

FOR THIRD SEMESTER

SUB:FINANCIAL ACCOUNTING-11 (CC1.CH &CG)

CH.1 PARTNERSHIP ACCOUNTING : DEATH OF PARTNER

1. **INTRODUCTION** :- As partnership firm is carried on by two or more persons a constitutional change is raised due to the event the death of any partner.

As per section 35 of partnership Act 1932, it is not necessary to dissolve a firm on the event of death of partner. Rather the surviving partner may continue the firm. In that case the continuing partner arranges for the settlement of the dues to deceased partner to his legal heir/representative.

2. **ACCOUNTING TREATMENT**:- Adjustment is required for
- i/ calculation of new profit sharing ratio (including gaining ratio).
 - ii/ distribution of reserves, accumulated profits and losses.
 - iii/ revaluation of asset and liabilities.
 - iv adjustment of goodwill
 - v/ adjustment of interim period's profit and loss- in this case profit or loss may be ascertained by preparing final accounts of such interim period . But in actual practice it may be possible for preparing such interim final accounts . Hence ,the average profit for the periods of last year may be taken either on the basis of time or sale fro the corresponding period of pre and post death.
 - vi/ accounting for life policy-if individual life policy is taken both maturity value of deceased partner and surrender value of existing partners are considered , but in the case of JLP only maturity value is to be considered i.e in that case surrender value is of no use.
 - vii/ settlement of final balance of deceased partner-settlement may be made immediately by cash payment to the legal heirs or the executor of deceased partner or by deferred payment by the way of opening loan account.

EXAMPLE-1 A,B AND C carried on a business sharing profit and losses in the ratio 3:2:1. Partnership deed says that a. Average profit till the date of death is to be considered.

b. Goodwill be valued on the basis of 2 years 'purchase of 3 years' average profit. c. interest on capital 6% p.a.

A died on 31/3/20. prepare A's capital account considering the following-

i/A withdrew 14000 during the period of jan to march 20. ii/ The firm insured the partners live severally A-20000, B-15000 C-10000. The surrender value on March 31/2020 was $\frac{1}{2}$ of the insured value in each case. iii/ Annual profit for last three years were 14960,16000,& 18000. iv/ balance of capital account A-40000,B-30000 & C-20000.

Sol:- Working-1. Profit sharing ratio of B & C after death of A will remain same i.e 2:1

2. share of profit-- Average profit= $14960+16000+18000/3=16320$. Estimated profit upto march 20= $16320 \times 3/12=4080$ and share of A= $3/6 \times 4080= 2040$ (journal entry-----p/l suspense a/c..dr to A' capital a/c-2040)
3. share of goodwill—Value of goodwill 2years purchase of 3 years average profit

=2x 16320=32640. A's share =3/6x32640=16320 [journal----B,capital a/c dr.10880 C's capital a/c dr. 5440 To A'capital a/c---16320

4. Share of life policies---surrender value of policy of B &C = (1/2 of sum assured--15000+10000) =12500 and A's share=3/6x12500=6250 & maturity value of A= 3/6x 20000 =10000 [journal---B' capital a/c..dr—4167, C' capital a/c..dr 2083 To A' capital...6250]

A's Capital Account

To Drawings	14000	By balance b/f	40000
To A' executor' A/c (transfer)	61210	By profit & loss suspense a/c	2040
		By B ' capital (goodwill)	10880
		By C ' capital (goodwill)	5440
		By B ' capital (surrender value)	4167
		By C ' capital a/c (surrender value)	2083
		By Bank a/c (M.V of A'policy)	10000
		By interest on capital @6% for3m	600
			75210
	75210		

EXAMPLE-2 A,B & C sharing profit & loss in the ratio 5:3:2 gives you the following balance sheet as on 25th December 2019 after death of A on that date.

Capital-A-	120000	Goodwill	60000
B	160000	Plant	350000
C	120000	Furniture	60000
Loan from A	50000	Stock	90000
General Reserve	70000	Debtors	150000
Creditors	220000	Bank	30000
	740000		740000

- Value of goodwill-210000
 - Plant and furniture revalued to 450000 and 70000.
 - Provision for doubtful debt 10%
 - Provision for taxation 15000.
 - Valu of ILP 200000 each and surrender value of B & C 75000 each .
 - new ratio of B & C 1:1
 - Balance due to A is to be transferred to 8% loan Account of A.
- Show necessary account and balance sheet as1/12/19.

SOL-2 Working: 1. Adjustment for life policy----M.V of A is distributed among all partners in the ratio 5;3;2 and the S.V of life policy (150000)of existing partner B &C is distributed between B&C equally through capital adjustment.

Right to SV before death in ratio 5;3;2	150000	75000	45000	30000
Right to SV after death in ratio 1;1	150000	X	75000	75000
Gain (+)/ Loss (-)	nil	-75000	+30000	+45000

Revaluation account

To provision for bad debts		15000	By Plant	100000
To provision for taxation		15000	By Furniture	10000
To partners capital a/c				
A [5/10x 80000]	40000			
B [3/10x 80000]	24000			
C [2/10x 80000]	16000	80000		
				110000
		110000		

Partners' capital account

To A' capital (sv)	-	45000	30000	By balance b/f	120000	160000	120000
To Goodwill (written off 1:1)	495000	105000	105000	By Reserve	35000	21000	14000
To A' 8% loan – transfer (balance)				By Goodwill - raised(210000-60000 in 5:3:2	75000	45000	30000
To Balance C/d	495000	175000	70000	By Bank (MV)	100000	60000	40000
				By B' capital(SV)	30000	-	-
				By C' capital(SV)	45000	-	-
				By Revaluation	40000	24000	16000
				By loan from A	50000	-	-
	495000	310000	220000		495000	310000	220000

Balance sheet as on 1st dec.2019

Capital –			Plant	450000
B	175000		Furniture	70000
C	70000	245000	Stock	90000
A' 8% loan		495000	Debtors [less provision 15000]	
Creditors		220000	Bank [30000+200000]	135000
Provision for taxation		15000		230000
		975000		975000

End.....end-----End