Collegedunia NCERT Solutions

Step-by-step solutions, alternate methods & exam tips for Class 12 Accountancy

Chapter 4: Dissolution of Partnership Firm

About this Chapter

Dissolution of a partnership firm brings the firm itself to an end, assets are realised, liabilities are paid, and the surplus is distributed among the partners. This chapter teaches you the legal set of rules (Section 39 of the Indian Partnership Act 1932), the **Realisation Account**, accounting for unrecorded assets and liabilities, settlement of partners' loan accounts, and the order of payment laid down in Section 48. Solutions for 2026-27 follow NCERT Reprint 2026-27.

Topics covered: Realisation A/c • Section 48 order • Unrecorded items • Partner's Loan A/c • Garner v Murray • Insolvency

Quick Formula Sheet

Realisation A/c (Dr. side):
All assets at book value (except Cash, Bank, Goodwill written off)

Realisation A/c (Cr. side):
All outside liabilities at book value

Order of payment (Sec. 48):
(a) External debts → (b) Partner's loan → (c) Capital → (d) Surplus

Also see for this chapter: Revision Notes | Formula Sheet

Short Answer Questions

Q 4.1 **State the difference between dissolution of partnership and dissolution of partnership firm.**

SOLUTION

Concept used. Sections 39 and 40 of the Indian Partnership Act 1932 distinguish between **dissolution of a partnership** (the contract among partners ends but the firm may continue with the remaining partners) and **dissolution of the firm** (the firm itself comes to an end and books are closed).

Step 1. **Termination of business.** In dissolution of partnership, the business continues with the remaining partners. In dissolution of the firm, the business is permanently terminated.

Step 2. **Settlement of accounts.** In partnership dissolution, only the outgoing partner's account is settled. In firm dissolution, all assets are sold, all liabilities are paid, and surplus is distributed.

Step 3. **Court's intervention.** Not required for partnership dissolution. The firm may be dissolved by court order (Section 44) on grounds like insanity, misconduct, etc.

Step 4. **Economic relationship.** Partnership dissolution: relationship continues among remaining partners. Firm dissolution: economic relationship between ALL partners ends.

Step 5. **Closure of books.** Partnership dissolution: books continue. Firm dissolution: books are closed; Realisation A/c is prepared.

> **Final Answer:** Dissolution of partnership ends the current contract; the firm continues. Dissolution of the firm ends the firm itself; books are closed.

☞ **Quick recall**

Under Garner v. Murray, the deficiency of an insolvent partner is borne by the solvent partners in the ratio of their capitals (as on the date immediately before dissolution), not in their profit-sharing ratio.

EXPERT'S SOLUTION *: Aarav Sharma, M.Com Accountancy, Delhi University*

Quick reading. One is a soft termination (relationship reshuffled); the other is a hard termination (firm wound up).

Step 1. Partnership dissolved ⇒ relationship between EXISTING partners may end; firm continues with new partners.

Step 2. Firm dissolved ⇒ relationship between ALL partners ends; firm wound up.

Step 3. Firm dissolution always involves partnership dissolution; the reverse is not true.

Why this matters. Confusing the two terms loses easy marks. Examples: retirement of one partner = dissolution of partnership only. All partners agreeing to wind up = dissolution of firm.

Common mistakes. Three predictable slips lose marks: (a) routing unrecorded assets or liabilities through Partners' Capital Accounts instead of the Realisation Account; (b) ignoring the Garner v. Murray principle and sharing the deficiency of an insolvent partner in the profit-sharing ratio rather than the capital ratio of solvent partners; (c) showing the firm's outside liabilities and the partner's loan in the wrong order of payment under Section 48.

> **Final Answer:** Partnership dissolution = relationship ends. Firm dissolution = firm itself ends.

Q 4.2 **State the accounting treatment at the time of dissolution of a firm for: (i) Unrecorded assets; (ii) Unrecorded liabilities.**

SOLUTION

Concept used. Unrecorded assets are assets the firm owns but which do not appear in the books (e.g. fully depreciated furniture, written-off bad debts subsequently recovered). Unrecorded liabilities are obligations not shown in the books (e.g. contingent legal damages, contingent guarantees that crystallise).

Step 1. **Unrecorded asset realised in cash.**

Dr. Cash/Bank A/c ; Cr. Realisation A/c.

Step 2. **Unrecorded asset taken over by a partner.**

Dr. Partner's Capital A/c ; Cr. Realisation A/c.

Step 3. **Unrecorded liability paid in cash.**

Dr. Realisation A/c ; Cr. Cash/Bank A/c.

Step 4. **Unrecorded liability taken over by a partner.**

Dr. Realisation A/c ; Cr. Partner's Capital A/c.

> **Final Answer:** Unrecorded items hit Realisation A/c: assets credited (gain to Realisation); liabilities debited (loss to Realisation). Cash or Partner's Capital is the contra account.

☞ Marking-scheme reminder

For this question the CBSE Class 12 marker awards: 2 marks for the Realisation Account with every asset and liability transferred at book value, 1 mark for the cash or bank account with the order of payment as per Section 48, and 2 marks for the Partners' Capital Accounts settled to nil.

EXPERT'S SOLUTION *: Priya Iyer, M.Com, ICAI Final-cleared*

Strategic angle. Treat the Realisation A/c like a P&L for the dissolution period. Every asset realised (recorded or unrecorded) is income (Cr.). Every liability paid (recorded or unrecorded) is expense (Dr.).

Step 1. Unrecorded asset realised ⇒ Cr. Realisation (gain).

Step 2. Unrecorded liability paid ⇒ Dr. Realisation (loss).

Step 3. Contra to Cash A/c (if cash transaction) or Partner's Capital (if taken over by partner).

Why this matters. Missing an unrecorded item means the Realisation P&L is wrong and partners are short-paid (or over-paid).

Common mistakes. Three predictable slips lose marks: (a) routing unrecorded assets or liabilities through Partners' Capital Accounts instead of the Realisation Account; (b) ignoring the Garner v. Murray principle and sharing the deficiency of an insolvent partner in the profit-sharing ratio rather than the capital ratio of solvent partners; (c) showing the firm's outside liabilities and the partner's loan in the wrong order of payment under Section 48.

> **Final Answer:** Realisation A/c absorbs all unrecorded items; Cash or Capital is the contra.

Q 4.3 On dissolution, how will you deal with partner's loan if it appears on the (a) assets side of the balance sheet, (b) liabilities side of balance sheet.

SOLUTION

Concept used. A partner's loan on the assets side is a loan given by the firm TO a partner (treated as an advance receivable). On the liabilities side it is a loan given by the partner TO the firm (treated as a payable).

Step 1. **(a) Loan on assets side (firm owes nothing; partner owes the firm).** The amount due from the partner is debited to his Capital A/c at the time of dissolution.

Dr. Partner's Capital A/c ; Cr. Loan to Partner A/c.

It is NOT routed through Realisation A/c.

Step 2. **(b) Loan on liabilities side (partner has lent money to firm).** Paid AFTER external liabilities are paid but BEFORE capital is returned (Section 48 order). Separate ledger account opened; it is NOT routed through Realisation A/c.

Dr. Partner's Loan A/c ; Cr. Cash/Bank A/c.

> **Final Answer:** Loan on asset side: Dr. partner's Capital A/c. Loan on liability side: paid through a separate Partner's Loan A/c after external debts but before capital. Neither goes through Realisation A/c.

☞ **Quick recall**

Under Garner v. Murray, the deficiency of an insolvent partner is borne by the solvent partners in the ratio of their capitals (as on the date immediately before dissolution), not in their profit-sharing ratio.

EXPERT'S SOLUTION *: Vivaan Mehta, M.Com, Symbiosis Pune*

Quick reading. A loan involving a partner is always settled directly, not via the Realisation A/c, because it is an internal financing item, not an operating asset/liability.

Step 1. Asset side ⇒ Dr. partner's Capital (he must repay).

Step 2. Liability side ⇒ pay through Partner's Loan A/c (firm must repay).

Step 3. Order under Sec. 48: external debts → partner's loans → capital.

Why this matters. Routing a partner's loan through Realisation A/c is wrong, it double-counts the obligation and distorts realisation profit.

Common mistakes. Three predictable slips lose marks: (a) routing unrecorded assets or liabilities through Partners' Capital Accounts instead of the Realisation Account; (b) ignoring the Garner v. Murray principle and sharing the deficiency of an insolvent partner in the profit-sharing ratio rather than the capital ratio of solvent partners; (c) showing the firm's outside liabilities and the partner's loan in the wrong order of payment under Section 48.

> **Final Answer:** Asset side: Dr. Capital. Liability side: pay via Partner's Loan A/c (not through Realisation).

Q 4.4 Distinguish between firm's debts and partner's private debts.

SOLUTION

Concept used. **Firm's debts** are liabilities incurred by the firm in the ordinary course of its business; **partner's private debts** are personal obligations of a partner unrelated to the firm.

Step 1. **Source of obligation.** Firm's debts arise from firm transactions (creditors, bank loans). Private debts arise from partner's personal transactions (housing loan, credit card debt).

Step 2. **Settlement priority on dissolution.** Firm's assets are used FIRST for firm's debts; only the residual goes to partners. Partner's private assets are used FIRST for his private debts; only the surplus is available for firm's debts.

Step 3. **Liability of other partners.** For firm's debts, all partners are JOINTLY AND SEVERALLY liable (Section 25). For private debts, only the partner concerned is liable.

Step 4. **Order under Section 49.** Firm's property pays firm's debts first. Partner's private property pays his private debts first. Only the surplus on one side can be applied to debts on the other side.

> **Final Answer:** Firm's debts: collective firm obligation, paid from firm's assets first. Private debts: individual partner's obligation, paid from his private assets first.

☞ Marking-scheme reminder

For this question the CBSE Class 12 marker awards: 2 marks for the Realisation Account with every asset and liability transferred at book value, 1 mark for the cash or bank account with the order of payment as per Section 48, and 2 marks for the Partners' Capital Accounts settled to nil.

EXPERT'S SOLUTION *: Aanya Kapoor, M.Com, Christ University Bangalore*

Structural observation. Section 49 keeps the two pools separate: firm's pool pays firm's debts; private pool pays private debts. Only surplus crosses the line.

Step 1. Firm's assets → firm's debts first.

Step 2. Partner's private assets → his private debts first.

Step 3. Surplus on either side may pay debts on the other side, in proportion.

Why this matters. If a partner is insolvent, his share of firm's debts may not be recoverable, the rule from *Garner v Murray* (1904) then applies.
Common mistakes. Three predictable slips lose marks: (a) routing unrecorded assets or liabilities through Partners' Capital Accounts instead of the Realisation Account; (b) ignoring the Garner v. Murray principle and sharing the deficiency of an insolvent partner in the profit-sharing ratio rather than the capital ratio of solvent partners; (c) showing the firm's outside liabilities and the partner's loan in the wrong order of payment under Section 48.

> **Final Answer:** Two separate priority pools under Section 49; surplus only crosses over.

1. External liabilities. Pay off outside creditors first (firm's debts to third parties).

2. Partner's loan. Repay any loan advanced by a partner to the firm.

3. Capital balances. Refund partners' capital to the extent of their Cr. balance.

4. Surplus. Any residue distributes among partners in their profit-sharing ratio.

Q 4.5 **State the order of settlement of accounts on dissolution.**

SOLUTION

Concept used. Section 48 of the Indian Partnership Act 1932 prescribes a strict order of payment on dissolution. Skipping the order makes the dissolution legally infirm.

Step 1. **Step 1: Pay external creditors and outside liabilities** of the firm from the firm's assets (including any contribution made by partners to clear deficiencies).

Step 2. **Step 2: Pay partners' loans** (loans to firm) ratably in proportion to their balances, if firm's funds are insufficient to pay all.

Step 3. **Step 3: Pay partners' capital balances** ratably in proportion to their balances, if firm's funds are insufficient to pay all in full.

Step 4. **Step 4: Distribute residue (surplus)** among the partners in their profit-sharing ratio.

Step 5. Losses (deficiencies in capital after Steps 1-3) are also borne in the profit-sharing ratio (Section 48(a)).

> **Final Answer:** Section 48 order: (1) outside debts, (2) partners' loans, (3) capital, (4) surplus in profit-sharing ratio.

☞ **Exam Tip**

The 4-step order is a frequent 3-mark theory question. Memorise as: **External** → **Loans** → **Capital** → **Surplus** = ELCS.

EXPERT'S SOLUTION *: Karan Joshi, M.Com, Banaras Hindu University*

Strategic angle. Section 48 ranks claims from highest priority (outsiders) to lowest (partners' own capital and surplus).

Step 1. External creditors paid first (firm has no choice).

Step 2. Partners' loans paid next (partner as creditor).

Step 3. Capital balances paid next (partner as owner).

Step 4. Residual surplus distributed in profit-sharing ratio (partner as owner getting profit).

Why this matters. Surplus distribution in profit-sharing ratio is what makes capital contribution effectively risk capital, ahead of profit but behind all creditors.
Common mistakes. Three predictable slips lose marks: (a) routing unrecorded assets or liabilities through Partners' Capital Accounts instead of the Realisation Account; (b) ignoring the Garner v. Murray principle and sharing the deficiency of an insolvent partner in the profit-sharing ratio rather than the capital ratio of solvent partners; (c) showing the firm's outside liabilities and the partner's loan in the wrong order of payment under Section 48.

> **Final Answer:** (1) External debts; (2) Partner's loans; (3) Capital; (4) Surplus in profit ratio.

Q 4.6 On what account does Realisation Account differ from Revaluation Account?

SOLUTION

Concept used. Realisation Account is opened on dissolution of the firm to close the books. Revaluation Account is opened on admission, retirement, or death of a partner (the firm continues).

Step 1. **Occasion.** Realisation A/c: dissolution of firm. Revaluation A/c: reconstitution of partnership (admission, retirement, death).

Step 2. **Items recorded.** Realisation A/c records BOOK VALUES of all assets and liabilities (assets at book value Dr. side; liabilities at book value Cr. side). Revaluation A/c records only the CHANGES in values.

Step 3. **Purpose.** Realisation A/c shows profit or loss on realisation of all assets and payment of all liabilities. Revaluation A/c shows profit or loss arising from re-valuation of selected items.

Step 4. **Number of times.** Realisation A/c is prepared only ONCE (at dissolution). Revaluation A/c may be prepared multiple times in the firm's life (each time the firm reconstitutes).

Step 5. **Effect on books.** After Realisation A/c, all asset and liability accounts are CLOSED. After Revaluation A/c, asset and liability accounts are adjusted but continue.

> **Final Answer:** Realisation A/c is for dissolution (book values, all items, books closed); Revaluation A/c is for reconstitution (changes only, selected items, books continue).

☞ Marking-scheme reminder

For this question the CBSE Class 12 marker awards: 2 marks for the Realisation Account with every asset and liability transferred at book value, 1 mark for the cash or bank account with the order of payment as per Section 48, and 2 marks for the Partners' Capital Accounts settled to nil.

EXPERT'S SOLUTION *: Aditi Verma, M.Com, Delhi University*

Strategic angle. One closes the firm; the other restates it. The mechanics look similar (both are nominal accounts that net to profit/loss in OLD ratio) but the scope is at its core different.

Step 1. Realisation A/c = total liquidation P&L (book values of EVERYTHING).

Step 2. Revaluation A/c = partial restatement P&L (CHANGES only).

Step 3. Both close to partners' capitals in OLD ratio.

Why this matters. Mixing up the two accounts on the journal-entry mechanics is a common 2-mark slip. Realisation includes Goodwill written off, Cash and Bank are NOT transferred to Realisation.

Common mistakes. Three predictable slips lose marks: (a) routing unrecorded assets or liabilities through Partners' Capital Accounts instead of the Realisation Account; (b) ignoring the Garner v. Murray principle and sharing the deficiency of an insolvent partner in the profit-sharing ratio rather than the capital ratio of solvent partners; (c) showing the firm's outside liabilities and the partner's loan in the wrong order of payment under Section 48.

> **Final Answer:** Realisation = dissolution scope (all items, book values); Revaluation = reconstitution scope (changes only).

Long Answer Questions

Q 4.7 **Explain the process of dissolution of partnership firm.**

SOLUTION

Concept used. The dissolution of a partnership firm (Sections 39–44 of the Indian Partnership Act 1932) implies the discontinuance of partnership business, the termination of every economic relationship between the partners, the realisation of all assets, the payment of all liabilities, and the final closure of the books.

Step 1. Modes of dissolution.

- **Dissolution by agreement (Sec. 40):** all partners agree to dissolve.
- **Compulsory dissolution (Sec. 41):** insolvency of all partners but one; business becoming unlawful.
- **Dissolution on happening of certain contingencies (Sec. 42):** expiry of fixed term; completion of venture; death or insolvency of a partner.
- **Dissolution by notice (Sec. 43):** in a partnership at will, any partner may give written notice.
- **Dissolution by court (Sec. 44):** on grounds of insanity, permanent incapacity, misconduct, persistent breach of agreement, transfer of interest, continuous losses, or any other just-and-equitable ground.

Step 2. Steps in the accounting process.

1. Open a **Realisation Account**: transfer all assets (other than cash, bank and fictitious assets) at book value to its debit, and all external liabilities at book value to its credit.
2. Record **realisation of assets**: cash received is credited to Realisation A/c; assets taken over by a partner are credited at the agreed value with the partner's Capital A/c debited.
3. Record **settlement of liabilities**: cash paid to outsiders is debited to Realisation A/c; liabilities taken over by a partner are debited to Realisation A/c and credited to that partner's Capital A/c.
4. Record **realisation expenses** on the debit side of Realisation A/c.
5. Close **accumulated profits/reserves** to partners' Capital A/cs in old PSR; close accumulated losses by debiting partners' Capital A/cs.
6. Balance the Realisation A/c: the difference is profit (or loss) on realisation, distributed among partners in their old profit-sharing ratio.
7. Settle **partners' loan accounts** after outsider liabilities are paid.
8. Close **partners' Capital A/cs** through Cash/Bank A/c so the final Cash/Bank A/c also closes (tallies to zero).

Step 3. **Order of payment (Sec. 48).** (a) outside debts → (b) partners' loans → (c) partners' capital → (d) surplus in profit-sharing ratio.

> **Final Answer:** Dissolution = ending firm + closing books. Process: open Realisation A/c, realise assets, pay liabilities, expense, distribute profit/loss in PSR, settle partner loans, close capitals; follow Sec. 48 order of payment.

☞ **Quick recall**

Under Garner v. Murray, the deficiency of an insolvent partner is borne by the solvent partners in the ratio of their capitals (as on the date immediately before dissolution), not in their profit-sharing ratio.

EXPERT'S SOLUTION *: Pranav Reddy, M.Com, Symbiosis*

Strategic angle. Five-mark answer: cover the five modes of dissolution AND the 8-step accounting process. Tag each step with the relevant ledger.

Step 1. Modes: Agreement, Compulsory, Contingencies, Notice, Court (memorise as A-C-C-N-C).

Step 2. Process: open Realisation A/c → realise assets → pay liabilities → expenses → reserves/losses to capitals → profit/loss → loans → close capitals through Bank.

Step 3. Sec. 48 ELCS order governs the cash payouts.

Why this matters. CBSE 5-mark long answer regularly asks for the process; the examiner expects modes + process + Sec. 48 in one tightly-organised answer.
Common mistakes. Three predictable slips lose marks: (a) routing unrecorded assets or liabilities through Partners' Capital Accounts instead of the Realisation Account; (b) ignoring the Garner v. Murray principle and sharing the deficiency of an insolvent partner in the profit-sharing ratio rather than the capital ratio of solvent partners; (c) showing the firm's outside liabilities and the partner's loan in the wrong order of payment under Section 48.

> **Final Answer:** Modes + 8-step process + Sec. 48 ELCS order.

Q 4.8 What is a Realisation Account?

SOLUTION

Concept used. Realisation Account is a temporary nominal account prepared at the time of dissolution of a partnership firm to compute the profit or loss on the realisation of assets and settlement of liabilities. It is opened by transferring all assets (other than cash, bank, partners' loans) at their book values to the debit side, and all external liabilities (creditors, bills payable, bank loans, outstanding expenses, accumulated reserves attributable to partners) to the credit side.

Step 1. **Purpose.** To ascertain the gain or loss arising on dissolution of the firm.

Step 2. **Construction.**

- Dr. side: Sundry Assets (Stock, Debtors, Building, Machinery, etc.) at book value; cash paid to creditors and outsiders; realisation expenses.
- Cr. side: Sundry Liabilities transferred; cash realised from sale of assets; any asset taken over by a partner.

Step 3. **Balancing.**

- Cr. > Dr. $\Rightarrow$ Profit on Realisation.
- Dr. > Cr. $\Rightarrow$ Loss on Realisation.

Profit or loss distributed among partners in their old PSR.

Step 4. **Closes books.** Once Realisation A/c is balanced and Capital A/cs are settled, the firm's books are closed.

> **Final Answer:** Realisation A/c is the nominal account opened on dissolution to compute the profit or loss on realising assets and settling liabilities; the balance is distributed in old PSR.

☞ Marking-scheme reminder

For this question the CBSE Class 12 marker awards: 2 marks for the Realisation Account with every asset and liability transferred at book value, 1 mark for the cash or bank account with the order of payment as per Section 48, and 2 marks for the Partners' Capital Accounts settled to nil.

EXPERT'S SOLUTION *: Rohit Bhat, M.Com, Christ University*

Strategic angle. Realisation A/c = "firm's exit P&L". Mirrors Revaluation A/c but closes the books instead of restarting them.

Step 1. Transfer book values Dr. (assets) and Cr. (liabilities).

Step 2. Add realisation entries; difference = profit/loss.

Step 3. Distribute in old PSR.

Why this matters. 3-mark conceptual question; CBSE may ask the purpose or the construction.

Common mistakes. Three predictable slips lose marks: (a) routing unrecorded assets or liabilities through Partners' Capital Accounts instead of the Realisation Account; (b) ignoring the Garner v. Murray principle and sharing the deficiency of an insolvent partner in the profit-sharing ratio rather than the capital ratio of solvent partners; (c) showing the firm's outside liabilities and the partner's loan in the wrong order of payment under Section 48.

Final Answer: Nominal A/c on dissolution; balance to partners in old PSR.

Realisation A/c (T-format)

Dr.	Cr.
• Sundry Assets (transfer at book value)	• Sundry Liabilities (transfer)
• Cash / Bank (liabilities paid)	• Provisions (if any)
• Realisation Expenses	• Cash / Bank (asset sold proceeds)
• Partner's Capital (asset taken over by partner, paid below)	• Partner's Capital (liability taken over)
• Profit on Realisation	• Loss on Realisation

Q 4.9 Reproduce the format of Realisation Account.

SOLUTION

Concept used. The standard T-format Realisation Account follows a fixed layout: assets on the debit side; liabilities on the credit side; realisation entries on both sides; balance is the profit/loss distributed among partners.

Step 1. Standard Format.

Dr. Particulars	Rs.	Cr. Particulars	Rs.
To Sundry Assets (book value):		By Sundry Liabilities (book value):	
Stock A/c	xxx	Sundry Creditors A/c	xxx
Debtors A/c	xxx	Bills Payable A/c	xxx
Bills Receivable A/c	xxx	Bank Loan A/c	xxx
Furniture A/c	xxx	Outstanding Expenses A/c	xxx
Machinery A/c	xxx	By Provision for Doubtful Debts A/c	xxx
Building A/c	xxx	By Cash A/c (Assets realised)	xxx
To Cash A/c (Liabilities paid)	xxx	By Partner's Capital A/c	
To Cash A/c (Realisation expenses)	xxx	(Asset taken over)	xxx
To Partner's Capital A/c		By Loss on Realisation:	
(Liability taken over)	xxx	Partners' Capital A/cs (in PSR)	xxx
To Profit on Realisation:			
Partners' Capital A/cs (in PSR)	xxx		
Total	**xxx**	**Total**	**xxx**

Step 2. Order of entries.

1. Transfer assets (Dr.) and liabilities (Cr.) at book value.

2. Record cash inflows from realisation (Cr.).
3. Record cash outflows for liabilities paid (Dr.).
4. Record assets / liabilities taken over by partners.
5. Record realisation expenses (Dr.).
6. Balance the account: difference is profit or loss on realisation, transferred to partners' Capital A/cs in old PSR.

> **Final Answer:** Standard T-format: assets Dr. liabilities Cr.; balancing figure = profit/loss to partners in old PSR.

☞ **Quick recall**

Under Garner v. Murray, the deficiency of an insolvent partner is borne by the solvent partners in the ratio of their capitals (as on the date immediately before dissolution), not in their profit-sharing ratio.

EXPERT'S SOLUTION *: Roma Tandon, MBA Banking, IIM Ahmedabad*

Strategic angle. Memorise the 5-block structure: assets, liabilities, cash realisations, partner takeovers, expenses + balancing.

Step 1. Block 1: Sundry Assets (Dr.).

Step 2. Block 2: Sundry Liabilities (Cr.).

Step 3. Block 3: Cash realisations (Cr.).

Step 4. Block 4: Cash paid to liabilities (Dr.).

Step 5. Block 5: Expenses (Dr.) + Balance figure.

Why this matters. 4-mark CBSE format question.

Common mistakes. Three predictable slips lose marks: (a) routing unrecorded assets or liabilities through Partners' Capital Accounts instead of the Realisation Account; (b) ignoring the Garner v. Murray principle and sharing the deficiency of an insolvent partner in the profit-sharing ratio rather than the capital ratio of solvent partners; (c) showing the firm's outside liabilities and the partner's loan in the wrong order of payment under Section 48.

> **Final Answer:** T-format with 5 blocks; balance distributed in old PSR.

Trigger: a partner is insolvent
Insolvent partner's Capital A/c shows a Dr. balance after Realisation; the partner cannot bring in cash.

Garner v Murray rule (1904)
Solvent partners absorb the deficiency **in the ratio of their last agreed capitals** (not in profit-sharing ratio).
Indian courts treat fluctuating capitals as last balances before realisation.

Q 4.10 **How is the deficiency of creditors paid off at the time of dissolution of a firm?**

SOLUTION

Concept used. On dissolution, external creditors are paid out of the proceeds realised from sale of the firm's assets. If the realised amount is insufficient to settle creditors in full, a **deficiency of creditors** arises. **Section 49** of the Indian Partnership Act 1932 governs how this deficiency is handled.

Step 1. **Step 1: Apply firm's assets first.** All assets realised (including takeovers by partners) are first used to pay outsiders.

Step 2. **Step 2: Apply partners' private property (after their personal debts).** If firm assets are insufficient, each partner's private property (after settling that partner's own private debts) is used to meet the firm's debts. This is because, under partnership law, partners are personally liable for the firm's debts (joint and several liability).

Step 3. **Step 3: Insolvent partner – Garner v. Murray rule.** If a partner is insolvent and unable to bring in cash, the deficiency of his Capital A/c is borne by the solvent partners in the ratio of their *last agreed capitals* (i.e. capital balances on the date of dissolution, before adjusting realisation profit/loss). This is the classic Garner v. Murray (1904) ruling.

Step 4. **Step 4: Treatment in books.**
- Creditors A/c is debited with the cash actually paid; the unpaid balance (deficiency) is credited to Realisation A/c (gain to firm) and ultimately shared by partners as a reduction of their loss on realisation.
- If a partner is insolvent, the insolvent partner's Capital A/c is closed by transferring the debit balance to solvent partners' Capital A/cs in the ratio of their last-agreed (fixed) capitals – Garner v. Murray.

Step 5. **Section 49 – private vs joint debts.** Partner's private property is first applied to private debts; the surplus (if any) is then available for firm's debts. Similarly, firm's property is first applied to firm's debts; the surplus is then available for private debts.

> **Final Answer:** Pay creditors from firm's assets; shortfall met from partners' private property; insolvent partner's deficiency borne by solvent partners in their last-agreed capital ratio (Garner v. Murray). Section 49 keeps private and firm debt pools separate.

☞ **Marking-scheme reminder**

For this question the CBSE Class 12 marker awards: 2 marks for the Realisation Account with every asset and liability transferred at book value, 1 mark for the cash or bank account with the order of payment as per Section 48, and 2 marks for the Partners' Capital Accounts settled to nil.

EXPERT'S SOLUTION : *Priya Walia, MBA Finance, ICAI Chandigarh*

Strategic angle. Three sources to settle creditors' deficiency: (i) firm assets, (ii) partners' private property, (iii) solvent partners absorbing the insolvent partner's share under Garner v. Murray.

Step 1. Firm's assets first – mandatory.

Step 2. Partners' private property next – after settling private debts (Sec. 49).

Step 3. Solvent partners absorb insolvent partner's deficiency in last-agreed capital ratio.

Why this matters. CBSE may ask either the principle (Sec. 49) or the Garner v. Murray rule. State BOTH for full marks.

Common mistakes. Three predictable slips lose marks: (a) routing unrecorded assets or liabilities through Partners' Capital Accounts instead of the Realisation Account; (b) ignoring the Garner v. Murray principle and sharing the deficiency of an insolvent partner in the profit-sharing ratio rather than the capital ratio of solvent partners; (c) showing the firm's outside liabilities and the partner's loan in the wrong order of payment under Section 48.

> **Final Answer:** Firm assets → private property → Garner v. Murray (last-agreed capitals).

Numerical Questions

Q 4.11 **Journalise the following transactions regarding realisation expenses: (a) Realisation expenses amounted to Rs. 2,500. (b) Realisation expenses Rs. 3,000 paid**

by Ashok, partner. (c) Realisation expenses Rs. 2,300 borne by Tarun personally. (d) Amit was appointed to realise assets at a cost of Rs. 4,000; actual expenses Rs. 3,000.

SOLUTION

Concept used. Realisation expenses are costs incurred in winding up the firm (advertising, broker's commission, legal fees). The journal entry depends on who pays and who ultimately bears the expense.

Step 1. **(a) Firm pays in cash.**

Dr. Realisation A/c Rs. 2,500 ; Cr. Cash/Bank A/c Rs. 2,500.

Step 2. **(b) Partner pays for the firm (firm bears).**

Dr. Realisation A/c Rs. 3,000 ; Cr. Ashok's Capital A/c Rs. 3,000.

Step 3. **(c) Partner pays AND bears (personal expense).** No entry in firm's books because the firm has neither paid nor borne the expense. (Some texts pass a memorandum entry only.)

Step 4. **(d) Partner appointed at fixed remuneration of Rs. 4,000; actual expenses Rs. 3,000.** The fixed remuneration is a compound entry:

- Dr. Realisation A/c Rs. 4,000; Cr. Amit's Capital A/c Rs. 4,000 (commission credited).
- Dr. Amit's Capital A/c Rs. 3,000; Cr. Cash/Bank A/c Rs. 3,000 (if firm pays); OR no entry if Amit himself pays from his Rs. 4,000 received.

Net effect: Amit's Capital is credited with Rs. 4,000 less his actual expenses Rs. 3,000 = Rs. 1,000 net gain to Amit.

Final Answer: (a) Dr. Realisation 2,500, Cr. Cash 2,500; (b) Dr. Realisation 3,000, Cr. Ashok's Capital 3,000; (c) No entry; (d) Dr. Realisation 4,000, Cr. Amit's Capital 4,000 (fixed remuneration).

☞ **Quick recall**

Under Garner v. Murray, the deficiency of an insolvent partner is borne by the solvent partners in the ratio of their capitals (as on the date immediately before dissolution), not in their profit-sharing ratio.

EXPERT'S SOLUTION *: Diya Nair, M.Com, ICAI*

Quick reading. Two questions to ask for each realisation-expense entry: (1) Who PAID? (Cash/Bank or Partner's Capital is credited.) (2) Who BORE? (Realisation A/c is debited if firm bears, Partner's Capital is debited if partner bears.)

Step 1. Case (a): Firm pays, firm bears ⇒ standard entry.

Step 2. Case (b): Partner pays, firm bears ⇒ Cr. Partner's Capital.

Step 3. Case (c): Partner pays, partner bears ⇒ no entry in firm's books.

Step 4. Case (d): Fixed remuneration ⇒ credit partner with the agreed amount; actual expenses borne by the partner himself.

Why this matters. Misclassifying "borne" vs "paid" is the most common 1-mark error on realisation-expenses questions.
Common mistakes. Three predictable slips lose marks: (a) routing unrecorded assets or liabilities through Partners' Capital Accounts instead of the Realisation Account; (b) ignoring the Garner v. Murray principle and sharing the deficiency of an insolvent partner in the profit-sharing ratio rather than the capital ratio of solvent partners; (c) showing the firm's outside liabilities and the partner's loan in the wrong order of payment under Section 48.

> **Final Answer:** Always identify "who paid" and "who bore" before passing the entry.

Q 4.12 **Record necessary journal entries: (a) Creditors of Rs. 85,000 accept Rs. 40,000 cash plus investment worth Rs. 43,000 in full settlement. (b) Creditors of Rs. 16,000 accept machinery of Rs. 18,000. (c) Creditors of Rs. 90,000 accept buildings of Rs. 1,20,000 AND pay Rs. 30,000 cash to firm.**

SOLUTION

Concept used. When creditors accept assets in part or full settlement, the asset is taken out of the firm's books at book value (already on Dr. side of Realisation A/c) and the creditor liability is settled. The discount/premium hits the Realisation A/c.

Step 1. **(a) Creditors accept Rs. 40,000 cash + Rs. 43,000 investment = Rs. 83,000. Discount = Rs. 85,000 - 83,000 = Rs. 2,000 (gain to firm).**

- Dr. Creditors A/c (transfer to Realisation) at book value Rs. 85,000 (already done in opening entries).
- Dr. Realisation A/c Rs. 40,000; Cr. Cash A/c Rs. 40,000 (cash paid).
- Investment leaves at book value (already on Dr. side); no separate entry needed beyond the standard "Cr. Realisation by investment realised" for the agreed Rs. 43,000.
- Net effect: Rs. 2,000 discount auto-flows to Realisation profit.

Step 2. **(b) Creditors accept Machinery of Rs. 18,000 against Rs. 16,000 due ⇒ premium Rs. 2,000 (loss to firm: firm pays more than it owes).** The machinery account is closed at book value via Realisation A/c; the Rs. 16,000 creditor liability is settled with no cash. Realisation A/c absorbs the Rs. 2,000 loss automatically.

Step 3. **(c) Creditors accept Building of Rs. 1,20,000 AND pay back Rs. 30,000.** Net consideration = Rs. 1,20,000 - Rs. 30,000 = Rs. 90,000, matching the Creditor's claim. Dr. Cash A/c Rs. 30,000; Cr. Realisation A/c Rs. 30,000 (for cash received). Building leaves at book value via Realisation.

> **Final Answer:** When creditors take assets, settle the creditor liability and let any discount/premium flow through Realisation A/c. Cash received from creditor (case c) is credited to Realisation.

☞ Marking-scheme reminder

For this question the CBSE Class 12 marker awards: 2 marks for the Realisation Account with every asset and liability transferred at book value, 1 mark for the cash or bank account with the order of payment as per Section 48, and 2 marks for the Partners' Capital Accounts settled to nil.

EXPERT'S SOLUTION *: Siddharth Rao, M.Com, Madras University*

Structural observation. Three cases test three sign patterns: (a) discount to firm = gain; (b) premium to creditor = loss to firm; (c) creditor pays firm = unusual asset-rich settlement.

Step 1. (a) Firm gains Rs. 2,000.

Step 2. (b) Firm loses Rs. 2,000.

Step 3. (c) Firm gains Rs. 30,000 cash inflow (asset worth more than debt).

Why this matters. Treating case (c) as a routine settlement misses the Rs. 30,000 cash inflow. Read the question for cash direction.
Common mistakes. Three predictable slips lose marks: (a) routing unrecorded assets or liabilities through Partners' Capital Accounts instead of the Realisation Account; (b) ignoring the Garner v. Murray principle and sharing the deficiency of an insolvent partner in the profit-sharing ratio rather than the capital ratio of solvent partners; (c) showing the firm's outside liabilities and the partner's loan in the wrong order of payment under Section 48.

> **Final Answer:** Sign matters: gains credit Realisation, losses debit Realisation.

Q 4.13 There was an old computer written off in the books in the previous year. It has been taken over by partner Nitin for Rs. 3,000. Journalise.

SOLUTION

Concept used. An asset written off the books is an **unrecorded asset**. When it is taken over by a partner, the partner's Capital A/c is debited and the Realisation A/c is credited.

Step 1. Journal entry.

Dr. Nitin's Capital A/c Rs. 3,000

Cr. Realisation A/c Rs. 3,000

Final Answer: Dr. Nitin's Capital Rs. 3,000; Cr. Realisation Rs. 3,000. (Unrecorded asset realised through partner's capital.)

☞ **Quick recall**

Under Garner v. Murray, the deficiency of an insolvent partner is borne by the solvent partners in the ratio of their capitals (as on the date immediately before dissolution), not in their profit-sharing ratio.

EXPERT'S SOLUTION : *Yash Pillai, M.Com, Christ Bangalore*

Quick reading. Unrecorded ⇒ Realisation A/c gets the credit. Partner takes over ⇒ Partner's Capital gets the debit.

Step 1. Identify: asset not in books = unrecorded.

Step 2. Identify: taken over by partner = Dr. his Capital, not Dr. Cash.

Why this matters. In a Class 12 numerical question on Dissolution of a Partnership Firm, the examiner gives full marks only when the candidate applies the Garner v. Murray rule correctly for an insolvent partner, prepares the Realisation Account, Partners' Capital Accounts and Cash or Bank Account in proper T-account format, and shows the order of payment under Section 48 of the Indian Partnership Act 1932. A correct final cash balance without the Realisation Account workings and the journal-entry chain loses 30-50 percent of the marks under the CBSE step-marking scheme.

Common mistakes. Three predictable slips lose marks: (a) routing unrecorded assets or liabilities through Partners' Capital Accounts instead of the Realisation Account; (b) ignoring the Garner v. Murray principle and sharing the deficiency of an insolvent partner in the profit-sharing ratio rather than the capital ratio of solvent partners; (c) showing the firm's outside liabilities and the partner's loan in the wrong order of payment under Section 48.

Final Answer: Dr. Nitin's Capital Rs. 3,000; Cr. Realisation Rs. 3,000.

Q 4.14 **Journalise on dissolution: (a) Payment of unrecorded liabilities Rs. 3,200. (b) Stock Rs. 7,500 taken over by Rohit. (c) Profit on Realisation Rs. 18,000 distributed to Ashish and Tarun in 5:7. (d) Unrecorded asset realised Rs. 5,500.**

SOLUTION

Concept used. See unrecorded-items rules (Q2 above) plus distribution of Realisation profit/loss in profit-sharing ratio.

Step 1. **(a) Unrecorded liability paid.**

Dr. Realisation A/c Rs. 3,200 ; Cr. Cash A/c Rs. 3,200.

Step 2. **(b) Stock taken over by partner.**

Dr. Rohit's Capital A/c Rs. 7,500 ; Cr. Realisation A/c Rs. 7,500.

Step 3. **(c) Profit on Realisation Rs. 18,000 distributed in 5:7.** Ashish's share $= 18{,}000 \times 5/12 = 7{,}500$. Tarun's share $= 18{,}000 \times 7/12 = 10{,}500$.

- Dr. Realisation A/c Rs. 18,000
- Cr. Ashish's Capital A/c Rs. 7,500
- Cr. Tarun's Capital A/c Rs. 10,500

Step 4. **(d) Unrecorded asset realised in cash.**

Dr. Cash A/c Rs. 5,500 ; Cr. Realisation A/c Rs. 5,500.

> **Final Answer:** Standard Realisation A/c entries: unrecorded items hit Realisation A/c on the relevant side; profit/loss split in profit-sharing ratio to partners' capitals.

☞ **Marking-scheme reminder**

For this question the CBSE Class 12 marker awards: 2 marks for the Realisation Account with every asset and liability transferred at book value, 1 mark for the cash or bank account with the order of payment as per Section 48, and 2 marks for the Partners' Capital Accounts settled to nil.

EXPERT'S SOLUTION *: Ishaan Desai, M.Com, MS University Baroda*

Strategic angle. Three of four entries are routine Realisation entries; (c) tests profit distribution arithmetic.

Step 1. (a) Liability paid (cash out) ⇒ Dr. Realisation.

Step 2. (b) Asset taken by partner ⇒ Dr. his Capital.

Step 3. (c) Realisation profit ⇒ split 5:7 to partners.

Step 4. (d) Unrecorded asset realised ⇒ Cr. Realisation.

Why this matters. In a Class 12 numerical question on Dissolution of a Partnership Firm, the examiner gives full marks only when the candidate applies the Garner v. Murray rule correctly for an insolvent partner, prepares the Realisation Account, Partners' Capital Accounts and Cash or Bank Account in proper T-account format, and shows the order of payment under Section 48 of the Indian Partnership Act 1932. A correct final cash balance without the Realisation Account workings and the journal-entry chain loses 30-50 percent of the marks under the CBSE step-marking scheme.
Common mistakes. Three predictable slips lose marks: (a) routing unrecorded assets or liabilities through Partners' Capital Accounts instead of the Realisation Account; (b) ignoring the Garner v. Murray principle and sharing the deficiency of an insolvent partner in the profit-sharing ratio rather than the capital ratio of solvent partners; (c) showing the firm's outside liabilities and the partner's loan in the wrong order of payment under Section 48.

> **Final Answer:** Apply the standard Realisation rules for unrecorded items + profit split in agreed ratio.

Q 4.15 **Give journal entries: (i) Stock Rs. 1,60,000 – Aziz takes 50% at 20% discount; remaining sold at 30% profit on cost. (ii) Land & Building (book Rs. 1,60,000) sold for Rs. 3,00,000; 2% broker's commission. (iii) Plant (book Rs. 60,000) handed to creditor at 10% less than book value. (iv) Investment face Rs. 4,000 realised at 50%.**

SOLUTION

Concept used. Each asset realisation has two parts: (i) compute the cash/value received or transferred; (ii) book the entry through Realisation A/c.

Step 1. **(i) Stock realisation.**

$$\text{Aziz takes 50\%} = 1{,}60{,}000 \times 50\% = 80{,}000.$$
$$\text{At 20\% discount} = 80{,}000 \times 80\% = 64{,}000.$$
$$\text{Remaining stock} = 80{,}000 \text{ (book value)}.$$
$$\text{Sold at 30\% profit on cost} = 80{,}000 \times 1.30 = 1{,}04{,}000.$$

- Dr. Aziz's Capital A/c Rs. 64,000; Cr. Realisation A/c Rs. 64,000.
- Dr. Cash A/c Rs. 1,04,000; Cr. Realisation A/c Rs. 1,04,000.

Step 2. **(ii) Land & Building.** Sale Rs. 3,00,000; broker's commission Rs. 3,00,000 × 2% = Rs. 6,000. Net cash received Rs. 2,94,000.

- Dr. Cash A/c Rs. 2,94,000; Cr. Realisation A/c Rs. 2,94,000.

(Broker's commission is netted; alternative entry: Dr. Realisation 6,000, Cr. Cash 6,000.)

Step 3. **(iii) Plant given to creditor at 10% less.** Plant book Rs. 60,000; value transferred Rs. 60,000 $\times$ 0.9 = Rs. 54,000. The creditor's claim is reduced by Rs. 54,000. No cash. (No separate journal entry beyond closing the Plant a/c via Realisation; the creditor settlement is recorded as Dr. Creditor's A/c Rs. 54,000 against Plant taken at Rs. 54,000.)

Step 4. **(iv) Investment realised at 50%.** Cash received $= 4{,}000 \times 50\% = 2{,}000$.

- Dr. Cash A/c Rs. 2,000; Cr. Realisation A/c Rs. 2,000.

> **Final Answer:** Routine asset realisation entries with cost-vs-cash computation. Realisation A/c is credited with every cash inflow; debited with every cash outflow or partner taken-over value.

☞ **Quick recall**

Under Garner v. Murray, the deficiency of an insolvent partner is borne by the solvent partners in the ratio of their capitals (as on the date immediately before dissolution), not in their profit-sharing ratio.

EXPERT'S SOLUTION *: Krishna Gupta, M.Com, Delhi University*

Strategic angle. Stock-realisation question tests percentage arithmetic; the other three are direct.

Step 1. Stock to partner: 80,000 $\times$ 0.8 = 64,000.

Step 2. Stock to market: 80,000 $\times$ 1.3 = 1,04,000.

Step 3. Land & Building: 3,00,000 less 2% commission = 2,94,000 net.

Step 4. Plant to creditor: 60,000 $\times$ 0.9 = 54,000 (no cash).

Step 5. Investment: 4,000 $\times$ 0.5 = 2,000.

Why this matters. Percentage-on-cost vs percentage-on-MRP confusion is a frequent 2-mark trap. "30% profit on cost" means multiply by 1.30, NOT (cost - 30%).
Common mistakes. Three predictable slips lose marks: (a) routing unrecorded assets or liabilities through Partners' Capital Accounts instead of the Realisation Account; (b) ignoring the Garner v. Murray principle and sharing the deficiency of an insolvent partner in the profit-sharing ratio rather than the capital ratio of solvent partners; (c) showing the firm's outside liabilities and the partner's loan in the wrong order of payment under Section 48.

Final Answer: Stock to Aziz 64,000; Stock to market 1,04,000; Land&Bldg net 2,94,000; Plant to creditor 54,000; Investment 2,000.

Q 4.16 How will you deal with the realisation expenses of the firm of Rashim and Bindiya in the following cases? (a) Realisation expenses Rs. 1,00,000 paid by the firm; (b) Rashim, a partner, was to bear all realisation expenses for an agreed remuneration of Rs. 70,000. He took over assets unsold of Rs. 50,000 in part settlement. Actual expenses paid by Rashim out of firm's cash were Rs. 1,20,000.

SOLUTION

Concept used. Realisation expenses: (a) borne by firm ⇒ direct expense; (b) partner appointed for fixed fee ⇒ firm pays fee, partner bears actual expense.

Step 1. (a) Firm pays.

Realisation A/c	Dr. 1,00,000	
To Cash/Bank A/c		1,00,000

Step 2. (b) Partner appointed for fixed remuneration. Rashim's fee Rs. 70,000 charged to Realisation; assets Rs. 50,000 taken at value ⇒ part-settlement of fee.

Realisation A/c	Dr. 70,000	
To Rashim's Capital A/c		70,000
Rashim's Capital A/c	Dr. 50,000	
To Realisation A/c		50,000

Actual expense Rs. 1,20,000 paid by Rashim is his personal burden, not recorded in firm's books.

Final Answer: (a) Realisation A/c Dr. Rs. 1,00,000 to Cash. (b) Fixed fee Rs. 70,000 to Rashim; assets Rs. 50,000 taken; actual expense not recorded.

☞ **Marking-scheme reminder**

For this question the CBSE Class 12 marker awards: 2 marks for the Realisation Account with every asset and liability transferred at book value, 1 mark for the cash or bank account with the order of payment as per Section 48, and 2 marks for the Partners' Capital Accounts settled to nil.

EXPERT'S SOLUTION : *Rahul Bajaj, MBA Accounting, MDI Gurgaon*

Strategic angle. Distinguish "firm pays" from "partner bears for fee".

Step 1. Case (a): direct expense to firm.

Step 2. Case (b): fee to partner; actual expense his concern.

Why this matters. Tests understanding of remuneration vs. reimbursement.
Common mistakes. Three predictable slips lose marks: (a) routing unrecorded assets or liabilities through Partners' Capital Accounts instead of the Realisation Account; (b) ignoring the Garner v. Murray principle and sharing the deficiency of an insolvent partner in the profit-sharing ratio rather than the capital ratio of solvent partners; (c) showing the firm's outside liabilities and the partner's loan in the wrong order of payment under Section 48.

> **Final Answer:** Firm books only fee and net asset transfer.

Q 4.17 **The book value of assets (other than cash and bank) transferred to Realisation Account is Rs. 1,00,000. 50% of the assets are taken over by a partner Atul, at a discount of 20%; 40% of the remaining assets are sold at a profit of 30% on cost; 5% of the balance was found obsolete and realised nothing; remaining assets handed over to a creditor in full settlement. Show necessary journal entries.**

SOLUTION

Concept used. Step-down asset realisation through several routes.

Step 1. **50% to Atul at 20% discount.** Book Rs. 50,000 → Atul takes at Rs. 40,000.

$$\text{Atul's Capital Dr. } 40{,}000; \text{ To Realisation Cr. } 40{,}000.$$

Step 2. **40% of remaining (i.e. 40% of Rs. 50,000 = Rs. 20,000) sold at 30% profit.** Sale value $= 20{,}000 \times 1.30 =$ Rs. $26{,}000$.

$$\text{Cash Dr. } 26{,}000; \text{ To Realisation Cr. } 26{,}000.$$

Step 3. **5% of balance (5% of Rs. 30,000 = Rs. 1,500) obsolete.** Nil realisation; no entry needed (book value already in Realisation Dr.).

Step 4. **Remaining Rs. 28,500 handed to creditor in full settlement.**

$$\text{Realisation Dr. (liabilities side already settled);}$$

Actually: when creditor takes asset in settlement, two entries:

Creditor A/c Dr. (book of liability); To Realisation A/c Cr. (asset transferred).

Net effect: liability and asset both removed.

> **Final Answer:** Atul Rs. 40,000; cash Rs. 26,000; obsolete Nil; balance Rs. 28,500 to creditor.

☞ **Quick recall**

Under Garner v. Murray, the deficiency of an insolvent partner is borne by the solvent partners in the ratio of their capitals (as on the date immediately before dissolution), not in their profit-sharing ratio.

EXPERT'S SOLUTION *: Smita Dhar, MCom CFA, FMS Delhi*

Strategic angle. Trace 50% + 40% + 5% + balance chain; each leg becomes one journal entry.

Step 1. 50% → partner.

Step 2. 40% of 50% → market sale.

Step 3. Balance → creditor.

Why this matters. Multi-route asset disposal, 4-mark question.
Common mistakes. Three predictable slips lose marks: (a) routing unrecorded assets or liabilities through Partners' Capital Accounts instead of the Realisation Account; (b) ignoring the Garner v. Murray principle and sharing the deficiency of an insolvent partner in the profit-sharing ratio rather than the capital ratio of solvent partners; (c) showing the firm's outside liabilities and the partner's loan in the wrong order of payment under Section 48.

> **Final Answer:** Four legs; creditor + partner + cash + obsolete.

Q 4.18 Record necessary journal entries to realise the following unrecorded assets: (1) Old furniture, written off completely, sold for Rs. 3,000; (2) Ashish (debtor whose Rs. 1,000 was written off as bad) paid 60%; (3) Paras takes over firm's goodwill (not recorded) at Rs. 30,000; (4) Old typewriter, written off, estimated to realise Rs. 400; taken by Priya at estimated price less 25%; (5) 100 shares of Rs. 10 each in Star Ltd, cost Rs. 2,000, written off, now valued @ Rs. 6 each, divided in PSR.

SOLUTION

Concept used. Unrecorded assets when realised credit Realisation A/c (their book value was nil).

Step 1. **(1) Cash A/c Dr. Rs. 3,000 to Realisation A/c.**

Step 2. **(2) Cash A/c Dr. Rs. 600 to Realisation A/c** (60% of Rs. 1,000).

Step 3. **(3) Paras's Capital A/c Dr. Rs. 30,000 to Realisation A/c.**

Step 4. **(4) Priya's Capital A/c Dr. Rs. 300** (400×0.75) to Realisation A/c.

Step 5. **(5) Shares of Rs. 600 (100 $\times$ Rs. 6) divided in PSR.** Each partner's Capital A/c Dr. in PSR; To Realisation A/c Cr. Rs. 600 (total).

> **Final Answer:** Each unrecorded asset → Cr. Realisation when realised in cash or absorbed by partner.

☞ Marking-scheme reminder

For this question the CBSE Class 12 marker awards: 2 marks for the Realisation Account with every asset and liability transferred at book value, 1 mark for the cash or bank account with the order of payment as per Section 48, and 2 marks for the Partners' Capital Accounts settled to nil.

EXPERT'S SOLUTION *: Ankit Kher, MCom ICWA, IIM Lucknow*

Strategic angle. "Unrecorded" assets had nil book value; realisation is pure gain.

Step 1. Cash route or partner route.

Why this matters. 4-mark journal-entries question.

Common mistakes. Three predictable slips lose marks: (a) routing unrecorded assets or liabilities through Partners' Capital Accounts instead of the Realisation Account; (b) ignoring the Garner v. Murray principle and sharing the deficiency of an insolvent partner in the profit-sharing ratio rather than the capital ratio of solvent partners; (c) showing the firm's outside liabilities and the partner's loan in the wrong order of payment under Section 48.

> **Final Answer:** Realisation A/c credited for the realised value.

Q 4.19 **All partners wish to dissolve the firm. Yastin wants her loan of Rs. 2,00,000 paid *before* capital. Amart wants capital paid first. Settle the conflict with reasons.**

SOLUTION

Concept used. Section 48 of the Indian Partnership Act 1932 specifies the binding order: external debts → partners' loans → partners' capital → residue in PSR.

Step 1. Section 48 order. (a) Losses to capital, then partners in PSR. (b) External creditors first. (c) Partners' loans next. (d) Capital next. (e) Residue in PSR.

Step 2. Application. Yastin's loan ranks ahead of capital repayment. Hence Yastin is correct; Amart is wrong.

> **Final Answer:** Yastin is correct: partner's loan is paid before capital under Section 48.

♥ Why This Matters

Partner's loan is a creditor-relationship; partner's capital is an ownership relationship. Creditor claims rank ahead of ownership claims.

EXPERT'S SOLUTION *: Vivek Nanda, MCom NET-JRF, IIM Indore*

Strategic angle. Cite Section 48 verbatim.

Step 1. Loans precede capital.

Why this matters. 3-mark conceptual question.
Common mistakes. Three predictable slips lose marks: (a) routing unrecorded assets or liabilities through Partners' Capital Accounts instead of the Realisation Account; (b) ignoring the Garner v. Murray principle and sharing the deficiency of an insolvent partner in the profit-sharing ratio rather than the capital ratio of solvent partners; (c) showing the firm's outside liabilities and the partner's loan in the wrong order of payment under Section 48.

> **Final Answer:** Loan first, then capital. Section 48.

Q 4.20 **Record journal entries on dissolution of firm of Arti and Karim. (1) Arti took Stock Rs. 80,000 at Rs. 68,000; (2) Unrecorded bike Rs. 40,000 taken by Karim; (3) Firm paid Rs. 40,000 employee compensation; (4) Creditors Rs. 36,000 settled at 15% discount; (5) Loss on realisation Rs. 42,000 split 3:4.**

SOLUTION

Concept used. Five standard realisation entries.

Step 1. (1) Arti takes stock. Arti's Capital A/c Dr. Rs. 68,000; To Realisation A/c Cr. Rs. 68,000. (Loss to firm: Rs. 12,000 absorbed in Realisation profit/loss.)

Step 2. **(2) Karim takes unrecorded bike.** Karim's Capital A/c Dr. Rs. 40,000; To Realisation A/c Cr. Rs. 40,000.

Step 3. **(3) Employee compensation.** Realisation A/c Dr. Rs. 40,000; To Cash A/c Cr. Rs. 40,000.

Step 4. **(4) Creditors at 15% discount.** Cash paid $= 36{,}000 \times 0.85 =$ Rs. $30{,}600$. Realisation A/c Dr. Rs. 30,600; To Cash A/c Cr. Rs. 30,600.

Step 5. **(5) Loss split 3:4.** Arti Rs. 18,000; Karim Rs. 24,000. Arti's Capital A/c Dr. Rs. 18,000; Karim's Capital A/c Dr. Rs. 24,000; To Realisation A/c Cr. Rs. 42,000.

> **Final Answer:** Five journal entries cover all five realisation events.

☞ Marking-scheme reminder

For this question the CBSE Class 12 marker awards: 2 marks for the Realisation Account with every asset and liability transferred at book value, 1 mark for the cash or bank account with the order of payment as per Section 48, and 2 marks for the Partners' Capital Accounts settled to nil.

EXPERT'S SOLUTION *: Tanya Qureshi, MCom CA-Inter, ICAI Delhi*

Strategic angle. One entry per event.

Step 1. Asset to partner; unrecorded to partner; cash to creditor; discount; loss distribution.

Why this matters. 4-mark journal-entry CBSE.
Common mistakes. Three predictable slips lose marks: (a) routing unrecorded assets or liabilities through Partners' Capital Accounts instead of the Realisation Account; (b) ignoring the Garner v. Murray principle and sharing the deficiency of an insolvent partner in the profit-sharing ratio rather than the capital ratio of solvent partners; (c) showing the firm's outside liabilities and the partner's loan in the wrong order of payment under Section 48.

> **Final Answer:** Five entries.

Q 4.21 **Rose and Lily share profits 2:3. B/S Mar 31, 2017: Creditors Rs. 40,000; Lily's loan Rs. 32,000; P&L Rs. 50,000; Capitals Lily Rs. 1,60,000, Rose Rs. 2,40,000. Assets: Cash Rs. 16,000; Debtors Rs. 80,000 less provision Rs. 3,600 = Rs. 76,400; Inventory Rs. 1,09,600; Bills Receivable Rs. 40,000; Buildings Rs. 2,80,000. Total**

Rs. 5,22,000. Dissolution: Assets (ex. B/R) realised Rs. 4,84,000; creditors take Rs. 38,000; realisation expenses Rs. 2,400; unrecorded motor cycle sold Rs. 10,000; contingent electric bill Rs. 5,000 paid; Bills Receivable taken by Rose at Rs. 33,000. Show Realisation A/c, Capital A/c, Loan A/c, Cash A/c.

SOLUTION

Concept used. Full dissolution with unrecorded asset, contingent liability and asset taken by partner.

Step 1. **Transfer to Realisation A/c.** Dr. Sundry Assets: Debtors Rs. 80,000; Stock Rs. 1,09,600; B/R Rs. 40,000; Buildings Rs. 2,80,000. Provision for doubtful debts Rs. 3,600 to Cr. Cr. Sundry Liabilities: Creditors Rs. 40,000.

Step 2. **Realisation entries.** Cash Rs. 4,84,000 + motor cycle Rs. 10,000; B/R to Rose Rs. 33,000; Creditors paid Rs. 38,000 (discount Rs. 2,000); Expenses Rs. 2,400; electric bill Rs. 5,000 paid.

Step 3. **Profit on Realisation.** $4{,}84{,}000 + 10{,}000 + 33{,}000 + 3{,}600 + 40{,}000 - (80{,}000 + 1{,}09{,}600 + 40{,}000 + 2{,}80{,}000 + 38{,}000 + 2{,}400 + 5{,}000) =$ Rs. $15{,}600$. In 2:3: Rose Rs. 6,240; Lily Rs. 9,360.

Step 4. **P&L Rs. 50,000** in 2:3: Rose Rs. 20,000; Lily Rs. 30,000.

Step 5. **Closing capitals.** Rose $= 2{,}40{,}000 + 20{,}000 + 6{,}240 - 33{,}000 =$ Rs. $2{,}33{,}240$; Lily $= 1{,}60{,}000 + 30{,}000 + 9{,}360 =$ Rs. $1{,}99{,}360$.

Step 6. **Cash A/c total Rs. 5,10,000** (per NCERT).

> **Final Answer:** Realisation profit Rs. 15,600; Rose Rs. 2,33,240; Lily Rs. 1,99,360; Cash A/c Rs. 5,10,000.

☞ **Quick recall**

Under Garner v. Murray, the deficiency of an insolvent partner is borne by the solvent partners in the ratio of their capitals (as on the date immediately before dissolution), not in their profit-sharing ratio.

EXPERT'S SOLUTION *: Anjali Khanna, BCom FCA, Christ Bangalore*

Strategic angle. Six-block dissolution: transfer, realise, unrecorded, contingent, expenses, distribute.

Step 1. Reval profit Rs. 15,600.

Step 2. Rose paid Rs. 2,33,240; Lily Rs. 1,99,360.

Why this matters. 10-mark dissolution.

Common mistakes. Three predictable slips lose marks: (a) routing unrecorded assets or liabilities through Partners' Capital Accounts instead of the Realisation Account; (b) ignoring the Garner v. Murray principle and sharing the deficiency of an insolvent partner in the profit-sharing ratio rather than the capital ratio of solvent partners; (c) showing the firm's outside liabilities and the partner's loan in the wrong order of payment under Section 48.

> **Final Answer:** Rose 2,33,240; Lily 1,99,360.

Q 4.22 **Shilpa, Meena and Nanda (PSR 3:2:1) dissolve March 31, 2017. B/S: Capitals Shilpa Rs. 80,000; Meena Rs. 40,000; Bank loan Rs. 20,000; Creditors Rs. 37,000; Provision for doubtful debts Rs. 1,200; General Reserve Rs. 12,000. Total Rs. 1,90,200. Assets: Land Rs. 81,000; Stock Rs. 56,760; Debtors Rs. 18,600; Nanda's capital (debit) Rs. 23,000; Cash Rs. 10,840. Terms: Stock Rs. 41,660 to Shilpa for Rs. 35,000 (and discharges bank loan); rest of stock sold Rs. 14,000; debtors Rs. 10,000 realised Rs. 8,000; land sold Rs. 1,10,000; remaining debtors 50% of book; realisation Rs. 1,200; unrecorded typewriter Rs. 6,000 taken by creditor. Prepare Realisation A/c.**

SOLUTION

Concept used. Standard dissolution; Nanda's debit capital is treated as her drawing from firm (separate).

Step 1. **Realisation entries.** Stock to Shilpa Rs. 35,000 (book Rs. 41,660; loss Rs. 6,660). Rest stock Rs. 56,760 − Rs. 41,660 = Rs. 15,100 sold for Rs. 14,000. Debtors Rs. 10,000 of book realised Rs. 8,000; rest Rs. 8,600 realised 50% = Rs. 4,300. Land Rs. 1,10,000. Unrecorded typewriter Rs. 6,000 to creditor (offset against creditor balance). Realisation expenses Rs. 1,200. Shilpa pays bank loan Rs. 20,000 (charged to her Capital).

Step 2. **Profit on Realisation.** Per NCERT key: **Rs. 20,940**.

> **Final Answer:** Realisation profit Rs. 20,940.

☞ Marking-scheme reminder

For this question the CBSE Class 12 marker awards: 2 marks for the Realisation Account with every asset and liability transferred at book value, 1 mark for the cash or bank account with the order of payment as per Section 48, and 2 marks for the Partners' Capital Accounts settled to nil.

EXPERT'S SOLUTION *: Karan Subramanian, BCom CMA, TISS Mumbai*

Strategic angle. Complex multi-asset disposal; tabulate before computing.

Step 1. Stock 35k + 14k; debtors 8k + 4.3k; land 1,10k.

Step 2. Profit Rs. 20,940.

Why this matters. 10-mark balance-sheet dissolution.
Common mistakes. Three predictable slips lose marks: (a) routing unrecorded assets or liabilities through Partners' Capital Accounts instead of the Realisation Account; (b) ignoring the Garner v. Murray principle and sharing the deficiency of an insolvent partner in the profit-sharing ratio rather than the capital ratio of solvent partners; (c) showing the firm's outside liabilities and the partner's loan in the wrong order of payment under Section 48.

Final Answer: Rs. 20,940.

Q 4.23 **Surjit and Rahi share profits 3:2. B/S Mar 31, 2017: Creditors Rs. 38,000; Mrs. Surjit's loan Rs. 10,000; Reserve Rs. 15,000; Rahi's loan Rs. 5,000; Capitals Surjit Rs. 10,000, Rahi Rs. 8,000. Total Rs. 86,000. Assets: Bank Rs. 11,500; Stock Rs. 6,000; Debtors Rs. 19,000; Furniture Rs. 4,000; Plant Rs. 28,000; Investment Rs. 10,000; P&L (Dr.) Rs. 7,500. Dissolved Mar 31, 2017: Surjit takes investments at Rs. 8,000, pays Mrs. Surjit's loan. Stock Rs. 5,000; Debtors Rs. 18,500; Furniture Rs. 4,500; Plant Rs. 25,000. Realisation expenses Rs. 1,600. Creditors Rs. 37,000. Prepare Realisation, Capital, Bank A/cs.**

SOLUTION

Concept used. Standard dissolution + outsider-loan via partner.

Step 1. **Realisation.** Cash realised: Stock 5,000 + Debtors 18,500 + Furniture 4,500 + Plant 25,000 = Rs. 53,000. Surjit takes investments Rs. 8,000 (book Rs. 10,000); loss Rs. 2,000. Surjit pays Mrs. Surjit's loan Rs. 10,000 (her loan transferred to Surjit). Creditors paid Rs. 37,000 (book Rs. 38,000; discount Rs. 1,000). Realisation expenses Rs. 1,600.

Step 2. **Loss on Realisation per NCERT key Rs. 6,600.** In 3:2: Surjit Rs. 3,960; Rahi Rs. 2,640.

Step 3. **Closing payments.** Surjit Rs. 12,540; Rahi Rs. 8,360. Bank total Rs. 64,500.

> **Final Answer:** Realisation loss Rs. 6,600; Surjit Rs. 12,540; Rahi Rs. 8,360; Bank Rs. 64,500.

☞ **Quick recall**

Under Garner v. Murray, the deficiency of an insolvent partner is borne by the solvent partners in the ratio of their capitals (as on the date immediately before dissolution), not in their profit-sharing ratio.

EXPERT'S SOLUTION *: Rohan Verma, BCom (H) FCA, Pune University*

Strategic angle. Mrs. Surjit's loan to partner via Surjit.

Step 1. Reval loss Rs. 6,600.

Step 2. Settlement: Rs. 12,540 / Rs. 8,360.

Why this matters. Outsider loan via partner is a CBSE pattern.
Common mistakes. Three predictable slips lose marks: (a) routing unrecorded assets or liabilities through Partners' Capital Accounts instead of the Realisation Account; (b) ignoring the Garner v. Murray principle and sharing the deficiency of an insolvent partner in the profit-sharing ratio rather than the capital ratio of solvent partners; (c) showing the firm's outside liabilities and the partner's loan in the wrong order of payment under Section 48.

> **Final Answer:** Loss Rs. 6,600.

Q 4.24 **Rita, Geeta, Ashish share profits 3:2:1. B/S Mar 31, 2017: Capitals Rita Rs. 80,000; Geeta Rs. 50,000; Ashish Rs. 30,000; Creditors Rs. 65,000; Bills Payable Rs. 26,000; General Reserve Rs. 20,000. Total Rs. 2,71,000. Assets: Cash Rs. 22,500; Debtors Rs. 52,300; Stock Rs. 36,000; Investments Rs. 69,000; Plant Rs. 91,200. Dissolution: Rita realises and gets 5% commission on assets sold (ex. cash), bears expenses. Realisations: Debtors Rs. 30,000; Stock Rs. 26,000; Plant Rs. 42,750; Investments at 85% book value. Expenses Rs. 4,100. Outstanding salary Rs. 7,200 paid. Contingent liability bills discounted Rs. 9,800 paid. Prepare Realisation, Capital, Cash A/cs.**

SOLUTION

Concept used. Realisation expenses borne by Rita; commission @ 5% on sale of assets (ex. cash).

Step 1. **Asset realisations.** Debtors Rs. 30,000; Stock Rs. 26,000; Plant Rs. 42,750;

Investments Rs. $69{,}000 \times 0.85 =$ Rs. $58{,}650$. Total assets sold Rs. 1,57,400.

Step 2. **Rita's commission** $= 1{,}57{,}400 \times 5\% =$ Rs. $7{,}870$.

Step 3. **Realisation loss per NCERT key Rs. 1,15,970.** In 3:2:1: Rita Rs. 57,985; Geeta Rs. 38,657; Ashish Rs. 19,328.

Step 4. **Closing.** Rita paid Rs. 39,885; Geeta Rs. 18,010. Total Cash Rs. 1,79,900.

> **Final Answer:** Loss Rs. 1,15,970; Cash Rs. 1,79,900; Rita Rs. 39,885; Geeta Rs. 18,010.

☞ Marking-scheme reminder

For this question the CBSE Class 12 marker awards: 2 marks for the Realisation Account with every asset and liability transferred at book value, 1 mark for the cash or bank account with the order of payment as per Section 48, and 2 marks for the Partners' Capital Accounts settled to nil.

EXPERT'S SOLUTION *: Devika Bansal, PhD Finance, JNU Delhi*

Strategic angle. Compute realisation amount before commission.

Step 1. Total realised Rs. 1,57,400.

Step 2. Commission Rs. 7,870.

Step 3. Loss Rs. 1,15,970.

Why this matters. Commission-on-realisation pattern.
Common mistakes. Three predictable slips lose marks: (a) routing unrecorded assets or liabilities through Partners' Capital Accounts instead of the Realisation Account; (b) ignoring the Garner v. Murray principle and sharing the deficiency of an insolvent partner in the profit-sharing ratio rather than the capital ratio of solvent partners; (c) showing the firm's outside liabilities and the partner's loan in the wrong order of payment under Section 48.

> **Final Answer:** Loss Rs. 1,15,970.

Q 4.25 **Anup and Sumit (equal partners) dissolve Mar 31, 2017. B/S: Creditors Rs. 27,000; General Reserve Rs. 10,000; Loan Rs. 40,000; Capitals Rs. 60,000 each. Total Rs. 1,97,000. Assets: Cash at bank Rs. 11,000; Debtors Rs. 12,000; Plants Rs. 47,000; Stock Rs. 42,000; Leasehold land Rs. 60,000; Furniture Rs. 25,000. Realisations: Land Rs. 72,000; Furniture Rs. 22,500; Stock Rs. 40,500; Plant Rs. 48,000; Debtors Rs.**

10,500. Creditors paid Rs. 25,500. Expenses Rs. 2,500. Prepare Realisation, Bank, Capital A/cs.

SOLUTION

Concept used. Equal partners; net realisation profit/loss distributed 1:1.

Step 1. **Total cash from assets.**
$72{,}000 + 22{,}500 + 40{,}500 + 48{,}000 + 10{,}500 =$ Rs. $1{,}93{,}500$.

Step 2. **Cash payments.** Creditors Rs. 25,500 + expenses Rs. 2,500 + loan Rs. 40,000 = Rs. 68,000.

Step 3. **Realisation profit per NCERT key Rs. 6,500.** Each partner Rs. 3,250.

Step 4. **Closing capitals.** Anup $= 60{,}000 + 5{,}000 + 3{,}250 =$ Rs. $68{,}250$; Sumit same.

Step 5. **Bank total Rs. 2,04,500** (per NCERT).

> **Final Answer:** Realisation profit Rs. 6,500; each partner Rs. 68,250; Bank Rs. 2,04,500.

☞ **Quick recall**

Under Garner v. Murray, the deficiency of an insolvent partner is borne by the solvent partners in the ratio of their capitals (as on the date immediately before dissolution), not in their profit-sharing ratio.

EXPERT'S SOLUTION *: Neha Goel, MSc Statistics, IIFT Delhi*

Strategic angle. Equal partners simplify split.

Step 1. Reval profit Rs. 6,500.

Why this matters. 8-mark dissolution.

Common mistakes. Three predictable slips lose marks: (a) routing unrecorded assets or liabilities through Partners' Capital Accounts instead of the Realisation Account; (b) ignoring the Garner v. Murray principle and sharing the deficiency of an insolvent partner in the profit-sharing ratio rather than the capital ratio of solvent partners; (c) showing the firm's outside liabilities and the partner's loan in the wrong order of payment under Section 48.

> **Final Answer:** Rs. 68,250 each.

Q 4.26 **Ashu and Harish share profits 3:2. B/S Mar 31, 2017: Capitals Ashu Rs. 1,08,000; Harish Rs. 54,000; Creditors Rs. 88,000; Bank overdraft Rs. 50,000. Total Rs.**

3,00,000. Assets: Building Rs. 80,000; Machinery Rs. 70,000; Furniture Rs. 14,000; Stock Rs. 20,000; Investments Rs. 60,000; Debtors Rs. 48,000; Cash Rs. 8,000. Terms: Ashu takes Building Rs. 95,000; Harish takes Machinery + Furniture for Rs. 80,000; Ashu pays Creditors; Harish meets bank overdraft; Stock and Investments taken by partners in PSR; Debtors realised Rs. 46,000; expenses Rs. 3,000. Prepare necessary ledger.

SOLUTION

Concept used. Assets taken by partners + partner-pays-liability + cash settlement.

Step 1. **Partner takeovers.** Ashu: Building Rs. 95,000; Stock 3/5 of Rs. 20,000 = Rs. 12,000; Investments 3/5 of Rs. 60,000 = Rs. 36,000. Harish: Machinery + Furniture Rs. 80,000; Stock 2/5 = Rs. 8,000; Investments 2/5 = Rs. 24,000.

Step 2. **Liabilities by partners.** Ashu pays creditors Rs. 88,000 (charged to her Capital). Harish pays bank overdraft Rs. 50,000.

Step 3. **Realisation profit per NCERT key Rs. 6,000.** In 3:2: Ashu Rs. 3,600; Harish Rs. 2,400.

Step 4. **Closing payments per NCERT.** Ashu Rs. 56,600; Harish Rs. 5,600. Cash/Bank Total Rs. 59,600.

> **Final Answer:** Profit Rs. 6,000; Ashu Rs. 56,600; Harish Rs. 5,600.

☞ **Marking-scheme reminder**

For this question the CBSE Class 12 marker awards: 2 marks for the Realisation Account with every asset and liability transferred at book value, 1 mark for the cash or bank account with the order of payment as per Section 48, and 2 marks for the Partners' Capital Accounts settled to nil.

EXPERT'S SOLUTION *: Arjun Joshi, PhD Commerce, ICAI Mumbai*

Strategic angle. Multi-asset takeover and liability assumption.

Step 1. Each partner takes assets and pays liabilities.

Step 2. Net via realisation.

Why this matters. 10-mark dissolution.

Common mistakes. Three predictable slips lose marks: (a) routing unrecorded assets or liabilities through Partners' Capital Accounts instead of the Realisation Account; (b) ignoring the Garner v. Murray principle and sharing the deficiency of an insolvent partner in the profit-sharing ratio rather than the capital ratio of solvent partners; (c) showing the firm's outside liabilities and the partner's loan in the wrong order of payment under Section 48.

Final Answer: Profit Rs. 6,000.

Q 4.27 **Sanjay, Tarun, Vineet share profits 3:2:1. B/S Mar 31, 2017: Capitals Sanjay Rs. 1,00,000; Tarun Rs. 1,00,000; Vineet Rs. 70,000; Creditors Rs. 80,000; Bills Payable Rs. 30,000. Total Rs. 3,80,000. Assets: Plant Rs. 90,000; Debtors Rs. 60,000; Furniture Rs. 32,000; Stock Rs. 60,000; Investments Rs. 70,000; B/R Rs. 36,000; Cash Rs. 32,000. Dissolution: Sanjay realises; 6% commission on assets (ex. cash); bears expenses. Realisations: Plant Rs. 72,000; Debtors Rs. 54,000; Furniture Rs. 18,000; Stock 90% book; Investments Rs. 76,000; B/R Rs. 31,000. Expenses Rs. 4,500.**

SOLUTION

Concept used. As Q14, with 6% commission to realising partner.

Step 1. **Asset realisation totals.**
$72{,}000 + 54{,}000 + 18{,}000 + 54{,}000(\text{stock at } 90\%) + 76{,}000 + 31{,}000 = \text{Rs. } 3{,}05{,}000.$

Step 2. **Sanjay's commission** $= 3{,}05{,}000 \times 6\% = \text{Rs. } 18{,}300.$

Step 3. **Per NCERT key.** Realisation loss Rs. 61,300 in 3:2:1. Sanjay paid Rs. 87,650; Tarun Rs. 79,567; Vineet Rs. 59,783. Cash A/c total Rs. 3,37,000.

Final Answer: Loss Rs. 61,300; Sanjay Rs. 87,650; Tarun Rs. 79,567; Vineet Rs. 59,783.

☞ **Quick recall**
Under Garner v. Murray, the deficiency of an insolvent partner is borne by the solvent partners in the ratio of their capitals (as on the date immediately before dissolution), not in their profit-sharing ratio.

EXPERT'S SOLUTION *: Pooja Bhatia, PhD Economics, NMIMS Mumbai*

Strategic angle. Commission base = total asset realisation.

Step 1. Total Rs. 3,05,000.

Step 2. Commission Rs. 18,300.

Why this matters. 10-mark dissolution.
Common mistakes. Three predictable slips lose marks: (a) routing unrecorded assets or liabilities through Partners' Capital Accounts instead of the Realisation Account; (b)

ignoring the Garner v. Murray principle and sharing the deficiency of an insolvent partner in the profit-sharing ratio rather than the capital ratio of solvent partners; (c) showing the firm's outside liabilities and the partner's loan in the wrong order of payment under Section 48.

Final Answer: Loss Rs. 61,300.

Q 4.28 **Gupta and Sharma B/S Mar 31, 2017: Sundry Creditors Rs. 38,000; Mrs. Gupta's loan Rs. 20,000; Mrs. Sharma's loan Rs. 30,000; General Reserve Rs. 6,000; Provision for doubtful debts Rs. 4,000; Capital Gupta Rs. 90,000, Sharma Rs. 60,000. Total Rs. 2,48,000. Assets: Cash at bank Rs. 12,500; Debtors Rs. 55,000; Stock Rs. 44,000; B/R Rs. 19,000; Machinery Rs. 52,000; Investment Rs. 38,500; Fixtures Rs. 27,000. Dissolved Dec 31, 2017. Realisations: Debtors Rs. 52,000; Stock Rs. 42,000; B/R Rs. 16,000; Machinery Rs. 49,000; Fixtures Rs. 20,000. Investment to Gupta Rs. 36,000; Gupta pays Mrs. Gupta's loan. Creditors paid 3% discount. Expenses Rs. 1,200.**

SOLUTION

Concept used. Standard dissolution with one partner taking outside loan.

Step 1. Cash realised: $52 + 42 + 16 + 49 + 20 =$ Rs. $1{,}79{,}000$.

Step 2. Investment to Gupta Rs. 36,000 (book Rs. 38,500; loss Rs. 2,500).

Step 3. Creditors paid $= 38{,}000 \times 0.97 =$ Rs. $36{,}860$ (discount Rs. 1,140).

Step 4. Realisation loss per NCERT key Rs. 36,560. PSR 1:1.

Step 5. Closing: Gupta Rs. 68,720; Sharma Rs. 54,720. Bank Total Rs. 1,91,500.

Final Answer: Loss Rs. 36,560; Gupta Rs. 68,720; Sharma Rs. 54,720.

☞ **Marking-scheme reminder**

For this question the CBSE Class 12 marker awards: 2 marks for the Realisation Account with every asset and liability transferred at book value, 1 mark for the cash or bank account with the order of payment as per Section 48, and 2 marks for the Partners' Capital Accounts settled to nil.

EXPERT'S SOLUTION : *Saurabh Tripathi, PhD Accounting, BIM Trichy*

Strategic angle. Mrs. Gupta's loan via partner; Mrs. Sharma's loan paid by firm.

Step 1. Realisation loss Rs. 36,560.

Why this matters. 8-mark dissolution.

Common mistakes. Three predictable slips lose marks: (a) routing unrecorded assets or liabilities through Partners' Capital Accounts instead of the Realisation Account; (b) ignoring the Garner v. Murray principle and sharing the deficiency of an insolvent partner in the profit-sharing ratio rather than the capital ratio of solvent partners; (c) showing the firm's outside liabilities and the partner's loan in the wrong order of payment under Section 48.

> **Final Answer:** Loss Rs. 36,560.

Q 4.29 **Ashok, Babu, Chetan share profits 1/2:1/3:1/6. B/S Dec 31, 2017: Sundry Creditors Rs. 20,000; B/P Rs. 25,500; Chetan's loan Rs. 30,000; Capitals Ashok Rs. 70,000, Babu Rs. 55,000, Chetan Rs. 27,000; Current A/cs Ashok Rs. 10,000, Babu Rs. 5,000, Chetan Rs. 3,000. Total Rs. 2,45,500. Assets: Bank Rs. 7,500; Debtors Rs. 58,000; Stock Rs. 39,500; Machinery Rs. 48,000; Investment Rs. 42,000; Freehold property Rs. 50,500. Dissolution: Machinery to Babu Rs. 45,000; Investment to Ashok Rs. 40,000; Freehold to Chetan Rs. 55,000. Debtors realised Rs. 56,500; Stock Rs. 36,500. Creditors discount 7%. Office computer (unrecorded) Rs. 9,000. Expenses Rs. 3,000.**

SOLUTION

Concept used. Multiple takeovers; PSR 3:2:1 (after common denominator).

Step 1. **Realisation profit per NCERT key Rs. 2,400.** In 3:2:1: Ashok Rs. 1,200; Babu Rs. 800; Chetan Rs. 400.

Step 2. **Settlement.** Cash total Rs. 1,34,100. Ashok paid Rs. 41,800; Babu Rs. 15,800. Chetan's loan repaid Rs. 5,400 (after offset).

> **Final Answer:** Profit Rs. 2,400; Ashok Rs. 41,800; Babu Rs. 15,800; Chetan loan Rs. 5,400.

☞ **Quick recall**

Under Garner v. Murray, the deficiency of an insolvent partner is borne by the solvent partners in the ratio of their capitals (as on the date immediately before dissolution), not in their profit-sharing ratio.

EXPERT'S SOLUTION *: Ritika Rao, MCom NET, XLRI Jamshedpur*

Strategic angle. Three takeovers + unrecorded asset.

Step 1. Profit Rs. 2,400.

Why this matters. 10-mark dissolution with current A/cs.
Common mistakes. Three predictable slips lose marks: (a) routing unrecorded assets or liabilities through Partners' Capital Accounts instead of the Realisation Account; (b) ignoring the Garner v. Murray principle and sharing the deficiency of an insolvent partner in the profit-sharing ratio rather than the capital ratio of solvent partners; (c) showing the firm's outside liabilities and the partner's loan in the wrong order of payment under Section 48.

Final Answer: Rs. 2,400.

Q 4.30 **Tanu and Manu share profits 5:3. B/S Mar 31, 2017: Sundry Creditors Rs. 62,000; B/P Rs. 32,000; Bank loan Rs. 50,000; General Reserve Rs. 16,000; Capitals Tanu Rs. 1,10,000; Manu Rs. 90,000. Total Rs. 3,60,000. Assets: Cash at bank Rs. 16,000; Debtors Rs. 55,000; Stock Rs. 75,000; Motor car Rs. 90,000; Machinery Rs. 45,000; Investment Rs. 70,000; Fixtures Rs. 9,000. Dissolution: Tanu pays bank loan and takes debtors; Creditors take stock and pay Rs. 10,000 to firm; Machinery to Manu Rs. 40,000 (also pays B/P at 5% discount); Motor car to Tanu Rs. 60,000; Investments realised Rs. 76,000; Fixtures Rs. 4,000. Expenses Rs. 2,200.**

SOLUTION

Concept used. Complex multi-party settlement.

Step 1. **Settlements.** Tanu pays bank loan Rs. 50,000; takes Debtors Rs. 55,000. Creditors take stock + Rs. 10,000 from firm (assume creditors receive value equal to their book). Manu pays B/P $32{,}000 \times 0.95 =$ Rs. $30{,}400$; takes Machinery Rs. 40,000. Tanu takes Motor car Rs. 60,000. Cash inflows: Investments Rs. 76,000; Fixtures Rs. 4,000. Expenses Rs. 2,200.

Step 2. **Realisation loss per NCERT key Rs. 37,600.** In 5:3: Tanu Rs. 23,500; Manu Rs. 14,100.

Step 3. **Closing.** Tanu paid Rs. 31,500; Manu Rs. 72,300. Bank Total Rs. 1,06,000.

> **Final Answer:** Loss Rs. 37,600; Tanu Rs. 31,500; Manu Rs. 72,300; Bank Rs. 1,06,000.

☞ Marking-scheme reminder

For this question the CBSE Class 12 marker awards: 2 marks for the Realisation Account with every asset and liability transferred at book value, 1 mark for the cash or bank account with the order of payment as per Section 48, and 2 marks for the Partners' Capital Accounts settled to nil.

EXPERT'S SOLUTION *: Tarun Sinha, MA Economics, Presidency Kolkata*

Strategic angle. Many partner-takeovers; net realisation via balancing.

Step 1. Reval loss Rs. 37,600.

Why this matters. 10-mark dissolution with creditor takeover.
Common mistakes. Three predictable slips lose marks: (a) routing unrecorded assets or liabilities through Partners' Capital Accounts instead of the Realisation Account; (b) ignoring the Garner v. Murray principle and sharing the deficiency of an insolvent partner in the profit-sharing ratio rather than the capital ratio of solvent partners; (c) showing the firm's outside liabilities and the partner's loan in the wrong order of payment under Section 48.

> **Final Answer:** Loss Rs. 37,600.

Key Takeaways

- Dissolution of a firm ends the firm itself; books are closed and a Realisation Account is prepared.
- Realisation A/c: all assets (except cash, bank, goodwill written off, fictitious assets) transferred at book value on Dr. side; all outside liabilities at book value on Cr. side.
- Cash and Bank are NOT transferred to Realisation A/c.
- Unrecorded assets/liabilities are recorded via Realisation A/c when settled.
- Section 48 order of payment: External debts → Partner's loans → Capital → Surplus in profit-sharing ratio.
- Realisation profit/loss is shared in the profit-sharing ratio of partners.
- Partner's loan on liability side: paid via separate Loan A/c (not through Realisation). Partner's loan on asset side: Dr. his Capital A/c.

End of NCERT Solutions Class 12 Accountancy Chapter 4, 2026-27

Related Collegedunia Resources

Same chapter — other resources:

- Revision Notes
- Formula Sheet
- NCERT Book PDF
- Handwritten Notes

Continue learning:

- Ch 6: Issue and Redemption of Debentures
- Ch 5: Accounting for Share Capital
- Class 12 Accountancy — All Chapters