

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 3
Module Id	leac_10503
Pre-requisites	Basic knowledge of Realisation Account in Dissolution
Objectives	After going through this lesson, the learners will be able to understand the following: <ul style="list-style-type: none">• Understand accounting entries• Understand treatment of Goodwill• Solve Complete Questions
Keywords	Realisation Account, Goodwill, Journal Entries

2. Development Team

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Table of Contents:

1. Accounting Entries for Realisation Account
2. Treatment of Goodwill
3. Illustrations

1.1. Introduction

Realisation Account is prepared to ascertain the net effect (profit or loss) of realisation of assets and payment of liabilities which may be transferred to partner's capital accounts in their profit sharing ratio. 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.

It is prepared by:

1. Transferring of all assets to the debit side of the account
2. Transferring all the liabilities to the credit side of the account
3. Amount realised on sale of assets is credited to the account
4. Liabilities paid are debited to the account
5. Expenses incurred by the firm on dissolution are debited.

Exceptions of Realisation Account:

1. Fictitious assets being losses 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 Partner's Capital Account are separate accounts.

1.2 Accounting Entries for Realisation Account

- For Transfer of Assets

Date	Particulars	LF	Dr. Amt. in ₹	Cr. Amt. in ₹
	Realisation Account Dr. To Sundry Assets A/c(<i>Individually</i>) (<i>Being balances of assets transferred to Realisation Account.</i>)			

- ❖ All asset accounts excluding cash, bank and the fictitious assets, are transferred to the debit of Realisation Account at their book values.

❖ Sundry debtors are transferred at gross value and the provision for doubtful debts is transferred to the credit side of Realisation Account along with liabilities.

❖ Provision for depreciation account is also transferred to the credit side of Realisation Account along with liabilities.

• **For Transfer of Liabilities**

Date	Particulars	LF	Dr. in ₹	Cr.in ₹
	Sundry Liabilities A/c (<i>Individually</i>) Dr. To Realisation Account (<i>Being balances liabilities f l transferred to Realisation Account.</i>)			

❖ All external liability accounts including provisions, are closed by transferring them to the credit of Realisation account.

• **For Sale of Assets (Including Unrecorded Assets)**

Date	Particulars	LF	Dr. Amt. in ₹	Cr. Amt. in ₹
	Bank A/c Dr. To Realisation Account (<i>Being assets realised.</i>)			

• **For an asset taken over by a partner (Including Unrecorded Assets)**

Date	Particulars	LF	Dr. Amt. in ₹	Cr. Amt. in ₹
	Partner's Capital A/c Dr. To Realisation Account (<i>Being assets taken over by a partner.</i>)			

• **For payment of liabilities (Including Unrecorded Liabilities)**

Date	Particulars	LF	Dr. Amt. in ₹	Cr. Amt. in ₹
	Realisation Account Dr. To Bank Account (<i>Being liabilities paid off.</i>)			

- **Liability discharged by a partner (Including Unrecorded Liabilities)**

Date	Particulars	LF	Dr. Amt. in ₹	Cr. Amt. in ₹
	Realisation Account Dr. To Partners Capital Account <i>(Being liabilities assumed by a partner.)</i>			

- **For payment of realisation expenses**

- ❖ When some expenses are incurred and paid by the firm in the process of realisation of assets and payment of liabilities

Date	Particulars	LF	Dr. Amt. in ₹	Cr. Amt. in ₹
	Realisation Account Dr. To Bank Account <i>(Being realization expenses borne and paid by the firm.)</i>			

- ❖ When realisation expenses are paid by a partner on behalf of the firm:

Date	Particulars	LF	Dr. Amt. in ₹	Cr. Amt. in ₹
	Realisation Account Dr. To Partner's Capital Account <i>(Being realization expenses borne by firm and paid by a partner.)</i>			

- ❖ When a partner has agreed to undertake the dissolution work for an agreed remuneration bear the realisation expenses:

Date	Particulars	LF	Dr. Amt. in ₹	Cr. Amt. in ₹
	Realisation Account Dr. To Partner's Capital Account <i>(Being remuneration payable to a partner for carrying out dissolution of process.)</i>			

- **For transfer of profit and loss on realisation**

❖ In case of profit on realisation

Date	Particulars	LF	Dr. Amt. in ₹	Cr. Amt. in ₹
	Realisation Account Dr. To Partners' Capital Account <i>(Being profit on dissolution credited to partners capital accounts.)</i>			

❖ In case of loss on realisation

Date	Particulars	LF	Dr. Amt. in ₹	Cr. Amt. in ₹
	Partners' Capital A/c Dr. To Realisation Account <i>(Being loss on dissolution debited to partners capital accounts.)</i>			

1.3 Treatment of Goodwill

Goodwill appearing in the Balance Sheet means it is Purchased Goodwill. It is treated like any other asset and is transferred to Realisation Account. If any amount is realised for goodwill, Bank/Cash Account is debited, and the Realisation Account is credited. If goodwill is taken by one of the partners, the concerned partner's Capital Account is debited, and the Realisation Account is credited.

The entries are –

	Particulars	If Goodwill appears in Balance Sheet	If Goodwill does not appear in the Balance Sheet
1.	On transfer to Realisation A/c	Realisation A/c Dr. To Goodwill A/c	No entry.
2.	If it is realised in cash	Bank/Cash A/c Dr. To Realisation A/c	Bank/Cash A/c Dr. To Realisation A/c

3.	If one of the partners agrees to pay for goodwill	Concerned Partner's Dr. Capital A/c To Realisation A/c	Concerned Partner's Dr. Capital Account To Realisation A/c
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Illustration 1

What journal entries would you pass in the following cases?

- Expenses of realisation ₹ 1,500.
- Expenses of realisation ₹ 600 but paid by Mohan, a partner.
- Mohan, one of the partners of the firm was asked to look into the dissolution of the firm for which he was allowed a commission of ₹ 2,000.
- Motor car of book value ₹ 50,000 taken over by creditors of the book value of ₹ 40,000 in full settlement.

Solution:

S.No.	Particulars	Debit₹	Credit₹
(a)	Realisation A/c Dr. To Cash A/c	1,500	1,500
(b)	Realisation A/c Dr. To Mohan's Capital A/c <i>(Being realization expenses paid by Mohan)</i>	600	600
(c)	Realisation A/c Dr. To Mohan Capital A/c <i>(Being commission allowed to Mohan on dissolution of the firm)</i>	2,000	2,000
(d)	No Entry <i>(No journal entry to be passed as motor car and creditors have already been transferred to Realization A/c)</i>		

Illustration 2

Pass journal entries for the following:

- a) Realisation expenses of ₹15,000 were to be met by Rahul, a partner but were paid by the firm.
- b) Ramesh, a partner was paid remuneration of ₹25,000 and he was to meet all expenses.
- c) Anuj, a partner, was paid remuneration of ₹20,000 and he was to meet all expenses.
Firm paid an expense of ₹5,000.

Solution:

S No.	Particulars	L.F.	Debit (₹)	Credit (₹)
a.	Rahul Capital A/c To Cash A/c <i>(Being realisation expense paid by Rahul)</i>	Dr.	15,000	15,000
b.	Realisation A/c To Ramesh Capital A/c <i>(Being remuneration allowed to Ramesh on account of taking responsibility of dissolution)</i>	Dr.	25,000	25,000
c.	Realisation A/c To Anuj's Capital A/c <i>(Being remuneration allowed to Anuj Capital A/c)</i>	Dr.	20,000	20,000
	Anuj's Capital A/c To Bank A/c <i>(Being realisation expenses paid by the firm on behalf of Anuj)</i>	Dr.	5,000	5,000

Illustration 3

Pass journal entries in the following cases:

- a. Creditors worth ₹85,000 accepted ₹40,000 as cash and Investment worth ₹43,000, in full settlement of their claim.
- b. Creditors were ₹16,000. They accepted Machinery valued at ₹18,000 in settlement of their claim.

- c. Creditors were ₹90,000. They accepted Building valued at ₹1,20,000 and paid cash to the firm ₹ 30,000.

Solution:

S No.	Particulars	L.F.	Debit (₹)	Credit (₹)
a.	Realisation A/c Dr. To Cash A/c <i>(Creditors worth ₹85,000 accepted ₹40,000 as cash and investment worth ₹43,000 in full settlement)</i>		40,000	40,000
b.	No Entry <i>(Creditors worth ₹16,000 accepted Machinery worth ₹18,000 in full settlement. No entry as both asset and liability are already transferred to Realisation Account)</i>			
c.	Cash A/c Dr. To Realisation A/c <i>(Creditors worth ₹90,000 accepted Building worth ₹1,20,000 and paid back ₹30,000 as cash after settlement of the claim to the firm)</i>		30,000	30,000

Illustration 4:

Pass Journal entries for the following transactions on the dissolution of the firm of T and P after various assets (other than cash) and outside liabilities have been transferred to Realisation Account:

- i) Bank Loan ₹34,000 was paid
- ii) Furniture worth ₹70,000 was taken by partner T at ₹43,000
- iii) Partner P agreed to pay a creditor ₹7,500
- iv) A computer previously written off fully, realised ₹3,900
- v) Expenses of realisation ₹32,00 were paid by partner T
- vi) Profit on realisation ₹4800 was distributed between T and P in 5:3 ratio

Solution:

S No.	Particulars	L.F.	Debit (₹)	Credit (₹)
i.	Realisation A/c Dr. To Bank A/c <i>(Being the repayment of bank loan)</i>		34,000	34,000
ii.	T's Capital A/c Dr. To Realisation A/c <i>(Being the furniture taken by T)</i>		43,000	43,000
iii.	Realisation A/c Dr. To P's Capital A/c <i>(Being liability of a creditor taken by P)</i>		7,500	7,500
iv.	Bank A/c Dr. To Realisation A/c <i>(Being the computer realised previously written off fully)</i>		3,900	3,900
v.	Realisation A/c Dr. To T's Capital A/c <i>(Being the dissolution expenses paid by T credited to his Capital Account)</i>		3,200	3,200
vi.	Realisation A/c Dr. To T's Capital A/c To P's Capital A/c <i>(Being the gain (profit) on realisation transferred. to the Capital Accounts of Partners)</i>		4,800	3,000 1,800

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. Partner's Loan Account and Partner's Capital Accounts both are also created with the Realisation Account.

Goodwill appearing in the Balance Sheet means it is Purchased Goodwill. It is treated like any other asset and is transferred to Realisation Account. If any amount is realised for goodwill, Bank/Cash Account is debited, and the Realisation Account is credited. If goodwill is taken by one of the partners, the concerned partner's Capital Account is debited, and the Realisation Account is credited.

Special Items in Case of Dissolution are summarized as:

1. Treatment of Goodwill: Goodwill does not have any special treatment in dissolution. If it appears in the books it must be transferred into Realisation Account. If goodwill does not appear in the books just ignored it.

2. Realisation Expenses: Expenses of realisation such as commission paid to brokers for the disposal of assets, registration documentation charges for the assets sold etc. are debited to Realisation Account and credited to Cash Account. However, if any partner agrees to bear the expense then treat as drawing of partner.

3. Wife's Loan: Loans from a partners' wife is to be treated as normal creditor. The basic aim of providing a loan in the name of partner's wife is to by-pass the legal restrictions on the Loan from a Partner to the firm.

4. Provident Fund: Provident fund should be understood as a liability payable to the employees. It should be paid off.

5. Specific Funds: Specific funds like Investment Fluctuation Funds, Provision for doubtful debts and accumulated depreciation etc. must be credited to Realisation Account along with the transfer of assets.

6. Profits Kept Aside: General Reserve; credit balance in P& L Account etc should be directly transferred into the Capital Accounts of Partners, in the profit sharing ratio.

7. Unrecorded Assets: Unrecorded assets are those assets which are completely written off may fetch some cash at the time of dissolution. There is no need of bringing them into books and selling them afterwards. Thus, realisation from these assets can be directly credited to realisation account and by debiting cash account.

8. Transfer of Assets to Creditors: When creditors purchase some assets against amount due to them. Debit the Creditors account by passing a journal entry and credit the assets account.

If the value of asset taken over is more than the amount due, the creditors will pay the excess amount to the firm.

In the end Profit or loss on realization will be transferred to the Capital Accounts of partners in their profit sharing ratio. Only Cash Account and Capital Accounts will be left. The final balances of each other will match exactly. Cash will be paid off to capital accounts to close both the accounts.