

Illustration 1.

Param and Raman were partners in a firm sharing profits in the ratio of 3 : 2. Their partnership firm was dissolved on 1st April, 2023. Param was deputed to realise the assets and to pay the liabilities. He was paid ₹ 10,000 as remuneration for his services. Balance Sheet of the firm on 31st March, 2023 was as follows:

BALANCE SHEET as at 31st March, 2023

Liabilities	₹	Assets	₹
Capital A/cs:		Building	1,20,000
Param 42,000		Investments	30,600
Raman 42,000	84,000	Debtors 34,000	
Creditors	80,000	Less: Provision for Doubtful Debts 4,000	30,000
Mrs. Param's Loan	84,000	Bills Receivable	37,400
Raman's Loan	88,000	Cash	6,000
Investments Fluctuation Reserve	8,000	Profit & Loss A/c	80,000
		Goodwill	40,000
	3,44,000		3,44,000

Following was agreed upon:

- Param agreed to pay his wife's loan.
- Debtors realised ₹ 24,000.
- Raman took all investments at ₹ 27,000.
- Building realised ₹ 1,52,000.
- Creditors were payable after 2 months. They were paid immediately at a discount of 15% p.a.
- Bills Receivable were settled at a loss of ₹ 1,400.
- Realisation expenses amounted to ₹ 2,500.

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

Solution:

Dr.		REALISATION ACCOUNT		Cr.	
Particulars	₹	Particulars	₹		
To Building	1,20,000	By Provision for Doubtful Debts	4,000		
To Investments	30,600	By Creditors	80,000		
To Debtors	34,000	By Mrs. Param's Loan	84,000		
To Bills Receivable	37,400	By Investments Fluctuation Reserve	8,000		
To Goodwill	40,000	By Cash A/c (Assets Realised):			
To Param's Capital A/c (Wife's loan)	84,000	Debtors	24,000		
To Cash A/c:		Building	1,52,000		
Creditors	78,000	Bills Receivable	36,000	2,12,000	
Realisation Expenses	2,500	By Raman's Capital A/c			
To Param's Capital A/c	10,000	(Investments)		27,000	
(Remuneration)		By Loss transferred to:			
		Param's Capital A/c	12,900		
		Raman's Capital A/c	8,600	21,500	
	4,36,500			4,36,500	

Dr.		RAMAN'S LOAN ACCOUNT		Cr.	
Particulars	₹	Particulars	₹		
To Raman's Capital A/c	25,600	By Balance b/d	88,000		
To Cash A/c	62,400				
	88,000		88,000		

Dr.		PARTNERS' CAPITAL ACCOUNTS				Cr.	
Particulars	Param (₹)	Raman (₹)	Particulars	Param (₹)	Raman (₹)		
To Profit & Loss A/c	48,000	32,000	By Balance b/d	42,000	42,000		
To Realisation A/c (Investments)	...	27,000	By Realisation A/c (Remuneration)	10,000	...		
To Realisation A/c (Loss)	12,900	8,600	By Realisation A/c (Wife's Loan)	84,000	...		
To Cash A/c	75,100	...	By Raman's Loan A/c	...	25,600		
	1,36,000	67,600		1,36,000	67,600		

Dr.		CASH ACCOUNT		Cr.	
Particulars	₹	Particulars	₹		
To Balance b/d	6,000	By Realisation A/c	80,500		
To Realisation A/c	2,12,000	By Raman's Loan A/c	62,400		
		By Param's Capital A/c	75,100		
	2,18,000		2,18,000		

Illustration 2.

Following was the Balance Sheet of *D*, *T* and *G* as at 31st March, 2023:

Liabilities	₹	Assets	₹
Creditors	50,000	Bank	20,000
Bills Payable	10,000	Debtors	30,000
G's Loan	8,000	Stock	20,000
R's Loan	12,000	Furniture	15,000
General Reserve	20,000	Land and Building	2,45,000
Capital A/cs:		G's Capital	20,000
<i>D</i>	1,00,000		
<i>T</i>	1,50,000		
	3,50,000		3,50,000

The firm was dissolved on the above date. The assets realised and liabilities were paid as follows:

- (i) Debtors realised ₹ 28,000; Creditors and Bills Payable were paid at a discount of 10%.
- (ii) Stock was taken by *T* for ₹ 15,000 and Furniture was sold to *N* for ₹ 12,000.
- (iii) Land and Building was sold for ₹ 2,80,000.
- (iv) An unrecorded asset of estimated value ₹ 1,20,000 was sold for ₹ 1,00,000.

Prepare Realisation Account, Capital Accounts of *D*, *T* and *G* and Bank Account.

Solution:

Dr.		REALISATION ACCOUNT		Cr.	
Particulars	₹	Particulars	₹		
To Sundry Assets—Transfer:		By Creditors	50,000		
Debtors 30,000		By Bills Payable	10,000		
Stock 20,000		By R's Loan	12,000		
Furniture 15,000		By Bank A/c—Assets Realised:			
Land and Building 2,45,000	3,10,000	Debtors 28,000			
To Bank A/c—Liabilities Paid:		Land and Building 2,80,000			
R's Loan 12,000		Unrecorded Asset 1,00,000			
Creditors 45,000		Furniture 12,000	4,20,000		
Bills Payable 9,000	66,000	By T's Capital A/c—Stock	15,000		
To Gain (Profit) on Realisation trfd to:					
D's Capital A/c 43,667					
T's Capital A/c 43,667					
G's Capital A/c 43,666	1,31,000				
	5,07,000				5,07,000

Dr.		PARTNERS' CAPITAL ACCOUNTS				Cr.	
Particulars	D (₹)	T (₹)	G (₹)	Particulars	D (₹)	T (₹)	G (₹)
To Balance b/d	...	...	20,000	By Balance b/d	1,00,000	1,50,000	...
To Realisation A/c (Stock)	...	15,000	...	By Realisation A/c —Gain (Profit)	43,667	43,667	43,666
To Bank A/c —Final Payment (Balancing Figure)	1,50,334	1,85,334	30,332	By General Reserve A/c	6,667	6,667	6,666
	1,50,334	2,00,334	50,332		1,50,334	2,00,334	50,332

Dr.		BANK ACCOUNT		Cr.	
Particulars	₹	Particulars	₹		
To Balance b/d	20,000	By Realisation A/c—Liabilities	66,000		
To Realisation A/c—Assets Realised	4,20,000	By G's Loan A/c—Repayment (Note)	8,000		
		By D's Capital A/c—Final Payment	1,50,334		
		By T's Capital A/c—Final Payment	1,85,334		
		By G's Capital A/c—Final Payment	30,332		
	4,40,000		4,40,000		

Note: G's Capital Account shows a credit balance of ₹ 30,332 after all adjustments. Hence, his loan has been paid separately. In case, his Capital Account (after all adjustments) had debit balance, his Loan Account would have been transferred to his Capital Account to the extent of debit balance.

Illustration 3.

X, Y and Z were partners sharing profits in the ratio of 2 : 2 : 1. The Balance Sheet as at 31st March, 2023, when they dissolved the firm was as follows:

Liabilities	₹	Assets	₹
X's Capital	1,27,500	Other Sundry Assets	1,17,000
Y's Capital	1,10,000	Furniture	11,000
Z's Capital	17,000	Debtors	1,24,200
Loan	11,500	Less: Provision for Doubtful Debts	1,200
Creditors	16,000	Stock	17,800
		Cash	13,200
	2,82,000		2,82,000

It was agreed that:

- X to take over furniture at ₹ 8,000 and debtors amounted to ₹ 1,20,000 at ₹ 1,17,200 and the creditors of ₹ 16,000 were to be paid by him at this figure.
- Y is to take over all stock for ₹ 17,000 and some sundry assets at ₹ 72,000 (being 10% less than the book value).
- Z to take over remaining sundry assets at 80% of the book value and assume the responsibility of discharge of loan together with accrued interest of ₹ 2,300.
- The expenses of realisation were ₹ 2,700. The remaining debtors were sold to a debt collecting agency at 50% of the value.

Prepare necessary accounts to close the books of the firm.

(Delhi 2011 C, Modified)

Solution:

Dr.	REALISATION ACCOUNT				Cr.
Particulars	₹	Particulars	₹		
To Other Sundry Assets	1,17,000	By Provision for Doubtful Debts	1,200		
To Furniture	11,000	By Loan	11,500		
To Debtors	1,24,200	By Creditors	16,000		
To Stock	17,800	By X's Capital A/c:			
To X's Capital A/c—Creditors	16,000	Furniture	8,000		
To Z's Capital A/c—Loan with Interest	13,800	Debtors	1,17,200	1,25,200	
To Cash A/c—Expenses	2,700	By Y's Capital A/c:			
		Stock	17,000		
		Sundry Assets	72,000	89,000	
		By Z's Capital A/c:			
		Sundry Assets	29,600		
		[80/100 of (₹ 1,17,000 – ₹ 80,000)]			
		By Cash A/c—Debtors	2,100		
		[50/100 of (₹ 1,24,200 – ₹ 1,20,000)]			
		By Loss transferred to:			
		X's Capital A/c	11,160		
		Y's Capital A/c	11,160		
		Z's Capital A/c	5,580	27,900	
	3,02,500			3,02,500	

Dr. PARTNERS' CAPITAL ACCOUNTS				Cr.			
Particulars	X ₹	Y ₹	Z ₹	Particulars	X ₹	Y ₹	Z ₹
To Realisation A/c	1,25,200	89,000	29,600	By Balance b/d	1,27,500	1,10,000	17,000
To Realisation A/c (Loss)	11,160	11,160	5,580	By Realisation A/c	16,000	...	13,800
To Cash A/c	7,140	9,840	...	By Cash A/c	...	...	4,380
(Balancing Figure)				(Balancing Figure)			
	1,43,500	1,10,000	35,180		1,43,500	1,10,000	35,180

Dr. CASH ACCOUNT		Cr.	
Particulars	₹	Particulars	₹
To Balance b/d	13,200	By Realisation A/c—Expenses	2,700
To Realisation A/c—Debtors	2,100	By X's Capital A/c—Final Payment	7,140
To Z's Capital A/c—Cash brought in	4,380	By Y's Capital A/c—Final Payment	9,840
	19,680		19,680

Illustration 4.

X and Y, who were sharing profits and losses in the ratio of 3 : 1 respectively, decided to dissolve the firm on 31st March, 2023 at which date some of the balances were:

X's Capital—₹ 1,00,000; Y's Capital—₹ 10,000 (Debit Balance); Profit & Loss A/c—₹ 8,000 (Debit Balance); Trade Creditors—₹ 30,000; Loan from Mrs. X—₹ 10,000; Cash at Bank—₹ 2,000.

Assets (other than cash at bank) realised ₹ 1,10,000 and liabilities were paid at 5% discount. Realisation expenses amounted to ₹ 1,000.

Prepare Realisation Account, Capital Accounts of the Partners and Bank Account assuming that both the partners are solvent.

Solution:

Dr. REALISATION ACCOUNT		Cr.	
Particulars	₹	Particulars	₹
To Sundry Assets A/c (WN)	1,20,000	By Trade Creditors	30,000
To Bank A/c—Trade Creditors	28,500	By Loan from Mrs. X	10,000
To Bank A/c—Loan from Mrs. X	9,500	By Bank A/c—Assets Realised	1,10,000
To Bank A/c—Expenses	1,000	By Loss on Realisation trfd. to:	
		X's Capital A/c	6,750
		Y's Capital A/c	2,250
	1,59,000		9,000
			1,59,000

Dr. PARTNERS' CAPITAL ACCOUNTS			Cr.		
Particulars	X (₹)	Y (₹)	Particulars	X (₹)	Y (₹)
To Balance b/d	...	10,000	By Balance b/d	1,00,000	...
To Profit & Loss A/c—Loss	6,000	2,000	By Bank A/c—Cash brought in	...	14,250
To Realisation A/c—Loss	6,750	2,250			
To Bank A/c—Final Payment	87,250	...			
	1,00,000	14,250		1,00,000	14,250

Dr.	BANK ACCOUNT		Cr.
Particulars	₹	Particulars	₹
To Balance b/d	2,000	By Realisation A/c—Trade Creditors	28,500
To Realisation A/c—Assets Realised	1,10,000	By Realisation A/c—Loan from Mrs. X	9,500
To Y's Capital A/c—Cash brought in	14,250	By Realisation A/c—Expenses	1,000
		By X's Capital A/c—Final Payment	87,250
	1,26,250		1,26,250

Illustration 5.

X, Y and Z commenced business on 1st April, 2020 with capitals of ₹ 5,00,000; ₹ 4,00,000 and ₹ 3,00,000 respectively. Profits and losses were shared in the ratio of 4 : 3 : 3. Interest on Capitals was paid at 5% p.a. During 2020–21 and 2021–22 they earned profit of ₹ 2,00,000 and ₹ 2,50,000 (before allowing interest on capital). Drawings of each partner were ₹ 50,000 per year. On 31st March, 2022 the firm was dissolved. Creditors on that date were ₹ 1,20,000. The assets realised ₹ 13,00,000 net.

Give necessary accounts to close the books of the firm.

Solution:

Balance Sheet on the date of dissolution is not given. Further, partners' capitals and book value of assets on the date of dissolution are also not given. Hence, first of all balances of partners' capital are ascertained. After that, Balance Sheet on the date of dissolution, *i.e.*, 31st March, 2022, will be prepared to ascertain the value of assets.

Dr.		PARTNERS' CAPITAL ACCOUNTS								Cr.
Date	Particulars	X (₹)	Y (₹)	Z (₹)	Date	Particulars	X (₹)	Y (₹)	Z (₹)	
2021 March 31	To Bank A/c: Drawings	50,000	50,000	50,000	2020 April 1 2021 March 31	By Bank A/c	5,00,000	4,00,000	3,00,000	
	To Balance c/d	5,31,000	4,12,000	3,07,000		By Interest on Capital A/c	25,000	20,000	15,000	
						By Profit & Loss App. A/c (Net Profit)*	56,000	42,000	42,000	
		5,81,000	4,62,000	3,57,000			5,81,000	4,62,000	3,57,000	
2022 March 31	To Bank A/c: Drawings	50,000	50,000	50,000	2021 April 1 2022 March 31	By Balance b/d	5,31,000	4,12,000	3,07,000	
	To Balance c/d	5,82,550	4,38,850	3,28,600		By Interest on Capital A/c	26,550	20,600	15,350	
						By Profit & Loss App. A/c (Net Profit)*	75,000	56,250	56,250	
		6,32,550	4,88,850	3,78,600			6,32,550	4,88,850	3,78,600	

*Net Profit (2020–21) = Total Profit – Interest on Capital = ₹ 2,00,000 – ₹ 60,000 = ₹ 1,40,000;

Net Profit (2021–22) = Total Profit – Interest on Capital = ₹ 2,50,000 – ₹ 62,500 = ₹ 1,87,500.

MEMORANDUM BALANCE SHEET as at 31st March, 2022

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

Dr. REALISATION ACCOUNT Cr.			
Particulars	₹	Particulars	₹
To Sundry Assets A/c	14,70,000	By Creditors A/c	1,20,000
To Bank A/c (Creditors Paid)	1,20,000	By Bank A/c (Sundry Assets Realised)	13,00,000
		By Loss transferred to:	
		X's Capital A/c	68,000
		Y's Capital A/c	51,000
		Z's Capital A/c	51,000
	15,90,000		1,70,000
			15,90,000

Dr. PARTNERS' CAPITAL ACCOUNTS (AFTER REALISATION) Cr.							
Particulars	X (₹)	Y (₹)	Z (₹)	Particulars	X (₹)	Y (₹)	Z (₹)
To Realisation A/c (Loss)	68,000	51,000	51,000	By Balance b/d	5,82,550	4,38,850	3,28,600
To Bank A/c (Bal. Fig.) (Final Payment)	5,14,550	3,87,850	2,77,600				
	5,82,550	4,38,850	3,28,600		5,82,550	4,38,850	3,28,600

Dr. BANK ACCOUNT Cr.			
Particulars	₹	Particulars	₹
To Realisation A/c (Sundry Assets Realised)	13,00,000	By Realisation A/c (Creditors Paid)	1,20,000
		By X's Capital A/c (Final Payment)	5,14,550
		By Y's Capital A/c (Final Payment)	3,87,850
		By Z's Capital A/c (Final Payment)	2,77,600
	13,00,000		13,00,000

Illustration 6.

Pass Journal entries for the following transactions on the dissolution of the firm of *T* and *P* after various assets (other than cash) and outside liabilities have been transferred to Realisation Account:

- Bank Loan ₹ 34,000 was paid.
- Furniture worth ₹ 70,000 was taken by partner *T* at ₹ 43,000.
- Partner *P* agreed to pay a creditor ₹ 7,500.
- A computer previously written off fully, realised ₹ 3,900.
- Expenses of realisation ₹ 3,200 were paid by partner *T*.
- Profit on realisation ₹ 4,800 was distributed between *T* and *P* in 5 : 3 ratio. (Delhi 2011)

Solution:

JOURNAL

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
(i)	Realisation A/c ...Dr. To Bank A/c (Repayment of bank loan)		34,000	34,000
(ii)	T's Capital A/c ...Dr. To Realisation A/c (Furniture taken by T)		43,000	43,000
(iii)	Realisation A/c ...Dr. To P's Capital A/c (Liability of a creditor taken by P)		7,500	7,500
(iv)	Bank A/c ...Dr. To Realisation A/c (Computer realised previously written off fully)		3,900	3,900
(v)	Realisation A/c ...Dr. To T's Capital A/c (Dissolution expenses paid by T credited to his Capital Account)		3,200	3,200
(vi)	Realisation A/c ...Dr. To T's Capital A/c To P's Capital A/c (Gain (profit) on realisation transferred to the Capital Accounts of Partners)		4,800	3,000 1,800

Illustration 7.

Parth and Shivika were partners in a firm sharing profits in the ratio of 3 : 2. The Balance Sheet of the firm on 31st March, 2014 was as follows:

Liabilities	₹	Assets	₹
Sundry Creditors	80,000	Bank	1,72,000
Shivika's Sister's Loan	20,000	Debtors	27,000
Capital A/cs:		Stock	50,000
Parth	1,75,000	Furniture	2,20,000
Shivika	1,94,000		
	3,69,000		
	4,69,000		4,69,000

On the above date, the firm was dissolved. The assets were realised and the liabilities were paid off as follows:

- 50% of the furniture was taken over by Parth at 20% less than book value. The remaining furniture was sold for ₹ 1,05,000.
- Debtors realised ₹ 26,000.
- Stock was taken over by Shivika for ₹ 29,000.
- Shivika's sister's loan was paid off along with interest of ₹ 2,000.
- Expenses on realisation amounted to ₹ 5,000.

Prepare Realisation Account, Partners' Capital Accounts and Bank Account. (Delhi 2015 C)

Solution:

Dr.		REALISATION ACCOUNT		Cr.
Particulars	₹	Particulars	₹	
To Debtors A/c	27,000	By Sundry Creditors A/c	80,000	
To Stock A/c	50,000	By Shivika's Sister's Loan A/c	20,000	
To Furniture A/c	2,20,000	By Parth's Capital A/c (Furniture)	88,000	
To Bank A/c (Sundry Creditors)	80,000	(₹ 1,10,000 – ₹ 22,000)		
To Bank A/c (₹ 20,000 + ₹ 2,000)	22,000	By Bank A/c (Assets Realised):		
(Shivika's Sister's Loan)		Furniture	1,05,000	
To Bank A/c (Expenses)	5,000	Debtors	26,000	1,31,000
		By Shivika's Capital A/c (Stock)		29,000
		By Loss transferred to:		
		Parth's Capital A/c	33,600	
		Shivika's Capital A/c	22,400	56,000
	4,04,000			4,04,000

Dr.		PARTNERS' CAPITAL ACCOUNTS		Cr.	
Particulars	Parth ₹	Shivika ₹	Particulars	Parth ₹	Shivika ₹
To Realisation A/c (Assets taken over)	88,000	29,000	By Balance b/d	1,75,000	1,94,000
To Realisation A/c (Loss)	33,600	22,400			
To Bank A/c (Final Payment)	53,400	1,42,600			
	1,75,000	1,94,000		1,75,000	1,94,000

Dr.		BANK ACCOUNT		Cr.
Particulars	₹	Particulars	₹	
To Balance b/d	1,72,000	By Realisation A/c—Sundry Creditors	80,000	
To Realisation A/c—Assets Realised	1,31,000	By Realisation A/c—Shivika's Sister's Loan	22,000	
		By Realisation A/c—Expenses	5,000	
		By Parth's Capital A/c—Final Payment	53,400	
		By Shivika's Capital A/c—Final Payment	1,42,600	
	3,03,000			3,03,000

Illustration 8.

A, B and C are partners sharing profits in the ratio of 5 : 3 : 2. Their Balance Sheet as at 31st March 2022, the date on which they dissolve the firm, was as follows:

Liabilities	₹	Assets	₹
A's Capital	2,00,000	Bank	70,000
B's Capital	1,50,000	Debtors	50,000
C's Capital	1,50,000	Stock	60,000
A's Current A/c	30,000	Furniture	25,000
B's Current A/c	20,000	Patents	35,000
Profit & Loss A/c	50,000	Machinery	1,00,000
Trade Creditors	70,000	Building	3,20,000
		C's Current A/c	10,000
	6,70,000		6,70,000

Following transactions took place at the time of dissolution:

- (i) Realisation expenses were to be borne by A for which he is to get a credit of ₹ 10,000. Actual realisation expenses paid out of firm's Bank Account amounted to ₹ 12,000.
- (ii) B took stock for ₹ 55,000 and C took over Building for ₹ 4,00,000.
- (iii) Other assets realised: Debtors ₹ 48,000; Furniture ₹ 17,000 and Machinery ₹ 80,000.
- (iv) Trade Creditors were settled in full by paying them ₹ 65,000.

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

Solution:

Dr. REALISATION ACCOUNT Cr.			
Particulars	₹	Particulars	₹
To Sundry Assets—Transfer:		By Trade Creditors	70,000
Debtors 50,000		By B's Capital A/c—Stock	55,000
Stock 60,000		By C's Capital A/c—Building	4,00,000
Furniture 25,000		By Bank A/c—Assets Realised:	
Patents 35,000		Debtors 48,000	
Machinery 1,00,000		Furniture 17,000	
Building 3,20,000	5,90,000	Machinery 80,000	1,45,000
To A's Capital A/c—Expenses (WN 2)	10,000		
To Bank A/c—Creditors Paid	65,000		
To Gain (Profit) transferred to:			
A's Capital A/c 2,500			
B's Capital A/c 1,500			
C's Capital A/c 1,000	5,000		
	6,70,000		6,70,000

Dr. PARTNERS' CURRENT ACCOUNTS Cr.							
Particulars	A (₹)	B (₹)	C (₹)	Particulars	A (₹)	B (₹)	C (₹)
To Balance b/d	...	...	10,000	By Balance b/d	30,000	20,000	...
To Partners' Capital A/cs (Transfer)	30,000	20,000	...	By C's Capital A/c (Transfer)	...	...	10,000
	30,000	20,000	10,000		30,000	20,000	10,000

Dr. PARTNERS' CAPITAL ACCOUNTS Cr.							
Particulars	A (₹)	B (₹)	C (₹)	Particulars	A (₹)	B (₹)	C (₹)
To C's Current A/c	...	...	10,000	By Balance b/d	2,00,000	1,50,000	1,50,000
To Realisation A/c (Assets taken)	...	55,000	4,00,000	By Partners' Current A/cs	30,000	20,000	...
To Bank A/c (WN 1)	12,000	...	...	By Profit & Loss A/c	25,000	15,000	10,000
To Bank A/c (Bal. Fig.) (Final Payment)	2,55,500	1,31,500	...	By Realisation A/c (Exp.)	10,000	...	...
				By Realisation A/c (Gain)	2,500	1,500	1,000
				By Bank A/c	...	...	2,49,000
	2,67,500	1,86,500	4,10,000		2,67,500	1,86,500	4,10,000

Dr.	BANK ACCOUNT		Cr.
Particulars	₹	Particulars	₹
To Balance b/d	70,000	By Realisation A/c—Creditors Paid	65,000
To Realisation A/c—Assets Realised	1,45,000	By A's Capital A/c—Drawings	12,000
To C's Capital A/c—Cash brought in	2,49,000	By A's Capital A/c—Final Payment	2,55,500
		By B's Capital A/c—Final Payment	1,31,500
	4,64,000		4,64,000

Working Notes:

1. Realisation expenses paid out of firm's Bank Account are debited to A's Capital Account being payable by A. Agreed realisation expenses will be credited to A's Capital Account and debited to Realisation Account.
2. Realised value of patents is not given. Hence, it is taken to be nil.

Illustration 9 (Comprehensive Illustration).

A and B were partners from 1st April, 2020 with capitals of ₹ 60,000 and ₹ 40,000 respectively. They shared profits in the ratio of 3 : 2. They carried on business for two years. In the first year ended 31st March, 2021, they earned a profit of ₹ 50,000 but in the second year ended 31st March, 2022, a loss of ₹ 20,000 was incurred. As the business was no longer profitable, they dissolved the firm on 31st March, 2022. Creditors on that date were ₹ 20,000. The partners withdrew for personal use ₹ 8,000 per partner per year. The assets realised ₹ 1,00,000. The expenses of realisation were ₹ 3,000.

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

Solution:

Dr.	REALISATION ACCOUNT		Cr.
Particulars	₹	Particulars	₹
To Sundry Assets A/c (WN 2)	1,18,000	By Creditors	20,000
To Cash A/c—Creditors	20,000	By Cash A/c—Assets Realised	1,00,000
To Cash A/c—Expenses	3,000	By Loss transferred to:	
		A's Capital A/c	12,600
		B's Capital A/c	8,400
	1,41,000		21,000
			1,41,000

Dr.			PARTNERS' CAPITAL ACCOUNTS			Cr.		
Particulars		A (₹)	B (₹)	Particulars		A (₹)	B (₹)	
To Realisation A/c—Loss		12,600	8,400	By Balance b/d (WN 1)	62,000	36,000		
To Cash A/c—Final Payment		49,400	27,600					
		62,000	36,000					
					62,000	36,000		

Dr.	CASH ACCOUNT		Cr.
Particulars	₹	Particulars	₹
To Realisation A/c—Assets Realised	1,00,000	By Realisation A/c—Creditors	20,000
		By Realisation A/c—Expenses	3,000
		By A's Capital A/c—Final Payment	49,400
		By B's Capital A/c—Final Payment	27,600
	1,00,000		1,00,000

Working Notes:

1. In this question, Balance Sheet of the firm as at the date of dissolution is not given. Therefore, it is necessary to prepare the Balance Sheet as at that date. For that, we have to prepare Partners' Capital Accounts for the years ended 31st March, 2021 and 2022 to arrive at the balance of partners' capitals as at 31st March, 2022.

Dr.				PARTNERS' CAPITAL ACCOUNTS				Cr.									
Date		Particulars		A (₹)		B (₹)		Date		Particulars		A (₹)		B (₹)			
2021								2020									
March	31	To	Cash A/c	8,000	8,000	April	1	By	Cash A/c	60,000	40,000						
March	31	To	Balance c/d	82,000	52,000			2021									
						March	31	By	Profit & Loss								
						Appropriation A/c				30,000	20,000						
				90,000		60,000						90,000	60,000				
2022								2021									
March	31	To	Cash A/c	8,000	8,000	April	1	By	Balance b/d	82,000	52,000						
March	31	To	Profit & Loss														
						Appropriation A/c				12,000	8,000						
March	31	To	Balance c/d	62,000	36,000												
				82,000		52,000						82,000	52,000				

2. **MEMORANDUM BALANCE SHEET**
as at 31st March, 2022

Liabilities	₹	Assets	₹
A's Capital A/c (WN 1)	62,000	Sundry Assets (Balancing Figure)	1,18,000
B's Capital A/c (WN 1)	36,000		
Creditors	20,000		
	1,18,000		1,18,000

Illustration 10.

The firm of Manjeet, Sujeet and Jagjeet was dissolved on 31st March, 2018. It was agreed that Sujeet will take care of the dissolution related activities and will get 10% of the value of assets realised. Sujeet agreed to bear the realisation expenses. Assets realised ₹ 10,00,750 and realisation expenses were ₹ 90,000, which were paid from the firm's cash. ₹ 4,50,000 were paid to the creditors in full settlement of their claim. Pass necessary Journal entries for the above transactions in the books of the firm. (CBSE 2019)

Solution:

In the books of Manjeet, Sujeet and Jagjeet

JOURNAL

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
(i)	Bank A/c ...Dr. To Realisation A/c (Assets realised)		10,00,750	10,00,750
(ii)	Realisation A/c ...Dr. To Sujeet's Capital A/c (10% of assets realised paid as remuneration)		1,00,075	1,00,075
(iii)	Sujeet's Capital A/c ...Dr. To Bank/Cash A/c (Realisation expenses paid on behalf of Sujeet)		90,000	90,000
(iv)	Realisation A/c ...Dr. To Bank A/c (Creditors paid in full settlement)		4,50,000	4,50,000

Illustration 11.

Neeraj, Dheeraj and Sheeraj were partners in a firm since 2015. Due to some personal financial needs and constant disagreements among them, they decided to dissolve the firm. Vijay, a financial and legal consultant was appointed to carry out the dissolution process. He opened Realisation Account and transferred all the recorded assets (including goodwill except the fictitious assets and cash and bank balances) to the debit of Realisation Account and outsiders' liabilities to the credit of Realisation Account. He entered into following transactions:

- An old computer which had been written off from the books was estimated to realise ₹ 8,000. It was taken by Neeraj (Partner), at the estimated price less 25%.
- A disputed claim of ₹ 50,000 of a worker for compensation which remained unrecorded in the books was settled at ₹ 30,000.
- Dheeraj paid ₹ 60,000 for using the name of the firm.
- There was an unrecorded asset of ₹ 60,000, half of which was sold for ₹ 30,000 and the remaining half was taken by Sheeraj (partner) for ₹ 25,000.

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

Solution:

JOURNAL

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
(i)	Neeraj's Capital A/c ...Dr. To Realisation A/c (Unrecorded typewriter taken by Neeraj)		6,000	6,000
(ii)	Realisation A/c ...Dr. To Bank A/c (Payment of unrecorded disputed claim)		30,000	30,000
(iii)	Dheeraj's Capital A/c ...Dr. To Realisation A/c (Unrecorded goodwill taken by Dheeraj)		60,000	60,000
(iv)	Bank A/c ...Dr. Sheeraj's Capital A/c ...Dr. To Realisation A/c (Cash realised for half of the unrecorded asset and other half taken over by Sheeraj)		30,000 25,000	55,000

Illustration 12.

Pass necessary Journal entries on the dissolution of a partnership firm in the following cases:

- L*, a partner, was appointed to look after the dissolution process for which he was given remuneration of ₹ 10,000.
- Dissolution expenses ₹ 8,000 were paid by the partner, *M*.
- Dissolution expenses were ₹ 5,000.
- P*, a partner, was appointed to look after the process of dissolution for which he was allowed a remuneration of ₹ 7,000. *P* agreed to bear the dissolution expenses. Actual dissolution expenses ₹ 4,000 were paid by *P*.
- N*, a partner, was appointed to look after the process of dissolution for which he was allowed a remuneration of ₹ 9,000. *N* agreed to bear the dissolution expenses. Actual dissolution expenses ₹ 4,000 were paid by the firm.
- Q*, a partner, was appointed to look after the process of dissolution for which he was allowed a remuneration of ₹ 18,000. *Q* agreed to take over stock worth ₹ 18,000 as his remuneration. The stock had already been transferred to Realisation Account.

(Delhi 2017)

Solution:

JOURNAL

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
(i)	Realisation A/c ...Dr. To <i>L</i> 's Capital A/c (Remuneration provided to <i>L</i>)		10,000	10,000
(ii)	Realisation A/c ...Dr. To <i>M</i> 's Capital A/c (Dissolution expenses payable to <i>M</i>)		8,000	8,000

(iii)	Realisation A/c ...Dr. To Bank/Cash A/c (Realisation expenses paid)	5,000	5,000
(iv)	Realisation A/c ...Dr. To P's Capital A/c (Remuneration allowed to P and dissolution expenses paid by him)	7,000	7,000
(v) (a)	Realisation A/c ...Dr. To N's Capital A/c (Remuneration paid to N)	9,000	9,000
(b)	N's Capital A/c ...Dr. To Cash/Bank A/c (Dissolution expenses paid by firm on behalf of N)	4,000	4,000
(vi)	No Entry: Neither for remuneration for dissolution, nor for stock taken over.		

Illustration 13.

Pass Journal entries for the following transactions in the books of X, Y and Z sharing profits in the ratio of 3 : 2 : 1 at the time of dissolution of the firm:

- (i) Realisation expenses of ₹ 2,000 were to be borne by and also paid by X, partner.
- (ii) Y, a partner to bear realisation expenses agreed at ₹ 1,900. Actual expenses paid by Y were ₹ 1,500.
- (iii) General Reserve has a balance of ₹ 18,000 on the date of dissolution.
- (iv) Y was given loan of ₹ 50,000 by the firm.
- (v) Computers existed at ₹ 40,000.
- (vi) Trade Marks existed at ₹ 10,000.
- (vii) Y, a partner, took a machine at ₹ 20,000.
- (viii) Z, a partner, agreed to pay a creditor of ₹ 30,000 for ₹ 20,000.
- (ix) A, a partner, had given loan to the firm of ₹ 10,000. He accepted ₹ 7,500 in settlement.
- (x) There was a contingent liability of ₹ 37,000 in respect of post-dated cheques discounted. All the discounted cheques were honoured but an issuer of cheque of ₹ 5,000 became insolvent and fifty paise in a rupee was received. The liability of the firm on account of this bill discounted and dishonoured has not so far been recorded.

Solution:

JOURNAL

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
(i)	No Entry for payment of Realisation Expenses.			
(ii)	Realisation A/c ...Dr. To Y's Capital A/c (Realisation expenses payable to Y) Note: When it is agreed that a partner will bear the realisation expenses and for this he is paid an agreed amount, Realisation Account is debited by the amount payable to the partner.		1,900	1,900
(iii)	General Reserve A/c ...Dr. To X's Capital A/c (₹ 18,000 × 3/6) To Y's Capital A/c (₹ 18,000 × 2/6) To Z's Capital A/c (₹ 18,000 × 1/6) (General Reserve distributed)		18,000	9,000 6,000 3,000
(iv)	Cash/Bank A/c ...Dr. To Loan to Y A/c (Loan to Y received)		50,000	50,000
(v)	Cash/Bank A/c ...Dr. To Realisation A/c (Computers realised)		40,000	40,000
(vi)	No entry will be passed, Trade Marks are intangible assets and realised value thereof is not given.			
(vii)	Y's Capital A/c ...Dr. To Realisation A/c (Machine taken by Y)		20,000	20,000
(viii)	Realisation A/c ...Dr. To Z's Capital A/c (Creditor of ₹ 30,000 taken by Z for ₹ 20,000)		20,000	20,000
(ix)	Loan by A A/c ...Dr. To Bank A/c To Realisation A/c (Repayment of Loan by A, balance transferred to Realisation Account)		10,000	7,500 2,500
(x) (a)	Realisation A/c ...Dr. To Bank A/c (Payment made to the bank for the bill discounted with bank now dishonoured)		5,000	5,000
(b)	Bank A/c ...Dr. To Realisation A/c (50% amount of the dishonoured cheque received)		2,500	2,500

Illustration 14.

Lal and Pal were partners in a firm sharing profits in the ratio of 3 : 7. On 1st April, 2015, their firm was dissolved. After transferring assets (other than cash) and outsider's liabilities to Realisation Account, you are given the following information:

- A creditor of ₹ 3,60,000 accepted machinery valued at ₹ 5,00,000 and paid to the firm ₹ 1,40,000.
- A second creditor for ₹ 50,000 accepted stock at ₹ 45,000 in full settlement of his claim.
- A third creditor amounting to ₹ 90,000 accepted ₹ 45,000 in cash and investments worth ₹ 43,000 in full settlement of his claim.
- Loss on dissolution was ₹ 15,000.

Pass necessary Journal entries for the above transactions in the books of firm assuming that all payments were made by cheque.

Solution:

JOURNAL

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
(a)	Bank A/c ...Dr. To Realisation A/c (Amount received from creditor)		1,40,000	1,40,000
(b)	No entry			
(c)	Realisation A/c ...Dr. To Bank A/c (₹ 45,000 paid in cash to third creditor)		45,000	45,000
(d)	Lal's Capital A/c ...Dr. Pal's Capital A/c ...Dr. To Realisation A/c (Dissolution loss distributed among partners)		4,500 10,500	15,000

Illustration 15.

Pass the Journal entries for the following transactions on the dissolution of the firm of P and Q after assets (other than cash) and outside liabilities have been transferred to Realisation Account:

- Stock ₹ 2,00,000. 'P' took 50% of stock at a discount of 10%. Balance stock was sold at a profit of 25% on cost.
- Debtors ₹ 2,25,000. Provision for Doubtful Debts ₹ 25,000. ₹ 20,000 of these were not recoverable.
- Land and Building (Book value ₹ 12,50,000) sold for ₹ 15,00,000 through a broker who charged 2% commission.
- Machinery (Book value ₹ 6,00,000) was given to a creditor at a discount of 10%.
- Investment (Book value ₹ 60,000) realised at 125%.
- Goodwill of ₹ 75,000 and prepaid fire insurance of ₹ 10,000.
- Trade creditors ₹ 1,60,000. Half of the trade creditors accepted Plant and Machinery at an agreed valuation of ₹ 54,000 and cash in full settlement of their claims after allowing a discount of ₹ 16,000. Remaining trade creditors were paid 90% in final settlement.

Solution:

JOURNAL

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
(a) (i)	P's Capital A/c ...Dr. To Realisation A/c (50% stock at a discount of 10% taken by P)		90,000	90,000
(ii)	Bank A/c ...Dr. To Realisation A/c (50% stock sold at a profit of 25% on cost)		1,25,000	1,25,000
(b)	Bank A/c ...Dr. To Realisation A/c (Debtors of ₹ 20,000 proved bad and the rest paid the amount)		2,05,000	2,05,000
(c)	Bank A/c ...Dr. To Realisation A/c (Land and Building sold for ₹ 15,00,000)		15,00,000	15,00,000
	Realisation A/c ...Dr. To Bank A/c (Commission @ 2% paid)		30,000	30,000
(d)	No entry			
(e)	Bank A/c ...Dr. To Realisation A/c (Investment realised at 125%)		75,000	75,000
(f)	No entry			
(g) (i)	Realisation A/c ...Dr. To Bank A/c (Cash paid in full settlement of claim)		10,000	10,000
(ii)	Realisation A/c ...Dr. To Bank A/c (Cash paid to remaining creditors)		72,000	72,000

Illustration 16.

Ravi, Kavi and Chand were partners sharing profits in the ratio of 5 : 3 : 2. On 31st March, 2022, their Balance Sheet was as follows:

BALANCE SHEET OF RAVI, KAVI AND CHAND as at 31st March, 2022

Liabilities	₹	Assets	₹
Sundry Creditors	70,000	Land and Building	3,50,000
Chand's Loan	20,000	Stock	3,00,000
Mrs. Chand's Loan	20,000	Debtors	2,00,000
Capital A/cs:		Less: Provision	10,000
Ravi	4,00,000	Cash	70,000
Kavi	3,00,000		
Chand	1,00,000		
	8,00,000		
	9,10,000		9,10,000

The firm was dissolved on the above date:

- (i) Land and Building and Stock were sold for ₹ 6,00,000. Debtors were realised at 10% less than the book value.
- (ii) Mrs. Chand's loan was settled by giving her a computer of ₹ 22,000 not recorded in the books.
- (iii) Ravi paid off one of the creditors ₹ 20,000 in settlement of his amount of ₹ 30,000.
- (iv) Remaining creditors were paid in cash.

Prepare Realisation Account.

(CBSE 2023)

Solution:

Dr.	REALISATION ACCOUNT		Cr.
Particulars	₹	Particulars	₹
To Land and Building A/c	3,50,000	By Sundry Creditors	70,000
To Stock A/c	3,00,000	By Mrs. Chand's Loan	20,000
To Debtors A/c	2,00,000	By Provision for Doubtful Debts	10,000
To Ravi's Capital A/c (Creditors)	20,000	By Bank A/c (Assets):	
To Bank A/c (Creditors) (₹ 70,000 – ₹ 30,000)	40,000	Land and Building and Stock	6,00,000
		Debtors (₹ 2,00,000 × ₹ 90/100)	1,80,000
			7,80,000
		By Loss transferred to:	
		Ravi's Capital A/c (₹ 30,000 × 5/10)	15,000
		Kavi's Capital A/c (₹ 30,000 × 3/10)	9,000
		Chand's Capital A/c (₹ 30,000 × 2/10)	6,000
			30,000
	9,10,000		9,10,000

Note: Chand's Loan will not be transferred to Realisation Account, Chand being a partner.

Illustration 17.

L and M were partners in a firm sharing profits in the ratio of 2 : 3. On 28th February, 2016, the firm was dissolved. After transferring assets (other than cash) and outsiders' liabilities to Realisation Account you are given the following information:

- (i) A creditor for ₹ 1,40,000 accepted building valued at ₹ 1,80,000 and paid to the firm ₹ 40,000.
- (ii) A second creditor for ₹ 30,000 accepted machinery valued at ₹ 28,000 in full settlement of his claim.
- (iii) A third creditor amounting to ₹ 70,000 accepted ₹ 30,000 in cash and investments of the book value of ₹ 45,000 in full settlement of his claim.
- (iv) Loss on dissolution was ₹ 4,000.

Pass necessary Journal entries for the above transactions in the books of the firm assuming that all payments were made by cheque.

(Delhi 2016)

Solution:**JOURNAL**

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
(i)	Bank A/c ...Dr. To Realisation A/c (Amount received from a creditor after adjusting value of building ₹ 1,80,000 against his dues)		40,000	40,000
(ii)	No entry			
(iii)	Realisation A/c ...Dr. To Bank A/c (Amount paid to a creditor being the balance after taking over investments)		30,000	30,000
(iv)	L's Capital A/c ...Dr. M's Capital A/c ...Dr. To Realisation A/c (Loss on realisation debited to Capital Accounts of the partners in their profit-sharing ratio, i.e., 2 : 3)		1,600 2,400	4,000

Illustration 18 (Gain (Profit) on Dissolution).

Balance Sheet of a firm as at 31st March, 2025 was:

Liabilities	₹	Assets	₹
X's Capital	5,00,000	Freehold Property	7,60,000
Y's Capital	5,00,000	Furniture	40,000
Z's Capital	3,00,000	Investments	2,00,000
Sundry Creditors	2,00,000	Sundry Debtors	1,00,000
Profit & Loss A/c	1,50,000	Stock	1,50,000
		Loan to Y	1,00,000
		Cash at Bank	3,00,000
	16,50,000		16,50,000

The firm was dissolved on 1st April, 2025. X took the Investments at a value of ₹ 1,90,000. Assets realised as follows: Freehold Property ₹ 9,00,000; Furniture ₹ Nil, Sundry Debtors ₹ 90,000 and Stock ₹ 1,40,000. Creditors were paid at a discount of 5%. Realisation Expenses were ₹ 20,000. Prepare necessary Ledger Accounts to close the books.

Solution:

Dr. REALISATION ACCOUNT Cr.			
Particulars	₹	Particulars	₹
To Sundry Assets—Transfer:		By Sundry Creditors	2,00,000
Freehold Property	7,60,000	By Bank A/c—Assets Realised:	
Furniture	40,000	Freehold Property	9,00,000
Investments	2,00,000	Sundry Debtors	90,000
Sundry Debtors	1,00,000	Stock	1,40,000
Stock	1,50,000	By X's Capital A/c—Investments	1,90,000
	12,50,000		
To Bank A/c—Creditors Paid	1,90,000		
To Bank A/c—Realisation Expenses	20,000		
To Gain (Profit) transferred to:			
X's Capital A/c	20,000		
Y's Capital A/c	20,000		
Z's Capital A/c	20,000		
	60,000		
	15,20,000		15,20,000

Note: Realised value of Furniture is given as Nil. It means furniture did not realise any amount.

Dr. PARTNERS' CAPITAL ACCOUNTS Cr.									
Date	Particulars	X ₹	Y ₹	Z ₹	Date	Particulars	X ₹	Y ₹	Z ₹
2025					2025				
April 1	To Realisation A/c—Investments	1,90,000	...	...	April 1	By Balance b/d	5,00,000	5,00,000	3,00,000
April 1	To Bank A/c—Final Payment	3,80,000	5,70,000	3,70,000	April 1	By Profit & Loss A/c	50,000	50,000	50,000
					April 1	By Realisation A/c—Gain (Profit)	20,000	20,000	20,000
		5,70,000	5,70,000	3,70,000			5,70,000	5,70,000	3,70,000

Dr. BANK ACCOUNT Cr.					
Date	Particulars	₹	Date	Particulars	₹
2025			2025		
April 1	To Balance b/d	3,00,000	April 1	By Realisation A/c—Realisation Expenses	20,000
April 1	To Loan to Y A/c	1,00,000	April 1	By Realisation A/c—Creditors Paid	1,90,000
April 1	To Realisation A/c—Assets Realised	11,30,000	April 1	By X's Capital A/c—Final Payment	3,80,000
			April 1	By Y's Capital A/c—Final Payment	5,70,000
			April 1	By Z's Capital A/c—Final Payment	3,70,000
		15,30,000			15,30,000

Illustration 19.

Nisha, Kamal and Vijay had an automobile spare parts business. Due to strained relationship among the partners, they were unable to take collective decisions for the growth of business. As a result, firm has been in losses for the last 3 years. The partners decided to dissolve the firm.

Following transactions took place at the time of dissolution:

- (i) Shiv, a creditor, to whom ₹ 6,000 were due, accepted office equipment at ₹ 4,000 and the balance was paid to him.
- (ii) Investment, which were of ₹ 1,00,000, half of it is taken by Mohan, a creditor, at 10% above the book value in settlement of his claim.
- (iii) Loan of ₹ 50,000 advanced by Nisha to the firm was returned.
- (iv) Loss on realisation ₹ 30,000 was distributed among the partners equally.

Journalise the above transactions at the time of dissolution of the firm.

Solution:

JOURNAL

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
(i)	Realisation A/c ...Dr. To Cash/Bank A/c (Amount paid to a creditor, Shiv)		2,000	2,000
(ii)	Cash/Bank A/c ...Dr. To Realisation A/c (Sale of half of the investment at book value)		50,000	50,000
(iii)	Nisha's Loan A/c ...Dr. To Cash/Bank A/c (Loan by Nisha repaid)		50,000	50,000
(iv)	Nisha's Capital A/c ...Dr. Kamal's Capital A/c ...Dr. Vijay's Capital A/c ...Dr. To Realisation A/c (Transfer of loss on realisation)		10,000 10,000 10,000	30,000

Illustration 20.

Suman and Rajan were partners in a firm sharing profits and losses in the ratio of 3 : 1. The firm was dissolved on 31st March, 2019. Pass the necessary Journal entries for the following transactions after various assets (other than cash in hand and at bank) and third party liabilities have been transferred to Realisation Account:

- (a) Dissolution expenses ₹ 10,000 were paid by the firm.
- (b) Rajan had given a loan of ₹ 60,000 to the firm for which he accepted ₹ 58,000 in full settlement.
- (c) The firm had a debit balance of ₹ 40,000 in the Profit & Loss Account on the date of dissolution.
- (d) Profit on realisation was ₹ 12,000.

(CBSE 2020 C)

Solution:**JOURNAL**

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
(a)	Realisation A/c ...Dr. To Cash A/c (Dissolution expenses paid by the firm)		10,000	10,000
(b)	Rajan's Loan A/c ...Dr. To Bank/Cash A/c To Realisation A/c (Rajan's loan fully settled)		60,000	58,000 2,000
(c)	Suman's Capital A/c ...Dr. Rajan's Capital A/c ...Dr. To Profit & Loss A/c (Debit balance of Profit & Loss Account debited to the partners)		30,000 10,000	40,000
(d)	Realisation A/c ...Dr. To Suman's Capital A/c To Rajan's Capital a/c (Profit on Realisation distributed between the partners)		12,000	9,000 3,000

Illustration 21.

Pass Journal entries for payment of following unrecorded liabilities on the dissolution of a firm of partners Shiv and Mohan:

- There was a contingent liability in respect of post-dated cheque discounted but not matured of ₹ 18,500. An issuer of a cheque of ₹ 2,500 became insolvent and fifty paise in a rupee was recovered. The liability of the firm on account of this cheque discounted and dishonoured has not so far been recorded.
- There was a contingent liability in respect of a claim for damages for ₹ 75,000, such liability was settled for ₹ 50,000 and paid by the partner Shiv.
- Firm had to pay ₹ 10,000 as compensation to an injured employee, which was a contingent liability not accepted by the firm.
- ₹ 5,000 for damages claimed by a customer has been disputed by the firm. It was settled at 70% by a compromise between the customer and the firm.

Solution:**JOURNAL**

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
(a) (i)	Realisation A/c ...Dr. To Bank A/c (Payment made for dishonoured post-dated cheque)		2,500	2,500
(ii)	Bank A/c ...Dr. To Realisation A/c (50% of dishonoured cheque recovered)		1,250	1,250
(b)	Realisation A/c ...Dr. To Shiv's Capital A/c (Claim for damages paid by Shiv)		50,000	50,000
(c)	Realisation A/c ...Dr. To Bank A/c (₹ 10,000 paid as compensation to an injured employee)		10,000	10,000
(d)	Realisation A/c ...Dr. To Bank A/c (Damages claimed by a customer paid by the firm)		3,500	3,500

Illustration 22.

Srijan, Raman and Manan were partners in a firm sharing profits and losses in the ratio of 2 : 2 : 1. On 31st March, 2017 their Balance Sheet was as follows:

BALANCE SHEET OF SRIJAN, RAMAN AND MANAN as on 31st March, 2017

Liabilities	₹	Assets	₹
Capitals:		Capital: Manan	10,000
Srijan 2,00,000		Plant	2,20,000
Raman 1,50,000	3,50,000	Investments	70,000
Creditors	75,000	Stock	50,000
Bills Payable	40,000	Debtors	60,000
Outstanding Salary	35,000	Bank	10,000
		Profit & Loss Account	80,000
	5,00,000		5,00,000

On the above date they decided to dissolve the firm.

- Srijan was appointed to realise the assets and discharge the liabilities. Srijan was to receive 5% commission on sale of assets (except cash) and was to bear all expenses of realisation.
- Assets were realised as follows:

	₹
Plant	85,000
Stock	33,000
Debtors	47,000
- Investments were realised at 95% of the book value.
- The firm had to pay ₹ 7,500 for an outstanding repair bill not provided for earlier.
- A contingent liability in respect of bills receivable, discounted with the bank had also materialised and had to be discharged for ₹ 15,000.
- Expenses of realisation amounting to ₹ 3,000 were paid by Srijan.

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

(Delhi and AI 2018)

Solution:

Dr.		REALISATION ACCOUNT		Cr.	
Particulars	₹	Particulars	₹		
To Sundry Assets:		By Sundry Liabilities:			
Plant 2,20,000		Creditors 75,000	75,000		
Investments 70,000		Bills Payable 40,000	40,000		
Stock 50,000		Outstanding Salary 35,000	35,000		1,50,000
Debtors 60,000	4,00,000	By Bank A/c:			
To Bank A/c (Liabilities):		Plant 85,000	85,000		
Creditors 75,000		Stock 33,000	33,000		
Bills Payable 40,000		Debtors 47,000	47,000		
Outstanding Expenses 7,500		Investment 66,500	66,500		2,31,500
Contingent Liabilities 15,000		By Loss transferred to:			
Outstanding Salary 35,000	1,72,500	Srijan's Capital A/c 81,030	81,030		
To Srijan's Capital A/c (Commission)	11,575	Raman's Capital A/c 81,030	81,030		
		Manan's Capital A/c 40,515	40,515		2,02,575
	5,84,075				5,84,075

T.S. Grewal's Double Entry Book Keeping—Accounting for Partnership Firms

Dr. PARTNERS' CAPITAL ACCOUNTS				Cr.			
Particulars	Srijan (₹)	Raman (₹)	Manan (₹)	Particulars	Srijan (₹)	Raman (₹)	Manan (₹)
To Balance <i>b/d</i>	—	—	10,000	By Balance <i>b/d</i>	2,00,000	1,50,000	—
To Profit & Loss A/c	32,000	32,000	16,000	By Realisation A/c	11,575	—	—
To Realisation A/c (Loss)	81,030	81,030	40,515	By Bank A/c (Bal. Fig.)	—	—	66,515
To Bank A/c (Bal. Fig.)	98,545	36,970	—				
	2,11,575	1,50,000	66,515		2,11,575	1,50,000	66,515

Dr. BANK ACCOUNT		Cr.	
Particulars	₹	Particulars	₹
To Balance <i>b/d</i>	10,000	By Realisation A/c	1,72,500
To Realisation A/c	2,31,500	By Srijan's Capital A/c	98,545
To Manan's Capital A/c	66,515	By Raman's Capital A/c	36,970
	3,08,015		3,08,015