

OPEN STUDENT FOUNDATION

Date : 24-02-2024

STD 12 Commerce Elements of Account
12th Account Practice Sheet Day 7 (Part 1 - Ch.7)

Total Marks : 30

Section A

* **Choose The Right Answer From The Given Options.** [4]

1. At the time of dissolution, unrecorded outstanding salary of Rs. 10,000 is being paid, where will it be credited?

(A) Realisation A/c (B) Partners' Capital (C) Salary A/c (D) Cash A/c
A/c

Ans. : (D) Cash A/c

2. It was decided to pay Rs. 1,200 to Mr. Modi for dissolution expense, but actual dissolution expense was Rs. 800. What amount will be written on the Dr. side of Realisation A/c?

(A) Rs. 1,200 (B) Rs. 800 (C) Rs. 400 (D) Rs. 2,000

Ans. : (A) Rs. 1,200

3. At the time dissolution balance of which account is not transferred to Realisation Account?

(A) Debtors No (B) Bad debts Reserve (C) Investment A/c (D) Cash/Bank A/c
A/c

Ans. : (D) Cash/Bank A/c

4. At the time of dissolution Rs. 4,000 received from debtor Virag firm the bad debts of Rs. 6,000 which was earlier written off. To which account this amount is credited?

(A) Virag A/c (B) Bad debts Return (C) Realisation A/c (D) Cash/Bank NC
No

Ans. : (C) Realisation A/c

Section B

* **Answer The Following Questions In One Sentence.** [4]

5. Name the two methods for the dissolution of a partnership firm.

**Ans. : (A) Simple dissolution or dissolution without interference (order) of the court.
(B) Dissolution under court order.**

6. On which side of the realisation A/c, the amount of Joint life insurance policy and the surrender value of the policy is written?

Ans. : Amount of joint life insurance policy is written at the debit side and its surrender value is written at the credit side of realisation account.

7. At the time of dissolution to which account depreciation fund shown in the balance sheet is transferred?

Ans. : At the time of dissolution after closing depreciation fund account it is transferred to credit side of realisation account.

8. Which balance is shown by cash account after completion of accounts of dissolution?

Ans. : After completion of dissolution accounts cash account balance is same as capital accounts and it will be squared up.

Section C

* **Answer The Following Questions.**

[6]

9. Jhanavi, Yesha and Jvallit are partners sharing profit-loss in the proportion of 5:3:2. The firm was dissolved on 31-3-2016. On that firm has follows status:

Balance Sheet

Liabilities	Amt. (₹)	Assets	Amt. (₹)
Capital :		Sundry assets	1,48,000
Jhanavi 50,000		Cash balance	2000
Yesha 30,000			
Jvallit 20,000	1,00,000		
Sundry liabilities	50,000		
	1,50,000		1,50,000

(1) 1,58,000 realised from sundry assets.

(2) Liability is paid at 10 % discount.

(3) The firm has paid government taxes of last two years of 3000. This was not recorded in the books.

(4) Dissolution expense incurred 2000.

Prepare realisation account under second method

Ans. :

Realisation Account

Dr		Cr	
Particulars	Amt. (₹)	Particulars	Amt. (₹)
To Cash A/c :		By Sundry assets A/c	10,000
Government taxes	3000	By Sundry creditors A/c	5000
Dissolution expenses	2000		
To Capital A/c :			
Jhanavi	5000		
yesha	3000		
Jvallit	2000		
	10,000		
	15,000		15,000

10. Give accounting treatments for goodwill of different circumstances when firm goes for dissolution.

Ans. : Following are the accounting treatments for goodwill of different circumstances when firm goes for dissolution : (1) If the value of goodwill will be shown in the balance sheet then like other assets, goodwill will be shown as debit side of Realisation Account. (2) Amount realised from the sale of goodwill will be shown on credit side of Realisation Account. (3) If no information regarding realisation of goodwill is given then it is to be understood that nothing is realised. (4) At the time of dissolution of firm, if goodwill is not shown in the books of account, hence amount realised • then it will be treated as profit and credited to Realisation Account. (5) When any partner purchase whole business (including goodwill) then (i) Capital account of business purchase partner is debited by amount of goodwill and (ii) Realisation account is credited by amount of goodwill.

Section D

* **Answer The Following Questions With Necessary Calculations.**

[8]

11. Explain in brief, legal provisions of accounting settlement for partnership firm dissolution.

Ans. : The main legal provisions with regards to dissolution a of partnership firms are as follows :

(1) Legal provision for loss of firm : Here, from the profits of the firm and if profits is not . sufficient the loss of the firm is written off against the capital of the partners. If capitals are insufficient, the loss will be borne by the partners in their profit and loss ratio and will be paid by selling of their own assets.

(2) Legal provision for the payment of liabilities of the firm and partners : The partners have unlimited liabilities and liabilities of the firm are to be paid off by assets of the firm but because of unlimited liabilities of the partners, firm's remaining liabilities are to be paid of from their personal assets.

(3) Payment of loan to the firm by the partners : First of all liabilities of the firm will be paid ' by realising the asses of the firm. After paying the external liabilities of the firm, loan of partner's will be paid. If more than one partner has loaned to the firm and if the partners are not in a position to make up deficit, the loans are to be paid proportionately.

(4) Payment of loan given by the partners' wife : Wife's loan to the firm will be rapid like payment to a third party. But if wife of a partner has given it from the fund of her husband, it will be treated as loan of that partner.

(5) Payment of liabilities of a partner : Liabilities of the partners are unlimited and if any of partners is declared insolvent on dissolution, the solvent partners are liable to pay the liabilities of the firm as the insolvent partner/s will not be able to meet his/their share.

(6) Legal provision for distribution of the realised assets of the firm : The payment for the liability from the realisation of assets will be made in following manner.

(i) First pay the dissolution expenses.

(ii) After that, liabilities of third parties will be paid.

(iii) Then, the loan of partner/s is to be paid.

(iv) Payment towards partners capital and current accounts.

(v) If any surplus, it will be distributed among the partners in the profit-loss sharing ratio.

12. Explain methods of dissolution without the interference of court.

Ans. : There are two method for dissolution of partnership firm : (I) Normal Dissolution (II) Dissolution by the court.

(I) Normal Dissolution/Dissolution without interference of Court : It is as under :

(i) By agreement: When all partners agree to dissolve the firm, partnership firm can be dissolved at any point of time. It is voluntary dissolution.

(ii) Dissolution on happenings of certain contingencies :

(a) If arrangement for a fixed term, by the expiry of that term.

(b) If arrangement to carry out specific aim, by the completion thereof.

(iii) Dissolution by notice : Where the 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.

(iv) Dissolution as per act : In the following conditions compulsory dissolution is taken place by the act.

(a) When all the partners of the firm become insolvent, or except one, all partners become insolvent.

(b) When business of firm becomes illegal, this also brings dissolution of a partnership firm. E.g. If a firm doing business of Tobacco and government put restriction through law on this business, then this business automatically become illegal and dissolve.

(c) When any partner becomes mental weak or due to his death. Partnership is going to end and firm dissolve.

(v) Dissolution as per contract: Dissolution of a partnership firm can be done on the basis of predetermined contract between the partners

Section E

* Answer The Following Questions In Detail.

[8]

13.

Naresh and Shaivil are partners sharing profit-loss in the proportion of 2 : 3. On 30-9-2016. They have decided to dissolve the firm. On this date their capital was ₹ 6,00,000 and ₹ 4,00,000 respectively. Total liabilities of the firm are ₹ 6,00,000. The balance of accumulated debit balance of profit and loss account is ₹ 1,00,000 and cash balance is ₹ 1,00,000, 50% are realised from assets of firm. Dissolution expense is ₹ 1,00,000. Prepare necessary accounts to close books of the firm.

Ans. : Here, balance sheet before dissolution is not given. So, first of all prepare balance sheet and then prepare the accounts of dissolution.

Balance sheet of Partnership firm as on 30-9-2016

Liabilities	Amt. (₹)	Assets	Amt. (₹)
Capital :		Sundry Assets (?)	14,00,000
Naresh 6,00,000		Cash Balance	1,00,000
Shaivil <u>4,00,000</u>	10,00,000	Profit & Loss account	
Total liabilities	6,00,000	(Debit balance)	1,00,000
	<u>16,00,000</u>		<u>16,00,000</u>

Dr. Realisation Account		Cr.	
Particulars	Amt. (₹)	Particulars	Amt. (₹)
To Sundry Assets	14,00,000	By Total Liabilities	6,00,000
To Cash A/c (Payment)		By Cash A/c (realised of assets)	7,00,000
Dissolution Exp. 1,00,000		By Capital A/c : (loss)	
Total Liabilities <u>6,00,000</u>	7,00,000	Naresh 3,20,000	
		Shaivil <u>4,80,000</u>	8,00,000
	<u>21,00,000</u>		<u>21,00,000</u>

Dr. Partners' Capital Account			Cr.		
Particulars	Naresh (₹)	Shaivil (₹)	Particulars	Naresh (₹)	Shaivil (₹)
To Profit & loss A/c	40,000	60,000	By Balance b/d	6,00,000	4,00,000
To Realisation A/c (loss)	3,20,000	4,80,000	By Cash A/c	-	1,40,000
To Cash A/c	2,40,000	-			
	<u>6,00,000</u>	<u>5,40,000</u>		<u>6,00,000</u>	<u>5,40,000</u>

Dr. Cash Account		Cr.	
Particulars	Amt. (₹)	Particulars	Amt. (₹)
To Balance b/d	1,00,000	By Realisation A/c (Payment)	
To Realisation A/c (realised of asset)	7,00,000	Dissolution Exp. 1,00,000	
To Shaivil's Capital A/c	1,40,000	Total liabilities <u>6,00,000</u>	7,00,000
	<u>9,40,000</u>	By Naresh's Capital A/c	2,40,000
			<u>9,40,000</u>
