

Reconstitution of Partnership (Death of Partner)

EXERCISE - 5 [PAGES 200 - 201]

Exercise - 5 | Q 1 | Page 200

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

Benefit Ratio is the Ratio in which _____

1. The old partner gain on the admission of a new partner
2. The Goodwill of a new partner on admission is credited to old partners
3. **The continuing partner's benefits on retirement or death of a partner**
4. All partners are benefited

Solution: Benefit Ratio is the ratio in which The continuing partner's benefits on retirement or death of a partner.

Exercise - 5 | Q 2 | Page 200

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

The ratio by which existing partners are benefited _____

1. **Gain Ratio**
2. Sacrifice Ratio
3. Profit Ratio
4. Capital Ratio

Solution: The ratio by which existing partners are benefited gain Ratio.

Exercise - 5 | Q 3 | Page 200

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

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

1. Debit
2. Credit

3. Asset

4. Liabilities

Solution: Profit and Loss Suspense Account is shown in the new Balance Sheet on asset side.

Exercise - 5 | Q 4 | Page 200

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

Death is a compulsory_____

1. Dissolution
2. Admission

3. Retirement

4. Winding-up

Solution: Death is a compulsory retirement.

Exercise - 5 | Q 5 | Page 201

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

The balance on the capital account of partners, on his death, is transferred to_____ account.

1. Relatives

2. Legal Heir's loan / Executors loan

3. Partner's capital
4. Partners Loan

Solution: The balance on the capital account of partners, on his death, is transferred to Legal Heir's loan/ Executors loan account.

EXERCISE - 5 [PAGE 201]

Exercise - 5 | Q 1 | Page 201

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

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

Solution: Excess of credit side over the debit side of profit and loss adjustment account.- **Profit**

Exercise - 5 | Q 2 | Page 201

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

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

Solution: A Person who represents the deceased partner on the death of the Partner.- **Legal Heir's or Executor**

Exercise - 5 | Q 3 | Page 201

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

Accumulated past profit kept in the form of reserve.

Solution: Accumulated past profit kept in the form of reserve.- **Reserve fund or General reserve.**

Exercise - 5 | Q 4 | Page 201

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

The Partner who died.

Solution: The Partner who died.- **Deceased partner.**

Exercise - 5 | Q 5 | Page 201

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

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

Solution: The proportion in which the continuing partners benefit due to the death of a partner.- **Gain/Benefit ratio**

EXERCISE - 5 [PAGE 201]

Exercise - 5 | Q 1 | Page 201

State whether the following statement is True or False with reason.

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

1. True
2. **False**

Solution: This statement is False.

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

Exercise - 5 | Q 2 | Page 201

State whether the following statement is True or False with reason.

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

1. True
2. False

Solution: This statement is True.

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

Exercise - 5 | Q 3 | Page 201

State whether the following statement is True or False with reason.

If Goodwill is written off a deceased partner's capital account is debited.

1. True
2. False

Solution: This statement is False.

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

Exercise - 5 | Q 4 | Page 201

State whether the following statement is True or False with reason.

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

1. True
2. False

Solution: This statement is True.

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

Exercise - 5 | Q 5 | Page 201

State whether the following statement is True or False with reason.

For recording the Profit or Loss up to the date of death, Profit and Loss Appropriation Account is operated.

1. True

2. **False**

Solution: 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 the death of a partner. Till that period a separate account called Profit and Loss Suspense A/c is prepared.

EXERCISE - 5 [PAGE 201]

Exercise - 5 | Q 1 | Page 201

Fill in the blank and rewrite the following sentence.

Deceased partner's executor's account is shown on the _____ side of the Balance Sheet.

Solution: Deceased partner's executor's account is shown on the Liabilities side of the Balance Sheet.

Exercise - 5 | Q 2 | Page 201

Fill in the blank and rewrite the following sentence.

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

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

Exercise - 5 | Q 3 | Page 201

Fill in the blank and rewrite the following sentence.

Deceased partners share of profit up to the death is shown on _____ side of Balance Sheet.

Solution: Deceased partner's share of profit up to the death is shown on assets side of the Balance Sheet.

Exercise - 5 | Q 4 | Page 201

Fill in the blank and rewrite the following sentence.

Benefit ratio = New Ratio _____.

Solution: Benefit ratio = New Ratio Old ratio

Exercise - 5 | Q 5 | Page 201

Fill in the blank and rewrite the following sentence.

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

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

EXERCISE - 5 [PAGE 201]

Exercise - 5 | Q 1 | Page 201

Answer in one sentence only.

What is the gain ratio?

Solution1: Proportion in which continuing partner gain the share of outgoing partner on his retirement.

Solution2: The profit-sharing ratio which is acquired by the surviving or continuing partners on account of the death of any partner is called gain ratio or benefit ratio.

Exercise - 5 | Q 2 | Page 201

Answer in one sentence only.

In which ratio General Reserve is distributed on death of a partner?

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

Exercise - 5 | Q 3 | Page 201

Answer in one sentence only.

To whom you distribute General Reserve on the death of a partner?

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

Exercise - 5 | Q 4 | Page 201

Answer in one sentence only.

How the death of a partner is a compulsory retirement?

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

Exercise - 5 | Q 5 | Page 201

Answer in one sentence only.

To which account Profit is to be transferred upto the date of his death?

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

PRACTICAL PROBLEMS [PAGES 202 - 204]

Practical Problems | Q 1 | Page 202

Rajesh, Rakesh, and Mahesh were equal Partner on 31st March 2019. Their Balance Sheet was as follows 31st March 2019.

Balance Sheet as on 31st March 2019

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

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

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

Prepare:

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

Solution:.

Dr	In the books of the Partnership Firm Profit and Loss Adjustment Account			Cr
Particulars	Amount (₹)	Particulars	Amount (₹)	
To Land and Building A/c	40,000	By Furniture A/c	40,000	
To R.D.D. A/c	15,000	By Partners' Capital A/c (Loss)		
		Rajesh	5,000	

		Rakesh	5,000	
		Mahesh	5,000	15,000
	55,000			55,000

Dr	Partners' Capital Account							Cr
Particulars	Rajesh (₹)	Rakesh (₹)	Mahesh (₹)	Particulars	Rajesh (₹)	Rakesh (₹)	Mahesh (₹)	
To Profit and Loss Adjustment A/c – Loss	5,000	5,000	5,000	By Balance b/d	5,00,000	2,00,000	2,00,000	
To Rajesh's Executor's A/c	5,10,000			By Profit and Loss Suspense A/c	15,000			
To Balance c/d		1,95,000	1,95,000					
	5,15,000	2,00,000	2,00,000		5,15,000	2,00,000	2,00,000	

Balance Sheet as on 1 st July 2019					
Liabilities	Amount (₹)	Amount (₹)	Assets	Amount (₹)	Amount (₹)
Capital Accounts:			Land and Building	4,00,000	
Rakesh	1,95,000		Less: Depreciation	40,000	3,60,000
Mahesh	1,95,000	3,90,000	Furniture	3,00,000	
Rajesh's Executor's Loan A/c		5,10,000	Add: Appreciation	40,000	3,40,000
Sundry Creditors		90,000	Debtors	3,00,000	
Bills Payable		60,000	Less: R.D.D. (5%)	15,000	2,85,000
Bank Loan		1,50,000	Stock		1,00,000
			Cash		1,00,000
			Profit and Loss Suspense A/c		15,000
		12,00,000			12,00,000

Working Note :

The profit of the firm last year was ₹ 1,80,000.

Proportionate profit up to the date of death for Rajesh is as follows

$$= 1,80,000 \times \frac{3}{12} \times \frac{1}{3} = ₹ 15,000$$

(Period) (P & L ratio) Profit and Loss Suspense A/c

Practical Problems | Q 2 | Page 202

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

Balance Sheet as on 31st March 2017

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

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

1. R.D.D. was maintained at 5% on Debtors
2. Plant and Machinery and Investment were valued at ₹ 80,000 and ₹ 4,10,000 respectively.
3. Of the creditors, an item of ₹ 6000 was no longer a liability and hence was properly adjusted.
4. Profit for 2017-18 was estimated at ₹ 120,000 and Ramesh share in it up to the date of his death was given to him.

5. Goodwill of the Firm was valued at two times the average profit of the last five years.

Which were

2012-13	₹ 1,80,000
2013-14	₹ 2,00,000
2014-15	₹ 2,50,000
2015-16	₹ 1,50,000
2016-17	₹ 1,20,000

Ramesh share in it was to be given to him

6. Salary 5,000 p.m. was payable to him

7. Interest on capital at 5% i.e. was payable and on Drawings ₹ 2000 were charged.

8. Drawings made by Ramesh up to September 2017 were ₹ 5,000 p.m.

Prepare

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

Give Working of Profit and Goodwill

Ramesh Capital Balance ₹ 3,41,000

Solution:

Dr	In the books of the Partnership Firm Ramesh's Capital Account		Cr
Particulars	Amount (₹)	Particulars	Amount (₹)
To Drawings A/c	30,000	By Balance b/d	2,40,000
To Interest on Drawings A/c	2,000	By Goodwill A/c	60,000
To Executor's Loan A/c	3,41,000	By Salary A/c	30,000
		By Interest on Capital A/c	6,000
		By Profit and Loss Adjustment A/c – Profit	11,000
		By Profit and Loss Suspense A/c	10,000
		By General reserve A/c	16,000
	3,73,000		3,73,000

Working Notes :

Calculation of share of Goodwill :

$$\begin{aligned}
 \text{(a) Average profit} &= \frac{\text{Total profit}}{\text{No. of years}} \\
 &= \frac{1,80,000 + 2,00,000 + 2,50,000 + 1,50,000 + 1,20,000}{5} \\
 &= \frac{9,00,000}{5} \\
 &= ₹ 1,80,000
 \end{aligned}$$

(b) Goodwill = Average profit × No. of years

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

$$= ₹ 3,60,000$$

(c) Share of Goodwill to ramesh = Goodwill of the firm × Ramesh's share

$$= 3,60,000 \times 1/6$$

$$= ₹ 60,000$$

(2) Calculation of share of profit due to Ramesh :

Share of profit = Last year profit × Share of profit × Period

$$= 1,20,000 \times 1/6 \times 6/12$$

$$= ₹ 10,000 \text{ (Profit and Loss Suspense A/c)}$$

(3) Interest on Capital is calculated for six months.

$$\therefore \text{Interest} = 2,40,000 \times 6/12 \times 5/100 = ₹ 6,000$$

(4)

Dr	Profit and Loss Adjustment Account				Cr
Particulars		Amount (₹)	Particulars	Amount (₹)	
To Plant and Machinery A/c		5,000	By R.D.D. A/c	5,000	
To Partners' Capital A/cs :			By Investments A/c	60,000	
Rahul	33,000		By Creditors A/c	6,000	
Rohit	22,000				
Ramesh	11,000	66,000			

	71,000		71,000
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Practical Problems | Q 3 | Page 203

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

Balance Sheet as on 31st March 2018

Liabilities	Amount ₹	Assets	Amount ₹
General Reserve	25,000	Goodwill	50,000
Creditors	1,00,000	Loose Tools	50,000
Unpaid Rent	25,000	Debtor	1,50,000
Capital Accounts	-	Live Stock	1,00,000
Ram	100000	Cash	25,000
Madhav	75000		
Keshav	50000		
	3,75,000		3,75,000

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

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

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

Keshav's share in it was to be given to him.

4. Loose Tools and livestock were valued at ₹ 80,000 and ₹ 1,20,000 respectively
5. R.D.D. was maintained at ₹ 10,000

6. Commission's ₹ 2000 p.m. was payable to Keshav Profit for 2018 -19 was estimated at ₹ 45000 and Keshav's share in it up to the date of his death was given to him.

Prepare

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

Solution:

Dr	In the books of the Partnership Firm Revaluation Account			cr
Particulars		Amount (₹)	Particulars	Amount (₹)
To R.D.D. A/c		10,000	By Loose Tools A/c	30,000
To Creditors A/c		10,000	By Live Stock A/c	20,000
To Partners' capital A/c – Profit				
Ram	15000	30,000		
Madhav	9000			
Keshav	6000			
		50,000		50,000

Dr	Keshav's Capital Account			Cr
Particulars		Amount (₹)	Particulars	Amount (₹)
To Balance c/d		92,000	By Balance b/d	50,000
			By General reserve A/c	5,000
			By Commission A/c (₹ 2,000 × 4 months)	8,000
			By Goodwill A/c	20,000
			By revaluation A/c – Profit	6,000
			By Profit and Loss Suspense A/c	3,000
		92,000		92,000

Working Notes :

(1) Calculation of share of Goodwill :

$$\begin{aligned}
 \text{(a) Average profit} &= \frac{\text{Total profit}}{\text{No. of years}} \\
 &= \frac{90,000 + 1,00,000 + 60,000 + 50,000 - 50,000}{5} \\
 &= \frac{2,50,000}{5}
 \end{aligned}$$

$$= ₹50,000$$

$$\text{(b) Goodwill} = \text{Average profit} \times \text{No. of years}$$

$$= 50,000 \times 2$$

$$= ₹1,00,000$$

$$\text{(c) Share of Goodwill to Keshav}$$

$$= \text{Goodwill of the firm} \times \text{Keshav's share}$$

$$= 1,00,000 \times 2/10$$

$$= ₹20,000$$

(2) Calculation of share of profit due to Keshav Share of profit

$$= \text{Last year profit} \times \text{Share of Keshav} \times \text{Period}$$

$$= ₹45,000 \times 2/10 \times 4/12$$

$$= ₹3,000 \text{ (Profit and Loss Suspense Account)}$$

Practical Problems | Q 4 | Page 204

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

Balance Sheet as on 31st March 2019

Liabilities	Amount ₹	Assets	Amount ₹
Bank Loan	25,000	Furniture	50,000
Creditors	20,000	Land & Building	50,000
Bills Payable	5,000	Motor Car	20,000
Reserve Fund	30,000	Sundry Debtors	50,000
Capital Account:		Bills Receivable	20,000

Virendra	90,000	Investments	50,000
Devendra	60,000	Cash at Bank	20,000
Narendra	30,000		
	2,60,000		2,60,000

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

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

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

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

Prepare Mr. Virendras Executors A/c

Solution:

Dr	In the books of the Partnership Firm Virendra's Capital Account		Cr
Particulars	Amount (₹)	Particulars	Amount (₹)
To Drawings A/c (₹ 3,000 × 5 months)	15,000	By Balance b/d	90,000
To Executor's Loan A/c	1,50,417	By Goodwill A/c	50,000
		By Profit and Loss Suspense A/c	10,417

		By reserve Fund A/c	15,000
	1,65,417		1,65,417

Working Notes:

(1) Calculation of share of profit :

$$\begin{aligned}
 \text{(a) Average profit} &= \frac{\text{Total profit}}{\text{No. of years}} \\
 &= \frac{40,000 + 60,000 + 70,000 + 30,000}{4} \\
 &= \frac{2,00,000}{4}
 \end{aligned}$$

$$= ₹ 50,000$$

(b) Goodwill = Average profit × No. of years

$$= 50,000 \times 2$$

$$= ₹ 1,00,000$$

(c) Share of Goodwill to Virendra = Goodwill of the firm × Virendra's share

$$= 1,00,000 \times \frac{3}{6}$$

$$= ₹ 50,000$$

(2) Share of profit due to Virendra

Share of profit = Last year profit × Share of Virendra × Period

$$= 50,000 \times \frac{3}{6} \times \frac{5}{12}$$

$$= ₹ 10,417 \text{ (Profit and Loss Suspense A/c)}$$

Practical Problems | Q 5 | Page 204

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

Balance Sheet as on 31 st March 2019			
Liabilities	Amount ₹	Assets	Amount ₹
Bank Overdraft	18,000	Bank	48,000
Creditors	85,000	Debtors	30,000

Bills payable	40,000	Land and Building	40,000
Bank Loan	1,50,000	Machinery	80,000
General Reserve	27,000	Investments	40,000
Capital Account :		Computers	40,000
Sohan	20,000	Stock	90,000
Rohan	20,000	Patents	12,000
Mohan	20,000		
	3,80,000		3,80,000

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

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

Prepare Partners' capital accounts.

Solution:

Dr	In the books of the Partnership firm Partners' Capital Accounts							Cr
Particulars	Sohan (₹)	Rohan (₹)	Mohan (₹)	Particulars	Sohan (₹)	Rohan (₹)	Mohan (₹)	
To Executor's Loan A/c	-	49,000	-	By Balance b/d	20,000	20,000	20,000	
To Drawings A/c	-	25,000	-	By revaluation A/c	15,000	10,000	5,000	
To Balance c/d	63,500	-	34,500	By General reserve A/c	13,500	9,000	4,500	

				By Goodwill A/c	15,000	10,000	5,000
				By Profit and Loss Suspense A/c		25,000	
	63,500	74,000	34,500		63,500	74,000	34,500

Working Notes :

Dr		Revaluation Account		Cr
Particulars		Amount (₹)	Particulars	Amount (₹)
To Stock A/c		5,000	By Land and Building A/c	10,000
To R.D.D. A/c		3,000	By Machinery A/c	20,000
To Patents A/c		12,000	By Investments A/c	20,000
To Partner's Capital A/cs – Profit				
Sohan	15,000			
Rohan	10,000			
Mohan	15,000	30,000		
		50,000		50,000

(2) Firm's goodwill = ₹ 30,000. Distribute among partners in their profit and loss ratio 3 : 2 : 1.

$$(3) \text{ Revised value of Land \& Building} = \frac{\text{Book value}}{100-20} \times 100 = \frac{40,000}{80} \times 100 = ₹ 50,000.$$

∴ Increase in the value of Land & Building = revised value - Book value = 50,000 - 40,000 = ₹ 10,000.

$$(4) \text{ Revised value of Machinery} = \frac{\text{Book value}}{100-20} \times 100 = \frac{80,000}{80} \times 100 = ₹ 1,00,000.$$

∴ Increase in the value of Machinery = 1,00,000 – 80,000 = ₹ 20,000.

(5) Patents were valueless means it is loss for business.

(6) Rohan's share in profit is ₹ 25,000 and his drawings is ₹ 25,000. rohan is allowed to retain his drawings as his share of profit. Means write ₹ 25,000 as drawings on debit side and write ₹ 25,000 as Profit and Loss Suspense A/c on Credit side of Partners' Capital A/c.