Class 12 Accountancy Vol 1 Chapter 7- Dissolution of Partnership Firm

TS Grewal Solutions for Class 12 Accountancy Chapter 7- Dissolution of Partnership Firm is an elementary concept to be learned by the students. Here, we have furnished TS Grewal Accountancy solutions for class 12 in a simple and a step by step method, which is beneficial for the students to score well in their upcoming board exams.

Board	CBSE
Class	Class 12
Subject	Accountancy
Chapter	Chapter 7
Chapter Name	Dissolution of Partnership Firm
Number of questions solved	07
Category	TS Grewal

Chapter 7- Dissolution of Partnership Firm explains the below-mentioned concepts:

- Modes of Dissolution of a firm
- Settlements of accounts
- Accounting treatment on the dissolution of a firm
- Workmen Compensation Reserve
- Accounting for unrecorded assets and liabilities

TS Grewal Solutions for Class 12 Accountancy Chapter 7- Dissolution of Partnership Firm

Question 1

A, B and C's firm was dissolved on 31st March 2018. B demands that his loan of ₹. 50,000/- should be paid before payment of capitals of the partners. But, A and C demand that the capital should be paid before the payment of B's loan. In such a scenario, who is right?

Solution:

B is right in this case. According to Section 48 of the Indian Partnership Act, 1932 partners loan is paid before the payment of the partner's account.

Question 2

X and Y are partners in an enterprise sharing profits in the ratio of 3:2. Mrs X has given a loan of ₹. 30,000/- to the firm and the firm had also taken a loan of ₹.10,000/- from Y. The firm was dissolved and its assets were realised for ₹.35,000/-. State the order of payment of Mrs X's loan and Y's loan with reason, if there were no other creditors of the firm.

Solution:

According to Section 48 of the Indian Partnership Act, 1932, Mrs X's loan of ₹. 30,000/- being an outside party's debt will be paid before payment of Y's loan. Y will be paid up to be available on cash ₹. 5,000/-

Question 3

What journal entries would be passed for the following transactions on the dissolution of an enterprise of partners A and B?

- Old furniture which had been written off in the books was sold for ₹. 20,000/-
- 'P' an old customer whose account for ₹. 10,000/- was written off as bad debt in the previous year, paid 70%
- 'A' agreed to take over the enterprise's goodwill (not recorded in the books of a firm) at ₹. 50,000/-
- There was an old computer which had been written off from the books. It was estimated to realise ₹.5,000/-. It is taken by 'B' a partner at the estimated price of less than 30%.
- Investments costing ₹.20,000/- (being 1000 shares) had been written off from the books. These shares or investments are valued at ₹.15/- each and divided among the partners in their profit sharing ratio.

Solution:

Journal entries

Date	Particulars	L.F.	Debit	Credit
	Bank A/c Dr.		20,000	
	To realisation A/c			20,000

	(Being the already written off furniture sold)			
	Bank A/c Dr.		7,000	
	To realisation A/c			7,000
	(Being the debt already written off recovered)			
	A's capital A/c Dr.		50,000	
	To realisation A/c			50,000
	(Being the unrecorded goodwill taken over by A)			
	B's capital A/c Dr.		3,500	
	To realisation A/c			3,500
	(Being the computer already written off taken over by B)			
	A's capital A/c Dr.		7,500	
	B's capital A/c Dr.		7,500	
	To realisation A/c			15,000
	(Being investments (shares) written off taken over by A and B in their profit sharing ratio)			

Question 4

Virat and Ranveer were partners in a firm sharing profits in the ratio of 4:1. On March 31st, 2018, their balance sheet was as follows:

Balance Sheet of Virat and Ranveer as on 31st March 2018

Liabilities	**₹**	**Assets**	**₹**
Creditors	45,000	Bank	55,000

Workmen Compensation Fund	40,000	Debtors	60,000
Ranveer’s current account	65,000	Stock	85,000
Capital a/c:		Furniture	1,00,000
Virat	2,00,000	Machinery	1,30,000
Ranveer	1,00,000	Virat’s current a/c	20,000
	4,50,000		4,50,000

On the above date, the firm was dissolved:

- Virat took over 40% of the stock @ 10% less than its book value and the remaining stock was sold for ₹. 40,000/-. Furniture realised @ ₹. 80,000/-
- An unrecorded investment was sold for ₹.20,000/-. Machinery was sold at a loss of ₹. 60,000/-
- Debtors realised at ₹. 55,000/-
- There was an outstanding bill for the repairs for which ₹.19,000/- was paid.

Prepare Realisation Account.

Solution:

Dr. **Realisation Account** **Cr.**

Particulars	₹	Particulars	₹
To Debtors	60,000	By Creditors	45,000
To Stock A/c	85,000	By Virat's capital A/c [Stock = 34,000-3,400]	30,600
To Furniture A/c	1,00,000	By bank A/c (Assets realised):	
To Machinery A/c	1,30,000	Stock (remaining) 40,000	
To bank A/c (payment) -		Furniture 80,000	
O/S bills for repairs 19,000		Investment 20,000	
Creditors 45,000	64,000	Machinery 70,000	
		Debtors 55,000	2,65,000
		By loss transferred to:	
		Virat's capital A/c 78,720	
		Ranvir's capital A/c 19,680	98,400
	4,39,000		4,39,000

Question 5

Suhas and Saptham were partners in a firm sharing profits in the ratio of 3:2. In spite of repeated reminders by the authorities, they kept dumping hazardous materials into a nearby river. The court ordered for the dissolution of their partnership firm on 31st March 2018. Suhas was deputed to realise the assets and to pay the liabilities. He was paid 1,000/- as a commission for his services. The financial position of the firm on 31st March 2018 was as follows:

Balance Sheet as at 31st March 2012

Liabilities	₹	Assets	₹
Creditors	80,000	Building	1,20,000

Mrs Suhas's loan	40,000	Investments	30,000
Saptham's loan	24,000	Debtors 34,000	
Investments Fluctuations Fund	8,000	(-) Provision 4,000 for doubtful debts	30,000
Capital A/c:		Bills receivable	37,400
Suhas 42,000		Cash	6,000
Saptham 42,000	84,000	Profit and Loss A/c	8,000
		Goodwill	4,000
	2,36,000		2,36,000

The following was agreed upon:

- Suhas agreed to pay his wife's loan
- Debtors realised ₹.24,000/-
- Saptham took all the investments at ₹.27,000/-
- Building realised at ₹.1,52,000/-
- Creditors were payable after 2 months. They were paid immediately at a 10% discount
- Bills receivables were settled at a loss of ₹.1,400/-
- Realisation expenses amounted to ₹. 2,500/-

Now, prepare Realisation A/c. Partner's capital A/c and cash A/c to close the books of the firm.

Solution:

Dr. **Realisation Account** **Cr.**

Particulars	₹	Particulars	₹
To Building	1,20,000	By Provision for Doubtful Debts	4,000
To Investments	30,600	By Creditors	80,000
To Debtors	34,000	By Mrs Suhas's loan	40,000
To Bills Receivable	37,400	By Investments Fluctuations Fund	8,000
To Goodwill	4,000	By cash A/c (assets realised):	
To Suhas's capital A/c (Wife's	40,000	Debtors 24,000	

loan)			
To Cash:		Building 1,52,000	
Creditors 72,000		Bills Receivable 36,000	2,12,000
Realisation Expenses 2,500	74,500	By Saptham's capital A/c (Investments)	27,000
To Suhas's capital A/c (Commission paid)	1,000		
To Gain (Profit) transferred to:			
Suhas's capital A/c 17,700			
Saptham's capital A/c 11,800	29,500		
	3,71,000		3,71,000

Dr. Partner's Capital Account Cr.

Particulars	Suhas	Saptham	Particulars	Suhas	Saptham
To Profit and Loss A/c	4,800	3,200	By balance b/d	42,000	42,000
To Realisation A/c (Investment)	-	27,000	By Realisation A/c (Commission)	1,000	-
To Cash A/c (bal.fig.)	95,900	23,600	By Realisation A/c (Wife's loan)	40,000	-
			By Realisation A/c (Gain profit)	17,700	11,800
	1,00,700	53,800		1,00,700	53,800

Dr. Cash Account Cr.

Particulars	₹	Particulars	₹

To Balance b/d	6,000	By Realisation A/c	74,500
To Realisation A/c - Assets realised	2,12,000	By Saptham's loan A/c	24,000
		By Suhas's capital A/c - final payment	95,900
		By Saptham's capital A/c - final payment	23,600
	2,18,000		2,18,000

Question 6

Following is the Balance Sheet of X and Y as at 31 March 2018 who share profits and losses in the ratio of 3:2.

Liabilities	₹	Assets	₹
Sundry creditors	75,000	Cash at bank	4,500
Bills payable	30,000	Stock	25,000
Mr X's loan	25,000	Debtors 40,500	
Workmen compensation reserve	8,000	(-) provision for doubtful Debts 1,000	39,500
Bank loan	50,000	Bills receivable	15,000
General reserve	30,000	Investments	60,000
Capital account:		Plant and Machinery	80,000
X 30,000		Building	64,000
Y 40,000	70,000		
	2,85,000		2,85,000

On the above date, the firm was dissolved and the following arrangements were made:

- X promised to pay X's loan and took half of the investments at 10% discount

- Stock and remaining investments were sold at 10% discount
- X and Y agreed that Y shall use the firm's name for which he will pay ₹. 40,000/-. He also agreed to pay bills payable at a discount of 10%
- Debtors realised ₹. 35,000/-, Bills receivable ₹. 13,500/-, Plant and Machinery ₹. 38,900/-, Building ₹. 1,20,000/-
- There was a car in the firm, which was written off from the books. It was taken over by X for ₹. 23,400/-
- Creditors were paid 90% in full and final settlement of their dues
- Expenses of dissolution amounted to ₹. 1,700/-

Prepare a Realisation account, Capital account of the partners and Bank account in the books of the firm.

<u>Solution:</u>

Dr. **Realisation Account**
Cr.

Particulars	₹	Particulars	₹
To Sundry assets - Transfer:		By Provision for doubtful debts	1,000
Stock 25,000		By Sundry creditors	75,000
Debtors 40,500		By Bills Payable	30,000
Bills receivable 15,000		By Mr X's loan	25,000
Investments 60,000		By Bank loan	50,000
Plant and machinery 80,000		By A's capital A/c - Investments (₹. 30,000 - ₹. 3,000)	27,000
Building 61,000	2,81,500	By Bank A/c - Assets realised: Stock 22,500 (₹. 25,000 - ₹. 2,500)	
To X's capital A/c (Mrs. A's loan)	25,000	Investments 27,000 (₹. 30,000 - ₹. 3,000)	
To Y's capital A/c (Bills Payable)	27,000	Debtors 35,000	

To Bank A/c (Sundry Creditors)	67,500	Bills receivable 13,500		
To Bank A/c (Bank Loan)	50,000	Plant and Machinery 38,900		
To Bank A/c (Expenses)	1,700	Building 1,20,000	2,56,900
To gain (profit) on realisation transferred to:		By Y's capital A/c - Goodwill	40,000
X's capital A/c 45,360		By X's capital A/c - car	23,400
Y's capital A/c 30,240	75,600		
	5,28,300		5,28,300

Dr. **Partner's Capital Account** **Cr.**

Particulars	X	Y	Particulars	X	Y
To Realisation A/c - Assets	27,000	40,000	By balance b/d	30,000	40,000
To Realisation A/c - Car	23,400	-	By Realisation A/c (gain profit)	45,360	30,240
To Bank A/c - Final payment	70,960	71,240	By Realisation A/c - Liabilities	25,000	27,000
			By General Reserve A/c	16,200	10,800
			By Workmen compensation Reserve A/c	4,800	3,200
	1,21,360	1,11,240		1,21,360	1,11,240

Dr. **Bank Account**
Cr.

Particulars	₹	Particulars	₹

To balance b/d	4,500	By Realisation A/c Creditors	67,500
To Realisation A/c- Assets realised	2,56,900	By Realisation A/c - Bank Loan	50,000
		By Realisation A/c - Expenses	1,700
		By Realisation A/c- Final Payment	70,960
		By Realisation A/c - Final Payment	71,240
	2,61,400		2,61,400

Question 7

All the partners decide to dissolve the firm on 31st March 2018. Y, a partner demands that his loan of ₹. 1,00,000/- must be paid before the payment of Mrs X's loan of ₹. 50,000/-. However, X, another partner, demands that Mr X's loan must be paid before payment of Y's loan. Who is right?

Solution:

X is right. According to Section 48 of the Indian Partnership Act, 1932, outside party's debts are paid before payment of the partner's loan. Mrs X is not a partner in the firm.

The above-provided solutions are considered to be the best solutions for 'TS Grewal Solutions Class 12 Accountancy Class 12 Accountancy Vol 1 Chapter 7- Dissolution of Partnership Firm'. Stay tuned to BYJU'S to learn more and score well in the upcoming board examinations.