Death of a partner

1. A, T and R were partners in a firm sharing profits in the ratio of 5 : 6 : 7 respectively. Their capitals were Rs. 5,00,000; Rs. 6,00,000 and Rs. 7,00,000 respectively. State the ratio in which the goodwill of the firm amounting to Rs. 16,00,000 will be adjusted in the capital accounts of A and T in case of R's death.   (Compartment 2014)

Ans. Goodwill of the firm, at the time of R's death, will be adjusted among A and T in gaining ratio.

2. At what rate is interest payable on the amount remaining unpaid to the executor of deceased partner? (All India 2013; hots)

Ans. Interest is payable @ 6% per annum on the amount remaining unpaid to the executor of deceased partner.

3. 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.   (Delhi 2013; HOTS)

Ans. 'Profit and loss suspense account' is opened, to credit the share of profit of the deceased partner.

4. State any two deductions that may have to be made from the amount payable to the legal representative of a deceased partner.   (All India 2009)

Ans. (i) Deceased partner's share of loss on revaluation of assets and liabilities.
(ii) Drawings made by deceased partner till the date of death.

3 Marks Question

5. A, B and C are partners in a firm whose books are closed on 31st March each year. B died on 30th June, 2009 and according to the agreement, the share of profit of a deceased partner up to the date of the death is to be calculated on the basis of the average profits for the last five years. The net profits for the last 5 years have been 2005 : Rs. 14,000; 2006 : Rs. 18,000; 2007 : Rs. 16,000; 2008 : Rs. 10,000 (loss) and 2009 : Rs. 16,000. Calculate B's share of profits upto the date of death and pass necessary journal entry.   (All India 2010)

Ans. Calculation of B's Share of Profit
Last 5 years' total profit = 14,000 +18,000 +16,000 -10,000 +16,000 =Rs. 54,000
Average profit = 54,000 / 5 = Rs. 10,800
B's share of profit = 10,800 x 1/3 x 3/12 = Rs. 900

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Date	Particulars	LF	Amt (₹)	Amt (₹)
	Profit and Loss Suspense A/c Dr		900	
	To B's Capital A/c			900
	(Being share of profit transferred to deceased partner's capital account)			

4 Marks Questions

6. Monika, Sonika and Manisha were partners in a firm sharing profits in the ratio of 2:2:1 On 31st March, 2013 their balance sheet was as under

Balance Sheet
as at 31st March, 2013

Liabilities		Amt (₹)	Assets	Amt (₹)
Capital A/cs			Fixed Assets	3,60,000
Monika	1,80,000		Stock	60,000
Sonika	1,50,000		Debtors	1,20,000
Mansha	90,000	4,20,000	Cash	2,70,000
Reserve Fund		1,50,000		
Creditors		2,40,000		
		8,10,000		8,10,000

Sonika died on 30th June, 2013. It was agreed between her executors and the remaining partners that

(i) Goodwill of the firm be valued at 3 years' purchase of average profits for the last four years. The average profits were Rs. 2,00,000.
(ii) Interest on capital be provided at 12% per annum.
(iii) Her share in the profits upto the date of death will be calculated on the basis of average profits for the last 4 years.
Prepare Sonika's capital as on 30th June, 2013. **(All India 2014)**

Ans.

Sonika's Capital Account

Date	Particulars	Amt (₹)	Date	Particulars	Amt (₹)
	To Sonika's Executor A/c	4,74,500		By Balance b/d	1,50,000
				By Reserve Fund $\left(1,50,000 \times \dfrac{2}{5}\right)$	60,000
				By Interest on Capital A/c $\left(1,50,000 \times \dfrac{12}{100} \times \dfrac{3}{12}\right)$	4,500
				By Profit and Loss Suspense A/c (Profit)	20,000
				By Monika's Capital A/c	1,60,000
				By Manisha's Capital A/c	80,000
		4,74,500			4,74,500

Working Note

(i) **Calculation of Sonika's Share of Goodwill**

Average profit of last 4 years = 2,00,000

Firm's goodwill = $2,00,000 \times 3 = 6,00,000$

Sonika's share = $6,00,000 \times \dfrac{2}{5} = 2,40,000$

Gaining ratio of Monika and Manisha = 2 : 1

Monika will contribute = $2,40,000 \times \dfrac{2}{3} = 1,60,000$

Manisha will contribute = $2,40,000 \times \dfrac{1}{3} = 80,000$

(ii) **Calculation of Sonika's Share of Profit**

Average profits = 2,00,000,

Profit for 3 months = $2,00,000 \times \dfrac{3}{12} = 50,000$

Sonika's share of profit = $50,000 \times \dfrac{2}{5} = 20,000$

7. A, B and C were partners in a firm sharing profits in 3 : 2 :1 ratio. The firm closes its books on 31st March every year. B died on 12th June, 2007. On B's death the goodwill of the firm was valued at Rs. 60,000. On B's death his share in the profits of the firm till the time of his death was to be calculated on the basis of previous year's profit which was Rs. 1,50,000, Calculate B's share in the profit of the firm. Pass necessary journal entries for the treatment of goodwill and B's share of profit at the time of his death.   (Delhi 2008)

Ans.

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Date	Particulars	LF	Amt (Dr)	Amt (Cr)
	A's Capital A/c Dr		15,000	
	C's Capital A/c Dr		5,000	
	To B's Capital A/c			20,000
	(Being amount of goodwill adjusted in gaining ratio)			
	Profit and Loss Suspense A/c Dr		10,000	
	To B's Capital A/c			10,000
	(Being B's share of profit transferred to his capital account)			

Working Note

(i) **Calculation of B's Share of Goodwill**

Firm's goodwill = 60,000

B's share of goodwill = 60,000 × 2/6 = ₹ 20,000, to be contributed by A and C in their gaining ratio i.e. 3 : 1.

(ii) **Calculation of B's Share of Profit**

Number of days B worked = April + May + June = 30 + 31 + 12 = 73 days

Last year's profit = ₹ 1,50,000

B's share of profit = $1,50,000 \times \dfrac{2}{6} \times \dfrac{73}{365}$ = ₹ 10,000

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8. P, Q and R were partners in a firm sharing profits in 2 : 2 : 1 ratio. The firm closes its book on 31st March every year. P died three months after the last accounts were prepared. On that date, the goodwill of the firm was valued at Rs. 90,000. On the death of a partner his share of profits in the year of death was to be calculated on the basis of the average profits of the last four years. The profit of last four years were

Particulars	Amt (₹)
Year ended 31st March, 2007	2,00,000
Year ended 31st March, 2006	1,80,000
Year ended 31st March, 2005	2,10,000
Year ended 31st March, 2004	(loss) 1,70,000

Pass necessary journal entries for the treatment of goodwill and P's share of profit on his death. Show clearly the calculations of P's share of profit. **(All India 2008)**

Ans.

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Date	Particulars		LF	Amt (Dr)	Amt (Cr)
	Q's Capital A/c	Dr		24,000	
	R's Capital A/c	Dr		12,000	
	To P's Capital A/c				36,000
	(Being amount of goodwill adjusted in gaining ratio)				
	Profit and Loss Suspense A/c	Dr		10,500	
	To P's Capital A/c				10,500
	(Being B's share of profit transferred to his capital account)				

Working Note

(i) **Calculation of P's Share of Goodwill**

Firm's goodwill = ₹ 90,000

P's share of goodwill = 90,000 × 2 / 5 = ₹ 36,000, to be contributed by Q and R in their gaining ratio. i.e. 2 : 1.

(ii) **Calculation of P's Share of Profit**

Last 4 years' total profit = 2,00,000 + 1,80,000 + 2,10,000 − 1,70,000 = ₹ 4,20,000

$$\text{Average profit} = \frac{4,20,000}{4} = ₹ 1,05,000$$

$$\text{P's share of profit} = 1,05,000 \times \frac{2}{5} \times \frac{3}{12} = ₹ 10,500$$

9. Hari, Mohan and Sohan were partners in a firm sharing profits in 2 : 2 : 1 ratio. The firm closes its books on 31st March every year. Mohan died on 24th August, 2007. On Mohan's death, the goodwill of the firm was valued at Rs. 75,000, The partnership deed provided that on the death of a partner his share in the profit of the firm in the year of his death will be calculated on the basis of last years profit. The profit of the firm for the year ended 31st March, 2007 was Rs. 2,00,000. Calculate Mohan's share of profit till the time of his death and pass the necessary journal entries for the treatment of goodwill and his share of profit. (All India 2008)

Ans.

JOURNAL

Date	Particulars		LF	Amt (Dr)	Amt (Cr)
	Hari's Capital A/c	Dr		20,000	
	Sohan's Capital A/c	Dr		10,000	
	To Mohan's Capital A/c				30,000
	(Being Mohan's amount of goodwill adjusted in gaining ratio)				
	Profit and Loss Suspense A/c	Dr		32,000	
	To Mohan's Capital A/c				32,000
	(Being Mohan's share of profit transferred to his capital account)				

Working Note

(i) **Calculation of Mohan's Share of Goodwill**

Firm's goodwill = ₹ 75,000

Mohan's share of goodwill = $75,000 \times \dfrac{2}{5}$ = ₹ 30,000, to be contributed by Hari and Sohan in their

gaining ratio. i.e. 2 : 1.

(ii) **Calculation of Mohan's Share of Profit**

Number of days Mohan worked = April + May + June + July + August

= 30 + 31 + 30 + 31 + 24 = 146 days

Last years profit = ₹ 2,00,000

Mohan's share of profit = $2,00,000 \times \dfrac{2}{5} \times \dfrac{146}{365}$ = ₹ 32,000

6 Marks Questions

10. Ram, Rahim and Robert were partners sharing profits in 2: 3: 1 ratio respectively. The partnership deed provided that in case of death of a partner the deceased partner's share of capital will be donated for the construction of a hospital in the tribal area.
Due to ill health Robert died on 30th September, 2013. The balance sheet of Ram, Rahim and Robert on 31st March, 2013 was as follows.

Balance Sheet
as at 31st March, 2013

Liabilities		Amt (₹)	Assets	Amt (₹)
Capital A/cs			Cash	14,000
Ram	1,00,000		Bank	2,96,000
Rahim	2,00,000		Stock	80,000
Robert	3,00,000	6,00,000	Debtors	3,00,000
Creditors		3,60,000	Investments	50,000
Workmen's Compensation Fund		20,000	Land	2,50,000
Provision for Doubtful Debts		10,000		
		9,90,000		9,90,000

On the date of Robert's death i.e. 30th September, 2013, the following was agreed upon

(i) Goodwill is to be valued at two years' purchase of average profits of last three completed years i.e., 2010-2011 – Rs. 45,000; 2011-2012 – Rs. 90,000 and 2012-2013 -Rs. 1,35,000.

(ii) Robert's share of profits till the date of his death will be calculated the basis of average profits of last three years.

(iii) Land was undervalued by Rs. 25,000 and stock overvalued by Rs. 8,000.

(iv) Provision for doubtful debts is to be made at 5% of Debtors.

(v) Claim of workmen compensation estimated at Rs. 5,000.

Prepare Robert' capital account to be presented to his executors. Also, identify a value that Ram, Rahim and Robert wanted to communicate to the society.(Compartment 2014)

Ans.

Robert's Capital Account

Particulars	Amt (₹)	Particulars	Amt (₹)
To Executor's A/c	3,42,000	By Balance b/d	3,00,000
		By Ram's Capital A/c	12,000
		By Rahim's Capital A/c	18,000
		By Profit and Loss Suspense A/c	7,500
		By Revaluation A/c	2,000
		By Workmen Compensation Fund A/c	2,500
	3,42,000		3,42,000

Working Note

(i) Calculation of Share of Goodwill

$$\text{Average profit} = \left[\frac{45,000 + 90,000 + 1,35,000}{3}\right] = 90,000$$

Goodwill = Average Profit × Number of Year's Purchase

$$= 90,000 \times 2 = 1,80,000$$

Robert's share $= 1,80,000 \times \frac{1}{6} = 30,000$, which will be contributed by Ram and Rahim in their gaining ratio of 2 : 3.

Accordingly, Share contributed by Ram $= 30,000 \times \frac{2}{5} = 12,000$

Share contributed by Rahim $= 30,000 \times \frac{3}{5} = 18,000$

(ii) Robert's share of profits upto the date of death $= \left[\frac{45,000 + 90,000 + 1,35,000}{3}\right] \times \frac{6}{12} \times \frac{1}{6} = 7,500$

(iii)

Revaluation Account

Particulars	Amt (₹)		Particulars	Amt (₹)
To Stock A/c		8,000	By Land A/c	25,000
To Provision for Doubtful Debts A/c		5,000		
To Profit on Revaluation Transferred to				
Ram's Capital A/c	4,000			
Rahim's Capital A/c	6,000			
Robert's Capital A/c	2,000	12,000		
		25,000		25,000

(iv) Robert's share in workmen compensation fund $= (20,000 - 5,000) \times \dfrac{1}{6} = 2,500$

Value communicated to society are

Concern for health of the backward sections of society.

11. A, B and C are partners in a firm sharing profits in the ratio of 5 : 3 : 2 respectively. Their balance sheet as on 31st December, 2012 was as follows

Balance Sheet
as on 31st December, 2012

Liabilities		Amt (₹)	Assets	Amt (₹)
Capitals A/cs			Patents	1,10,000
A	3,00,000		Building	2,00,000
B	2,50,000		Machinery	3,00,000
C	1,50,000	7,00,000	Stock	1,00,000
Creditors		1,10,000	Debtors	80,000
Reserves		60,000	Cash	80,000
		8,70,000		8,70,000

A died on 1st October, 2013, due to illness. It was agreed between the firm and A' sexecutors that the amount due to A will be used for construction of a Charitable hospital in a village. As per the agreement.

(i) Goodwill was valued at 2 years' purchase of average profits of last 4 years, which were : 2009-Rs. 1,00,000; 20101,60,000; 2011 -Rs. 1,80,000 and 2012-Rs. 2,00,000.

(ii) Patents were revalued at Rs. 90,000; Machinery at Rs. 2,80,000 and Building at Rs. 2,50,000.

(iii) A's share of profit till the date of his death will be calculated on the basis of the profit of the year 2012.

(iv) Interest on capital will be provided at 10% per annum.

(v) Amount due to A's executors will be transferred to charity account.

(a) Prepare A's capital account to be presented to his executor.

(b) Identify any one value being highlighted in the question. (Compartment 2014)

Ans. (a)

A's Capital Account

Particulars	Amt (₹)	Particulars	Amt (₹)
To Executors's A/c	5,92,500	By Balance b/d	3,00,000
		By Reserves A/c	30,000
		By B's Capital A/c	96,000
		By C's Capital A/c	64,000
		By Revaluation A/c	5,000
		By Profit and Loss Suspense A/c	75,000
		By Interest on Capital A/c	22,500
	5,92,500		5,92,500

Working Note

(i) **Calculation of Share of Goodwill**

$$\text{Average profit} = \left[\frac{1,00,000 + 1,60,000 + 1,80,000 + 2,00,000}{4}\right] = 1,60,000$$

Goodwill = Average Profit × Number of Year's Purchase

$$= 1,60,000 \times 2 = 3,20,000$$

A's share of goodwill $= 3,20,000 \times \dfrac{5}{10} = 1,60,000$, to be contributed by B and C in their gaining ratio of 3 : 2

Accordingly, Share contributed by B $= 1,60,000 \times \dfrac{3}{5} = 96,000$

Share contributed by C $= 1,60,000 \times \dfrac{2}{5} = 64,000$

(ii)

Revaluation Account

Particulars		Amt (₹)	Particulars	Amt (₹)
To Patents A/c		20,000	By Buildings A/c	50,000
To Machinery A/c		20,000		
To Profit on Revaluation Transferred to				
A's Capital A/c	5,000			
B's Capital A/c	3,000			
C's Capital A/c	2,000	10,000		
		50,000		50,000

(iii) A's share of profits upto the date of death $= 2,00,000 \times \dfrac{9}{12} \times \dfrac{5}{10} = 75,000$

(iv) Interest on capital upto the date of death $= 3,00,000 \times \dfrac{10}{100} \times \dfrac{9}{12} = 22,500$

(b) Value being highlighted is

Concern towards the health of the people residing in villages.

12. The balance sheet of Radha, Sohan and Madan, who were sharing profits in the ratio of 4 : 3 : 1 respectively, as on 31st March, 2012 was as follows

Balance Sheet
as at 31st March, 2012

Liabilities		Amt (₹)	Assets	Amt (₹)
General Reserve		65,000	Cash	39,000
Bills Payable		25,000	Stock	88,000
Loan		29,000	Debtors	61,000
Capital A/cs			Machinery	2,23,000
Radha	1,50,000		Madan's Loan	33,000
Sohan	1,00,000			
Madan	75,000	3,25,000		
		4,44,000		4,44,000

Madan died on 1st September, 2012. The partnership deed provided for the following on the death of a partner

(i) Goodwill of the firm to be valued at two years' purchase of average profits for the last three years which were Rs.64,000.

(ii) Madan's share of profit till the date of his death was to be calculated on the basis of sales. Sales for the year ended 31st March, 2012 amounted to Rs. 1,50,000 and that from 1st April to 1st September, 2012 Rs. 90,000. The profit for the year ended 31st March, 2012 was Rs. 50,000.

(iii) Interest on capital was to be provided @10% per annum.

(iv) According to Madan's will, the executors should donate his share to 'Matri Chhaya, an orphanage for girls'.

Prepare Madan's capital account to be rendered to his executor. Also identify the value being highlighted in the question. (All India 2013; VBQ)

Ans. Dr   **Madan's Capital Account**   Cr

Particulars	Amt (₹)	Particulars	Amt (₹)
To Madan's Loan A/c	33,000	By Balance b/d	75,000
To Madan's Executor's A/c	73,000	By General Reserve A/c	8,125
		By Radha's Capital A/c	9,143
		By Sohan's Capital A/c	6,857
		By Profit and Loss Suspense A/c	3,750
		By Interest on Capital A/c	3,125
	1,06,000		1,06,000

Working Note

(i) **Calculation of Madan's Share of Goodwill**

Average profits of last 3 years = 64,000

$$\text{Firm's goodwill} = 64,000 \times 2 = ₹\,1,28,000$$

$$\text{Madan's share of goodwill} = 1,28,000 \times 1/8 = 16,000$$

Gaining ratio of Radha and Sohan = 4 : 3

$$\text{Radha will contribute} = 16,000 \times \frac{4}{7} = ₹\,9,143$$

$$\text{Sohan will contribute} = 16000 \times \frac{3}{7} = ₹\,6,857$$

(ii) **Calculation of Madan's Share of Profit from 1st April, 2012 to 1st September, 2012** (5 months)

Sales for the year ending on 31st March, 2012 = 1,50,000

Profit for the year ending on 31st March, 2012 = 50,000

$$\% \text{ of profits on sales} = \frac{50,000}{1,50,000} \times 100 = 33\frac{1}{3}\%$$

Sales from 1st April, 2012, to 1st September, 2012 = 90,000

$$\text{Firm's profit} = 90,000 \times \frac{33\frac{1}{3}}{100} = ₹\,30,000,$$

$$\text{Madan's share of profit} = 30,000 \times \frac{1}{8} = ₹\,3,750$$

(iii) $\text{Interest on capital} = 75,000 \times \dfrac{10}{100} \times \dfrac{5}{12} = ₹\,3,125$

NOTE The balance of Madan's capital account will be transferred to Madan's executor's account. Donation to Matri Chhaya will be made from the executor's account.

Values being highlighted in the question are (Any one)

(i) **Social responsibility** The deceased partner showed responsibility and care towards underprivileged sections of the society.

(ii) **Women empowerment** Donations to Matri Chhaya is an endeavour towards women empowerment.

(iii) **Doing your best** The deceased partner did his best by donating his property for the betterment of the society and upliftment of poor. He set a great example for the society to follow.

13. The balance sheet of Sadhna, Mohit and Rohit who were sharing profits in the ratio of 1 : 2 : 3 as on 31st March, 2012 was as follows

Balance Sheet
as at 31st March, 2012

Liabilities		Amt (₹)	Assets	Amt (₹)
General Reserve		60,000	Cash	36,000
Bills Payable		20,000	Stock	85,000
Loan		24,000	Investments	58,000
Capital A/cs			Land and Building	2,20,000
Sadhna	75,000		Rohit's Loan	30,000
Mohit	1,00,000			
Rohit	1,50,000	3,25,000		
		4,29,000		4,29,000

Rohit died on 1st September, 2012. The partnership deed provided for the following on the death of a partner

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

(ii) Rohit's share of profit or loss till the date of death was to be calculated on the basis of sales. Sales for the year ended 31st March, 2012 amounted to Rs. 6,00,000 and that from 1st April to 1st September, 2012 to Rs. 3,50,000. The profit for the year ended 31st March, 2012 was calculated as Rs. 1,50,000.

(iii) Interest on capital was to be provided @ 8% per annum.

(iv) The average profits of the last three years were Rs. 72,000.

(v) According to Rohit's will, the executors should donate his share to 'Matri Chhaya an orphanage for girls'.

Prepare Rohit's capital account to be rendered to his executor. Also identify the value being highlighted in the question. (Delhi 2013;VBQ)

Ans. Dr   Rohit's Capital Account   Cr

Particulars	Amt (₹)	Particulars	Amt (₹)
To Rohit's Loan A/c	30,000	By Balance b/d	1,50,000
To Rohit's Executor's A/c	2,70,750	By General Reserve A/c	30,000
		By Sadhna's Capital A/c	24,000
		By Mohit's Capital A/c	48,000
		By Interest on Capital A/c	5,000
		By Profit and Loss Suspense A/c	43,750
	3,00,750		3,00,750

Working Note

(i) **Calculation of Rohit's Share of Goodwill**

Firm's Goodwill = Average Profits of Last 3 Years' × 2 Years' Purchase

$= 72,000 \times 2 = ₹\ 1,44,000$

Rohit's share $= 1,44,000 \times \dfrac{3}{6} = ₹\ 72,000$

Gaining ratio of Sadhna and Mohit = 1 : 2

Sadhna will contribute $= 72,000 \times \dfrac{1}{3} = ₹\ 24,000$

Mohit will contribute $= 72,000 \times \dfrac{2}{3} = ₹\ 48,000$

(ii) Interest on capital $= 1,50,000 \times \dfrac{8}{100} \times \dfrac{5}{12} = ₹\ 5,000$

(iii) **Calculation of Rohit's Share of Profit for 5 Months**

Sales for the year ended 31st March, 2012 = 6,00,000

Profit for the year ended 31st March, 2012 = 1,50,000

% of profit on sales $= \dfrac{1,50,000}{6,00,000} \times 100 = 25\%$

Sales from 1st April, 2012 to 1st September, 2012 = ₹ 3,50,000

Profit $\left(3,50,000 \times \dfrac{25}{100}\right) = ₹\ 87,500$

Rohit's share $= 87,500 \times \dfrac{3}{6} = ₹\ 43,750$

NOTE The balance in Rohit's capital account is transferred to Rohit's executions account. Donation to Matri Chhaya will be given through the executor's account. Values being highlighted in the question are (Any one)

(i) Social responsibility Rohit showed responsibility and care towards underprivileged sections of the society.

(ii) Women empowerment Donation to Matri Chhaya is an endeavour towards women empowerment.

(iii) Doing your best Rohit did his best by donating his property for the betterment of the society and upliftment of poor. He has set a great example for the society to follow.

14. A, B and C are partners in a trading firm. The firm has a fixed total capital of Rs. 60,000 held equally by all the partners. Under the partnership deed the partners were entitled to

(i) A and B to a salary of Rs. 1,800 and Rs. 1,600 per month respectively.
(ii) In the event of the death of a partner, goodwill was to be valued at 2 years' purchase of the average profit of the last 3 years.
(iii) Profit upto the date of death based on the profits of the previous year.

(iv) Partners were to be charged interest on drawings @ 5% per annum and allowed interest on capital @ 6% per annum.

A died on 1st January, 2011. His drawings to the date of death were Rs. 2,000 and the interest thereon was Rs. 60. The profits for the three years ending 31st March, 2008, 2009 and 2010 were Rs. 21,200, Rs. 3,200 (Dr) and Rs. 9,000 respectively. Prepare As capital account to calculate the amount to be paid to his executors. **(All India 2011)**

Ans. Dr. A's Capital Account Cr

Particulars	Amt (₹)	Particulars	Amt (₹)
To Drawings A/c	2,000	By Balance b/d	20,000
To Interest on Drawings A/c	60	By Salary A/c (1,800 × 9)	16,200
To A's Executor's A/c (Balancing Figure)	43,290	By B's Capital A/c	3,000
		By C's Capital A/c	3,000
		By Profit and Loss Suspense A/c (Profit)	2,250
		By Interest on Capital A/c	900
	45,350		45,350

Working Note

(i) **Calculation of A's Share of Capital**
Total fixed Capital of the Firm = ₹ 60,000

$$\text{A's Share} = 60,000 \times \frac{1}{3} = ₹ 20,000$$

(ii) **Calculation of A's Share of Goodwill**
Last 3 years' profit = 21,200 − 3,200 + 9,000 = ₹ 27,000

$$\text{Average profit} = \frac{27,000}{3} = ₹ 9,000$$

Firm's Goodwill = Average Profit × Number of Years' Purchase
$$= 9,000 \times 2 = ₹ 18,000$$

A's share of goodwill $= 18,000 \times \frac{1}{3} = ₹ 6,000$, to be contributed by B and C in their gaining ratio i.e. 1 : 1.

(iii) **Calculation of A's Share of Profit**
$$\text{A's share of profit} = 9,000 \times \frac{1}{3} \times \frac{9}{12} = ₹ 2,250$$

(iv) **Calculation of Interest on A's Capital**
$$\text{Interest on A's capital} = 20,000 \times \frac{6}{100} \times \frac{9}{12} = ₹ 900$$

15. Shiv, Ashok and Vinod were partners in a firm sharing profits in the ratio of 2:2:1. On 31st December, 2008 their balance sheet was as follows

Balance Sheet
as at 31st December, 2008

Liabilities	Amt (₹)		Assets	Amt (₹)
Creditors	40,000		Cash	12,000
Bills Payable	10,000		Bank	27,000
General Reserve	12,000		Stock	63,000
Capital A/cs			Debtors	90,000
Shiv	2,00,000		Building	1,00,000
Ashok	1,50,000		Land	1,50,000
Vinod	1,00,000	4,50,000	Profit and Loss A/c	70,000
		5,12,000		5,12,000

Ashok died on 31st March, 2009. The partnership deed provided for the following on death of a partner.

(i) Goodwill of the firm was to be valued at 2 years' purchase of the average profits of the firm for the last 5 years. The total profits of file firm for the last 5 years were Rs. 3,60,000.

(ii) Ashok's share of profit or loss till the date of his death was to be calculated on the basis of the profit or loss for the year ending 31st December, 2008.

You are required to calculate the following

(i) Goodwill of the firm and Ashok's share of goodwill at the time of his death.

(ii) Ashok's share in the profit and loss of the firm till date of his death.

Prepare Ashok's capital account at the time of his death to be presented to his executors.   (Delhi 2010C)

Ans.

Dr		Ashok's Capital Account		Cr
Particulars	**Amt (₹)**	**Particulars**		**Amt (₹)**
To Profit and Loss A/c	28,000	By Balance b/d		1,50,000
To Profit and Loss Suspense A/c (Loss)	7,000	By General Reserve A/c		4,800
To Ashok's Executor's A/c	1,77,400	By Shiv's Capital A/c		38,400
		By Vinod's Capital A/c		19,200
	2,12,400			2,12,400

(*i*) **Calculation of Ashok's Share of Goodwill**

5 years' total profit = ₹ 3,60,000   Average profit = $\dfrac{3,60,000}{5}$ = ₹ 72,000

Goodwill = Average Profit × Number of Years' Purchase = 72,000 × 2 = ₹ 1,44,000

Ashok's share of goodwill = $1,44,000 \times \dfrac{2}{5}$ = ₹ 57,600, to be contributed by Shiv and Vinod in their gaining ratio i.e. 2 : 1.

(*ii*) **Calculation of Ashok's Share of Profit**

Ashok's share of profit (Dr) = $70,000 \times \dfrac{2}{5} \times \dfrac{3}{12}$ = ₹ 7,000

16. B, C and D were partners in a firm sharing profits in the ratio of 5 : 3 : 2. On 31st December, 2008 their balance sheet was as follows

Balance Sheet
as at 31st December, 2008

Liabilities	Amt (₹)		Assets	Amt (₹)
Creditors		43,000	Cash	10,200
Bills Payable		17,000	Stock	24,500
General Reserve		70,000	Debtors	27,300
Capital A/cs			Land and Building	1,40,000
B	40,000		Profit and Loss A/c	70,000
C	50,000			
D	52,000	1,42,000		
		2,72,000		2,72,000

B died on 31st March, 2009. The partnership deed provided for the following on the death of a partner.

(i) Goodwill of the firm was to be valued at 3 years purchase of the average profits of last 5 years. The total profits for the years ending 31st December, 2007, 31st December, 2006 31st December, 2005 and 31st December, 2004 were Rs. 70,000; Rs. 60,000; Rs. 50,000 and Rs. 40,000 respectively.

(ii) B's share of profit or loss till the date of his death was to be calculated on the basis of the profits or loss for the year ending 31st December, 2008.

You are required to calculate the following

(i) Goodwill of the firm and B's share of goodwill at the time of his death.

(ii) B's share in the profit and loss of the firm till the date of his death.

(iii) Prepare B's capital account at the time of his death to be presented to his executor. (All India 2010)

Ans. (i) Calculation of B's Share of Goodwill

$$\text{5 years total profit} = -70{,}000 + 70{,}000 + 60{,}000 + 50{,}000 + 40{,}000$$
$$= ₹ 1{,}50{,}000$$
$$\text{Average profit} = \frac{1{,}50{,}000}{5} = ₹ 30{,}000$$

Firm's Goodwill = Average Profit × Number of Years' Purchase
$$= 30{,}000 \times 3 = ₹ 90{,}000$$

B's share of goodwill $= 90{,}000 \times \dfrac{5}{10} = ₹ 45{,}000$, to be contributed by C and D in their gaining ratio *i.e.*, 3 : 2.

(ii) Calculation of B's Share of Profit

$$\text{B's share of profit} = 70{,}000 \times \frac{5}{10} \times \frac{3}{12} = ₹ 8{,}750 \ (Dr)$$

Dr					B's Capital Account		Cr
Date	Particulars		Amt (₹)	Date	Particulars		Amt (₹)
2009				2009			
Jan 1	To Profit and Loss A/c		35,000	Jan 1	By Balance b/d		40,000
Mar 31	To Profit and Loss Suspense A/c (Loss)		8,750	Jan 1	By General Reserve A/c		35,000
Mar 31	To B's Executor's A/c		76,250	Mar 31	By C's Capital A/c		27,000
				Mar 31	By D's Capital A/c		18,000
			1,20,000				1,20,000

17. P, Q and R were partners in a firm sharing profits in the ratio of 5 : 4 : 1. Their capitals were P Rs. 4,00,000, Q Rs. 3,00,000 and R Rs. 50,000. The firm closes its books on 31st March every year. On 31st March, 2006, Q died. According to the partnership deed, the executor of a deceased partner was entitled to

(i) Interest on capital from the first day on the accounting year till the date of his death @ 10% per annum.

(ii) His share of goodwill — The goodwill of the firm on Q's death was valued at Rs. 6,00,000.

(iii) His share of profit — The profit of the firm for the year ended 31st March, 2006 was Rs. 3,00,000.

Q's executor was paid the sum due in two annual instalments with interest @ 10% per annum.

Prepare Q's capital account at the time of his death on 31st March, 2006 to be presented to his executor and his executor's loan account for the year ended 31st March, 2007 and 2008.   (Delhi 2009C)

Ans. Dr   **Q's Capital Account**   Cr

Particulars	Amt (₹)	Particulars	Amt (₹)
To Q's Executor's Loan A/c	6,90,000	By Balance b/d	3,00,000
		By Interest on Capital A/c (3,00,000 × 10%)	30,000
		By P's Capital A/c (WN i)	2,00,000
		By R's Capital A/c (WN i)	40,000
		By Profit and Loss Suspense A/c (WN ii)	1,20,000
	6,90,000		6,90,000

Dr   **Q's Executors Loan Account**   Cr

Date	Particulars	Amt (₹)	Date	Particulars	Amt (₹)
2006			2006		
Mar 31	To Balance c/d	6,90,000	Mar 31	By Q's Capital A/c	6,90,000
		6,90,000			6,90,000
2007					
Mar 31	To Bank A/c (WN iii)	4,14,000	Apr 1	By Balance b/d	6,90,000
2007			2007		
Mar 31	To Balance c/d	3,45,000	Mar 31	By Interest A/c	69,000
		7,59,000			7,59,000
2008					
Mar 31	To Bank A/c	3,79,500	Apr 1	By Balance b/d	3,45,000
			2008		
			Mar 31	By Interest A/c	34,500
		3,79,500			3,79,500

Working Note

(i) Calculation of Q's Share of Goodwill

Firm's goodwill = ₹ 6,00,000

Q's share of goodwill = $6,00,000 \times \dfrac{4}{10}$ = ₹ 2,40,000, to be contributed by P and R in their gaining ratio. i.e. 5 : 1.

(ii) Calculation of Q's Share of Profit (Profits are assumed to be after charging Interest on capital)

Firm's profit = 3,00,000

Q's share of profit = $30,000 \times \dfrac{4}{10} = 1,20,000$

(iii) Calculation of Amount of Instalment

First instalment = $\dfrac{1}{2}$ of 6,90,000 = 3,45,000

$$(+) \ \text{Interest} = \underline{\quad 69,000}$$

$$₹ \ \underline{\underline{4,14,000}}$$

18. Ramesh, Suresh and Dinesh were partners in a firm sharing profits in the ratio of 3:3:4. Their capitals were Rs. 5,00,000; Rs. 4,00,000 and Rs. 5,00,000 respectively. The firm closes its books on 31st March every year. On 31st March, 2006, Ramesh died. The executor of the deceased partners according to the agreement was entitled for the following

(i) Interest on capital from the first day of the accounting year till the date of his death @ 9% per annum.

(ii) His share of qoodwill — The qoodwill of the firm on Ramesh's death was valued at Rs. 1,80,000.

(iii) His share of profits — The profit of the firm for the year ended 31 st March, 2006 was Rs. 1,20,000.

Ramesh's executor was paid the sum due in two annual instalments with interest @ 10% per annum.

Prepare Ramesh's capital account as on 31st March, 2006 to be presented to his executor (All India 2009)

Ans. Dr   **Ramesh's Capital Account**   Cr

Particulars	Amt (₹)	Particulars	Amt (₹)
To Ramesh's Executor's Loan A/c	6,35,000	By Balance b/d	5,00,000
		By Interest on Capital A/c (WN i)	45,000
		By Suresh's Capital A/c (WN ii)	23,143
		By Dinesh's Capital A/c (WN ii)	30,857
		By Profit and Loss Suspense A/c (WN iii)	36,000
	6,35,000		6,35,000

Dr   **Ramesh's Executor's Loan Account**   Cr

Date	Particulars	Amt (₹)	Date	Particulars	Amt (₹)
2006			2006		
Mar 31	To Balance c/d	6,35,000	Mar 31	By Ramesh's Capital A/c	6,35,000
		6,35,000			6,35,000
2007			2006		
Mar 31	To Bank A/c (3,17,500 + 63,500) (WN iv)	3,81,000	Apr 1	By Balance b/d	6,35,000
Mar 31	To Balance c/d	3,17,500	2007		
			Mar 31	By Interest A/c	63,500
		6,98,500			6,98,500
2008			2007		
Mar 31	To Bank A/c (3,17,500 + 31,750)	3,49,250	Apr 1	By Balance b/d	3,17,500
			2008		
			Mar 31	By Interest A/c	31,750
		3,49,250			3,49,250

Working Note

(i) **Calculation of Interest on Ramesh's Capital**

Interest on capital $= 5,00,000 \times \dfrac{9}{100} = ₹ 45,000$

(ii) **Calculation of Ramesh's Share of Goodwill**

Firm's goodwill $= ₹ 1,80,000$

Ramesh's share of goodwill $= 1,80,000 \times \dfrac{3}{10} = ₹ 54,000$, to be contributed by Suresh and Dinesh in

their gaining ratio i.e. 3 : 4.

(iii) **Calculation of Ramesh's Share of Profit** (Profits are assumed to be after charging interest on capital)

Firm's profit $= 1,20,000$

Ramesh's share of profit $= 1,20,000 \times \dfrac{3}{10} = ₹ 36,000$

(iv) **Calculation of Amount of Instalment**

First instalment $= \dfrac{1}{2}$ of $6,35,000 = 3,17,500$

(+) Interest $= \underline{\quad 63,500}$

$\qquad\qquad\qquad 3,81,000$

19. X, Y and Z were partners sharing profits in the ratio 3:2:1. On 31st March, 2008, their balance sheet stood as under

Balance Sheet
as at 31st March, 2008

Liabilities		Amt (₹)	Assets	Amt (₹)
Capital A/cs			Cash at Bank	70,000
X	75,000		Investment	50,000
Y	70,000		Patents	15,000
Z	50,000	1,95,000	Stock	25,000
Creditors		72,000	Debtors	20,000
General Reserve		24,000	Buildings	75,000
			Machinery	36,000
		2,91,000		2,91,000

X died on 31st May, 2008. It was agreed that

(i) Goodwill was valued at 3 years' purchase of the average profit of the last five years, which were, 2003 Rs. 40,000; 2004 Rs. 40,000; 2005 Rs. 30,000; 2006 : Rs. 40,000 and 2007 Rs. 50,000.

(ii) Machinery was valued at Rs. 70,000, patents at Rs. 20,000 and buildings at Rs. 66,000.

(iii) For the purpose of calculating X's share of profits till the date of death, it was agreed that the same be calculated based on the average profits for the last 2 years.

(iv) The executor of the deceased partner is to be paid the entire amount due by means of a cheque.

Prepare X's capital account to be rendered to the executor and also a journal

entry for the settlement of the amount due to the executor.   (All India 2009)

Ans. Dr   **X's Capital Account**   Cr

Particulars	Amt (₹)	Particulars	Amt (₹)
To X's Executor's A/c	1,65,750	By Balance b/d	75,000
		By General Reserve A/c $\left(24{,}000 \times \dfrac{3}{6}\right)$	12,000
		By Y's Capital A/c	40,000
		By Z's Capital A/c	20,000
		By Revaluation A/c (Profit)	15,000
		By Profit and Loss Suspense A/c (Profit)	3,750
	1,65,750		1,65,750

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Date	Particulars	LF	Amt (Dr)	Amt (Cr)
	X's Capital A/c Dr		1,65,750	
	To X's Executor's A/c			1,65,750
	(Being amount due to X transferred to X's executor's account)			
	X's Executor's A/c Dr		1,65,750	
	To Bank A/c			1,65,750
	(Being amount paid to X 's executor)			

Working Note

(*i*) Dr   **Revaluation Account**   Cr

Particulars		Amt (₹)	Particulars	Amt (₹)
To Building A/c		9,000	By Machinery A/c	34,000
To Profit Transferred to			By Patents A/c	5,000
X's Capital A/c	15,000			
Y's Capital A/c	10,000			
Z's Capital A/c	5,000	30,000		
		39,000		39,000

(*ii*) **Calculation of X's Share of Goodwill**

Last 5 years total profit = 40,000 + 40,000 + 30,000 + 40,000 + 50,000 = ₹ 2,00,000

$$\text{Average profit} = \frac{2{,}00{,}000}{5} = ₹\ 40{,}000$$

Firm's Goodwill = Average Profit × Number of Years' Purchase

$$= 40{,}000 \times 3 = ₹\ 1{,}20{,}000.$$

X's share of goodwill $= 1{,}20{,}000 \times \dfrac{3}{6} = ₹\ 60{,}000$, to be contributed by Y and Z in their gaining

ratio. i.e. 2 : 1.

(*iii*) **Calculation of X's Share of Profit**

Last 2 years average profit $= \dfrac{40{,}000 + 50{,}000}{2} = ₹\ 45{,}000$

X's share of profit $= 45{,}000 \times \dfrac{3}{6} \times \dfrac{2}{12} = ₹\ 3{,}750$

20. Babul and Vinay were partners. The partnership deed provided for

(i) Profits to be divided as Babul 1/2, Vinay 1/3 and l/6th to be transferred to reserves.

(ii) The accounts are closed on 31st March each year.

(iii) In the event of the death of a partner, the executors will be entitled to the following

(a) Capital to be credited on the date of the death.

(b) Interest on capital at 12% per annum.

(c) Proportion of profits to the date of death based on the average profits credited for the last 3 years.

(d) Share of goodwill based on three years' purchase of the average profits of the preceding 3 years.

The following information is provided to you

Babul's capital Rs. 90,000; Vinay's capital Rs. 60,000; reserves Rs. 30,000; cash Rs. 1,10,000; investment Rs. 70,000.

Prepare Vinay's account to be presented to his executor, as he died on 30th April, 2007. The profits for the three preceding years were Rs. 48,000, Rs. 42,000 and Rs. 45,000.   (All India 2008)

Ans. Dr   **Vinay's Capital Account**   Cr

Particulars	Amt (₹)	Particulars	Amt (₹)
To Vinay's Executor's A/c	1,28,100	By Balance b/d	60,000
		By Interest on Capital A/c (WN i)	600
		By Profit and Loss Suspense A/c (WN ii)	1,500
		By Babul's Capital A/c (WN iii)	54,000
		By Reserve (30,000 × 2 / 5)	12,000
	1,28,100		1,28,100

Working Note

(i) **Calculation of Interest on Vinay's Capital**

$$\text{Interest on Vinay's capital} = 60{,}000 \times \frac{12}{100} \times \frac{1}{12} = ₹\ 600$$

(ii) **Calculation of Vinay's Share of Profit**

Last 3 years total profit = 48,000 + 42,000 + 45,000 = ₹ 1,35,000

$$\text{Average profit} = \frac{1{,}35{,}000}{3} = ₹\ 45{,}000$$

$$\text{Vinay's share of profit} = 45{,}000 \times \frac{2}{5} \times \frac{1}{12} = ₹\ 1{,}500$$

(iii) **Calculation of Vinay's Share of Goodwill**

Firm's Goodwill = Average Profit × Number of Years' Purchase

= 45,000 × 3 = ₹ 1,35,000

$$\text{Vinay's share of goodwill} = 1{,}35{,}000 \times \frac{2}{5} = ₹\ 54{,}000, \text{ to be contributed by Babul.}$$

8 Marks Questions

21. G, E and F were partners in a firm sharing profits in the ratio of 7 : 2 : 1. The balance sheet of the firm as on 31st March, 2011 was as follows

Balance Sheet
as at 31st March, 2011

Liabilities		Amt (₹)	Assets	Amt (₹)
Capital A/cs			Goodwill	40,000
G	70,000		Land and Building	60,000
E	20,000		Machinery	40,000
F	10,000	1,00,000	Stock	7,000
General Reserve		20,000	Debtors	12,000
Loan from E		30,000	Cash	5,000
Creditors		14,000		
		1,64,000		1,64,000

E died on 24th August, 2011. Partnership deed provides for the settlement of claims on the death of a partner in addition to his capital as under.

(i) The share of profit of deceased partner to be computed upto the date of death'on the basis of average profits of the past three years which was ? 80,000.

(ii) His share in profit/loss on revaluation of assets and re-assessment of liabilities which were as follows

Land and building were revalued atRs. 94,000. Machinery at Rs. 38,000 and stock at Rs. 5,000. A provision of 2.5% was to be created on debtors for doubtful debts.

(iii) The net amount payable to E's executors was transferred to his loan account, to be paid later on.

Prepare revaluation account, partners' capital account, E's executor account and balance sheet of 'G' and 'F' who 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.   (Delhi 2012)

Ans. Dr   Revaluation Account   Cr

Particulars	Amt (₹)		Particulars	Amt (₹)
To Machinery A/c		2,000	By Land and Building A/c	34,000
To Stock A/c		2,000		
To Provision for Doubtful Debts A/c		300		
To Profit Transferred to				
G's Capital A/c	20,790			
E's Capital A/c	5,940			
F's Capital A/c	2,970	29,700		
		34,000		34,000

Dr   Partners' Capital Account   Cr

Particulars	G	E	F	Particulars	G	E	F
To Goodwill A/c	28,000	8,000	4,000	By Balance b/d	70,000	20,000	10,000
To E's Executor's A/c	—	28,340	—	By General Reserve A/c	14,000	4,000	2,000
To Balance c/d	76,790	—	10,970	By Revaluation A/c (Profit)	20,790	5,940	2,970
				By Profit and Loss Suspense A/c (Profit)	—	6,400	—
	1,04,790	36,340	14,970		1,04,790	36,340	14,970

Balance Sheet
as at 31st March, 2011

Liabilities		Amt (₹)	Assets		Amt (₹)
Capital A/cs			Land and Building		94,000
G	76,790		Machinery		38,000
F	10,970	87,760	Stock		5,000
Creditors		14,000	Debtors	12,000	
E's Executor's Loan A/c		58,340	(–) Provision for Doubtful Debts	(300)	11,700
			Cash		5,000
			Profit and Loss Suspense A/c		6,400
		1,60,100			1,60,100

Dr		E's Executor's Account		Cr
Particulars	Amt (₹)	Particulars		Amt (₹)
To E's Executor's Loan A/c	58,340	By E's Capital A/c		28,340
		By E's Loan A/c		30,000
	58,340			58,340

Working Note

(i) **Calculation of E's Share of Profit** Number of days E worked for

April + May + June + July + August = 30 + 31 + 30 + 31 + 24 = 146 days

$$\text{Share of profit} = 80{,}000 \times \frac{146}{365} \times \frac{2}{10} = ₹\,6{,}400$$

(ii) **Calculation of G's and F's Capital**

G's capital after adjustment = 76,790

F's capital after adjustment = 10,970

Total capital = $\overline{87{,}760}$

G's capital $87{,}760 \times 7/8 = ₹\,76{,}790$;

F's capital $= 87{,}760 \times 1/8 = ₹\,10{,}970$

22. Khanna, Seth and Mehta were partners in a firm sharing profits in the ratio of 3 : 2 : 5. On 31st December, 2010 the balance sheet of Khanna, Seth and Mehta was as follows

Balance Sheet
as at 31st December, 2010

Liabilities		Amt (₹)	Assets	Amt (₹)
Capital A/cs			Goodwill	3,00,000
Khanna	3,00,000		Land and Building	5,00,000
Seth	2,00,000		Machinery	1,70,000
Mehta	5,00,000	10,00,000	Stock	30,000
General Reserve		1,00,000	Debtors	1,20,000
Loan Form Seth		50,000	Cash	45,000
Creditors		75,000	Profit and Loss A/c	60,000
		12,25,000		12,25,000

On 14th March 2011, Seth died. The partnership deed provided that on the death of a partner the executor of the deceased partner is entitled to

(i) Balance in capital account.

(ii) Share in profits upto the date of death on the basis of last year's profit.

(iii) His share in 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 toRs. 25,000.

(c) A provision of 2.5% for bad and doubtful debts was to be created on debtors.

(d) The net amount payable to Seth's executors was transferred to his loan account which was to be paid later.

Prepare revaluation account, partners' capital account, Seth's executor's account and balance sheet of Khanna and Mehta who decided to continue the business keeping their capital balances in their new profit sharing ratio. Any surplus or deficit to be transferred to current accounts of the partners.   (All India 2012)

Ans.

Revaluation Account

Particulars		Amt (₹)	Particulars	Amt (₹)
To Machinery A/c		35,000	By Land and Building A/c	1,20,000
To Stock A/c		5,000		
To Provision For Doubtful Debts A/c		3,000		
To Profit Transferred to				
Khanna's Capital A/c	23,100			
Seth's Capital A/c	15,400			
Mehta's Capital A/c	38,500	77,000		
		1,20,000		1,20,000

Dr   **Partners' Capital Account**   **Cr**

Particulars	Khanna	Seth	Mehta	Particulars	Khanna	Seth	Mehta
To Goodwill A/c	90,000	60,000	1,50,000	By Balance b/d	3,00,000	2,00,000	5,00,000
To Profit and Loss A/c	18,000	12,000	30,000	By Revaluation A/c (Profit)	23,100	15,400	38,500
To Profit and Loss Suspense A/c (Loss)	—	2,400	—	By General Reserve A/c	30,000	20,000	50,000
To Seth's Executor's A/c	—	1,61,000	—				
To Balance c/d	2,45,100	—	4,08,500				
	3,53,100	2,35,400	5,88,500		3,53,100	2,35,400	5,88,500

Balance Sheet
as at 14th March, 2011

Liabilities		Amt (₹)	Assets		Amt (₹)
Capital A/cs			Land and Building		6,20,000
Khanna	2,45,100		Machinery		1,35,000
Mehta	4,08,500	6,53,600	Stock		25,000
Creditors		75,000	Debtors	1,20,000	
Seth's Executor's Loan A/c		2,11,000	(−) Provision for Doubtful Debts	(3,000)	1,17,000
Profit and Loss Suspense A/c		2,400	Cash		45,000
		9,42,000			9,42,000

Dr   **Seth's Executor's Account**   **Cr**

Particulars	Amt (₹)	Particulars	Amt (₹)
To Seth's Executor's Loan A/c	2,11,000	By Seth's Capital A/c	1,61,000
		By Seth's Loan A/c	50,000
	2,11,000		2,11,000

Working Note

(*i*) **Calculation of Seth's Share of Profit**

Number of days Seth worked for = Jan + Feb + March = 31 + 28 + 14 = 73 days.

$$\text{Share of Seth's profit} = 60,000 \times \frac{73}{365} \times \frac{2}{10} = ₹\ 2,400$$

(*ii*) **Calculation of Khanna's and Mehta's Capital**

Khanna's capital after adjustment = 2,45,100

Mehta's capital after adjustment = 4,08,500

Total capital = $\overline{6,53,600}$

$$\text{Khanna's capital} = 6,53,600 \times \frac{3}{8} = ₹\ 2,45,100$$

$$\text{Mehta's capital} = 6,53,600 \times \frac{5}{8} = ₹\ 4,08,500$$

23. M, N and O were partners in a firm sharing profits and losses equally. Their balance sheet on 31st December, 2009 was as follows

Balance Sheet
as at 31st December, 2009

Liabilities		Amt (₹)	Assets	Amt (₹)
Capital A/cs			Plant and Machinery	60,000
M	70,000		Stock	30,000
N	70,000		Sundry Debtors	95,000
O	70,000	2,10,000	Cash at Bank	40,000
General Reserve		30,000	Cash in Hand	35,000
Creditors		20,000		
		2,60,000		2,60,000

N died on 14th March, 2010. According to the partnership deed, executors of the deceased partner are entitled to

(i) Balance of partner's capital account.

(ii) Interest on capital @ 5% per annum.

(iii) Share of goodwill calculated on.the basis of twice the average of past three years' profit.

(iv) Share of profits from the closure of the last accounting year till the date of death on the basis of twice the average of three completed years' profits before death. Profits of 2007, 2008 and 2009 were Rs. 80,000, Rs. 90,000 and Rs. 1,00,000 respectively. Show the working for deceased partner's share of goodwill and profits till the date of his death. Pass the necessary journal entries and prepare N's capital account to be rendered to his executor.   (Delhi 2011)

Ans. Dr   **JOURNAL**   Cr

Date	Particulars	LF	Amt (Dr)	Amt (Cr)
2010 Mar 14	General Reserve A/c Dr		10,000	
	To N's Capital A/c			10,000
	(Being share of general reserve given to N)			
	Interest on Capital A/c Dr		700	
	To N's Capital A/c			700
	(Being interest on capital given to N)			
	M's Capital A/c Dr		30,000	
	O's Capital A/c Dr		30,000	
	To N's Capital A/c			60,000
	(Being amount of goodwill adjusted in gaining ratio)			
	Profit and Loss Suspense A/c Dr		12,000	
	To N's Capital A/c			12,000
	(Being N's share of profit transferred to his capital account)			

Date	Particulars	LF	Amt (Dr)	Amt (Cr)
	N's Capital A/c Dr		1,52,700	
	To N's Executor's A/c			1,52,700
	(Being amount due to N transferred to N's executor's account)			

Dr   **N's Capital Account**   Cr

Particulars	Amt (₹)	Particulars	Amt (₹)
To N's Executor's Account A/c	1,52,700	By Balance b/d	70,000
		By General Reserve A/c (30,000 × 1/3)	10,000
		By Interest on Capital A/c	700
		By M's Capital A/c	30,000
		By O's Capital A/c	30,000
		By Profit and Loss Suspense A/c (Profit)	12,000
	1,52,700		1,52,700

Working Note

(i) **Calculation of Interest on N's Capital**

Interest on N's capital $= 70,000 \times \dfrac{5}{100} \times \dfrac{73}{365} = ₹\ 700$

(ii) **Calculation of Goodwill**

3 years total profit $= 80,000 + 90,000 + 1,00,000 = ₹\ 2,70,000$

Average profit $= \dfrac{2,70,000}{3} = ₹\ 90,000$

Firm's Goodwill = Average Profit × Number of Years' Purchase $= 90,000 \times 2 = ₹\ 1,80,000$

N's share of goodwill $= 1,80,000 \times \dfrac{1}{3} = ₹\ 60,000$

(iii) **Calculation of Share of N's Share of Profit**

N's Share of Profit = Average Profit × Number of Years' Purchase × Days × Profit Sharing Ratio

$= 90,000 \times 2 \times \dfrac{73}{365} \times \dfrac{1}{3} = ₹\ 12,000$

24. X,Y and Z were partners in a firm sharing profits and losses in the ratio of 5 : 3 : 2 on 31st March, 2010 their balance sheet was as follows

Balance Sheet
as at 31st March, 2010

Liabilities	Amt (₹)		Assets	Amt (₹)
Capital A/cs			Building	50,000
X	75,000		Patents	15,000
Y	62,500		Machinery	75,000
Z	37,500	1,75,000	Stock	37,500
Sundry Creditors		42,500	Debtors	20,000
			Cash at Bank	20,000
		2,17,500		2,17,500

Z died on 31July, 2010, It was agreed that

(i) Goodwill be valued at 2.5 years' purchase of the average profit of the last four years, which were as follows

Years	Profits (₹)
2006-2007	32,500
2007-2008	30,000
2008-2009	40,000
2009-2010	37,500

(ii) Machinery to be valued at Rs. 70,000, patents at Rs. 20,000 and building at Rs. 62,500.

(iii) For the purpose of calculating Z's share of profit in the year of his death the profits in 2010-2011 should be taken to have been accured on the same scale as in 2009-2010.

(iii) A sum of Rs. 17,500 was paid immediately to the executors of Z and the balance was paid in four half yearly instalments together with interest at 12% per annum starting from 31st January, 2011.

Given necessary journal entries to record the above transactions and Z's executor's account till the payment due on 31st January, 2011.   (All India 2011)

Ans.

JOURNAL

Date	Particulars		LF	Amt (Dr)	Amt (Cr)
2010 Jul 31	X's Capital A/c	Dr		10,938	
	Y's Capital A/c	Dr		6,562	
	To Z's Capital A/c				17,500
	(Being amount of goodwill transferred to Z's capital account)				
	Revaluation A/c	Dr		5,000	
	To Machinery A/c				5,000
	(Being decrease in the value of assets)				
	Patents A/c	Dr		5,000	
	Building A/c	Dr		12,500	
	To Revaluation A/c				17,500
	(Being Increase in the value of assets)				
	Revaluation A/c	Dr		12,500	
	To X's Capital A/c				6,250
	To Y's Capital A/c				3,750
	To Z's Capital A/c				2,500
	(Being revaluation profit transferred to partners capital account)				
	Profit and Loss Suspense A/c	Dr		2,500	
	To Z's Capital A/c				2,500
	(Being Z's Share of profit till the date of death)				

Date	Particulars		LF	Amt (Dr)	Amt (Cr)
	Z 's Capital A/c	Dr		60,000	
	To Z 's Executor's A/c				60,000
	(Being amount due to Z transferred to Z 's executor's account)				
	Z 's Executor's A/c	Dr		17,500	
	To Bank A/c				17,500
	(Being cash paid to Z 's executor)				
2011 Jan 31	Interest on Z 's Executors (Loan) A/c	Dr		2,550	
	To Z 's Executors A/c				2,550
	(Being amount of on intest Loan due to Z 's executors)				

Dr   Z's Capital Account   **Cr**

Particulars	Amt (₹)	Particulars	Amt (₹)
To Z 's Executor's A/c	60,000	By Balance b/d	37,500
		By X 's Capital A/c	10,938
		By Y 's Capital A/c	6,562
		By Revaluation A/c (Profit)	2,500
		By Profit and Loss Suspense A/c (Profit)	2,500
	60,000		60,000

Dr   Z's Executor's Account   **Cr**

Date	Particulars	Amt (₹)	Date	Particulars	Amt (₹)
2010 Jul 31	To Bank A/c	17,500	2010 Jul 31	By Z 's Capital A/c	60,000
2011 Jan 31	To Bank A/c (10,625 + 2,550)	13,175	2011 Jan 31	By Interest A/c	2,550
	To Balance c/d	31,875			
		62,550			62,550

Working Note

(i) **Dr**   Revaluation Account   **Cr**

Particulars	Amt (₹)		Particulars	Amt (₹)
To Machinery A/c		5,000	By Patents A/c	5,000
To Profit Transferred to			By Building A/c	12,500
X's Capital A/c	6,250			
Y's Capital A/c	3,750			
Z's Capital A/c	2,500	12,500		
		17,500		17,500

(ii) Calculation of Z's Share of Goodwill

4 years total profit = 32,500 + 30,000 + 40,000 + 37,500 = ₹ 1,40,000

$$\text{Average profit } = \frac{1,40,000}{4} = ₹\ 35,000$$

Firm's Goodwill = Average Profit × Number of Years' Purchase

$$= 35,000 \times \frac{5}{2} = ₹\ 87,500$$

Z's share of goodwill = ₹ $87,500 \times \frac{2}{10} = ₹\ 17,500$, to be contributed by X and Y in their gaining ratio i.e. 5 : 3.

(iii) Calculation of Z's Share of Profit

Z's share of profit = $37,500 \times \frac{2}{10} \times \frac{4}{12} = ₹\ 2,500$

(iv) Amount to be paid in each instalment = $\dfrac{60,000 - 17,500}{4} = \dfrac{42,500}{4} = ₹\ 10,625$

(v) Interest amount on 31 January, 2011 = $42,500 \times \dfrac{12}{100} \times \dfrac{6}{12} = ₹\ 2,550$