

ANSWERS

1. MULTIPLE CHOICE QUESTIONS

1. (2) **Explanation:** Personal Accounts represent amount due to or due from a person or group of persons. Partner's loan is a direct representation of amount due to or from the partner. Hence, it is a Personal Account.
2. (2) **Explanation:** Court may order dissolution of the firm when the business of the firm can't be carried on except at a loss.
3. (4) **Explanation:** Section 48 of the Indian Partnership Act, 1932 deals with the settlement of accounts when the firm is dissolved.
4. (4) **Explanation:** Reserves and Credit balance of Profit & Loss Account are not liabilities towards outside parties. They are accumulated losses and reserves and are transferred to Capital Accounts of partners at the time of dissolution. It is not transferred to Realisation Account but is kept and paid separately.
5. (4) **Explanation:** Dissolution of partnership means existing Partnership Deed or Agreement coming to an end. It means, the existing economic relationship/agreement among partners comes to an end. All the above situations, *i.e.*, admission of a partner, death of a partner, dissolution of partnership result in dissolution of partnership. This is because, on happening of these events, partnership among partners is ended. In the event of dissolution of firm, along with the dissolution of partnership, the firm is dissolved, *i.e.*, comes to an end.
6. (1) **Explanations:** All assets of the firm including Goodwill, (except fictitious assets, loan to partners and Cash or Bank Account) are transferred to debit side of Realisation Account.
7. (3) **Explanation:** All assets of the firm which can be converted into cash are transferred to Realisation Account. Hence, when Goodwill is realised in cash, Cash/Bank Account is debited and Realisation Account is credited.
8. (2) **Explanation:** When a liability is discharged by a partner at the time of dissolution, his Capital Account is credited because the claim of the partner is increased by the amount paid by him on behalf of the firm. Realisation Account is debited because the creditors are transferred to the credit of Realisation Account. On payment being made, Realisation Account is debited.
9. (2) **Explanation:** Fictitious Assets such as Deferred Revenue Expenditure are not transferred to Realisation Account. These are debited to Partners' Capital Accounts in their profit-sharing ratio, they being in the nature of loss.
10. (1) **Explanation:** Partner's personal assets are first used to pay his personal debts. If any amount remains thereafter, the partner's personal assets may be used for paying firm's debts.
11. (3) **Explanation:** Book Value of Investment:
Let Book Value of investment be ₹100. Value of investment taken by partner is ₹ 85 (₹ 100 – 15% of ₹ 100).
Therefore, if value of investment taken by partner is ₹ 93,500, book value will be
$$= ₹ 93,500 \times 100/85 = ₹ 1,10,000.$$
12. (4) **Explanation:** The partner was to bear the expenses and has also paid them, Realisation expenses will not be paid in addition to agreed amount, *i.e.*, ₹ 14,500.
13. (1) **Explanation:** Net cash realised = Cash realised from Assets – Liabilities paid
$$= ₹ 1,25,000 - ₹ 50,000 = ₹ 75,000.$$

Remuneration to partner = ₹ 75,000 × 5/100 = ₹ 3,750.
14. (3) **Explanation:** If a workmen compensation claim arises and Workmen Compensation Reserve does not exist, the claim is a loss paid by the firm.
15. (4) **Explanation:** Total value of investment = ₹ 2,10,000
2/3rd of investment taken by a partner, *i.e.*, 2/3rd of ₹ 2,10,000 = Investment of ₹ 1,40,000 taken by partner.
The investment was taken at 20% discount. Hence, value at which partner took the investment
$$= ₹ 1,40,000 - ₹ 28,000^* = ₹ 1,12,000$$

$$^* \text{Discount} = ₹ 1,40,000 \times 20/100 = ₹ 28,000.$$

28. (4) Explanation: When realisation expenses are borne and paid by the same partner no Journal Entry is passed as the transaction is being carried out by the partner in his individual capacity and the firm is neither bearing the expense nor paying it.

29. (4) Explanation: It is ₹ 3,46,000, calculated as follows:

| REALISATION ACCOUNT | | | |
|--|-----------|---------------------------|-----------|
| Dr. | | | Cr. |
| Particulars | ₹ | Particulars | ₹ |
| To Sundry Assets | 12,00,000 | By Liabilities | 6,20,000 |
| To Bank: | | By Bank (Assets Realised) | 15,00,000 |
| Liabilities Paid | 5,50,000 | | |
| Realisation Expenses | 24,000 | | |
| | 5,74,000 | | |
| To Profit on realisation trfd. to Partners' Capital A/cs (Bal. Fig.) | 3,46,000 | | |
| | 21,20,000 | | 21,20,000 |

30. (4) Explanation: Amount paid is ₹ 18,000, calculated as follows:

| PARTNER'S CAPITAL ACCOUNT | | | |
|--------------------------------|----------|-------------------------------|----------|
| Dr. | | | Cr. |
| Particulars | ₹ | Particulars | ₹ |
| To Balance b/d | 70,000 | By Realisation A/c (Profit) | 90,000 |
| To Realisation A/c (Furniture) | 35,000 | By Realisation A/c (Expenses) | 33,000 |
| To Bank A/c* | 18,000* | | |
| | 1,23,000 | | 1,23,000 |

*Balancing Figure—represents the amount paid to the partner by the firm.

31. (2) Explanation: Entry is not passed for stock taken by creditor in settlement of liability as the asset (stock) and liability (creditor) have already been transferred to Realisation Account. The balance of settlement amount which is paid in cash/through bank is recorded as payment of liability by debiting Realisation Account and crediting Cash/Bank Account.

32. (3) Explanation: On dissolution of a firm, Loan by a partner to firm is paid after payment of outside liabilities, but before payment of capitals. Therefore, Loan to partner is not transferred to Realisation Account and is kept and paid separately.

33. (2) Explanation:

| REALISATION ACCOUNT | | | |
|----------------------------|----------|---|----------|
| Dr. | | | Cr. |
| Particulars | ₹ | Particulars | ₹ |
| To Debtors | 30,000 | By Creditors | 40,000 |
| To Goodwill | 20,000 | By Bank A/c: | |
| To Other Sundry Assets | 1,20,000 | Debtors (realised)* | 21,000 |
| To Bank A/c (Creditors)*** | 40,000 | Other Sundry Assets (realised)** | 96,000 |
| | | By Loss transferred to Partners' Capital A/cs | 53,000 |
| | 2,10,000 | | 2,10,000 |

*Debtors = ₹ 30,000 – ₹ 9,000 = ₹ 21,000

**Other Sundry Assets = ₹ 1,20,000 – ₹ 24,000 = ₹ 96,000

***Creditors paid at book value

34. (4) Explanation: Sundry Assets appearing in the Balance Sheet are transferred to the debit side of Realisation Account.

35. (3) Explanation: On dissolution of a partnership firm, application of assets is done in the following order:

- In paying firm's debts towards the outside parties;
- In paying to each partner what is due to him on account of loans or advances;
- In paying to each partner what is due to him on account of capital; and
- The balance, if any, is distributed among the partners in their profit-sharing ratio.

36. (4) **Explanation:** Employees' Provident Fund is a liability of the firm. On dissolution of the firm, it is transferred to credit side of Realisation account and is paid.

2. CASE STUDY BASED MCQS

1. A. 3. **Explanation:** Bank Loan of ₹ 50,000 (interest @ 4% on ₹ 50,000) = ₹ 2,000

Total Bank Loan = ₹ 52,000 adjusted from debtors, remaining Debtors = ₹ 64,000 – ₹ 52,000 = ₹ 12,000 less 5% discount of ₹ 600 = ₹ 11,400.

| | |
|--|-----------------|
| B. 3. Explanation: Assets Realised: | ₹ |
| Stock | 16,500 |
| Machinery | 95,000 |
| Building | 1,20,000 |
| Motor Vehicles | 15,000 |
| Debtors | 11,400* |
| Total | <u>2,57,900</u> |

Total Stock is ₹ 40,000, 1/4th taken by W, remaining is ¾ which is ₹ 30,000, out of this half, i.e., ₹ 15,000 sold at 10% profit, i.e., ₹ 1,500 = ₹ 15,000 + ₹ 1,500 = ₹ 16,500

*Debtors less Bad Debts = ₹ 79,000 – ₹ 15,000 = ₹ 64,000

Bank Loan of ₹ 50,000 (interest @ 4% on ₹ 50,000 = ₹ 2,000)

Total Bank Loan = ₹ 52,000 adjusted from debtors, remaining debtors = ₹ 64,000 – ₹ 52,000 = ₹ 12,000 less 5% discount of ₹ 600 = ₹ 11,400.

| | |
|--|-----------------|
| C. 4. Explanation: Liabilities and expenses paid: | ₹ |
| Sundry Creditors | 45,000* |
| Realisation Expenses | 15,400 |
| Workmen Compensation | 35,500 |
| Bills Payable | 30,000 |
| Employees Provident Fund | 81,000 |
| Total | <u>2,06,900</u> |

*Sundry Creditors – Motor Vehicles = ₹ 90,000 – ₹ 40,000 = ₹ 50,000 – (10% of ₹ 50,000) = ₹ 45,000

2. A. 4. **Explanation:** As there is a Liability of Workmen Compensation, the amount of Workmen Compensation Reserve will be transferred (credited) to Realisation Account.

- B. 1. **Explanation:** Debtors = ₹ 76,000 (₹ 95,000 – 20% Discount), (₹ 1,20,000 – Bad Debts of ₹ 25,000).

- C. 2. **Explanation:** Assets Realised:

Stock (1/2) = ₹ 16,000 (₹ 20,000 – ₹ 20,000 × 20%)

Building = ₹ 1,40,000

Debtors = ₹ 76,000 (₹ 95,000 – 20% Discount), (₹ 1,20,000 – Bad Debts of ₹ 25,000)

Creditors = ₹ 27,000 (₹ 83,000 – Machinery ₹ 1,10,000) = ₹ 27,000 repaid by creditors)

Total = ₹ 2,59,000.

- D. 4. **Explanation:** Liabilities paid:

Workmen Compensation Claim = ₹ 45,000

Bills Payable = ₹ 37,000

Total = ₹ 82,000

(No entry is passed When an asset is given to settle a liability, towards payment of the dues)

3. A. 2. **Explanation:** When an asset is transferred to Realisation Account, related provision and reserve is also transferred to Realisation Account.

- B. 1. **Explanation:** Creditors = Half Creditors are adjusted by Debtors (No entry is passed When an asset is given to settle a liability, towards payment of the dues)

Remaining half is ₹ 41,500 – Discount of ₹ 415 (₹ 41,500 × 6% for 2/12 months) = ₹ 41,085.

- C. 4. **Explanation:** In case of accumulated losses (e.g., debit balance in Profit & Loss Account) or balance in fictitious asset accounts like Deferred Revenue Expenditure, etc., are transferred to the debit of Partners' Capital Accounts in their profit-sharing ratio.
4. A. 1. **Explanation:** *Assets Realised:*
- | | |
|------------------|-------------------|
| | ₹ |
| Machinery | = 85,000 |
| Building | = 1,51,000 |
| Debtors | = 40,000 |
| Investment | = 15,000 |
| Unrecorded asset | = 9,000 |
| Total | = <u>3,00,000</u> |
- B. 4. **Explanation:** Tom's commission = ₹ 3,00,000 × 8/100 = ₹ 24,000.
- C. 1. **Explanation:** *Liabilities Paid:*
- | | |
|---------------------------|-------------------|
| | ₹ |
| Outstanding Repair | = 6,500 |
| Contingent Liability | = 22,000 |
| Realisation Expenses | = 7,500 |
| Compensation to Employees | = 31,000 |
| Creditors | = 25,000 |
| Bank Overdraft | = 32,000 |
| Total | = <u>1,24,000</u> |
- D. 4. **Explanation:** Entry will not be passed for unrecorded asset given in settlement of unrecorded liability because if entry is passed, Realisation Account will be debited and credited by the same amount.

3. SEQUENCE BASED MCQS

1. 4. **Explanation:** Section 48 of the Indian Partnership Act, 1932 states that Application of assets at the time of dissolution of partnership firm shall be in the following sequence:
- D. In paying firm's debts to the third parties;
 - A. In paying to each partner what is due to him on account of loans or advances;
 - B. In paying to each partner what is due to him on account of capital; and
 - C. The balance, if any, is distributed among the partners in their profit-sharing ratio.
2. 1. **Explanation:** The correct order or sequence is:
- B. Transfer assets and liabilities to Realisation Account.
 - D. Thereafter assets are realised and outside liabilities are paid.
 - A. At this stage, Realisation Account will show either profit or loss, which is distributed among partners in their profit sharing ratio.
 - C. Having paid the outside liabilities, loan by partner is paid.
3. 1. **Explanation:** The correct order or sequence is:
- A. Transfer assets and outside liabilities to Realisation Account.
 - B. Realisation of assets and payment of outside liabilities is the next step.
 - C. As a result of first two steps, Realisation Account is prepared, net result of which is either profit or loss which is distributed among partners.
 - D. Loan by partner is transferred to Partner's Capital Account, if it has debit balance.
 - E. Thereafter, capitals are repaid.
4. 2. **Explanation:** The correct order is:
- B. Investment Fluctuation Reserve is transferred to Realisation Account since all assets (including investment) are transferred to the Account along with the related reserves.
 - A. General Reserve Account is closed by distributing it among partners in their profit-sharing ratio, it being set aside out of past profits.
 - C. Current Account balances are transferred to Partners' Capital Accounts to determine amount payable to partners.
 - D. Profit or Loss of Realisation Account is transferred to Partners' Capital Accounts.

4. MATCHING QUESTIONS

1. 4. **Explanation:** Debts which the firm owes to outsiders are known as firm's debts. Debts which a partner owes in his personal capacity are known as private debts. Firm's property is applied for payment of firm's debts. Private property of each partner is applied first towards payment of his private debts and surplus, if any, is applied towards payment of firm's debts. All partners are jointly and severally liable for firm's debts.
2. 3. **Explanation:**
 - A. Court may pass order for the dissolution of the firm when the business of the firm cannot be carried on except at a loss. **[List II, Option (IV)]**
 - B. A firm may be dissolved in the event of completion of the venture, which will be said to be 'happening of an event'. **[List II, Option (III)]**
 - C. In case Partnership is at Will, the firm may be dissolved by any partner giving notice in writing to all the other partners of his intention to dissolve the firm. [Section 43] **[List II, Option (II)]**
 - D. A firm may be compulsorily dissolved when business of the firm becomes unlawful. **[List II, Option (I)]**
3. 3. **Explanation:**
 - A. When Realisation expenses are borne and paid by the same partner, no entry is passed. **[List II, Option (III)]**
 - B. When Realisation expenses are borne by a partner and paid by the firm, Concerned Partner's Capital A/c is debited and Cash/Bank A/c is credited. **[List II, Option (IV)]**
 - C. When Realisation expenses are borne and also paid by the firm, Realisation A/c is debited and Cash/Bank A/c is credited. **[List II, Option (II)]**
 - D. When Realisation expenses were to be borne by the firm but are paid by a partner, Realisation A/c is debited and Concerned Partner's Capital A/c is credited. **[List II, Option (I)]**
 - E. When any of the Partners agrees to carry out dissolution work for an agreed remuneration, including realisation expenses, Realisation A/c is debited and Concerned Partner's Capital A/c is credited. **[List II, Option (I)]**
4. 2. **Explanation:**
 - A. Workmen Compensation Reserve appears in the Balance Sheet at ₹ 40,000 and liability estimated at ₹ 45,000, adjustment entries are:

| | | |
|--------------------------------------|--------|----------|
| (a) Workmen Compensation Reserve A/c | ...Dr. | ₹ 40,000 |
| To Realisation A/c | | ₹ 40,000 |
 - (b) Realisation A/c
 - To Bank A/c

| | | |
|--|--------|----------|
| | ...Dr. | ₹ 45,000 |
| | | ₹ 45,000 |

 - B. Workmen Compensation Reserve appears in the Balance Sheet at ₹ 40,000,

| | | |
|----------------------------------|--------|----------|
| Workmen Compensation Reserve A/c | ...Dr. | ₹ 40,000 |
| To Partner's Capital A/c | | ₹ 40,000 |
 - C. Workmen Compensation Reserve does not appear in the Balance Sheet but claim estimated at ₹ 35,000, the Journal entry is:

| | | |
|-----------------|--------|----------|
| Realisation A/c | ...Dr. | ₹ 35,000 |
| To Bank A/c | | ₹ 35,000 |
 - D. Workmen Compensation Reserve appears in the Balance Sheet at ₹ 40,000, liability estimated at ₹ 35,000, the Journal entry is:

| | | |
|----------------------------------|--------|----------|
| Workmen Compensation Reserve A/c | ...Dr. | ₹ 40,000 |
| To Realisation A/c | | ₹ 40,000 |

In the case of claim against reserve (Workmen Compensation Reserve, in this case), total reserve is transferred to Realisation Account.
5. 1. **Explanation:** (No entry is passed when stock is given to settle creditor in full settlement, towards payment of the dues).

5. COMBINATION WITH SINGLE ANSWER QUESTIONS

1. 4. **Explanation:** Dissolution by Court: Court may pass order for the dissolution of the firm when:
- A. a partner becomes a person of unsound mind;
 - B. a partner becomes permanently incapable of performing his duties as a partner;
 - C. a partner is found guilty of misconduct, which is likely to adversely affect the business of the firm;
 - D. partnership agreement is breached persistently by a partner or partners;
 - E. court finds dissolution of the firm justified;
 - F. the business of the firm cannot be carried on except at a loss
2. 4. **Explanation:**
- A. Goodwill appearing in the books is transferred to Realisation Account, being an asset.
 - B. Since they are not recorded, these assets and liabilities are not transferred to Realisation Account.
 - C. Provisions (Provision for Doubtful Debts, in this case) or Reserve on any asset is transferred to Realisation Account.
 - D. General Reserve is credited to Partners' Capital Account.
3. 2. **Explanation:**
- A. Goodwill appearing in the books is transferred to Realisation Account, being an asset.
 - B. Reserve on any asset is transferred to Realisation Account.
 - C. Provisions is transferred to Realisation Account.
 - D. General Reserve is credited to Partners' Capital Accounts.
4. 4. **Explanation:**
- A. Workmen Compensation Reserve is credited to Partners' Capital Accounts, if there is no claim of workmen.
 - B. Reserve on any asset is transferred to Realisation Account.
 - C. Provisions is transferred to Realisation Account.
 - D. General Reserve is credited to Partners' Capital Accounts.
5. 4. **Explanation:** A firm may be dissolved in any of the following events:
- A. on expiry of the term for which the firm was constituted.
 - B. on completion of the venture.
 - C. on death of a partner.
 - D. on adjudication of a partner as insolvent.
- Note:** A firm is dissolved, in the event of death of a partner, if the Partnership Deed is silent.
6. 2. **Explanation:** General Reserve and Workmen Compensation Reserve when there is no claim are in the nature of accumulated profits. The existence of Investment Fluctuation Reserve leads to the conclusion that the firm has investments. Both the entries will be transferred to Realisation Account.
7. 3. **Explanation:** Deferred Revenue Expenditure and Debit balance in Profit & Loss Account are losses/ accumulated losses.
8. 2. **Explanation:** General Reserve and Credit balance in Profit & Loss are accumulated profits hence credited to Partner's Capital Account.
- Advertisement Suspense is a loss hence, is debited to Partner's Capital Account while Investment Fluctuation Reserve is transferred to Realisation Account since Investment will be transferred to the account.
9. 4. **Explanation:** Credit balance in Profit & Loss Account is accumulated profit and hence, is credited to Partner's Capital Account.
- Advertisement Suspense is a loss hence, is debited to Partner's Capital Account. Revaluation Loss is debited to Partner's Capital Account.