DEATH OF A PARTNER

- On the death of a partner, the amount payable to him is to be paid to his legal representatives (family, etc).

- On death of a partner, accounts in a books of the firm are maintained in the same way as on retirement of a partner.

Calculation Profit

On time - basis | On turnover / sales basis

(i) **On time - basis**: In this method, we have to take into consideration the profit of the last year and the time for which he remained a partner during current year.

$$\boxed{\text{Profit share of deceased partner} = \text{Profit of firm till death} \times \text{Profit share of deceased partner}}$$

(ii) **On turnover / sales basis**: In this method, we take profit and the total sales of the last year. Thereafter, the profit of current year is estimated on the basis of sales for last year and sales upto the date of death.

$$\boxed{\text{Profit of deceased partner} = \frac{\text{Profit of last year}}{\text{Sales of last year}} \times \text{Sales till death}}$$

Date

Treatment of Profits

If the profit share remains same	If there is change in profit sharing ratio
P & L suspense A/C Dr. To deceased partners	Continuing partner's capital A/C Dr. To deceased/sacrificing partner {In gaining ratio}

Illustration. 60

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Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
2017 June 12 (i)	A's capital A/C	Dr.		15000	
	C's capital A/C	Dr.		5000	
	To B's capital A/C				20000
	(B's share of g/w adjusted into capital A/c of A&C in 3:1)				
(ii)	Profit and Loss suspense A/C	Dr.		10000	
	To B's capital A/C				10000
	(B's share of profit upto 12 june 17)				

→ $B's\ share\ of\ g/w = 60000 \times \frac{2}{6} = 20000$

$A = 20000 \times \frac{3}{4} = 15000$

$C = 20000 \times \frac{1}{4} = 5000$

(in gaining ratio)

→ $B's\ share\ of\ goodwill = \cancel{150000} \times \frac{\cancel{73}}{\cancel{365}} \times \frac{2}{\cancel{6}}$ ($\cancel{30000}$, 5000; $\cancel{73}$)

$\boxed{= 10,000}$

Page ____ Date ____

Illustration. 61

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Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
2018 June 24	Profit & Loss suspense A/C Dr.		16000	
	To Y's capital A/C			16000
	(Y's share of profit till date of death)			
"	X's capital A/C Dr.		32000	
	Z's capital A/C Dr.		16000	
	To Y's capital A/C			48000
	(Y's share of g/w adjusted to X & Z in gaining ratio 2:1)			
"	Y's capital A/C Dr.		175000	
	To Y's executor's A/C			175000
"	(Y's capital A/C transferred to his executor's A/C)			
July 15	Y's Executor's A/C Dr.		175000	
	To Bank A/C			175000
	(Amount paid to Y's executor's)			

→ Ratio of profit on sales $= \frac{\text{Profit (last year)}}{\text{Sales (last year)}} \times 100$

$= \frac{300000}{1500000} \times 100 = 20\%$

→ Profit upto death $= 200000 \times \frac{20}{100} = 400000$

→ Y's share of profit $= 40000 \times \frac{2}{5}$

$\boxed{= ₹16{,}000}$

Ques- The balance sheet of X, Y and Z as at 31st march 2021 was:

Liabilities	₹	Assets	₹
Bills payable	2000	Cash at bank	5800
Employee's Provident fund	5000	Bills receivable	800
WCR	6000	Stocks	9000
General reserve	6000	Sunday debtors	16000
loans	7100	Furniture	2000
Capitals: X - 22750		Plant & machinery	6500
Y - 15250		Building	30000
Z - 12000	50000	Profit & loss A/c	6000
	76100		76100

The profit sharing ratio was 3:2:1. Z died on 31st july, 2021. The partnership deed provides that:

(a) Goodwill is calculated on the basis of three years purchase of the five year's average profit. The profits for the years ended 31st march were: 2021: ₹24000; 2020: 16000; 2019: 20000; 2018: 10000 & 2017: 5000

(b) The deceased partner to ~~g~~ be given share of profits till the date of death on the basis of profits for the previous year.

(c) The assets have been revalued as stock - 10000, debtors - 15000, furniture 1500 and, plant & machinery 5000, building - 35000. A bill receivable for 600 was found worthless.

(d) A sum of ₹12,233 was paid immediately to Z's executor's & the balance to be paid in two equal installments together with interest @ 10% p.a. on the amount outstanding.

→ Prepare journal entry and show the Z's executors account till it is finally settled

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Ans-

(I) X's capital A/c Dr. 4500
Y's capital A/c Dr. 3000
To Z's capital 7500

(II) WCR Dr. 6000
General reserve Dr. 6000
To X's Capital A/c 6000
To Y's capital A/c 4000
To Z's capital A/c 2000

(III) X's capital Dr. 3000
Y's capital Dr. 2000
Z's Dr. 100-
To Profit and loss A/C 6000

(IV) Revaluation A/C Dr. 3600
To BR 600
To debtors 1000
To furniture 500
To plant & machery 1500

Date

(V) Stock A/C Dr. 1000
Building Dr. 5000
To revaluation 6000

(VI) Revaluation A/C Dr. 2400
To X's capital A/C 1200
To Y's Capital A/C 800
To Z's ~~cap~~ capital A/C 400

(VII) Z's capital A/C Dr. 22233
To Z's executor's 22233

(VIII) Z's executors A/C Dr. 12333
To cash A/C 12333

(IX) P&L suspese A/C Dr. 1333
To Cash A/ 1333

Working Note

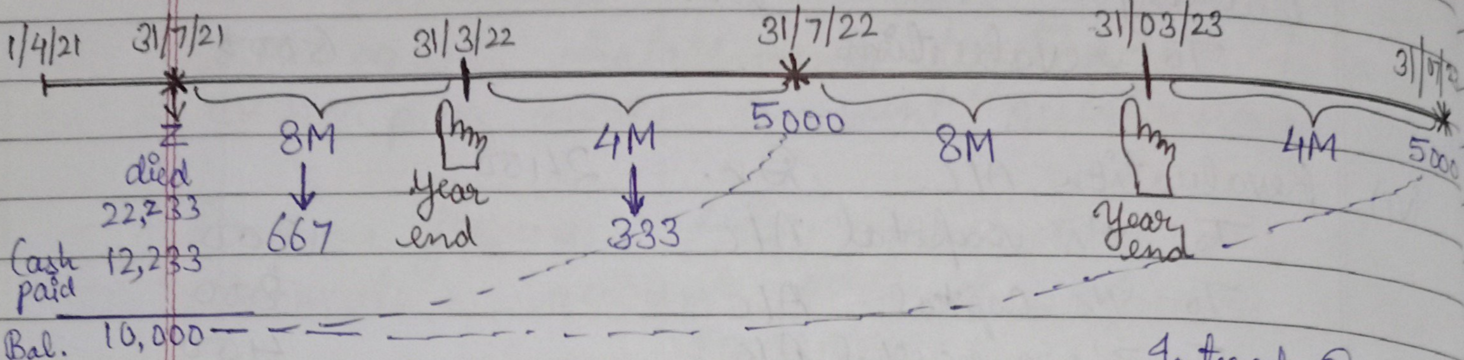
- Z's share of profit $= \left(24000 \times \frac{4}{12}\right) \times \frac{1}{6}$
$= 1333$

- Goodwill $= \frac{24000 + 16000 + 20000 + 10000 + 5000}{5}$
$= 45000$

Z's share $= 45000 \times \frac{1}{6} \Rightarrow 7500$

- Z's capital $\rightarrow$ $12000 + 7500 + 2000 - 1000 + 400 + 1333$
$= 22{,}233$

Date



Interest @10%.p.a
= 1000

Interest @10%.p.a
= 500

Dr. Z's Executors A/C Cr.

Date	Particulars	₹	Date	Particulars	₹
31/7/21	To Bank	12,233	31/7/21	By Z's capital A/c	22,233
31/7/22	To bal. c/d	10,667	31/3/22	By interest (8M)	667
		22,900			22,900
31/7/22	To bank A/C {5000+667+333} (Ist installment)	6,000	1/4/22	By bal. b/d	10,667
			31/7/22	By interest (4M)	333
31/03/23	To bal. c/d	5,333	31/3/23	By interest (8M)	333
		11,333			11,333
	To bank A/C {5000+333+167} (IInd installments)		1/4/23	By bal. b/d	5,333
				By interest (4M)	167
		5500			5500