ₹ 30,000, Bills Payable ₹ 20,000 and Bank Loan ₹ 10,000. Available Bank Balance ₹ 40,000 what will be the amount that creditors will get in case of all partner's insolvency.

**Solution:** Ratio of creditors, Bills payable and Bank Loan = 30,000 : 10,000 : 10,000 i.e., 3 : 2 : 1

Amount received by creditors =  $\frac{3}{3+2+1} \times 40,000$ 

$$= \frac{3}{6} \times 40,000$$
  
= ₹ 20,000.

## Exercise - 6 | Q 3 | Page 242

#### Calculate the following :

Insolvent Partner Capital A/c debit side total is ₹ 10,000 and the credit side total is ₹ 6,000. Calculate deficiency.

#### Solution:

Deficiency of insolvent partner

- = Debit side total Credit side total
- = 10,000 6,000

= ₹ 4,000.

## Exercise - 6 | Q 4 | Page 242

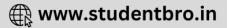
## Calculate the following :

Insolvent partners capital A/c Debit side is ₹ 15,000 & insolvent partner brought cash ₹ 6,000. Calculate the amount of Insolvency Loss to be distributed among the solvent partners.

**Solution:** ₹ 9,000 (15,000 – 6,000) is the amount of insolvency loss to be distributed among the solvent partners.

#### Exercise - 6 | Q 5 | Page 242





## Calculate the following :

Realisation profit of a firm is ₹ 6,000, partners share Profit & Loss in the ratio of 3: 2: 1. Calculate the amount of Realisation Profit to be credited to Partners Capital A/c.

### Solution:

Distribution of ₹ 6,000 in 3: 2: 1 ratio

6,000×3/6= ₹ 3,000

6,000×2/6 = ₹ 2,000

6,000×1/6 = ₹ 1,000

Amount of realisation profit ₹ 3,000, ₹ 2,000 and ₹ 1,000 is to be credited to Partner's Capital A/c respectively.

## EXERCISE - 6 [PAGE 243]

#### Exercise - 6 | Q 1 | Page 243

#### Answer in one sentence only.

What is dissolution of partnership firm?

**Solution1:** Dissolution means termination of the existing relationship between the partners of a firm. It means that the business will come to an end and the firm will wind up its business. Accordingly, all the assets will be realised and liabilities will be paid off. It can be dissolved either voluntarily by the partners or compulsorily by the order of the court.

**Solution2:** Dissolution of the partnership firm means complete closure of business activities and stoppage of partnership relations among all the partners.

## Exercise - 6 | Q 2 | Page 243

#### Answer in one sentence only.

When is Realisation Account opened?

**Solution 1:** Realisation Account is opened at the time of dissolution of a partnership firm. In this account, the assets and liabilities are transferred at their book values. Also, the firm's assets are realised and liabilities are paid off.

**Solution 2:** Realization Account is opened at the time of the dissolution of the partnership firm.





## Exercise - 6 | Q 3 | Page 243

#### Answer in one sentence only.

Which accounts are not transferred to Realisation account?

#### Solution :

The following accounts are not transferred to Realisation Account:

- 1. Cash/Bank A/c,
- 2. Bank overdraft,
- 3. Reserve fund,
- 4. Credit/Debit balance of Profit & Loss Account,
- 5. Partners' Capital Accounts and
- 6. Partner's Loan Account.

#### Exercise - 6 | Q 4 | Page 243

#### Answer in one sentence only.

Who is called Insolvent person?

#### Solution 1:

When a person is unable to contribute fully or partially to discharge his/her liabilities out of his/her private assets, then that person is regarded as an insolvent. Thus, in the following two situations, a partner is declared as insolvent:

- a. When his/her personal assets are insufficient
- b. When his/her debit capital balance cannot be covered

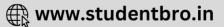
#### Solution 2:

Whose capital A/c shows debit balance and who is not in a position to meet his capital deficiency even from his private property is called an insolvent person.

#### Exercise - 6 | Q 5 | Page 243

Answer in one sentence only. What is a capital deficiency? Solution1:





The debit balance of insolvent partner's capital account which insolvent partner cannot pay is called capital deficiency.

#### Solution2:

The debit balance of an insolvent partner's capital account that cannot be satisfied due to lack of surplus balance is called capital deficiency. This deficiency is to be borne by all the solvent partners in their profit sharing ratio.

#### Exercise - 6 | Q 6 | Page 243

#### Answer in one sentence only.

In what proportion is the balance on Realisation Account transferred to Partners' Capital / Current Accounts?

#### Solution1:

The balance of the Realisation Account is to be transferred to Partners' Capital Accounts in their profit-sharing ratio. If the partnership deed is silent, then profits or losses arising from Realisation Account are to be distributed in equal proportion amongst all the partners of the firm.

#### Solution2:

The balance on realisation Account is transferred to Partners' Capital / Current Accounts in their profit sharing ratio.

#### Exercise - 6 | Q 7 | Page 243

#### Answer in one sentence only.

Who should bear the capital deficiency of an insolvent partner? **Solution:** The capital deficiency of an insolvent partner is borne by all other solvent partners in their profit-sharing ratio.

#### Exercise - 6 | Q 8 | Page 243

Answer in one sentence only. Which account is debited on repayment of Partner's Loan? Solution1:





Partner's loan appearing in the Balance Sheet is not transferred to Realisation Account. In fact, a separate account named as Partner's Loan Account is maintained. At the time of repayment of partner's loan, Partner's Loan A/c is debited and Cash A/c is credited.

#### Solution2:

Partner's Loan Account is debited on repayment of partner's loan.

#### Exercise - 6 | Q 9 | Page 243

#### Answer in one sentence only.

Which account is debited on payment of dissolution expenses?

#### Solution1:

On payment of dissolution expenses, Realisation Account is to be debited. These are a firm's expenses and should be paid by the firm. However, when such expenses are paid by the firm on behalf of a partner, then the Concerned Partner's Capital Account is debited.

#### Solution2:

Realisation Account is debited on payment of dissolution expenses.

## EXERCISE - 6 [PAGE 243]

#### Exercise - 6 | Q 1 | Page 243 Complete the table.

		1
Debit side total of	Credit side total of Realisation	Loss on Realisations
Realisaton A/c	A/c	
₹ 20,000	?	₹ 4,000
Creditors	Bills Payable	Third-Party Liabilities
₹16,000	₹12,000	?
Credit side total Profit ion of	Debit side total of Realisation	Profit of realisation
Realisaton A/c	A/c	
₹ 21,000	₹16,000	?
Debit side total of Capital	Credit side total of Capital A/c	Cash brought by
A/c		partner
₹ 51,000	?	₹ 17,000
capital deficiency	Cash brought by Insolvent	Insolvent loss
	Partner	
?	₹ 7,000	₹ 21,000
	Realisaton A/c₹ 20,000Creditors₹16,000Credit side total Profit ion of Realisaton A/c₹ 21,000Debit side total of Capital A/c₹ 51,000capital deficiency	Realisaton A/cA/c₹ 20,000?CreditorsBills Payable₹16,000₹12,000Credit side total Profit ion of Realisaton A/cDebit side total of Realisation A/c₹ 21,000₹16,000Debit side total of Capital A/cCredit side total of Capital A/c₹ 51,000?capital deficiencyCash brought by Insolvent Partner

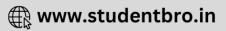




## Solution:

1)	Debit side total of Realisaton A/c	Credit side total of Realisation A/c	Loss on Realisations
	₹ 20,000	₹16,000	₹ 4,000
2)	Creditors	Bills Payable	Third-Party Liabilities
	₹16,000	₹12,000	₹ 28,000
3)	Credit side total Profit ion of Realisaton A/c	Debit side total of Realisation A/c	Profit of realisation
	₹ 21,000	₹16,000	₹ 5,000
4)	Debit side total of Capital A/c	Credit side total of Capital A/c	Cash brought by partner
	₹ 51,000	₹ 34,000	₹ 17,000
5)	capital deficiency	Cash brought by Insolvent Partner	Insolvent loss
	₹ 28,000	₹ 7,000	₹ 21,000





## PRACTICAL PROBLEM [PAGES 244 - 250]

#### Practical problem | Q 1 | Page 244

Ganesh and Kartik are partners sharing Profits and Losses equally. They decided to dissolve the firm on 31<sup>st</sup> March 2018. Their Balance Sheets was as under :

Liabilities	Amount ₹	Assets	Amount ₹
Creditors	18,400	Building	88,000
Bills Payable	5,600	Furniture	12,000
Reserve Fund	20,000	Debtors	32,000
Capital A/c :		Stock	24,000
Ganesh	40,000	Bills Receivable	4,000
Kartik	80,000	Cash	4,000
	1,64,000		1,64,000

Balance Sheets as on 31<sup>st</sup> March 2018.

Assets were realised as under :

Building ₹82,000, Debtors ₹ 22,000, Stock ₹ 20,000. Bills Receivable ₹ 3,200 and

Ganesh agreed to take over Furniture for ₹10,000. Realisation Expenses amounted to ₹ 2,000.

#### Show Realisation A/c, Partners' Capital A/c and Cash A/c.

#### Solution:

Dr	In the k	lisation	Cr		
Particulars	Account    Amount  Amount    (₹)  (₹)		Amount (₹)	Amount (₹)	
To Sundry Assets A/c			By Sundry Liabilities A/c		
Building	88,000		Creditors	18,400	
Furniture	12,000		Bills Payable	5,600	24,000
Debtors	32,000		By cash A/c		
Stock	24,000		Building	82,000	
Bills receivable	4,000	1,60,000	Debtors	22,000	
To Cash A/c			Stock	20,000	
Creditors	18,400		Bills receivable	3,200	1,27,200
Bills Payable	5,600		By Ganesh's Capital A/c		
realisation Expense	2,000	26,000	Furniture		10,000
			By Partners' Capital A/c		





	(Loss on realisation transferred)		
	Ganesh	12,400	
	Kartik	12,400	24,800
1,86,000			1,86,000

Dr	Partners' Capital Accounts				Partners' Capital Accounts Cr	
Particulars	Ganesh (₹)	Kartik (₹)	Particulars	Ganesh (₹)	Kartik (₹)	
To realisation A/c (Furniture)	10,000		By Balance b/d	40,000	80,000	
To realisation A/c (Loss on realisation)	12,400	12,400	By reserve Fund A/c	10,000	10,000	
To Cash A/c	27,600	77,600				
	50,000	90,000		50,000	90,000	

Dr		Cr	
Particulars	Amount (₹)	Particulars	Amount (₹)
To Balance b/d	4,000	By realisation A/c (Liabilities)	26,000
To realisation A/c (Assets)	1,27,200	By Ganesh's Capital A/c	27,600
		By Kartik's Capital A/c	77,600
	1,31,200		1,31,200

#### Working Notes :

(1) Amount paid to Ganesh and Kartik are ₹27,600 and ₹77,600 respectively.

- (2) Loss on realisation and reserve fund amounts are equally distributed.
- (3) Furniture is taken over by Ganesh so his Capital A/c is debited.





## Practical problem | Q 2 | Page 244

Leela, Manda, and Kunda are partners in the firm 'Janki Stores' sharing Profits and Losses in the ratio of 3:2:1 respectively. On 31<sup>st</sup> March 2018, they decided to

Balance Sheets as on 31 <sup>st</sup> March 2018.								
Liabilities Amount ₹ Assets Amoun								
Creditors	28,800	Building	1,02,000					
Bills Payable	21,600	Machinery	73,000					
Capital A/c's		Motor Car	1,67,600					
Leela	2,27,160	Goodwill	45,600					
Manda	1,44,000	Investment	62,400					
Kunda	1,08,000	Debtors	30,600					
		Stock	45,000					
		Bank	3,360					
	5,29,560		5,29,560					

dissolve the firm when their Balance Sheet was as under.

Leela agreed to take over the Building at ₹ 1,23,600.

Manda took over Goodwill, Stock, and Debtors at Book values and agreed to pay

Creditors and Bills payable.

Motor Car and Machinery realised ₹ 1,51,080 and ₹ 31,680 respectively.

Investments were taken by Kunda at an agreed value of ` 55,440.

Realisation expenses amounted to ₹ 6,800.

#### Pass necessary entries in the books of 'Janki Stores.'

#### Solution:

	In the books of 'Janki Stores' Journal Entries			
Date	Particulars	L.F	Debit (₹)	Credit (₹)
1	Realisation A/c Dr.		5,26,200	
	To Building A/c			1,02,000
	To Machinery A/c			73,000
	To Motor Car A/c			1,67,600
	To Goodwill A/c			45,600
	To Investments A/c			62,400





	To Debtors A/c		30,600
	To Stock A/c		45,000
	(Being sundry assets transferred to Realisation A/c)		
2	Creditors A/c Dr	28,800	
	Bills Payable A/c Dr	21,600	
	To Realisation A/c		50,400
	(Being sundry liabilities transferred to realisation A/c)		
3	Bank A/c Dr	1,82,760	
	To Realisation A/c		1,82,760
	(Being amount received for assets sold)		
4	realisation A/c Dr	6,800	
	To Bank A/c		6,800
	(Being amount paid for realisation expense)		
5	Leela's Capital A/c Dr	1,23,600	
	To Realisation A/c		1,23,600
	(Being Building taken over by Leela)		,
6	Manda's Capital A/c Dr	1,21,200	
	To Realisation A/c		1,21,200
	(Being Goodwill, Stock, Debtors taken over by Manda)		
7	Kunda's Capital A/c Dr.	55,440	
	To Realisation A/c		55,440
	(Being Investments taken over by Kunda)		
8	Realisation A/c Dr	50,400	
-	To Manda's Capital A/c		50,400
	(Being creditors and Bills payable amount paid by Manda)		,
9	Leela's Capital A/c Dr	25,000	
	Manda's Capital A/c Dr	16,667	
	Kunda's Capital A/c Dr	8,333	
	To Realisation A/c		50,000
	(Being loss of realisation transferred to Partners' Capital A/c)		
10	Leela's Capital A/c Dr	78,560	
-	Manda's Capital A/c Dr	56,533	
	Kunda's Capital A/c Dr	44,227	
	To Realisation A/c		1,79,320
	(Being final settlement made)		.,. 0,020
		1346120	1346120

Working Notes :



Dr	In the books of Leela, Manda and Kunda					
			Realisat	ion Account		
Particu	llars	Amount (₹)	Amount (₹)	Particulars	Amount (₹)	Amount (₹)
To Sundry As	sets A/c			By Sundry Liabilities A/c		
Building		1,02,000		Creditors	28,800	
Machinery		73,000		Bills Payable	21,600	50,400
Motor car		1,67,600		By Bank A/c		
Goodwill		45,600		Motor Car	1,51,080	
Investments		62,400		Machinery	31,680	1,82,760
Debtors		30,600		By Leela's Capital A/c		1,23,600
Stock		45,000	5,26,200	Building		
To Bank A/c				By Manda's Capital A/c		
Realisation E	xpense		6,800	Goodwill	45,600	
To Manda's C	Capital A/c			Stock	45,000	
Creditors		28,800		Debtors	30,600	1,21,200
Bills Payable		21,600	50,400	By Kunda's Capital A/c		55,440
				Investments		
				By Partners' Capital A/c (Loss on realisation transferred)		
				Leela	25,000	
				Manda	16,667	
				Kunda	8,333	50,000
			583400			583400

#### Practical problem | Q 3 | Page 245

Shailesh and Shashank were partners sharing Profits and Losses in the ratio of

Balance Sheets as on 31st December 2019.							
Liabilities Amount ₹ Assets Amount ₹							
Capital Account :		Building	7000				
Shailesh	10,000	Plant	9,000				

## 3:2. Their Balance Sheet as on 31<sup>st</sup> March 2019 was as follows.





Shashank	6,000	Debtors	14,000
Current Account :		Stock	5,000
Shailesh	3,000	Bank	6,000
Shashank	2,000		
Creditors	17,400		
Bills payable	2,600		
	41,000		41,000

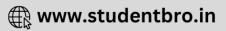
The firm was dissolved on the above date and the assets realised as under.

- 1. Plant ₹ 8,000, Building ₹ 6,000, Stock ₹ 4,000 and Debtors ₹ 12,000.
- 2. Shailesh agreed to pay of the Bills Payable.
- 3. Creditors were paid in full.
- 4. Dissolution expenses were ₹ 1,400

## Prepare Realisation A/c, Partners Current A/c, Partners Capital A/c, and Bank A/c Solution:

Dr	In th	Cr						
		Realisation Account						
Particulars	Amount (₹)	Amount (₹)	Particulars	Amount (₹)	Amount (₹)			
To Sundry Assets A/c			By Sundry Liabilities A/c					
Building	7,000		Creditors	17,400				
Plant	9,000		Bills Payable	2,600	20,000			
Debtors	14,000		By Bank A/c					
Stock	5,000	35000	Plant	8,000				
To Shailesh's Current A/c			Building	6,000				
Bills Payable		2,600	Stock	4,000				
To Bank A/c			Debtors	12,000	30,000			
Dissolution Expense	1,400		By Partners' Current A/c					
			(Loss on realisation transferred					
Creditors	17,400	18,800	Shailesh	3,840				





		Shashank	2,560	6,400
	56,400			56,400

Dr		Partners' C	urrent Account		Cr
Particulars	Shailesh (₹)	Shashank (₹)	Particulars	Shailesh (₹)	Shashank (₹)
To realisation A/c – Loss	3,840	2,560	By Balance b/d	3,000	2000
To Partners' Capital A/c	1,760		By Bills Payable A/c	2,600	
			By Partners' Capital A/c		560
	5,600	2,560		5,600	2,560

Dr			Cr		
Particulars	Shailesh (₹)	Shashank (₹)	Particulars	Shailesh (₹)	Shashank (₹)
To Partner's current A/c		560	By Balance b/d	10,000	6000
To Bank A/c	11,760	5,440	By Partner's Current A/c	1,760	
	11,760	6,000		11,760	6000

Dr		Bank Account		
Particulars	Amount (₹)	Particulars	Amount (₹)	
To Balance b/d	6,000	By realisation A/c (Exp. and Liabilities)	18,800	
To realisation A/c (Assets)	30,000	By Shailesh's Capital A/c	11,760	
		By Shashank's Capital A/c	5,440	
	36,000		36,000	





## Practical problem | Q 4 | Page 245

#### Asha, Usha, and Nisha were partners sharing Profits and Losses in the ratio of

Balance Sheets as on 31 <sup>st</sup> March 2019						
Liabilities	Amount ₹	Asse	ets	Amount ₹		
Capital Accounts :		Machinery		1,00,000		
Asha	1,20,000	Investment		48,000		
Usha	40,000	Debtors	1,10,000			
Nisha	40,000	Less: R. D. D.	6,000	1,04,000		
General Reserve	12,000	Stock		40,000		
Creditors	80,000	Profit and Lo	oss A/c	36,000		
Asha's Loan A/c	16,000	Bank		8,000		
Bills payable	28,000					
	3,36,000			3,36,000		

## On the above date, the partners decided to dissolve the firm.

1. Assets were realised as under Machinery ₹ 90,000, Stock ₹ 36,000, Investment ₹

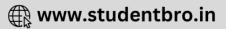
- 42,000 and Debtors ₹ 90,000.
- 2. Dissolution expenses were ₹ 6,000.
- 3. Goodwill of the firm realised ₹ 48,000

#### Pass Journal Entries to close the books of firm. :

#### Solution:

	In the books of Asha, Usha and Nisha Journal Entries						
Date	Particulars	L.F	Amount (₹)	Amount (₹)			
1	Realisation A/c Dr		2,98,000				
	To Machinery A/c			1,00,000			
	To Investments A/c			48,000			
	To Debtors A/c			1,10,000			





	To Stock A/c		40,000
	(Being sundry assets transferred to realisation A/c)		
2	Creditors A/c Dr	80,000	
	Bills Payable A/c	28,000	
	R.D.D. A/c Dr	6,000	
	To realisation A/c		1,14,000
	(Being sundry liabilities transferred to realisation A/c)		
3	General reserve A/c Dr	12,000	
	To Asha's Capital A/c		4,800
	To Usha's Capital A/c		4,800
	To Nisha's Capital A/c		2,400
	(Being General reserve transferred to Partners' Capital A/c)		
4	Bank A/c Dr	3,06,000	
	To Realisation A/c		3,06,000
	(Being assets realised)		
5	Realisation A/c Dr	1,14,000	
	To Bank A/c		1,14,000
	(Being Liabilities paid off)		
6	Realisation A/c Dr.	8000	
	To Asha's Capital A/c		3200
	To Usha's Capital A/c		3200
	To Nisha's Capital A/c		1600
	(Being realisation profit transferred to Partner's Capital A/c)		
7	Asha's Capital A/c Dr	113600	
	Usha's Capital A/c Dr	33600	
	Nisha's Capital A/c Dr	36800	
	To Bank A/c		184000
	(Being final settlement made)		
		1036000	1036000

## Working Notes :

Dr	In the books of Asha, Usha and Nisha	Cr	
	Realisation Account		

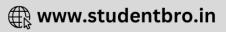




Particulars	(₹) (₹)		Particulars	Amount (₹)	Amount (₹)	
To Sundry Assets A/c			By Sundry Liabilities A/c			
Machinery	1,00,000		Creditors	80,000		
Investments	48,000		Bills Payable	28,000		
Debtors	1,10,000		R.D.D	6,000	1,14,000	
Stock	40,000	2,98,000	By Bank A/c			
To Bank A/c			Machinery	90,000		
Dissolution Expense	6,000		Stock	36,000		
Creditors	80,000		Investments	42,000		
Bills Payable	28,000	1,14,000	Debtors	90,000		
To Partners' Capital A/c (Profit on realisation transferred)			Goodwill	48,000	3,06,000	
Asha	3,200					
Usha	3,200					
Nisha	1,600	8000				
		420000			420000	

Dr	Partners' Capital Accounts						Cr
Particulars	Asha (₹)	Usha (₹)	Nisha (₹)	Particulars	Asha (₹)	Usha (₹)	Nisha (₹)
To Profit and Loss A/c	14,400	14,400	7,200	By Balance b/d	1,20,000	40,000	40,000
To Balance c/d	1,13,600	33,600	36,800	By Realisation A/c – Profit	3,200	3,200	1,600





Dr		Ba	Cr		
	Particulars	Amount (₹)	Particulars	Amo	unt (₹)
To Balan	ice b/d	8000	By Realisation A/c (Liabilities	1,14	4,000
To Realis	sation A/c (Assets)	3,06,000	By Asha's Loan A/c	16,	000
			By Asha's Capital A/c	1,13	3,600
			By Usha's Capital A/c	33,	600
			By Nisha's Capital A/c	36,	800
		3,14,000		3,14	4,000

#### Practical problem | Q 5 | Page 246

Seeta and Geeta are partners in the firm sharing Profits and Losses in the ratio of 4:1. They decided to dissolve the partnership on 31<sup>st</sup> March 2020 on which date their Balance Sheet stood as follows.

Balance Sheets as on 31 <sup>st</sup> March 2020									
Liabilities	Amount ₹	Asse	Amount ₹						
Capital		Furniture	14,000						
Seeta	90,000	Plant		65,000					
Geeta	40,000	Trademark	Trademark		Trademark				
Sundry Creditors	35,000	Sundry Debtors	48,000						
Bank Loan	15,000	Less - R. D. D	3,000	45,000					
		Stock		30,000					
		Cash in hand		10,000					
		Advertisement	t Suspense	8,000					
	1,80,000			1,80,000					

**Additional Information :** 



1. Plant and Stock taken over by Seeta ₹ 78,000, and ₹ 22,000 respectively

2. Debtors Realised 90% of the Book Value and Trademark at ₹ 5,000. and Goodwill was realised for ₹ 27,000.

3. Unrecorded assets estimated ₹4,500 was sold for ₹1,500.

4. ₹ 1,000 Discount were allowed by creditors while paying their claim.

5. The Realisation Expenses amounted to ₹ 3,500

You are required to prepare Realisation A/c, Cash A/c, and Partners Capital A/c Solution:

Dr		In the	books of S	Seeta and Geeta		Cr
			Realisatio	n Account		
Par	ticulars	Amount (₹)	Amount (₹)	Particulars	Amount (₹)	Amount (₹)
To Sundi	ry Assets A/c			By Sundry Liabilities A/c		
Furniture	)	14,000		Bank Loan	15,000	
Plant		65,000		Sundry Creditors	35,000	50,000
Tradema	ırk	8,000		By R.D.D. A/c		3000
				(Transfer)		
Sundry D	Debtors	48,000		By Seeta's Capital A/c		
Stock		30,000	1,65,000	Plant	78,000	
To Cash	A/c			Stock	22,000	1,00,000
Bank Loa	an	15,000		By Cash A/c		
Sundry C	Creditors	34,000		Debtors	43,200	
Expense	s	3,500	52,500	Trademark	5,000	
To Partn A/c	ers' Capital			Goodwill	27,000	
(Profit)						
Seeta	eta 9,760 Unrecorded Assets 1,500		76,700			
Geeta		2,440	12,200			





	2,29,700			2,29,700
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Dr	Partners' Capital Accounts									
Particulars	Seeta (₹)	Geeta (₹)	Particulars	Seeta (₹)	Geeta (₹)					
To Advertisement Suspense A/c (Deferred Expense/Loss)	6,400	1,600	By Balance b/d	90,000	40,000					
To Realisation A/c (Assets taken over)	1,00,000		By realisation A/c (Profit)	9,760	2,440					
To Cash A/c (Final payment)		40,840	By Cash A/c (Amount contributed)	6,640						
	1,06,400	42,440		1,06,400	42,440					

Dr		Cr		
	Particulars	Amount (₹)	Particulars	Amount (₹)
To Balar	nce b/d	10,000	By realisation A/c	52,500
To realis	ation A/c	76,700	By Geeta's Capital A/c	40,840
To Seeta	a's Capital A/c	6,640		
		93,340		93,340

#### Working Notes :

(1) Bank Loan is an external liability of the firm and therefore it is transferred to Realisation A/c.

(2) Amount recovered from Debtors = 90 % of Gross Debtors =  $90/100 \times 48,000 = ₹$  43,200.

(3) Amount paid to creditors = Value of Creditors – Discount given = 35,000 – 1,000 = ₹ 34,000.

(4) Sale of unrecorded assets for ₹ 1,500 is recorded on the credit side of realisation A/c and debit side of Cash A/c.

(5) It is presumed that Furniture realised nothing.



## Practical problem | Q 6 | Page 246

Sangeeta, Anita, and Smita were in partnership sharing Profits and Losses in the

ratio 2:2:1.	Their	Balance	e S	Sheet	as o	on 31	<sup>st</sup> March	2019	was	as	under	:
		-	_	-							_	

Balance Sheets as on 31 <sup>st</sup> March 2019									
Liabilities	Amount ₹	Assets	Amount ₹						
Capital :		Land	2,10,000						
Sangeeta	60,000	Plant	20,000						
Anita	40,000	Goodwill	15,000						
Smita	30,000	Debtors	1,25,000						
Sangeeta's Loan A/c	1,20,000	Loans and Advances	15,000						
Sundry Creditors	1,20,000	Bank	5,000						
Bills Payable	20,000								
	3,90,000		3,90,000						

## They decided to dissolve the firm as follows :

1. Assets realised as; Land recovered ₹ 1,80,000; Goodwill for ₹ 75,000; Loans and

Advances realised ₹ 12,000; 10% of the Debts proved bad;

2. Sangeeta took Plant at book value.

3. Creditors and Bills payable paid at 5% discount.

4. Sandhya's Loan was discharged along with ₹ 6,000 as Interest.

5. There was a contingent liability in respect of bills of ₹ 1,00,000 which was under

discount. Out of them, a holder of one bill of ₹ 20,000 became insolvent

## Show Realisation Account, Partners Capital Account, and Bank Account.

#### Solution:

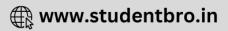
Dr		In the books of Sangeeta, Anita and Smita							
	Realisation Account								
Pa	articulars	Amount (₹)	Amount (₹)	Particulars	Amount (₹)	Amo (₹	ount E)		





To Sundry Assets A/c			By Sundry Liabilities A/c		
Land	2,10,000		Sundry Creditors	1,20,000	
Plant	20,000		Bills Payable	20,000	
Goodwill	15,000		Sandhya's Loan	1,20,000	2,60,000
Debtors	1,25,000		By Sangeeta's Capital A/c (Plant)		20,000
Loans and Advances	15,000	3,85,000	By Bank A/c		
To Bank A/c			Land	1,80,000	
Creditors	1,14,000		Goodwill	75,000	
Bills Payable	19,000	1,33,000	Loans and Advances	12,000	
To Bank A/c			Debtors	1,12,500	3,79,500
Sandhya's Loan		1,26,000	By Partners' Capital A/c (Loss on realisation transferred)		
		20,000	Sangeeta	1,800	
To Bank A/c					
(Contingent liability paid)					
			Anita	1,800	
			Smita	900	4,500
		6,64,000			6,64,000





Dr	Partners' Capital Accounts										
Particulars	Sangeeta (₹)	Anita (₹)	Smita (₹)	Particulars	Sangeeta (₹)	Anita (₹)	Smita (₹)				
To Realisation A/c	20,000			By Balance b/d	60,000	40,000	30,000				
To Realisation A/c – Loss	1,800	1,800	900								
To Bank A/c	38,200	38,200	29,100								
	60,000	40,000	30,000		60,000	40,000	30,000				

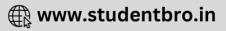
Dr		Bank Account					
	Particulars	Amount (₹)	Particulars	Amount (₹)			
To Bala	ance b/d	5,000	By Sandhya's Loan A/c	1,26,000			
To real	lisation A/c – Assets	3,79,500	By realisation A/c	20,000			
			By realisation A/c – Liabilities	1,33,000			
			By Sangeeta's Capital A/c	38,200			
			By Anita's Capital A/c	38,200			
			By Smita's Capital A/c	29,100			
		3,84,500		3,84,500			

#### Working Notes :

(1) Amount paid towards Sandhya's Loan = Loan amount + Interest due on Ioan

= 1,20,000 + 6,000 = ₹ 1,26,000





(2) Amount received from Debtors = Debtors - Bad debts

= 1,25,000 - 10 % of 1,25,000 = 1,25,000 - 12,500

= ₹ 1,12,500

(3) Amount paid to Creditors = Creditor -5 % discount

= 1,20,000 - 5 % on 1,20,000

= 1,20,000 - 6,000

= ₹ 1,14,000

(4) Amount paid towards Bills payable = Bills payable -5% discount

= 20,000 - 5 % on 20,000

= 20,000 - 1,000 =

₹ 19,000

(5) Bill of ₹ 1,00,000 was discounted with the Bank. On the due date bank could not recover ₹ 20,000 from one bill holder as he was declared insolvent. Therefore, we required to settle that contingent liability of ₹ 20,000.

Practical problem | Q 7 | Page 247

Saiesh, Sumit, and Hemant were in partnership sharing Profits and Losses in the

ratio 2:2:1. They decided to dissolve their partnership firm on 31st March 2019 and

Balance Sheets as on 31 <sup>st</sup> March 2019							
L	iabilities	Amount ₹	Assets	Amount ₹			
Capital :			Plant	1,20,000			
Saiesh 90,000			Debtors	45,000			
Sumit	60,000		Stock	75,000			
Hemant	30,000	1,80,000					
Loan		12,000					
Sundry Creditors		9,000					
Bank Overdraft		39,000					
		2,40,000		2,40,000			

their Balance Sheet on that date stood as;

It was agreed that;

1. Saiesh to discharge Loan and to take Debtors at book value.

- 2. Plant realised ₹ 35,000.
- 3. Stock realised ₹ 72,000.





## 4. Creditors were paid off at a discount of ₹ 45

## Show Realisation A/c, Partners' Capital A/c and Bank A/c

## Solution:

Dr	r In the books of Saiesh, Sumit and Hemant					
			Realisatio	on Account		
F	Particulars	Amount (₹)	Amount (₹)	Particulars	Amount (₹)	Amount (₹)
To S A/c	Sundry Assets			By Sundry Liabilities A/c		
Plar	nt	1,20,000		Loan	12,000	
Deb	tors	45,000		Sundry Creditors	9,000	21000
Stoc	k	75,000	2,40,000	By Bank A/c		
To E	Bank A/c		8,955	Plant	1,35,000	
Sun	dry Creditors			Stock	72,000	2,07,000
	Saiesh's ital A/c – Loan		12,000	By Saiesh's Capital A/c		45,000
	Partners' ital A/c			Debtors		
(Profit on realisation transferred)						
Saie	esh	4,818				
Sum	nit	4,818				
Herr	nant	2,409	12,045			
			2,73,000			2,73,000

Dr	Partners' Capital Accounts C								
Partio	culars	Saiesh (₹)	Sumit (₹)	Hemant (₹)	Particulars	Saiesh (₹)	Sumit (₹)	Hen (₹	



To Debtors A/c	45,000			By Balance b/d	90,000	60,000	30,000
To Bank A/c	61,818	64,818	32,409	By Loan A/c	12,000		
				By realisation A/c – Profit	4,818	4,818	2,409
	1,06,818	64,818	32,409		1,06,818	64,818	32,409

Dr		Bank Account					
Particulars To realisation A/c – (Assets)		Amount (₹)	Particulars	Amount (₹)			
		2,07,000	By Balance b/d (overdraft)	39,000			
			By realisation A/c	8,955			
			By Saiesh's Capital A/c	61,818			
			By Sumit's Capital A/c	64,818			
			By Hemant's Capital A/c	32,409			
		2,07,000		2,07,000			

### Practical problem | Q 8 | Page 248

Sitaram, Gangaram, and Rajaram are partners sharing Profits and Losses in the ratio of 4:2:3. On. 1<sup>st</sup> April 2019 they agreed to dissolve the partnership, their

Balance	Sheet	was	as	fol	lows	:	

Balance Sheets as on 31 <sup>st</sup> March 2019						
Liabilities	Amount ₹	Assets	Amount ₹			





Capital:		Building	55,000
Sitaram	65,000	Machinery	25,000
Gangaram	45,000	Furniture	12,000
Rajaram	7,000	Investment	15,000
Reserve Fund	18,000	Bills Receivable	3,500
Profit and Loss Account	5,400	Sundry Debtors	21,000
Loan from Tukaram	10,000	Stock	28,000
Sundry Creditors	12,000	Cash in hand	5,500
Bills Payable	4,600	Cash at Bank	2000
	1,67,000		1,67,000

The assets realised: Building ₹ 46,750 Machinery ₹ 18,550 Furniture ₹ 9,600;

Investment ₹ 10,650 Bill Receivable and Debtors ₹ 20,750; All the liabilities were paid off. The cost of realisation was ₹ 800. Rajaram becomes bankrupt and ₹ 1,100 only was recovered from his estate.

## Show Realisation Account, Bank Account, and Capital Account of the partners. Solution:

Dr	In the books of Sitaram, Gangaram and Rajaram Realisation Account							
Particulars	Amount (₹)	Amount (₹)	Particulars	Amount (₹)	Amount (₹)			
To Sundry Assets A/c			By Sundry Liabilities A/c					
Building	55,000		Loan from Tukaram	10,000				
Machinery	25,000		Sundry Creditors	12,000				
Furniture	12,000		Bills Payable 4,600		26,600			
Investments	15,000		By Bank A/c					
Bills receivable	3,500		Building	46,750				
Sundry Debtors	21,000		Machinery	18,550				
Stock	28,000	1,59,500	Furniture	9,600				
To Bank A/c			Investments	10,650				
Loan from Tukaram	10,000		Bills receivable and Debtors	20,750	1,06,300			
Realisation Expense	800		By Partners' Capital A/c					





			(Loss on realisation transferred)		
Sundry Creditors	12,000		Sitaram	24,000	
Bills Payable	4,600	27,400	Gangaram	12,000	
			Rajaram	18,000	54,000
		1,86,900			1,86,900

Dr		Par	tners' Cap	ital Accounts			Cr
Particulars	Sitaram (₹)	Gangaram (₹)	Rajaram (₹)	Particulars	Sitaram (₹)	Gangaram (₹)	Rajaram (₹)
To Realistion A/c – Loss	24,000	12,000	18,000	By Balance b/d	65,000	45,000	7,000
To Rajaram's Capital A/	1,400	700		By reserve Fund A/c	8,000	4,000	6,000
To Bank A/c	50,000	37,500		By Profit and Loss A/c	2,400	1,200	1,800
				By Bank A/c (Amount recovered)			1,100
				By Sitaram's Capital A/c			1,400
				By Gangaram's Capital A/c			700
	75,400	50,200	18,000		75,400	50,200	18,000

Dr		Bank Account				
	Particulars	Amount (₹)	Particulars	Amount (₹)		





To Balance b/d	2,000	By Realisation A/c – Liabilities	27,400
To Cash A/c	5,500	By Sitaram's Capital A/c	50,000
To Realisation A/c – Assets	1,06,300	By Gangaram's Capital A/c	37,500
To Rajarams' Capital A/c	1,100		
	1,14,900		1,14,900

(1) ₹ 1,100 is recovered from Rajaram's estate which is recorded in credit side of Rajaram's Capital Account and on debit side of Bank A/c.

(2) Capital deficiency of Rajaram = Debit total of Capital A/c - Credit total of Capital A/c

= 18,000 - 15,900 = ₹ 2,100

Deficit amount of Rajaram A/c ₹ 2,100 is distributed among continuing partners' in 2: 1 ratio.

# Practical problem | Q 9 | Page 248

Balance Sheets as on 31st March 2019							
Liabilities	Amount ₹	Assets	Amount ₹				
Captital Accounts :		Machinery	6,000				
Vaibhav	36,000	Goodwill	9,000				
Sanjay	27,000	Stock and Debtors	57,000				
Creditors	12,000	Profit and Loss Account	18,000				
Bank Overdraft	18,000	Santosh's Capital	3,000				
	93,000		93,000				

Santosh is declared insolvent so firm is dissolved and assets realised as follows:

1. Stock and Debtors ₹ 54,000, Goodwill - NIL, Machinery at Book value.







- 2. Creditors allowed discount at 10%.
- 3. Santosh could pay only 25 paise in rupee of the balance due.
- 4. Profit-sharing ratio was 8:4:3.
- 5. A contingent liability against the firm ₹ 9,000 is cleared.

Give Ledger Account to close the books of the firm.

## Solution:

Dr	In the	Cr			
Particulars	Amount (₹)	Amount (₹)	Particulars	Amount (₹)	Amount (₹)
To Sundry Assets A/c			By Sundry Liabilities A/c – Creditors		12,000
Machinery	6,000		By Bank A/c		
Goodwill	9,000		Stock and Debtors	54,000	
Stock and Debtors	57,000	72,000	Machinery	6,000	60,000
To Bank A/c			By Partners' Capital A/c (Loss on realisation transferred		
Creditors	10,800		Vaibhav	10,560	
Contingent Liability	9,000	19,800	Sanjay	5,280	
			Santosh	3,960	19,800
		91,800			91,800

Dr		Partners' Capital Accounts						
Particulars	Vaibhav	Sanjay	Santosh	Particulars	Vaibhav	Sanjay	Santosh	
	(₹)	(₹)	(₹)		(₹)	(₹)	(₹)	





To Balance c/d			3,000	By Balance b/d	36,000	27,000	
To Profit and Loss A/c	9,600	4,800	3,600	By Bank A/c (25 % of due amount)			2,640
To Realisation A/c – Loss	10,560	5,280	3,960	By Vaibhav's Capital A/c			5,280
To Santosh's Capital A/c	5,280	2,640		By Sanjay's Capital A/c			2,640
To Bank A/c	10,560	14,280					
	36,000	27,000	10,560		36,000	27,000	10,560

Dr		Cr		
	Particulars	Amount (₹)	Particulars	Amount (₹)
To R	ealisation A/c – Assets	60,000	By Balance b/d (overdraft)	18,000
	antosh's Capital A/c (25 % nount due received from	2,640	By Realisation A/c – Liabilities	19,800
			By Vaibhav's Capital A/c	10,560
			By Sanjay's Capital A/c	14,280
		62,640		62,640

(1) Contingent liability paid, so realisation A/c is debited and Bank A/c is credited.

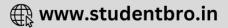
(2) Santosh could pay only 25 paise in a rupee of the balance due i.e. Balance due from Santosh (Debit side of Partners Capital A/c) = ₹ 10,560 25 % of ₹ 10,560 = ₹ 2,640 (Amount recorded on debit side of Bank A/c) Capital deficiency of Santosh = 10,560 - 2,640 = ₹ 7,920

₹ 7,920 to be distributed among continuing partner in their profit-loss ratio = 8 : 4 i.e. 2 : 1.

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7,920×2/3 =₹ 5,280



## 7,920×1/3 = ₹ 2,640

Sundry Creditors

## Practical problem | Q 10 | Page 249

## Shweta, Nupur, and Sanika are partners sharing Profits and Losses in the ratio of

#### Balance Sheets as on 31<sup>st</sup> March 2019. Liabilities Amount ₹ Amount ₹ Assets Capital A/c Sundry Assets 1,60,000 Shweta 65,000 Cash at Bank 5,000 Nupur 15,000 Capital A/c: Sanika 10,000

3:2:1. Their Balance Sheet as on 31<sup>st</sup> March 2019 was as follows :

95,000

1,75,000

The firm is dissolved as on 31<sup>st</sup> March 2019. Sundry Assets realised @ 60% of its book value. Realisation expenses ₹ 2000 paid by Shweta, Nupur, and Sanika both are insolvent. Nupur's private estate has got a surplus of ₹3,000 and that of Sanika ₹ 8,000. Show necessary ledger accounts to close the books of the firm.

#### Solution:

Dr	In the books of Shweta, Nupur and Sanika									
		Realisation Account								
	Particulars	Amount (₹)	Amount (₹)	Particulars	Amount (₹)	Amount (₹)				
To S	Sundry Assets A/c		1,60,000	By Sundry Liabilities A/c (Sundry Creditors)		95,000				
To E	Bank A/c		95,000	By Bank A/c		96,000				
Sun	dry Creditors			Sundry Assets (60 %)						
A/c	Shweta's Capital lisation expense)		2,000	By Partners' Capital A/c (Loss on realisation transferred)						
				Shweta	33,000					
				Nupur	22,000					
				Sanika	11,000	66,000				
			2,57,000			2,57,000				

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1,75,000

Dr		Part	ners' Ca	pital Account	s		Cr
Particulars	Shweta (₹)	Nupur (₹)	Sanika (₹)	Particulars	Shweta (₹)	Nupur (₹)	Sanika (₹)
To Balance b/d			10,000	By Balance b/d	65,000	15,000	
To realisation A/c – Loss	33,000	22,000	11,000	By Bank A/c (Private assets surplus)		3,000	8,000
To Nupur's Capital A/c	4,000			By Shweta's Capital A/c (Deficiency)		4,000	13,000
To Sanika's Capital A/c	13,000			By realisation A/c (realisation exp.)	2,000		
To Bank A/c	17,000						
	67,000	22,000	21,000		67,000	22,000	21,000

Dr	Bank Account				
Particulars	Amount (₹)	Particulars	Amount (₹)		
To Balance b/d	5,000	By Sundry Creditors A/c	95,000		
To Nupur's Capital A/c	3,000	By Shweta's Capital A/c	17,000		
To Sanika's Capital A/c	8,000				
Words to describe people	96,000				
	1,12,000		1,12,000		





(1) From the private assets of Nupur and Sanika, ₹ 3,000 and ₹ 8,000 received and added to the capital accounts. The deficiency of ₹ 4,000 and ₹ 13,000 arrived. Shweta alone has to bear this deficiency.

(2) 60 % of Debtors realised i.e. 60 % of ₹ 1,60,000 = ₹ 96,000.

# Practical problem | Q 11 | Page 249

Following is the Balance Sheet as on 31<sup>st</sup> March 2019 of a firm having Three equal partners Priti. Priva. and Prachi.

Balance Sheets as on 31 <sup>st</sup> March 2019				
Liabilities	Amount ₹	Assets	Amount ₹	
Capital		Machinery	23,000	
Priti	40,000	Furniture	16,000	
Priya	35,000	Stock	47,000	
Prachi	25,000	Cash at Bank	10,000	
Trade Creditors	50,000	Profit and Loss Account	84,000	
Loan (secured by Machinery)	30,000			
• /	1,80,000		1,80,000	

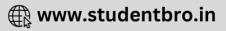
The firm was dissolved due to insolvency of all the partners. Machinery was sold for ₹ 18,000, while Furniture fetched ₹ 14,000, Stock realised ₹ 35,000. Realisation expenses amounted to ₹ 2,000. Nothing could be recovered from Priya and Prachi, but ₹ 3,400 could be collected from Priti's private estate.

# Close the books of accounts of the firm.

# Solution:

Dr	In the books of Priti, Priya and Prachi				Cr
	Realisation Account				
Particular	rs Amount Amount Particulars Amount (₹) (₹)				Amount (₹)





To Sundry Assets A/c			By Bank A/c		
Machinery	23,000		Machinery	18,000	
Furniture	16,000		Furniture	14,000	
Stock	47,000	86,000	Stock	35,000	67,000
To Bank A/c (realisation Expense)		2,000	By Partners' Capital A/c (Loss on realisation transferred		
			Priti	7,000	
			Priya	7,000	
			Prachi	7,000	21,000
		88,000			88,000

Dr		Part	ners' Ca	pital Accounts			Cr
Particulars	Priti (₹)	Priya (₹)	Prachi (₹)	Particulars	Priti (₹)	Priya (₹)	Prachi (₹)
To Profit and Loss A/c	28,000	28,000	28,000	By Balance b/d	40,000	35,000	25,000
To realisation A/c – Loss	7,000	7,000	7,000	By Bank A/c (Asset)	3,400		
To Deficiency A/c	8,400			By Deficiency A/c			10,000
	43,400	35,000	35,000		43,400	35,000	35,000

Dr	Trade Creditors A/c	Cr





Particulars	Amount (₹)	Particulars	Amount (₹)
To Deficiency A/c	1,290	By Balance b/d	50,000
To Bank A/c	48,710		
	50,000		50,000

Dr Loan A/c				
Particulars	Amount (₹)	Particulars	Amount (₹)	
To Deficiency A/c	310	By Balance b/d	30,000	
To Bank A/c	29,690			
	30,000		30,000	

Dr	Deficiency Account		
Particulars	Amount (₹)	Particulars	Amount (₹)
To Prachi's Capital A/c	10,000	By Priti's Capital A/c	8400
		By Trade Creditors A/c	1,290
		By Loan A/c	310
	10,000		10,000

Dr	Bank Account				
Particulars	Amount (₹)	Particulars	Amount (₹)		
To Balance b/d	10,000	By Sundry Creditors A/c	48,710		
To Priti's Capital A/c	3,400	By realisation Expense A/c	2,000		
To realisation A/c (Assets)	67,000	By Loan A/c	29,690		





80,400	80,400

1) Amount paid to loan from sale of machinery = ₹ 18,000

Balance of Loan = 30,000 - 18,000 = ₹ 12,000

(2) ratio of Trade creditors and Loan = 50,000 : 12,000 = 50 : 12 i.e. 25 : 6

(3) Balance of cash available = 10,000 + 67,000 + 3,400 - 18,000 - 2,000

= 80,400 - 20,000 = ₹ 60,400

Amount paid towards loan =6/31×60400/1 = ₹ 11,690

Amount paid to Trade creditors = 25/31×60,400 = ₹ 48,710

Amount paid towards loan = 18,000 + 11,690 =₹ 29,690.

#### Practical problem | Q 12 | Page 250

Balance Sheets as on 31 <sup>st</sup> March 2019.				
Liabilities	Amount ₹	Assets	Amount ₹	
Shaswat's Capital A/c	6,000	Plant and Machinery	14,750	
Creditors	39,000	Furniture	4,000	
		Debtors	5,000	
		Stock	6,250	
		Cash at Bank	3,000	
		Shiv's Capital	12,000	
	45,000		45,000	

Shashwat and Shiv are equal partners. Their Balance Sheet stood as under : Balance Sheets as on 31<sup>st</sup> March 2019.

Due to weak financial position, all partners were declared bankrupt

The Assets were realised as follows :

Stock ₹3,500, Furniture ₹ 2,000, Debtors ₹ 5,000 and Machinery ₹ 7,000 The cost of collection and distributing the estate amounted to ₹ 1,500. Shashwat's private estate in not sufficient even to pay his private debts, whereas in Shiv's private estate there is a surplus of ₹ 500.





Prepare necessary ledger accounts to close the books of the firm.

Solution:

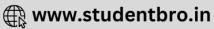
Dr	r In the books of Shashwat and Shiv							
Realisation Account								
Particulars	Amount ₹	Amount ₹	Particulars	Amount ₹	Amount ₹			
To Sundry Assets A/c			By Bank A/c					
Plant and Machinery	14,750		Stock	3,500				
Furniture	4,000		Furniture	2,000				
Debtors	5,000		Debtors	5,000				
Stock	6,250	30,000	Machinery	5,000	17,500			
To Bank A/c		1,500	By Partners' Capital A/c					
			(Loss on realisation transferred)					
Realisation Exp.			Shashwat	7,000				
-			Shiv	7,000	14000			
		31,500			31,500			

Dr	Partners' Capital Accounts				Cr	
Parti	culars	Shashwat (₹)	Shiv (₹)	Particulars	Shashwat (₹)	Shiv (₹)
To Balar	nce b/d		12,000	By Balance b/d	6000	
To realisation A/c – Loss		7,000	7,000	By Bank A/c		500
				By Deficiency A/c	1000	18,500
		7,000	19,000		7000	19,000

Dr	Creditors Account	Cr

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Particulars	Amount ₹	Particulars	Amount ₹
To Deficiency A/c	19,500	By Balance b/d	39,000
To Bank A/c	19,500		
	39,000		39,000

Dr	Deficiency Account				
Particulars	Amount ₹	Particulars	Amount ₹		
To Shashwat's Capital A/c	1000	By Creditors A/c	19,500		
To Shiv's Capital A/c	18,500				
	19,500		19,500		

Dr	Bank Account				
	Particulars	Amount ₹	Particulars	Amount ₹	
To Balance b/d		3,000	By realisation Expense A/c	1,500	
To Shiv's Capital A/c		500	By Creditors A/c	19,500	
To realisation A/c (Assets)		17,500			
		21,000		21,000	

As partners were not able to pay their loss amount, difference of amount is considered as deficiency of partners.



