

Chapter 6 · Dissolution of a Partnership Firm

CBSE Class 12 Accountancy (055) · Part A · Unit 1 = 36 marks · Ultimate Revision Sheet

SYLLABUS ALERT — OFFICIALLY EXCLUDED The 2026-27 syllabus explicitly excludes *piecemeal distribution, sale to a company, and insolvency of partner(s)*. Do not spend revision time on them.

60-SECOND RECALL

Key distinction	Dissolution of PARTNERSHIP = business continues. Dissolution of FIRM = business closes.
The account	Realisation A/c — not Revaluation
Transfer rule	All assets at book value to Dr. side · all outside liabilities to Cr. side
Never transferred	Cash/Bank · Fictitious assets · Partners' capital/current · Reserves · P&L
Tangible asset, value not given	Realised at BOOK VALUE
Intangible asset, value not given	Realised at NIL
Order of payment	Outside creditors → Partner's loan → Partners' capital

1. Dissolution of Partnership vs Dissolution of Firm

Basis	Dissolution of PARTNERSHIP	Dissolution of FIRM
Business	Continues with the remaining partners	Closes down completely
Relationship	Only the existing agreement changes	Relationship among all partners ends
Books	Books are not closed ; reconstituted	Books are closed
Account used	Revaluation A/c	Realisation A/c
Court order	Not involved	Court may order it
Which includes which	Dissolution of a firm always means dissolution of the partnership. The reverse is not true.	

2. Modes of Dissolution

1. **By agreement** — with the consent of all partners.
2. **Compulsory dissolution** — all or all but one partner become insolvent, or the business becomes unlawful.
3. **On the happening of an event** — expiry of the term, completion of the venture, death or insolvency of a partner.
4. **By notice** — in a partnership at will, any partner may give written notice.
5. **By court order** — insanity, permanent incapacity, misconduct, persistent breach, transfer of interest, continuous losses, or any just and equitable ground.

3. Realisation Account

FORMAT — REPRODUCE EXACTLY Realisation A/c

Particulars

₹

Particulars

₹

To Sundry Assets A/c (<i>book value, each named</i>)	...	By Sundry Liabilities A/c (<i>book value</i>)	...
To Bank A/c (<i>liabilities paid</i>)	...	By Provision for Doubtful Debts A/c	...
To Bank A/c (<i>realisation expenses</i>)	...	By Bank A/c (<i>assets realised</i>)	...
To Partner's Capital A/c (<i>liability taken over</i>)	...	By Partner's Capital A/c (<i>asset taken over</i>)	...
To Partner's Capital A/c (<i>remuneration</i>)	...	By Partners' Capital A/c (<i>LOSS, old ratio</i>)	...
To Partners' Capital A/c (<i>PROFIT, old ratio</i>)	...		
	XXX		XXX

WHAT GOES IN — AND WHAT NEVER DOES

TRANSFERRED to Realisation A/c	NEVER transferred
All assets at book value (Dr. side) Land, Building, Machinery, Stock, Debtors, Investments, Goodwill if in books	Cash and Bank balances Fictitious assets (P&L Dr. bal., Advertisement Suspense) → these go to Partners' Capital A/c in old ratio
All outside liabilities at book value (Cr. side) Creditors, Bills Payable, Bank Loan, Outstanding Expenses	Partners' Capital / Current A/c Partner's Loan A/c — separate account Reserves, General Reserve, P&L (Cr.) → Capital A/c, old ratio
Provisions against assets (Cr. side) Provision for Doubtful Debts, Provision for Depreciation	

THE TWO RULES THE SYLLABUS SPELS OUT

1. If the realised value of a **TANGIBLE** asset is not given, it is realised at **BOOK VALUE**.

2. If the realised value of an **INTANGIBLE** asset (goodwill, patents) is not given, it is realised at **NIL**.

These are printed in the official syllabus, so questions rely on them.

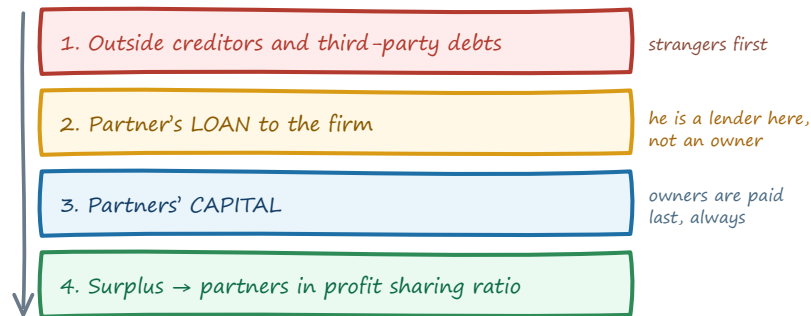
4. Realisation Expenses — the five cases

Situation	Entry
Paid by the firm	Realisation A/c Dr. To Bank A/c
Paid by a partner on behalf of the firm	Realisation A/c Dr. To Partner's Capital A/c
Partner agreed to bear them personally	NO ENTRY
Partner bears them, firm pays	Partner's Capital A/c Dr. To Bank A/c
Partner given a fixed remuneration to bear expenses	Realisation A/c Dr. To Partner's Capital A/c (<i>only the agreed remuneration, whatever the actual expense</i>)

TRAP When a partner is paid a **fixed remuneration** to bear the expenses, only the **remuneration** is debited to Realisation A/c. The actual expense is irrelevant — even if it differs. Students routinely record both and unbalance the account.

5. Order of Payment

Money leaves the pot in this order. Nobody below is paid until everybody above is paid in full.



Step 2 is the marks: a partner's LOAN is settled by its own entry, never through Realisation A/c.

The firm pays outsiders, then the partner as lender, then the partner as owner.

SECTION 48 — STRICT ORDER

1. Outside creditors and third-party debts
2. Partner's loan to the firm
3. Partners' capital
4. Any surplus → partners in their profit sharing ratio

Partner's Loan A/c is settled through a separate entry, never through Realisation A/c:

Partner's Loan A/c Dr. To Bank A/c

6. Closing the Books — the three accounts

THE SEQUENCE 1. Realisation A/c → find profit or loss, transfer to capitals in old ratio

2. Partners' Capital A/c → settle each partner
3. Cash / Bank A/c → must close at ZERO

THE CHECK THAT CATCHES EVERY ERROR The Cash/Bank A/c must balance exactly to nil. If it does not, one of these is wrong:

- an asset realised was not brought into Bank
- a liability paid was not taken out of Bank
- an asset taken over by a partner was wrongly routed through Bank
- realisation expenses recorded twice

Do this check **before** writing the final answer — it takes ten seconds and saves the question.

7. Question Triggers

what the wording is really asking

If the question says...	Do this
"the firm was dissolved"	Realisation A/c, not Revaluation
"debtors of ₹X, provision ₹Y"	Debtors at gross to Dr.; provision to Cr.
"A took over the machinery"	A's Capital A/c Dr. → Realisation A/c Cr.
"B agreed to pay the creditors"	Realisation A/c Dr. → B's Capital A/c Cr.
"stock realised nothing" / not mentioned (tangible)	Realised at book value unless stated
"goodwill" with no realised value	Realised at NIL

"A was to bear realisation expenses"	No entry if he also pays them
"A was allowed ₹5,000 for expenses; actual ₹7,000"	Debit Realisation with ₹5,000 only
"partner's loan appears in the balance sheet"	Separate entry; never in Realisation A/c
"P&L (Dr.) balance appears"	Straight to Capital A/cs , old ratio
"general reserve appears"	Straight to Capital A/cs , old ratio
"an unrecorded asset was sold"	Bank Dr. → Realisation Cr. (<i>no Dr. entry, it was never in books</i>)
"an unrecorded liability was paid"	Realisation Dr. → Bank Cr.

MOST-ASKED BOARD QUESTIONS

1. [6M] Prepare Realisation A/c, Partners' Capital A/cs and Bank A/c.
2. [3-4M] Pass journal entries on dissolution (assets taken over, expenses, unrecorded items).
3. [3-4M] Distinguish between dissolution of partnership and dissolution of firm.
4. [1M] Which account is prepared on dissolution of a firm? → **Realisation A/c**
5. [1M] At what value is an intangible asset realised if not stated? → **Nil**
6. [1M] In what order are payments made? → **Creditors → Partner's loan → Capital**

THE HABIT THAT SCORES — Before writing anything, list which items go to Realisation A/c and which go straight to Capital A/cs. Cash, fictitious assets, reserves and partners' own balances are the four that never enter Realisation — and putting any of them in is the single most common way this 6-marker is lost.