

## 1. Details of Module and its structure

Module Detail	
Subject Name	Accountancy
Course Name	Accountancy 03 (Class XII, Semester - 1)
Module Name/Title	Dissolution of Partnership Firm – Part 2
Module Id	leac_10502
Pre-requisites	Basic knowledge of Partnership
Objectives	<p>After going through this lesson, the learners will be able to understand the following:</p> <ul style="list-style-type: none"><li>• Meaning of Realisation Account</li><li>• Prepare Realisation Account</li><li>• Differentiate between Realisation Account and Revaluation Account</li><li>• Prepare Partner's Loan Account</li><li>• Prepare Partners' Capital Accounts</li><li>• Preparation of Cash or Bank Account</li></ul>
Keywords	Dissolution of a firm, Realisation Account, Partners' Capital Accounts, Partner's Loan Account

## 2. Development Team

Role	Name	Affiliation
National MOOC Coordinator	Prof. Amarendra P. Behera	CIET, NCERT, New Delhi
Program Coordinator	Dr. Rejaul Karim Barbhuiya	CIET, NCERT, New Delhi
Course Coordinator (CC) / PI	Prof. Shipra Vaidya	DESS, NCERT New Delhi
Course Co-Coordinator / Co-PI	Dr. Nidhi Gusain	CIET, NCERT, New Delhi
Subject Matter Expert (SME)	Ms. Deepti Madhura	Amity Institute of Education, New Delhi
Review Team	Ms. Preeti Sharma Mr. Vinay Setia	Kendirya Vidyalaya, Sec 24, Noida Indraprastha Global School, New Delhi
Technical Team	Mr. Shobit Saxena Ms. Khushboo Sharma	CIET, NCERT, New Delhi CIET, NCERT, New Delhi

---

## **Table of Content:**

1. Realisation Account
2. Difference between Realisation Account and Revaluation Account
3. Partner's Loan Account
4. Partner's Capital Accounts
5. Preparation of Cash or Bank Account

## **Introduction**

When the firm is dissolved, its books of account are to be closed and the profit or loss arising on realisation of its assets and discharge of liabilities is to be computed. For this purpose, a Realisation Account is prepared to ascertain the net effect (i.e. profit or loss) of realisation of assets and discharge of liabilities. This profit or loss is transferred to partners' capital accounts in their profit sharing ratio.

### **1.2. Realisation Account**

It is prepared on the dissolution of a firm. The objective of preparing this account is to close the books of accounts of dissolved firm and to determine profit or loss on the realisation of the assets and payments of liabilities. All assets (other than cash in hand bank balance and fictitious assets, if any), and all external liabilities are transferred to this account. It also records the sale or disposal of assets and payment or discharge of liabilities and realisation expenses. The balance in this account is termed as profit or loss on realisation which is transferred to partners' capital accounts in their profit sharing ratio.

#### **Steps to be followed to prepare realisation account**

- 1. Transfer all the assets\*<sup>1</sup> to the debit side of 'Realisation Account'**
- 2. Transfer all the external liabilities\*<sup>2</sup> to the credit side of the 'Realisation Account'**
- 3. Realise assets on the credit side of Realisation Account**
- 4. Discharge liabilities on the debit side of Realisation Account**
- 5. Expenses incurred by the firm on dissolution are debited to Realisation Account.**
- 6. Compare both the sides of realisation account to compute profit/loss and distribute it among partners in their profit sharing ratio.**
  - Excluding Cash, Bank Balance, Fictitious Assets, Partner's Capital/Current A/c (debit balance) & Partner's Loan (debit balance).
  - Including Employees PF, Loan from Spouse/Relatives etc. being external liabilities.

## Format of realisation account:

### Realisation Account

Dr.		Cr.	
Particulars	Amount (₹)	Particulars	Amount (₹)
Land and Building	xxx	Sundry creditors	xxx
Plant and Machinery	xxx	Bills payables	xxx
Furniture and Fittings	xxx	Bank overdraft	xxx
Bills receivables	xxx	Outstanding expenses	xxx
Sundry debtors	xxx	Provision for doubtful debts	xxx
Cash/Bank	xxx	Cash/Bank	xxx
(payment of liabilities)		(sale of assets)	
Cash/Bank	xxx	Cash/Bank	xxx
(payment of unrecorded liabilities)		(sale of unrecorded assets)	
Partner's capital account	xxx	Partner's capital account	xxx
(liability assumed by a partner)		(assets taken by a partner)	
Profit #	xxx	Loss #	xxx
(transferred to partners' capital account's in their profit sharing ratio)		(transferred to partners' capital accounts)	
	xxx		xxx

Exceptions i.e. items that are not transferred to Realisation Account:

1. Fictitious assets are debited to capital accounts of partners in the profit sharing ratio.
2. Loan to a partner is retained in a separate account and is taken back from him.
3. Partner's loan account and Partners' Capital Account are separate accounts.

# Either of the two will exist at a time.

### 1.2.1 Difference between Realisation Account and Revaluation Account

S.No.	Basis	Revaluation account	Realisation Account
1.	<b>Meaning</b>	Records the effect of re-valuation of assets and liabilities	Records the realization of assets and settlement of liabilities
2.	<b>Purpose</b>	Prepared to find out the net profit/loss on re-valuation	Prepared for determining net profit/loss on realization of assets and settlement of liabilities.

<b>3. Time</b>	Prepared at the time of Reconstitution of Partnership i.e. admission, retirement, death of a partner or change in profit sharing ratio among existing partners.	Prepared at the time of dissolution of the firm.
<b>4. Contents</b>	Only changes in the value of assets and liabilities are recorded	All real assets and external liabilities are recorded
<b>5. Preparation of Account</b>	Prepared at a number of occasions during the life of a firm.	Prepared only once during the life of a firm.
<b>6. Profit or Loss</b>	The profit/loss on revaluation is transferred to old partners' capital, accounts in their old profit Sharing ratio.	The profit/loss on realization is transferred to all the partners in their profit sharing ratio.

### 1.3 Partner's Loan Account

Loan by a partner to firm is not an outside liability. Therefore, it is not transferred to Realisation Account and is also not transferred to his Capital Account. It is not transferred to his Capital Account because it is paid after settling outside Liabilities but before payment of capital.

- For payment of loans due to partners

*Partner's Loan A/c Dr.*  
*To Bank/Cash A/c*  
*(Being loan of a partner paid)*

The format of Partner's Loan Account is as follows:

<b>Particulars</b>	<b>(Rs.)</b>	<b>Particulars</b>	<b>(Rs.)</b>
<i>To Cash/Bank A/c</i>		<i>By Balance b/d</i>	

### 1.4 Partner's Capital Accounts

Balances of Partners' Capital Accounts and Current Accounts are recorded in this account. The balance of partners' capital A/c is closed in the following manner:

- For making final payment to a partner (if total of credit side is more than the total of debit side)

*Partner's Capital A/c Dr.*

*To Cash/Bank A/c*

*(Being excess paid to partner in cash)*

- For any amount received form a partner against debit balance in his capital account.

*Cash/Bank A/c Dr.*

*To Partner's Capital*

*(Being cash brought in by any partner)*

#### **1.4.1 Treatment of Reserves, Surplus and Fictitious Assets**

- For transfer of accumulated profits in the form of reserve fund or general reserve:

*Reserve Fund/General Reserve A/c Dr.*

*To Partners' Capital A/c*

- For transfer of fictitious assets, if any, to partners' capital accounts in their profit sharing ratio:

*Partners' Capital A/c Dr.*

*To Fictitious Asset A/c*

The format of Partner's Capital Account is as follows:

#### **Partner's Capital A/c**

<b>Particulars</b>	<b>(Rs.)</b>	<b>Particulars</b>	<b>(Rs.)</b>
To Balance A/c		By balance bid	
(Dr. Balance)		(Cr. Balance)	
		By General Reserve A/c	
To Profit and Loss A/c			
		By Profit and Loss A/c	
To Advertisement Suspense A/c			

	By workmen's
To Realisation A/c	Compensation Fund
(Assets taken)	

	By Realisation A/c
To Realisation A/c	(Liabilities taken)
(Loss on Realisation)	

	By Realisation A/c
To Cash/Bank A/c	(Profit on Realisation)
(Excess cash paid)	

By Cash/Bank A/c Cash brought in

### 1.5 Preparation of Cash or Bank Account

This account is prepared at the end closed last of all. This account helps to verification of the arithmetically accuracy of accounts as both sides of this account must be equal. The format of Cash A/c is given below:

#### Cash/Bank A/c

Particulars	(Rs.)	Particulars	(Rs.)
To Balance c/d		By balance b/d	
(Cash in Hand or Cash at Bank)		(Bank overdraft)	
To Realisation A/c		By Realisation A/c	
(Assets Realisation)		(Liabilities Paid)	
To Partner' Capital A/c		By Realisation A/c	

(Cash brought in by partner)

(Realisation Expenses Paid)

By Partner's Loan A/c

(Partner's Loan Paid)

By Partner's Capital A/c

(Excess cash paid to partner)

### Illustration 1

Ramesh and Umesh were partners in a firm sharing profits in the ratio of their capitals. On 31st March, 2020, their Balance Sheet was as follows:

Liabilities	Amount (₹)	Assets	Amount (₹)
Creditors	1,70,000	Bank	1,10,000
Workmen Compensation	2,10,000	Debtors	2,40,000
Reserve			
General Reserve	2,00,000	Stock	1,30,000
Ramesh's Current Account	80,000	Furniture	2,00,000
Capital A/Cs		Machinery	9,30,000
Ramesh	7,00,000	Umesh's Current A/c	50,000
Umesh	3,00,000		
	<b>16,60,000</b>		<b>16,60,000</b>

On the above date the firm was dissolved.

- Ramesh took over 50% of stock at ₹10,000 less than the book value. The remaining stock was sold at a loss of ₹15,000. Debtors were realised at a discount of 5%.
- Furniture was taken over by Umesh for ₹50,000 and machinery was sold for ₹4, 50,000.
- Creditors were paid in full.
- There was an unrecorded bill for repairs for ₹1, 60,000 which was settled at ₹1,40,000.

Prepare Realisation Account.

**Solution:**

**Realisation Account**

<b>Dr.</b>			<b>Cr.</b>	
<b>Particulars</b>	₹		<b>Particulars</b>	₹
<i>To Sundry Assets A/C</i>			<i>By Creditors A/c</i>	
Debtors	2,40,000			1,70,000
			By Ramesh's Current A/c	55,000
			(stock)	
Stock	1,30,000			
Furniture	2,00,000		<i>By Cash A/c (Assets)</i>	
Machinery	9,30,000	15,00,000	Stock	50,000
			Machinery	4,50,000
			Debtors	2,28,000
				7,28,000
<i>To Cash A/c (Liabilities)</i>			By Umesh's Current A/c	50,000
			(Furniture)	
Creditors	1,70,000			
Outstanding Bill	1,40,000	3,10,000	<i>By Realisation Loss:</i>	
			Ramesh's current A/c	5,64,900
			Umesh's Current A/c	2,42,100
				8,07,000
		<b>18,10,000</b>		<b>18,10,000</b>

**Illustration 2:**

Balance Sheet of a firm as at 31st March, 2018, when it was decided to dissolve the same was:

<b>Liabilities</b>	₹	<b>Assets</b>	₹
Sundry Creditors	14,000	Cash at Bank	640
Reserve for Contingencies	500	Stock	4,740
<i>Capital A/cs:</i>		Debtors	5,540
X	4,000	Machinery	10,580
Y	3,000		
	7,000		
	<b>21,500</b>		<b>21,500</b>



₹19,500 were realised from all assets except Cash at Bank. The cost of winding up came to ₹440. X and Y shared profits in the ratio of 2:1 respectively.

Prepare Realisation Account and Capital Accounts of Partners.

**Solution:**

**Realisation Account**

Dr.		₹	Cr.		₹
Particulars			Particulars		
To Machinery A/c		10,580	By Sundry Creditors A/c		14,000
To Stock A/c		4,740	By Bank A/c (Assets Realised)		19,500
To Debtors A/c		5,540	By Loss transferred to:		
To Bank A/c			X's Capital A/c	1,200	
Creditors	14,000		Y's Capital A/c	600	1,800
Expenses	440	14,440			
		<b>35,300</b>			<b>35,300</b>

**Partners' Capital Account**

Dr.			Cr.		
Particulars	X	Y	Particulars	X	Y
To Realisation A/c (Loss)	1,200	600	By Balance b/d	4,000	3,000
To Bank A/c	3,133	2,567	By Reserve for contingencies A/c	333	167
	<b>4,333</b>	<b>3,167</b>		<b>4,333</b>	<b>3,167</b>

**Bank Account**

Dr.		₹	Cr.		₹
Particulars			Particulars		
To Balance b/d		640	By Realisation A/c		14,440
To Realisation A/c		19,500	By X's Capital A/c		3,133
			By Y's Capital A/c		2,567
		<b>20,140</b>			<b>20,140</b>

**Illustration 3:**

A and B are partners in a firm sharing profits and losses in the ratio of 3:2. On 31st March, 2018, their Balance Sheet was as follows:

Liabilities		(₹)	Assets	(₹)
Creditors		38,000	Cash at Bank	11,500
Mrs A's Loan		10,000	Stock	6,000
B's Loan		15,000	Debtors	19,000
Reserve		5,000	Furniture	4,000
A's Capital	10,000		Plant	28,000
B's Capital	8,000	18,000	Investments	10,000
			Profit and Loss A/c	7,500
		<b>86,000</b>		<b>86,000</b>

The firm was dissolved on 31st March, 2018 and both the partners agreed to the following:

- A took Investments at an agreed value of ₹8,000. He also agreed to settle Mrs. A's Loan.
- Other assets realised as: Stock ₹5,000; Debtors ₹18,500; Furniture ₹4,500; Plant ₹25,000.
- Expenses of realisation came to ₹1,600.
- Creditors agreed to accept ₹37,000 in full settlement of their claims.

Prepare Realisation Account, Partners' Capital Accounts and Bank Account.

**Solution:****Realisation Account**

Dr.		Cr.	
Particulars	₹	Particulars	₹
To Stock A/c	6,000	By Creditors A/c	38,000
To Debtors A/c	19,000	By Mrs A's Loan A/c	10,000
To Furniture A/c	4,000	By A's Capital A/c	8,000
To Plant A/c	28,000	<i>By Bank A/c:</i>	
To Investment A/c	10,000	Stock	5,000

To A's Capital A/c (Mrs A's Loan)	10,000	Debtors	18,500	53,000
To Bank A/c:		Furniture	4,500	
Creditors	37,000	Plant	25,000	
Expenses	1,600	<b>By Loss transferred to:</b>		
		A's Capital A/c	3,960	
		B's Capital A/c	2,640	
	<b>1,15,600</b>			<b>1,15,600</b>

**Partners' Capital Account**

Dr.			Cr.		
Particulars	A	B	Particulars	A	B
To Realisation A/c (Loss)	3,960	2,640	By Balance b/d	10,000	8,000
To Realisation A/c	8,000		By Reserve A/c	3,000	2,000
To Profit and Loss A/c	4,500	3,000	By Realisation A/c	10,000	
To Bank A/c	6,540	4,360			
	<b>23,000</b>	<b>10,000</b>		<b>23,000</b>	<b>10,000</b>

**Loan Account**

Dr.		Cr.	
Particulars	₹	Particulars	₹
To Bank A/c	15,000	By Balance b/d	15,000
	<b>15,000</b>		<b>15,500</b>

**Bank Account**

Dr		Cr	
Particulars	₹	Particulars	₹
To Balance b/d	11,500	By Realisation A/c	38,600
To Realisation A/c	53,000	By A's Capital A/c	6,540
		By B's Capital A/c	4,360
		By B's Loan A/c	15,000
	<b>64,500</b>		<b>64,500</b>

**Illustration 4:**

Shilpa, Meena and Nanda decided to dissolve their partnership on 31st March, 2019. Their profit-sharing ratio was 3:2:1 and their Balance Sheet was as under:

Liabilities		(₹)	Assets		(₹)
Capital A/cs:			Land		81,000
Shilpa	80,000		Stock		56,760
Meena	40,000	1,20,000	Debtors		18,600
Bank Loan		20,000	Nanda's		23,000
			Capital		
Creditors		37,000	Cash		10,840
Provision for Doubtful Debts		1,200			
General Reserve		12,000			
		<b>1,90,200</b>			<b>1,90,200</b>

It is agreed:

The stock of value ₹41,660 is taken over by Shilpa for ₹35,000 and she agreed to discharge bank loan. The remaining stock was sold at ₹14,000 and debtors amounting to ₹10,000 realised ₹8,000. Land is sold for ₹1, 10,000. The remaining debtors realised 50% at their book value. Cost of realisation amounted to ₹1,200. There was a typewriter not recorded in the books worth of ₹6,000, which were taken over by one of the Creditors at this value.

Prepare Realisation Account, Partners' Capital Accounts, and Cash Account to close the books of the firm.

**Solution:****Realisation Account**

Dr.		Cr.	
Particulars	₹	Particulars	₹
Land	81,000	Bank Loan	20,000
Stock	56,760	Creditors	37,000
Debtors	18,600	Provision for doubtful debts	1,200
Shilpa's Capital A/c	20,000	Shilpa's Capital A/c (Stock)	35,000
Cash:		Cash:	

Creditors	31,000		Stock	14,000	
Realisation Expenses	1,200	32,200	Debtors	12,300	
Realisation Profit			Land	1,10,000	1,36,300
Shilpa's Capital A/c	10,470				
Meena's Capital A/c	6,980				
Nanda's Capital A/c	3,490	20,940			
		<b>2,29,500</b>			<b>2,29,500</b>

**Partners' Capital Account**

Dr.				Cr.			
Particulars	Shilpa	Meena	Nanda	Particulars	Shilpa	Meena	Nanda
Balance b/d	-	-	23,000	Balance b/d	80,000	40,000	-
Realisation (Stock)	35,000			General Reserve	6,000	4,000	2,000
Cash	81,470	50,980		Realisation (Bank Loan)	20,000		
				Realisation (Profit)	10,470	6,980	3,490
				Cash			17,150
	<b>1,16,470</b>	<b>50,980</b>	<b>23,000</b>		<b>1,16,470</b>	<b>50,980</b>	<b>23,000</b>

**Cash Account**

Dr.		Cr.	
Particulars	₹	Particulars	₹
To Balance b/d	10,840	Realisation (Expenses)	32,200
Realisation (Assets)	1,36,300	Shilpa's Capital A/c	81,470
Nanda's Capital A/c	17,510	Meena's Capital A/c	50,980
	<b>1,64,650</b>		<b>1,64,650</b>

## Summary

Realisation account is prepared on the dissolution of a firm. The objective of preparing this account is to close the books of accounts of dissolved firm and to determine profit or loss on the realisation of the assets and payments of liabilities.

All assets (other than cash in hand; bank balance and fictitious assets, if any), and all external liabilities are transferred to this account. It also records the sale of assets, and payment of liabilities and realisation expenses. The balance in this account is termed as profit or loss on realisation which is transferred to partners' capital accounts in their profit sharing ratio.

The format is as follows:

<b>Realisation Account</b>			
<b>Dr.</b>		<b>Cr.</b>	
<b>Particulars</b>	<b>Amount</b>	<b>Particulars</b>	<b>Amount</b>
	<b>(₹)</b>		<b>(₹)</b>
Land and Building	Xxx	Sundry creditors	Xxx
Plant and Machinery	Xxx	Bills payables	Xxx
Furniture and Fittings	Xxx	Bank overdraft	Xxx
Bills receivables	Xxx	Outstanding expenses	Xxx
Sundry debtors	Xxx	Provision for doubtful debts	Xxx
Cash/Bank	Xxx	Cash/Bank	Xxx
(payment of liabilities)		(sale of assets)	
Cash/Bank	Xxx	Cash/Bank	Xxx
(payment of unrecorded liabilities)		(sale of unrecorded assets)	
Partner's capital account	Xxx	Partner's capital account (assets taken by a partner)	Xxx
(liability assumed by a partner)			
Profit #	Xxx	Loss #	Xxx
(transferred to partners' capital account's in their profit sharing ratio)		(transferred to partners' capital accounts)	
	Xxx		Xxx

Thus, it is prepared by:

- Transferring of all assets to the debit side of the account

- 
- Transferring all the liabilities to the credit side of the account
  - Amount realised on sale of assets is credited to the account
  - Liabilities paid are debited to the account
  - Expenses incurred by the firm on dissolution are debited.

**Exceptions of Realisation Account:**

- Fictitious assets being losses are debited to capital accounts of partners in the profit sharing ratio.
- Loan to a partner is retained in a separate account and is taken back from him.
- Partner's loan account and Partner's Capital Account are separate accounts.