

DEATH OF A PARTNER

1. A, B and C were partners in a firm. C died on 28th Feb 2014. His share of profit from the closure of the last accounting year till the date of death was to be calculated on the basis of the average profit of three complete years before death, profit for 2011, 2012 and 2013 were Rs. 1400 and Rs. 1600 and Rs. 1800 respectively.

Calculate C's share of profit till his death.

Ans:- Average profit = $\frac{14,000 + 16,000 + 18,000}{3}$

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$$= \frac{48,000}{3} = 16,000$$

Estimated profit till the date of death = $16,000 \times \frac{2}{12} = 2,666.66$

C's share of estimated profit = $2,666.66 \times \frac{1}{3} = 888.8$

2. If profit till the date of death are to be ascertained A, B and sharing profit in the ratio of 2:2:1

B died on 31st March 2014, Accounting is closing on December sales for the year 2013 amounted to Rs. 9,00,000, sales of Rs. 3,00,000 amounted between the period from 1 Jan 2014 to 31 March 2014. The profit for the year 2013 amounted to Rs. 90,000.

Calculate deceased partner's share in the Profit of the firm.

Solution:- % of profit to sale for the year 2013 = $\frac{90,000}{9,00,000} \times 100 = 10\%$

Profit up to death 10% of 3,00,000 i.e. 30,000

B's share $30,000 \times \frac{2}{5} = 12,000$

Or

$$\frac{30,000}{3,00,000} \times 3,00,000 = 30,000$$

3. A, B and C are partners sharing profit and losses in the ratio 2:2:1. C died on 31st March 2014 profit and sales for the calendar year 2013 were Rs. 3,00,000 and Rs. 30,00,000 respectively. Sales during Jan to March 2014 were 4,50,000. Calculate share and profit of C up to date of death.
Hint:- C's share 9,000.

4. D P and G were partner in a firm sharing profit and losses in the ratio of 5:3:2 . P died on 31May 2013 his share of profit from the closure of the last accounting year to the date of death , was to be calculated on the basis of the average of three completed years of profit, before death, profit for the years ended 31stdec 2010,2011,2012 were Rs. 51,000 Rs. 45,000 and 39,000 respectively.
Calculate P's share of profit.
Hint:- Rs. 5,625
5. A, B and c are partners in a firm sharing profits and losses in the ratio of 3:2:1. B died on January 2016. C, the son of B, is of the opinion that he is rightful owner of his father's share of profits, and the profits of the firm be shared between A and c equally. A does not agree. Settle the dispute between A and c and decide the profit sharing ratio for them.

SOLUTION:

The share of B will be shared between A and C in their mutual ratio

$$A = \frac{3}{6} + \left(\frac{3}{4} \times \frac{2}{6} \right)$$

$$C = \frac{1}{6} + \left(\frac{1}{4} \times \frac{2}{6} \right)$$

NPSR 3:1

6. A, B and C are partners in a firm sharing profits and losses in the ratio of their capitals which were Rs. 400000, Rs. 300000 and Rs. 200000 respectively. On 1-4-2015 B died. On that date there was a balance of Rs. 270000 in their General Reserve and a debit balance of Rs. 90000 in their P/L Appropriation Account.
Pass necessary journal entries on B's death

SOLUTION:

A	Dr	40000	
B	Dr	30000	
C	Dr	20000	
	To P/L A/c		90000

General Reserve	Dr.	270000	
To A			120000
To B			90000
To C			20000

(3 - 4 Marks)

7. P, R and S are in partnership sharing profit 4:3:1, respectively. It provided in the partnership deed that on the death of any partner his share of goodwill is to be valued at (one third) of the net profit credit to the account during the last four completed years. R died on 1st Jan 2014. The firm profit for the four years were as:-
 2010 Rs. 2,40,000 2011 Rs. 1,60,000 2012 Rs. 80,000 2013 Rs. 1,20,000.
 (a) Determine the amount that should be Credited to R in respect of his share of goodwill
 (b) Pass Journal entry without goodwill A/C for its adjustment.

SOLUTION:

$$240000 + 160000 + 80000 + 120000 = 600000$$

$$600000 \times \frac{3}{8} \times \frac{1}{3} = 75000$$

P	Dr	60000	
S	Dr	15000	
To R			75000

8. A, B and C are partners sharing profits and losses in the ratio of 5:4:1. The profit for the year ending 31, March, 2010 was Rs. 1,00,000. B died on 30th June 2010. Calculate C's share of profit till the date of death and pass necessary journal entry.

Profit and Loss suspense a/c – Dr	10,000	
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B's Capital Account		10,000
(Being B's share of profit transferred to his capital account)		

C's share of profit = $1,00,000 \times \frac{4}{10} \times \frac{3}{12} = 10,000$

9. X, Y and Z are partners in a firm sharing profits and losses in the ratio of 5:4:1. The Partnership agreement provides that the share of profit of the deceased partner will be worked out on the basis of sales. The sales for the year 2009-10 was Rs. 8,00,000 and the sales from April 1, 2010 to June 30, 2010 was Rs. 1,50,000. The profit for the year ended 31st March 2010 amounted to Rs. 1,00,000. Y died on 30th June 2010. Calculate his share of profit and pass necessary journal entry.

Profit and Loss suspense a/c – Dr	7500	
Y's Capital Account		7500
(Being Y's share of profit transferred to his capital account)		

Sales for the year 2009-10 Rs. 8,00,000 Profit for the year 2009-10 Rs. 1,00,000

Sales from April 1, 2010 to 30th June 2010 Rs. 1,50,000 Profit upto 30th June 2010 = ?

C's share of profit = $1,00,000 / 8,00,000 \times 1,50,000 = 18750 \times \frac{4}{10} = \text{Rs. } 7500$.

6 – 8 Marks Questions

- 10.. Ram, Mohan and Sohan were partners sharing profits and losses in the ratio of 5:3:2. On 31st March, 2006 their Balance Sheet was as under:

BALANCE SHEET

Liabilities	Amount Rs.	Assets	Amount Rs.
Capitals		Leasehold	1,25,000
Ram	1,50,000	Patents	30,000
Mohan	1,25,000	Machinery	1,50,000
Sohan	75,000	Stock	1,90,000
Workmen's Compensation Reserve	30,000	Cash at Bank	40,000
Creditors	1,55,000		
	5,35,000		5,35,000

Sohan died on 1st August, 2006. It was agreed that :

- (i) Goodwill of the firm is to be valued at Rs. 1,75,000.
- (ii) Machinery be valued at Rs. 1,40,000; Patents at Rs. 40,000; Leasehold at Rs. 1,50,000 on this date.
- (iii) For the purpose of calculating Sohan's share in the profits of 2006-07, the profits should be taken to have accrued on the same scale as in 2005-06, which were Rs. 75,000.

Prepare Sohan's Capital Account and Revaluation Account.

SOLUTION:

Revaluation Account

Particulars	AmtRs.	Particulars	AmtRs.
Machinery	10,000	Leasehold	25,000
Capital Accounts		Patents	10,000
Ram	12,500		
Mohan	7,500		
Sohan	5,000		
	35,000		35,000

Sohan's capital Account

Particulars	Rs.	Particulars	Rs.
		By Balance b/d	75000
To Sohan's Executor's account	1,26,000	By Revaluation a/c	5000
		By Ram's Capital a/c	21875
		By Mohan's capital a/c	13125
		By P & L Suspense A/c	13125
		By Workmen's Compensation a/c	6000
	1,26,000		1,26,000

Working Note :

a) Total Goodwill of the firm = 1,75,000

Sohan's share of goodwill = $1,75,000 \times \frac{2}{10} = 35,000$ (to be divided in the ratio of 5:3 i.e

gaining ratio)

b) Sohan's share of profit = $75,000 \times \frac{4}{12} \times \frac{2}{10} = \text{Rs. } 5,000$

11. Following is the Balance sheet of P , Q and R as on 31st December 2010 sharing profits in the ratio of 5:3:2.

Liabilities	Rs.	Assets	Rs.
Capital Accounts		Cash	13000
P	30000	Debtors	8000
Q	25000	Machinery	30000
R	15000	Stock	10000
Creditors	7000	Patents	6000
Reserve Fund	10000	Building	20000
	87000		87000

P died on 1st July 2011 on the following terms-

- i) Patents are to be valued at Rs. 8000, Machinery at Rs. 28000 and Building at Rs. 30,000.
- ii) Interest on Capital is to be provided at 10% p.a.
- iii) Goodwill of the firm is valued at 2 years purchase of the average profits of the last five years which were-
- | | | |
|-----------------|------------------|-------------------|
| 2006 Rs. 15,000 | 2007 – Rs. 13000 | 2008 – Rs. 12,000 |
| 2009 15,000 and | 2010 -Rs. 20,000 | |
- iv) Profit for the year 2011 has been accrued on the same scale as in 2010.
- v) P's Executor is to be paid Rs. 11,500 and balance transferred to his loan account.

Prepare Revaluation Account, P's Capital account and P's executors account. Also pass necessary journal entries.

SOLUTION:

Revaluation Account

Particulars	Rs.	Particulars	Rs.
Machinery	2000	Patents	2000
Capital Accounts-		Buildings	10000
P	5000		
Q	3000		
R	2000		
	12000		12000

P's Capital Account

Particulars	Rs.	Particulars	Rs.
To P's Executors a/c	61500	By Balance b/d	30000
		By Reserve fund	5000
		By Q's Capital a/c	9000
		By R's Capital a/c	6000
		By Revaluation a/c	5000

		By Interest on capital	1500
	61500		61500

P's Executor's account

Particulars	Rs.	Particulars	Rs.
To Bank/cash a/c	11500	By P's Capital a/c	61500
To P's Executor's Loan a/c	50000		

Working Note :

- a) Interest on Capital : $30,000 \times 10/100 \times 6/12 = \text{Rs. } 1500$
- b) Reserve fund = $10,000 \times 5/10 = \text{Rs. } 5000$
- c) P's Share of profits = $20,000 \times 5/10 \times 6/12 = \text{Rs. } 5000$.(for 6 months)
- d) Total Goodwill of the firm =

$$\text{Average profits} = 75000/5 = \text{Rs. } 15000$$

$$\text{Goodwill} = 15000 \times 2 = 30,000$$

$$\text{P's share of Goodwill} = 30,000 \times 5/10 = 15000 \text{ (to be divided in Gaining ratio 3:2)}$$

Journal

SN	Particulars	LF	AmtRs.	AmtRs.
1	Revaluation a/c ----Dr To Machinery a/c (Being machinery revalued)		2000	2000
2	Patents a/c --Dr Building a/c - Dr To Revaluation a/c (Being Assets revalued)		2000 10000	12000
3	Revaluation a/c --- Dr To P's Capital a/c To Q's Capital a/c		10000	5000 3000

	To R's Capital a/c (Being Revaluation profit distributed)			2000
4	Reserve fund a/c –Dr To P's Capital a/c (Being reserve distributed)		5000	5000
5	Q's Capital a/c ---Dr R's Capital a/c ---Dr To P's capital a/c (Being deceased partner 's account credited by his share of goodwill contributed by the gaining partners)		9000 6000	15000
6	Interest on capital a/c – Dr To P's Capital a/c (Being Interest on capital provided to the deceased partner)		1500	1500
7	P's Capital a/c ---Dr To P's executor's a/c (Being P's balance due transferred to his executor's a/c)		61500	61500
8	P's executor's a/c --Dr To Cash a/c To P's executor's loan a/c (Being amount paid to the executor and balance transferred to his loan account)		61500	11500 50000

12.X, Y and Z are partners sharing profits and losses in the ratio of 2:2:1 respectively. Their Balance Sheet as on 31st march 2007 was as follows—

Balance Sheet as on 31/03/10

Liabilities	Rs.	Assets	Rs.
Sundry Creditors	1,00,000	Cash at bank	20,000
Capital Accounts		Stock	30,000
X	60,000	Sundry Debtors	80,000
Y	1,00,000	Investments	70,000
Z	40,000	Furniture	35,000
General Reserve	50,000	Buildings	1,15,000
	3,50,000		3,50,000

Z died on 30th September 2007 and the following was provided—

- a) “Z” will be entitled to his share of profit upto the date of death based on last year’s profit.
- b) Z’s share of Goodwill will be calculated on the basis of 3 years purchase of average profits of last four years . The profits of the last four years was as follows—

Year I – 80,000, Year II –Rs. 50,000 Year III – Rs. 40,000 and Year IV –Rs. 30,000
- c) Interest on Capital was provided at 12% p.a.
- d) Drawings of the deceased partner upto the date of death was Rs. 10,000.
- e) Rs. 15,400 should be paid immediately to the executor of the deceased partner and the balance in four equal yearly installments with interest at 12% on remaining balance.

Prepare Z’s capital account and Z’s executors account till the account is finally closed.

SOLUTION:

Z’s Capital Account

Particulars	Rs.	Particulars	Rs.
To Drawings	10,000	To Balance b/d	40,000
To Z’s Executor’s a/c	75,400	To General Reserve	10,000
		To Profit & Loss Suspense a/c	3,000
		To Interest on capital	2400
		To X’s Capital a/c	15,000
		To Y’s capital a/c	15,000
	85400		85400

Z's Executor's Account

Date	Particulars	Rs.	Date	Particulars	Rs.
30/09/07	Bank a/c	15400	30/09/07	Z's Capital a/c	75400
31/03/08	Balance c/d	63600	31/03/08	Interest on Loan (on Rs. 60,000@12% for 6 months)	3600
		79000			79000
30/09/08	Bank a/c (15000+ 7200)	22,200	1/04/08	Balance b/d	63600
31/03/09	Balance c/d	47,700	30/09/08	Interest on Loan(On Rs. 60,000 @ 12% for 6 months)	3600
			31/03/09	Interest on Loan(on Rs. 45000 @12% for 6 months)	2700
		69900			69900
30/09/09	Bank a/c (15000+5400)	20,400	1/04/09	Balance b/d	47,700
31/03/10	Balance c/d	31800	30/09/09	Interest on loan(on Rs. 45000 @ 12% for 6 months)	2700
			31/03/10	Interest on loan (on Rs. 30,000@12% for 6 months)	1800
		52200			52200
30/09/10	Bank a/c(15000 + 3600)	18600	1/4/10	Balance b/d	31800
31/03/11	Balance c/d	15900	30/09/10	Interest on loan(on Rs. 30,000 @12% for	

				6 months)	1800
			31/03/11	Interest on Loan(on Rs. 15000 @12% for 6 months)	900
		34500			34500
30/09/11	Bank a/c (15000+1800)	16800	1/04/11	Balance b/d	15900
			30/09/11	Interest on loan(on Rs. 15000 @12% for 6 months)	900
		16800			16800

13.Dev, Swati and Sanskar were partners in a firm sharing profits and losses in the ratio of 2:2:1. On 31-3-2014 their Balance Sheet was as follows:

BALANCE SHEET

Liabilities	Amount	Assets	Amount
Trade Payables	17000	Building	104000
Bank Loan	13000	Inventory	16000
Capitals:		Trade receivables	23000
Dev	77000	Cash	40000
Swati	87000	Profit and loss a/c	57000
Sanskar	46000		
	240000		240000

On 30-6-2014 Dev died. According to the partnership agreement Dev was entitled to:

Interest on capital @12% p.a..

His share of profit till the date of his death was to be calculated on the basis of the average profits of the last four years.

His share of Goodwill to be calculated on the basis of the 3 years purchase of the average profits of the last four years.

The profits of the last four years were as follows:

2010-11	204000
2011-12	180000
2012-13	90000
2013-14 (Loss)	57000

On 1-4-2014 Dev withdrew Rs 15000 to pay for his medical bills.

Prepare Dev's account to be rendered to his executors.

SOLUTION

Dev' S Capital Account

Particulars	Amount	Particulars	Amount
To Drawings	15000	By Bal	77000
To P/L A/c	22800	By P/l Suspense	10425
To Dev's executor	177035	By IOC	2310
		By Swati	83400
		By Sanskar	41700
	214835		214835

14. Anil, Jatin and Ramesh were sharing profit in the ratio of 2:1:1. Their Balance Sheet as at 31.12.2001 stood as follows:-

Liabilities	Rs.	Assets	Rs.
Creditors	24,400	Cash	1,00,000
Bank Loan	10,000	Debtors 20000 Less : Provision <u>1600</u>	18,400
Profit and Loss A/c	18,000	Stock	10,000
Bills Payable	2,000	Building	20,000
Anil's Capital	50,000	Investment	14,000

Jatin's Capital	40,000	Goodwill	22,000
Ramesh's Capital	40,000		
	1,84,400		1,84,400

Ramesh died on 31st March 2002. The following adjustments were agreed upon-

- (a) Building be appreciated by Rs. 2,000
- (b) Investments be valued at 10% less than the book value.
- (c) All debtors (except 20% which are considered as doubtful) were good.
- (d) Stock be increased by 10 %
- (e) Goodwill is valued at 2 years' purchase of the average profit of the past five years.
- (f) Ramesh's share of profit to the death be calculated on the basis of the profit of the preceding year. Profit for the years 1997, 1998, 1999 and 2000 were Rs. 26,000, Rs. 22,000, Rs. 20,000 and Rs. 24,000 respectively.

Prepare revaluation account, partner's capital Account, Ramesh 's Executors' Account and Balance sheet immediately after Ramesh's death assuming that Rs. 18,425 be paid immediately to his executors and balance to be left to the Ramesh's Executor's Account

Revaluation Account

Particulars	Rs.	Particulars	Rs.
To Investment A/c	1,400	By Building A/c	2,000
To Provision for doubtful debt A/c	2,400	By Stock A/c	1,000
		By Loss transferred to	

		By Anil's Capital A/c	400
		By Jatin's Capital A/c	200
		By Ramesh's Capital A/c	200
	3800		3800

Partners Capital Accounts

Particulars	Anil	Jatin	Ramesh	Particulars	Anil	Jatin	Ramesh
To Goodwill A/c	11000	5500	5500	By Balance b/d	5000 0	4000 0	40000
To Ramesh Capital A/c	7333	3667		By Profit and Loss A/c	9000	4500	4500
To Revaluation A/c (Loss)	400	200	200	By Profit & Loss Susp A/c			1125
To Ramesh's Executor's A/c			5092 5	By Anil's Capital A/c			7333
To Balance c/d	40,267	35,133	----	By Jatin's Capital A/c			3667
	59,000	41,500	56,625		59,000	41,500	56,625

Ramesh's Executor's account

Particulars	Rs.	Particulars	Rs.
To Cash Account	18425	By Ramesh's Capital account	50925
To Balance c/d	32500		

	50925		50925
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Balance sheet

Liabilities	Rs.	Assets	Rs.
Bank Loan	10,000	Cash	81,575
Creditors	20,400	Debtors 20000	
		Less Provision 4000	16000
Bills Payable	2,000	Stock	11000
Ramesh's Executor's Loan	32,500	Building	22000
Anil's Capital	40,267	Investments	12600
Jatin's Capital	35,133	Profit & Loss Suspense A/c	1125
	1,44,300		