

5. Reconstitution of Partnership (Death of Partner)

Q.1 Objective questions:

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

1. Benefit Ratio is the Ratio in which.....

- a) The old partner gain on admission of a new partner
- b) The Goodwill of a new partner on admission is credited to old partners
- c) The continuing partners benefits on retirement or death of a partner**
- d) All partenrs are benefited.

2. The ratio by which existing partners are benefited.....

- a) Gain Ratio**
- b) Sacrifice Ratio
- c) Profit Ratio
- d) Capital Ratio

3. Profit and Loss Suspense Account is shown in the new Balance Sheet on..... side.

- a) Debit
- b) Credit
- c) Asset**
- d) Liabilities

4.....Death is a compulsory

- a) Dissolution
- b) Admission
- c) Retirement**
- d) Winding up 201

5. The balance on the capital account of a partners, on his death is transferred to..... account.

- a) Relatives
- b) Legal Heir's loan / Executors loan**
- c) Partner's capital
- d) Partners Loan

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

1. Excess of credit side over debit side of profit and loss adjustment account.

Ans. Profit

2. A Person who represents the deceased partner on the death of the Partner.

Ans. Legal Heir's or Executor

3. Accumulated past profit kept in the form of reserve

Ans. Reserve fund or General reserve

4. The Partner who died.

Ans. Deceased partner

5. The proportion in which the continuing partners benefit due to death of partner.

Ans. Gain / Benefit ratio

(C) (1) State whether the following statements are True or False with reasons:

(1) A deceased partner is not entitled to Goodwill of the firm.

Ans. This statement is False

A deceased partner's contribution was there in the development of business and goodwill is the value of business in terms of money. Hence, a deceased partner is entitled to receive goodwill of the firm.

(2) A deceased partner is entitled to his share of General Reserve.

Ans. This statement is True

General reserve is created out of past undistributed profit. Past profit is earned due to efforts and hard work of all the partners including partner who is now dead.

Hence a deceased partner has right on it and therefore a deceased partner is entitled to receive his share of General reserve.

(3) If goodwill is written off, a Deceased Partner's Capital

Ans. This statement is False.

Account is debited. When the benefits of goodwill is given to deceased partner, his capital account is credited and when such goodwill is written off, capital accounts of remaining partners are debited.

(4) After the death of a partner, entire amount due to deceased partner is paid to legal representative of the deceased partner.

Ans. This statement is True.

After the death of a partner, entire amount due to deceased partner is paid to legal representative of the deceased partner as he is the only person who has legal right on that amount.

(5) For recording the profit or loss up to the death, Profit and Loss Appropriation Account is operated.

Ans. This statement is False.

For recording the profit or loss up to the death, Profit and Loss suspense Account is created and operated. This is because final accounts cannot be prepared on the date of death of a partner, Till that period a separate account called Profit and Loss Suspense A/c is prepared.

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

1. Deceased partner's executors account is shown on the side of the Balance Sheet.

Ans. Liabilities

2. On death of a partner, a ratio in which the continuing partners get more share of profits in future is called as ratio.

Ans. Gain

3. Deceased partners share of profit up to the death is shown onside of Balance Sheet.

Ans. Assets

4. Benefit ratio = New Ratio.....

Ans. Old ratio

5. When Goodwill is raised at its full value and it is written off account is to be credited.

Ans. Goodwill

(E). (1) Answer in one sentence only:

(1) What is Gain Ratio ?

Ans. Profit sharing ratio which is acquired by the surviving or continuing partners on account of death of any partner is called gain ratio or benefit ratio.

(2) In which ratio general reserve is distributed on death of a partner ?

Ans. General reserve is distributed on death of a partner in their old profit sharing ratio.

(3) To whom you distribute general reserve on death of a partner ?

Ans. On death of a partner general reserve is distributed among all partners in their old profit and loss ratio.

(4) How death of a partner is a compulsory retirement ?

Ans. After the death of a partner, business is not able to get any kind of services from deceased partner and so we can say that death of a partner is like a compulsory retirement.

(5) To which account profit is to be transferred up to the date of his death ?

Ans. Profit of the deceased partner, up to the date of his death, is transferred to his Legal Heir's/Executor's Account.