

DK Goel Solutions Class 12 – Chapter 5 – Part A

Question 1

A, B and C were partners in a company sharing profits in the ratio 4:3:3. On 1-4-2015 they decided to dissolve the company. On that date, A's capital was ₹1,25,000, B's capital was ₹45,000 and C's capital was ₹15,000(Dr.). The creditors amounted to ₹23,150 and cash in hand was ₹3,920. The assets realized ₹1,44,910 and the expenses of dissolution were ₹1,860. Prepare realization account and show your working clearly.

Solution:

Balance Sheet as on 1st April 2015				
Liabilities		₹	Assets	₹
Creditors		23,150	Cash in Hand	3,920
Capital Accounts:			C's Capital (Dr.)	15,000
A	1,25,000		Sundry Assets(Balancing Fig.)	1,74,230
B	45,000	1,70,000		
		1,93,150		1,93,150

Dr.	Realization Account		Cr.
Particular	₹	Particular	₹
To Sunder Assets	1,74,230	By Creditors	23,150
To Cash (Creditors paid)	23,150	By Cash (Assets realized)	1,44,910

To Cash (Expenses)	1,860	By Loss on Realization transferred to:		
		A's Capital A/c	12,472	
		B's Capital A/c	9,354	
		C's Capital A/c	9,354	31,180
	1,99,240			1,99,240

Question 2

Give the necessary journal entries in each of the following alternative cases:

(i) Realization expenses amounted to 500

(ii) Realization expenses paid by the company amounted to ₹500 and the partner has to bear the realization expenses

(iii) 'A' one of the partners was to bear all the realization expenses for which he was given a commission of 2% of net cash realized from dissolution. Cash realized from assets was ₹25,000 and cash paid for liabilities amounted to ₹5,000

Solution:

Journal					
Date	Particulars		L.F	Dr.(₹)	Cr.(₹)
(i)	Realization A/c	Dr.		500	
	To Bank A/c (Payment of realization expenses)				500
(ii)	Partner's Capital A/c	Dr.		500	

	To Bank A/c (Payment of realization expenses by the firm on behalf of the partner)			500
(iii)	Bank A/c	Dr.	25,000	
	To Realization A/c (Amount realized on the sale of assets)			25,000
	Realization A/c	Dr.	5,000	
	To Bank A/c (Amount paid for liabilities)			5,000
	Realization A/c	Dr.	400	
	To A's Capital A/c (Commission allowed to A @2% on ₹20,000 i.e 25,000 – 5,000)			400

Question 3

A and B share profits and losses in the ratio of 3:2. They have decided to dissolve the firm. Assets and external liabilities have been transferred to realization A/c. Pass the journal entries to affect the following.

- (1) Bank Loan of ₹12,000 is paid off.
- (2) A was to bear all expenses of realization for which he is given a commission of ₹400
- (3) Deferred Advertisement Expenditure A/c appeared in the book at 28,000
- (4) Stock worth ₹1,600 was taken over by B at ₹1,200
- (5) An unrecorded computer realized ₹7,000
- (6) There was an outstanding bill of repairs for ₹2,000, which was paid off.

Solution:

Journal					
Date	Particulars		L.F	Dr.(₹)	Cr.(₹)
1	Realization A/c	Dr.		12,000	
	To Bank A/c (Bank loan discharged)				12,000
2	Realization A/c	Dr.		400	
	To A's Capital A/c (Commission payable to A)				400
3	A's Capital A/c B's Capital A/c	Dr. Dr.		16,800 11,200	
	To Deferred Advertisement Expenditure A/c (Transfer of fictitious asset to partner's capital accounts)				28,000
4	B's Capital A/c	Dr.		1,200	
	To Realization A/c (Stock taken over by B)				1,200
5	Bank A/c	Dr.		7,000	
	To Realization A/c (Amount realized from unrecorded computers)				7,000

6	Realization A/c	Dr.		2,000	
	To Bank A/c (Payment of outstanding repairs)				2,000

Question 4

If the total assets are ₹5,00,000, total liabilities are ₹1,00,000, the amount realized on the sale of assets is ₹ 4,20,000 and realization expenses are ₹5,000, what will be the profit or loss on realization?

Solution:

Profit and loss of realization can be calculated by preparing a realization account as follows.

		Realization Account	
Particular	₹	Particular	₹
To Assets	5,00,000	By liabilities	1,00,000
To Bank(Liabilities paid)	1,00,000	By Bank(Assets realized)	4,20,000
To Bank(expenses of realization)	5,000		
		By Capital A/c (Loss on realization)	85,000
	6,05,000		6,05,000

