



Q2. What is a Realization Account?

Solution:

Dissolution of a partnership firm leads to discontinuation of business activities wherein all the books of accounts are to be closed. All the assets of business are sold off and all liabilities are paid off. To record the sale of assets and discharge of liabilities, a nominal account named realisation account is opened. The main purpose of this account is to ascertain the profit or loss due to the realisation of assets and liabilities. Realisation profit (i.e. credit side exceeding debit side) or realisation loss (i.e. debit side falling short of credit side) would be transferred to the partner's capital account in the profit-sharing ratio.

Important objectives of preparing a realisation account:

1. Closure of all the books of accounts
2. To record transactions relating to the sale of assets and discharge of liabilities
3. To determine profit or loss due to the realisation of assets and liabilities

Accounting treatment of items related to a realisation account

1) For transfer of assets

Dr.

Realisation A/c

To Sundry Assets A/c (Individually)

(Being all assets transferred to realisation account, except cash or bank, PandL debit balance and loan to a partner)

2) For transfer of liabilities

Dr.

Sundry Liabilities A/c (Individually)

To Realisation A/c

(Being all liabilities transferred to realisation account, except partner's capital, PandL credit balance, loan from a partner)

3) For sale of assets

Dr.

Bank A/c (Amount received)

To Realisation A/c

(Being assets sold for cash)

4) For payment of liabilities

Dr.

Realisation A/c

To Bank A/c

(Being expenses paid)

5) For payment of realisation expenses

Dr.

Realisation A/c

To Bank A/c

(Being expenses paid)

6) For transfer of profit on realisation

Dr.

Realisation A/c

To Partner's Capital A/c

(Being profit on realisation transferred to partner's capital account)

7) For transfer of loss realisation

Dr.

Partner's Capital A/c

To Realisation A/c

(Being loss transferred to partner's capital account)

Specimen Realisation Account

Dr.		Cr.	
Particulars	Amount ₹	Particulars	Amount ₹
To Sundry Assets A/c (Excluding cash/bank, fictitious assets, debit balance of PandL A/c and loan to partner)	-	By Various Liabilities A/c (Excluding partner's capital account, reserves, PandL A/c, current A/c, loan to partner)	-
To Reserve for Discount on Creditors A/c	-	By Provision on Assets (like provision for doubtful debts, provision for depreciation)	-
To Cash/Bank A/c (Payment to outside and unrecorded liabilities)	-	By Cash/Bank (Amount received from realisation of assets and unrecorded assets)	-
To Partner's Capital A/c (If any liabilities taken on expenses paid by him or remuneration payment to him)	-	By Partner's Capital A/c (If any assets taken over by any partner)	-
To Profit Transferred to Partner's Capital A/c	-	By Loss Transferred to Partner's Capital A/c	-
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