

Chapter 5: Reconstitution of Partnership (Death of Partner)

Question: 1

Answer in one Sentence :
What is gaining ratio or benefit ratio?

Solution

Gaining ratio is the ratio in which the continuing partners acquire the deceased partner's share. It is calculated on the eve of retirement or death of a partner for adjusting the retiring or deceased partner's share of goodwill. The formula for calculation of gaining ratio is as follows:

$$\text{Gaining Ratio} = \text{New Ratio} - \text{Old Ratio}$$

Question: 2

Answer in one Sentence :
How is gaining ratio calculated?

Solution

Gaining ratio is calculated as the difference between the new ratio and old ratio. The formula for calculation of gaining ratio is as follows:

$$\text{Gaining Ratio} = \text{New Ratio} - \text{Old Ratio}$$

Question: 3

Answer in one Sentence :
When is gaining ratio required to be calculated?

Solution

Gaining ratio needs to be calculated at the time of retirement or death of a partner for adjusting the retiring (or deceased) partner's share of goodwill.

Question: 4

Answer in one Sentence :
How would you treat general reserve on death of a partner?

Solution

The amount of general reserve is transferred to the capital accounts of all the partners in their profit sharing ratio. This is done to give the deceased partner's nominee the required amount of share in profits of the firm. So, All Partners' Capital Accounts are credited with their respective shares.

Question: 5

Answer in one Sentence :

How much amount due to the deceased partner is calculated?

Solution

The heir of the deceased partner is entitled to receive the amount standing to the credit of Deceased Partner's Capital Account, his share in goodwill, share in profits, revaluation of assets and liabilities, interest on capital etc. Moreover, amounts, such as share in accumulated losses, drawings, interest on such drawings etc., are debited. After making all the above adjustments, the amount standing in his/her capital account is transferred to a new account opened in the name of his/her executor.

Question: 6

Answer in one Sentence :

How is amount due to deceased partner settled?

Solution

Payment to the deceased partner's executor is made as stated in the partnership deed. The executor may be paid in full, i.e. in one instalment or in more than one instalment. In case the payment is made in instalments, the executor is entitled to interest @ 6% p.a. unless otherwise agreed, till the amount due to him/her is not paid.

Question: 7

Answer in one Sentence :

How is the share of deceased partner in accrued profit calculated?

Solution

The share of a deceased partner in a firm's profit can be calculated in two ways, i.e. on the basis of time or sales. Based on time, the profits are assumed to have arisen uniformly over the year and the deceased partner's share is calculated according to the number of months he/she was alive during the year. In case sales are used as a base, we need sales for the year and sales up to the date of death and accordingly, rate of profit to sales can be calculated.

Question: 8

Answer in one Sentence :

How is a debit balance of profit and loss account dealt with on death of a partner?

Solution

Debit balance of Profit & Loss Account represents accumulated losses. So, it is transferred to the debit side of All Partners' Capital Accounts in their old profit sharing ratio.

Question: 9

Give a word / term / phrase which can substitute the following statements :
The account which shows revaluation of assets and liabilities.

Solution

Revaluation or Profit and Loss Adjustment Account

Explanation: The account which shows revaluation of assets and liabilities is called Revaluation or Profit and Loss Adjustment Account. This account records the revised values of assets and liabilities, so that the deceased partner's heir can be paid his share of profits that the firm has earned till the date of his death.

Question: 10

Give a word / term / phrase which can substitute the following statements :
Excess of credit side over debit side of revaluation account.

Solution

Profit on revaluation

Explanation: Excess of credit side over debit side of Revaluation Account is regarded as profit on revaluation. This profit is transferred to All Partners' Capital Accounts in their old profit-sharing ratio (including the deceased partner).

Question: 11

Give a word / term / phrase which can substitute each of the following statements :
The method under which payment is made to retiring partner in instalment.

Solution

Instalment method

Explanation: Under instalment method, the payment to a retiring partner is made in instalments. In this method, the payment is not made in one instalment (lump sum); rather, the amount due is paid off in instalments. Moreover, the executor is entitled to interest @ 6% p.a. (unless agreed otherwise) on outstanding amount till it remains unpaid.

Question: 12

Give a word / term / phrase which can substitute the following statements :
Excess of proportionate at capital over actual capital.

Solution

Deficit capital

Explanation: Excess of proportionate capital over actual capital represents deficit capital. This implies that the existing capital of the partners is less than what the capital should be on proportionate basis. The amount of deficit capital must be brought in by the old partners or it is to be transferred to their current accounts.

Question: 13

Give a word / term / phrase which can substitute the following statements :
The account to which deceased partners capital balance is transferred.

Solution

Deceased Partner's Executors' Loan Account

Explanation: The account to which deceased partner's capital balance is transferred is known as Deceased Partner's Executors' Loan Account. The amount due is transferred to this account because actually, the payment is required to be made to the heirs of the deceased partner. The payment may be made in full, i.e. in one instalment or in more than one instalment.

Question: 14

Give a word / term / phrase which can substitute the following statements :
The partner who died.

Solution

Deceased partner

Explanation: The partner who died is a deceased partner, whose legal heirs are entitled to the amount due and the rights which the deceased partner had.

Question: 15

Give a word / term / phrase which can substitute the following statements :
A person who represents the deceased partner.

Solution

Legal heir or executor

Explanation: The person who represents the deceased partner is his legal heir or executor. This person is entitled to receive the amount due to the deceased partner.

Question: 16

Select the most appropriate answer from the alternatives given below :

Gaining ratio is calculated on _____.

Options

- admission of a partner
- retirement of a partner
- death of a partner
- retirement or death of a partner

Solution

Gaining ratio is calculated on **retirement or death of a partner**.

Explanation: The gaining ratio is calculated for adjusting the retiring or deceased partner's share of goodwill. The remaining partners compensate the outgoing partner (retiring or deceased as the case may be) by payment of premium for goodwill in the ratio in which they gain.

Question: 17

Select the most appropriate answer from the alternatives given below :

Gaining ratio is the ratio in which _____.

Options

- the old partner gains on admission of a new partner
- the goodwill of a new partner on admission is credited to old partners
- the continuing partner's benefits on retirement or death of a partner
- none of the above

Solution

Gaining ratio is the ratio in which **the continuing partners benefit on retirement or death of a partner**.

Explanation: On the eve of retirement or death, the remaining (continuing) partners acquire the outgoing (retiring or deceased as the case may be) partner's share. The ratio in which the continuing partners acquire (gain) the outgoing partner's share is termed as gaining ratio.

Question: 18

Select the most appropriate answer from the alternatives given below:

Share of profit of a deceased partner till the date of death is _____.

Options

- debited to P/L Adjustment A/c
- credited to P/L Adjustment A/c
- debited to P/L Suspense A/c

- credited to P/L Suspense A/c

Solution

Share of profit of a deceased partner till the date of death is **debited to P/L Suspense A/c.**

Explanation: The executor of a deceased partner, apart from the other things, is also entitled to a share in profits till the date of his death. Also, it is not possible for any firm to close its books of accounts at any time (during an accounting period). Therefore, in case of death, profits are calculated either on the basis of time or on the basis of sales or turnover. The amount of profit or loss so ascertained is dispensed to the deceased partner through the Profit and Loss Suspense Account.

Question: 19

Select the most appropriate answer from the alternatives given below :

An amount received from the Insurance Company against the joint life policy is _____.

Options

- debited to deceased partner
- credited to deceased partner
- credited to continuing partners capital A/c
- credited to all partners capital A/c in their profit sharing ratio.

Solution

An amount received from the Insurance Company against the joint life policy is **credited to all partners' capital A/c in their profit sharing ratio.**

Explanation: Joint life policy is an insurance policy purchased by a firm on the joint lives of all the partners. In this manner, it is an asset of the firm. So, every partner, including the deceased partner, has as much right on it as the other (continuing) partners. Therefore, on the death of any one partner, the amount received from the insurance company against the joint life policy is credited to All Partners' Capital Accounts in their old profit sharing ratio.

Question: 20

Select the most appropriate answer from the alternatives given below :

M.N.S. are partners in a firm having joint life policy of Rs 10,00,000 on which premium has been paid by a firm. M dies and his legal representatives want the whole amount of the policy where as N & S want to distribute the amount among all the partners.

Options

- M's representatives and correct

- N & S are correct
- All are wrong
- Insurance company will decide

Solution

N & S are correct

Explanation: Joint life policy is an insurance policy taken by the firm on the joint lives of all the partners; so, it is an asset of the firm. Therefore, every partner, including the deceased partner, has as much right on it as the other partners. Also, in this case, the premium expense is paid by the firm. Hence, N and S are correct and the amount received from the policy must be distributed amongst all the partners in their old profit sharing ratio.

Question: 21

State whether the following statements is true or false :

Retiring partner is entitled to his share of goodwill.

Options

- True
- False

Solution

True

Explanation: The remaining/continuing partners need to compensate the outgoing (retiring/deceased) partner. This is because after the retirement/death of a partner, the fruits of the collective past performances and reputation will be shared only by the continuing partners. Hence, the remaining partners compensate the retiring or the deceased partner by entitling him/her to a share of the firm's goodwill.

Question: 22

State whether the following statements is true or false :

Retiring partner is not entitled to his share of general reserve.

Options

- True
- False

Solution

False

Explanation: The retiring partner is very much entitled to his respective share in all the accumulated profits and reserves (including general reserve). Such reserves include profits which were earned by them during the previous years when the retiring partner was a partner in the firm.

Question: 23

State whether the following statements is true or false :
The capital account of a retiring partner always shows a debit balance.

Options

- True
- False

Solution

False

Explanation: The capital account of a retiring partner may show a debit balance sometimes if the amount to be paid to him is less than the amount withdrawn by him from the firm. However, it is not necessary that the capital account of a retiring partner will always show a debit balance.

Question: 24

State whether the following statements is true or false :
An amount due to a deceased partner is transferred to his executor's loan A/c.

Options

- True
- False

Solution

True

Explanation: The amount due to a deceased partner is paid to his/her legal heirs. So, the amount due is transferred to his/her Executors' Loan A/c.

Question: 25

State whether the following statements is true or false :
If goodwill is written off retiring partner's capital account is debited.

Options

- True
- False

Solution

True

Explanation: The old goodwill already existing in the books of a firm (as reflected in the Old Balance Sheet prior to retirement) is written off by debiting All Partners' Capital Accounts (including retiring partner) in their old profit sharing ratio and by crediting the Goodwill A/c.

Question: 26

State whether the following statements is true or false :

Death of a partner is like a compulsory retirement.

Options

- True
- False

Solution

True

Explanation: Unlike retirement that can be planned, death may occur on any day. In case of death of a partner, all those adjustments that are generally made at the time of retirement are to be performed at the time of death compulsorily. Therefore, it is correct to say that death of a partner is like compulsory retirement.

Question: 27

State whether the following statements is true or false :

Total amount due to deceased partner is paid in cash to executor immediately after his death.

Options

- True
- False

Solution

False

Explanation: There are two methods that can be adopted for making the payment to the executor, i.e. lump-sum method or instalment method. In the lump-sum method, the payment is made in full, i.e. in one single instalment, whereas in instalment method, payment is made in more than one instalment. So, it is not compulsory to make payment immediately in cash, unless otherwise agreed. Hence, the statement is incorrect.

Question: 28

State whether the following statements is true or false :

On the death of a partner, his share in the goodwill is divided equally among continuing partners.

Options

- True
- False

Solution

False

Explanation: On the death of a partner, share in goodwill is not divided equally among the continuing partners; rather, it is shared in the gaining ratio.

Question: 29

State whether the following statements is true or false :

Deceased Partner's share in profit up to the date of his death will be debited to his capital A/c.

Options

- True
- False

Solution

False

Explanation: The deceased partner's share in profit up to the date of his death will be credited to his capital account, as the amount is required to be paid to him. Thereafter, this amount is transferred to his Executors' Loan Account.

Question: 30

Vilas, Mangal, Guru were partners in a business sharing profits and losses in the ratio of 2:1:1 respectively. Their Balance sheet as on 31st March, 2012 was as follows:

Balance Sheet as on 31st March 2012

Liabilities	Amount (Rs)	Assets	Amount (Rs)
Capital		Land and Building	6,000
Vilas	6,000	Debtors	5,000
Mangal	7,000	Stock	3,000
Guru	3,400	Cash	6,000

Creditors	2,000		
General Reserve	1,600		
	20,000		20,000

Guru died on 1st July, 2012

- 1) Land and Building was to be revalued to Rs 7,000 and RDD was to be created of Rs 200.
- 2) The drawings of Guru upto the date of his death amounted to Rs 1,000/-
- 3) Charge interest on drawings Rs 100/-
- 4) His share of goodwill should be calculated at 'Three' years purchase of the profits for the last four years which were Rs 15,000, Rs 13,000/-, Rs 7,000, Rs 5,000
- 5) The deceased partners share of profit upto the date of his death to be calculated on the basis of average profit of last two years.

Prepare:

- 1) Profit and Loss Adjustment A/c
- 2) Partners Capital A/cs
- 3) Balance Sheet of the continuing firm
- 4) Give working or share of profit and goodwill

Solution

Profit and Loss Adjustment Account

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Particulars		Amount (Rs)	Particulars	Amount (Rs)
Reserve for Doubtful Debts		200	Land and Building	1,000
Profit transferred to:			Interest on Drawings A/c	100
Vilas's Capital	450	900		
Mangal's Capital	225			
Guru's Capital	225			
		1,100		1,100

Partners' Capital Accounts

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Particulars	Vilas	Mangal	Guru	Particulars	Vilas	Mangal	Guru
Drawings			1,000		6,000	7,000	3,400

				Balance b/d			
Interest on Drawings			100	General Reserve			400
Legal Heir Loan A/c			10,800	Profit and Loss Adjustment A/c (Profit)	450	225	225
Goodwill A/c	5,000	2,500		Goodwill			7,500
Balance c/d	1,450	4,725		Profit and Loss Suspense A/c			375
	6,450	7,225	11,900		6,450	7,225	11,900

Balance Sheet

as on April 01, 2012

Liabilities		Amount (Rs)	Assets		Amount (Rs)
Creditors		2,000	Land and Building		7,000
Capital A/cs			Stock		3,000
Vilas	1,450	6,175	Cash		5,000
Mangal	4,725		Debtors	5,000	4,800
Guru's Legal Heir's Loan A/c		10,800	Less : Reserve for Doubtful Debts	200	
General Reserve		1,200	Profit and Loss Suspense A/c		375
		20,175			20,175

Working Notes :-

WN 1 : Cash Account

Cash Account

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Particulars	Amount (Rs)	Particulars	Amount (Rs)
To Balance b/d	6,000	By Guru's Drawings A/c	1,000
		By Balance c/d	5,000
	6,000		6,000

WN 2 : Calculation of Gaining Ratio of Vilas and Mangal :

Old Ratio of = Vilas : Mangal : Guru = 2 : 1 : 1
Mangal = 2 : 1

New Ratio of Vilas and

Gaining Ratio = New Ratio - Old Ratio

$$\text{Vilas's Gain} = \frac{2}{3} - \frac{2}{4} = \frac{2}{12}$$

$$\text{Mangal's Gain} = \frac{1}{3} - \frac{1}{4} = \frac{1}{12}$$

WN 3 : Share in Goodwill

$$\begin{aligned}\text{Average Profit} &= \frac{15000 + 13000 + 7000 + 5000}{4} \\ &= \text{"Rs"} 10,000\end{aligned}$$

$$\begin{aligned}\text{Goodwill} &= 3 \text{ years' purchase of average profits} \\ &= 3 \times \text{Rs. } 10000 \\ &= \text{Rs. } 30,000\end{aligned}$$

$$\begin{aligned}\text{Guru's Share in Goodwill} &= \frac{1}{4} \times \text{Rs}30000 \\ &= \text{Rs. } 7,500\end{aligned}$$

WN 4: Share in Profits

$$\begin{aligned}\text{Average Profits of 2 years} &= \frac{7000 + 5000}{2} \\ &= \text{Rs } 6,000\end{aligned}$$

$$\begin{aligned}\text{Estimated Profit till date of death} &= \frac{3}{12} \times \text{Rs}6,000 \\ &= \text{Rs. } 1,500\end{aligned}$$

$$\text{Share of Guru} = \frac{1}{4} \times \text{Rs}1500$$

WN 5 : It is assumed that remaining General Reserve is continued in the business by remaining partners.

Question: 31

Sheetal, Anjali, Rajendra were sharing profits and losses as 7:5:4. Their Balance sheet as on 31st March, 2011:

Balance Sheet as on 31st March 2012

Liabilities	Amount (Rs)	Assets	Amount (Rs)

Capital		Furniture	17,000
Sheetal	23,000	Machinery	18,000
Anjali	15,000	Building	16,000
Rajendra	12,000	Cash	37,000
Bills Payable	4000		
Creditors	8000		
Loan	10,000		
General Reserve	16,000		
	88,000		88,000

Rajendra died on 30th June 2012 and the following adjustments were agreed as per deed.

- 1) Furniture, Machinery and Building are to be revalued at Rs 16,700/-, Rs 16,200, to Rs 30,100.
- 2) Rajendra's share is goodwill to be valued from firm's goodwill which was valued at two times the average profit of last three years. Profits of last three years Rs 30,000, Rs 25,000, Rs 20,000/-.
- 3) His profit upto the date of death is to be calculated on the basis of last years profit.
- 4) Rajendra was entitled to get a salary of Rs 800/-per month.
- 5) Interest on capital at 10% be allowed.
- 6) Rajendra's drawing upto date of death were Rs 600 p.m.

Prepare:

- 1) Rajendra's Capital A/c showing amount payable to his executor
- 2) Give working of share of goodwill and profit

Solution

Rajendra's Capital Account

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Particulars	Amount (Rs)	Particulars	Amount (Rs)
Drawings	1,800	Balance b/d	12,000
Executor's A/c	33,650	Profit and Loss Adjustment A/c (Profit)	3,000
		Goodwill	12,500
		Profit and Loss Suspense A/c	1,250
		Salary	2,400
		Interest on Capital	300

		General Reserve	4,000
	35,450		35,450

Working Notes:

WN 1: Calculation of share of Goodwill of Rajendra

i) Total Profit = 30000+25000+20000 = Rs. 75000

ii) Average Profit = 75000/3=Rs25000

iii) Goodwill = 25000 × 2 = Rs 50000

iv) Share of Rajendra in Goodwill = 50000×4/16=Rs12,500

WN 2: Calculation of Share of Profit of Rajendra

Profit of the last year = Rs 20000

Profit for the period = 20000×3/12=Rs5000

Share of Rajendra's Profit =5000×4/16=Rs1250

WN 3: Rajendra's Share of General Reserve

Rajendra's Share of General Reserve = 16000×4/16=Rs4000

Note:

WN 4: Profit and Loss Adjustment Account

Profit and Loss Adjustment Account

Dr.

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Particulars		Amount (Rs)	Particulars	Amount (Rs)
Furniture		300	Building	14100
Machinery		1800		
Profit transferred to:				
Sheetal's Capital	5250	12000		
Anjali's Capital	3750			
Rajendra's Capital	3000			
		14100		14100

Note: As per the book amount payable to Rajendra's Executor is Rs 33,350 but as per our solution it is Rs 33,650.

Question: 32

The Balance sheet of Mohan, Subhash and Babi as on 31st December, 2011 was as under. They were sharing profits and losses in the ratio of 2:1:1.

Balance Sheet as on 31st December, 2011

Liabilities	Amount (Rs)	Assets	Amount (Rs)
Capital		Investments	20000
Mohan	25,000	Buildings	33000
Subhash	15,000	Debtors	12000
Babi	15,000	Stock	28000
Creditors	30,000	Cash	8000
Reserve	16000		
	101000		101000

Babi died on 1st July, 2012 and partnership deed provided that in the event of death of the partner his executor will be entitled to be paid out.

- 1) Capital to the credit at the date of last balance sheet
- 2) Proportion of reserves
- 3) Proportion of goodwill to be calculated twice the average profits of last three years.
- 4) His proportion of profits to the date of death based on the average profits of the last three year plus 20%.
- 5) The net profits for last 3 years Rs 18,000, Rs 18,000, Rs 16,500.
- 6) Babi had withdrawn Rs 6,000/- to the date of her death.
- 7) The investments were sold at par and the amount was paid off to Babi's executor and the balance was transferred to loan A/c.

Prepare:

- 1) Babi's Capital A/c only.

Solution

Babi's Capital Account

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Particulars	Amount	Particulars	Amount
Drawings	6000	Balance b/d	15000
Cash A/c	20000	Reserves	4,000
Executor's Loan A/c	4375	Goodwill	8,750
		Profit and Loss Suspense A/c	2,625

	30,375		30,375
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Working Notes:

WN 1: Calculation of Share of goodwill of Babi

i) Total Profit = 18000 + 18000 + 16500 = Rs 52500

ii) Average Profit = 52500/3 = Rs17500

iii) Goodwill = 17500 × 2 = Rs 35000

iv) Babi's share of Goodwill = 35000 × 1/4 = Rs8750

WN 2: Calculation of Share of Profit of Babi

$$\text{Average Profit} = \frac{18000 + 18000 + 16500}{3} = \text{Rs}17500$$

$$\text{Profit For the Period} = 17500 \times \frac{6}{12} = \text{Rs}8750$$

$$\text{Share of Babi's Profit} = 8750 \times \frac{1}{4} + 20\% \left(8750 \times \frac{1}{4} \right) = \text{Rs}2625$$

WN 3: Babi's Share of Reserve:

$$\text{Babi's Share of reserve} = 16000 \times \frac{1}{4} = \text{Rs}4000$$

Note: As no information is given regarding the New Ratio of Mohan and Subhash, hence, it is 2:1 and Gaining Ratio is same as the New Ratio.

Question: 33

Minaxi, Ramesh and Poonam were partners sharing profits and losses in the proportion to their capitals, Their Balance sheet of the firm on 31st March, 2012 was as under:

Balance Sheet as on 31st March, 2012

Liabilities	Amount (Rs)	Assets	Amount (Rs)
Capital		Land and Building	40,000
Minaxi	30,000	Investment	20,000
Ramesh	20,000	Debtors	16,000
Poonam	10,000	Less : R.D.D	2,000

Creditors	28,000	Stock	18,000
Reserve	18,000	Cash	14,000
	1,06,000		1,06,000

Poonam died on 1st August, 2012 and the following adjustments were made

- 1) Assets revalued as under-Land & Building Rs 44,000, Investment Rs 18,000, Stock Rs 17,000.
- 2) All debtors were good.
- 3) Goodwill of the firm valued at two times the average profits of the last 4 years. No goodwill account to be shown in the books of the firm.
- 4) Poonam's share of profit upto her death to be calculated on the basis of average profits of last two year.
- 5) Profits were Rs 6,000, Rs 12,000, Rs 7,000, Rs 11,000

Prepare:

- 1) Profits and loss adjustment A/c
- 2) Balance sheet as on 1st August 2012

Solution

Profit and Loss Adjustment Account

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Particulars		Amount (Rs)	Particulars	Amount (Rs)
Investment		2,000	Land and Building	4,000
Stock		1,000	Reserve for Doubtful Debts	2,000
Loss transferred to:				
Minaxi	1,500	3,000		
Ramesh	1,000			
Poonam	500			
		6,000		6,000

Balance Sheet

as on Aug 01, 2012 after Poonam's death

Liabilities	Amount (Rs)	Assets	Amount (Rs)
Creditors	28,000	Land and Building	44,000
Poonam's Legal Heir A/c	17,000	Debtors	16,000
Capital A/cs:		Cash	14,000

Minaxi	38,700	64,500	Investment	20,000	18,000
Ramesh	25,800		Less : Amortised	2000	
			Stock	18,000	
			Less : Depreciation	1,000	17,000
			Profit and loss Suspense A/c		500
		1,09,500			1,09,500

Working Notes:

Calculation of Gaining Ratio of Minaxi and Ramesh:

Old ratio = Minaxi : Ramesh : Poonam

$$= 3 : 2 : 1$$

New ratio of Minaxi and Ramesh = 3:2

Gaining Ratio = Old ratio - New ratio

$$\text{Minaxi's Gain} = \frac{3}{5} - \frac{3}{6} = \frac{3}{30}$$

$$\text{Ramesh's Gain} = \frac{2}{5} - \frac{2}{6} = \frac{2}{30}$$

Gaining Ratio = 3:2

WN 1: Distribution of Reserve:

$$\text{Minaxi will get} = 18000 \times \frac{3}{6} = \text{Rs}9000$$

$$\text{Ramesh will get} = 18000 \times \frac{2}{6} = \text{Rs}6000$$

$$\text{Poonam will get} = 18000 \times \frac{1}{6} = \text{Rs}3000$$

WN 2: Share of Profit of Poonam

$$\begin{aligned} \text{Average Profit} &= \frac{\text{Total Profit}}{\text{Number of years}} \\ &= \frac{7000 + 11000}{2} = \text{Rs } 9000 \end{aligned}$$

$$\text{Poonam's share of profit} = 9000 \times \frac{4}{12} \times \frac{1}{6} = \text{Rs.}500$$

WN 3: Calculation of Share of goodwill of Poonam

i) Total Profit = 6000+12000+7000+11000 = Rs 36000

ii) Average Profit = $\frac{36000}{4} = \text{Rs}9000$

iii) Goodwill = 9000 × 2 = Rs 18000

iv) Poonam's share of goodwill = $18000 \times \frac{1}{6} = 3000$

WN 4: Partners' Capital Accounts**Partners' Capital Accounts**

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Particulars	Minaxi	Ramesh	Poonam	Particulars	Minaxi	Ramesh	Poonam
Legal Heir's A/c			17,000	Balance b/d	30,000	20,000	10,000
Goodwill A/c	1,800	1,200		Reserve	9,000	6,000	3,000
Balance c/d	38,700	25,800		Goodwill			3,000
				Profit and Loss Suspense A/c			500
				Profit and Loss Adjustment A/c (Profit)	1500	1000	500
	40,500	27,000	17,000		40,500	27,000	17,000

Question: 34

Vishnu, Prabhakar and Krishna were partners in a business sharing profits and losses in the ratio of 3:1:1 respectively. Their Balance Sheet as on 31st March, 2012 was as follows:

Balance Sheet as on 31st March, 2012

Liabilities	Amount (Rs)	Assets	Amount (Rs)
Capital		Plant and Machinery	35,000
Vishnu	40,000	Stock	25,000
Prabhakar	30,000	Debtors	20,000
Krishna	25,000	Cash	20,000
Creditors	5,000		
Reserve Fund	10,000		
	1,10,000		1,10,000

Krishna died on 1st October, 2012 and the partnership deed provided that:

- 1) The deceased partner to be given his share of profit to the date of death on the basis of the profits of the previous year.
- 2) His share of goodwill will be calculated on two years purchase of average profit of the last 4 years. The net profit for last 4 years were Rs 70,000, Rs 55,000, Rs 45,000, Rs 30,000
- 3) Plant and Machinery to be valued at Rs 40,000. Reserve for doubtful debts of Rs 2,000 to be created.
- 4) The drawings of Krishna upto the death amounted to Rs 20,000
- 5) Interest on capital at 10% p.a. is to be allowed and 6% p.a. to be charged on drawings. Both the interest should be calculated for 6 months.

Prepare:

- 1) Krishna's capital A/c and P/L Adjustment A/c

Solution

Krishna's Capital Account

Dr.

Cr.

Particulars	Amount	Particulars	Amount
Drawings	20,000	Balance b/d	25000
Interest on Drawings	600	Reserve fund	2000
Legal Heir's Loan A/c	31,250	Profit and Loss Adjustment A/c (Profit)	600
		Goodwill	20000

		Profit and Loss Suspense A/c	3000
		Interest on Capital	1250
	51850		51850

Profit and Loss Adjustment Account

Dr.

Cr.

Particulars		Amount (Rs)	Particulars	Amount (Rs)
Reserve for Doubtful Debts		2000	Plant and Machinery	5000
Profit transferred to:				
Vishnu	1800	3000		
Prabhakar	600			
Krishna	600			
		5000		5000

Working Notes:

WN 1: Krishna's share of Reserve Fund

Krishna's share of Reserve = $10000 \times \frac{1}{5} = 2000$

WN 2: Calculation of Share of Goodwill of Krishna

Total Profit = $70000 + 55000 + 45000 + 30000 = 200000$

Average Profit = $200000 / 4 = 50000$

Share of goodwill of krishna = $50000 \times 2 \times \frac{1}{5} = 20000$

WN 3: Calculation of Share of Profit of Krishna

Share of profit for the period = $30000 \times \frac{6}{12} = 15000$

Share of Profit = $15000 \times \frac{1}{5} = 3000$

Note: As no information is given regarding the New Ratio of Vishnu and Prabhakar, hence, it is 3:1 and Gaining Ratio is same as the New Ratio.