

## Dissolution of Partnership Firm

- Answer:** a) The termination of the firm's existence

**Explanation:** Dissolution of a partnership firm refers to the process of bringing an end to the partnership agreement, thereby ceasing the firm's business operations. It involves the winding up of business activities and the settlement of all financial matters. The dissolution process may be initiated voluntarily by the partners or through a court order due to various reasons such as mutual consent, the expiration of the partnership term, or legal grounds. The firm's assets are liquidated, liabilities settled, and profits or losses are distributed.
- Answer:** a) To record the profits and losses from the sale of assets

**Explanation:** The Realization Account is prepared during the dissolution of a partnership firm to record the profit or loss on the sale of assets and settlement of liabilities. It includes the sale of tangible and intangible assets, the settlement of liabilities, and the division of the firm's capital among partners. Any surplus or deficit resulting from the sale of assets is transferred to the partners' capital accounts. This helps in the proper closure of the partnership's financial books.
- Answer:** b) Liabilities are paid off before distributing the assets

**Explanation:** In the event of a partnership dissolution, liabilities are given priority over the distribution of assets. The partners must settle all outstanding debts, loans, and obligations before dividing the remaining assets. The process follows a clear order where the firm's assets are realized, liabilities are paid off, and the remaining amount is divided among the partners according to their capital accounts. If the firm's assets are insufficient, the partners may be required to contribute additional capital.
- Answer:** c) To reflect the final share of the partners after the realization of assets and settlement of liabilities

**Explanation:** In the dissolution process, Capital Accounts reflect the partners' final share after all assets are realized and liabilities are settled. If any losses arise during the realization of assets, they are borne by the partners according to their profit-sharing ratio. Any remaining balance in the capital accounts after paying liabilities is the amount the partners will receive as their final settlement. If necessary, adjustments are made to balance the accounts, and the final distribution is made.
- Answer:** b) All assets and liabilities, including the settlement of outstanding debts

**Explanation:** The Realization Account is prepared to record all transactions related to the dissolution process, including the sale of assets (tangible and intangible), the settlement of liabilities, and the distribution of any remaining funds. It captures the net effect of the firm's closure, including any profit or loss arising from the sale of assets below or above their book value. Any profit or loss from realization is then transferred to the partners' capital accounts based on their agreed profit-sharing ratio.
- Answer:** a) After the realization of assets

**Explanation:** During the dissolution process, the distribution of profits or losses is determined after the realization of assets. Once all assets are sold, and the liabilities are paid, any resulting profit or loss is distributed among the partners in proportion to their capital balances or agreed-upon ratios. This ensures that partners share the outcome of the dissolution process according to the firm's prior financial agreements.

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7. **Answer:** a) It records the amount owed by the firm to its partners  
**Explanation:** The Partner's Loan Account records any amounts that the firm owes to its partners. In dissolution, if the firm has taken loans from its partners, this account is used to settle the outstanding liabilities. After the firm's assets are realized and liabilities paid, any balance in the Partner's Loan Account is repaid to the concerned partner. If there is no loan account, the amount is treated as part of the partner's capital contribution.
8. **Answer:** c) The remaining partners may decide to form a new partnership  
**Explanation:** If the partnership dissolves due to the death of a partner, the remaining partners typically have the option to continue business and form a new partnership. They may decide to buy out the deceased partner's share, which is settled through their Capital Account or as per the Partnership Deed. The firm's assets are realized, liabilities are settled, and the deceased partner's share is distributed to their heirs. This allows the remaining partners to continue the business operations if they so choose.
9. **Answer:** d) Issuance of new partnership deed  
**Explanation:** The issuance of a new partnership deed is not part of the dissolution procedure; it typically happens when a partnership is reconstituted, such as in the case of a new partner being admitted. During dissolution, the focus is on realizing assets, paying off liabilities, and settling the partners' capital accounts. Once all assets are liquidated and liabilities are settled, the remaining capital is divided among the partners.
10. **Answer:** b) They are transferred to the partners' capital accounts  
**Explanation:** Reserves and accumulated profits are transferred to the partners' capital accounts in accordance with their profit-sharing ratio during the dissolution process. These amounts represent the firm's retained earnings, and by transferring them to the partners' accounts, the firm ensures that these funds are properly distributed among the partners before the final closure of the partnership. This distribution ensures that partners receive a fair share of the business's earnings accumulated over time.
11. **Answer:** b) Realization Account  
**Explanation:** The Realization Account is used to record the process of converting assets into cash and settling liabilities during the dissolution of a partnership. This account tracks the sale of assets, payment of liabilities, and the transfer of any resulting profit or loss to the partners' capital accounts. The goal is to accurately record all transactions during dissolution, ensuring the business is properly closed.
12. **Answer:** b) The profit is distributed among the partners based on their profit-sharing ratio  
**Explanation:** Any profit resulting from the dissolution process, such as a gain from the sale of assets, is divided among the partners according to their agreed-upon profit-sharing ratio. This ensures that partners share in the benefits of the dissolution according to the terms specified in the partnership agreement, which reflects their contribution to the firm.
13. **Answer:** a) The capital account is credited with any profits or gains  
**Explanation:** During the dissolution of a partnership, the capital accounts of the

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partners are adjusted for any profits or gains resulting from the sale of assets. Any losses are debited to the capital accounts based on the partners' share of the loss, while gains are credited to their accounts. This ensures that the final distribution among the partners reflects their rightful share of both profits and losses after all assets and liabilities are settled.

14. **Answer:** b) Realization of assets, Payment of liabilities, Distribution of profits

**Explanation:** The correct sequence is the realization of assets, followed by the payment of liabilities, and finally, the distribution of profits. During dissolution, assets are sold off, liabilities are paid, and the remaining amount is distributed as profit or loss among the partners. This ensures that the firm's debts are settled before any profit is shared, preserving fairness in the settlement of the partnership's financial obligations.

15. **Answer:** d) Dissolution ends the existence of the partnership firm

**Explanation:** Dissolution brings an end to the partnership firm's existence, meaning the firm no longer operates as a business entity. After dissolution, the partners may choose to continue the business by forming a new partnership, but the original partnership ceases to exist. The process involves the sale of assets, settlement of liabilities, and distribution of the remaining assets among the partners.

16. **Answer:** b) Goodwill is transferred to the Realization Account

**Explanation:** During the dissolution process, goodwill is treated as part of the firm's assets and is transferred to the Realization Account. The value of goodwill is realized and, if necessary, adjusted between the partners. The final treatment of goodwill is based on the partnership agreement, and any gains or losses from the realization are shared among the partners in accordance with their profit-sharing ratio.

17. **Answer:** b) The partners may have to contribute additional funds from their personal accounts

**Explanation:** If the firm's assets are insufficient to cover its liabilities, the partners may be required to contribute additional funds from their personal resources to settle the remaining debts. This ensures that the partnership's obligations are fully paid off before the distribution of any assets or profits, preserving the integrity of the dissolution process.

18. **Answer:** b) To adjust the capital balances of partners after the realization of assets and settlement of liabilities

**Explanation:** The Partner's Capital Account is used to record the final adjustments in the partners' capital balances during dissolution. After realizing the firm's assets and settling its liabilities, any remaining funds are credited to the partners' capital accounts based on their capital share or profit-sharing ratio. This ensures that each partner's final settlement reflects their contribution and share in the business.

19. **Answer:** b) Assets are sold for cash, and the proceeds are recorded in the Realization Account

**Explanation:** During the dissolution process, the firm's assets are realized or sold for cash, and the proceeds are recorded in the Realization Account. This account reflects the proceeds from the sale of assets, and any profit or loss from the realization is transferred to the partners' capital accounts. The goal is to convert all assets into cash to settle liabilities before distributing any remaining funds to the partners.

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20. **Answer:** a) It transfers accumulated profits to the partners' capital accounts

**Explanation:** The Realization Account plays an important role in ensuring that any accumulated profits or reserves are transferred to the partners' capital accounts during dissolution. This is done based on the profit-sharing ratio agreed upon in the partnership deed. The Realization Account ensures that all financial adjustments, including the treatment of profits, are made before the final distribution.

21. **Answer:** b) The sale of firm's assets

**Explanation:** The first step in the dissolution process involves the realization of the firm's assets. This means selling the firm's assets, such as property, inventory, and receivables, to convert them into cash. This is essential to meet the firm's liabilities. Once the assets are sold and cash is generated, the next steps include paying off liabilities and distributing any remaining assets among the partners. The assets must be liquidated before any profits or losses are shared.

22. **Answer:** a) Based on the profit-sharing ratio

**Explanation:** Any losses incurred during the dissolution of a partnership, such as a loss from the sale of assets, are shared among the partners in accordance with their profit-sharing ratio. The partnership deed typically specifies the ratio in which profits and losses are divided. If the deed does not specify, the losses are shared in the same ratio as the capital contribution of the partners. This ensures fairness and consistency in the distribution of losses during dissolution.

23. **Answer:** c) The partner with the deficit must contribute additional funds

**Explanation:** If a partner's capital account is in deficit after the realization of assets and settlement of liabilities, that partner is required to contribute additional funds to make up for the shortfall. The firm's liabilities must be paid in full before distributing any remaining funds. If a partner's capital account is negative, it indicates that their share of the liabilities is greater than their share of the firm's assets, necessitating an additional contribution.

24. **Answer:** c) By applying one of the recognized valuation methods such as Average Profit or Super Profit

**Explanation:** Goodwill is valued during dissolution by applying one of the recognized methods, such as the Average Profit method, Super Profit method, or Capitalization method. The method chosen depends on the nature of the business and the terms in the partnership deed. Goodwill represents the intangible value of the firm's reputation and customer base, and its value must be properly accounted for during the dissolution process.

25. **Answer:** c) The remaining partners share the deficiency equally

**Explanation:** If one partner refuses to contribute to the deficiency in capital after the dissolution of the firm, the remaining partners may be required to share the deficiency equally, based on the terms outlined in the partnership agreement. If no such provision exists in the agreement, the deficiency can be shared in the ratio of the remaining

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partners' capital balances. This ensures that the firm's financial obligations are met, and the dissolution process is completed successfully.

26. **Answer:** b) They are transferred to the Realization Account

**Explanation:** During dissolution, the proceeds from the sale of the firm's assets are transferred to the Realization Account. The Realization Account records the value of assets realized, and any profit or loss from the sale of assets is also transferred to this account. Once all assets have been realized and liabilities have been settled, the net proceeds are divided among the partners based on their capital accounts or agreed-upon distribution ratio.

27. **Answer:** b) By paying off the liabilities with the proceeds from asset sales

**Explanation:** During dissolution, the firm's liabilities are settled by using the proceeds from the sale of its assets. Once the assets are realized, the first priority is to pay off the liabilities, including outstanding debts to creditors, loans, and other financial obligations. Only after all liabilities have been cleared can any remaining funds be distributed to the partners according to their capital accounts. If the assets are insufficient, the partners may need to contribute additional capital to cover the shortfall.

28. **Answer:** a) Realization Account

**Explanation:** The Realization Account is used to record the disposal of liabilities during the dissolution process. This account tracks the payment of liabilities, ensuring that any amounts owed by the firm are properly settled before distributing the remaining assets among the partners. The Realization Account is also used to record any losses or gains from the sale of assets and the adjustment of liabilities, which are then transferred to the partners' capital accounts.

29. **Answer:** b) The partner's contribution is considered a loan to the firm

**Explanation:** If a partner's personal assets are used to cover the firm's liabilities during dissolution, the partner's contribution is considered a loan to the firm. This loan is repaid after the realization of assets and settlement of liabilities. The partner is entitled to receive interest on the loan, as specified in the partnership deed. Any outstanding amounts owed by the firm to the partner are treated as a liability of the firm and are settled in the final stages of the dissolution process.

30. **Answer:** a) Based on their profit-sharing ratio

**Explanation:** The final distribution of assets among the partners during the dissolution process is made according to the partners' profit-sharing ratio, unless otherwise specified in the partnership deed. After all liabilities have been settled and assets have been realized, the remaining funds are divided in this ratio. If there are any losses during the dissolution, they are also shared in the same manner. The goal is to ensure an equitable distribution of the firm's final assets among the partners.

31. **Answer:** b) Reserves are transferred to the Realization Account and shared by the partners

**Explanation:** During dissolution, any reserves held by the firm, such as general reserves or accumulated profits, are transferred to the Realization Account. Once the

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assets are realized and liabilities settled, the remaining amount in the Realization Account, including any reserves, is distributed among the partners according to their profit-sharing ratio. This ensures that reserves are appropriately utilized and shared in the final distribution process.

32. **Answer:** c) When the remaining funds have been distributed to the partners

**Explanation:** The dissolution of a partnership firm is considered complete when all assets have been realized, liabilities have been settled, and the remaining funds are distributed to the partners based on their capital accounts or profit-sharing ratio. Only after these steps are concluded can the partnership officially close, and the firm ceases to exist as a legal entity.

33. **Answer:** a) The profit is transferred to the partner's capital accounts

**Explanation:** Any profit from the sale of assets during dissolution is transferred to the partners' capital accounts, in proportion to their profit-sharing ratio. This ensures that the profit from the sale is shared fairly among the partners, as it represents a part of the overall distribution of the firm's remaining assets. The treatment of the profit is crucial for ensuring that partners are equitably compensated for their contributions.

34. **Answer:** b) To record the distribution of the firm's assets

**Explanation:** The Liquidator's Account is used to record the distribution of the firm's assets during the dissolution process. This account helps in tracking how assets are realized, liabilities are settled, and the remaining amounts are distributed among the partners. The liquidator ensures the proper distribution and final settlement according to the partnership's terms and any relevant legal requirements.

35. **Answer:** a) Their share is transferred to the deceased partner's legal heirs

**Explanation:** If a partner dies during the dissolution process, their share of the partnership, including any profits or assets, is transferred to the legal heirs or beneficiaries of the deceased partner. The remaining partners may need to settle the deceased partner's capital account and distribute any outstanding share of the profits or loss according to the partnership deed or legal guidelines.

36. **Answer:** c) The partner must pay the balance to the firm

**Explanation:** If a partner's capital account shows a balance payable (indicating that the partner owes money to the firm), the partner must pay the balance to the firm to settle their obligations. This ensures that all liabilities and outstanding amounts are cleared before the final distribution of assets. If the partner fails to pay, the remaining partners may be required to cover the shortfall based on the terms of the partnership agreement.

37. **Answer:** d) The partner's loan accounts

**Explanation:** During the dissolution of a partnership, the firm's assets, liabilities, and accumulated profits are transferred to the Realization Account. However, the partner's loan accounts are not transferred to the Realization Account. Instead, any amounts owed to or by the firm in terms of loans are settled separately as part of the dissolution process, and they are recorded in the partner's capital accounts or as liabilities in the firm's balance sheet.

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38. **Answer:** d) The capital account is paid in full after all liabilities are settled

**Explanation:** The final settlement of a partner's capital account during the dissolution process occurs after all liabilities have been settled and the firm's assets have been realized. The balance remaining in the partner's capital account is then paid to the partner, based on their share of the firm's remaining assets. If the partner's capital account is negative, they must contribute additional funds to cover the shortfall before receiving any further payment.

39. **Answer:** b) It tracks the sale of assets and payment of liabilities

**Explanation:** The Realization Account plays a crucial role in the dissolution process as it tracks the sale of the firm's assets and the payment of liabilities. This account helps in calculating any gains or losses from asset realization and settling the firm's debts. Any profit or loss from these activities is then transferred to the partners' capital accounts, ensuring the dissolution process is completed properly and equitably.

40. **Answer:** c) It is shared according to the profit-sharing ratio

**Explanation:** The loss from the dissolution of a partnership is shared among the partners according to their profit-sharing ratio. This ratio is typically defined in the partnership agreement. If the agreement does not specify a ratio, the loss will be shared in proportion to the partners' capital contributions. The sharing of losses ensures that each partner bears their fair share of the financial burden during dissolution.

41. **Answer:** b) The partner's credit balance is paid off after all liabilities have been settled

**Explanation:** If a partner's capital account has a credit balance during dissolution, it represents the partner's share of the firm's assets. This balance is paid to the partner after all liabilities have been settled. The capital balance is not distributed until the firm's debts have been fully cleared, ensuring that creditors are paid first. Once the liabilities are taken care of, the remaining funds are distributed according to the capital accounts.

42. **Answer:** b) The expenses are recorded in the Realization Account

**Explanation:** Expenses incurred during the dissolution of a partnership, such as legal fees, administrative costs, or costs associated with the sale of assets, are recorded in the Realization Account. These expenses reduce the firm's net assets and are accounted for before the distribution of the remaining funds to the partners. Any losses arising from these expenses are shared among the partners according to their profit-sharing ratio.

43. **Answer:** d) The partner is solely responsible for paying them

**Explanation:** Any personal liabilities of a partner during the dissolution of the partnership firm are not treated as firm liabilities. The responsibility for paying these personal debts lies solely with the individual partner, not the firm. The firm is only responsible for settling its own liabilities, including those related to creditors and suppliers. If a partner's personal liabilities are mixed with the firm's finances, they must be separately identified and cleared.

44. **Answer:** b) The loss is transferred to the Realization Account and shared among the partners

**Explanation:** If there is a loss on the sale of an asset during the dissolution of a

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partnership, the loss is recorded in the Realization Account. This loss is then shared among the partners in proportion to their profit-sharing ratio. The loss reduces the firm's net worth and is allocated to the partners to ensure that they bear the financial consequences of the dissolution process.

45. **Answer:** c) After the partners settle their final capital accounts

**Explanation:** The dissolution of a partnership firm results in the termination of the business once all assets are realized, liabilities are paid, and the partners' final capital accounts have been settled. The firm ceases to exist as a legal entity after these steps are completed. It is important that all legal formalities are fulfilled, and any outstanding debts or obligations are cleared before the business is formally terminated.

46. **Answer:** b) The partners may be required to contribute additional funds to cover the shortfall

**Explanation:** If the firm's liabilities exceed its assets during the dissolution process, the partners may be required to contribute additional funds to cover the shortfall. This is because the partnership is a separate legal entity, and the partners are responsible for settling the firm's debts. If the firm's assets are insufficient to cover the liabilities, the partners will need to contribute additional capital based on the partnership agreement or in proportion to their capital accounts.

47. **Answer:** c) The surplus is distributed based on the partners' capital accounts or profit-sharing ratio

**Explanation:** Any surplus funds remaining after the dissolution process are distributed to the partners based on their capital accounts or the agreed-upon profit-sharing ratio. The distribution ensures that the remaining funds are fairly divided according to each partner's share of the firm. This final settlement marks the end of the dissolution process and ensures that the partners receive their due share of the firm's remaining assets.

48. **Answer:** a) It dictates the distribution of assets and liabilities

**Explanation:** The partnership deed plays a crucial role during the dissolution of the partnership, as it sets the terms for the distribution of assets, liabilities, and the final settlement of the partners' capital accounts. If the deed does not specify how the dissolution should be handled, the legal provisions for partnership dissolution come into play. The partnership deed ensures that the process follows an agreed-upon framework for equitable distribution and settlement.

49. **Answer:** c) After the sale of all assets and payment of liabilities

**Explanation:** The Realization Account is closed after all assets are sold, liabilities are paid, and the final amounts are transferred to the partners' capital accounts. This account tracks the firm's asset sales and liabilities during the dissolution process. Once all transactions related to the dissolution have been recorded, including gains or losses from asset sales, the account is closed, and the remaining funds are distributed to the partners.

50. **Answer:** a) The other partners must cover the share

**Explanation:** If a partner is unable to pay their share of the liabilities during dissolution, the other partners are generally required to cover the unpaid share, unless otherwise

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stipulated in the partnership deed. The remaining partners may contribute additional funds to settle the liabilities, or the unpaid share may be adjusted in the partner's capital account. This ensures that the firm's liabilities are fully paid and the dissolution process can proceed smoothly