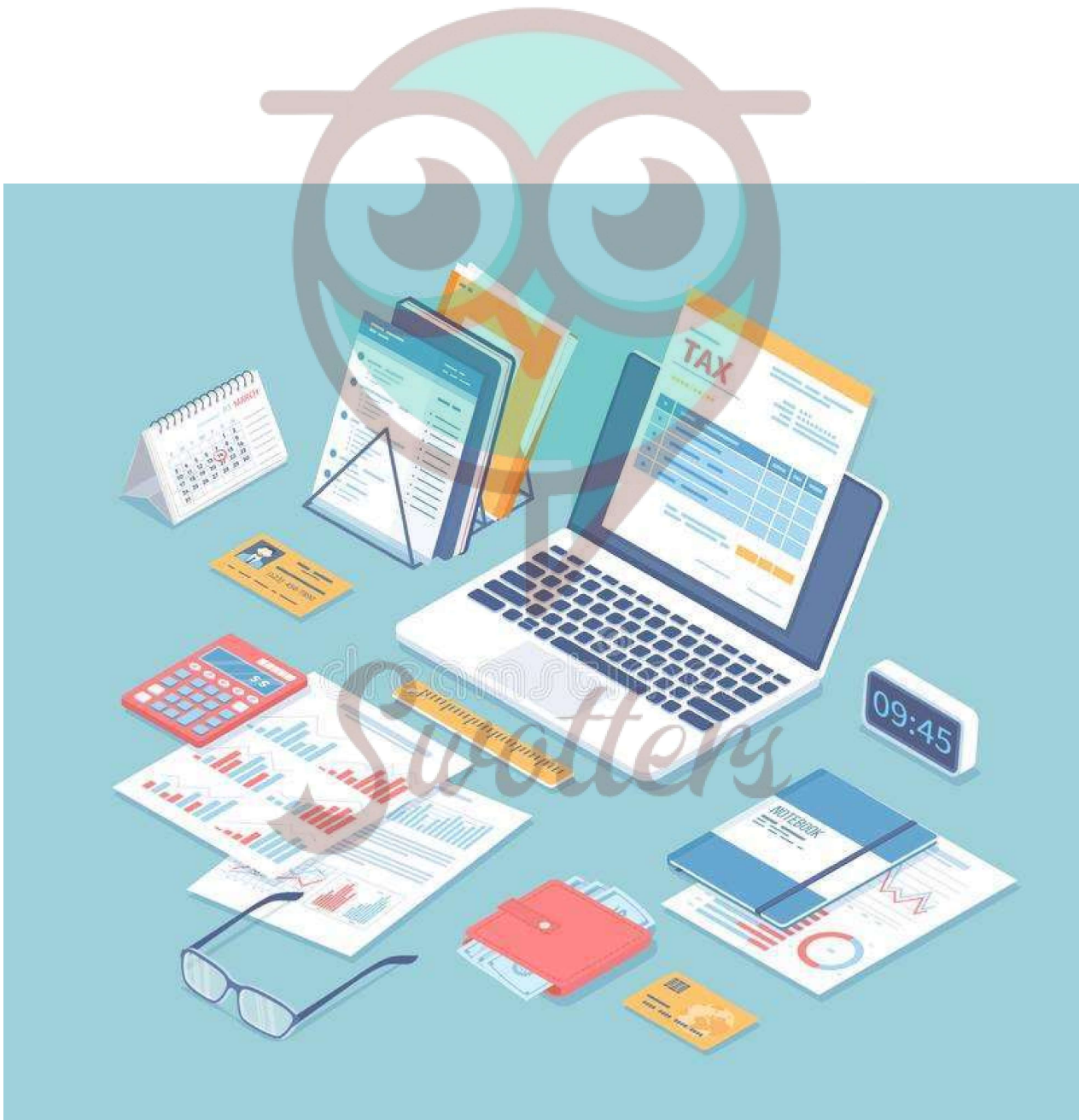


ACCOUNTANCY



Important Questions

Multiple Choice questions-

Question 1. Revaluation account and realisation account are _____ accounts.

- (a) same
- (b) opposite
- (c) different
- (d) real

Question 2. Realisation account is a _____ account

- (a) real
- (b) personal
- (c) nominal
- (d) cash.

Question 3. At the time of dissolution of a partnership firm _____ account is prepared.

- (a) revaluation
- (b) realisation
- (c) profit & loss
- (d) trading

Question 4. At the time of dissolution of a partnership firm, all assets (except fictitious) are transferred to _____ account.

- (a) realisation
- (b) revaluation
- (c) capital
- (d) loan.

Question 5. At the time of dissolution, partner's loan account is closed by _____.

- (a) transferring in realisation
- (b) payment
- (c) abolished
- (d) none of these.

Question 6. At the time of dissolution of partnership firm, balance of cash and bank will be transferred to _____ account.

- (a) realisation
- (b) revaluation
- (c) bank
- (d) capital

Question 7. At the time of dissolution of partnership firm _____ account is prepared.

- (a) realisation
- (b) partners capital

- (c) bank
- (d) All of these

Question 8. After the dissolution of firm, business of the firm will automatically _____.

- (a) continued
- (b) closed
- (c) extended
- (d) None of these

Question 9. Realisation account can be prepared _____ in the life of firm.

- (a) many
- (b) once
- (c) two
- (d) three

Question 10. Revaluation account can be prepared _____ time(s) in the firm.

- (a) many
- (b) one
- (c) two
- (d) three

Very Short Questions-

1. Differentiate between Dissolution of Partnership and Dissolution of a Partnership Firm on the basis of 'Court's Intervention'
2. State any two situations when a partnership firm can be compulsorily dissolved.
3. Distinguish between 'Reconstitution of Partnership' and 'Dissolution of Partnership Firm' on the basis of 'Closure of books'.
4. State the basis of calculating the amount of profit payable to the legal representative of a deceased partner in the year of death.
5. State any two grounds on the basis of which court may order for the dissolution of partnership firm.
6. State any two contingencies that may result into dissolution of a partnership firm.
7. Why is cash balance not transferred to Realisation Account on dissolution of a partnership firm?
8. In case of dissolution of a firm which liabilities are to be paid first?
9. In case of dissolution of a firm, which item on the liabilities side is to be paid last?
10. State any one occasion for the dissolution of the firm on court's orders when a partner becomes.

Short Questions-

1. State the difference between dissolution of partnership and dissolution of partnership firm.
2. State the accounting treatment for:
(a) Unrecorded assets. (b) Unrecorded liabilities.
3. On dissolution, how you deal with partner's loan if it appears on the:
(a) Assets side of the Balance Sheet (b) Liabilities side of the Balance Sheet
4. Distinguish between firm's debts and partner's private debts.
5. State the order of settlement of accounts on dissolution.
6. On what account realisation account differs from revaluation account.

Long Questions-

1. Explain the process of dissolution of a partnership firm?
2. What is a Realisation Account?
3. Reproduce the format of Realisation Account.

Assertion Reason Questions-

1. For two statements are given-one labelled Assertion and the other labelled Reason. Select the correct answer to these questions from the codes (a), (b), (c) and (d) as given below.
 - a. Assertion and Reason both are correct and Reason is the correct explanation of assertion
 - b. Assertion and Reason both are correct but Reason is not correct explanation of assertion
 - c. Assertion is correct but Reason is not correct.
 - d. Both Assertion and Reason are False.

Assertion: Partnership is the relation between persons who have agreed to share the profits of a business carried on by all or any of them acting for all.

Reason (R): It is defined in the Partnership Act, 1932.

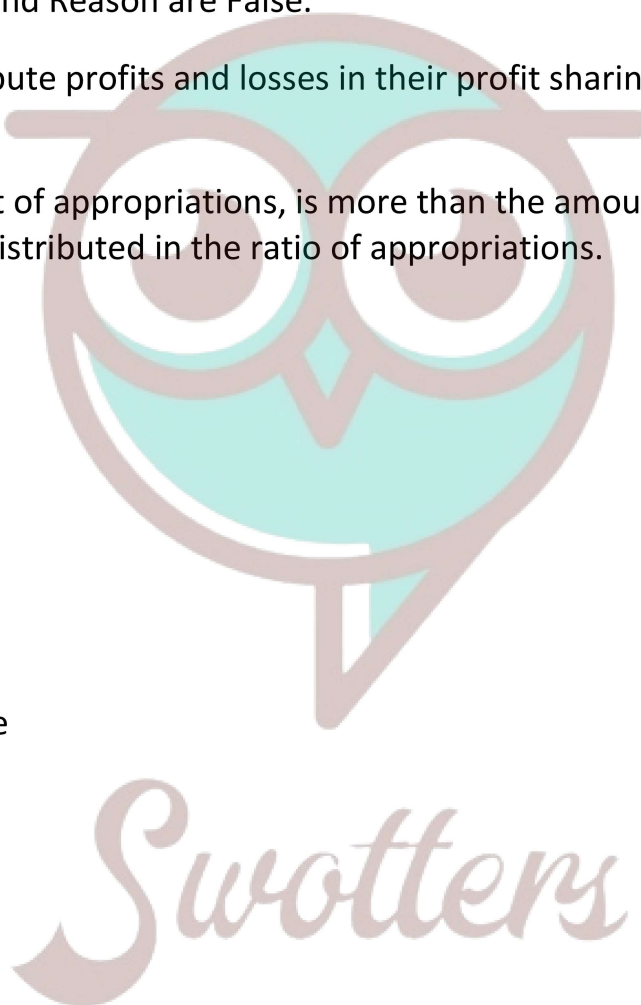
2. For two statements are given-one labelled Assertion and the other labelled Reason. Select the correct answer to these questions from the codes (a), (b), (c) and (d) as given below.
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 - Assertion is correct but Reason is not correct.
 - Both Assertion and Reason are False.

Assertion: Partners distribute profits and losses in their profit sharing ratio and not in the ratio of their capitals.

Reason (R): If The amount of appropriations, is more than the amount of profit available for distribution, profit is distributed in the ratio of appropriations.

MCQ Answers-

- Answer: (c) different
- Answer: (c) nominal
- Answer: (b) realisation
- Answer: (a) realisation
- Answer: (b) payment
- Answer: (c) bank
- Answer: (d) All of these
- Answer: (b) closed
- Answer: (b) once
- Answer: (a) many



Very Short Answers-

- Answer:

Base	Dissolution of Partnership	Dissolution of Firm
Court's Intervention	Court does not intervene because partnership is dissolved by mutual agreement.	A firm can be dissolved by court's order.

2. Answer:

A firm is compulsorily dissolved in the following cases:

- i. When all the partners or all but one partner become insolvent.
- ii. When the business of the firm becomes illegal.

3. Answer:

Basics	Reconstitution of Partnership	Dissolution of Partnership Firm
Closure of Books	Does not require because the business is not terminated.	The books of the accounts are closed.

4. Answer:

Profit may be estimated:

- i. On the basis of Last year's profit/Average profits of last given no. of years
- ii. On the basis of Turnover/Sales.

5. Answer: At the suit of a partner, the court may order a partnership firm to be dissolved on any of the following grounds:

- i. When a partner becomes insane;
- ii. When a partner becomes permanently incapable of performing his duties as a partner.

6. Answer: Contingencies that may result into dissolution of a partnership firm:

- i. If the firm is constituted for a fixed term, on the expiry of that term
- ii. If constituted to carry out one or more ventures, on the completion of the venture.

7. Answer: Cash is a liquid asset.

8. Answer: Debts of third parties.

9. Answer: Partners' capital.

10. Answer: Partner becomes permanently incapable of performing his duties as a partner.

Short Answers-

1.

Basis of Comparison	Dissolution of Partnership	Dissolution of Partnership firm
Meaning	It refers to the stage where a partner/partners discontinue their relationship with the firm.	It refers to the situation that all the relation between a firm and its partners cease to exit
Discontinuation	Business continues as usual	Discontinuation of business due to dissolving of firm
Accounts	Revaluation account is created	Realization account is created
Liabilities and assets	Revaluation is done	Sold off to pay for the liabilities
Economic Relationship	Continues	It comes to an end
Nature	Such type of event is voluntary in nature	It can be sometimes compulsory and sometimes voluntary
Effect	Firm is not dissolved	Both firm and partnership are dissolved

2.

(a) For Unrecorded Assets:

An unrecorded asset is such an asset whose value is written off from books of accounts, but it is in usable form. It is shown as:

1. If sold by cash

Cash A/c Dr.
 To Realisation A/c

(Unrecorded asset sold off for cash)

2. If taken over by any partner

Partner's Capital A/c Dr.

To Realisation A/c

(Partner takes over unrecorded asset)

(b) For unrecorded liabilities:

Liabilities that are not recorded in books of firm are called unrecorded liabilities. It can be shown in records as.

1. When unrecorded liability is paid off

Realisation A/c Dr.

To Cash A/c

(Paid in cash the price of unrecorded liability)

2. When undertaken by a partner

Realisation A/c Dr.

To Partner's Capital A/c

(Liability that is unrecorded is taken over by partner)

3.

(a) When a partner's loan is on the asset side of balance sheet, it means that partner has borrowed some amount from business and needs to pay back the same. In this instance, the loan amount gets transferred to the partners' capital account. It is shown as:

Partner's Capital A/c Dr.

To Partner's Loan A/c

(Loan account of partner transferred to partner capital account)

(b) When a partner's loan appears on liabilities side of balance sheet, it means that partner has provided loan to the business and the business has to pay back the amount which it has got from the partner. The loan is paid in cash after full filling payment of all external liabilities.

Partner's Loan A/c Dr.

To Cash/Bank A/c

(Loan taken from partner paid in cash)

4.

Basis of Comparison	Firm's Debts	Partner's Private Debts
Meaning	Debts that are owed by a firm to the outsiders	Debts that are owed by a partner to any other person outside the firm.
Liability	Liability of firm's debt lies with all the partners jointly as well as individually.	The liability of repaying debt rest only with the partner who has taken the debt.
Debt Settlement by private assets	Whenever debts of firm exceeds the assets of firm, the partner's private assets may be utilized in order to pay firms debt, only on the condition that the partner's asset is more than his debts	The debts that are private will be settled by private assets of the partner. If any surplus happens it will be used in paying for firms debts
Debt settlement by firm's assets	Debts of firms' are settles using assets' of firm. If any asset remains after clearing the debt, it gets distributed between the partners.	Partner can utilize their share of surplus assets obtained after clearing all debts from firm for personal use.

5. Following rules are applicable on settlement of accounts after a firm is dissolute as per Section 48 of Partnership Act, 1932.

Amount which is received on sale of assets should be used in this sequence:

- i. Paying off all external expenses and liabilities.
- ii. Loans and advances that are owed to partners should be cleared.
- iii. Capitals of all the partners must be paid off.

Any amount that still remains after paying off all these items must be distributed among partners of the dissolute firm in their original profit sharing ratio.

In case of loss and capital deficiency, the following must be paid in this order:

- i. Adjust loss and capital deficiency against profits of firm
- ii. Adjust against the total capital of the firm
- iii. If any loss or deficiencies is present after all the adjustments, the next course of action will be to bear the loss as per individual profit sharing ratio.

6.

Basis of Comparison	Realisation Account	Revaluation Account
Meaning	It is an account that is prepared to determine the net profit or loss on sale of assets and discharging of liabilities of the firm	It is an account that is prepared to determine variation in value of liabilities and assets of a firm.
Comprises of	All Liabilities and assets	Only those liabilities and assets that are revaluated
Time of preparation	During dissolution of firm	During firm restructuring
Frequency of Preparation	One time, when firm is dissolved.	As and when a new partner is introduced or an existing partner leaves the firm
Effect	All accounts related to liabilities and assets are closed	There is no account closure when revaluation happens
Records	Records all the Liabilities and assets	Records liabilities and assets whose value changed over a period.

Long Answers-

1. Dissolution of a partnership firm results in the business being discontinued. Dissolution consists of disposing off assets, clearing payment for liabilities and distributing the profit or loss among all partners.

A firm may be dissolved by the following ways:

- (a) Dissolution by agreement which can be with consent of all partners or a contract between all partners.
- (b) Dissolution which becomes compulsory when all partners become insolvent or any changes in government policies making the business illegal.
- (c) Dissolution that is based on certain condition such as a fixed period, purpose, death

of a partner or insolvency of a partner/partners

- (d) Dissolution by a written notice given by a partner with the intention to dissolve the firm.
- (e) Dissolution by court on account of a partner becoming lunatic, indulged in illegal activities, found guilty of misconduct, incapable to perform duties or dissolution reason found justified.

Following rules are applicable on settlement of accounts after a firm is dissolute as per Section 48 of Partnership Act, 1932.

(a) Amount which is received on sale of assets should be used in the following order:

- i. Paying off all external expenses and liabilities
- ii. Loans and advances that are owed to partners should be cleared.
- iii. Capitals of all the partners should be paid off.

Any amount that still remains after paying off all these items should be distributed among partners of the dissolute firm in their original profit sharing ratio.

(b) In case of loss and capital deficiency, the following should be paid in order:

- i. Adjust loss and capital deficiency against profits of firm
- ii. Adjust against the total capital of the firm
- iii. If there exists any loss or deficiencies after all the adjustments, the next course of action will be to bear the loss as per individual profit sharing ratio.

2. When a firm is dissolved, it results in closing of all accounts, assets are sold off and liabilities are paid off. To maintain a record of all such activities, a nominal account is prepared which is called as Realisation Account. Its main purpose is to determine profit or loss that happens due to settling off assets and liabilities. If this exercise results in profit or loss, it gets transferred to the Partners' Capital Account with their original profit sharing ratio.

The main objectives of preparing a realisation account is:

- i. To ensure all accounts are closed.
- ii. To record all transactions that is related to sale of assets and paying off liabilities.
- iii. Determining whether profit or loss is happening due to sale of assets and paying off

liabilities.

The format of realisation account is as follows:

Format of Realisation Account			
Dr.		Cr.	
Particulars	Amount ₹	Particulars	Amount ₹
Various Assets (Excluding Cash/Bank, fictitious assets, Debit balance of P and L A/c, partner Capital A/c, Current A/c, Loan to Partner)	—	Various Liabilities (Excluding Partner Capital account, reserves, P and L A/c, Current A/c, Loan to Partner)	—
Cash/Bank (Payment for realisation expenses)	—	Provision on assets (like, Provision for doubtful debts; Provision for depreciation)	—
Cash/Bank (Payment to outside and unrecorded liabilities)	—	Cash/Bank (Amount received from realisation of assets and unrecorded assets)	—
Partner's Capital A/c (If any liability taken on expenses paid by him or remuneration payable to him)	—	Partner's Capital A/c (If any asset taken over by any partner)	—
Partner Capital A/c (Profit on realisation distributed in the profit sharing ratio among all the partners)	—	Partner Capital A/c (Loss on realisation borne by all the partners in their profit sharing ratio)	—
	—		—

3.

Format of Realisation Account			
Dr.		Cr.	
Particulars	Amount ₹	Particulars	Amount ₹
Various Assets (Excluding Cash/Bank, fictitious assets, Debit balance of P and L A/c, partner Capital A/c, Current A/c, Loan to Partner)	-	Various Liabilities (Excluding Partner Capital account, reserves, P and L A/c, Current A/c, Loan to Partner)	-
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Partner's Capital A/c (If any liability taken on expenses paid by him or remuneration payable to him)	-	Partner's Capital A/c (If any asset taken over by any partner)	-
Partner Capital A/c (Profit on realisation distributed in the profit sharing ratio among all the partners)	-	Partner Capital A/c (Loss on realisation borne by all the partners in their profit sharing ratio)	-
			-

Assertion Reason Questions-

1. (a) Assertion and Reason both are correct and Reason is the correct explanation of assertion.
2. (b) Assertion and Reason both are correct but Reason is not correct explanation of assertion.