

CUET · ACCOUNTANCY · CLASS XII · CODE 301

Dissolution of Partnership Firm

CUET unit: Unit I — Accounting for Partnership Firms
(Dissolution of a Partnership Firm)

By UniDrill · NCERT-grounded study material

WWW.UNIDRILL.IN

UniDrill

Snapshot

- **Dissolution of partnership** (firm continues) differs from **dissolution of firm** (business closes, books are closed) (NCERT §intro, p. 156).
- Five modes of dissolution of a firm under the Indian Partnership Act, 1932 — by agreement, compulsory, on certain contingencies, by notice (partnership at will), and by court order (NCERT §4.2, p. 157-158).
- The **Section 48 settlement order** (third-party debts → partners' loans → partners' capital → surplus in PSR) and the **Section 49** rule on firm vs private debts (NCERT §4.3, p. 159).
- The **Realisation Account** is the master account used to close all asset and external-liability accounts and to compute profit/loss on realisation (NCERT §4.4, p. 160).
- High-yield for CUET: numerical MCQs on Realisation A/c entries (assets taken over, liabilities assumed by partners, unrecorded items, realisation expenses) and conceptual MCQs on the dissolution distinction and settlement order.
- Company accounts follow in the next unit (leac201-leac206).

Detailed Notes

2.1 Core concepts

Section 39 of the Partnership Act 1932 defines dissolution of the firm as the dissolution of partnership **between all the partners** of a firm — it breaks the relationship between all partners and ends the existence of the firm itself (NCERT §intro, p. 156). NCERT is explicit that this differs from the **dissolution of partnership**, which only changes the existing relationship between partners; the firm may continue business as before. Dissolution of partnership occurs on change in PSR, admission, retirement, death, insolvency of a partner, completion of the venture, or expiry of the partnership period (NCERT §4.1, p. 156-157).

Five modes of dissolution of a firm (§ 4.2, p. 157-158). (1) **By agreement** — with the consent of all partners or per contract; (2) **Compulsory dissolution** — when all or all-but-one partner become insolvent, or the business becomes illegal, or an event makes the business unlawful (e.g., a partner becomes an alien enemy); (3) **On happening of certain contingencies** — expiry of fixed term, completion of the venture, death of a partner, adjudication of a partner as insolvent; (4) **By notice** in a

partnership at will — any partner may give notice in writing of his intention to dissolve; (5) **By court** at the suit of a partner on grounds of insanity, permanent incapacity, misconduct, breach of agreement, transfer of interest, business carried on at a loss, or any just-and-equitable ground.

Distinction between dissolution of partnership and dissolution of firm (NCERT § 4.2 table, p. 158). Five bases — termination of business, settlement of assets/liabilities, court's intervention, economic relationship, and closure of books. Memorise the table — CUET asks for these bases as match-the-following.

Section 48 — Settlement of Accounts (§ 4.3, p. 159). Losses (including capital deficiencies) are met first out of profits, then out of capital, and lastly by partners individually in PSR. Assets (plus any partner contributions) are applied in this order: (i) **third-party debts**, (ii) **partners' advances** (loans, not capital), (iii) **partners' capital**, and (iv) **residue distributed in PSR**. Secured loans have precedence over unsecured loans while paying outside liabilities.

Section 49 — Firm Debts vs Private Debts (§ 4.3, p. 159). When firm debts and partners' private debts co-exist: firm property goes **first** to firm debts (any surplus then to partners' private use); private property goes **first** to private debts (any surplus may then go to firm debts if firm assets are inadequate). Private property excludes the personal properties of the partner's wife and children.

Garner vs Murray rule (NCERT § 4.3 box, p. 160). Mentioned but excluded at this stage: if a partner is insolvent and cannot pay his capital deficiency, the irrecoverable sum is treated as a capital loss borne by the remaining solvent partners **in the ratio of their capitals** as on the date of dissolution.

Accounting treatment (§ 4.4, p. 160). On dissolution, all assets (except cash, bank and fictitious assets) and all external liabilities are transferred to a **Realisation Account**, which also records the sale of assets, payment of liabilities and realisation expenses. The balance of the Realisation A/c is the profit or loss on realisation, transferred to partners' capital accounts in PSR.

Format of Realisation Account (Fig. 4.1, NCERT p. 160). Debit side: intangible assets, land & buildings, plant & machinery, furniture, loans to other parties, bills receivable, sundry debtors (gross), cash for payment of liabilities (recorded and unrecorded), partner's capital for liability assumed. Credit side: bank loan/mortgage, sundry creditors, bills payable, bank overdraft, outstanding expenses, provision for doubtful debts, cash from sale of assets, partner's capital for assets taken over, investment fluctuation fund, and the balancing profit/loss.

Journal-entry list (§ 4.4.1, p. 164-166). Seventeen standard situations including: assets transferred at book value (debtors gross, provision separately to credit); liabilities transferred to credit; sale of assets via Bank; asset taken over by partner debits Partner's Capital; payment of liabilities credits Bank; partner discharging a liability credits Partner's Capital; **no entry** when creditor accepts asset in full settlement; entries for realisation expenses (firm/partner/agreed remuneration); unrecorded assets

credited to Realisation when sold; unrecorded liabilities debited when paid; accumulated reserves transferred to partners in PSR (not to Realisation); fictitious assets debited to partners in PSR; partner's loan paid via Bank (not routed through Realisation).

Special situations. (i) When a partner is given an agreed remuneration for dissolution work and has also agreed to bear realisation expenses, no separate entry is recorded for actual expenses paid by the firm beyond the remuneration (NCERT Illustration 6 note, p. 176). (ii) When a creditor accepts an unrecorded asset (e.g., unrecorded investment) as part-payment of his dues, no journal entry is recorded for that part (NCERT Illustration 7 note, p. 178).

2.2 Definitions to memorise

Term	Definition	Page
Dissolution of Firm (§39)	Dissolution of partnership between all the partners of a firm; ends the firm's existence and necessitates winding-up (NCERT §intro).	156
Dissolution of Partnership	Change in existing relationship between partners while the firm may continue business; e.g., on admission, retirement, death, change in PSR (NCERT §4.1).	156-157
Compulsory Dissolution	Dissolution occurring when all/all-but-one partner become insolvent, or business becomes illegal/unlawful (NCERT §4.2).	157
Dissolution by Notice	In a partnership at will, dissolution effected when any partner gives written notice of his intention to dissolve (NCERT §4.2).	157
Realisation Account	Nominal account opened on dissolution to record transfer of assets and external liabilities, their realisation and payment, and to determine profit/loss on realisation (NCERT §4.4).	160
Realisation Expenses	Expenses incurred for the process of realising assets and paying off liabilities at dissolution (NCERT §4.4.1).	165
Partnership at Will	A partnership where no fixed term is set, dissoluble by notice from any partner (NCERT §4.2).	157
Private Debts vs Firm's Debts (§49)	Firm property applies first to firm debts; private property applies first to private debts (NCERT §4.3).	159
Section 48 (Partnership Act)	Order of settlement: outside debts → partners' loans → partners' capital → residue in PSR (NCERT §4.3).	159
Section 49 (Partnership Act)	Marshalling of firm vs private assets and debts (NCERT §4.3).	159
Garner vs Murray Rule	Capital deficiency of an insolvent partner is borne by solvent partners in their capital ratio (NCERT §4.3 box).	160
		166

Term	Definition	Page
Partner's Loan to Firm	Liability of the firm to a partner; settled through Bank A/c, not Realisation (NCERT §4.4.1).	
Asset taken over by Partner	Debit Partner's Capital A/c, Credit Realisation A/c (NCERT §4.4.1 entry 4).	165
Liability assumed by Partner	Debit Realisation A/c, Credit Partner's Capital A/c (NCERT §4.4.1 entry 6).	165
Unrecorded Asset	Asset not in books; on realisation, Cr Realisation A/c, Dr Bank (NCERT §4.4.1 entry 11).	165
Unrecorded Liability	Liability not in books; on payment, Dr Realisation A/c, Cr Bank (NCERT §4.4.1 entry 12).	165
Accumulated Reserves on Dissolution	Distributed to partners' capital in PSR; not transferred to Realisation A/c (NCERT §4.4.1 entry 14).	166
Fictitious Assets on Dissolution	Distributed to partners' capital in PSR (debit) (NCERT §4.4.1 entry 15).	166
Profit on Realisation	Credit balance of Realisation A/c; distributed in PSR (NCERT §4.4.1 entry 17).	166
Loss on Realisation	Debit balance of Realisation A/c; distributed in PSR (NCERT §4.4.1 entry 17).	166
Investment Fluctuation Fund	Reserve appearing on liabilities; credited to Realisation A/c on dissolution (NCERT Fig. 4.1).	160
Workmen Compensation Reserve	Reserve for workers' compensation; treated as a liability and credited to Realisation if a claim exists, else distributed (NCERT Illus. 4).	169
Provision for Doubtful Debts	Credited to Realisation A/c on dissolution; debtors transferred at gross (NCERT §4.4.1 entry 1 note).	164
Bank Overdraft on Dissolution	External liability; credited to Realisation A/c (NCERT Test-II Q1).	161
Final Settlement	Cash payment to partners equal to their adjusted capital balance after all adjustments (NCERT §4.4 Illus. 1).	163

2.3 Diagrams / processes to remember

Distinction Table — Dissolution of Partnership vs Dissolution of Firm (NCERT p. 158). Five bases — termination of business, settlement of assets and liabilities, court's intervention, economic relationship, closure of books. Memorise.

Fig. 4.1 — Realisation Account Format (NCERT p. 160). Standard T-format with all debit and credit items listed; the workhorse of every dissolution question.

Illustration 1 — Supriya & Monika 3:2 (NCERT p. 162-164). Minimal end-to-end Realisation A/c, Partners' Capital A/c, Bank A/c; profit on realisation ₹2,925.

Illustration 2 — Sita, Rita, Meeta 2:2:1 (NCERT p. 167-168). Treatment of unrecorded asset taken over by partner, realisation expenses where one partner agrees to bear them but the firm actually pays, discount on creditors.

Illustration 3 — Vibha, Shobha, Anubha (NCERT p. 168-169). Seven sub-cases of dissolution-expense and remuneration entries, including the "no entry" case when a partner takes over an asset towards remuneration.

Illustration 4 — Nayana & Arushi (NCERT p. 169-172). Full ledger set including Workmen Compensation Reserve, unrecorded investment realised, bad debts recovered, outstanding repair bill (unrecorded liability).

Process — Closing assets to Realisation A/c. (i) Transfer all assets (except cash, bank and fictitious) at book value to the Dr side of Realisation A/c (debtors gross, with provision credited separately). (ii) Transfer external liabilities to the Cr side of Realisation A/c. (iii) Record actual realisation of assets (Dr Bank, Cr Realisation). (iv) Record actual payment of liabilities (Dr Realisation, Cr Bank). (v) Record realisation expenses (Dr Realisation, Cr Bank). (vi) Compute the balance — profit or loss — and transfer to partners' capitals in PSR.

Process — Asset taken over / Liability assumed by partner. Asset taken over: Dr Partner's Capital, Cr Realisation. Liability assumed: Dr Realisation, Cr Partner's Capital.

Process — Creditor accepts an asset in full settlement. No journal entry. The asset (already on Dr side of Realisation) and the creditor (already on Cr side) cancel each other.

Process — Realisation expenses borne by partner. If a partner has agreed to bear realisation expenses and the firm pays — Dr Partner's Capital, Cr Bank (not Realisation). If the partner is given an agreed remuneration — Dr Realisation, Cr Partner's Capital for the remuneration; expenses are then his concern.

2.4 Common confusions / NTA trap points

1. **Partner's loan is NOT routed through Realisation A/c.** Paid via Bank directly. Likewise, loan to a partner (asset side) is settled through Bank, not Realisation (NCERT §4.4.1 entries 13 & 16, p. 166).
2. **Bank overdraft IS an external liability** and is transferred to Realisation A/c (NCERT Test-II Q1, p. 161).
3. **Accumulated profits / reserves go to Partners' Capital in PSR, NOT to Realisation** (NCERT §4.4.1 entry 14, p. 166).
4. **Sundry debtors transferred at GROSS value.** Provision for doubtful debts transferred separately to the credit (NCERT §4.4.1 entry 1, p. 164).

5. **Creditor accepts asset in full settlement** → **NO entry**. Partial settlements only record the cash portion (NCERT §4.4.1 entry 7, p. 165).
6. **Realisation expenses borne by partner — Dr his Capital, not Realisation** (NCERT §4.4.1 entry 8(c)(i), p. 165).
7. **Dissolution of partnership vs Dissolution of firm**. Partnership = relationship change, firm continues; Firm = business closes (NCERT §4.1-§4.2, p. 156-158).
8. **Section 48 order**. Outside debts → partners' loans → partners' capital → residue in PSR. Easy to invert (NCERT §4.3, p. 159).
9. **Section 49 — private property first to private debts**. Then surplus may help firm debts (NCERT §4.3, p. 159).
10. **Garner vs Murray ratio**. Capital ratio, not PSR — though this rule is outside CUET-level numerical (NCERT §4.3 box, p. 160).
11. **Fictitious assets distributed in PSR**. Preliminary expenses, deferred revenue expenditure, debit balance of P&L — debited to partners' capitals in PSR (NCERT §4.4.1 entry 15, p. 166).
12. **Compulsory dissolution triggers**. Insolvency of all/all-but-one partner, business becoming illegal/unlawful — not merely a change in PSR (NCERT §4.2, p. 157).

2.5 Journal entry templates

(a) Transfer of assets to Realisation A/c (NCERT § 4.4.1 entry 1, p. 164)

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
Mar 31	Realisation A/cDr.		65,500	
	To Stock A/c			7,500
	To Sundry Debtors A/c			21,500
	To Fixed Assets A/c			36,500
	(Being assets transferred to Realisation A/c at book value; debtors at gross)			

(b) Transfer of liabilities to Realisation A/c (NCERT § 4.4.1 entry 2)

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
Mar 31	Sundry Creditors A/cDr.		48,000	
	Provision for Doubtful Debts A/cDr.		500	
	To Realisation A/c			48,500
	(Being external liabilities and provision transferred to Realisation A/c)			

(c) Sale of assets for cash (NCERT § 4.4.1 entry 3)

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
Apr 5	Bank A/cDr.		69,425	
	To Realisation A/c			69,425
	(Being realisation of stock ₹7,000 + debtors ₹20,425 + fixed assets ₹42,000)			

(d) Asset taken over by a partner (NCERT § 4.4.1 entry 4)

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
Apr 5	Vinit's Capital A/cDr.		45,000	
	To Realisation A/c			45,000
	(Being investment taken over by Vinit at agreed value)			

(e) Liability assumed by a partner (NCERT § 4.4.1 entry 6)

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
Apr 5	Realisation A/cDr.		40,000	
	To Amit's Capital A/c			40,000
	(Being Mrs. Amit's loan assumed by Amit)			

(f) Realisation expenses — borne by partner; paid by firm (NCERT § 4.4.1 entry 8(c)(i))

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
Apr 5	Anubha's Capital A/cDr.		9,500	
	To Bank A/c			9,500
	(Being realisation expenses borne by Anubha but paid by the firm on her behalf)			

(g) Partner's loan paid off (NCERT § 4.4.1 entry 16, p. 166)

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
Apr 10	Partner's Loan A/cDr.		50,000	
	To Bank A/c			50,000

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
	(Being partner's loan paid; not routed through Realisation A/c)			

(h) Distribution of profit on realisation (NCERT § 4.4.1 entry 17)

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
Apr 10	Realisation A/cDr.		2,925	
	To Supriya's Capital A/c			1,755
	To Monika's Capital A/c			1,170
	(Being profit on realisation transferred in PSR 3:2)			

Practice MCQs

Q1. According to Section 39 of the Indian Partnership Act 1932, the dissolution of partnership between all the partners of a firm is called:


- A. Dissolution of partnership
- B. Reconstitution of firm
- C. Dissolution of firm
- D. Compulsory dissolution

Q2. Which one of the following is NOT a mode of dissolution of a firm under §4.2?

- A. Dissolution by agreement among all partners
- B. Compulsory dissolution on insolvency of all but one partner
- C. Dissolution by notice in a partnership at will
- D. Dissolution by mere change in profit-sharing ratio among existing partners

Q3. On dissolution of a firm, bank overdraft is transferred to:

- A. Cash Account
- B. Bank Account
- C. Realisation Account
- D. Partner's Capital Account

 **12 more MCQs + answer key**
 Get UniDrill Pro · ₹199/year · unidrill.in/pricing

PYQ Alignment

This chapter is among the highest-yield in CUET 301 Accountancy — typically 10–14 MCQs per year split between conceptual items (distinction between dissolution of partnership and firm, §48 settlement order, treatment of partner's loan, accumulated reserves, unrecorded items) and short numerical items based on Realisation A/c (profit/loss on realisation, settlement payable to partners, treatment of assets taken over by partners and liabilities assumed by partners). Expect at least 2–3 statement-based / assertion-reason questions and 1–2 match-the-following items on entries. See [/pyq/accountancy](#) for drill sets.

CUET 2025 — Actual PYQs from this chapter

Q.9 (CUET 2025) Stock at dissolution appears in books at ₹50,000. Half the stock sold at 20% discount and the rest taken by a partner at 10% discount. Cash received from sale of stock:

- A) ₹25,000 B) ₹42,500 C) ₹20,000 D) ₹45,000 Tests: §3 Realisation A/c — cash actually received on sale of assets vs assets taken over by partners. Answer: Not in extracted key

Q.20 (CUET 2025) According to Partnership Act 1932, dissolution of partnership between all partners is called:

- A) Section 42 B) Section 35 C) Section 37 D) Section 39 Tests: §1 Modes of dissolution of firm — relevant section of the Indian Partnership Act, 1932. Answer: Not in extracted key

Q.31 (CUET 2025) Arrange the following in sequence of payment at dissolution: (A) Debts to third parties (B) Partner's loan (C) Partner's capital (D) Surplus/dividend in PSR

- A) (A),(B),(C),(D) B) (B),(C),(D),(A) C) (A),(D),(C),(B) D) (A),(C),(B),(D) Tests: §2 Settlement of Accounts — Section 48 order of application of assets. Answer: Not in extracted key

Q.39 (CUET 2025) Match List-I with List-II (dissolution): (A) Compulsory dissolution → (I) Partner becomes insane (B) Dissolution by notice → (II) Death of a partner (C) Dissolution by court → (III) Business becomes illegal (D) Dissolution on certain contingencies → (IV) Partnership at will

- A) A-III, B-IV, C-I, D-II B) A-II, B-IV, C-III, D-I C) A-III, B-II, C-I, D-IV D) A-I, B-IV, C-III, D-II Tests: §1 Modes / grounds of dissolution of a firm. Answer: Not in extracted key

Q.40 (CUET 2025) Match List-I with List-II (entries): (A) Payment of loans due to partners (B) Settlement of partners' accounts (C) Settlement of loan by firm to partner (D) Settlement of unrecorded liability — with (I) Realisation A/c Dr To Bank, (II) Bank A/c Dr To Loan to Partners, (III) Bank A/c Dr To Partners' Capital, (IV) Partner's Loan A/c Dr To Bank.

- A) A-IV, B-III, C-II, D-I B) A-III, B-I, C-IV, D-II C) A-II, B-IV, C-I, D-III D) A-I, B-III, C-II, D-IV
- Tests: §3 Journal entries at dissolution — recognition of correct entry for each settlement. **Answer:** Not in extracted key

Q.50 (CUET 2025) Which account is prepared at the time of dissolution of partnership firm?

- A) Revaluation Account B) Realisation Account C) Trading Account D) Profit and Loss Appropriation Account
- Tests: §3 Realisation Account — distinguishing it from Revaluation A/c (reconstitution). **Answer:** Not in extracted key

CUET 2023 — Actual PYQs from this chapter

Q.6 (CUET 2023) On dissolution of partnership, goodwill account is transferred to:

- A) Debit side of Realisation A/c B) Credit side of Realisation A/c C) Credit side of Partner's Capital/Current A/c D) Debit side of Partner's Capital/Current A/c
- Tests: §3 Treatment of intangible assets (goodwill) in Realisation A/c. **Answer:** Not in extracted key

Q.7 (CUET 2023) On dissolution out of total debtors ₹2,50,000, ₹10,000 became bad and the rest realised 70%. Bank A/c will be debited by:

- A) ₹1,75,000 B) ₹1,08,000 C) ₹1,62,000 D) ₹1,68,000
- Tests: §3 Realisation — cash actually realised from debtors after bad debts. **Answer:** Not in extracted key

Q.8 (CUET 2023) Rohit paid realisation expenses ₹10,000 and received remuneration ₹12,000 (expenses borne by Rohit). Amount transferred to his Capital A/c:

- A) ₹12,000 B) ₹10,000 C) ₹22,000 D) ₹2,000
- Tests: §3 Treatment of realisation expenses paid by / remuneration agreed with a partner. **Answer:** Not in extracted key

Q.26 (CUET 2023) Per Partnership Act 1932, assets on dissolution are applied in the following order: (A) Payment to partners capital (B) Payment of secured debts (C) Payment of partners loans (D) Distribution of surplus among partners (E) Payment of firm debts

- A) C, B, E, A, D B) B, E, C, A, D C) A, B, C, D, E D) D, C, B, A, E
- Tests: §2 Section 48 — order of application of assets at dissolution. **Answer:** Not in extracted key