

1. Details of Module and its structure

Module Detail	
Subject Name	Accountancy
Course Name	Accountancy 03 (Class XII, Semester - 1)
Module Name/Title	Reconstitution of Partnership Firm-Retirement of a Partner – Part 6
Module Id	leac_10406
Pre-requisites	Basic knowledge of Partnership – New & Gaining Ratios, Treatment of Goodwill, Hidden Goodwill, Adjustment of Accumulated profits, Payment to Retiring partner, Adjustment of capital
Objectives	After going through this lesson, the learners will be able to understand: <ul style="list-style-type: none">• Calculation of Deceased Partner share of Profits• Application of Sec. 37 of Indian Partnership Act
Keywords	

2. Development Team

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1. Calculation of Deceased Partner share of Profits
2. Application of Sec. 37 of Indian Partnership Act.

First of all, let us see the Objectives of our discussion

After going through this video tutorial you will be able to understand:

1. Calculation of Deceased Partner share of Profits on Death
2. Application of Sec. 37 of Indian Partnership Act.

In case of Death of a Partner, we have to make calculations for what is due to the legal heirs of the Deceased Partner. Let us begin our Discussion on that note.

1. Calculation of deceased partner's share of profits

At the time of death of a partner, the executors of the deceased partner are entitled to share the profits earned by the firm from the beginning of that Accounting year till the date of his death. As the death of partner must have occurred in between the year, (As death will not wait for the accounting year to end), it is not feasible to close the books of accounts because Business never stops in the middle of the year.

So, for calculation of profit share of the Deceased partner, we adopt either of the methods:

1) Time basis or 2) Turnover basis

The Deceased partners' share in Profits is to be calculated and following journal entry be made:

Profit & Loss Suspense A/c Dr.

To Deceased Partners' Capital/Executor's A/c

(Being share of Estimated profit credited to deceased partner's capital/executor's account)

Here, an Important Question arise?? Why Profit & Loss Suspense??

The Answer is “As these are Estimated Profits, these will be subsequently adjusted when Actual Profits will be calculated”.

Methods of calculating share of profit

(I) Time basis method

If Sales are being made uniformly throughout the year, it is assumed that profits are earned uniformly throughout the year. Now, if a partner dies, Profits in the year of death are calculated on the basis of Previous year's profit or on the basis of Average profits of the past years.

Solution

Executor's of deceased partner shall get Rs.20,000 which can be worked out as under:

Sales were Rs. 10,00,000, profit was Rs.2,00,000

If sales were Rs. 3,00,000, profit will be Rs. 60,000 [$2,00,000 / 10,00,000 \times Rs. 3,00,000$]

Deceased partner's share shall be Rs. $60,000 \times 1/3 = Rs.20,000$.

Following journal entry will be made:

Profit & Loss Suspense A/c Dr.20,000

To B's Executor's A/c 20,000

(Being share of Estimated profit credited to deceased partner's executor's account)

Question

A,B & C were partners sharing profits & losses in the ratio 5:3:2. Their Balance Sheet as at 31.3.2020 was as under :

BALANCE SHEET as at 31.3.2020

Liabilities	Rs.	Assets	Rs.
Bills Payable	8,000	Cash	12,000
Creditors	8,000	Bills Receivable	15,000
Loans	5,000	Debtors	22,000
General Reserve	36,000	Plant & Machinery	18,000
A's Capital	15,000	Furniture	20,000
B's Capital	5,000		
C's Capital	10,000		
	87,000		87,000

C died on the 30.9.2020 following adjustments are to be made:

- (a) Deceased partner share of profits upto death calculated on basis of profit of previous year.
- (c) Salary Rs. 3,000/- per month is to be paid to deceased partner for the periods he worked.
- (d) Debtors amounting to Rs. 2,000 proved bad and to be written off.
- (e) Provision for Bad Debt 10% is to be created
- (f) Make a Provision for discount on Debtors of 20%
- (g) Furniture is to be depreciated by 10%
- (h) Previous Year Profits 24,000.

Prepare Revaluation Account and C's Capital Account to be rendered to her executors.

Solution: Books of A, B and C

Dr. REVALUATION ACCOUNT Cr.

Particulars	Rs.	Particulars		Rs.
To Bad Debts A/c	2,000	By Loss transferred to :		
To Provision on Debtors A/c	2,000	A's Capital A/c	4,800	
To Provision for Disc on Debtor	3,600	B's Capital A/c	2,880	
To Furniture A/c	2,000	C's Capital A/c	1,920	9,600
	9,600			9,600

Dr C's CAPITAL ACCOUNT Cr.

Particulars	Rs.	Particulars	Rs.
To Revaluation A/c	1,920	By Balance b/d	20,000
To C's Executor's A/c	45,680	By General Reserve A/c	7,200
		By Profit & Loss Suspense A/c	2,400
		By Salary A/c	18,000
	47,600		47,600

Working Notes:

(a) Share in Profits

Profits for 2018-19= Rs. 24,000

Profits up to date of death = Rs. 24,000 × 6/12 = Rs. 12,000

C's share = Rs. 12,000 × 2/10 = Rs. 2,400

(b) Salary to C= Rs. 3,000 × 6 = Rs.18,000

Applicability of Section 37 (Indian Partnership Act)

Executors are entitled to interest @ 6% p.a. Till the Final payments are made, unless agreed otherwise. And Instead of interest, the executors can also opt to take share of Proportionate profits. The share of Proportionate profits is determined by dividing profits earned from the Date of Death till the Date of Settlement in the ratio of Deceased partner's capital bear to the total capital employed. Let's do one Question on this Point.

Question

Rohan, Sohan and Mohan were partners sharing profits and losses in the ratio of 2 : 2 : 1. Their Balance Sheet as on 01:01:2020 stood as follows :

Liabilities	Rs.	Assets	Rs.
Capital Account :		Fixed Assets	1,00,000
Rohan	50,000	Stock	25,000
Sohan	40,000	Debtors	35,000
Mohan	<u>30,000</u>	Cash and bank	10,000
Reserves	10,000		
Creditors	<u>40,000</u>		
	<u>1,70,000</u>		<u>1,70,000</u>

The firm had taken a Joint Life Policy for Rs.1 lac, the premium amounts on which were charged to the Profit and Loss Account. On 1st July, 2020 Mohan died. His representatives agreed that:

- Goodwill of the firm be valued at Rs.50,000;
- Fixed Assets be written down by Rs.10,000; and
- In lieu of profits, Mohan should be paid @ 25% p.a on his capital as on 01:01:2020.
- The policy money was received on 31:12:2020 and Mohan's Legal heirs were paid the total amount due on the same day.
- Current years (2020) profit after charging depreciation of Rs. 9,500 (Rs. 5,000 related to the 1st half) was Rs.40,500.
- The year-end figures of Stock, Debtors and Creditors and Cash and Bank Balances were respectively Rs.33,000, 29,000, 35,000 and 66,217.
- The particulars regarding their drawings are given below:

	Upto 01:07:2020	After 1:7:2020
	Rs.	Rs.
Rohan	4,125	5,000
Sohan	4,125	5,000
Mohan	1750	

Prepare the balance sheet of the firm as on 31st December, 2020 assuming that the remaining partners did not retain Goodwill in their books.

Solution: Let us begin with Calculation of Important Points. Point No. 1 is to calculate correct Profits of Both Half.