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**Competency Statement**

- ☐ *The students will be able to:*
  - *Learn how to calculate various ratio.*
  - *Know how to calculate share of profit up to the date of death of a partner*
  - *Learn to the calculation share of goodwill of deceased partner*
  - *Know how to calculate amount due to deceased partner's executor.*
  - *Understand how to settle the account of an executor.*

**5.1 Meaning :**

A partner will cease to be a partner on his death and hence death is considered as compulsory retirement. Partnership business may be continued by surviving partners if partnership firm makes provision in Partnership Deed. Partners make arrangement to settle account of deceased partner with his legal representative who will be entitled, at their choice, to interest at 6% per annum on amount due, from date of death to date of payment.

**5.2 New Profit Sharing Ratio**

On death of partner, profit sharing ratio of remaining partner's changes. Profit Sharing Ratio of remaining partners' increases because profit sharing of deceased partner gets divided and received by remaining partners.

**5.3 Gain Ratio or Benefit Ratio**

Benefit or Gain Ratio is a ratio by which surviving partners are benefited due to death of a partner. The extra share which they are getting is added in their old share. Such extra share which they are getting is called as 'Gain' and the ratio is called as 'Gain Ratio'. This ratio is normally used to write off the goodwill created or raised to the extent of retiring partner share only. It is calculated by using following formula.

Gain ratio = New Ratio - Old Ratio

**5.4 Revaluation of Assets and Liabilities**

The assets and liabilities of the partnership firm are revalued on the death of a partner. The benefit arising out of it are given to representative of deceased partner. Effects of revaluation of

assets and liabilities are shown in Revaluation Account these are same as given in retirement. The Profit or loss on revaluation is transferred to deceased partner's capital account to the extent of his share.

### 5.5 Amount due to deceased Partner's Executor / Nominee / Administrator

Capital : The capital of the deceased partner is calculated on the basis of balance of capital of deceased partner shown in the last balance sheet, share of profit or loss on revaluation, general reserve, accumulated profit or loss, share of goodwill, salary of partner, interest on capital, interest on drawings, profit up to the date of death etc.

### 5.6 Settlement of Amount Due

The amount due to deceased partner is transferred to his Executor / Nominee / Administrator's loan Account and it is paid to them after completing all legal formalities and procedure.

### 5.7 Accounting Treatment

The Accounting Treatment for preparing the account of deceased partner is similar to that of retirement of a partner.

## Illustrations

1. Rekha, Menaka, Mukta were partners in a business sharing profits and losses in the ratio of 2:1:1 respectively. Their Balance sheet as on 31<sup>st</sup> March 2019

**Balance Sheet as on 31-03-2019**

Liabilities	Amt (₹)	Assets	Amt (₹)
Capital Accounts :		Plant & Machinery	60,000
Rekha	60,000	Debtors	50,000
Menaka	70,000	Furniture	30,000
Mukta	34,000	Bank	60,000
Creditors	18,000		
Bills payable	2,000		
General Reserve	16,000		
	2,00,000		2,00,000

Mukta died on 1<sup>st</sup> July 2019

1. Plant & Machinery was to be revalued to ₹ 70,000 and R.D.D. is to be created of ₹ 2,000
2. The drawings of Mukta up to the date of her death amounted to ₹ 10,000
3. Charge interest on drawings ₹ 1,000
4. Her share of goodwill should be calculated at three year purchase of the profits for the last four years which were 1 year ₹ 1,50,000, II year ₹ 1,30,000, III year ₹ 70,000, IV ₹ 50,000
5. The deceased partners share of profit upto the date of death to be calculated on the basis of average profit of last two years. (III & IV year)

**Prepare : Profit and Loss Adjustment Account, Partners Capital Accounts, Balance sheet of the continuing firm, Give working Note of Profit and Goodwill.**

**Solution :**

**In the Books of Partnership firm**  
**Profit and Loss Adjustment Account**

**Dr.****Cr.**

Particulars		Amt (₹)	Particulars	Amt (₹)
To R.D.D.A/c		2,000	By Plant & Machinery A/c	10,000
To Profit (transfer to Partners Capital A/c)				
Rekha	4000			
Menka	2000			
Mukta	2000	8,000		
		10,000		10,000

**Dr.****Partner's Capital Account****Cr.**

Particulars	Rekha (₹)	Menaka (₹)	Mukta (₹)	Particulars	Rekha (₹)	Menaka (₹)	Mukta (₹)
To Drawing			10,000	By Balance b/d	60,000	70,000	34,000
To Interest on Drawing			1,000	By General Reserve	8,000	4,000	4,000
To Mukta's Executors Loan A/c			1,07,750	By Profit and loss Adjustment A/c (Profit)	4,000	2,000	2,000
To Balance c/d	72,000	76,000		By Goodwill A/c			75,000
				By Profit and Loss Suspense A/c			3,750
	72,000	76,000	1,18,750		72,000	76,000	1,18,750

**Balance Sheet as on 1<sup>st</sup> July 2019**

Liabilities	Amt ₹	Amt ₹	Assets	Amt ₹	Amt ₹
Creditors		18,000	Plant & Machinery	60,000	
Bills payable		2,000	Add: Appreciation	10,000	70,000
Capital Accounts :			Debtors	50,000	
Rekha		72,000	Less: R.D.D.	2,000	48,000
Menka		76,000	Furniture		30,000
Mukta's Representative's Loan A/c		1,07,750	Bank		50,000
			Profit and Loss Suspense A/c (3750- 1000 Int)		2,750
			Goodwill		75,000
		2,75,750			2,75,750

### Working Notes:

#### 1. Calculation of Share of Profit

Profit of current year = Average of the profit of last 2 year

$$= \frac{70,000 + 50,000}{2} = \frac{1,20,000}{2} = ₹ 60,000$$

Profit for proportionate period from 1st April 2019

$$\text{to 1st July 2019} = 60,000 \times \frac{3}{12} = ₹ 15,000$$

$$\text{Mukta's share in proportionate profit} = 15,000 \times \frac{1}{4} = ₹ 3,750$$

#### 2. Valuation of Goodwill

Total profit of 4 year = 1,50,000 + 1,30,000 + 70,000 + 50,000 = ₹ 4,00,000

$$\text{Average Profit} = \frac{4,00,000}{4} = ₹ 1,00,000$$

$$\text{Goodwill} = \text{Average Profit} \times \text{No. of Year Purchases} \\ 1,00,000 \times 3$$

$$\text{Mukta's share in Goodwill} = 3,00,000 \times \frac{1}{4} = ₹ 75,000$$

#### 2. Rakesh, Mahesh and Mukesh were partners sharing Profits and Losses in the ratio 3:2:1 respectively. Their Balance Sheet as on 31st March 2019 is as under.

Balance Sheet as on 31st March 2019

Liabilities	Amt (₹)	Assets	Amt (₹)
Capital A/c :		Plant & Machinery	40,000
Rakesh	30,000	Motor Truck	20,000
Mahesh	20,000	Debtors	16,000
Mukesh	10,000	Less: R.D.D.	2,000
Creditors	8,000	Investment	18,000
Bank Loan	20,000	Bank	14,000
Bills Payable	18,000		
	1,06,000		1,06,000

Mukesh died on 30th June 2019 and the following adjustment were made

- Assets were revalued as : Plant & Machinery ₹ 44,000, Motor Truck ₹ 18,000, Investment ₹ 17,000.
- All Debtors were good.
- Goodwill of the firm valued at two times the average profits of the last five years. No Goodwill account to be shown in the books of the firm.

- 4 Mukesh's share of profit up to his death to be calculated on the basis of average profits of last two years.
5. Five years Profits were I year ₹ 6,000, II year ₹ 11,000, III year ₹ 7,000, IV year ₹ 12,000, V year ₹ 24,000 respectively.
1. Prepare : Profit and loss Adjustment Account , Partners Capital Accounts, Balance Sheet on 1<sup>st</sup> July 2019

**Solution:**

**In the Books of the Partnership Firm**

Dr.		Profit and Loss Adjustment Account		Cr			
Particulars		Amt (₹)		Particulars		Amt (₹)	
To Motor Truck		2,000		By Plant & Machinery		4,000	
To Investment		1,000		By. R.D.D A/c		2,000	
To Partners Capital A/c (Profit)							
Rakesh 1,500							
Mahesh 1,000							
Mukesh 500		3,000					
		6,000				6,000	

Dr.				Partner's Capital Account			Cr.
Particulars	Rakesh (₹)	Mahesh (₹)	Mukesh (₹)	Particulars	Rakesh (₹)	Mahesh (₹)	Mukesh (₹)
To Mukesh's Capital A/c	2,400	1,600	15,250	By Balance b/d	30,000	20,000	10,000
To Mukesh's Executors A/c				By Profit and loss Adjustment A/c (Profit)	1,500	1,000	500
To Balance c/d	29,100	19,400		By Rakesh's Capital A/c (Goodwill)			2,400
				By Mahesh's capital A/c (Goodwill)			1,600
				By Profit and loss Suspense A/c			750
	31,500	21,000	15,250		31,500	21,000	15,250

**Balance Sheet as on 1<sup>st</sup> July 2019**

Liabilities	Amt ₹	Amt ₹	Assets	Amt ₹	Amt ₹
Capital Account :			Plant & Machinery	40,000	
Rakesh		29,100	Add : Appreciation	4,000	44,000
Mahesh		19,400	Motor Truck	20,000	
Mukesh's Executor's		15,250	Less : Depreciation	2,000	18,000
Loan A/c			Debtors		16,000
Creditors		8,000	Investment	18,000	
Bank Loan		20,000	Less : Reduction	1,000	17,000
Bills Payable		18,000	Bank		14,000
			Profit & Loss Suspense A/c		750
		1,09,750			1,09,750

**Working Note:**

1. Valuation of Goodwill

$$\begin{aligned}\text{Total Profits} &= 6,000 + 12,000 + 7,000 + 11,000 + 24,000 \\ &= ₹ 60,000\end{aligned}$$

$$\text{Average Profit} = \frac{60,000}{5} = ₹ 12,000$$

$$\text{Goodwill} = 12,000 \times 2 = ₹ 24,000$$

$$\text{Mukesh's Share in Goodwill} = 24,000 \times \frac{1}{6} = ₹ 4,000$$

Goodwill is divided and debited to Rakesh and Mahesh's Capital A/c in the ratio of 3:2

$$\text{Rakesh} = 4000 \times \frac{3}{5} = ₹ 2,400$$

$$\text{Mahesh} = 4000 \times \frac{2}{5} = ₹ 1,600$$

**2. Calculation of Mukesh's share in profit from 1st April 2019 to 1st July 2019**

Total Profit of current year = Average profit of last 2 years profit

$$= \frac{12,000 + 24,000}{2} = \frac{36,000}{2} = ₹ 18,000$$

$$\text{Proportional Profit} = 18,000 \times \frac{3}{12} = ₹ 4,500$$

$$\text{Mukesh's share in profit} = 4,500 \times \frac{1}{6} = ₹ 750$$

- 3 Anita, Sunita and Kavita were partners in a business sharing Profits and Losses in the ratio of 2:2:1 respectively. Their Balance Sheet as on 31st March 2019 is as under.

**Balance Sheet as on 31<sup>st</sup> March, 2019**

Liabilities	Amt (₹)	Amt (₹)	Assets	Amt (₹)	Amt (₹)
Capital A/c :			Plant & Building		55,800
Anita		40,000	Investment		30,000
Sunita		40,000	Furniture		16,000
Kavita		20,000	Debtors	20,800	
Creditors		30,000	Less: R.D.D.	800	20,000
Bills Payable		2,000	Bank		8,200
Bank Loan		8,000	Goodwill		10,000
		1,40,000			1,40,000

**On 1st July 2019 Kavita died and the following adjustment were made:**

1. All the Debtors were considered as good.
2. A contingent liability for a compensation of ₹ 900 was provided.
3. Investment were sold out in the market at 10% profit.
4. Loan were paid off.
5. Land and Building were depreciated by ₹ 800 and Furniture by ₹ 1100.
6. Goodwill of the firm was valued at ₹ 15000. It was to be raised in the Books.
7. Kavita was entitled to get her share in the profit upto the date of her death. Profit for 2019-20 was estimated at ₹10,000.
8. The amount due to Kavita's executors was paid by NEFT.

**Prepare : Revaluation Account, Partners Capital Account, Balance sheet of new firm.**

**Solution:**

**In the Books of the Firm**

Dr.	Revaluation Account		Cr.
Particulars	Amt (₹)	Particulars	Amt (₹)
To Contingent Liability	900	By R.D.D A/c	800
To Land and Building	800	By Investments	3,000
To Furniture	1,100		
To Partners Capital A/c (Profit)			
Anita 400			
Sunita 400			
Kavita 200	1,000		
	3,800		3,800

**Solution:****Dr.****Partner's Capital Account****Cr.**

Particulars	Anita (₹)	Sunita (₹)	Kavita (₹)	Particulars	Anita (₹)	Sunita (₹)	Kavita (₹)
To Kavita's Executor's Loan A/c			21,700	By Balance b/d	40,000	40,000	20,000
To Balance c/d	42,400	42,400		By Revaluation A/c (Profit)	400	400	200
				By Goodwill A/c	2,000	2,000	1,000
				By Profit and Loss Suspense A/c			500
	42,400	42,400	21,700		42,400	42,400	21,700

**Balance Sheet as on 1<sup>st</sup> July 2019**

Liabilities	Amt ₹	Amt ₹	Assets	Amt ₹	Amt ₹
Capital Account :			Land & Building		55,000
Anita		42,400	Debtors		20,800
Sunita		42,400	Furniture		14,900
Creditors		30,000	Bank		11,500
Bills Payable		2,000	Goodwill		15,000
Contingent Liability		900	Profit and Loss Suspense A/c		500
		1,17,700			1,17,700

**Working Note :**

- Calculation of Kavita's share in the profit till the date of her death. Kavita died on 1st July 2019. Profit for 2019-20 is estimated at ₹ 10,000  
Kavita's share in it for 3 months is  $\text{₹}10,000 \times \frac{3}{12} \times \frac{1}{5} = \text{₹} 500$
- Kavita's Executors loan account was fully paid, hence it is not transferred to liability side.
- Rohit, Sachin and Virat were sharing profits and losses in the ratio of 7 : 5 : 4 respectively. Their Balance sheet as on 31<sup>st</sup> March 2017 was as follows.**

**Dr.****Balance Sheet as on 31<sup>st</sup> March 2017****Cr.**

Liabilities	Amt ₹	Assets	Amt ₹
Capital Accounts:		Stock	17,000
Rohit	23,000	Furniture	18,000
Sachin	15,000	Land & Building	16,000
Virat	12,000	Bank	37,000
Bills Payable	2,000		
Creditors	8,000		
Bank Loan	12,000		
General Reserve	16,000		
	88,000		88,000



**Mr. Virat died on 30 th June 2017 and the following adjustments were agreed as per deed.**

1. Stock, Furniture and Land and Building are to be revalued at ₹ 16, 700, ₹ 16,200, ₹ 30,100 respectively.
2. Virat's share in goodwill is to be valued from firm's goodwill which was valued at three times of the average profit of last four years Profit of the last four years : I ₹ 30,000, II ₹ 25,000, III ₹ 25,000, IV ₹ 40,000
3. His Profit up to the death is to be calculated on the basis of profit of last year.
4. Virat was entitled to get a Salary of ₹1200 per month.
5. Interest on capital at 10% paid to be allowed
6. Virat's drawing up to the date of death was ₹ 900 per month.

**Prepare : Virat's Capital Account showing amount payable to his executor.**

**Give working notes for share of Goodwill and Profit.**

**Solution :**

**In the Books of the Firm**

Dr.	Virat's Capital Account		Cr.
Particulars	Amt ₹	Particulars	Amt ₹
To Drawing A/c	2,700	By Balance b/d	12,000
To Executors Loan A/c	45,200	By General Reserve	4,000
		By Profit & Loss Adjustment A/c	3,000
		By Goodwill A/c	22,500
		By Profit & Loss Suspense A/c	2,500
		By Salary A/c	3,600
		By Interest on Capital A/c	300
	47,900		47,900

**Working Note :**

**1. Calculation of share of Goodwill**

$$a. \text{ Average Profit} = \frac{\text{Total Profit}}{\text{No. of Years}} = \frac{1,20,000}{4} = ₹ 30,000$$

$$b. \text{ Goodwill of Firm} = \text{Average Profit} \times \text{No. of Year Purchases} \\ = 30,000 \times 3 \text{ times} \\ = ₹ 90,000$$

$$c. \text{ Share of Goodwill to Virat} = \text{Goodwill of the firm} \times \text{Virat's share} \\ = 90,000 \times \frac{4}{16} = ₹ 22,500$$

**2. Calculation of share of profit due to Virat**

Share of profit = Last year profit × share of profit × period

$$= 40,000 \times \frac{1}{4} \times \frac{3}{12} = ₹ 2,500$$

- 5 Sonu, Maneka and Karina were partners sharing profits and losses in the ratio 2:2:1 respectively. Their balance Sheet as on 31st March 2018 was as follows.**

### Balance Sheet as on 31st March 2018

Liabilities	Amt ₹	Assets	Amt ₹
Capital Account :		Plant & Machinery	50,000
Sonu	40,000	Stock of Goods	50,000
Maneka	40,000	Debtors	22,000
Karina	20,000	Less: R. D. D.	2,500
Genral Reserve	10,000	Investment	10,000
Creditors	10,000	Cash	500
Bill Payable	6,000		
Bank loan	4,000		
	1,30,000		1,30,000

### Adjustment :

**Karina died on 1st Oct 2018 and the adjustment were agreed as per the deed as follows.**

1. Plant & Machinery to be valued at ₹ 60,000 and all Debtors were good.
2. Stock of Goods to be reduced by ₹ 3, 000
3. The drawings of Karina up to the date of her death amounted to ₹ 400 per month.
4. Interest on capital was to be allowed at 10% p.a.
5. The deceased partners share of Goodwill is to be valued at 2 years purchased of average profit for last 3 years. The profits were
 

2015-16	₹ 15,000	2016-17	₹ 17,000
2017-18	₹ 13,000		
6. The deceased partners share of profit up to the date of her death should be based on average profit of last two years.

**Prepare : Profit & Loss Adjustment A/c , Karina's capital A/c showing the balance payable to her executors loan account. Working Note for share of Goodwill and Profit up to the date of death.**

**Solution :**

Dr.

### Profit and Loss Adjustment A/c

Cr.

Particulars	Amt ₹	Particulars	Amt ₹
To Stock	3,000	By Plant & Machinery A/c	10,000
To Partners Capital A/c (Profit)		By. R.D.D. A/c	2,500
Sonu 3,800			
Maneka 3,800			
Karina 1,900	9,500		
	12,500		12,500

Dr.	Karina Capital Account		Cr.
Particulars	Amt ₹	Particulars	Amt ₹
To Drawings	2,400	By Balance b/d	20,000
To Karina’s Executors Loan A/c	30,000	By General Reserve	2,000
		By P & L Adjustment A/c (Profit)	1,900
		By Interest on Capital A/c	1,000
		By Goodwill A/c	6,000
		By Profit and Loss Suspense A/c	1,500
	32,400		32,400

### C) Calculation of Goodwill

- 1)
  - a.  $\text{Average Profit} = \frac{\text{Total Profit}}{\text{No. of Years}} = \frac{45,000}{3} = ₹ 15,000$
  - b.  $\text{Goodwill of the Firm} = \text{Average Profit} \times \text{No. of Year Purchases}$   
 $= ₹ 15,000 \times 2$   
 $= ₹ 30,000$
  - c.  $\text{Share of Goodwill to Karina} = \text{Goodwill of the firm} \times \text{Her share}$   
 $= ₹ 30,000 \times \frac{1}{5} = ₹ 6,000$

### 2 Calculation of share of the Profit of Karina

- a.  $\text{Average Profit} = \frac{\text{Total Profits}}{\text{No. of Years}}$   
 $= \frac{17,000 + 13,000}{2}$   
 $= \frac{30,000}{2}$   
 $= ₹ 15,000$
- b.  $\text{Share of Profit to Karina} = \text{Average Profit} \times \text{Profit Sharing Ratio} \times \text{Period}$   
 $= 15,000 \times \frac{1}{5} \times \frac{6}{12} = ₹ 1,500$

- 6 Ajay, Sanjay and Vijay were partners sharing profits and losses in the proportion to their capital. Their Balance Sheet as on 31<sup>st</sup> March 2019 was as follows.

#### Balance Sheet as on 31st March 2019

Liabilities	Amt ₹	Assets	Amt ₹
Capital Account :		Land & Building	80,000
Ajay	60,000	Motor Lorry	40,000
Sanjay	40,000	Debtors	32,000
Vijay	20,000	Less: R. D. D.	4,000
Creditors	50,000	Furniture	36,000
Outstanding Salary	6,000	Bank	28,000
Reserve Fund	36,000		
	2,12,000		2,12,000

Vijay died on 1 st August 2019 and the following adjustments were made.

1. Assets to be revalued as under Land & Building ₹ 88,000, Motor Lorry ₹ 36,000 and Furniture ₹ 34,000
2. All Debtors were good.
3. Goodwill of the firm valued at two times the average profit of the last 4 years profit.
4. Vijay's share of profit to be calculated on the basis of average profit of last three years.
5. Profit for 4 years were 1<sup>st</sup> year ₹ 12,000, 2<sup>nd</sup> year ₹ 24,000, 3<sup>rd</sup> year ₹ 14,000, 4<sup>th</sup> year ₹ 22,000

**Prepare : 1. Vijay's Capital Account, showing amount payable to his executor.**

**2. Give working of Vijay's share of Goodwill and profit upto the date of his death.**

**Solution :**

Dr.		Vijay's Capital Account		Cr.
Particulars	Amt ₹	Particulars	Amt ₹	
To Vijay's Executors Loan A/c	34,111	By Balance b/d	20,000	
		By Reserve Fund A/c	6,000	
		By Profit and Loss Adjustment A/c	1,000	
		By Goodwill A/c	6,000	
		By Profit and Loss Suspense A/c	1,111	
	34,111		34,111	

**Working Note :**

**Calculation of Vijay's share of Goodwill**

- 1) a.  $\text{Average Profit} = \frac{\text{Total Profit}}{\text{No. of Years}} = \frac{72,000}{4} = ₹ 18,000$ 
  - b.  $\text{Goodwill of the Firm} = \text{Average Profit} \times \text{No. of Year Purchases}$   
 $= 18,000 \times 2$   
 $= ₹ 36,000$
  - c.  $\text{Vijay's Share of Goodwill} = \text{Goodwill of the firm} \times \text{Vijay's share}$   
 $= 36,000 \times \frac{1}{6} = ₹ 6,000$

**3. Calculation of share of profit due to Vijay**

- a.  $\text{Average Profit} = \frac{\text{Total Profit}}{\text{No. of Years}} = \frac{60,000}{3} = ₹ 20,000$
- b.  $\text{Vijay's share of profit} = \text{Average Profit} \times \text{Period} \times \text{Vijay's share of Profit.}$   
 $= 20,000 \times \frac{4}{12} \times \frac{1}{6}$   
 $= ₹ 1111$

- 7 Prem, Verma, Sharma were partners sharing profits and losses in the ratio 2:1:1  
Their Balance sheet as on 31<sup>st</sup> March 2019 is as follows.

**Balance Sheet as on 31<sup>st</sup> March 2019**

Liabilities	Amt ₹	Assets	Amt ₹
Creditors	20,000	Premises	2,40,000
Bank Loan	90,000	Debtors	2,00,000
Bill Payable	10,000	Furniture	60,000
General Reserve	64,000	Stock	1,00,000
Capital Account :		Cash	2,00,000
Prem	2,40,000		
Verma	2,00,000		
Sharma	1,76,000		
	8,00,000		8,00,000

- Prem died on 30th June 2019 and the following adjustments were made Prem's share of profit is to be calculated on the average profit of the last two years.
- Prem's share in the Goodwill of the firm be given him. Goodwill will be valued at three times of the average profits of the last four years. The profits were.  

2015-16	₹ 1,60,000	2016-17	₹ 1,20,000
2017-18	₹ 80,000	2018-19	₹ 40,000
- Premises be valued at ₹ 2,80,000 and R.D.D. of ₹ 8,000 be created on debtors.
- Drawing of Prem up to the date of his death were ₹ 15000 per month.
- Interest on capital is allowed at 10% p.a. and to be charged on drawing at ₹ 4000
- The amount due to Prem be transferred to his executors loan account.

**Prepare : Prem's Capital Account, Give working of Prem's share in Goodwill, and Interest on capital**

**Solution :**

Dr.	Prem's Capital Account		Cr.
Particulars	Amt ₹	Particulars	Amt ₹
To Drawings A/c	45,000	By Balance b/d	2,40,000
To Interest on Drawings	4,000	By General Reserve A/c	32,000
To Prem's Executors loan A/c	4,02,500	By Profit and Loss Adjustment A/c	16,000
		By Interest on Capital A/c	6,000
		By Goodwill A/c	1,50,000
		By Profit and Loss Suspense A/c	7,500
	4,51,500		4,51,500

**Working Note :**

**Calculation of Prem's share in the goodwill of the Firm**

$$1) \quad a. \quad \text{Average Profit} = \frac{\text{Total Profit}}{\text{No. of Years}} = \frac{4,00,000}{4} = ₹ 1,00,000$$

$$\begin{aligned}\text{b. Goodwill of Firm} &= \text{Average Profit} \times \text{No. of Year Purchases} \\ &= 1,00,000 \times 3 \\ &= ₹ 3,00,000\end{aligned}$$

$$\begin{aligned}\text{c. Prem's Share of Goodwill} &= \text{Goodwill of the firm} \times \text{Prem's share} \\ &= 3,00,000 \times \frac{2}{4} = ₹ 1,50,000\end{aligned}$$

## 2) Calculation of Prem's share in the profit

Average Profit of the last two years

$$\begin{aligned}\text{a. Average Profit} &= \frac{\text{Total Profit}}{\text{No. of Years}} = \frac{80,000 + 40,000}{2} \\ &= \frac{1,20,000}{2} \\ &= ₹ 60,000\end{aligned}$$

$$\begin{aligned}\text{b. Average Profit} &= ₹ 60,000 \\ \text{3 months profit is} &= 60,000 \times \frac{3}{12} = ₹ 15,000\end{aligned}$$

$$\text{Prem's share is } \frac{2}{4} = 15,000 \times \frac{2}{4} = ₹ 7,500$$

## 3 Calculation of Interest on Prem's Capital

Prem died on 30th June 2019

His capital balance is 2,40,00 for three months

$$2,40,000 \times \frac{10}{100} \times \frac{3}{12} = ₹ 6,000$$

## EXERCISE - 5

### Q.1 Objective questions :

**A. Select the most appropriate answer from the alternative given below and rewrite the sentences.**

- Benefit Ratio is the Ratio in which .....
  - The old partner gain on admission of a new partner
  - The Goodwill of a new partner on admission is credited to old partners
  - The continuing partners benefits on retirement or death of a partner
  - All partenrs are benefited.
- The ratio by which existing partners are benefited .....
  - Gain Ratio
  - Sacrifice Ratio
  - Profit Ratio
  - Capital Ratio
- Profit and Loss Suspense Account is shown in the new Balance Sheet on ..... side.
  - Debit
  - Credit
  - Asset
  - Liabilities
- Death is a compulsory .....
  - Dissolution
  - Admission
  - Retirement
  - Winding up

5. The balance on the capital account of a partners, on his death is transferred to ..... account.
  - a) Relatives
  - b) Legal Heir's loan / Executors loan
  - c) Partner's capital
  - d) Partners Loan

**B. Write a word, term, phrase, which can substitute each of the following statement.**

1. Excess of credit side over debit side of profit and loss adjustment account.
2. A Person who represents the deceased partner on the death of the Partner.
3. Accumulated past profit kept in the form of reserve
4. The Partner who died.
5. The proportion in which the continuing partners benefit due to death of partner.

**C. State whether the following statements are True or False with reasons**

1. A deceased partner is not entitled to Goodwill of the firm
2. A deceased partner is entitled to his share of General Reserve
3. If Goodwill is written off a deceased partner's capital account is debited.
4. After the death of partner, entire amount due to deceased partner is paid to legal representative of the deceased partner.
5. For recording the Profit or Loss upto the date of death, Profit and Loss Appropriation Account is operated.

**D. Fill in the blanks and rewrite the following sentence.**

1. Deceased partner's executors account is shown on the ..... side of the Balance Sheet.
2. On death of a partner, a ratio in which the continuing partners get more share of profits in future is called as ..... ratio.
3. Deceased partners share of profit up to the death is shown on .....side of Balance Sheet.
4. Benefit ratio = New Ratio .....
5. When Goodwill is raised at its full value and it is written off ..... account is to be credited.

**E. Answer in one sentence only.**

1. What is gain ratio?
2. In which ratio General Reserve is distributed on death of a partner?
3. To whom you distribute General Reserve on death of a partner?
4. How death of a partner is a compulsory retirement?
5. To which account Profit is to be transferred upto the date of his death?

**Practical Problems**

1. **Rajesh, Rakesh and Mahesh were equal Partner on 31st March 2019. Their Balance Sheet was as follows 31<sup>st</sup> March 2019**

**Balance Sheet as on 31<sup>st</sup> March 2019**

Liabilities	Amt ₹	Assets	Amt ₹
Capital Account :		Land and Building	4,00,000
Rajesh	5,00,000	Furniture	3,00,000
Rakesh	2,00,000	Debtors	3,00,000
Mahesh	2,00,000	Stock	1,00,000
Sundry creditors	90,000	Cash	1,00,000
Bills Payable	60,000		
Bank loan	1,50,000		
	12,00,000		12,00,000

Mr. Rajesh died on 30th June 2019 and the following adjustment were agreed as

- 1) Furniture was to be adjusted to its market price of 3,40,000
- 2) Land and Building was to be depreciated by 10%
- 3) Provide R.D.D 5% on debtors
- 4) The Profit upto the date of death of Mr. Rajesh is to be calculated on the basis of last years profit which was 1,80,000

**Prepare 1) Profit and Loss adjustment A/c , 2) Partners capital account, 3) Balance sheet of the continuing firm**

**Ans : P & Ajdustment A/c Loss ₹ 15,000 Balance Sheet Total ₹ 12,00,000**

2. **Rahul, Rohit and Ramesh are in a business sharing profits and losses in the ratio of 3:2:1 respectively. Their balance Sheet as on 31st March 2017 was as follows.**

**Balance Sheet as on 31<sup>st</sup> March 2017**

Liabilities	Amt ₹	Assets	Amt ₹
Capital Account :		Debtors	1,00,000
Rahul	2,20,000	Less: R. D. D.	10,000
Rohit	2,10,000	Plant and Machinery	85,000
Ramesh	2,40,000	Investment	3,50,000
creditors	80,000	Motor lorry	1,00,000
Bills Payable	7,000	Building	80,000
General Reserve	96,000	Bank	1,48,000
	8,53,000		8,53,000

**On 1st October 2017 Ramesh died and the Partnership deed provided that**

- 1 R.D.D. was maintained at 5% on Debtors
2. Plant and Machinery and Investment were valued at ₹ 80,000 and ₹ 4,10,000 respectively.
3. Of the creditors an item of ₹ 6000 was no longer a liability and hence was properly adjusted.



4. Profit for 2017-18 was estimated at ₹120,000 and Ramesh share in it up to the date of his death was given to him.
5. Goodwill of the Firm was valued at two times the average profit of the last five years. Which were
 

2012-13	₹1,80,000	2013-14	₹ 2,00,000
2014-15	₹ 2,50,000	2015-16	₹ 1,50,000
2016-2017	₹ 1,20,000		

 Ramesh share in it was to be given to him
6. Salary 5,000 p.m. was payable to him
7. Interest on capital at 5% i.e. was payable and on Drawings ₹ 2000 were charged.
8. Drawings made by Ramesh up to September 2017 were ₹5,000 p.m.

**Prepare Ramesh's Capital A/c showing the amount payable to his executors**

**Give Working of Profit and Goodwill**

**Ramesh Capital Balance ₹ 3,41,000**

**(Ans : Profit on Adj A/c ₹ 66000)**

- 3 **Ram, Madhav and Keshav are partners sharing Profit and Losses in the ratio 5:3:2 respectively. Their Balance Sheet as on 31st March 2018 was as follows.**

**Balance Sheet as on 31<sup>st</sup> March 2018**

Liabilities	Amt ₹	Assets	Amt ₹
General Reserve	25,000	Goodwill	50,000
Creditors	1,00,000	Loose Tools	50,000
Unpaid Rent	25,000	Debtor	1,50,000
Capital Accounts		Live Stock	1,00,000
Ram	1,00,000	Cash	25,000
Madhav	75,000		
Keshav	50,000		
	3,75,000		3,75,000

**Keshav died on 31st July 2018 and the following Adjustment were agreed by as per partnership deed.**

1. Creditors have increased by 10,000
2. Goodwill is to be calculated at 2 years purchase of average profits of 5 year.
3. The Profits of the preceding 5 years was
 

2013-14	₹ 90,000	2014-15	₹ 1,00,000
2015-16	₹ 60,000	2016-17	₹ 50,000
2017-18	₹ 50,000 (Loss)		

 Keshav share in it was to be given to him.
4. Loose Tools and live stock were valued at ₹80,000 and ₹ 1,20,000 respectively
5. R.D.D. was maintained at ₹10,000
6. Commission ₹ 2000 p.m. was payable to Keshav Profit for 2018 -19 was estimated at ₹ 45000 and keshav's share in it up to the date of his death was given to him.

Prepare Revaluation A/c , Keshav's capital A/c showing the amount payable to his executors.

(Ans : (Revaluation profit ₹ 30,000, Keshva's Executors Loan ₹ 92,000)

- 4 Virendra, Devendra and Narendra were partners sharing Profit and Losses in the ratio of 3:2:1. Their Balance Sheet as on 31st March 2019 was as follows.

Balance Sheet as on 31<sup>st</sup> March 2019

Liabilities	Amt ₹	Assets	Amt ₹
Bank Loan	25,000	Furniture	50,000
Creditors	20,000	Land & Building	50,000
Bills Payable	5,000	Motor Car	20,000
Reserve Fund	30,000	Sundry Debtors	50,000
Capital Account :		Bills Receivable	20,000
Virendra	90,000	Investments	50,000
Devendra	60,000	Cash at Bank	20,000
Narendra	30,000		
	2,60,000		2,60,000

Mr. Virendra died on 31<sup>st</sup> August 2019 and the Partnership deed provided that. That the event of the death of Mr. Virendra his executors be entitled to be paid out.

- The capital to his credit at the date of death.
- His proportion of Reserve at the date of last Balance sheet.
- His proportion of Profits to date of death based on the average profits of the last four years.
- His share of Goodwill should be calculated at two years purchase of the profits of the last four years for the year ended 31<sup>st</sup> March were as follows -

2016	₹ 40,000	2017	₹ 60,000
2018	₹ 70,000	2019	₹ 30,000

- Mr. Virendra has drawn ₹ 3000 p.m. to date of death, There is no increase and Decrease the value of assets and liabilities.

Prepare Mr. Virendras Executors A/c

(Ans : Executor's Loan A/c ₹ 150417)

5. The Balance Sheet of Sohan, Rohan and Mohan who were sharing profits and Losses in the ratio of 3:2:1 as follows.

Balance Sheet as on 31<sup>st</sup> March 2019

Liabilities	Amt ₹	Assets	Amt ₹
Bank Overdraft	18,000	Bank	48,000
Creditors	85,000	Debtors	30,000
Bills payable	40,000	Land and Building	40,000
Bank Loan	1,50,000	Machinery	80,000
General Reserve	27,000	Investments	40,000
Capital Account :		Computers	40,000
Sohan	20,000	Stock	90,000
Rohan	20,000	Patents	12,000
Mohan	20,000		
	3,80,000		3,80,000

**Mr. Rohan died on 1 st October 2019 and the following adjustments were made.**

1. Goodwill of the firm is valued at 30,000
2. Land and Building and Machinery were found to be undervalued by 20%
3. Investments are valued at ₹ 60,000
4. Stock to be undervalued by ₹ 5000 and a provision of 10% as debtors was required.
5. Patents were value less
6. Mr. Rohan was entitled to share in profits up to the date of death and it was decided that he may be allowed to retain his drawings as his share of profit. Rohan's drawings till date of death was ₹ 25000

**Prepare partners capital accounts.**

**(Ans : Revaluation profit ₹ 30,000, Rohan's Executors Loan ₹ 49,000, Soham ₹ 63,500, Mohan ₹ 34,500.)**

**Activity :**

Collect the information of Deceased partners claim from any chartered Accounts. (CA)

Visit Life Insurance Company and find out the procedure for obtaining Joint Life Policy for Partners and also study the process of settlement of claim in case of death of a partner.



**Content**

- 6.1 *Introduction, Meaning and Definition of Dissolution of Partnership Firm.*
- 6.2 *Circumstances / Reasons for Dissolution of Partnership Firm.*
- 6.3 *Difference between Dissolution of Partnership and Dissolution of Firm.*
- 6.4 *Effects of Dissolution of Partnership Firm.*
- 6.5 *Accounting Treatment / Settlement of accounts on dissolution of firm.*
- 6.6 **ACCOUNTING PROCEDURE**
  - (A) *Simple Dissolution.*
  - (B) *Dissolution Under Insolvency Situation.*

**Competency Statements**

- ☐ *The Students are able to :*
- *Understand the meaning and Reasons of dissolution of partnership firm.*
- *Know the effects of dissolution of Partnership firm.*
- *Learn various accounting treatment for settlement of accounts.*
- *Learn accounting procedure under simple dissolution and insolvency of partner.*

**6.1 Introduction :**

Dissolution means to windup or to close down. When business relations among the partners in a Partnership Firm comes to an end, it is known as Dissolution of Partnership. When one or more partner/partners take decision to close the Partnership Firm, it is known as Dissolution of Partnership firm. When all partners decide to discontinue from partnership firm, it results in to dissolution of partnership. The relationship between partners is referred to as Partnership. While all the partners collectively are called firm. Dissolution of a firm is different from dissolution of partnership.

In short, dissolution of partnership may not include dissolution of the firm, but dissolution of the firm means dissolution of the Partnership.

**Meaning and Definition :**

Meaning - In Legal terms dissolution has multiple meaning. A word “DISSOLUTION” comes from the Latin word “DISSOLUTIO”, means “A dissolving of something”. Dissolution is the last stage of closure of business.

**Definition :**

1. Indian Partnership Act 1932, Sec. 39, provides that, “The dissolution of the partnership between all the partners of a firm is called the dissolution of a firm.” It implies the complete breakdown of the relation of Partnership between all the partners.
2. “The act or process of ending an official organization or legal agreement.”
3. “The dissolution of partnership firm indicates the discontinuance function as a firm”.