### **1. ACCOUNTING FOR PARTNERSHIP FIRMS—FUNDAMENTALS**

### SHORT ANSWER TYPE QUESTIONS

- **Q. 1.** What is meant by 'partners', 'firm' and 'firm's name'?
- **Ans.** The persons who have entered into a partnership with one another are individually called *'partners'* and collectively a *'firm'*. The name under which the business is carried is called *'firm's name'*.
- **Q. 2.** Does partnership firm has a separate legal entity? Give reason in support of your answer.

(Delhi 2017)

- Ans. No, a partnership firm does not have a separate legal entity from its partners.Reason: Private assets of the partners can be used to meet the liabilities of the firm in case firm's assets are not adequate to meet its liabilities.
- **Q. 3.** What is the status of partnership firm from an accounting viewpoint?
- Ans. From an accounting viewpoint, partnership firm is a separate business entity from the partners.
- **Q. 4.** Give the meaning of 'Liability of Partners' as a feature of partnership. (*CBSE 2020*)
- **Ans.** The liability of partners is unlimited jointly and severally.
- **Q. 5.** What is the minimum number of partners a firm should have?
- Ans. There should be at least 2 persons to form a partnership.
- **Q. 6.** What is the maximum number of partners that a partnership firm can have? Name the Act that provides for the maximum number of partners in a partnership firm. (*Delhi 2016*)

Or

A group of 40 people wants to form a partnership firm. They want your advice regarding the maximum number of persons that can be there in a partnership firm and the name of the Act under whose provisions it is given. (AI 2016)

- Ans. The maximum number of partners in a firm can be 50 as per Section 464 of the Companies Act, 2013 read along with Rule 10 of the Companies (Miscellaneous) Rules, 2014.
- Q. 7. Gupta and Sharma were partners in a firm. They wanted to admit two more members in the firm. List the categories of individuals other than minors who cannot be admitted by them. (Delhi 2017)
- **Ans.** Apart from minor, the following individuals cannot be admitted as partners:
  - (i) Persons of unsound mind (*e.g.*, lunatics or insane), and
  - (ii) Persons disqualified by law (e.g., alien enemies, insolvents).
- **Q.** 8 Give **two** reasons in favour of having a Partnership Deed.
- Ans. (i) In case of any dispute or doubt, Partnership Deed is the guiding document.(ii) It can specify the rights and duties of each partner.
- Q. 9. Kajal, Neerav and Alisha are partners in a firm sharing profits in the ratio of 3 : 2 : 1. They decided to admit Rajan, their landlord as a partner in the firm. Rajan brought sufficient amount of capital and his share of goodwill premium. The accountant of the firm passed the entry of rent paid for the building to Rajan in 'Profit and Loss Appropriation Account'. Is he correct in doing so? Give reason in support of your answer. (AI 2015 C)

Ans. No, accountant of the firm is not correct in doing so.

**Reason:** Because rent paid is a charge against the profit so it should be debited to Profit & Loss Account.

- Q. 10. Ritesh and Hitesh are childhood friends. Ritesh is a consultant whereas Hitesh is an architect. They contributed equal amounts and purchased a building for ₹ 2 crores. After a year, they sold it for ₹ 3 crores and shared the profits equally. Are they doing the business in partnership? Give reason in support of your answer. (Delhi and AI 2018)
- **Ans.** No, they are not doing business in partnership because they are not involved in doing sale and purchase of land/plot on a regular basis. Mere co-ownership of a property does not amount to partnership.
- Q. 11. Name the accounts which are maintained for the partners when capitals of the partners are fixed. (AI 2014 C)
- Ans. (a) Partners' Capital Accounts; (b) Partners' Current Accounts.
- **Q. 12.** What is meant by 'Fixed Capital' of a partner? (*Delhi 2016 C*)
- **Ans.** 'Fixed Capital' of a partner means that the capital remains unchanged unless additional capital is introduced or withdrawal is made from the existing capital.
- **Q. 13.** What is meant by 'Fluctuating Capital' of a partner? (AI 2016 C)
- **Ans.** It is a method of maintaining Capital Accounts of partners under which all transactions related to a partner (such as his share of profit/loss, drawings, interest on capital or drawings, salary, etc.,) are recorded in his Capital Account.
- Q. 14. Distinguish between 'Fixed Capital Account' and 'Fluctuating Capital Account' on the basis of credit balance. (AI 2017, CBSE 2019)
- **Ans.** Fixed Capital Account always shows a credit (positive) balance, while Fluctuating Capital Account may show debit (negative) or credit (positive) balance.
- **Q. 15.** Which capital accounts always show a credit balance? (*CBSE 2020*)
- **Ans.** Fixed Capital accounts always show a credit balance.
- Q. 16. State any one difference between Fixed Capital Accounts and Fluctuating Capital Accounts of partners.
   (AI 2014 C)
- **Ans.** Fixed Capital Account cannot have a debit balance but Fluctuating Capital Account can have a debit balance.
- Q. 17. Why does the Fixed Capital Account of partners show credit balance even when the firm suffers losses year after year? (*CBSE 2020*)
- **Ans.** Fixed Capital Accounts of partners show credit balance because the losses are adjusted through Partners' Current Accounts.
- **Q. 18.** Give two items which may appear on the debit side of Partner's Current Account.

(Delhi and AI 2018 C)

- Ans. (i) Drawings, (ii) Interest on Drawings.
- Q. 19. In case the partners' capitals are fixed, in which account withdrawal of capital is recorded? (CBSE 2020)
- Ans. Partners' Capital Accounts.
- Q. 20. Dev withdrew ₹ 10,000 on 15th day of every month. Interest on drawings was to be charged @ 12% per annum. Calculate interest on Dev's drawings. (CBSE 2019)

**Ans.** Dev's Total Drawings = ₹ 10,000 × 12 = ₹ 1,20,000

Interest on Dev's Drawings = ₹ 1,20,000 × 12/100 × 6/12\* = ₹ 7,200.

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 $=\frac{11.5+0.5}{2}=6$  Months.

- Q. 21. Give the average period, in months, for charging interest on drawings of a fixed amount, withdrawn at the end of each quarter. (CBSE 2020 C)
- Ans. 4.5 Months.
- Q. 22. Give the average period, in months, for charging interest on drawings of a fixed amount withdrawn at the beginning of each quarter. (CBSE 2020 C)
- Ans. 7.5 Months.
- Q. 23. Nusrat and Sonu were partners in a firm sharing profits in the ratio of 3 : 2. During the year ended 31st March, 2015 Nusrat had withdrawn ₹ 15,000. Interest on her drawings amounted to ₹ 300. Pass necessary Journal entry for charging interest on drawings assuming that the capitals of the partners were fixed. (Delhi 2016)

Ans.	JOURNAL				
Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
2015 March 31	Nusrat's Current A/c To Interest on Drawings A/c (Interest charged on drawings by Nusrat debited to her Current Account)	Dr.		300	300

Q. 24. Tom and Harry were partners in a firm sharing profits in the ratio of 5 : 3. During the year ended 31st March, 2015 Tom had withdrawn ₹ 40,000. Interest on his drawings amounted to ₹ 2,000. Pass necessary Journal entry for charging interest on drawings assuming that the capitals of the partners were fluctuating. (AI 2016)

Ans.	JOURNAL			
Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
2015 March 31	Tom's Capital A/cDr. To Interest on Drawings A/c (Interest on drawings charged from Tom)		2,000	2,000

**Q. 25.** State **two** situations in which interest on partners' capital is generally provided.

(Foreign 2017, CBSE 2019)

Ans. Following are two situations in which interest on partners' capital is generally provided:

- (a) When profit shares are equal but capital contributed by partners are unequal.
- (b) When profit shares are unequal but capital contributed by partners are equal.
- **Q. 26.** In the absence of provision in the Partnership Deed, in which ratio is the deficiency arising out of guarantee of profit to a partner borne by the other partners? (*CBSE 2019*)
- **Ans.** In the absence of provision in the Partnership Deed, deficiency arising out of guarantee of profit to a partner is borne by the other partners in their old profit-sharing ratio.

### 2. GOODWILL: NATURE AND VALUATION

## SHORT ANSWER TYPE QUESTIONS

- Q. 1. State any three circumstances other than (i) admission of a new partner; (ii) retirement of a partner; and (iii) death of a partner, when need for valuation of goodwill of a firm may arise. (Delhi and AI 2016)
- **Ans.** Three circumstances are:
  - (i) Change in the profit-sharing ratio amongst the existing partners.
  - (ii) Dissolution of a firm involving sale of business as a going concern.
  - (iii) Amalgamation of two or more firms.
- Q. 2. Suraj and Dilip are partners in a firm dealing in stationery items. The firm is well managed and enjoys the advantage of being cost effective. It buys stationery items at reasonable cost from Dilip's relative who is a manufacturer of stationery items. The firm's sale outlet is situated near a school. As a result, the firm has a steady demand of stationery items and is earning good profits. The firm is donating 10% of its profits to the nearby school for the education of the students of below poverty line. State **any two** factors affecting the value of goodwill of the firm.
- Ans. Two factors affecting the value of goodwill of the firm are:
  - (a) Efficiency of management; (b) Favourable location.

#### $\langle$ 3. CHANGE IN PROFIT-SHARING RATIO AMONG THE EXISTING PARTNERS angle

#### SHORT ANSWER TYPE QUESTIONS

- Q. 1. What is meant by 'Reconstitution of a Partnership Firm'? (Delhi and AI 2014)
- **Ans.** Reconstitution of a partnership firm means change in economic relationship among partners. For example, change in profit-sharing ratio or retirement of a partner.
- Q. 2. Does the change in profit-sharing ratio result into dissolution of the partnership firm? Give reason in support of your answer.
   (AI 2017 C)
- **Ans.** Change in profit-sharing ratio amounts to *dissolution of partnership* and not dissolution of firm as the existing agreement comes to an end and the firm continues under new agreement.
- **Q. 3.** Give **any two** circumstances in which sacrificing ratio may be applied. (*CBSE 2019*)
- Ans. Sacrificing ratio may be applied in the following circumstances (Any two):
  - (i) When there is admission of a partner.
  - (ii) When there is retirement of a partner.
  - (iii) When there is death of a partner.
  - (iv) When there is change in profit-sharing ratio.
- Q. 4. Give the accounting entry for unrecorded assets in case of reconstitution of a partnership firm. (CBSE 2019)

...Dr.

Ans. Sundry Assets A/c To Revaluation A/c (Unrecorded assets recorded)

### **4. ADMISSION OF A PARTNER**

## SHORT ANSWER TYPE QUESTIONS

- **Q. 1.** What is the effect of admission of a new partner on Partnership?
- **Ans.** When a new partner is admitted into the firm, it is known as *admission of a new partner*. On admission of a new partner, old partnership comes to an end and new partnership comes into existence.
- Q. 2. State with reason whether at the time of Admission of a Partner, partnership is dissolved or partnership firm is dissolved. (AI 2013)
- Ans. Partnership is dissolved not the partnership firm since the firm continues to carry on its business.
- **Q.3.** State **any one** right acquired by a newly admitted partner. (CBSE 2020 C)

Or

A new partner acquires **two** main rights in the partnership firm which he joins. State **one** of the rights. (*CBSE 2019*)

- Ans. When a partner is admitted in the firm, he gets following two rights:
  - (i) Right to share future profits of the firm, and
  - (ii) Right to share in the assets of the firm.
- **Q. 4.** Why should a new partner contribute towards goodwill on his admission? (*Delhi 2017 C*)
- **Ans.** A new partner should contribute towards goodwill in order to compensate the existing partners for sacrificing their profit shares in his or her favour.
- Q. 5. At the time of admission of a new partner in the firm, the new partner compensates the old partners for their loss of share in the Super Profits of the firm for which he brings in an additional amount which is known as \_\_\_\_\_\_. (CBSE 2020)
- Ans. Goodwill or Premium for Goodwill.
- Q. 6. What is meant by New Profit-sharing Ratio in case of admission of a partner?
- Ans. The ratio in which all partners, including the incoming partner, will share the profits and losses in future is known as *New Profit-sharing Ratio*.
- Q. 7. How is Sacrificing Ratio calculated?
- Ans. Sacrificing Ratio is sacrificed share in profit of two or more partners in terms of ratio. Sacrificed profit share of each partner is calculated as follows:
  - Sacrificed Profit Share = Old Profit Share New Profit Share.
- **Q. 8.** In the absence of a Partnership Deed, in which ratio do the old partners sacrifice their share of profit in case of admission of a new partner? (*CBSE 2019*)
- Ans. In the absence of Partnership Deed, the old partners will sacrifice their profit shares in their old profit-sharing ratio.
- **Q. 9.** *S*, *B* and *J* were partners in a firm. T was admitted as a partner in the partnership firm for 1/5th share of profits. Calculate the sacrificing ratio of *S*, *B* and *J*. (*CBSE 2019*)
- **Ans.** Sacrificing Ratio of *S*, *B* and *J* is 1 : 1 : 1.
  - **Note:** Unless agreed otherwise sacrificing ratio of old partners will be the same as their old profitsharing ratio.

- Q. 10. List **any two** items that need adjustments in books of account of a firm at the time of admission of a partner. (AI 2014 C)
- Ans. (i) Adjustment of Accumulated Profits, Losses and Reserves.
  - (ii) Adjustment of Goodwill.
- Q. 11. Why is it necessary to revalue assets and liabilities of a firm in case of admission of a partner? (CBSE Sample Question Paper 2018)
- **Ans.** It is necessary to revalue assets and liabilities of a firm in case of admission of a partner so that the incoming partner is neither put to an advantage nor to disadvantage due to change in the market value of assets and liabilities.
- Q. 12. State **any two** reasons for the preparation of 'Revaluation Account' in case of admission of a partner? (*CBSE Sample Question Paper 2018*)
- Ans. Two reasons for preparation of 'Revaluation Account' at time of admission of a partner are:
  - (i) To record the effect of revaluation of assets and liabilities.
  - (ii) To ensure that the gain (profits) or loss on revaluation of assets and liabilities may be divided amongst the old partners.
- **Q. 13.** For which of the following situations, the old profit-sharing ratio of partners is used at the time of admission of a new partner?
  - (a) When new partner brings only a part of his share of goodwill.
  - (b) When new partner is not able to bring his share of goodwill.
  - (c) When, at the time of admission, goodwill already appears in the balance sheet.
  - (d) When new partner brings his share of goodwill in cash. (CBSE Sample Question Paper 2020)
- Ans. (c) When, at the time of admission, goodwill already appears in the balance sheet.Note: Existing goodwill must be written off in old profit-sharing ratio of old partners.
- **Q. 14.** Amit and Beena were partners in a firm sharing profits and losses in the ratio of 3 : 1. Chaman was admitted as a new partner for 1/6th share in the profits. Chaman acquired 2/5th of his share from Amit.

How much share did Chaman acquire from Beena?

(Delhi and AI 2018)

**Ans.** Chaman's Share of Profit = 1/6Share of Profit acquired by Chaman from Amit =  $1/6 \times 2/5 = 2/30$ Therefore, share of profit acquired by Chaman from Beena

$$\frac{1}{6} - \frac{2}{30} = \frac{5-2}{30} = \frac{3}{30}$$
 or  $\frac{1}{10}$ .

- Q. 15. At the time of admission of a partner, who decides what will be the share of profit of the new partner out of the firm's profit? (*Delhi 2013 C, CBSE 2019 C*)
- Ans. All the existing partners decide the share of new partner's profit with mutual consent.
- Q. 16. Kiya and Leela are partners sharing profits in the ratio of 3 : 2. Kiran was admitted as a new partner with 1/5th share in the profits and brought in ₹ 24,000 as her share of goodwill premium that was credited to the Capital Accounts of Kiya and Leela respectively with ₹ 18,000 and ₹ 6,000.

Calculate the new profit-sharing ratio of Kiya, Leela and Kiran. (CBSE 2019)

**Ans.** Sacrificing ratio of Kiya and Leela = ₹ 18,000 : ₹ 6,000 or 3 : 1

Kiran's share = 1/5Kiya's sacrifice =  $1/5 \times 3/4 = 3/20$ Leela's sacrifice =  $1/5 \times 1/4 = 1/20$ New Profit Share = Old Profit Share – Sacrificed Profit Share Kiya's New Profit Share = 3/5 - 3/20 = 9/20Leela's New Profit Share = 2/5 - 1/20 = 7/20Kiran's Profit Share = 1/5

New Profit-sharing Ratio of Kiya, Leela and Kiran = 9/20: 7/20: 1/5 = 9:7: 4.

Q. 17. What is meant by 'Hidden Goodwill'?

(AI 2017 C)

- **Ans.** Hidden Goodwill is the excess of desired total capital of the firm over the actual combined capital of all partners. In other words, when the value of goodwill of the firm is not specifically given, the value of goodwill has to be calculated on the basis of net worth of the firm.
- Q. 18. Under what circumstances premium for Goodwill paid by the incoming partner is not recorded in the books of account?
   (Delhi 2014 C)
- **Ans.** Premium for Goodwill is not recorded in the books of account when the incoming partner pays it privately to the sacrificing partners.
- Q. 19. Vinay and Naman are partners sharing profits in the ratio of 4 : 1. Their capitals were ₹ 90,000 and ₹ 70,000 respectively. They admitted Prateek for 1/3 share in the profits. Prateek brought ₹ 1,00,000 as his capital. Calculate the value of firm's goodwill.

(CBSE 2018, 2018 C)

- **Ans.** Prateek's share = 1/3; Prateek's Capital = ₹ 1,00,000.
  - A. Based on Prateek's Capital, Total Capital of the firm will be

= ₹ 1,00,000 × 3/1 = ₹ 3,00,000

**B.** Total existing capital of Vinay, Naman and Prateek

= ₹ 90,000 + ₹ 70,000 + ₹ 1,00,000 = ₹ 2,60,000

- **C.** Value of Firm's Goodwill (A B) = ₹ 3,00,000 ₹ 2,60,000 = ₹ 40,000.
- Q. 20. A, B, C and D were partners in a firm sharing profits in the ratio of 4 : 3 : 2 : 1. On 1st January, 2015, they admitted E as a new partner for 1/10 share in the profits. E brought ₹ 10,000 for his share of goodwill premium which was correctly recorded in the books by the accountant. The accountant showed goodwill at ₹ 1,00,000 in the books. Was the accountant correct in doing so? Give reason in support of your answer. (*Delhi 2015*)
- Ans. No, the accountant was not correct in doing so.
  - **Reason:** Since the new partner has brought his share of goodwill in cash against self generated goodwill, it cannot be recognised in the books of account. Only purchased goodwill can be recognised in the books of account as per AS-26.
- **Q. 21.** Why is the General Reserve distributed among the old partners before new partner is admitted?
- **Ans.** General Reserve represents accumulated profits relating to the period prior to the admission of a new partner. It belongs to old partners and, therefore, is distributed among old partners.

## **5. RETIREMENT OF A PARTNER**

## SHORT ANSWER TYPE QUESTIONS

**Q. 1.** What is meant by retirement of a partner?

**Ans.** Retirement of a partner means that the partner ceases to be a partner of the firm. It results in reconstitution of the firm by which old partnership comes to an end and a new partnership among the continuing (remaining) partners comes into existence.

Q. 2.	What is meant by '	Gaining Ratio	on retirement of a	partner? (	(CBSE 2019)
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- **Ans.** Gaining ratio is the ratio in which the remaining, *i.e.*, continuing partners take the retiring partner's share of profit.
- **Q. 3.** Why do we calculate Gaining Ratio?
- **Ans.** The objective of calculating Gaining Ratio is to find out the compensation to be paid by each of the remaining partners to the retiring partner.
- **Q. 4.** Give the formula for calculating 'gaining share' of a partner in a partnership firm.
- **Ans.** Gaining Share = New Profit Share Old Profit Share.
- **Q. 5.** Give **two** circumstances in which the Gaining Ratio is computed.
- **Ans.** (i) When a partner retires or dies.
  - (ii) When there is a change in the profit-sharing ratio.
- **Q. 6.** *A*, *B* and *C* were partners in a firm sharing profits and losses in the ratio of 4 : 3 : 2. *B* retired and his share was taken over by *A* and *C* equally.

Calculate the gaining ratio.

- **Ans.** Gaining Ratio of *A* and *C* is 1 : 1 as they have taken over *B*'s Share equally.
- Q. 7. Neetu, Meetu and Teetu were partners in a firm. On 1st January, 2018, Meetu retired. On Meetu's retirement the goodwill of the firm was valued at ₹ 4,20,000.

Pass necessary Journal entry for the treatment of goodwill on Meetu's retirement.

(Delhi and AI 2018)

(CBSE 2019)

Ans. Meetu's Share of Goodwill = ₹ 4,20,000 × 1/3 = ₹ 1,40,000
Meetu's Share of Goodwill ₹ 1,40,000 would be adjusted between Neetu and Teetu in their gaining ratio of 1 : 1.

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
2018					
Jan. 1	Neetu's Capital A/c (₹ 1,40,000 × 1/2)	Dr.		70,000	
	Teetu's Capital A/c (₹ 1,40,000 × 1/2)	Dr.		70,000	
	To Meetu's Capital A/c				1,40,000
	(Meetu's share of goodwill credited in her Capital Account by debiting				
	Neetu's and Teetu's Capital Accounts in their gaining ratio, <i>i.e.</i> , 1:1)				

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Note: Since the profit-sharing ratio is not given, it is assumed that they are sharing profits equally.

- **Q. 8.** Retirement or death of a partner will create a situation for the continuing partners, which is known as:
  - (a) Dissolution of Partnership.
- (b) Dissolution of Partnership Firm.
- (c) Winding up of business.
- (d) None of these. (CBSE Sample Question Paper 2020)
- **Ans.** (a) Dissolution of Partnership.
- Q.9. *P*, *Q* and *R* were partners in a firm. On 31st March, 2018 R retired. The amount payable to *R* ₹ 2,17,000 was transferred to his loan account. *R* agreed to receive interest on this amount as per the provisions of Partnership Act, 1932. State the rate at which interest will be paid to *R*. (*CBSE 2019*)
- **Ans.** Interest on Loan payable to *R* will be @ 6% p.a.
- Q. 10. At the time of retirement, how is the new profit-sharing ratio among the remaining partners calculated? (CBSE 2019 C)
- **Ans.** Profit-sharing ratio of the remaining partners is decided as per the mutual agreement among the remaining partners.
- Q. 11. In which ratio do the remaining partners acquire the share of profit of the retiring partner? (Delhi 2018 C)
- Ans. The remaining partners acquire the share of profit of retiring partner in their gaining ratio.
- Q. 12. Why does a firm revaluate its assets and reassess its liabilities on retirement or death of a partner? (Foreign 2014)
- **Ans.** At the time of retirement or death of a partner, assets are revalued and liabilities are reassessed so that the gain (profit) or loss arising on account of such revaluation up to the date of retirement or death of a partner may be ascertained and adjusted in the Capital Accounts of all the partners in their old profit-sharing ratio.
- **Q. 13.** State any one difference between Sacrificing Ratio and Gaining Ratio. (CBSE 2020 C)
- **Ans.** Sacrificing Ratio is calculated at the time of admission of a new partner, whereas Gaining Ratio is calculated at the time of retirement or death of a partner.

### **6. DEATH OF A PARTNER**

#### SHORT ANSWER TYPE QUESTIONS

- Q. 1. Why heirs of retiring/deceased partner are entitled to share of goodwill of the firm? (Delhi 2014)
- **Ans.** The retiring partner/heirs of deceased partner are entitled to the share of goodwill because the goodwill earned by the firm is the result of the efforts of all the existing partners in the past.
- **Q. 2.** Name the account which is opened to credit the share of profit of the deceased partner, till the time of his death to his Capital Account. (*Delhi 2013*)
- Ans. Profit & Loss Suspense Account.
- Q. 3. Differentiate between 'Profit & Loss Appropriation Account' and 'Profit & Loss Suspense Account'. (Delhi and AI 2015 C)
- Ans. Profit & Loss Appropriation Account is prepared to show the distribution of Net Profit among the partners.

Profit & Loss Suspense Account is prepared to adjust the Deceased Partner's Share of Profit till the date of death of the partner when profit-sharing ratio of continuing partners does not change.

- Q. 4. At what rate is interest payable on the amount remaining unpaid to the executor of deceased partner? (AI 2013)
- **Ans.** Rate of interest is 6% p.a.
- Q. 5. In which ratio do the remaining partners acquire the share of deceased partner?

(Delhi and AI 2018 C)

- Ans. Remaining partners acquire the share of deceased partner in their gaining ratio.
- Q. 6. State the basis of calculating the amount of profit payable to the legal representative of a deceased partner in the year of death. (CBSE 2019)
- **Ans.** Amount of Profit may be estimated on the basis of:
  - (a) Last year's profit/average profit of last given no. of years; (b) Turnover/Sales.
- Q. 7. Diya, Riya and Tiya were partners sharing profits and losses in the ratio of 2:3:5. Tiya died on 28th November, 2019. Her share of profit was taken equally by Diya and Riya. Diya's share of profit in the new firm will be \_\_\_\_\_\_. (CBSE 2020)
- **Ans.** Diya's share of profit in the new firm will be 9/20.

#### Working Note:

Ans.

Diya's New Profit Share = Old Profit Share + Profit Share Taken

$$= \frac{2}{10} + \frac{5}{20} \left( \frac{5}{10} \times \frac{1}{2} \right) = \frac{4+5}{20} = \frac{9}{20}$$

Q. 8. Riyansh, Garv and Kavleen were partners in a firm sharing profit and loss in the ratio of 8:7:5. On 2nd November, 2018, Kavleen died. Kavleen's share of profits till the date of her death was calculated at ₹ 9,375.

Pass the necessary Journal entry.

(CBSE Sample Question Paper 2019)

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Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
2018					
Nov. 2	Profit & Loss Suspense A/c	Dr.		9,375	
	To Kavleen's Capital A/c				9,375
	(Kavleen's share of profit up to the date of her death transferred to her				
	Capital Account)				

# 7. DISSOLUTION OF A PARTNERSHIP FIRM

### SHORT ANSWER TYPE QUESTIONS

- **Q. 1.** What is meant by dissolution of a firm?
- **Ans.** Dissolution of a firm means the dissolution of partnership among all the partners of the firm and the firm's business is closed.

- Q. 2. What is Dissolution of Partnership?
- **Ans.** Dissolution of Partnership means change in existing relations of the partners. The firm continues its business.
- Q. 3. State the order of payment of the following, in case of dissolution of partnership firm:
  - (i) to each partner proportionately what is due to him/her from the firm for advances as distinguished from capital (i.e., partner's loan);
  - (ii) to each partner proportionately what is due to him on account of capital; and
  - (iii) for the debts of the firm to the third parties. (CBSE Sample Question Paper 2019)
- Ans. (iii) for the debts of the firm to the third parties;
  - (i) to each partner proportionately what is due to him/her from the firm for advances as distinguished from capital (*i.e.*, partner's loan); and
  - (ii) to each partner proportionately what is due to him on account of capital.
- Q. 4. Distinguish between 'Dissolution of Partnership' and 'Dissolution of Partnership Firm' on the basis of closure of books. (*CBSE 2019*)

Basis	Dissolution of Partnership	Dissolution of Partnership Firm
Closure of Books	It does not require closure of books of account because the business is not closed.	Books of account are closed as the business is closed.

Q. 5. Distinguish between 'Dissolution of Partnership' and 'Dissolution of Partnership Firm' on the basis of 'Court's intervention'. (CBSE 2019)

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Basis	Dissolution of Partnership	Dissolution of Partnership Firm
Court's Intervention	Court does not intervene because partnership is dissolved by mutual agreement.	A firm may be dissolved by court order.

Q. 6. Distinguish between 'Dissolution of Partnership' and 'Dissolution of Partnership Firm' on the basis of 'Settlement of Assets and Liabilities'. (*Foreign 2014, 2018, CBSE 2019*)

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Basis	Dissolution of Partnership	Dissolution of Partnership Firm
Settlement of Assets and Liabilities	Assets are revalued and Liabilities are reassessed.	All the Assets other than cash are realised and Liabilities are paid.

Q. 7. Distinguish between 'Dissolution of Partnership' and 'Dissolution of Partnership Firm' on<br/>the basis of 'Economic Relationship'.(Delhi and AI 2016, 2020 C)

Ans.

Basis	Dissolution of Partnership	Dissolution of Partnership Firm
Economic Relationship	Economic Relationship between the partners changes.	Economic Relationship between the partners comes to an end.

**Q. 8.** State **any two** situations when a partnership firm may be compulsorily dissolved.

(CBSE 2019)

#### Ans. A firm is compulsorily dissolved in the following cases:

- (i) When all the partners or all the partners except one become insolvent.
- (ii) When the business of the firm becomes illegal.
- **Q. 9.** State **any two** grounds on the basis of which the Court may order for dissolution of a partnership firm. (*CBSE 2019*)

Or

State any one occasion for the dissolution of the firm on Court's orders. (Delhi 2017 C)

- Ans. (i) Persistent breach of agreement by a partner.
  - (ii) Insanity of a partner.
  - (iii) Permanent incapacity of a partner.
- **Q. 10.** 'Complete the following Statement':

 When a liability is discharged by a partner, at the time of dissolution, Capital Account is credited because \_\_\_\_\_.
 (CBSE Sample Question Paper 2019)

- Ans. The claim of the partner against the firm is increased by the amount of liability assumed.
- **Q. 11.** Name an item which is transferred to credit side of Realisation Account at the time of dissolution of partnership firm, but does not involve cash payment. (*CBSE 2020*)
- **Ans.** Any one of the following:

- -Provision for Doubtful Debts;
- -Accumulated Depreciation.
- **Q. 12.** Pass the necessary Journal entry for treatment of Partner's loan appearing on the assets side of the Balance Sheet in case of dissolution of a partnership firm. (*CBSE 2019*)

Ans.	JOORNAL				
Date	Particulars	L.I	<del>.</del> Dr. (₹)	Cr. (₹)	
	Cash/Bank A/cC To Partner's Loan A/c/Loan to Partner A/c (Loan to partner by the firm received)	r.			

- **Note:** Partner's Loan appearing on the assets side of the Balance Sheet implies Loan given to the partner by the firm.
- Q. 13. Varun and Arun are partners in a firm sharing profits and losses equally. On the date of dissolution of the partnership firm, Varun's wife's loan was ₹ 45,000, whereas Arun's loan was ₹ 65,000. Which loan will be paid first and why?
- Ans. Varun's wife's loan will be paid first as it's an outside liability (third party liability).
- Q. 14. A and B are partners in a firm sharing profits in the ratio of 3 : 2. Mrs. B has given a loan of ₹ 40,000 to the firm and A has also given a loan of ₹ 80,000 to the firm. The firm was dissolved and its assets realised ₹ 60,000. State the order of payment of Mrs. B's loan and A's loan assuming that there was no other third party liability of the firm. (CBSE 2019 C)
- Ans. Order of Payment:

First, the third party loan, *i.e.*, Mrs. *B*'s Loan will be paid then, Partner's Loan, *i.e.*, *A*'s Loan will be paid.

Q. 15. At the time of dissolution of a partnership firm, the book value of sundry assets transferred to Realisation Account was ₹ 2,00,000. 50% of these sundry assets were taken by partner A at 20% discount, 40% of remaining assets were sold at a profit of 30% on cost. 5% of the balance was found obsolete and realised nothing. The remaining assets were taken over by a creditor in full settlement of his claim.

Pass necessary Journal entries for the above. (CBSE 2019)

Ans.	JOURNAL			
Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
	Cash/Bank A/cDr.		52,000	
	A's Capital A/cDr.		80,000	
	To Realisation A/c			1,32,000
	(Assets realised and some assets taken by partner A)			