

Dissolution of a Partnership Firm

MEANING OF KEY TERMS USED IN THIS CHAPTER

- 1. Dissolution of Firm**

Dissolution of the firm means business of the firm ends and the firm is dissolved, *i.e.*, is closed. Assets of the firm are sold and liabilities are paid.

In effect, economic relationship among the partners comes to an end.
- 2. Dissolution of Partnership**

It means change in economic relationship among partners of the firm but the firm continues its business.

In other words, there is dissolution of partnership whenever a partnership is reconstituted, *viz.*, admission, retirement, death or insolvency of a partner.
- 3. Firm's Debts**

Firm's Debts means the debts owed by the firm to outsiders.
- 4. Private Debts**

Private Debts means debts owed by a partner to any other person.
- 5. Realisation Account**

It is the account to which assets owned by the firm except loan to partner, Cash in Hand/Cash at Bank, Fictitious Assets, and undistributed losses and liabilities owed to outsiders except loan from partner, Reserves and undistributed profits are transferred at the time of firm's dissolution.

Amounts realised from assets and payments of liabilities are recorded in this account.

The balance is Gain (Profit) or Loss on realisation of assets and settlement of liabilities.
- 6. Unrecorded Assets**

Assets which are not recorded in the books (Balance Sheet) of the firm but exist are **unrecorded assets**.
- 7. Unrecorded Liability**

Liability which is not recorded in the books of the firm but payable is known as **unrecorded liability**.

CHAPTER SUMMARY

- **Dissolution of a partnership between/among all the partners of a firm is termed Dissolution of the Firm:** In case of dissolution of a firm, the business of the firm is closed, assets are realised and liabilities are paid.
- **Dissolution of partnership refers to the change in the existing relations of the partners:** The firm continues its business. It may take place on admission/retirement/death/insolvency of a partner or change in the profit-sharing ratio.

Settlement of Accounts (Section 48)

- **Treatment of Losses:** Losses including deficiencies of capital are paid in the following order:
 - First out of profits of the firm;
 - Then out of capitals of the partners;
 - Lastly by partners individually in their profit-sharing ratio. [Section 48(a)]
- **Application of Assets:** Assets of the firm, including any sum contributed by the partners to meet the deficiencies of capital are applied in the following order:
 - In paying firm's debts to the third parties;
 - In paying to each partner rateably what is due to him on account of loans and advances;
 - In paying to each partner rateably what is due to him on account of capital; and
 - The surplus, if any, is distributed among the partners in their profit-sharing ratio. [Section 48(b)]

Treatment of Firm's Debts and Private Debts (Section 49)

- Firm's property is applied first towards the payment of firm's debts; then the surplus, if any, is applied towards the payment of partner's private debts to the extent to which the concerned partner is entitled to share in the surplus; and
 - Partner's personal property is applied first in payment of his personal debts and the surplus, if any, in payment of firm's debts if the firm's liabilities exceed the firm's assets.
- Loan to partner by the firm is received from him, if the question so specifies. If the question does not specify so it is transferred to his Capital Account.
 - **Closing of Firm's Books:** Firm's books are closed by preparing the following accounts:
 - Realisation Account; (ii) Loan by Partners Accounts; (iii) Loan to Partners Accounts (iv) Partners' Capital Accounts; and (v) Bank or Cash Account.
 - **Realisation Account:** It is prepared on dissolution of a firm. The object or purpose of preparing the account is to determine gain (profit) or loss on realisation of assets and payment of liabilities.

Accounting Entries Relating to Realisation Account

Transfer of assets (except cash and bank balances)	Realisation A/c To Sundry Assets A/c	...Dr.	[At book value]
Transfer of liabilities (except partners' loan, capital and undistributed profits)	Sundry Liabilities A/c To Realisation A/c	...Dr.	[At book value]
Sale of assets	Bank/Cash A/c To Realisation A/c	...Dr.	[At selling price]

Assets taken over by a partner	Concerned Partner's Capital A/c ...Dr. [At agreed value] To Realisation A/c
Assets taken over by a Partner against Payment of his Loan	Partner's Loan A/c ...Dr. [With Loan Amount] To Realisation A/c [Agreed Value] To Realisation A/c [Loan Amount less Agreed Value]
Sale of unrecorded asset	Bank/Cash A/c ...Dr. [Amount received on sale] To Realisation A/c
Payment of liabilities	Realisation A/c ...Dr. [Amount of payment] To Bank/Cash A/c
Any liability taken over by a partner	Realisation A/c ...Dr. [At agreed value] To Concerned Partner's Capital A/c
Payment of realisation expenses paid by the firm	Realisation A/c ...Dr. [Amount of payment] To Bank/Cash A/c
Payment of unrecorded liability (which did not appear in the Balance Sheet)	Realisation A/c ...Dr. [Amount of payment] To Bank/Cash A/c
Payment of realisation expenses by any partner on firm's behalf	Realisation A/c ...Dr. [Amount of payment] To Concerned Partner's Capital A/c
Credit balance of Realisation Account Gain(Profit)	Realisation A/c ...Dr. [In profit-sharing ratio] To Partners' Capital A/cs
Debit balance of Realisation Account (Loss)	Partners' Capital A/cs ...Dr. [In profit-sharing ratio] To Realisation A/c

Points to Remember

- An Asset (e.g., Debtors) against which a provision or reserve exists, is transferred to Realisation Account at its gross value.
- *Fictitious asset* like debit balance of Profit & Loss Account or Deferred Revenue Expenditure is not transferred to Realisation Account. It is debited to Partners' Capital Accounts in their profit-sharing ratio.
- Balance of Partners' Capital Accounts/Current Accounts are not transferred to Realisation Account.
- Balance of Partners' Current Accounts are transferred to respective Partners' Capital Accounts.
- Loan provided by the firm to the partner is recovered from the partner in cash or through cheque.
- Balance of Realisation Account means gain (profit) (if it has credit balance) and loss (if it has debit balance) on realisation.
- Gain (Profit) or Loss on realisation is transferred to Partners' Capital Accounts in the profit-sharing ratio.
- Balance at Bank is not transferred to Realisation Account.
- **If the question is silent about the realisation of any intangible asset**, it is assumed that such asset has not realised any amount.
- **If the question is silent about the realisation of any tangible asset**, it is assumed that such asset has been realised at its book value.
- **If the question is silent about the payment of a liability**, it is paid.

Solved Questions

Illustration 1.

Pass Journal entries for the following transactions:

- (i) Realisation expenses were ₹ 10,000.
- (ii) Realisation expenses were ₹ 5,000 and paid by a partner.
- (iii) Realisation expenses amounted to ₹ 5,000 were paid by the firm on behalf of a partner.
- (iv) A partner was paid remuneration and expenses of ₹ 7,500 to carry out dissolution of the firm. Actual expenses were ₹ 10,000.
- (v) Dissolution expenses were ₹ 8,000. Out of the said expenses, ₹ 3,000 were to be borne by the firm and the balance by a partner. ₹ 8,000 are paid by the firm.
- (vi) Dissolution expenses were ₹ 8,000; ₹ 3,000 were to be borne by the firm and the balance by a partner. The expenses were paid by a partner.
- (vii) Realisation expenses of ₹ 5,000 were to be borne and paid by a partner.
- (viii) X, the partner, is paid remuneration of ₹ 5,000 for completing the dissolution process. Realisation expenses of ₹ 8,000 are met by the firm.
- (ix) Realisation expenses of ₹ 5,000 were to be borne by X, a partner. However, it was paid by Y.

Solution:

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Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
(i)	Realisation A/c ...Dr. To Cash/Bank A/c (Dissolution expenses paid) Explanation: The expenses of dissolution are borne and paid by the firm, since the question does not specify who is to bear the dissolution expenses. Therefore, the expenses are treated to be expenses of the firm.		10,000	10,000
(ii)	Realisation A/c ...Dr. To Concerned Partner's Capital A/c (Dissolution expenses paid by the partner credited to his Capital Account) Explanation: The expenses of dissolution are borne by the firm but paid by the partner on behalf of the firm. Therefore, Concerned Partner's Capital Account is credited.		5,000	5,000
(iii)	Concerned Partner's Capital A/c ...Dr. To Cash/Bank A/c (Dissolution expenses paid by the firm on behalf of the partner debited to his Capital Account) Explanation: The expenses of dissolution are borne by the partner but are paid by the firm. Therefore, Concerned Partner's Capital Account is debited. Since the amount is paid by the firm, Cash/Bank Account is credited.		5,000	5,000

(iv)	Realisation A/c To Concerned Partner's Capital A/c (Remuneration to partner credited to his Capital Account) Explanation: Partner is paid ₹ 7,500 towards his remuneration and expenses of dissolution. The excess expenses, i.e., ₹ 2,500 (₹ 10,000 – ₹ 7,500) will be borne by the partner and not by the firm.	...Dr.	7,500	7,500
(v)	Realisation A/c Concerned Partner's Capital A/c To Cash/Bank A/c (Dissolution expenses paid by the firm, firm's share of expenses debited to Realisation Account and balance to Concerned Partner's Capital Account) Explanation: Total expenses of dissolution are ₹ 8,000. Out of this, ₹ 3,000 is to be borne by the firm and balance ₹ 5,000 by the partner. Therefore, ₹ 3,000 is debited to Realisation Account. Balance ₹ 5,000 is debited to Concerned Partner's Capital Account. Cash/Bank Account is credited because the expenses are paid by the firm.	...Dr. ...Dr.	3,000 5,000	8,000
(vi)	Realisation A/c To Concerned Partner's Capital A/c (Realisation expenses paid by the partner credited to his Capital Account) Explanation: Total expenses of dissolution ₹ 8,000 are paid by the partner. Out of these expenses, firm is to bear ₹ 3,000. Since the partner has paid the dissolution expenses on behalf of the firm, Realisation Account is debited and Concerned Partner's Capital Account is credited with ₹ 3,000. Entry is not passed for ₹ 5,000, it being borne and also paid by the partner.	...Dr.	3,000	3,000
(vii)	No entry is to be passed. Explanation: Entry for expenses of dissolution will not be passed because the expenses (₹ 5,000) are borne and also paid by the partner.			
(viii)	(a) Realisation A/c To X's Capital A/c (Remuneration payable to X for completing dissolution process) (b) Realisation A/c To Cash/Bank A/c (Realisation expenses paid) Explanation: X, the partner, is paid ₹ 5,000 as remuneration for completing dissolution process. However, the expenses of dissolution are met by the firm. Therefore, X's Capital A/c is credited with ₹ 5,000 (remuneration) and ₹ 8,000 being expenses met by the firm is debited to Realisation Account and credited to Cash/Bank A/c.	...Dr. ...Dr.	5,000 8,000	5,000 8,000
(ix)	X's Capital A/c To Y's Capital A/c (Realisation expenses to be borne by X, paid by Y)	...Dr.	5,000	5,000

7.6 Double Entry Book Keeping—CBSE XII

Illustration 2 (Dissolution—Journal Entries).

Pass Journal entries in the books of A and B sharing profits and losses in the ratio of 3 : 1, for the following transactions on dissolution of the firm?

- (i) An unrecorded asset realised ₹ 25,000.
- (ii) Stock of ₹ 20,000 was taken by partner A.
- (iii) Creditors were paid ₹ 30,000.
- (iv) B to bear realisation expenses for which he will get ₹ 1,900. The actual expenses paid by B were ₹ 1,500.
- (v) There was a balance of ₹ 10,000 in the General Reserve Account on the date of dissolution.
- (vi) Gain (Profit) on Realisation of ₹ 40,000 is to be distributed between partners A and B in the ratio of 3 : 1.

Solution:

JOURNAL

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
(i)	Bank A/c ...Dr. To Realisation A/c (Realisation of an unrecorded asset)		25,000	25,000
(ii)	A's Capital A/c ...Dr. To Realisation A/c (Stock taken by A)		20,000	20,000
(iii)	Realisation A/c ...Dr. To Bank A/c (Payment made to creditors)		30,000	30,000
(iv)	Realisation A/c ...Dr. To B's Capital A/c (Note) (Expenses payable to B)		1,900	1,900
(v)	General Reserve A/c ...Dr. To A's Capital A/c To B's Capital A/c (Transfer of General Reserve)		10,000	7,500 2,500
(vi)	Realisation A/c ...Dr. To A's Capital A/c To B's Capital A/c (Transfer of realisation gain (profit))		40,000	30,000 10,000

Note: When it is agreed that partner will bear the realisation expenses and for this he is paid an agreed amount, then amount payable to the partner is debited for expenses.

Illustration 3.

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

- (i) Sudha agreed to pay her husband's loan ₹ 19,000.
- (ii) A Debtor whose debt of ₹ 9,300 was written off as bad in the books paid ₹ 7,500 in settlement.

- (iii) Shiva took over all Investments at ₹ 13,300.
 (iv) Sundry Creditors ₹ 10,000 were paid at 9% discount.
 (v) Realisation expenses ₹ 3,400 were paid by Sudha for which she was allowed ₹ 3,000.
 (vi) Loss on realisation ₹ 9,400 was divided between Sudha and Shiva in 3 : 2 ratio. (AI 2011)

Solution:

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Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
(i)	Realisation A/c ...Dr. To Sudha's Capital A/c (Sudha's husband loan taken by Sudha)		19,000	19,000
(ii)	Bank A/c ...Dr. To Realisation A/c (Bad debts recovered)		7,500	7,500
(iii)	Shiva's Capital A/c ...Dr. To Realisation A/c (Investments taken by Shiva)		13,300	13,300
(iv)	Realisation A/c ...Dr. To Bank A/c (Sundry creditors settled)		9,100	9,100
(v)	Realisation A/c ...Dr. To Sudha's Capital A/c (Realisation expenses borne by Sudha)		3,000	3,000
(vi)	Sudha's Capital A/c ...Dr. Shiva's Capital A/c ...Dr. To Realisation A/c (Loss on realisation transferred to Partners' Capital Accounts)		5,640 3,760	9,400

Illustration 4.

Disha, Mohit and Nandan are partners. They decide to dissolve their firm. Pass necessary Journal entries for the following after various assets (other than Cash and Bank) and the third party liabilities have been transferred to Realisation Account.

- (i) An old typewriter which was not recorded in the books was sold for ₹ 2,000 whereas its expected value was ₹ 5,000.
 (ii) Stock of ₹ 70,000 was taken by Disha at a discount of 30%.
 (iii) Total creditors of the firm were ₹ 20,000. A creditor for ₹ 2,000 was untraceable and other creditors accepted payment allowing 10% discount.
 (iv) Mohit paid realisation expenses of ₹ 18,000 out of his private funds, who was to get remuneration of ₹ 13,000 for completing the dissolution process and was responsible to bear all realisation expenses.
 (v) Nandan had taken a loan of ₹ 50,000 from the firm, which was paid fully by him to the firm.
 (vi) ₹ 12,000 were recovered from a Debtor which was written off as Bad Debts last year.

(Delhi 2012 C)

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Solution:

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Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
(i)	Bank A/c ...Dr. To Realisation A/c (Unrecorded typewriter sold for ₹ 2,000)		2,000	2,000
(ii)	Disha's Capital A/c ...Dr. To Realisation A/c (Stock of ₹ 70,000 taken by Disha at a discount of 30%)		49,000	49,000
(iii)	Realisation A/c ...Dr. To Bank A/c (Payment made to creditors)		16,200	16,200
(iv)	Realisation A/c ...Dr. To Mohit's Capital A/c (Remuneration credited for completing the dissolution process)		13,000	13,000
(v)	Bank A/c ...Dr. To Loan to Nandan A/c (Loan advanced to Nandan recovered)		50,000	50,000
(vi)	Bank A/c ...Dr. To Realisation A/c (₹ 12,000 recovered from a debtor which was written off as Bad Debts last year)		12,000	12,000

Illustration 5.

Parul, Payal and Priyanka are partners. They decided to dissolve their firm. Pass necessary Journal entries for the following after various assets (other than Cash and Bank) and the third party liabilities have been transferred to Realisation Account:

- (i) There were total Debtors of ₹ 76,000. A Provision for Doubtful Debts also stood in the books at ₹ 6,000. ₹ 12,000 Debtors proved bad and rest paid the amount due.
- (ii) Parul agreed to pay off her husband's loan of ₹ 7,000 at a discount of 5%.
- (iii) A machine which was not recorded in the books was taken over by Payal at ₹ 3,000, whereas its expected value was ₹ 5,000.
- (iv) A contingent liability (not provided for) of ₹ 4,000 was also discharged.
- (v) The firm had a debit balance of ₹ 27,000 in the Profit & Loss Account on the date of dissolution.
- (vi) Priyanka paid realisation expenses of ₹ 15,000 out of her pocket and she was to get a remuneration of ₹ 18,000 for completing the dissolution process. (AI 2012 C)

Solution:

JOURNAL

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
(i)	Bank A/c ...Dr. To Realisation A/c (Debtors of ₹ 12,000 proved bad and rest paid the amount)		64,000	64,000
(ii)	Realisation A/c ...Dr. To Parul's Capital A/c (Parul agreed to pay off her husband's loan at a discount of 5%)		6,650	6,650
(iii)	Payal's Capital A/c ...Dr. To Realisation A/c (Unrecorded machine taken by Payal)		3,000	3,000
(iv)	Realisation A/c ...Dr. To Bank A/c (Contingent liability discharged)		4,000	4,000
(v)	Parul's Capital A/c ...Dr. Payal's Capital A/c ...Dr. Priyanka's Capital A/c ...Dr. To Profit & Loss A/c (Accumulated loss distributed)		9,000 9,000 9,000	27,000
(vi)	Realisation A/c ...Dr. To Priyanka's Capital A/c (Realisation expenses of ₹ 15,000 paid by Priyanka and remuneration of ₹ 18,000 also credited to her account)		33,000	33,000

Illustration 6.

Hanif and Jubed were partners in a firm sharing profits in the ratio of their capitals. On 31st March, 2013, their Balance Sheet was as follows:

BALANCE SHEET OF HANIF AND JUBED as at 31st March, 2013

Liabilities	₹	Assets	₹
Creditors	1,50,000	Bank	2,00,000
Workmen Compensation Reserve	3,00,000	Debtors	3,40,000
General Reserve	75,000	Stock	1,50,000
Hanif's Current Account	25,000	Furniture	4,60,000
<i>Capital A/cs:</i>		Machinery	8,20,000
Hanif	10,00,000	Jubed's Current Account	80,000
Jubed	5,00,000		
	15,00,000		
	20,50,000		20,50,000

On the above date the firm was dissolved:

- Debtors were realised at a discount of 5%. 50% of the stock was taken over by Hanif at 10% less than the book value. Remaining stock was sold for ₹ 65,000.
- Furniture was taken over by Jubed for ₹ 1,35,000. Machinery was sold as scrap for ₹ 74,000.
- Creditors were paid in full.
- Expenses on realisation ₹ 8,000 were paid by Hanif.

Prepare Realisation Account.

(AI 2014)

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Solution:

REALISATION ACCOUNT			
Dr.	₹	Particulars	Cr.
To Debtors	3,40,000	By Creditors	1,50,000
To Stock A/c	1,50,000	By Bank A/c (Assets Realised):	
To Furniture A/c	4,60,000	Debtors (₹ 3,40,000 – 5%)	3,23,000
To Machinery A/c	8,20,000	Stock	65,000
To Bank A/c (Creditors)	1,50,000	Machinery	74,000
To Hanif's Capital A/c (Realisation Expenses)	8,000	By Hanif's Capital A/c (Stock) (₹ 75,000 – 10%)	67,500
		By Jubed's Capital A/c (Furniture)	1,35,000
		By Loss transferred to:	
		Hanif's Capital A/c	7,42,333
		Jubed's Capital A/c	3,71,167
	19,28,000		11,13,500
			19,28,000

Illustration 7 (Dissolution and Unrecorded Liability).

Following is the Balance Sheet of Vishnu, Sanjiv and Sudhir as at 31st March, 2026:

Liabilities	₹	Assets	₹
Bills Payable	20,000	Cash/Bank	8,000
Creditors	18,000	Bills Receivable	12,000
Mrs. Vishnu's Loan	20,000	Stock	25,000
Outstanding Salary	5,000	Sundry Debtors	40,000
Investments Fluctuation Fund	10,000	Less: Provision for Doubtful Debts	4,000
Workmen Compensation Reserve	15,000	Land and Building	50,000
Capital A/cs:		Furniture	10,000
Vishnu	40,000	Computer	5,000
Sanjiv	30,000	Investments	30,000
Sudhir	18,000		
	88,000		
	1,76,000		1,76,000

Profit and loss sharing ratio of the partners is 5 : 3 : 2. On the above date, partners decided to dissolve the firm. The assets realised as follows:

Bills Receivable were realised at a discount of 5%. All Debtors were good. Stock realised ₹ 22,000. Land and Building realised at 40% higher than the book value. Furniture was sold for ₹ 8,000 by auction and auctioneer's commission amounted to ₹ 500. Computer was taken by Vishnu for an agreed valuation of ₹ 3,000. Investments were sold in the open market at a price of ₹ 35,000, for which a commission of ₹ 600 was paid to the broker. Bills Payable were paid at full amount. Creditors, however, agreed to accept 10% less. All other liabilities were paid at their book value. The firm retrenched their employees three months before the dissolution of the firm and firm had to pay ₹ 20,000 as compensation. This liability was not appearing in the above Balance Sheet. A Workmen Compensation Claim of ₹ 5,000 has arisen.

Close the books of the firm by preparing Realisation Account, Partners' Capital Accounts and Bank Account.

Solution:

Dr.		REALISATION ACCOUNT		Cr.	
Particulars	₹	Particulars	₹		
To Sundry Assets—Transfer:		By Sundry Liabilities:			
Bills Receivable	12,000	Bills Payable		20,000	
Stock	25,000	Creditors		18,000	
Sundry Debtors	40,000	Mrs. Vishnu's Loan		20,000	
Land and Building	50,000	Outstanding Salary		5,000	
Furniture	10,000	Investments Fluctuation Fund		10,000	
Computer	5,000	Provision for Doubtful Debts		4,000	
Investments	30,000	Workmen Compensation Reserve		5,000	
	1,72,000	By Cash/Bank—Assets Realised:			
To Cash/Bank A/c:		Debtors	40,000		
Bills Payable	20,000	Stock	22,000		
Creditors	16,200	Land and Building	70,000		
To Cash/Bank A/c:		Furniture	8,000		
Mrs. Vishnu's Loan	20,000	Less: Commission	500	7,500	
Outstanding Salary	5,000	Investments	35,000		
Employees' Compensation	20,000	Less: Commission	600	34,400	
Workmen Compensation Claim	5,000	Bills Receivable	11,400	1,85,300	
To Gain (Profit) transferred to:		By Vishnu's Capital A/c		3,000	
Vishnu's Capital A/c	6,050	—Computer			
Sanjiv's Capital A/c	3,630				
Sudhir's Capital A/c	2,420				
	12,100				
	2,70,300				
					2,70,300

Dr.		PARTNERS' CAPITAL ACCOUNTS						Cr.	
Particulars	Vishnu	Sanjiv	Sudhir	Particulars	Vishnu	Sanjiv	Sudhir		
	₹	₹	₹		₹	₹	₹		
To Realisation A/c—Assets taken over	3,000	...	...	By Balance b/d	40,000	30,000	18,000		
To Cash/Bank A/c (Bal. Fig.)	48,050	36,630	22,420	By Workmen Compensation Reserve A/c (WN)	5,000	3,000	2,000		
				By Realisation A/c—Gain	6,050	3,630	2,420		
	51,050	36,630	22,420		51,050	36,630	22,420		

Dr.		CASH/BANK ACCOUNT		Cr.	
Particulars	₹	Particulars	₹		
To Balance b/d	8,000	By Realisation A/c—B/P and Creditors		36,200	
To Realisation A/c—Assets Realised	1,85,300	By Realisation A/c—Liabilities		50,000	
		By Vishnu's Capital A/c—Final Payment		48,050	
		By Sanjiv's Capital A/c—Final Payment		36,630	
		By Sudhir's Capital A/c—Final Payment		22,420	
	1,93,300			1,93,300	

Working Note: Compensation claim payable to workmen is ₹ 5,000, hence, amount of Workmen Compensation Reserve to the extent of claim is transferred to Realisation Account. The balance amount of Workmen Compensation Reserve is distributed among the partners in their profit-sharing ratio. If there was no liability then the whole amount of Workmen Compensation Reserve would have been credited to Partners' Capital Accounts in their profit-sharing ratio.

7.12 Double Entry Book Keeping—CBSE XII

Illustration 8.

A, B and C were partners in a firm and shared profits in the ratio of 3 : 2 : 1. On 31st March, 2026, their Balance Sheet was as follows:

Liabilities	₹	Assets	₹
Creditors	65,000	Cash	22,500
Bills Payable	20,000	Debtors	52,300
Employees' Provident Fund	12,000	Stock	36,000
Investments Fluctuation Reserve	6,000	Investments	15,000
Commission Received in Advance	8,000	Plant	91,200
Capital A/cs:		Profit & Loss A/c	54,000
A	80,000		
B	50,000		
C	30,000		
	1,60,000		
	2,71,000		2,71,000

On this date the firm was dissolved. A was appointed to realise the assets. A was to receive 5% commission on the sale of assets and was to bear all expenses of realisation.

A realised the assets as follows:

Debtors ₹ 30,000; Stock ₹ 26,000; Investments 75% of book value; Plant ₹ 42,750. Expenses of realisation amounted to ₹ 4,100.

Commission received in advance was returned to the customers after deducting ₹ 3,000.

The firm had to pay ₹ 7,200 for outstanding salary not provided for earlier. Compensation paid to employees amounted to ₹ 9,800. This liability was not provided for in the above Balance Sheet. ₹ 25,000 had to be paid towards Employees' Provident Fund.

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

Solution:

REALISATION ACCOUNT			
Dr.			Cr.
Particulars	₹	Particulars	₹
To Sundry Assets—Transfer:		By Creditors	65,000
Debtors	52,300	By Bills Payable	20,000
Stock	36,000	By Employees' Provident Fund	12,000
Investments	15,000	By Investments Fluctuation Reserve	6,000
Plant	91,200	By Commission Received in Advance	8,000
	1,94,500	By Cash A/c—Assets Realised:	
To A's Capital A/c (Commission) (5/100 × ₹ 1,10,000)	5,500	Debtors	30,000
To Cash A/c—Liabilities Paid:		Stock	26,000
Commission Received in Advance	5,000	Investments	11,250
Outstanding Salary	7,200	Plant	42,750
Employees' Compensation	9,800	By Loss transferred to:	
Employees' Provident Fund	25,000	A's Capital A/c	55,500
	47,000	B's Capital A/c	37,000
To Cash A/c:		C's Capital A/c	18,500
Creditors	65,000		1,11,000
Bills Payable	20,000		
	85,000		
	3,32,000		3,32,000

PARTNERS' CAPITAL ACCOUNTS							
Dr.							Cr.
Particulars	A ₹	B ₹	C ₹	Particulars	A ₹	B ₹	C ₹
To Realisation A/c —Loss	55,500	37,000	18,500	By Balance b/d	80,000	50,000	30,000
To Profit & Loss A/c	27,000	18,000	9,000	By Realisation A/c —Commission	5,500	...	...
To Cash A/c	4,100*	...	...	By Cash A/c	1,100	5,000	...
To Cash A/c —Final Payment	...	...	2,500	—Cash brought in			
	86,600	55,000	30,000		86,600	55,000	30,000

*Actual amount spent by A (to realise the assets) is treated as his drawings.

CASH ACCOUNT			
Dr.			Cr.
Particulars	₹	Particulars	₹
To Balance b/d	22,500	By Realisation A/c—Liabilities Paid	47,000
To Realisation A/c—Assets Realised	1,10,000	By Realisation A/c (₹ 65,000 + ₹ 20,000)	85,000
To A's Capital A/c—Cash brought in	1,100	By A's Capital A/c—Realisation Expenses	4,100
To B's Capital A/c—Cash brought in	5,000	By C's Capital A/c—Final Payment	2,500
	1,38,600		1,38,600

Illustration 9.

X and Y were partners in a firm sharing profits and losses in the ratio of 3 : 2. On 31st March, 2026, they decide to dissolve the partnership firm, when the Balance Sheet was as under:

Liabilities	₹	Assets	₹
Trade Creditors	1,60,000	Bank	72,000
Bills Payable	40,000	Stock	1,60,000
Loan from X	10,000	Debtors	1,32,000
Loan from Mrs. X	30,000	Less: Provisions	12,000
Employees' Provident Fund	26,000	Plant and Machinery	60,000
Workmen Compensation Reserve	4,000	Land and Building	76,000
General Reserve	40,000	Investment (Face Value ₹ 5,000)	20,000
Profit & Loss A/c	30,000	Goodwill	30,000
X's Capital A/c	1,32,000	Prepaid Insurance	2,000
Y's Capital A/c	88,000	Deferred Revenue Advertisement Expenses	20,000
	5,60,000		5,60,000

Note: There is a bill for ₹ 5,000 under discount. The bill was received from W.

Give necessary Journal entries to record the transfer of Assets and Liabilities to Realisation Account.

7.14 Double Entry Book Keeping—CBSE XII

Solution:

JOURNAL

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
2026				
March 31	Realisation A/c ...Dr.		4,80,000	
	To Stock A/c			1,60,000
	To Debtors A/c			1,32,000
	To Plant and Machinery A/c			60,000
	To Land and Building A/c			76,000
	To Investment A/c			20,000
	To Goodwill A/c			30,000
	To Prepaid Insurance A/c			2,000
	(Transfer of assets to Realisation A/c)			
	Trade Creditors A/c ...Dr.		1,60,000	
	Bills Payable A/c ...Dr.		40,000	
	Loan from Mrs. X A/c ...Dr.		30,000	
	Provision for Doubtful Debts A/c ...Dr.		12,000	
	Employees' Provident Fund A/c ...Dr.		26,000	
	To Realisation A/c			2,68,000
	(Transfer of Liabilities and Provisions to Realisation Account)			

Illustration 10.

Taking the same Balance Sheet as given in Illustration 9 along with the following information, give the necessary Journal entries to record the realisation of various assets and payment of various liabilities:

- (i) X took over 60% of the stock at a discount of 20%.
- (ii) Remaining stock was sold at a profit of 20% on cost.
- (iii) ₹ 20,000 of the book debts proved bad.
- (iv) Land and Building sold for ₹ 5,00,000 through broker who charged 2% commission.
- (v) Half the trade creditors accepted plant and machinery at ₹ 54,000 and cash in full settlement of their claims after allowing discount of ₹ 16,000.
- (vi) Investment realised 200% of their face value.
- (vii) 'Y' undertook to pay Mrs. X's loan.
- (viii) Remaining trade creditors were paid 90% in final settlement including an investment of ₹ 4,000 unrecorded in the books.
- (ix) Bills Payable falling due on 30th April, 2026 were discharged at a discount of 12% p.a.

Solution:

JOURNAL

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
	X's Capital A/c (₹ 96,000 – ₹ 19,200) ...Dr. To Realisation A/c (60% of the stock taken over by X at a discount of 20%)		76,800	76,800
	Bank A/c ...Dr. To Realisation A/c (Stock (₹ 64,000 + ₹ 12,800), Debtors (₹ 1,12,000), Land and Building (₹ 5,00,000) and Investment (₹ 10,000) realised)		6,98,800	6,98,800
	Realisation A/c ...Dr. To Y's Capital A/c (Payment made of Mrs. X's Loan by Y)		30,000	30,000
	Realisation A/c ...Dr. To Bank A/c (Payment made to creditors 90% of ₹ 80,000 – ₹ 4,000 + ₹ 10,000 bills payables (₹ 40,000 – ₹ 400 and commission (₹ 10,000))		1,27,600	1,27,600

Illustration 11.

Book value of assets (other than cash and bank) transferred to Realisation Account was ₹ 5,00,000. 50% of the assets were taken by a partner 'X' at a discount of 10%, 40% of the remaining were sold off at a profit of 25% on cost and 10% of the balance being obsolete realised nothing and remaining were handed over to a creditor in full settlement. Give Journal entries to record the realisation of assets.

Solution:

JOURNAL

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
	X's Capital A/c ...Dr. Bank A/c ...Dr. To Realisation A/c (Assets having book value of ₹ 2,50,000 taken away by 'X' for ₹ 2,25,000 and the assets having book value of ₹ 1,00,000 sold for ₹ 1,25,000)		2,25,000 1,25,000	3,50,000

Illustration 12.

The amount of liabilities transferred to Realisation Account was ₹ 3,50,000. 50% of the liabilities were paid out at a discount of 5%. 50% of the remaining were undertaken by a partner 'Z' to pay. Remaining creditors accepted the stock at an agreed value of ₹ 1,00,000 and cash ₹ 3,500 in full settlement.

Give Journal entries to record the payment of liabilities.

Solution:

JOURNAL

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
	Realisation A/c ...Dr. To Bank A/c To Z's Capital A/c (Payment made to creditors, 50% of ₹ 3,50,000 – ₹ 8,750 + ₹ 3,500 = ₹ 1,69,750 and the liabilities of ₹ 87,500 undertaken by Z)		2,57,250	1,69,750 87,500

7.16 Double Entry Book Keeping—CBSE XII

Illustration 13.

A, B and C share profits of a business in the ratio of 2 : 2 : 1 respectively. They decide to dissolve the firm on 31st March, 2026. Give the necessary Journal entries to record the realisation of following unrecorded assets in the books of the firm:

- There is an old typewriter which had been written off completely from the books. It is estimated to realise ₹ 2,000. It is taken by 'B' a partner at the estimated price less 20%.
- There was an old furniture in the firm which had been written off completely in the books. This was sold for ₹ 5,000.
- 'Z' an old customer whose account for ₹ 3,000 was written off as bad debt in the previous year, paid 40%.
- 'B' agreed to take over the firm's goodwill (not recorded in the books of the firm) at a valuation of ₹ 80,000.
- There were 1,000 shares of ₹ 100 each of Moontrack Ltd. acquired at a cost of ₹ 80,000 which had been written off completely from the books. These shares are valued at ₹ 50,000 and divided among the partners in their profit-sharing ratio.

Solution:

JOURNAL

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
(i)	B's Capital A/c ...Dr. To Realisation A/c (Unrecorded typewriter taken by B)		1,600	1,600
(ii)	Bank A/c ...Dr. To Realisation A/c (Unrecorded furniture realised)		5,000	5,000
(iii)	Bank A/c ...Dr. To Realisation A/c (Debt earlier written off recovered)		1,200	1,200
(iv)	B's Capital A/c ...Dr. To Realisation A/c (Unrecorded goodwill taken over by B)		80,000	80,000
(v)	A's Capital A/c ...Dr. B's Capital A/c ...Dr. C's Capital A/c ...Dr. To Realisation A/c (Unrecorded shares taken away by partners in their profit-sharing ratio)		20,000 20,000 10,000	50,000

Illustration 14.

There was one unrecorded asset estimated at ₹ 15,000, half of which was given to settle unrecorded liability of ₹ 25,000 in settlement of a claim of ₹ 12,500 and remaining half was sold in the market at a profit of ₹ 1,000. Give necessary Journal entries.

Solution:

JOURNAL

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
	Bank A/c ...Dr. To Realisation A/c (Remaining half of unrecorded asset realised 1/2 of ₹ 15,000 + ₹ 1,000 = ₹ 8,500)		8,500	8,500
	Realisation A/c ...Dr. To Bank A/c (Remaining half of unrecorded liability discharged) (Note)		12,500	12,500

Note: No entry is to be passed for unrecorded asset given to settle unrecorded liability.

Illustration 15.

Pass the Journal entries for the following:

- (i) Expenses of realisation ₹ 5,000.
- (ii) Expenses of realisation ₹ 3,000 paid by a partner 'Z'.
- (iii) 'X' a partner agreed to take over the responsibility of completing dissolution work at an agreed remuneration of ₹ 5,000 and to bear all realisation expenses. Actual realisation expenses amounted to ₹ 4,000 were paid by X out of his private fund.
- (iv) Realisation expenses amounted to ₹ 20,000 were paid by the firm on behalf of Z, a partner, with whom it was agreed at ₹ 15,000.
- (v) Realisation expenses amounted to ₹ 7,000. It was agreed that the firm will pay 3,000 and balance by Y, a partner.
- (vi) Dissolution expenses amounted to ₹ 10,000 were paid by Z a partner, on behalf of the firm.

Solution:**JOURNAL**

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
(i)	Realisation A/c To Bank A/c (Expenses paid by the firm) ...Dr.		5,000	5,000
(ii)	Realisation A/c To Z's Capital A/c (Expenses paid by Z) ...Dr.		3,000	3,000
(iii)	Realisation A/c To X's Capital A/c (Remuneration due to X) ...Dr.		5,000	5,000
(iv) (a)	Realisation A/c To Z's Capital A/c (Z's Capital A/c credited for realisation expenses) ...Dr.		15,000	15,000
(b)	Z's Capital A/c To Bank A/c (Partner charged for expenses of dissolution as agreed) ...Dr.		20,000	20,000
(v)	Realisation A/c To Bank A/c (Realisation expenses ₹ 3,000 paid by the firm out of ₹ 7000 and balance borne by Y) ...Dr.		3,000	3,000
(vi)	Realisation A/c To Z's Capital A/c (Realisation expenses paid by Z on behalf of the firm) ...Dr.		10,000	10,000

Illustration 16.

Following is the Balance Sheet of Luv and Kush as at 31st March, 2026:

Liabilities	₹	Assets	₹
Mrs. Luv's Loan	1,50,000	Bank	76,000
Mrs. Kush's Loan	1,00,000	Debtors	3,00,000
Trade Creditors	3,00,000	Less: Provision for Doubtful Debts	20,000
Bills Payable	1,00,000	Investments	1,00,000
Outstanding Expenses	50,000	Stock	4,00,000
Capital A/cs:		Truck	7,50,000
Luv	10,00,000	Plant and Machinery	8,00,000
Kush	8,00,000	Kush: Drawings	94,000
	25,00,000		25,00,000

7.18 Double Entry Book Keeping—CBSE XII

The firm was dissolved on 31st March, 2026. The following were the adjustments:

- Half of the stock was sold at 10% less than the book value and the remaining half was taken by Luv at 20% more than the book value.
- During the course of dissolution a liability under action for damages was settled at ₹ 20,000.
- Assets realised as follows:* Plant and Machinery ₹ 10,00,000, Truck ₹ 12,00,000. Goodwill was sold for ₹ 2,50,000, Bad debts amounted to ₹ 50,000, half the investments were sold at book value.
- Luv promised to pay off Mrs. Luv's Loan and took half the investments at 10% discount.
- Trade Creditors and Bills payable were due on average basis of one month after 31st March, but were paid immediately on 31st March at 12% discount per annum.

Prepare Realisation A/c, Partners' Capital Accounts and Bank Account.

Solution:

Dr.		REALISATION ACCOUNT		Cr.	
Particulars	₹	Particulars	₹		
To Debtors A/c	3,00,000	By Trade Creditors A/c	3,00,000		
To Investments A/c	1,00,000	By Bills Payable A/c	1,00,000		
To Stock A/c	4,00,000	By Outstanding Expenses A/c	50,000		
To Truck A/c	7,50,000	By Provision for Doubtful Debts A/c	20,000		
To Plant and Machinery A/c	8,00,000	By Mrs. Luv's Loan A/c	1,50,000		
To Bank A/c—Liability for Damages	20,000	By Mrs. Kush's Loan A/c	1,00,000		
To Bank A/c:		By Bank A/c— Asset Realised:			
Creditors (₹ 3,00,000 – ₹ 3,000)	2,97,000	Stock	1,80,000		
Bills Payable (₹ 1,00,000 – ₹ 1,000)	99,000	Plant and Machinery	10,00,000		
Outstanding Expenses	50,000	Truck	12,00,000		
	4,46,000	Goodwill	2,50,000		
To Luv's Capital A/c (Mrs. Luv's Loan)	1,50,000	Debtors	2,50,000		
To Bank A/c (Mrs. Kush's Loan)	1,00,000	Investments	50,000	29,30,000	
To Gain (Profit) transferred to:		By Luv's Capital A/c—Stock	2,40,000		
Luv's Capital A/c	4,34,500	By Luv's Capital A/c—Investments	45,000		
Kush's Capital A/c	4,34,500				
	8,69,000				
	39,35,000				39,35,000

Dr.		PARTNERS' CAPITAL ACCOUNTS		Cr.	
Particulars	Luv (₹)	Kush (₹)	Particulars	Luv (₹)	Kush (₹)
To Drawings A/c	...	94,000	By Balance b/d	10,00,000	8,00,000
To Realisation A/c	2,40,000	...	By Realisation A/c	1,50,000	...
To Realisation A/c	45,000	...	—Mrs. Luv's Loan		
To Bank A/c (Final Payment)	12,99,500	11,40,500	By Realisation A/c—Gain	4,34,500	4,34,500
	15,84,500	12,34,500		15,84,500	12,34,500

BANK ACCOUNT			
Dr.		Cr.	
Particulars	₹	Particulars	₹
To Balance b/d	76,000	By Realisation A/c—Liability for Damages	20,000
To Realisation A/c—Sales of Assets	29,30,000	By Realisation A/c—Mrs. Kush's Loan A/c	1,00,000
		By Realisation A/c—Liabilities	4,46,000
		By Luv's Capital A/c (Final Payment)	12,99,500
		By Kush's Capital A/c (Final Payment)	11,40,500
	30,06,000		30,06,000

Illustration 17.

Following is the Balance Sheet of A and B as at 31st March, 2026:

Liabilities		₹	Assets		₹
Capital A/cs:			Goodwill		40,000
A's	80,000		Building		1,00,000
B's	80,000	1,60,000	Plant and Machinery		80,000
General Reserve		6,000	Furniture and Fittings		20,000
Profit & Loss		2,000	Investments		61,200
A's Loan		40,000	Stock		34,800
Mrs. A's Loan		80,000	Debtors	68,000	
Creditors		1,00,000	Less: Provision for Doubtful Debts	8,000	60,000
Bills Payable		60,000	Bills Receivable		40,000
Investment Fluctuation Reserve		11,200	Cash at Bank		52,000
Employees' Provident Fund		44,800	Advertisement Suspense		16,000
		5,04,000			5,04,000

Note: There was a bill for ₹ 4,000 under discount. The bill was received from Z.

The firm was dissolved on 31st March, 2026 and the following transactions took place:

- (i) A agreed to pay his wife's loan.
- (ii) Debtors realised ₹ 48,000.
- (iii) B took all the investments at ₹ 48,000.
- (iv) Other assets realised as follows: Plant and Machinery ₹ 65,000, Furniture and Fittings ₹ 20,000, Building ₹ 2,00,000, Goodwill ₹ 24,000.
- (v) A accepted stock at ₹ 32,000 and B took over Bills Receivable at 20% discount.
- (vi) Z proved insolvent and first and final dividend of 25% was received from his estate.
- (vii) An outstanding bill of ₹ 2,000 for repairs was paid off. Creditors were settled at 5% discount.
- (viii) Realisation Expenses amounted to ₹ 8,000.

Pass Journal entries and also prepare necessary ledger accounts.

Solution:
In the Book of M/s A and B
JOURNAL

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
2026	Realisation A/c	...Dr.	4,44,000	
March 31	To Goodwill A/c			40,000
	To Building A/c			1,00,000
	To Plant and Machinery A/c			80,000
	To Furniture and Fittings A/c			20,000
	To Investments A/c			61,200
	To Stock A/c			34,800
	To Debtors A/c			68,000
	To Bills Receivable A/c			40,000
	(Transfer of assets to Realisation Account)			

7.20 Double Entry Book Keeping—CBSE XII

Provision for Doubtful Debts A/c	...Dr.	8,000	
Mrs. A's Loan A/c	...Dr.	80,000	
Creditors A/c	...Dr.	1,00,000	
Bills Payable A/c	...Dr.	60,000	
Investment Fluctuation Reserve A/c	...Dr.	11,200	
Employees' Provident Fund A/c	...Dr.	44,800	
To Realisation A/c			3,04,000
(Transfer of outside liabilities and provisions to Realisation Account)			
Realisation A/c	...Dr.	80,000	
To A's Capital A/c			80,000
(Payment of Mrs. A's loan by A)			
Bank A/c	...Dr.	48,000	
To Realisation A/c			48,000
(Amount realised from Debtors)			
B's Capital A/c	...Dr.	48,000	
To Realisation A/c			48,000
(Investments taken away by B)			
Bank A/c	...Dr.	3,09,000	
To Realisation A/c			3,09,000
(Realisation of Plant and Machinery at ₹ 65,000, Furniture and Fittings at ₹ 20,000, Building at ₹ 2,00,000 and Goodwill at ₹ 24,000)			
A's Capital A/c	...Dr.	32,000	
To Realisation A/c			32,000
(Stock taken by A)			
B's Capital A/c	...Dr.	32,000	
To Realisation A/c			32,000
(Bills Receivable taken by B)			
Realisation A/c	...Dr.	4,000	
To Bank A/c			4,000
(Contingent liability discharged)			
Bank A/c	...Dr.	1,000	
To Realisation A/c			1,000
(First and final dividend of 25 paise in a rupee received from the estate of Z)			
Realisation A/c	...Dr.	2,01,800	
To Bank A/c			2,01,800
(Payment of liabilities: Creditors ₹ 95,000, Bills Payable ₹ 60,000, Employees' Provident Fund ₹ 44,800 and Outstanding Repairs Bill ₹ 2,000)			
Realisation A/c	...Dr.	8,000	
To Bank A/c			8,000
(Payment of Realisation Expenses)			
Realisation A/c	...Dr.	36,200	
To A's Capital A/c			18,100
To B's Capital A/c			18,100
(Transfer of realisation gain (profit))			
A's Loan A/c	...Dr.	40,000	
To Bank A/c			40,000
(Payment of A's loan)			

General Reserve A/c	...Dr.	6,000	
Profit & Loss A/c	...Dr.	2,000	
To A's Capital A/c			4,000
To B's Capital A/c			4,000
(Transfer of accumulated profits and reserves to Capital Accounts)			
A's Capital A/c	...Dr.	8,000	
B's Capital A/c	...Dr.	8,000	
To Advertisement Suspense A/c			16,000
(Transfer of deferred revenue expenditure to Capital Accounts)			
A's Capital A/c	...Dr.	1,42,100	
B's Capital A/c	...Dr.	14,100	
To Bank A/c			1,56,200
(Final payment to partners)			

Ledger Accounts

REALISATION ACCOUNT			
Dr.			Cr.
Particulars	₹	Particulars	₹
To Goodwill A/c	40,000	By Provision for Doubtful Debts A/c	8,000
To Building A/c	1,00,000	By Mrs. A's Loan A/c	80,000
To Plant and Machinery A/c	80,000	By Creditors A/c	1,00,000
To Furniture and Fittings A/c	20,000	By Bills Payable A/c	60,000
To Investments A/c	61,200	By Investment Fluctuation Fund A/c	11,200
To Stock A/c	34,800	By Employees' Provident Fund A/c	44,800
To Debtors A/c	68,000	By Bank A/c—Debtors	48,000
To Bills Receivable A/c	40,000	By B's Capital A/c—Investments	48,000
To A's Capital A/c—Mrs. A's Loan	80,000	By Bank A/c—Plant and Machinery, Furniture and Fittings, Building and Goodwill	3,09,000
To Bank A/c—Contingent liability on account of Bills Discounted	4,000	By A's Capital A/c—Stock	32,000
To Bank A/c—Creditors, B/P, PF, and Repairs Bill	2,01,800	By B's Capital A/c—B/R	32,000
To Bank A/c—Realisation Expenses	8,000	By Bank A/c—Z	1,000
To Gain (Profit) transferred to:			
A's Capital A/c	18,100		
B's Capital A/c	18,100		
	7,74,000		7,74,000

PARTNERS' CAPITAL ACCOUNTS					
Dr.				Cr.	
Particulars	A (₹)	B (₹)	Particulars	A (₹)	B (₹)
To Realisation A/c	...	48,000	By Balance b/d	80,000	80,000
To Realisation A/c	32,000	...	By Realisation A/c	80,000	...
To Realisation A/c	...	32,000	By Realisation A/c	18,100	18,100
To Advertisement Suspense A/c	8,000	8,000	—Gain on Realisation		
To Bank A/c (Final Payment)	1,42,100	14,100	By General Reserve A/c	3,000	3,000
			By Profit & Loss A/c	1,000	1,000
	1,82,100	1,02,100		1,82,100	1,02,100

7.22 Double Entry Book Keeping—CBSE XII

Dr.		A'S LOAN ACCOUNT		Cr.	
Particulars	₹	Particulars	₹		
To Bank A/c	40,000	By Balance b/d	40,000		

Dr.		BANK ACCOUNT		Cr.	
Particulars	₹	Particulars	₹		
To Balance b/d	52,000	By Realisation A/c—Contingent liability	4,000		
To Realisation A/c—Debtors	48,000	By Realisation A/c—Creditors, B/P, PF, and Repairs Bill	2,01,800		
To Realisation A/c—Plant and Machinery, Furniture and Fitting, Building and Goodwill	3,09,000	By Realisation A/c—Realisation Expenses	8,000		
To Realisation A/c—Z	1,000	By A's Loan A/c	40,000		
		By A's Capital A/c (Final Payment)	1,42,100		
		By B's Capital A/c (Final Payment)	14,100		
	4,10,000		4,10,000		

- Note:** 1. Employees' Provident Fund is a liability.
2. Advertisement Suspense Account is debited to Partners' Capital Accounts in their profit-sharing ratio.

Illustration 18.

X, Y and Z were partners in a firm sharing profits in the ratio of 2 : 2 : 1. In spite of repeated reminders by the authorities, the partners kept dumping hazardous material into a nearby river. The court ordered for the dissolution of their partnership firm. On 31st March, 2026, their Balance Sheet was as follows:

Liabilities		₹	Assets		₹
Creditors		50,000	Cash		60,000
Bank Loan		35,000	Debtors		75,000
Employees' Provident Fund		15,000	Stock		40,000
Investment Fluctuation Reserve		10,000	Investments		20,000
Commission received in Advance		8,000	Plant		50,000
Capital A/cs:			Profit & Loss A/c		3,000
X's	50,000				
Y's	50,000				
Z's	30,000	1,30,000			
		2,48,000			2,48,000

On this date the firm was dissolved. X was appointed to realise the assets. X was to receive 5% commission on the sale of assets (except cash) and was to bear all expenses of realisation. X realised the assets as follows:

Debtors 20% less, Stock ₹ 35,500, Investments 80%, Plant 90% of the book value.

Expenses of realisation amounted to ₹ 7,500 paid by the firm on X's behalf. Commission received in advance was returned to the customers after deducting ₹ 3,000. Firm had to pay ₹ 8,500 to outstanding salary not provided for earlier. Compensation paid to employees amounted to 17,000. This liability was not provided for in the above Balance Sheet. ₹ 20,000 has to be paid for Provident Fund.

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

Solution:

Dr.		REALISATION ACCOUNT		Cr.	
Particulars	₹	Particulars	₹		
To Sundry Assets:		By Sundry Liabilities:			
Debtors	75,000	Creditors	50,000		
Stock	40,000	Bank Loan	35,000		
Investments	20,000	Employees' Provident Fund	15,000		
Plant	50,000	Investment Fluctuation Reserve	10,000		
	1,85,000	Commission Reserved in Advance	8,000		1,18,000
To Cash A/c:		By Cash A/c—Assets Realised:			
Creditors	50,000	Debtors	60,000		
Bank Loan	35,000	Stock	35,500		
Commission Received in Advance (₹ 8,000 – ₹ 3,000)	5,000	Investments	16,000		
Compensation to Employees	17,000	Plant (₹ 50,000 × 90/100)	45,000		1,56,500
Employees' Provident Fund	20,000	By Loss transferred to:			
Outstanding Salary	8,500	X's Capital A/c	21,530		
To X's Capital A/c—Commission (₹ 1,56,500 × 5/100)	7,825	Y's Capital A/c	21,530		
	1,35,500	Z's Capital A/c	10,765		53,825
	7,825				
	3,28,325				3,28,325

Dr.		PARTNERS' CAPITAL ACCOUNTS				Cr.	
Particulars	X (₹)	Y (₹)	Z (₹)	Particulars	X (₹)	Y (₹)	Z (₹)
To Profit & Loss A/c	1,200	1,200	600	By Balance b/d	50,000	50,000	30,000
To Realisation A/c (Loss)	21,530	21,530	10,765	By Realisation A/c	7,825	...	...
To Cash A/c (Drawings)	7,500	...	...		
To Cash A/c (Final Payment)	27,595	27,270	18,635				
	57,825	50,000	30,000		57,825	50,000	30,000

Dr.		CASH ACCOUNT		Cr.	
Particulars	₹	Particulars	₹		
To Balance b/d	60,000	By Realisation A/c	1,35,500		
To Realisation A/c (Assets Realised)	1,56,500	By X's Capital A/c	7,500		
		By X's Capital A/c (Final Payment)	27,595		
		By Y's Capital A/c (Final Payment)	27,270		
		By Z's Capital A/c (Final Payment)	18,635		
	2,16,500		2,16,500		

Illustration 19.

Ajit, Brijesh and Chandni are partners sharing profits in the ratio of 3 : 1 : 1. In spite of repeated reminder by the authorities, they kept dumping hazardous material into a nearby river. The court ordered for the dissolution of their partnership firm on 31st March, 2026. The financial position of the firm on that date was as follows:

Liabilities	₹	Assets	₹
Creditors	12,000	Cash	6,400
Loan	3,000	Debtors	48,400
Capital A/cs:		Less: Provision for Doubtful Debts	2,400
Ajit	55,000	Stock	15,600
Brijesh	20,000	Furniture	2,000
Chandni	14,000	Other Sundry Assets	34,000
	89,000		1,04,000
	1,04,000		1,04,000

CASH ACCOUNT			
Dr.		Cr.	
Particulars	₹	Particulars	₹
To Balance <i>b/d</i>	6,400	By Realisation A/c	3,000
To Realisation A/c	4,200	By Realisation A/c (Exp.)	540
To Brijesh's Capital A/c (Cash Brought in)	10,748	By Ajit's Capital A/c (Final Payment)	24,156
To Chandni's Capital A/c (Cash Brought in)	6,348		
	27,696		27,696

Illustration 20.

X and Y are partners sharing their profits and losses in the ratio of 3 : 1. They decide to dissolve their firm on 31st March, 2026. Their Balance Sheet as at the above date was:

Liabilities	₹	Assets	₹
Bank Overdraft	30,000	Leasehold Property	40,000
Creditors	44,000	Machinery	35,000
Capital A/cs:		Furniture	7,000
X	54,000	Investments	10,000
Y	27,000	Stock	35,000
	81,000	Debtors	24,000
		Commission Receivable	3,000
		Cash at Bank	1,000
	1,55,000		1,55,000

Leasehold Property, Machinery and Furniture were divided among themselves and valuations were agreed at ₹ 60,000 and ₹ 40,000 respectively for X and Y. X agreed to pay Creditors and Y agreed to meet the Bank Overdraft.

Commission Receivable was realised.

Realisation expenses were ₹ 3,000.

Stock is worth 80% of book value. Investments are worth ₹ 18,000. Stock and other assets except those stated above are divided equally. The accounts are settled by cash payment.

Show the Ledger Accounts.

7.26 Double Entry Book Keeping—CBSE XII

Solution:

Ledger Accounts

Dr.		REALISATION ACCOUNT		Cr.	
Particulars	₹	Particulars	₹		
To Sundry Assets—Transfer:		By Creditors	44,000		
Leasehold Property	40,000	By Bank Overdraft	30,000		
Machinery	35,000	By X's Capital A/c	60,000		
Furniture	7,000	(Leasehold Property, Machinery			
Investments	10,000	and Furniture)			
Stock	35,000	By Y's Capital A/c	40,000		
Debtors	24,000	(Leasehold Property, Machinery			
Commission Receivable	3,000	and Furniture)			
	1,54,000	By Bank A/c (Commission)	3,000		
To X's Capital A/c (Creditors)	44,000	By X's Capital A/c (Assets) (Note)	35,000		
To Y's Capital A/c (Bank Overdraft)	30,000	By Y's Capital A/c (Assets) (Note)	35,000		
To Bank A/c (Realisation Expenses)	3,000				
To Gain (Profit) transferred to:					
X's Capital A/c (3/4)	12,000				
Y's Capital A/c (1/4)	4,000				
	16,000				
	2,47,000				2,47,000

Dr.		PARTNERS' CAPITAL ACCOUNTS				Cr.	
Particulars	X ₹	Y ₹	Particulars	X ₹	Y ₹		
To Realisation A/c—Assets	60,000	40,000	By Balance b/d	54,000	27,000		
To Realisation A/c—Assets	35,000	35,000	By Realisation A/c:				
To Bank A/c (Balancing Figure)	15,000	...	Creditors	44,000	...		
			Bank Overdraft	...	30,000		
			By Realisation A/c (Gain (Profit))	12,000	4,000		
			By Bank A/c (Balancing Figure)	...	14,000		
	1,10,000	75,000		1,10,000	75,000		

Dr.		BANK ACCOUNT		Cr.	
Particulars	₹	Particulars	₹		
To Balance b/d	1,000	By Realisation A/c (Expenses)	3,000		
To Realisation A/c (Commission)	3,000	By X's Capital A/c—Final Payment	15,000		
To Y's Capital A/c—Cash brought in	14,000				
	18,000				18,000

Note: Assets valuation has been computed for equal division between X and Y as follows:

Stock ₹ 28,000 (i.e., ₹ 35,000 × 80/100) + Investments ₹ 18,000 + Debtors ₹ 24,000 = ₹ 70,000.

Divided between X and Y equally:

X = ₹ 70,000 × 1/2 = ₹ 35,000; and Y = ₹ 70,000 × 1/2 = ₹ 35,000.

Illustration 21 (Value of Assets not Given).

Ram, Mohan and Sohan are partners sharing their profits and losses in the ratio of 5 : 3 : 2. On 31st March, 2026, Ram's Capital and Mohan's Capital were ₹ 90,000 and ₹ 60,000 respectively. But Sohan owed ₹ 15,000 to the firm. The Creditors were of ₹ 60,000. The assets realised ₹ 1,50,000. Prepare Realisation Account, Partners' Capital Accounts and Bank Account.

Solution:

Dr.				REALISATION ACCOUNT				Cr.			
Particulars		₹		Particulars		₹					
To Sundry Assets A/c (WN)		1,95,000		By Creditors		60,000					
To Bank A/c—Creditors		60,000		By Bank A/c—Assets Realised		1,50,000					
				By Loss transferred to:							
				Ram's Capital A/c	22,500						
				Mohan's Capital A/c	13,500						
				Sohan's Capital A/c	9,000	45,000					
		2,55,000					2,55,000				

Dr.				PARTNERS' CAPITAL ACCOUNTS				Cr.							
Particulars		Ram ₹		Mohan ₹		Sohan ₹		Particulars		Ram ₹		Mohan ₹		Sohan ₹	
To Balance b/d	...		...		15,000		By Balance b/d	90,000		60,000		...			
To Realisation A/c (Loss)	22,500		13,500		9,000		By Bank A/c	...		...		24,000			
To Bank A/c (Amt. Paid)	67,500		46,500		...		(Amount Received)								
		90,000		60,000		24,000			90,000		60,000				24,000

Dr.				BANK ACCOUNT				Cr.			
Particulars		₹		Particulars		₹					
To Realisation A/c—Assets Realised		1,50,000		By Realisation A/c—Creditors		60,000					
To Sohan's Capital A/c—Amount Received		24,000		By Ram's Capital A/c—Final Payment		67,500					
				By Mohan's Capital A/c—Final Payment		46,500					
		1,74,000					1,74,000				

Working Note: Calculation of Value of Sundry Assets:

MEMORANDUM BALANCE SHEET as at 31st March, 2026

Liabilities		₹		Assets		₹	
Creditors		60,000		Sohan's Capital		15,000	
Capital A/cs:				Sundry Assets (Balancing Figure)		1,95,000	
Ram	90,000						
Mohan	60,000	1,50,000					
		2,10,000					2,10,000

7.30 Double Entry Book Keeping—CBSE XII

Illustration 23.

Kumar, Sham and Ram were partners in a firm sharing profits and losses in the ratio of 5 : 3 : 2. Due to a difference of opinion, they decided to dissolve the firm with effect from 1st April, 2026 on which date its Balance Sheet was as under:

Liabilities	₹	Assets	₹
Capital A/cs:		Plant and Machinery	80,000
Kumar	60,000	Furniture	45,000
Sham	40,000	Car	25,000
Ram	30,000	Stock-in-Trade	30,000
Current A/cs:		Sundry Debtors	71,000
Kumar	8,000	Cash at Bank	14,000
Sham	10,000	Current A/c:	
Sundry Creditors		Ram	3,000
	1,30,000		
	18,000		
	1,20,000		
	2,68,000		2,68,000

The following information is given:

- Plant and Machinery of book value ₹ 40,000 were taken by Kumar at an agreed value of ₹ 45,000 and the remaining Machinery realised ₹ 50,000.
- Furniture realised ₹ 40,000.
- Car was taken by Sham for ₹ 30,000.
- Sundry Debtors included a Bad Debt for ₹ 1,200 and the rest were realised at a cash discount of 10%.
- Stock worth ₹ 5,000 was taken by Ram for ₹ 5,200 and the rest realised at 20% above their book value.
- A Creditor for ₹ 2,000 was untraceable and other creditors accepted payment allowing 15% discount.
- Realisation Expenses paid to an agency carrying out dissolution amounted to ₹ 5,000.

You are required to pass the Journal entries, prepare Realisation Account, Bank Account, and Partners' Capital Accounts showing final payments to them.

Solution:

JOURNAL

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
2026				
April 1	(i) Realisation A/c		2,51,000	
	...Dr.			
	To Plant and Machinery A/c			80,000
	To Furniture A/c			45,000
	To Car A/c			25,000
	To Stock-in-Trade A/c			30,000
	To Sundry Debtors A/c			71,000
	(Assets transferred)			

(ii)	Sundry Creditors A/c To Realisation A/c (Liability transferred)	...Dr.	1,20,000	1,20,000
(iii)	Kumar's Capital A/c To Realisation A/c (Machinery taken by Kumar)	...Dr.	45,000	45,000
(iv)	Bank A/c To Realisation A/c (Balance machinery sold)	...Dr.	50,000	50,000
(v)	Bank A/c To Realisation A/c (Furniture sold)	...Dr.	40,000	40,000
(vi)	Sham's Capital A/c To Realisation A/c (Car sold to Sham)	...Dr.	30,000	30,000
(vii)	Bank A/c To Realisation A/c (Debtors realised)	...Dr.	62,820	62,820
(viii)	Ram's Capital A/c To Realisation A/c (Stock taken by Ram)	...Dr.	5,200	5,200
(ix)	Bank A/c To Realisation A/c (Balance stock sold)	...Dr.	30,000	30,000
(x)	Realisation A/c To Bank A/c (Creditors paid)	...Dr.	1,00,300	1,00,300
(xi)	Realisation A/c To Bank A/c (Realisation expenses paid)	...Dr.	5,000	5,000
(xii)	Realisation A/c To Kumar's Capital A/c To Sham's Capital A/c To Ram's Capital A/c (Gain (Profit) on realisation transferred)	...Dr.	26,720	13,360 8,016 5,344

sultan chand **Unsolved Questions** sultan chand

1. B, C and D are partners in a firm sharing profits in the ratio of 2 : 1 : 2 respectively. On 1st March, 2013 the firm was dissolved. After transferring assets (other than cash) and third party liabilities to the 'Realisation Account' you are provided with the following information:

- (a) There was a debit balance of ₹ 24,000 in the firm's Profit & Loss Account.
- (b) A piece of machinery not recorded in the books was sold for ₹ 4,000.
- (c) Creditors of ₹ 50,000 were paid ₹ 45,000 in full settlement of accounts.

Pass necessary Journal entries for the above transactions in the books of the firm at the time of dissolution. (AI 2013 C)

[Hints: (a) Dr. B's Capital A/c ₹ 9,600; C's Capital A/c ₹ 4,800 and D's Capital A/c ₹ 9,600.
Cr. Profit & Loss A/c ₹ 24,000.

- (b) Dr. Bank A/c and Cr. Realisation A/c by ₹ 4,000.
- (c) Dr. Realisation A/c and Cr. Bank A/c by ₹ 45,000.]

2. X, Y and Z are partners in a firm. Their profit-sharing ratio is 5 : 3 : 2. Pass necessary Journal entries for the following transactions at the time of dissolution of the firm:

- (a) Realisation expenses ₹ 5,000 paid.
- (b) Realisation expenses amounted to ₹ 3,000. Mr. X, one of the partners, has to bear these expenses.
- (c) Y, one of the partners, took over a machine for ₹ 10,000.
- (d) Z, one of the partners, agreed to take over the Creditor of ₹ 30,000 for ₹ 20,000.
- (e) Y, one of the partners, had given loan to the firm of ₹ 20,000. It was paid back to him at the time of dissolution.
- (f) Profit & Loss Account balance of ₹ 50,000 appeared on the assets side of the Balance Sheet.
- (g) Bank loan ₹ 50,000 was paid.
- (h) An unrecorded asset realised ₹ 17,000.
- (i) Stock worth ₹ 20,000 was taken over by Z for ₹ 14,000.
- (j) Gain (Profit) on Realisation of ₹ 30,000 is to be distributed between partners X, Y and Z.

3. Dipali and Rajashri are partners in a firm sharing profits and losses in the ratio of 3 : 2. They decided to dissolve their firm on 31st March, 2026, when their Balance Sheet was:

Liabilities	₹	Assets	₹
Capital A/cs:		Freehold Property	16,000
Dipali	17,500	Investments	4,000
Rajashri	10,000	Sundry Debtors	2,000
Sundry Creditors	2,000	Stock	3,000
Profit & Loss A/c	1,500	Bank	2,000
		Cash	4,000
	31,000		31,000

The partners decided to dissolve the firm on the above date. Dipali took over the Investments at an agreed value of ₹ 3,800. Other assets were realised as follows:

Freehold Property: ₹ 18,000; Sundry Debtors: ₹ 1,800; Stock: ₹ 2,800.

Creditors of the firm agreed to accept 5% less. Expenses of realisation of assets amounted to ₹ 400. There was a computer printer in the firm, which was bought out of the firm's money, was not shown in the above Balance Sheet. It is now sold for ₹ 1,000.

7.34 Double Entry Book Keeping—CBSE XII

Close the firm's books of accounts by preparing Realisation Account, Partners' Capital Accounts and Bank Account.

[Ans.: Gain (Profit) on Realisation—₹ 2,100; Total of Bank A/c—₹ 29,600; Amount payable to Dipali—₹ 15,860; Rajashri—₹ 11,440.]

4. Following was the Balance Sheet of Deepak and Neeru sharing profits and losses in the ratio of 3 : 2 as at 31st March, 2026:

Liabilities	₹	Assets	₹
Creditors	38,000	Cash	11,500
Mrs. Deepak's Loan	10,000	Stock	6,000
Neeru's Loan	15,000	Debtors	20,000
Reserve Fund	2,500	Less: Provision for Doubtful Debts	1,000
Deepak's Capital	10,000	Furniture	4,000
Neeru's Capital	8,000	Plant	28,000
	18,000	Investments	10,000
		Profit & Loss A/c	5,000
	83,500		83,500

The firm was dissolved on 31st March, 2026 and the following was the result:

- Deepak took Investments at ₹ 8,000 and agreed to pay the loan of his wife.
- The assets realised as follows:
Stock ₹ 1,000 less; Debtors ₹ 18,500; Furniture ₹ 500 more; Plant ₹ 3,000 less.
- Expenses of realisation were ₹ 600.
- Creditors were paid off less 2½% discount.

Show Ledger Accounts to close the books of the firm.

[Ans.: Loss on Realisation—₹ 5,650; Deepak receives—₹ 7,110; Neeru receives—₹ 4,740; Total of Cash A/c—₹ 64,500.]

5. Amar, Akbar and Antony were partners in a firm sharing profits and losses in the ratio of 4 : 4 : 2. Their Balance Sheet as at 31st March, 2026 was:

Liabilities	₹	Assets	₹
Sundry Creditors	9,000	Land	8,000
Amar's Loan	7,000	Plant	17,000
General Reserve	5,000	Less: Depreciation	1,000
Capital A/cs:		Loose Tools	3,000
Amar	24,000	Stock	20,000
Akbar	20,000	Sundry Debtors	30,000
Antony	15,000	Less: Provision for Doubtful Debts	2,000
	59,000	Cash at Bank	5,000
	80,000		80,000

The partners decided to dissolve the firm with effect from 31st March, 2026. In order to give effect to this decision, draw up a Realisation Account, Partners' Capital Accounts and the Bank Account, after taking into consideration the following:

- Amar agreed to take over part of the business for which he agreed to pay ₹ 10,000 for Goodwill, which had not been previously valued.

- (b) Amar also took over Land at book value and Plant at ₹ 12,000.
 (c) Loose Tools, Stock and Sundry Debtors realised ₹ 2,000; ₹ 15,000 and ₹ 22,000 respectively.
 (d) Sundry Creditors were paid off at a discount of 10%.
 (e) The expenses of realisation were ₹ 1,500.
 (f) A contingent liability of ₹ 1,000 which occurred during the period was duly paid-off.

[Ans.: Loss on Realisation—₹ 7,600; Cash paid to Akbar—₹ 18,960; Antony—₹ 14,480;
 Cash brought in by Amar—₹ 40; Total of Bank A/c—₹ 44,040.]

Note: Amar's Capital Account shows a debit balance of ₹ 7,040 (after all adjustments) so we have transferred his Loan Account to his Capital Account for final settlement.

6. Cloud, Storm and Rain were partners in a firm sharing profits and losses in the ratio of 5 : 3 : 2. Due to difference in opinion, they decided to dissolve the partnership with effect from 1st April, 2026 on which date the firm's position was as under:

BALANCE SHEET as at 1st April, 2026

Liabilities	₹	Assets	₹
Capital A/cs:		Plant and Machinery	80,000
Cloud	60,000	Furniture and Fixtures	45,000
Storm	40,000	Motor Car	25,000
Rain	30,000	Stock-in-Trade	30,000
Current A/cs:		Sundry Debtors	71,000
Cloud	8,000	Cash at Bank	14,000
Storm	10,000	Current A/c:	
Sundry Creditors		Rain	3,000
	1,20,000		
	2,68,000		2,68,000

The following information is given:

- (a) Plant costing ₹ 40,000 was taken over by Cloud at an agreed value of ₹ 45,000 and the remaining Machinery realised ₹ 50,000.
 (b) Furniture and Fixtures realised ₹ 40,000.
 (c) Motor Car was taken over by Storm for ₹ 30,000.
 (d) Sundry Debtors included a Bad Debts of ₹ 1,200 and the rest was realised subject to a cash discount of 10%.
 (e) Stock worth ₹ 5,000 was taken over by Rain for ₹ 5,200 and the rest realised at 20% above their book value.
 (f) A creditor for ₹ 2,000 was untraceable and other creditors accepted payment allowing 15% discount.
 (g) Realisation expenses amounted to ₹ 5,000.

You are required to show Realisation Account and the Capital Accounts of the Partners on dissolution showing final payments to them.

[Ans.: Gain (Profit) on Realisation—₹ 26,720. Final Payment: Cloud—₹ 36,360;
 Storm—₹ 28,016; Rain—₹ 27,144.]

7. X, Y and Z commenced business on 1st April, 2024 with capitals of ₹ 1,00,000; ₹ 80,000 and ₹ 60,000 respectively. Profits and losses were shared in the ratio of 4 : 3 : 3 respectively. Capitals carried interest @ 5%. During 2024–25 and 2025–26, they made profits of ₹ 40,000 and ₹ 50,000 before allowing interest on capital. Drawings of each partner were ₹ 10,000 per year.
 On 31st March, 2026, the firm was dissolved. Creditors on that date were ₹ 24,000. The assets realised a net amount of ₹ 2,60,000.

Prepare Capital Accounts of Partners for two years till the books are finally closed and the Realisation Account.

[Ans.: Assets at the time of dissolution were ₹ 2,94,000; Loss on Realisation ₹ 34,000; Final Payment: X—₹ 1,02,910; Y—₹ 77,570; Z—₹ 55,520.]

7.36 Double Entry Book Keeping—CBSE XII

8. Jathi, Sethi and Rathi were sharing profits and losses in the ratio of 5 : 3 : 2. On 31st March, 2023 their Balance Sheet was:

Liabilities	₹	Assets	₹
Jathi's Capital	28,000	Furniture	11,000
Sethi's Capital	19,000	Investments	7,000
Rathi's Capital	8,000	Stock	38,000
Sundry Creditors	9,500	Debtors	8,000
		Less: Provision for Doubtful Debts	400
		Cash	900
	64,500		64,500

The firm was dissolved. Rathi took Investments at an agreed value of ₹ 7,500. Furniture, Stock and Debtors realised ₹ 48,400. ₹ 9,000 were paid to Sundry Creditors in full settlement. The expenses of realisation were ₹ 600. The partners' accounts were settled by receipt or payment of cash.

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

[Ans.: Loss on Realisation—₹ 7,800; Jathi to be paid—₹ 24,100;
Sethi to be paid—₹ 16,660; Rathi pays—₹ 1,060.]

9. Sharma, Verma and Gupta were partners sharing profits in the ratio of 3 : 2 : 1. Their Balance Sheet as at 31st March, 2026 stood as follows:

Liabilities	₹	Assets	₹
Sundry Creditors	21,500	Cash	1,000
Loan	21,500	Stock	25,000
Sharma's Capital	6,000	Debtors	18,000
Verma's Capital	5,000	Furniture	5,000
Gupta's Capital	3,000	Machinery	8,000
	57,000		57,000

The firm was dissolved on 1st April, 2026. The fixed assets realised ₹ 2,000 whereas Stock and Debtors realised ₹ 33,000 in all. The expenses on dissolution were ₹ 600.

Prepare necessary Ledger Accounts, assuming that the necessary cash has been brought in by the partners.

[Ans.: Loss on Realisation—₹ 21,600; Amount brought in by Sharma—₹ 4,800;
Verma—₹ 2,200 and Gupta—₹ 600; Total of Cash A/c—₹ 43,600.]

10. A, B and C were partners sharing profits and losses in the ratio of 2 : 2 : 1. On 1st April, 2026, their Balance Sheet was:

Liabilities	₹	Assets	₹
Creditors	24,000	Cash at Bank	24,400
Reserve	10,000	Debtors	16,000
Capital A/cs:		Less: Provision for Doubtful Debts	400
A	30,000	Stock	12,000
B	24,000	Furniture	4,000
C	12,000	Building	44,000
	66,000		1,00,000
	1,00,000		1,00,000

The firm was dissolved on that date. The assets realised were:

	₹
Debtors	14,000
Stock	10,000
Furniture	2,000
Building	50,000

The Creditors were settled for ₹ 22,000. It was found, however, that there was a liability of ₹ 6,000 for damages which had to be paid. Realisation expenses amounted to ₹ 2,000.

Prepare Realisation Account, Partners' Capital Accounts and Bank Account to close the books of the firm.
[Ans.: Loss on Realisation—₹ 5,600; Cash paid to A—₹ 31,760; B—₹ 25,760; C—₹ 12,880.]

11. J, S and R were in partnership sharing profits and losses in the ratio of 3 : 2 : 1. Their Balance Sheet as at 31st March, 2026 was:

Liabilities	₹	Assets	₹
Capital A/cs:		Building	10,000
J	12,000	Plant	22,000
S	8,600	Stock	12,200
R	10,400	Debtors	5,000
Reserve Fund	3,000	Accrued Interest	1,000
Employees' Provident Fund	3,000	Cash	2,800
Depreciation Reserve	5,000		
Creditors	11,000		
	53,000		53,000

It was agreed to dissolve the firm and the terms of the dissolution were:

- J took Building at book value and agreed to pay Creditors.
- Accrued Interest was not collected whereas there was a contingent liability of ₹ 600 which was met.
- Other assets realised Plant—₹ 25,000; Stock—₹ 11,200; Debtors—₹ 4,600.
- Realisation expenses ₹ 600.

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

[Ans.: Gain (Profit) on Realisation—₹ 4,400; Final Payments to Partners: J—₹ 16,700; S—₹ 11,067; R—₹ 11,633.]

12. Amal and Bimal were partners in a firm sharing profits in the ratio of 4 : 1. They decided to dissolve the firm on 1st March, 2026. From the information given below, complete Realisation Account, Partners' Capital Accounts and Bank Account:

In the Books of Amal and Bimal

Dr.		REALISATION ACCOUNT		Cr.	
Particulars	₹	Particulars	₹		
To Assets:		By Provision for Doubtful Debts A/c	2,000		
Stock	10,000	By Creditors A/c	76,000		
Debtors	40,000	By Amal's Capital A/c (Stock)	?		
Fixed Assets	80,000	By Bank A/c:			
To Bank A/c (Creditors)	?	Debtors	37,600		
To Gain (Profit) transferred to:		Fixed Assets	1,22,000	1,59,600	
Amal's Capital A/c	?				
Bimal's Capital A/c	7,920				
	2,45,600				2,45,600

Dr.		PARTNERS' CAPITAL ACCOUNTS		Cr.	
Particulars	Amal ₹	Bimal ₹	Particulars	Amal ₹	Bimal ₹
To Bank A/c (Realisation Expenses)	2,000		By Balance b/d	20,000	60,000
To Advertisement Expenditure A/c	?	200	By Reserve A/c	16,000	?
To Realisation A/c (Stock)	8,000		By Realisation A/c	31,680	?
To Bank A/c	?	?			
	67,680	71,920		67,680	71,920

7.38 Double Entry Book Keeping—CBSE XII

Dr.		BANK ACCOUNT		Cr.	
Particulars	₹	Particulars	₹		
To Balance b/d	47,000	By Realisation A/c		76,000	
To Realisation A/c	?	By Amal's Capital A/c (Realisation Expenses)		?	
		By Amal's Capital A/c		56,880	
		By Bimal's Capital A/c		71,720	
	2,06,600				2,06,600

Solution (Hint):

Realisation Account: Bank A/c (Creditors)—₹ 76,000; Amal's Capital A/c (Profit)—₹ 31,680; Amal's Capital A/c (Stock)—₹ 8,000.

Amal's Capital Account: Advertisement Expenditure A/c—₹ 800; Bank A/c (Final Payment)—₹ 56,880.

Bimal's Capital Account: Reserve A/c—₹ 4,000; Realisation A/c—₹ 7,920; Bank A/c (Final Payment)—₹ 71,720.

Bank Account: Realisation A/c—₹ 1,59,600; Amal's Capital A/c (Realisation Expenses)—₹ 2,000.

Working Notes:

- Bimal's Share in profits is $1/5$ and his share in Reserve = ₹ 4,000.
So, Total Reserve = ₹ 4,000 \times $5/1$ = ₹ 20,000. Amal's Share in Reserve = ₹ 20,000 \times $4/5$ = ₹ 16,000.
- B's share in profits is $1/5$ and his share in Advertisement Expenses = ₹ 200.
So, total Advertisement Expenses = ₹ 200 \times $5/1$ = ₹ 1,000.
A's Share in Advertisement Expenses = ₹ 1,000 \times $4/5$ = ₹ 800.

13. A, B and C were partners sharing profits in the ratio of 2 : 2 : 1. They decided to dissolve their firm on 31st March, 2026 when the Balance Sheet was:

Liabilities	₹	Assets	₹
Creditors	40,000	Cash	40,000
Bills Payable	46,000	Debtors	70,000
Employees' Provident Fund	32,000	Less: Provision for Doubtful Debts	6,000
Mrs. A's Loan	38,000	Stock	50,000
C's Loan	30,000	Investments	60,000
Investments Fluctuation Reserve	16,000	Furniture	42,000
Capital A/cs:		Machinery	1,36,000
A	1,20,000	Land	1,00,000
B	1,00,000	Goodwill	30,000
C	1,00,000		
	3,20,000		
	5,22,000		5,22,000

Following transactions took place:

- A took over Stock at ₹ 36,000. He also took over his wife's loan.
- B took over half of Debtors at ₹ 28,000.
- C took over Investments at ₹ 54,000 and half of Creditors at their book value.
- Remaining Debtors realised 60% of their book value. Furniture sold for ₹ 30,000; Machinery ₹ 82,000 and Land ₹ 1,20,000.
- An unrecorded asset was sold for ₹ 22,000.
- Realisation expenses amounted to ₹ 4,000.

Prepare necessary Ledger Accounts to close the books of the firm.

(Foreign 2003, Adapted)

[Ans.: Loss on Realisation—₹ 77,000 (being A's share—₹ 30,800; B's share—₹ 30,800; C's share—₹ 15,400); Final Payments: A—₹ 91,200; B—₹ 41,200; C—₹ 50,600; Total of Cash Account—₹ 3,15,000.]

[Hint: Employees' Provident Fund is a statutory liability towards employees. It must be paid.]