24

RETIREMENT AND DEATH OF A PARTNER

If you look around, you must have noticed people in your relation and in your neighbourhood running business in partnership. You must have seen people quitting partnership firm or a person dies while in partnership. These are the events that take place during the lifetime of a partnership firm. Some issues arise on the happening of these events involving finance. Some assets and liabilities may need revaluation, goodwill is to be treated and amount of joint life policy is distributed and some accounting adjustment have to be made. Whenever such events take place, the firm has to calculate the dues of a partner leaving the firm or that of the deceased. In this lesson you will learn the accounting treatment in the books of the firm in these two cases i.e. retirement of a partner and death of a partner.

OBJECTIVES

After studying this lesson, you will be able to:

- state the meaning of retirement/death of a partner;
- calculate new profit sharing ratio and gaining ratio;
- make adjustments relating to goodwill;
- explain the need for revaluation of assets and reassessment of liabilities at the time of retirement/death;
- describe treatment of accumulated reserves and undistributed profits at the time of retirement/death of a partner;

- prepare revaluation account on retirement/death of a partner;
- illustrate the various methods of settling the claim of retiring partner and the related accounting treatment;
- illustrate the accounting treatment of partners' capital and its adjustment;
- ascertain profit up to the date of death of a partner and
- prepare the account of the deceased partner's executor.

24.1 RETIREMENT – MEANING, CALCULATION OF NEW PROFIT SHARING RATIO AND GAINING RATIO

When one or more partners leave the firm and the remaining partners continue to do the business of the firm, it is known as retirement of a partner. Amit, Sunil and Ashu are partners in a firm. Due to some family problems, Ashu wants to leave the firm. The other partners decide to allow him to withdraw from the partnership. Thus, due to some reasons like old age, poor health, strained relations etc., an existing partner may decide to retire from the partnership. Due to retirement, the existing partnership comes to an end and the remaining partners form a new agreement and the partnership firm is reconstituted with new terms and conditions. At the time of retirement the retiring partner's claim is settled.

A partner retires either :

(i) with the consent of all partners, or

(ii) as per terms of the agreement; or

(iii) at his or her own will.

The terms and conditions of retirement of a partner are normally provided in the partnership deed. If not, they are agreed upon by the partners at the time of retirement. The old partnership comes to an end and a new partnership is formed among the remaining partners. At the time of retirement the following accounting issues are dealt with :

(a) New profit sharing ratio and gaining ratio.

(b) Goodwill.

(c) Adjustment of changes in the value of Assets and liabilities.

(d) Treatment of reserve and accumulated profits.

Notes

(e) Settlement of retiring partners dues.

(f) New capital of the continuing partners.

New Profit Sharing Ratio and Gaining Ratio

As soon as a partner retires the profit sharing ratio of the continuing partners get changed. The share of the retiring partner is distributed amongst the continuing partners. In the absence of information, the continuing partners take the retiring partner's share in their profit sharing ratio or in an agreed ratio. The ratio in which retiring partner's share is distributed amongst continuing partners is known as gaining ratio. Gain of a partner is

New Ratio – Existing Ratio

Gain of an exising partner = His New Share - His Existing (old) Share

Various cases of new ratio and gaining ratio are illustrated as follows :

(i) Retiring Partner's Share Distributed in Existing Ratio

In this case, retiring partner's share is distributed in existing ratio amongst the remaining partners. The remaining partners continue to share profits and losses in the existing ratio. The following example illustrates this :

Tanu, Manu and Rena are partners sharing profits and losses in the ratio of 4 : 3 : 2. Tanu retires and remaining partners decide to take Tanu's share in the existing ratio i.e. 3 : 2. Calculate the new ratio of Manu and Rena.

Existing Ratio between Manu and Rena = 3/9 and 2/9

Tanu's Share (retiring partner) = 4/9

Tanu's share taken by the Manu and Rena in the ratio of 3 : 2

Manu's Gain = $4/9 \times 3/5 = 12/45$

Manu's New Share = $3/9 + 12/45 = 27/45$

Rena's Gain = $4/9 \times 2/5 = 8/45$

Rena's New Share = $2/9 + 8/45 = 18/45$

New ratio of Manu and Rena is $27/45 : 18/45 = 27 : 18 = 3 : 2$.

Gain of a Partner = New Share – Existing Share

Manu's Gain = 27/45 – 3/9 = 12/45

Rena's Gain = 18/45 – 2/9 = 8/45

Gaining Ratio = 12/45 : 8/45 OR 3 : 2

You may note that the new ratio is similar to existing ratio that existed between Manu and Rena before Tanu's retirement.

Note: In absence of any information in the question, it will be presumed that retiring partner's share has been distributed among the remaing partners in existing (old) ratio.

(ii) Retiring partner's share distributed in Specified proportion

Sometimes the remaining partners purchase the share of the retiring partner in specified ratio. The share purchased by them is added to their old share and the new ratio is arrived at. The following example illustrates this:

A, B and C are partners in the firm sharing profits in the ratio of 3 : 2 : 1. B retired and his share was divided equally between A and C. Calculate the new profit sharing ratio of A and C.

B's Share = 2/6

B's share is divided between A and C in the ratio of 1 : 1.

A's Gain 1/2 of 2/6	= 2/6 × 1/2	= 1/6
A's New Share	= 3/6 + 1/6	= 4/6
C's Gain 1/2 of 2/6	= 2/6 × 1/2	= 1/6
C's New share	= 1/6+1/6	= 2/6

Thus new, ratio of A and C will be 2 : 1

(iii) Retiring Partner's share is taken by one of the partners

The retiring partner's share is taken up by one of the remaining partners. In this case, the retiring partner's share is added to that of existing partner's share. Only his/her share changes. The other partners continue to share profit in the existing ratio. An example illustrating this point is given below:

Anuj, Babu and Rani share profit in the ratio of 5 : 4 : 2. Babu retires and his share is taken by Rani, So Rani's share is 2/11 + 4/11 = 6/11, Anuj share will remain unchanged i.e, 5/11. Thus, the new profit sharing ratio of Anuj and Rani is 5 : 6.

Notes

Illustration 1

Neru, Anu and Ashu are partners sharing profit in the ratio of 4 : 3 : 2. Ashu retires. Find the new ratio of Neru and Anu if terms for retirement provide the following :

(i) Ratio is not given

(ii) Equal distribution of Ashu's share

(iii) Ashu's share is taken by Neru and Anu in the ratio of 2 : 1

(iv) Anu takes over the share of Ashu.

Solution :

(i) New profit sharing ratio of Neru and Anu is 4 : 3.

(ii) Ashu's share = 2/9

Neru's Gain = 1/2 of 2/9 = 2/9 × 1/2 = 1/9

Neru's New share = 4/9 + 1/9 = 5/9

Anu's Gain = 1/2 of 2/9 = 2/9 × 1/2 = 1/9

Anu's New Share = 3/9 + 1/9 = 4/9

New profit sharing ratio of Neru and Anu is 5/9 : 4/9 or 5 : 4

Gaining ratio is equal 1/9 : 1/9 = 1 : 1

(iii) Ashu's Share = 2/9

Neru's Gain = 2/3 of 2/9 = 2/9 × 2/3 = 4/27

Neru's new share = 4/9 + 4/27 = 16/27

Anu's Gain = 1/3 of 2/9 = 2/9 × 1/3 = 2/27

Anu's new share = 3/9 + 2/27 = 11/27

New profit sharing ratio of Neru and Anu is 16 : 11.

Gaining ratio is 4/27 : 2/27 = 4 : 2 = 2 : 1

$$\left[i.e. \frac{16}{27} - \frac{4}{9} = \frac{4}{27}; \quad \frac{11}{27} - \frac{3}{9} = \frac{2}{27}; \quad 4:2 = 2:1 \right]$$

(iv) Anu takes over Ashu share fully.

Ashu's share = 2/9

Anu's Gain = 2/9

Anu's new share = 3/9 + 2/9 = 5/9

New profit sharing ratio of Neru and Anu is 4 : 5

Only Anu gains.

Notes

Illustration 2

Ashish, Barmon, and Chander are partners sharing profits and losses in the ratio of 2 : 1 : 2 respectively. Chander retires and Ashish and Barman decide to share the profits and losses equally in future. Calculate the gaining ratio.

Solution :

Gain of a Partner	=	New Share – Existing (old) Share		
Hence, Ashish's Gain	=	1/2 – 2/5	=	1/10
Barman's Gain	=	1/2 – 1/5	=	3/10

Gaining ratio between Ashish and Barman is 1 : 3

INTEXT QUESTIONS 24.1

I. Give any three circumstances under which a partner may retire from partnership.

II. New share of remaining partner is

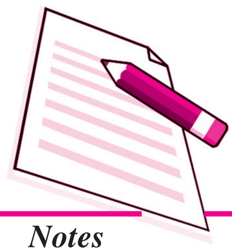
III. Gain of a Partners Share = New Share – ....?

IV. A B and C were sharing profit in the ratio of 3 : 2 : 1. A retires, his share is taken by B and C in the ratio of 2 : 1. Which of the following is the new ratio of B and C after A's retirement?

(a) 3 : 2 (b) 2 : 1 (c) 1 : 2

24.2 TREATMENT OF GOODWILL

The retiring partner is entitled to his/her share of goodwill at the time of retirement because the goodwill is the result of the efforts of all partners including the retiring one in the past. The retiring partner is compensated for his/her share of goodwill. As per Accounting Standard 10 (AS-10), goodwill is recorded in the books only when some consideration in money is paid for it. Therefore, goodwill is recorded in the books only when it is purchased and the goodwill account cannot be raised on its own.



Notes

Therefore, in case of retirement of a partner, the goodwill is adjusted through partner's capital accounts. The retiring partner's capital account is credited with. his/her share of goodwill and remaining partner's capital account is debited in their gaining ratio. The journal entry is made as under:

Remaining Partners' Capital A/c Dr. (individually)
    To Retiring Partner's Capital A/c
(Retiring partner's share of goodwill adjusted to remaining partners in the gaining ratio)

Illustration 3

Mitu, Udit and Sunny are partners sharing profit equally. Sunny retires and the goodwill of the firm is valued at ₹ 54,000. No goodwill account appears in the books of the firm. Mitu and Udit share future profit in the ratio of 3 : 2. Make necessary journal entry for goodwill.

Solution :

Journal

Date	*Particulars*	*L.F.*	*Debit Amount (₹)*	*Credit Amount (₹)*
	Mitu's Capital A/c Dr		14,400	
	Udit's Capital A/c Dr.		3,600	
	To Sunny's Capital A/c			18,000
	(Sunny's share of goodwill adjusted to remaining partners in their gaining ratio 4 : 1]			

Note : Sunny's share of goodwill = ₹ 54,000 × 1/3 = ₹18,000

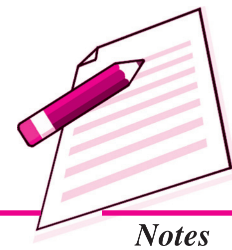
Gain of a Partner = New Share – Existing Share

Mitu Gains = 3/5 – 1/3 = 9/15 – 5/15 = 4/15

Udit Gains = 2/5 - 1/3 = 6/15 – 5/ 15 = 1/15

Gaining Ratio between Mitu and Udit = 4 : 1

When the Goodwill Account already appears in the Books



Normally the goodwill is not shown in the books of the firm. If at the time of retirement/ death of a partner, goodwill appears in the Balance Sheet of the firm, it will be written off by debiting all the partners' capital accounts in their existing profit sharing ratio and crediting the goodwill account. In such a case, the following journal entry is made:

Partners' Capital A/c Dr (including retiring partner's capital A/c)
To Goodwill A/c
(Existing goodwill written-off)

Illustration 4

Tanu, Priya and Mayank are partners' sharing profit in the ratio of 3 : 2 : 1. Priya retires and on the date of Priya's retirement goodwill is valued at ₹ 90,000. Goodwill already appears in the books at a value of ₹ 48,000. New ratio of Tanu and Mayank is 3 : 2. Make the necessary journal entries.

Solution :

Journal

Date	*Particulars*		*L.F.*	*Debit Amount (₹)*	*Credit Amount (₹)*
	Tanu's Capital A/c	Dr.		24,000	
	Priya's Capital A/c	Dr.		16,000	
	Mayank's Capital A/c	Dr.		8,000	
	To Goodwill A/c				48,000
	(Existing goodwill written-off from the books)				
	Tanu's Capital A/c	Dr.		9,000	
	Mayank's Capital A/c	Dr.		21,000	
	To Priya's Capital A/c				30,000
	(Priya's share of goodwill adjusted to remaining partners in their gaining ratio 3 : 7)				

Note : Priya's share of goodwill = ₹90,000 × 2/6 = ₹30,000

Gaining of a Partner's = New Share – Existing Share,

Notes

Tanu's Gain = 3/5 – 3/6 = 18/30 – 15/30 = 3/30

Mayank's Gain = 2/5 – 1/6 = 12/30 – 5/30 = 7/30

Gaining Ratio between Tanu and Mayank = 3 : 7

INTEXT QUESTIONS 24.2

State whether the following statements are True or False :

(i) Retiring partner's share of goodwill is debited to his/her capital account at the time of retirement.

(ii) Goodwill is recorded in the books only when it is purchased.

(iii) The retiring partner's capital account is debited with his/her share of goodwill and remaining partner's capital account is credited in their gaining ratio.

(iv) In case goodwill account is written off the capital account of all partners is credited.

24.3 REVALUATION OF ASSETS AND REASSESSMENT OF LIABILITIES

At the time of retirement of a partner the assets of the firm are revalued and liabilities are reassessed. Revaluation Account is prepared in the same way as in case of admission of a partner. This is done to adjust the changes in value of assets and liabilities at the time of retirement/death of a partner. Any gain or loss due to revaluation is divided amongst all the partners including retiring/deceased in their existing profit sharing ratio. Following journal entries are made for this purpose:

(i) For increase in value of assets:

Assets A/c	Dr.	(Individually)
To Revaluation A/c		
(Increase in the value of assets)		

(ii) For decrease in value of assets:

Revaluation A/c	Dr.	
To Assets A/c		(Individually)
(Decrease in the value of asset)		

(iii) For increase in value of Liabilities:

Revaluation A/c Dr.
  To Liabilities A/c (Individually)
(Increase in the value of liabilities)

(iv) For decrease in value of Liabilities:

Liabilities A/c Dr. (Individually)
  To Revaluation A/c
(Decrease in the value of liabilities)

Revaluation account is prepared to record the change in the value of assets or liabilities. It will reveal profit or loss on revaluation. This profit or loss is divided amongst all partners including the retiring/deceased partner in existing profit sharing ratio.

(v) For Profit on Revaluation :

Revaluation A/c Dr. (Individually)
  To Partner's Capital A/c
(Profit on revaluation divided amongst all partners in their existing profit sharing ratio)

(vi) For loss on Revaluation:

Partner's Capital A/c Dr. (Individually)
  To Revaluation A/c
(Loss on revaluation borne by all partners in their existing profit sharing ratio)

Notes

Illustration 5

Mudit, Mohit and Sonu are partners sharing profit in the ratio 3 : 2 : 1. Mudit retires from the partnership. In order to settle his claim, the following revaluation of assets and liabilities was agreed upon:

(i) The value of Machinery is increased by ₹ 25,000.

(ii) The value of Investment is increased by ₹ 2,000.

(iii) A provision for outstanding bill standing in the books at ₹ 1,000 is now not required.

(iv) The value of Land and Building is decreased by ₹ 12,000.

Give journal entries and prepare Revaluation account.

Notes

Solution :

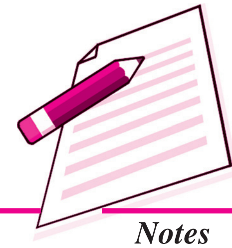
JOURNAL

Date	Particulars		L.F.	Debit Amount (₹)	Credit Amount (₹)
	Machinery A/c	Dr.		25,000	
	Investments A/c	Dr.		2,000	
	Provision for Outstanding Bill	Dr.		1,000	
	To Revaluation A/c				28,000
	(Increase in value of Assets i.e. Machinery and investment and reduction in provision)				
	Revaluation A/c	Dr.		12,000	
	To Land and Building A/c				12,000
	(Decrease in value of assets)				
	Revaluation A/c	Dr.		16,000	
	To Mudit's Capital A/c				8,000
	To Mohit's Capital A/c				5,333
	To Sonu's Capital A/c				2,667
	(Gain on revaluation credited to all partners capital A/c in old profit sharing ratio i.e. 3 : 2 : 1)				

Revaluation Account

Dr. Cr.

Particulars		Amount (₹)	Particulars	Amount (₹)
Land and Building		12,000	Machinery	25,000
Profit transferred to :			Investments	2,000
Mudit Capital	8,000		Provision for	1,000
Mohit Capital	5,333		Outstanding Bill	
Sonu Capital	2,667	16,000		
		28,000		28,000



Notes

24.4 TREATMENT OF ACCUMULATED RESERVES AND UNDISTRIBUTED PROFIT

All the balances of Accumulated Reserves, funds and undistributed amount of Profit or Loss appearing in the balance sheet of the firm on the date of retirement/death is distributed amongst all partners including retiring/deceased partner in their old profit sharing ratio, The following entries are made:

(i) For distribution of undistributed profit and reserve.

Reserves A/c	Dr	
Profit & Loss A/c (Profit)	Dr.	
To Partners' Capital A/c		(individually)

(Reserves and Profit & Loss (Profit) transferred to all partners capitals A/c in existing profit sharing ratio)

(ii) For distribution of undistributed loss

Partners' Capital A/c	Dr.	(individually)
To Profit & Loss A/c (Loss)		

(Profit & Loss (loss) transferred to all partners Capitals A/c in old profit sharing ratio)

INTEXT QUESTIONS 24.3

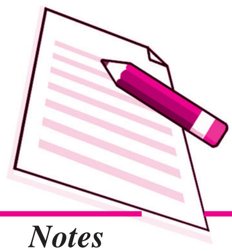
I. Fill in the blanks with suitable word or words :

(a) The credit balance of Revaluation account shows ....

(b) Reserve shown in the Balance sheet are transferred to the .... side of .... at the time of retirement of a partner.

(c) The value of the assets has decreased at the time of retirement of a Partner .... Account will be debited and .... account will be credited with the decrease in amount.

II. There was an increase in the value of a creditor at the time of retirement of a partner. What will be the journal entry for the above?



Notes

24.5 SETTLEMENT OF RETIRING PARTNER'S CLAIM

The amount due to the retiring partner is paid according to the terms of partnership agreement. The retiring partners' claim consists of

(a) The credit balance of Capital Account;

(b) His/her share in the Goodwill of the firm;

(c) His/her share in the Gain/Profit on Revaluation;

(d) His/her share in General Reserve and Accumulated Profit and

(f) Interest on Capital

But, the following deductions are made from the balance in his/her Capital Account on account :

(a) His/her share in the Loss on Revaluation;

(b) His/her Drawings and Interest on Drawings up to the date of retirement;

(c) His/her share of any accumulated losses and

(d) Loan taken from the firm.

The total amount so calculated is the claim of the retiring partner. He/she is interested in receiving the amount at the earliest. Total payment may be made immediately after his/her retirement. However, the resources of the firm may not be adequate to make the payment to the retiring partner in lumpsum. The firm makes payment to retiring partner in instalments.

(i) Payment in Lump Sum

Retiring partners' claim is paid either out of the funds available with the firm or out of funds brought in by the remaining partners.

The following journal entry is made for disposal of-the amount payable to the retiring partner :

On payment of cash in lump sum.

Retiring Partner's Capital A/c Dr.

To Cash/Bank A/c

(Amount paid to the retiring partner)

Illustration 6

Om, Jai and Jagdish are partners sharing profit in the ratio of 3 : 2 : 1. Their balance sheet as at December 31st 2014 is as under :

Balance sheet as at December 31, 2014

Liabilities		*Amount* (₹)	*Assets*		*Amount* (₹)
Creditors		80,000	Building		1,80,000
Bills Payable		26,000	Plant		1,40,000
General reserve		24,000	Motor Car		40,000
Capital :			Stock		1,00,000
Om	1,60,000		Debtors	63,000	
Jai	1,20,000		*Less:* Provision		
Jagdish	1,20,000	4,00,000	for Bad debts	3,000	60,000
			Cash at Bank		10,000
		5,30,000			5,30,000

Jai retires on that date on the following terms:

(a) The Goodwill of the firm is valued at ₹ 60,000.

(b) Stock and Building to be appreciated by 10%.

(c) Plant is depreciated by 10%

(d) Provision for Bad debts is increased upto ₹ 5,000.

(e) Jai's share of goodwill was adjusted through remaining partners capital account,

The amount due to Jai is paid out of the fund brought in by Om and Jagdish in their new profit sharing ratio. Jai is paid full amount.

Prepare Revaluation Account and Partner's Capital account.

Solution :

It is assumed that Om and Jagdish gaining ratio remains 3 : 1.

Jai' Share of goodwill

₹ 60,000 × 2/6 = ₹ 20,000

Adjusted through the remaining partners capital account in 3 : 1 ratio

Notes

Revaluation Account

Dr. Cr.

Particulars	*Amount* (₹)	*Particulars*	*Amount* (₹)
Provision for Bad debts	2,000	Stock	10,000
Plant	14,000	Building	18,000
Profit transferred to			
Capital Accounts :			
Om 6,000			
Jai 4,000			
Jagdish 2,000	12,000		
	28,000		28,000

Capital Account

Dr. Cr.

Particulars	*Om* (₹)	*Jai* (₹)	*Jagdish* (₹)	*Particulars*	*Om* (₹)	*Jai* (₹)	*Jagdish* (₹)
Capital	15,000	—	5,000	Balance b/d	1,60,000	1,20,000	1,20,000
Bank		1,52,000		General Reserve	12,000	8,000	4,000
Balance c/d	2,77,000	—	1,59,000	Revaluation (Profit)	6,000	4,000	2,000
				Om Capital	—	15,000	—
				Jagdish Capital	—	5,000	
				Bank	1,14,000		38,000
	2,92000	1,52,000	164,000		2,92000	1,52,000	164,000

(ii) Payment in Instalments

In this case the amount due to retiring partner is paid in instalments. Usually, some amount is paid immediately on retirement and the balance is transferred to his loan account. This loan is paid in one or more instalments The loan amount carries some interest. In the absence of any agreement the rule under Section 37 of the Indian Partnership Act 1932 applies.

According to this rule, if the amount due to the retiring partner is not paid immediately on his retirement, he can claim interest @ 6% p.a. on the amount due.

Notes

An instalment consists of two parts :

(i) Principal Amount of instalment due to retiring partner.

(ii) Interest at an agreed rate,

Interest due on loan amount is credited to retiring partners' loan account. Instalment inclusive of interest then is paid to the retiring partner as per schedule agreed upon.

(i) On part payment in cash and balance transferred to his/her loan account.

Retiring Partner's Capital A/c Dr.

To Cash/Bank A/c

To Retiring Partner's Loan A/c

(Part payment made and balance transferred to loan A/c)

(ii) Total amount due transferred to loan A/c

Retiring Partner's Capital A/c Dr.

To Retiring Partner's Loan A/c

(Total amount due transferred to loan A/c)

(iii) For interest due

Interest on loan A/c Dr.

To Retiring Partners' Loan A/c

(Interest due on loan)

(iv) For payment of instalment

Retiring Partners' Loan A/c

To Cash/Bank A/c

(Instalment inclusive of interest paid)

Illustration 7

Taking the figures of the previous illustration, assuming that he is paid 40% of the amount due immediately and the balance in three equal yearly instalments. The interest payable is 12% p.a.

Solution:

The amount due to Jai = ₹ 1,52,000

Amount paid immediately = ₹ 1,52,000 × 40/100 = ₹ 60,800

Amount of three equal instalments = ₹ 1,52,000 – ₹ 60,800 × 3

= ₹ 91,200 ÷ 3 = ₹ 30,400

Notes

1st Instalment at the end of 1st Year = ₹ 30,400 + ₹ 10,944 (interest)
= ₹ 41,344

Interest @ 12% pa. = ₹ 91,200 × 12/100 = ₹ 10,944

2nd Instalment at the end of 2nd Year = ₹ 30,400 + ₹ 7,296 (interest)
= ₹ 37,344

Interest @ 12% pa. = ₹ 60,800x12/ 100 = ₹ 7,296

3rd Instalment at the end of 3rd Year = ₹ 30,400 + ₹ 3,648
= ₹ 34,048

Interest @ 12% pa. = ₹ 30,400 × 12/100 = ₹ 3,648

INTEXT QUESTIONS 24.4

I. List the various claims of a retiring partner:

1. .... 2. .... 3. .... 4. ....

II. Mention the modes of settling the total claims of the retiring partner:

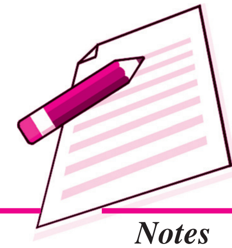
1. .... 2. ....

III. Find the total amount due to Munish, who is retiring as a partner:

1. Credit balance in Munish capital account ₹20,000.
2. Munish's share of goodwill ₹7,000
3. General reserve balance shown in Balance sheet ₹10,000
4. Profit on Revaluation of Assets /liabilities ₹ 3,000
5. Interest on drawings ₹ 1,500.
6. Munish share in the profit of the firm 1/2

24.6 ADJUSTMENT OF REMAINING PARTNER'S CAPITAL ACCOUNT AFTER RETIREMENT

After retirement of a partner the remaining partners may decide to adjust their capital. Often the remaining partners determine the total amount of capital of the reconstituted firm and decide to keep their respective capital accounts in proportion to the new profit sharing ratio. The total capital of the firm may be more or less than the total of their capital at the time of retirement. The new capitals of the partners are compared with the balance standing to the credit of respective partner's capital account. If there is a surplus in the capital account, the amount is withdrawn by the concerned partner. The partner brings cash in case the balance in the capital account is less than the calculated amount.



Notes

Illustration 8

Roopa, Sunder and Shalu are partners sharing profit in the ratio of 5 : 3 : 2. Roopa retired, when their capitals were: ₹ 46,000, ₹ 42,000 and ₹38,000 respectively after making all adjustments on retirement. Sunder and Shalu decided to have a total capital of the firm at ₹ 84,000 in the proportion of 7 : 5. Calculate actual cash to be paid or brought in by each partner and make necessary journal entries.

Solution :

Total Capital of the New firm	= ₹ 84,000	
Sunder's share in the new capital	= ₹ 84,000 × 7/12	= ₹ 49,000
Shalu's share in the new capital	= ₹ 84,000 × 5/12	= ₹ 35,000

On comparing Sunder's share in the new capital of the firm with the amount standing to the credit of his capital, it is observed that he has to bring ₹ 7,000 the deficit amount (₹ 49,000 – ₹ 42,000) in Cash.

Similarly, Shalu's share in the new capital of the firm is ₹ 35,000 while ₹ 38,000 stand credited to her capital account. So she will withdraw ₹ 3,000, the surplus amount (₹ 38,000 – ₹ 35,000) from the firm so as to make her capital in proportion to their new profit share ratio.

Journal

Date	*Particulars*	*L.F.*	*Debit Amount (₹)*	*Credit Amount (₹)*
	Bank A/c Dr. To Sunder's Capital A/c (The deficit amount brought in by the partner)		7,000	7,000
	Shalu's Capital A/c Dr. To Bank A/c (The surplus amount withdrawn by the partner)		3,000	3,000

Adjustment of remaining partner's capital in their profit sharing ratio, when the total capital of the new firm is not pre-determined.

In this case the total amount of adjusted capital of the remaining partners is rearranged as per agreed proportion in which they share profit of the reconstituted firm. The following steps may be adopted:

(i) Add the balance standing to the credit of the remaining partners' capital accounts.

(ii) The total so obtained is the total capital of the firm.

(iii) This capital is divided according to the new profit sharing ratio.

Illustration 9

Sumit, Amit and Neha are partners sharing profit in the ratio of 4 : 3 : 1. when Amit retired , their adjusted capitals were ₹ 76,000; ₹ 45,000 and ₹ 34,000 respectively. Sumit and Neha decided to have their total capital of the firm in the ratio of 3 : 2. The necessary adjustments were to be made in cash only. Calculate actual cash to be paid off or brought in by each partner.

Solution:

Total of the adjusted capitals of the remaining partners.

Sumit	=	₹ 76,000
Neha	=	₹ 34,000
Total	=	₹ 110,000

Total capital of the firm which is divided in the new ratio of 3 : 2.

New capital of Sumit = ₹ 1,10,000 × 3/5 = ₹ 66,000

New Capital of Neha = ₹ 1,10,000 × 2/5 = ₹ 44,000

Sumit's share in the new capital of the firm is ₹ 66,000 while ₹ 76,000 stand credited to his capital account. So he will withdraw ₹ 10,000 (₹ 76,000 – ₹ 66,000) from the firm so as to make his capital in proportion to his new profit sharing ratio.

Similarly, Neha's share in the new capital of the firm is ₹ 44,000 while ₹ 34,000 stands credited to her capital account, She has to bring ₹ 10,000 (₹ 44,000 – ₹34,000) in Cash to make up the deficit in the capital account.

Illustration 10

The Balance Sheet of Rohit, Nisha and Sunil who are partners in a firm sharing profits according to their capitals as on 31st March 2014 was as under:

Liabilities		*Amount* (₹)	*Assets*		*Amount* (₹)
Creditors		25,000	Machinery		40,000
Bills Payable		13,000	Building		90,000
General Reserve		22,000	Debtors	30,000	
Capital :			Less Provision for		
Rohit	60,000		Bad debts	1,000	29,000
Nisha	40,000		Stocks		23,000
Sunil	40,000	1,40,000	Cash at Bank		18,000
		2,00,000			2,00,000

On the date of Balance Sheet, Nisha retired from the firm, and following adjustments were made:

(i) Building is appreciated by 20%.

(ii) Provision for bad debts is increased to 5% on Debtors.

(iii) Machinery is depreciated by 10%.

(iv) Goodwill of the firm is valued at ₹ 56,000 and the retiring partner's share is adjusted.

(v) The capital of the new firm is fixed at ₹ 1,20,000.

Prepare Revaluation Account, Capital Accounts of the partner and Balance Sheet of the new firm after Nisha's retirement.

Solution :

Revaluation Account

Dr. Cr.

Particulars		*Amount* (₹)	*Particulars*	*Amount* (₹)
Provision for Bad debt A/c		500	Building A/c	18,000
Machinery A/c		4,000		
Profit transferred to				
Capital Accounts (3 : 2 : 2)				
Rohit	5,786			
Nisha	3,857			
Sunil	3,857	13,500		
		18,000		18,000

Notes

Capital Account

Dr. Cr.

Particulars	Rohit (₹)	Nisha (₹)	Sunil (₹)	Particulars	Rohit (₹)	Nisha (₹)	Sunil (₹)
Sunil's Capital a/c	9,600	—	6,400	Balance b/d	60,000	40,000	40,000
Bank		66,143		General Reserve	9,428	6,286	6,286
Balance c/d	72,000	—	48,000	Revaluation (Profit)	5,786	3,857	3,857
				Rohit's Capital A/c	—	9,600	—
				Sunil's Capital A/c		6,400	
				Bank	6,386		4,257
	81,600	66,143	54,400		81,600	66,143	54,400

Balance Sheet as at 31st March 2014

Liabilities		Amount (₹)	Assets		Amount (₹)
Creditors		25,000	Building		1,08,000
Bank overdraft		37,500	Machinery		36,000
Bills Payable		13,000	Debtors	30,000	
Capital:			*Less:* Provision		
Rohit	72,000		for Bad debts	1,500	28,500
Sunil	48,000	1,20,000	Stock		23,000
		1,95,500			1,95,500

Working Notes :

(i) (a) Profit sharing ratio is 60,000 : 40,000 : 40,000 i.e. = 3 : 2 : 2

(b) Gaining Ratio: Rohit = 3/5 – 3/7 = 21/35 – 15/35 = 6/35

Sunil = 2/5-2/7 = 14/35 – 10/35 = 4/35

= 6/35 : 4/35

= 6 : 4 = 3 : 2

(c) Nisha Share of Goodwill = ₹ 56,000 × 2/7 = ₹ 16,000.

Share of Goodwill in the gaining ratio by the existing partner, i.e.

Rohit = ₹ 16,000 × 3/5 = ₹ 9,600

Sunil = ₹ 16,000 × 2/5 = ₹ 6,400

The journal entry is

		₹	₹
Rohit's Capital A/c	Dr.	9,600	
Sunil's Capital A/c	Dr.	6,400	
To Nisha's Capital A/c			16,000
(Share of Goodwill divided into gaining ratio)			

Bank Account

Dr. Cr.

Particulars	*Amount* (₹)	*Particulars*	*Amount* (₹)
Balance b/d	18,000	Nisha's Capital A/c	66,143
Rohit's Capital A/c	6,386		
Sunil's Capital A/c	4,257		
Balance c/d (Bank overdraft)	37,500		
	66,143		66,143

(ii) Bank overdraft is taken to pay the retiring partners amount.

(iii) New Capital of the firm is fixed at ₹ 1,20,000.

	Rohit (₹)	*Sunil* (₹)
New Capital (₹1,20,000 in the ratio of 3 : 2)	72,000	48,000
Existing Capital (After Adjustments) i.e. partner capitals	65,614	43,743
Cash to be brought by the remaining partners	6.386	4,257

Illustration 11

Chauhan Triphati and Gupta are partners in a firm sharing profit and losses in the ratio of 1/2, 1/6 and 1/3 respectively. The Balance Sheet on March 31, 2014 was as follows :

Liabilities	*Amount* (₹)	*Assets*	*Amount* (₹)
Sundry Creditors	36,000	Freehold Premises	80,000
Bills Payable	24,000	Machinery	60,000

Notes

General Reserve		24,000	Furniture		24,000
Capitals:			Debtors	40000	
Chauhan	60,000		***Less :*** Provision		
Triphati	60,000		for bad debts	2,000	38,000
Gupta	56,000	1,76,000	Stock		44,000
			Cash		14,000
		2,60,000			2,60,000

Gupta retires from the business and the partners agree to the following revaluation:

(a) Freehold premises and stock are to be appreciated by 20% and 15%. respectively

(b) Machinery and furniture are to be depreciated by 10% and 7% respectively

(c) Bad debts reserve is to be increased to ₹ 3,000.

(d) On Gupta's retirement, the goodwill is valued at ₹ 42,000.

(e) The remaining partners have decided to adjust their capitals in their new profit sharing ratio after retirement of Gupta. Surplus/deficit, if any in their capital account will be adjusted through cash.

Prepare necessary ledger accounts and Balance Sheet of reconstituted firm.

Solution:

Revaluation Account

Dr. Cr.

Particulars		***Amount (₹)***	***Particulars***	***Amount (₹)***
Provision for Bad debts		1,000	Freehold Premises	16,000
Machinery		6,000	Stock	6,600
Furniture		1,680		
Profit transferred to				
Capital Accounts:				
Chauhan	6,960			
Triphati	2,320			
Gupta	4,640	13,920		
		22,600		22,600

Notes

Capital Account

Dr. Cr.

Particulars	Chauhan (₹)	Triphati (₹)	Gupta (₹)	Particulars	Chauhan (₹)	Triphati (₹)	Gupta (₹)
Gupta Capital	10,500	3,500		Balance b/d	60,000	60,000	56,000
Gupta Loan			82,640	General Reserve	12,009	4,000	8,000
Cash		30,000		Revaluation (Profit)	6,960	2,320	4,640
Balance c/d	98,460	32,820		Chauhan Capital			10,500
				Tirphati Capital			3,500
				Cash	30,000		
	1,08,960	66,320	82,640		1,08,960	66,320	82,640

Balance Sheet as at March 31, 2014

Liabilities		Amount (₹)	Assets		Amount (₹)
Creditors		36,000	Freehold Premises		96,000
Bills Payable		24,000	Machinery		54,000
Gupta's Loan		82,640	Furniture		22,320
Capital:			Debtors	40,000	
Chauhan	98,460		*Less :* Provision		
Tirphati	32,820	1,31,280	for bad debts	3,000	37,000
			Stock		50,600
			Cash		14,000
		2,73,920			2,73,920

Working Note:

(a) In the absence of agreement, retiring partner's capital account is transferred to his loan account.

(b) In the absence of agreement, gaining ratio is equal to existing ratio (old ratio) of remaining partners is gaining ratio i.e. 3 : 1

(c) Calculation of Cash brought in (or paid off) by remaining partner.

	Chauhan ₹	Tirphati ₹
Total Capital of Chauhan and Tirphati		
(₹68,460 + ₹62,820 = ₹1,31,280 in the ratio of 3 : 1)	98,460	32,820
Adjusted existing Capital	68,460	62,820
Excess or Deficit	30,000	30,000
	(Excess)	(Deficit)

Notes

INTEXT QUESTIONS 24.5

i. Surinder, Mahinder and Tarun are partners in a firm. After Surinder's retirernent, the profit sharing ratio between Mahinder and Tarun is 5 : 3.

   They decide to fix the firm's capital at ₹ 80,000. Find the individual capitals of Mahinder and Tarun.

   Mahinder's Capital ₹ .... Tarun's Capitals ₹ ....

ii. Sohan, Amisha and Neena are partners sharing profit in the ratio of 3 : 2 : 1. when Sohan retired, their adjusted capitals were ₹ 90,000, ₹ 60,000 and ₹ 70,000 respectively. Amisha and Neena decided to have their total capital of the firm in the ratio of 5 : 3. Find the capital of each partner and the total capital of firm.

   Amisha Capital ₹ .... Neena Capital ₹ ....

24.7 DEATH OF A PARTNER

On the death of a partner, the accounting treatment regarding goodwill, revaluation of assets and reassessment of liabilities, accumulated reserves and undistributed profit are similar to that of the retirement of a partner. On the death of partner the amount payable to him/her is paid to his/her legal representatives. The legal representatives are entitled to the followings :

(a) The amount standing to the credit of the capital account of the deceased partner.

(b) Interest on capital, if provided in the partnership deed upto the date of death.

(c) Share of goodwill of the firm.

(d) Share of undistributed profit or reserves.

(e) Share of profit on the revaluation of assets and liabilities.

(f) Share of profit upto the date of death.

(g) Share of Joint Life Policy.

The following amounts are debited to the account of the deceased partner's legal representatives:

(i) Drawings

(ii) Interest on drawings

(iii) Share of loss on the revaluation of assets and liabilities;

(iv) Share of loss that have occurred till the date of his/her death.

The above adjustments are made in the capital account of the deceased partner and then the balance in the capital account is transferred to an account opened in the name of his/her executor.

The payment of the amount of the deceased partner depends on the agreement. In the absence of an agreement, the legal representative of a deceased partner is entitled to interest @ 6% p.a. on the amount due from the date of death till the date of final payment.

Calculation of Profit upto the Date of Death of a Partner

If the death of a partner occurs during the year, the representatives of the deceased partner are entitled to his/her share of profits earned till the date of his/her death. Such profit is ascertained by any of the following methods:

(i) Time Basis; (ii) Turnover or Sales Basis

(i) Time Basis

In this case, it is assumed that profit has been earned uniformly through out the year. For example:

The total profit of previous year is ₹ 2,25,000 and a partner dies three months after the close of previous year, the profit of three months is ₹ 31,250 i.e. ₹ 1,25,000 × 3/12. If the deceased partner took 2/10 share of profit, his/her share of profit till the date of death is ₹ 6,250 i.e. ₹ 31,250 × 2/10

(ii) Turnover or Sales Basis

In this method, we have to take into consideration the profit and the total sales of the last year. Thereafter the profit upto the date of death is estimated on the basis of the sale of the last year. Profit is assumed to be earned uniformly at the same rate.

Illustration 12

Arun, Tarun and Neha are partners sharing profits in the ratio of 3 : 2 : 1 Neha dies on 31st May 2014. Sales for the year 2013-2014 amounted to ₹ 4,00,000 and the profit on sales is ₹ 60,000. Accounts are closed on 31 March every year. Sales from lst April 2014 to 31st May 2014 is ₹ 1,00,000.

Calculate the deceased partner's share in the profit upto the date of death.

Solution :

Profit from 1st April 2014 to 31st May 2014 on the basis of sales:

If sales are ₹ 4,00,000, profit is ₹ 60,000

If the sales are ₹ 1,00,000 profit is : ₹ 60,000/₹ 4,00,000 × ₹ 1,00,000

= ₹15,000

Neha's share = ₹ 15,000 × 1/6 = ₹ 2,500

Alternatively profit is calculated as

$$\text{Rate of profit} = \frac{60,000}{4,00,000} \times 100 = 15\%$$

Sale upto date of death = 1,00,000

$$\text{Profit} = 1,00,000 \times \frac{15}{100} = ₹\ 15000$$

Illustration 13

Nutan, Sumit and Shiba are partners in a firm sharing profits in the ratio 5 : 3 : 2. On 31st December 2014 their Balance Sheet was as under:

Liabilities		*Amount (₹)*	*Assets*	*Amount (₹)*
Creditors		52,000	Building	60,000
Reserve Fund		15,000	Plant	50,000
Capitals :			Stock	27,000
Nutan	60,000		Debtors	25,000
Sumit	45,000		Cash	10,000
Shiba	30,000	1,35,000	Bank	30,000
		2,02,000		2,02,000

Nutan died on 1 July 2015. It was agreed between her executor and the remaining partners that:

(i) Goodwill to be valued at 2½ years purchase of the average profits of the last Four years, which were: 2011 ₹ 25,000; 2012 ₹ 20,000; 2013 ₹40,000 and 2014 ₹35,000.

(ii) Building is valued at ₹ 70,000; Plant at ₹46,000 and Stock at ₹ 32,000.

(iii) Profit for the year 2015 be taken as having accrued at the same rate as that of the previous year.

(iv) Interest on capital is provided at 9% p.a.

(v) On 1 July 2015 her drawings account showed a balance of ₹.20,000.

(vi) ₹ 25,950 are to be paid immediately to her executor and the balance is transferred to her Executors Loan Account.

Prepare Nutan's Capital Account and Nutan's Executor's Account as on 1st July 2015.

Solution :

(i) Valuation of Goodwill:

Total Profit = ₹ 25,000 + ₹ 20,000 + ₹ 40,000 + ₹ 35,000

= ₹ 1,20,000

Average Profit = ₹ 1,20,000/4 = ₹ 30,000

Hence, Goodwill at 2½ year's purchase = ₹ 30,000 × 2½ = ₹ 75,000

Nutan's share of goodwill = ₹ 75,000 × 5/10 = ₹ 37,500

It is adjusted into the Capital Accounts of Sumit and Shiba in the gaining ratio of 3 : 2 i.e. ₹ 22,500 and ₹ 15000 respectively.

(ii) Share of Profit payable to Nutan [upto the date of death]

= ₹ 35,000 × 6/12 × 5/10

= ₹ 8,750

(iii) Nutan's Share of Reserve Fund = ₹ 15,000 × 5/10

= ₹ 7,500

(iv) Interest on Nutan's Capital = ₹ 60,000 × 9/100 × 6/12

= ₹ 2,700

Revaluation Account

Dr. Cr.

Particulars	*Amount (₹)*	*Particulars*	*Amount (₹)*
Plant	4,000	Building	10,000

Profit transferred to		Stock	5,000
Nutan Capital 5,500			
Sumit Capital 3,300			
Shiba Capital 2,200	11,000		
	15,000		15,000

Nutan's Capital Account

Dr. Cr.

Particulars	*Amount (₹)*	*Particulars*	*Amount (₹)*
Drawings	20,000	Balance b/d	60,000
Nutan's Executor's	1,01,950	Reserve fund	7,500
		Sumit's Capital (Goodwill)	15,000
		Shiba's Capital (Goodwill)	22,500
		Profit & Loss (Suspense)	8,750
		Revaluation A/c	5,500
		Interest on Capital	2,700
	1,21,950		1,21,950

Nutan's Executor's Accounts

Dr. Cr.

Particulars	*Amount (₹)*	*Particulars*	*Amount (₹*
Bank	25,950	Nutan's Capital	1,01,950
Nutan's Executor's Loan A/c (Transfer)	76,000		
	1,01,950		1,01,950

INTEXT QUESTIONS 24.6

Fill in the blanks with suitable words :

i. The Executor is entitled to all the rights of a ....

ii. Share of goodwill of the deceased partner is .... to his capital account.

iii. In case of death of a partner, the profit may be estimated on the basis of .... and ....

iv. The balance in the capital account of the deceased partner is transferred to his .... account.

v. Interest on drawing due from deceased partner till the date of the death is .... to his capital account.

Notes

WHAT YOU HAVE LEARNT

- **Retirement**

1. Due to some reasons like old age, poor health, strained relations etc., an existing partner may decide to retire from the partnership. Due to retirement, the existing partnership comes to an end and the remaining partners form a new agreement and the partnership firm is reconstituted with new terms and conditions.

2. At the time of retirement the following accounting issues are dealt:
   (a) New profit sharing ratio and gaining ratio.
   (b) Goodwill
   (c) Adjustment of changes in the value of Assets and liabilities
   (d) Treatment of reserve and accumulated profits.
   (e) Settlement of retiring partner's dues,
   (f) New capital of the continuing partners.

- **Death**

1. On the death of a partner, the amount payable to him is paid to his/her legal representatives.

2. The representatives of deceased partner is entitled to the followings:
   (a) The amount standing to the credit of the capital account of the deceased partner.
   (b) Interest on capital, if provided in the partnership deed, upto the date of death.
   (c) Share of the value of goodwill of the firm.
   (d) Share of undistributed profit or reserves.

Notes

(e) Share of profit on the revaluation of assets and liabilities.

(f) Share of profit upto the date of death.

(g) Share of Joint Life Policy.

The following amounts are debited to the account of the deceased partner's legal representatives:

(i) Drawings

(ii) Interest on drawings

(iii) Share of loss on the revaluation of assets and liabilities

(iv) Share of loss that have occurred till the date of his/her death

3. Calculation of Profit upto the date of death Two Methods

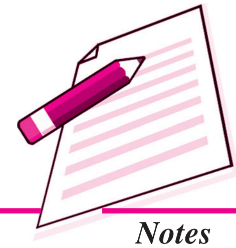
   (i) Time basis

   (ii) Sales basis

TERMINAL EXERCISE

1. What is meant by retirement of a partner?
2. Explain the meaning of gaining Ratio.
3. Explain the accounting treatment of goodwill on retirement of a partner.
4. What problems involving finance arise when a partner dies? How would you deal with them as an accountant?
5. Seema, Mohit and Meenakshi were partners in a firm sharing profit in the ratio of 7 : 6 : 7. Mohit retired and his share was divided equally between Seema and Meenakshi. Calculate the new profit sharing ratio of Seema and Meenakshi.
6. Ashu, Ashmita and Meetu are partners sharing profits in the ratio of 4 : 3 : 2. Ashu retires, assuming Ashmita and Meetu will share profits in future in the ratio 5 : 3, determine the gaining ratio.
7. Anu, Beena and Chander are partners in a firm, sharing profit in the ratio of 3 : 2 : 1. Their Balance Sheet as on March 31, 2014 was as follows:

Liabilities	*Amount* (₹)	*Assets*	*Amount* (₹)
Sundry Creditors	3,200	Cash in hand	1,200
General Reserve	12,000	Cash at Bank	2,000



Notes

Capitals:			Debtors	18,000
Anu	20,000		Stocks	14,000
Beena	20,000		Machinery	12,000
Chander	20,000	60,000	Building	28,000
		75,200		75,200

On the date of Balance Sheet Chander retires from firm. It is agreed to adjust the value of assets as follows:

(a) Provide a reserve of 5% on Sundry Debtors for Doubtful Debts.

(b) Building to be revalued at ₹ 30,200.

(c) Depreciate stock by 5% and Machinery by 10%.

Prepare Revaluation account, Partners Capital account and Balance Sheet of Anu and Beena.

8. Ashok, Babu and Chinu are partners sharing profit and losses in the ratio of 3 : 2 : 1 respectively. The firm's Balance Sheet on March 31, 2014 was as follows:

Liabilities		***Amount (₹)***	***Assets***		***Amount (₹)***
Sundry Creditors		38,000	Plant & Machinery		70,000
Bills Payable		10,000	Building		90000
General Reserve		24,000	Motor Car		16,000
Capitals:			Debtors	32,000	
Ashok	80,000		***Less:*** Provision		
Babu	60,000		for bad debts	1,000	31,000
Chinu	50,000	1,90,000	Stock		50,000
			Cash		5,000
		2,62,000			2,62,000

Babu retires on that date, subject to the following adjustments:

(a) The Goodwill of the firm to be valued at ₹ 36,000.

(b) Plants and Machinery to b depreciated by 10% and Motor Car by 15%.

(c) Stock to be appreciated by 20% and Building by 10%.

(d) Provision for Doubtful debts to be increased by ₹ 3,900.

Prepare Revaluation Account and Babu's Capital account.

9. Dhruv, Raja and Lela are partners sharing profit and losses in the ratio of 3 : 2 : 1 respectively. The Balance Sheet as on March 31, 2014 was as follows:

Liabilities		Amount (₹)	Assets		Amount (₹)
Sundry Creditors		31,200	Plant & Machinery		37,600
Dhruv Loan		10,000	Building		24,000
Capitals:			Debtors	24,800	
Dhruv	51,840		*Less :* Provision		
Raja	27,360		for bad debts	2,400	22,400
Lela	14 240	93,440	Stock		18,400
			Cash		32,240
		1,34,640			1,34,640

Dhruv retired on March 31, 2014 and Raja and Lela continued in partnership sharing profits and losses in the ratio of 2 : 1. Dhruv was paid ₹ 20000 on 1.4.2014 and it was agreed that the remaining balance due to him should be kept as his loan to the firm,

For the purpose of Dhruv's retirement it was agreed that

(a) Building be revalued at ₹ 48,000 and Plant and Machinery at ₹31,600.

(b) The provision for bad debts was to be increased by ₹800.

(c) A provision of ₹1,000 included in creditor was no longer required.

(d) ₹ 2,400 was to be written off from the stock in respect of damaged items included therein.

(e) A provision of ₹ 8,480 made in respect of outstanding legal charges.

(f) The goodwill of the firm to be valued at ₹ 28,800.

Prepare Revaluation Account, Capital A/c of partners and Balance sheet of the reconstituted firm.

10. Sunny, Honey and Rupesh are partners in a firm. Their Balance sheet as on December 31,2013 is as under:

Liabilities	Amount (₹)	Assets	Amount (₹)
Creditors	20,000	Plant & Machinery	40,000
General Reserve	20,000	Furniture & Fittings	5,000

Capitals:			Debtors	30,000
Sunny	40,000		Stock	21,000
Honey	30,000		Investment	24,000
Rupesh	10,000	80,000		
		1,20,000		1,20,000

Honey died on 30.06.2014. The partnership deed provides that the representative of the deceased partner shall be entitled to:

(i) Balance of the capital account of deceased partner.

(ii) Interest on Capital at 8% p.a. upto date of death.

(iii) His share of profit upto date of death on the average of last three years profit.

(iv) His share of any undistributed profit and losses as per last balance sheet.

(v) Profit for the last three years was ₹ 30,000, ₹ 40,000 and ₹ 50,000.

Ascertain the amount payable to the legal representatives of Honey.

ANSWERS TO INTEXT QUESTIONS

24.1 I. (a) Old age (b) Poor health (c) Bad relations

II. Existing share + Gaining share

III. Existing share

IV. 2 : 1

24.2 (i) False, (ii) True, (iii) False, (iv) False.

24.3 I. (a) Gain/Profit, (b) Credit : Partners' Capital A/c,
(c) Revaluation, Assets

II. Revaluation A/c Dr.
To Creditors A/c
(Increase in value of creditors)

24.4 I. i. The balance of his/her Capital Account;
ii. His/her share in the Goodwill of the firm;
iii. His/her share in the Revaluation Profit:
iv. His/her share in General Reserve and Accumulated Profit;
v. Interest on Capital OR any other

Notes

II. 1. Lumpsum 2. Instalments

III. ₹ 32,000.

24.5 i. Mahinder's Capital ₹ 50,000, Tarun's Capital ₹ 30,000

ii. Amisha Capital ₹ 1,37,500, Neena Capital ₹ 82,500 Total Capital ₹2,20,000.

24.6 (i) Deceased partner, (ii) credited, (iii) Time, Sales, (iv) Executor's (v) debited

ANSWERS TO TERMINAL EXERCISE

5. New Ratio 1 : 1
6. Gaining Ratio 21 : 11
7. Loss on Revaluation ₹ 600
   Total of Balance Sheet ₹ 74,600
8. Profit on Revaluation ₹ 5,700,
   Balance of Babu Capital Account ₹ 81,900.
9. Profit on Revaluation ₹ 7,320
   Total of Balance Sheet ₹ 1,22,680.
10. Amount payable to Honney's Executor ₹ 44,534.