

## **Chapter 7 DEATH OF A PARTNER**

### **COMMON ERRORS**

1. Committing mistakes in calculation of deceased partner's share of profit.
2. Wrong calculation of days if the death takes place in between a specific month.
3. Payment of amount due to deceased partner through his capital account in place of his executor's account.
4. Ignoring dates while making deceased partner's executor's account.

### **Questions:**

1. Name the account which is opened to credit the share of profit of the deceased partner, till the time of his death to his capital account.
2. At what rate interest is payable on the amount remaining unpaid to the executors of deceased partner.
3. What Journal Entry will be recorded for deceased partner's share of profit from the closure of last Balance Sheet till the date of his death?

### **CALCULATION OF DECEASED PARTNER'S SHARE OF PROFIT & GOODWILL**

4. Nehru, Nigam and Neta shared profits as 3:2:1 respectively. The books of the firm are closed every year on March 31, Unfortunately, Nehru died on May 25, 2018. It is not possible to prepare any final accounts as on the date of death of Nehru. But the executors of Nehru are insisting that the profit should be calculated for the period from April 1, 2018 to May 25, 2018 because Nehru was alive during this period and he worked along with other partners during this period.

Nigam and Neta request you to suggest some methods on the basis of which the profits of the firm could be correctly estimated as on the date of death of Nehru.

5. X, Y and Z were partners. X died on 28<sup>th</sup> Feb, 2018. It was decided that X's share of profit will be based on the average profits of the past three years before his death. Profits for the year 2015, 2016 and 2017 were Rs.1, 42,800, Rs.136, 000 and Rs.88, 400 respectively. The firm close sits books on 31<sup>st</sup> Dec every year. You are required to Calculate X's share of profit till the date of his death.

6. R, S and T were partners in the ratio of 2:5:3. T died on 20<sup>th</sup> Feb, 2018. Sales for the year 2017 were Rs.1, 14,000 and profit for the year 2017 was Rs.19, 000. The sales upto 20<sup>th</sup>Feb, 2018 during current year, amounted to Rs.28, 500. Calculate T's share profit.

7. X, Y and Z are Partners sharing profits in the ratio of 2:2:1. X dies on 1<sup>st</sup> July 2017 whereas books of accounts are closed on March 31<sup>st</sup> every year. Sales for the year 2016 amounts to Rs.8,00,000 and that from April 1 to June 30, 2017 amounts to Rs. 3, 00,000. The Profits for the year 2016 were calculated as Rs.80, 000. Calculate X's share of Profits in the firm for 2017 on the basis of sales.

8. A, B and C are partners sharing in the ratio of 5:3:2 . B dies on June 30, 2018. Profits for three Years 2015-2016: Rs.50,000, 2016-2017Rs.40,000, 2017-2018 Rs.30,000.

**Required:** Find out B's share of profit on the date of death if as per terms of the agreement he was entitled to profit i) On the basis of immediately preceding year's profits to the date of death ii) On the basis of average profit of the preceding three years to the date of death.

9. P, R and S are in Partnership sharing profits in the ratio of 4:3:1 respectively. It is provided in the partnership deed that, on the death of any partner, his share of goodwill is to be valued at half of the profits

credited to his account during the previous four completed years.

R dies on 1<sup>st</sup> Jan, 2018. The profits for the last four years 2014-Rs.1,20,000, 2015-Rs.80,000, 2016-Rs.40,000, 2017-Rs.80,000. Determine the amount that should be credited to R in respect of his share of goodwill.

10. A, B and C are in Partnership sharing profits in the ratio of 4:3:1. A died on 1<sup>st</sup> January, 2016. The firm's profit for previous years were 2011- Rs. 50,000; 2012-Rs. 1,20,000 ; 2013-Rs.60,000 ; 2014 Rs.(20,000) ; 2015- Rs. 80,000. B and C decided to share future profits in the ratio of 3:2. Pass journal entries in each of the following cases:

Case (A): If goodwill is to be valued on the basis of 2 years' purchase of average profits of 4 years preceding the death of a partner.

Case (B) If goodwill is to be valued on the death of any partner on the basis of such partner's share of 2 years profits calculated on the average of 5 years profits immediately preceding the year of death less 10%.

Case (C): If deceased partner's share of goodwill is to be valued at one half of the net profit credited to his account during the last 4 completed years.

11. D, E, F, P and Z were partners sharing profits & losses in the ratio of 5:4:3:2:1 respectively. Unfortunately P & Z met a tragic car accident in which both of them died. The goodwill of the firm was valued at Rs.1,50,000 and D,E&F decided to share future profits & Losses in ratio of 4:6:5 respectively.

Give journal entry to record above transactions.

### **COMPREHENSIVE QUESTIONS: (HOTS)**

12. In the Partnership agreement between X,Y and Z who were sharing profits in the ratio of 5:3:2, the goodwill was to be valued on the death of any partner on the basis of such partner's share of 2years profits calculated on the average of 5 years profits immediately preceding the year of death less 10%. The firm's profits were 2013-Rs.10,000 ; 2014-Rs.30,000 ; 2015-Rs.43,000 and in 2016 and 2017 losses of Rs.6,000 and Rs.4,000 respectively. The deceased partner's share of profits for the period of his life-time in the year of death was to be based on the average of the profits of the previous 3 years plus 10%.

X died on 31<sup>st</sup> May , 2018. His Capital A/c showed a credit Rs.50,000 on 1st Jan, 2018 and he had drawn Rs.4,000 since that date.

Calculate the amount due to his legal representatives.

13. K S and M were Partners sharing profits in the ratio of 3:2:5 respectively .On 31<sup>st</sup> December,2017 their Balance Sheet was as under:

Liabilities	Rs	Asset	Rs
Capitals:		Goodwill	3,00,000
K 3,00,000		Land & building	5,00,000
S 2,00,000		Machinery	1,70,000
M 5,00,000	10,00,000	Stock	30,000
General Reserve	1,00,000	Debtors	1,20,000
Loan from S	50,000	Cash	45,000
Creditors	75,000	Profit & Loss Account	60,000
	12,25,000		12,25,000

On 14<sup>th</sup> March, 2018, S died.

The Partnership deed provided that on the death of a partner the executors of deceased partner are entitled to:

- (i) Balance in Capital Account
- (ii) Share in profits upto the date of death on the basis of last year's profits.
- (iii) His share of profit/loss on revaluation of assets and re-assessment of

liabilities which were as follows:

(a) Land and Building was to be appreciated by Rs. 1,20,000.

(b) Machinery was to be depreciated to Rs.1,35,000 and Stock to Rs. 25,000.

© A provision of 2.5% for bad and doubtful debts was to be created on Debtors.

(iv) The net amount payable to S's Executors was transferred to his loan account which was to be paid later.

Prepare Revaluation Account, Partners' Capital Accounts and S' Executors A/c. K and M decided to continue the business keeping their capital balances in their new profit sharing ratio. Any surplus or deficit to be transferred to current account of the partners.

14. A, B and S are partners sharing profits in the ratio of 3:2:1 and their Balance Sheet on March, 31, 2018 stood as follows:

Liabilities	Rs.	Assets	Rs.
Bills Payable	12,000	Buildings	21,000
Creditors	14,000	Cash in hand	12,000
Contingency Rese	12,000	Bank	13,700
Capitals:		Debtors	12,000
A 20,000		Bills Receivable	4,300
B 12,000		Stock	1,750
S 8,000	40,000	Investments	13,250
	78,000		78,000

B died on June 12, 2018 and according to the deed of the said partnership her executors are entitled to be paid as under:

(i) The capital to her credit at the time of her death and interest thereon @ 10% per annum.

(ii) Her proportionate share of reserve fund

(iii) Her share of profit for the intervening period will be based on the sales during that period, which were calculated as Rs. 1,00,000. The rate of profit during past 3 years had been 10% on sales.

(iv) Goodwill according to her share of profit to be calculated by taking twice the amount of the average profits of the last three years less 20%. The profits of the previous years were:

2016: Rs.8,200

2017: Rs.9,000

2018: Rs. 9,800

The investments were sold at par and her executors were paid out. Pass the necessary Journal Entries and also prepare B's Executors Account.

15. The Balance Sheet of Sudha, Rahim and Kartik who were sharing profits in the ratio of 3:3:4 as at 31st March, 2018 was as follows:

Liabilities	Rs.	Assets	Rs.
Bills Payable	5,000	Cash in hand	16,000
General Reserve	10,000	Stock	44,000
Loan	12,000	Investments	47,000
Capitals:		Land & Building	60,000
Sudha 60,000		Sudha's loan	10,000
Rahim 50,000			
Kartik 40,000	1,50,000		
	1,77,000		1,77,000

Sudha died on June 30<sup>th</sup> 2018. The Partnership deed provided for the following on the death of a partner:

(a) Goodwill of the firm be valued at two years purchase of average profits for the last three years.

(b) Sudha's share of profit or loss till the date of her death was to be calculated on the basis of sales.

Sales for the year ended 31<sup>st</sup> March 2018 amounted to Rs. 4,00,000 and that from 1<sup>st</sup> April to 30<sup>th</sup> June 2018 amounted to Rs. 1,50,000. The profit for the year ended 31<sup>st</sup> March, 2018 was Rs. 1,00,000.

© Interest on capital was to be provided @ 6% p.a.

(d) The average profits of the last 3 years were Rs. 42,000.  
Prepare Sudha's Capital Account to be rendered to her executor.

16. On 31<sup>st</sup> March, 2018 the Balance Sheet of P, Q and R who were Partners in a firm was as under:

Liabilities	Rs/	Assets	Rs.
Sundry Creditors	21,000	Buildings	26,000
Employees' Provident Fund	4,000	Investment	15,000
Employees' Compensation Reserve	8,000	Debtors	15,000
Contingency Reserve	12,000	Bills Receivable	6,000
Capitals:		Stock	12,000
P 15,000		Cash	6,000
Q 10,000	35,000		
R 10,000			
	80,000		80,000

The Partnership deed provides that the profits be shared in the ratio of 2:1:1 and that in the event of death of any partner, his executors will be entitled to be paid out:

- (a) The Capital to his credit at the date of the last Balance Sheet.
- (b) His proportion of Reserve at the date of last Balance Sheet.
- © His proportion of profits to the date of death based on the average profits of the last 3 completed years, plus 10% and
- (d) By way of goodwill, his proportion of the total profits for the 3 preceeding years.

(e) The profits for the last three years ending 31<sup>st</sup> March were as under:

2016 Rs.16,000

2017- Rs. 16,000

2018- Rs.-15,400

R died on 1<sup>st</sup> July, 2018. He had withdrawn Rs. 5,000 to the date of his death. The investments were sold at par and R's Executors were paid off.

Prepare Partners' Capital Accounts, R's Executor's Account and Balance Sheet of the surviving Partners P & Q.

### **FILL IN THE BLANKS QUESTIONS**

Q- 1 A, B and C are Partners sharing profits in the ratio of 2:1:1. They closed their books on 31<sup>st</sup> December each year. A died on 28<sup>th</sup> February, 2017 when their Balance Sheet was as follows:

Liabilities	Rs.	Assets	Rs.
Creditors	3,790	Cash	20,000
General Reserve	3,600	Sundry Debtors	7,500
Profit for two months (before interest & Salaries)	3,110	Loan to A	4,000
Capitals	21,000		
A 10,000			
B 6,000			
C 5,000			
	31,500		31,500

A and B are entitled to salaries at Rs. 300 and Rs. 250 respectively. A's share was paid to his executors. B and C continued the firm. You are required to complete the following Capital accounts of the Partners.

Particulars	A	B	C	Particulars	A	B	C
To A's capital a/c		-----	-----	Balance b/d	10,000	6,000	5,000
-----	-----			-----	1,800	900	900
A's executors a/c	-----			P&L App. A/c	-----	-----	-----
Balance c/d		-----	-----	-----	-----	-----	-----
				Interest on Capital	100	-----	-----
				B's capital a/c	2,800		
				C's capital a/c	-----		

Q-2 R, S and M were Partners sharing profits in the ratio of 2:2:1. S died on 30<sup>th</sup> June 2014 and amount due to his executors was calculated to be Rs. 17,400. It was decided to pay Rs.1,400 to them on 1<sup>st</sup> July, 2015 and the balance in four equal yearly instalments



from 30<sup>th</sup> June, 2015 with interest @ 6% p.a. You are required to fill in the missing figures in S's executors account for first two years.

Date	Particulars	Amount	Date	Particulars	Rs.
2014 July 1 2015 March 31	To Bank	-----	2014 June 30 2015 March 31	----- Interest	----- -----
	To balance c/d	-----			-----
		-----			-----
2015 June 30 2016 March 31	To Bank	-----	2015 April 1 June 30 March 31	By Balance b/d	-----
	To Balance c/d	-----		By Interest	-----
		-----		By Interest	-----
		-----			-----
		-----			-----

### Answers to Questions:

1 P&L Suspense Account

2. 6% p.a.

3. P & L suspense A/c Dr./ To Deceased Partner's capital Account

4 Time basis, Turnover basis

5. Rs. 6,800

6. Rs. 1,425

7. Rs. 12,000

8. (i) 2,250, (ii) Rs.3,000

9. Rs. 60,000

12. Rs. 61,661

13. Revaluation profit Rs. 77,000, S's Executors Account Rs.1,61,000, Capital Balances K & M Rs. 2,45,100 & 4,08,500 respectively.

14. Amount transferred to B's Executors Account Rs.24,373.

15. Amount transferred to Sudha's Executors- Rs. 90,350

16. Amount transferred to R's Executors Account- Rs.22936, Capital Balances of P & Q Rs.17,100 and Rs. 11,050. Total of Balance Sheet- Rs. 60,086.

