Illustration 1.

A, *B* and *C* are partners sharing profit and losses in the ratio of 3:2:1 respectively. *B* died on 30th June, 2023. Profit from 1st April, 2023 to 30th June, 2023 was estimated at ₹ 90,000. *A* and *C* decided to share future profits in the ratio of 3:2 with effect from 1st July, 2023. Give the necessary Journal entry to record the *B*'s share of profit till the date of death.

Solutio	n: JOURNAL			
Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
2023 June 30 (a)	A's Capital A/c (₹ 30,000 × 3/10)Dr.C's Capital A/c (₹ 30,000 × 7/10)Dr.To B's Capital A/c (₹ 90,000 × 2/6)Dr.(B's share of profit till the date till death adjusted in the Capital Accounts of A and C in their gaining ratio of 3 : 7) OrOrProfit & Loss Suspense A/cDr.To B's Capital A/c (₹ 90,000 × 2/6)Dr.(Profit share of B credited to his Capital Account)Dr.		9,000 21,000 30,000	30,000 30,000
(b)	A's Capital A/c Dr. C's Capital A/c Dr. To Profit & Loss Suspense A/c (Profit share of B transferred to Capital Accounts of A and C in their gaining ratio)		9,000 21,000	30,000

Note: When profit-sharing ratio of continuing partners changes, outgoing partner's share of profit is adjusted through the Capital Accounts of gaining partners in their gaining ratio which is calculated as under: A gains = 3/5 - 3/6 = 3/30; C gains = 2/5 - 1/6 = 7/30; Thus, Gaining Ratio = 3:7.

Illustration 2.

A, *B* and *C* were partners in a firm sharing profits and losses in the ratio of 5 : 3 : 2. *A* died on 29th February, 2023. The Balance Sheet as at that date was:

Liabilities		₹	Assets	₹
Capital A/cs:			Machinery	35,000
A	12,000		Furniture	6,000
В	16,000		Stock	15,000
С	12,000	40,000	Debtors	15,000
General Reserve		12,000	Cash	3,000
Creditors		22,000		
		74,000		74,000

The Partnership Deed provided that on the death of a partner assets and liabilities are to be revalued. Assets and liabilities were revalued as follows on *A*'s death:

- (i) Machinery ₹ 45,000 and Furniture ₹ 7,000.
- (ii) A Provision of 10% was created for Doubtful Debts.
- (iii) A Provision of ₹ 15,000 was made for Tax.
- (iv) The good will of the firm was valued at ₹ 15,000 on *A*'s death.
- (v) *A*'s share of loss from 1st April, 2022 till the date of death is estimated at ₹ 10,000.

Amount payable to *A* was transferred to his Executors' Account. You are required to prepare Revaluation Account and Capital Accounts of Partners.

Particulars	Dr. REVALUATION ACCOUNT							Cr.
To Provision for Doubtful Debts A/c 1,500 By Machinery A/c 11,000 11,000 11,000 11,000 11,000 11,000 11,000 11,000 11,000 11,000 11,000 11,000 11,000 11,000 11,000 11,000 11,000 11,000 11,000 11,000 11,000 11,000 11,000 11,000 11,000 11,000 11,000 11,000 11,000 11,000 11,000 11,000 11,000 11,000 11,000 11,000 11,000 11,000 11,000 11,000 11,000 11,000 11,000 11,000 11,000 11,000 11,000 11,000 11,000 11,000 11,000 11,000 11,000 11,000 11,000 11,000 11,000 11,000 11,000 11,000 11,000 11,000 11,000 11,000 11,000 11,000 11,000 11,000 11,000 11,000 11,000 11,000 11,000 11,000 11,000 11,000 11,000 11,000 11,000 11,000 11,000 11,000 11,000 11,000 11,000 11,000 11,	Particulars			₹	Particulars			₹
Indext (Condensity) Indext (Condensity)	To Provision for Doubtful To Provision for Tax A/c	Debts A/c		1,500 15,000	 By Machinery A/c By Furniture A/c By Loss transferred to: A's Capital A/c B's Capital A/c C's Capital A/c 		2,750 1,650 1,100	10,000 1,000 5,500
Dr.PARTNERS'CAPITAL ACCOUNTSCr.Particulars A (₹) B (₹) C (₹)Particulars A (₹) B (₹) C (₹)Particulars A (₹) B (₹) C (₹)Particulars A (₹) B (₹) C (₹)To $A's$ Capital A/c (Goodwill)4,5003,000By Balance b/d By General Reserve A/c12,00016,00012,000ToRevaluation A/c—Loss Suspense A/c (Loss)2,7501,6501,100By B's Capital A/c (Goodwill)4,500ToA's Executors' A/c To12,750ToBalance c/d13,45010,300I4,40025,50019,60014,400				16,500				16,500
Particulars A ($\bar{\tau}$) B ($\bar{\tau}$) C ($\bar{\tau}$) Particulars A ($\bar{\tau}$) B ($\bar{\tau}$) C ($\bar{\tau}$) To A's Capital A/c (Goodwill) 4,500 3,000 By Balance b/d By General Reserve A/c (Goodwill) 12,000 12,000 To Revaluation A/c—Loss Suspense A/c (Loss) 2,750 1,650 1,100 By B's Capital A/c (Goodwill) 6,000 3,600 2,400 To A's Executors' A/c To 10,000 By C's Capital A/c (Goodwill) 3,000	Dr.		PAR	TNERS' CAP	ITAL ACCOUNTS			Cr.
To A's Capital A/c 4,500 3,000 By Balance b/d 12,000 16,000 12,000 (Goodwill) 2,750 1,650 1,100 By General Reserve A/c 6,000 3,600 2,400 To Revaluation A/c—Loss 2,750 1,650 1,100 By B's Capital A/c 4,500 <td>Particulars</td> <td>A (₹)</td> <td>B (₹)</td> <td>C (₹)</td> <td>Particulars</td> <td>A (₹)</td> <td>B (₹)</td> <td>C (₹)</td>	Particulars	A (₹)	B (₹)	C (₹)	Particulars	A (₹)	B (₹)	C (₹)
25,500 19,600 14,400 25,500 19,600 14,400	 To A's Capital A/c (Goodwill) To Revaluation A/c—Loss To Profit & Loss Suspense A/c (Loss) To A's Executors' A/c To Balance c/d 	 2,750 10,000 12,750 	4,500 1,650 13,450	3,000 1,100 10,300	 By Balance b/d By General Reserve A/c By B's Capital A/c (Goodwill) By C's Capital A/c (Goodwill) 	12,000 6,000 4,500 3,000	16,000 3,600 	12,000 2,400
		25,500	19,600	14,400		25,500	19,600	14,400

Solution:

Illustration 3 (Death of a Partner on the date of Closing of Books of Accounts).

Ram, Mohan and Shyam were partners in a firm sharing profits in the ratio of 2: 1: 2. Their fixed capital were ₹ 5,00,000; ₹ 3,75,000 and ₹ 5,00,000 respectively. The firm closes its books on 31st March, every year. On 31st March, 2021, Mohan died. In the event of death of any partner, the partnership deed provides for the following:

- (i) Interest on capital from the first day of the accounting year till the date of his death
 @ 10% p.a.
- (ii) His share of goodwill. Goodwill of the firm on the death of Mohan was valued at ₹ 7,50,000.
- (iii) His share of profit. Profit of the firm for the year ended on 31st March, 2021 was
 ₹ 3,75,000 before providing for interest on capital.

Mohan's executor was paid the sum due in two equal annual instalments with interest @ 10% p.a. Prepare Mohan's Capital Account as on 31st March, 2021 and his Executor's Loan Account for the year ending 31st March, 2022 and 2023.

Solution:

Dr. N	IOHAN'S CURI	RENT ACCOUNT	Cr.
Particulars	₹	Particulars	₹
To Mohan's Capital A/c	2,55,000	 By Interest on Capital A/c (₹ 3,75,000 × 10/100) By Ram's Current A/c (WN 1) By Shyam's Current A/c (WN 1) By Profit & Loss Appropriation A/c (WN 2) 	37,500 75,000 75,000 67,500
	2,55,000		2,55,000

Dr. N	MOHAN'S CAP	ITAL ACCOUNT	Cr.
Particulars	₹	Particulars	₹
To Mohan's Executor's A/c	6,30,000	By Balance <i>b/d</i> By Mohan's Current A/c	3,75,000 2,55,000
	6,30,000		6,30,000

Dr.	MOH	IAN'S EXECU	TOR'S ACC	OUNT	Cr.
Date	Particulars	₹	Date	Particulars	₹
2021	To Dolongo c/d	6 20 000	2021 Marsh 21	Du Mahan's Canital A/s	6 20 000
March 31	TO Balance C/U	6,30,000	March 31	By Monan's Capital A/C	6,30,000
2022		6,30,000	2021		6,30,000
March 31	To Bank A/c (₹315000+₹63000)	3,78,000	April 1	By Balance <i>b/d</i>	6,30,000
March 31	To Balance <i>c/d</i>	3,15,000	March 31	By Interest on Capital A/c (₹ 6,30,000 × 10/100)	63,000
		6,93,000			6,93,000
2023			2022		
March 31	To Balance c/d	3,46,500	April 1 2023	By Balance b/d	3,15,000
			March 31	By Interest on Capital A/c	31,500
				(₹3,15,000 × 10/100)	
		3,46,500			3,46,500

Working Notes:

- 1. Mohan's Share of Goodwill of ₹ 1,50,000 (₹ 7,50,000 × 1/5), which is contributed by Ram and Shyam in their gaining ratio, *i.e.*, 2 : 2 or 1 : 1.
- 2. Calculation of Mohan's Share of Profit:

Profit for the year ended 31st March, 2021 = ₹ 3,75,000.

Profit after Interest on Capital = ₹ 3,75,000 - ₹ 37,500 = ₹ 3,37,500.

Mohan's Share of Profit = ₹ 3,37,500 × 1/5 = ₹ 67,500.

Important Nore: Mohan's Share of Profit will be adjusted through Profit & Loss Appropriation Account (and not through Profit & Loss Suspense Account) as Mohan died at the end of year, i.e., 31st March.

3. As per partnership agreement, only deceased partner (Mohan) is entitled to interest on Capital. So, interest on capital will not be allowed to the remaining partners.

Illustration 4.

Ram, Rahim and Robert are partners sharing profits in 2 : 3 : 1 ratio respectively. Due to ill health, Robert died on 30th September, 2013. The Balance Sheet of Ram, Rahim and Robert on 31st March, 2013 was as follows:

Liabilities		₹	Assets	₹
Capital A/cs:			Cash	14,000
Ram	1,00,000		Bank	2,96,000
Rahim	2,00,000		Stock	80,000
Robert	3,00,000	6,00,000	Debtors	3,00,000
Creditors		3,60,000	Investments	50,000
Workmen Compensation Reserve		20,000	Land	2,50,000
Provision for Doubtful Debts		10,000		
		9,90,000		9,90,000

On the date of Robert's death, i.e., 30th September, 2013, the following was agreed upon:

- (i) Goodwill is to be valued at two years' purchase of average profits of last three completed years, *i.e.*, 2010–2011—₹ 45,000; 2011–2012—₹ 90,000 and 2012–2013—₹ 1,35,000.
- (ii) Robert's share of profits till the date of his death will be calculated on the basis of average profit of last three years.
- (iii) Land was undervalued by ₹ 25,000 and Stock overvalued by ₹ 8,000.
- (iv) Provision for doubtful debts is to be made at 5% of Debtors.
- (v) Claim of workmen compensation estimated at ₹ 5,000.

Prepare Robert's Capital Account to be presented to his executors. (AI 2014 C, Modified)

Solution:

Dr. ROBERT'S CAPITAL ACCOUNT			
Particulars	₹	Particulars	₹
To Robert's Executors' A/c (Balancing Figure)	3,42,000	 By Balance b/d By Ram's Capital (₹ 30,000 × 2/5) (WN 1) By Rahim's Capital (₹ 30,000 × 3/5) (WN 1) By Revaluation A/c (Gain (Profit)) (WN 2) By Workmen's Compensation Reserve A/c (₹ 15,000 × 1/6) By Profit & Loss Suspense A/c (WN 3) 	3,00,000 12,000 18,000 2,000 2,500 7,500
	3,42,000		3,42,000

Working Notes:

1. Value of Goodwill =
$$\left(\frac{45,000+90,000+1,35,000}{3}\right) \times 2 = ₹ 1,80,000.$$

Robert's Share in Goodwill = \mathbf{E} 1,80,000 × 1/6 = \mathbf{E} 30,000, which is contributed by Ram and Rahim in their gaining ratio, *i.e.*, 2 : 3.

2. Dr.		REVALUATIO	N ACCOUNT	Cr.
Particulars		₹	Particulars	₹
To Stock A/c To Provision for Doubtful Debts A/c		8,000 5,000	By Land A/c	25,000
(5% of ₹ 3,00,000 – ₹ 10,000) To Gain (Profit) on Revaluation:				
Ram's Capital A/c Rahim's Capital A/c	4,000 6,000			
Robert's Capital A/c	2,000	12,000		
		25,000		25,000

3. Robert's Share of Profit till the date of death = ₹ 90,000 × $6/12 \times 1/6 = ₹$ 7,500.

Illustration 5.

Manav, Nath and Narayan were partners in a firm sharing profits in the ratio of 1:2:1. The firm closes its books on 31st March every year. On 30th September, 2015, Nath died. On that date his Capital Account showed a debit balance of ₹ 5,000. There was a debit balance of ₹ 30,000 in the Profit & Loss Account. The goodwill of the firm was valued at ₹ 3,80,000. Nath's share of profit in the year of his death was to be calculated on the basis of average profit of last 5 years, which was ₹ 90,000.

Pass necessary Journal entries in the books of the firm on Nath's death. (AI 2016)

Solution:

In the Books of the firm

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Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
2015 Sept. 30	Manav's Capital A/c (₹ 1,90,000 × 1/2) Narayan's Capital A/c (₹ 1,90,000 × 1/2) To Nath's Capital A/c (₹ 3,80,000 × 2/4) (Nath's share of goodwill credited to him by debiting gaining partners in their gaining ratio of 1 : 1)	Dr. Dr.		95,000 95,000	1,90,000
	Manav's Capital A/c Nath's Capital A/c Narayan's Capital A/c To Profit & Loss A/c (₹ 30,000 × 2/4) (Debit balance of Profit & Loss Account adjusted)	Dr. Dr. Dr.		7,500 15,000 7,500	30,000
	Profit & Loss Suspense A/c To Nath's Capital A/c (₹ 90,000 × 6/12 × 2/4) (Nath's share of profit up to the date his death transferred to his Capital Account)	Dr.		22,500	22,500
	Nath's Capital A/c To Nath's Executor's A/c (WN) (Amount due to Nath transferred to his Executor's Account)	Dr.		1,92,500	1,92,500

Working Note:

NATH'S CAPIT	AL ACCOUNT	Cr.
₹	Particulars	₹
5,000 15,000	By Manav's Capital A/c By Narayan's Capital A/c	95,000 95,000
1,92,500	By Profit & Loss Suspense A/c (Share of Profit)	22,500
2,12,500		2,12,500
	NATH'S CAPIT ₹ 5,000 15,000 1,92,500 2,12,500	Image: NATH'S CAPITAL ACCOUNT Image: Relation of the system of

Illustration 6.

X, *Y* and *Z* were partners in a firm sharing profits in the ratio of 2 : 2 : 1. On 31st March, 2022, their Balance Sheet was as follows:

Liabilities		₹	Assets	₹
Creditors		60,000	Cash at Bank	90,000
Bills Payable		40,000	Stock	70,000
General Reserve		30,000	Debtors	40,000
Capital A/cs:			Land and Building	5,00,000
Х 3,0	,00,000		Profit & Loss A/c	1,60,000
Υ 3,	,00,000		(Loss for the year ended 31st March, 2022)	
Z 1,:	.30,000	7,30,000		
		8,60,000		8,60,000

Y died on 30th June, 2022. Partnership Deed provided for the following on the death of a partner:

- (i) Goodwill of the business was to be calculated on the basis of 2 times the average profit of the past 5 years. The profits for the years ended 31st March, 2021, 31st March, 2020, 31st March, 2019 and 31st March, 2018 were ₹ 50,000; ₹ 80,000; ₹ 1,10,000 and ₹ 2,20,000 respectively.
- (ii) *Y*'s share of profit or loss from 1st April, 2022 till his death was to be calculated on the basis of the profit or loss for the year ended 31st March, 2022.

You are required to calculate the following:

- (a) Goodwill of the firm and Y's share of goodwill at the time of his death.
- (b) *Y*'s share in the profit or loss of the firm till the date of his death.
- (c) Prepare Y's Capital Account at the time of his death to be presented to his executors.

Solution:

(a) Firm's Goodwill = $\frac{(₹50,000 + ₹80,000 + ₹1,10,000 + ₹2,20,000 - ₹1,60,000)}{5} \times 2 = ₹1,20,000.$

Y's Share of Goodwill = ₹ 1,20,000 × 2/5 = ₹ 48,000, which is contributed by X and Z in their Gaining Ratio of 2 : 1.

(b) Y's Share in Loss = ₹ 1,60,000 ×
$$\frac{3}{12} \times \frac{2}{5} = ₹$$
 16,000

(C)

Dr.	Y'S CAPITAI	Y'S CAPITAL ACCOUNT		
Particulars	₹	Particulars	₹	
To Profit & Loss A/c (₹ 1,60,000 × 2/5)	64,000	By Balance <i>b/d</i>	3,00,000	
To Profit & Loss Suspense A/c	16,000	By General Reserve A/c (₹ 30,000 × 2/5)	12,000	
To Y's Executors' A/c (Balancing Figure)	2,80,000	By X's Capital A/c (Goodwill)	32,000	
		By Z's Capital A/c (Goodwill)	16,000	
	3,60,000		3,60,000	

Illustration 7.

Sharma, Verma and Goyal are partners in a firm. On 1st April, 2012 the balances in their Capital Accounts were as follows:

Sharma ₹ 4,00,000; Verma ₹ 4,20,000 and Goyal ₹ 3,70,000. Firm closes its accounts every year on 31st March. Verma died on 30th September, 2012. In the event of death of any partner following are the provisions in the Partnership Deed:

- (i) Interest on Capital will be calculated at the rate of 10% p.a.
- (ii) The deceased partner's legal representative will be paid ₹ 35,000 for his share of goodwill.
- (iii) Firm had a Reserve Fund of ₹ 2,10,000. The deceased partner will be paid his share in the Reserve Fund.
- (iv) His share of profit till the date of death will be calculated on the basis of sales. It is also specified that the sales during the year 2011–12 were ₹ 15,00,000. The sales from 1st April, 2012 to 30th September, 2012 were ₹ 3,00,000. The profit of the firm for the year ending 31st March, 2012 was ₹ 3,00,000.

Prepare Verma's Capital Account to be presented to his representative. (AI 2013 C)

Dr.	VERMA'S CAPI	Cr.	
Particulars	₹	Particulars	₹
To Verma's Executor's A/c	5,66,000	By Balance <i>b/d</i>	4,20,000
(Balancing Figure)		By Profit & Loss Suspense A/c	21,000
		(Interest on Capital)	
		(₹ 4,20,000 × 10/100 × 6/12)	
		By Reserve Fund A/c (₹ 2,10,000 × 1/3)	70,000
		By Sharma's Capital A/c (Goodwill)	17,500
		By Goyal's Capital A/c (Goodwill)	17,500
		By Profit & Loss Suspense A/c (WN)	20,000
	5,66,000		5,66,000

Solution:

Working Note:

Calculation of Verma's Share of Profit till the date of death:

- (i) % of Profit on Sales = $\frac{₹3,00,000}{₹15,00,000} \times 100 = 20\%$.
- (ii) Profit on Sale (1st April, 2012 to 30th September, 2012) = 20% of ₹ 3,00,000 = ₹ 60,000.
- (iii) Verma's Share of Profit = ₹ 60,000 × 1/3 = ₹ 20,000.

Illustration 8 (Comprehensive Illustration).

Following is the Balance Sheet of Ram, Mohan and Sohan as at 31st March, 2020:

Liabilities		₹	Assets	₹
Capital A/cs:			Tools	30,000
Ram	2,00,000		Furniture	1,80,000
Mohan	1,00,000		Stock	1,60,000
Sohan	1,00,000	4,00,000	Debtors	1,20,000
Workmen Compensation Reserve		75,000	Cash at Bank	80,000
Sundry Creditors		1,00,000	Cash in Hand	5,000
		5,75,000		5,75,000

Ram, Mohan and Sohan shared profits and losses in the ratio of 2 : 2 : 1. Sohan died on 30th June, 2020. As per the Partnership Deed, the executors of Sohan were to get:

- (i) Amount standing to the credit of his Capital Account.
- (ii) Interest on capital which amounted to \gtrless 1,500.
- (iii) His share of goodwill ₹ 50,000.
- (iv) His share of profits from the closing of last financial year till the date of death which was estimated at ₹ 7,500.

Sohan's executors were paid ₹ 14,000 on 1st July, 2020 and the balance in two equal yearly instalments from 30th June, 2021 with interest @ 6% p.a.

Pass necessary Journal entries and draw up Sohan's Capital Account to be rendered to his executors and Sohan's Executors' Account till it is finally paid.

Date		Particulars	L.F.	Dr. (₹)	Cr. (₹)
2020 June	30	Profit & Loss Suspense A/c (Interest on Capital)Dr. To Sohan's Capital A/c (Interest credited to Sohan's Capital Account up to 30th June)		1,500	1,500
June	30	Ram's Capital A/cDr.Mohan's Capital A/cDr.To Sohan's Capital A/cDr.(Sohan's share of goodwill credited to his Capital Account)	-	25,000 25,000	50,000
June	30	Profit & Loss Suspense A/cDr. To Sohan's Capital A/c (Sohan's Share of profit credited)		7,500	7,500
June	30	Workmen Compensation Reserve A/c Dr. To Ram's Capital A/c To Mohan's Capital A/c To Sohan's Capital A/c (Workmen Compensation Reserve credited to Partners' Capital Accounts)		75,000	30,000 30,000 15,000
June	30	Sohan's Capital A/cDr. To Sohan's Executors' A/c (Balance in Sohan's Capital Account transferred to Sohan's Executors' Account)		1,74,000	1,74,000
July	1	Sohan's Executors' A/cDr. To Bank A/c (Amount paid to Sohan's Executors)		14,000	14,000

Solution:

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Dr.		S	OHAN'S CAPI	HAN'S CAPITAL ACCOUNT			Cr.
Date		Particulars	₹	Date		Particulars	₹
2020				2020			
June	30	To Sohan's Executors' A/c	1,74,000	April	1	By Balance <i>b/d</i>	1,00,000
		(Balancing Figure—Transfer)		June	30	By Profit & Loss Suspense A/c	1,500
						(Interest on Capital)	
				June	30	By Ram's Capital A/c	25,000
				June	30	By Mohan's Capital A/c	25,000
				June	30	By Profit & Loss Suspense A/c	7,500
				June	30	By Workmen Compensation	
						Reserve A/c	15,000
			1,74,000				1,74,000

Dr.	Dr. SOHAN'S EXECUTORS' ACCOUNT					Cr.	
Date		Particulars	₹	Date		Particulars	₹
2020				2020			
July	1	To Bank A/c	14,000	June	30	By Sohan's Capital A/c	1,74,000
2021				2021			
March	31	To Balance <i>c/d</i>	1,67,200	March	31	By Interest A/c	7,200
						[(₹ 1,74,000 – ₹ 14,000)	
						× 6/100 × 9/12]	
			1,81,200				1,81,200
2021				2021			
June	30	To Bank A/c	89,600	April	1	By Balance <i>b/d</i>	1,67,200
		(₹80,000 + ₹7,200 + ₹2,400)		June	30	By Interest A/c	2,400
2022						(₹1,60,000 × 6/100 × 3/12)	
March	31	To Balance c/d	83,600	2022			
				March	31	By Interest A/c	3,600
						(₹ 80,000 × 6/100 × 9/12)	
			1,73,200				1,73,200
2022				2022			
June	30	To Bank A/c	84,800	April	1	By Balance <i>b/d</i>	83,600
		(₹80,000 + ₹3,600 + ₹1,200)		June	30	By Interest A/c	1,200
						(₹ 80,000 × 6/100 × 3/12)	
			84,800				84,800

Notes: 1. The date of closing the accounts is 31st March and date of payment of instalment is 30th June.

2. Total amount due to Sohan's Executors ₹ 1,60,000 is payable in two equal annual instalments. Therefore, yearly instalment = ₹ 1,60,000/2 = ₹ 80,000 *plus* interest.

Illustration 9.

Meera, Sarthak and Rohit were partners sharing profits in the ratio of 2 : 2 : 1. On 31st March, 2018, their Balance Sheet was as follows:

as at 31st March, 2018							
Liabilities		₹	Assets	₹			
Creditors		3,00,000	Fixed Assets	7,00,000			
Contingency Reserve		1,00,000	Stock	2,00,000			
Capitals:			Debtors	1,50,000			
Meera	4,00,000		Cash at bank	3,50,000			
Sarthak	3,50,000						
Rohit	2,50,000	10,00,000					
		14,00,000		14,00,000			

BALANCE SHEET OF MEERA, SARTHAK AND ROHIT

Sarthak died on 15th June, 2018. According to the Partnership Deed, his executors were entitled to:

- (i) Balance in his Capital Account.
- (ii) His share of goodwill will be calculated on the basis of thrice the average of the past 4 years' profits.
- (iii) His share in profits up to the date of death on the basis of average profits of the last two years. The time period for which he survived in the year of death will be calculated in months.
- (iv) Interest on capital @ 12% p.a. up to the date of his death.

The firm's profits for the last four years were:

2014–15 ₹ 1,20,000, 2015–16 ₹ 2,00,000, 2016–17 ₹ 2,60,000 and 2017–18 ₹ 2,20,000.

Sarthak's executors were paid the amount due immediately. Prepare Sarthak's Capital Account to be presented to his executors. (CBSE 2019)

CADTUAKIS CADITAL ACCOUNT

C.,

Solution:

Dr. SA	RTHAK'S CAI	PITAL ACCOUNT	Cr.
Particulars	₹	Particulars	₹
To Sarthak's Executors' A/c (Balancing Figure)	6,58,750	By Balance <i>b/d</i>	3,50,000
		By Meera's Capital A/c (Goodwill)	1,60,000
		By Rohit's Capital A/c (Goodwill)	80,000
		By Profit & Loss Suspense A/c (WN 2)	20,000
		By P&L Suspense A/c (Interest on Capital)	8,750
		(₹ 3,50,000 × 12/100 × 2.5/12)	
		By Contingency Reserve A/c	40,000
	6,58,750		6,58,750

Working Notes:

1. Calculation of Sarthak's Share of Goodwill:

Average Profit for 4 years = $\frac{\notin 1,20,000 + \notin 2,00,000 + \notin 2,60,000 + \notin 2,20,000}{4}$ $= \frac{\# 8,00,000}{4} = \# 2,00,000$ Goodwill = $\# 2,00,000 \times 3 = \# 6,00,000$

Sarthak's Share of Goodwill = $\overline{\mathbf{0}}$ 6,00,000 × 2/5 = $\overline{\mathbf{0}}$ 2,40,000.

2. Calculation of Sarthak's Share of Profit till date of death:

Sarthak's Share of Profit = ₹ 2,40,000* × 2.5/12 × 2/5 = ₹ 20,000. *Average Profit of last two years = $\frac{₹ 2,60,000 + ₹ 2,20,000}{2} = ₹ 2,40,000.$

Illustration 10.

P, *Q* and *R* were partners in a firm sharing profits and losses in the ratio of 2 : 1 : 2. Their Balance Sheet on 31st March, 2022 was as follow:

Liabilities	₹	Assets	₹
Creditors	48,000	Bank	25,000
Bills Payable	22,000	Debtors	75,000
General Reserve	80,000	Stock	2,00,000
Profit for 2021–22	2,00,000	Machinery	3,00,000
Capital A/cs:		Land and Building	10,00,000
P 5,00,00	I I		
Q 2,50,00	I I		
R 5,00,00	12,50,000		
	16,00,000		16,00,000
		1	

BALANCE SHEET OF P, Q AND R as at 31st March, 2022

On 30th June, 2022, *Q* died. The partnership deed provided that on the death of a partner his executors will be entitled for the following:

- (i) Balance in his Capital Account.
- (ii) Interest on capital @ 6% p.a.
- (iii) His share in the profits of the firm till the date of his death calculated on the basis of last year's profit.
- (iv) His share in the goodwill of the firm calculated on the basis of three years' purchase of the average profits of last four years.

Profits for 2018–19 were ₹ 3,00,000, for 2019–20 were ₹ 4,00,000 and for 2020–21 were ₹ 1,00,000.

On 1st June, 2022, *Q* withdrew ₹ 50,000 for meeting his medical expenses.

Prepare Q's Capital Account on his death to be presented to his executors. (CBSE 2023)

Dr.		Q'S CAPITA	L ACCOUNT	Cr.
	Particulars	₹	Particulars	₹
	To Drawings A/c	50,000	By Balance <i>b/d</i>	2,50,000
	To Q's Executors' A/c (Balancing Figure)	4,19,750	By Interest on Capital A/c	3,750
			(₹ 2,50,000 × 6/100 × 3/12)	
			By General Reserve A/c (₹ 80,000 × 1/5)	16,000
			By Profit & Loss Suspense A/c	10,000
			(₹ 2,00,000 × 3/12 × 1/5)	
			By Profit & Loss A/c (₹ 2,00,000 × 1/5)	40,000
			By P's Capital A/c (WN)	75,000
			By R's Capital A/c (WN)	75,000
		4,69,750		4,69,750

Solution:

Working Notes:

Calculation of O's Share of Goodwill:

Average Profit =
$$\frac{3,00,000 + 3,00,000 + 3,00,000 + 3,00,000 + 3,00,000}{4} = 3,00,000$$

Goodwill = Average Profit × 3 = $3,250,000 \times 3 = 3,50,000$
Q's Share of Goodwill = $3,50,000 \times \frac{1}{5} = 3,50,000$, which is contributed by P and R in their gaining ratio,
i.e., 2 : 2 or equally.

Illustration 11.

The Balance Sheet of Sadhu, Raja and Karan who were sharing profits in the ratio of 4 : 2 : 4 as at 31st March, 2023 was as follows:

Liabilities		₹	Assets	₹
Bill Payable		20,000	Cash	26,000
Loan		22,000	Stock	64,000
General Reserve		10,000	Investments	85,000
Capital A/cs:			Land and Building	97,000
Sadhu	80,000		Sadhu's Loan	20,000
Raja	60,000			
Karan	1,00,000	2,40,000		
		2,92,000		2,92,000

BALANCE SHEET	as at 31st March, 2023
DIVERSINGE SHIELI	as at 515t march, 2025

Sadhu died on 31st July, 2023. The Partnership Deed provided for the following on the death of a partner:

- (i) Goodwill of the firm be valued at two years' purchase of average profits for the last three years.
- (ii) Sadhu's share of profit or loss till the date of his death was to be calculated on the basis of sales.
 Sales for the year ended 31st March, 2023 amounted to ₹ 4,50,000 and that from 1st April to 31st July, 2023 ₹ 2,70,000. The profit for the year ended 31st March, 2023 was calculated as ₹ 1,25,000.
- (iii) Interest on capital was to be provided @ 5% p.a.
- (iv) The average profits of the last three years were ₹ 55,000.

Prepare Sadhu's Capital Account to be rendered to his executor.

(Delhi 2013, Modified)

Dr. SA	SADHU'S CAPITAL ACCOUNT					
Particulars	₹	Particulars	₹			
To Sadhu's Loan A/c	20,000	By Balance <i>b/d</i>	80,000			
To Sadhu's Executor's A/c	1,39,333	By Raja's Capital A/c (WN 1)	14,667			
(Balancing Figure)		By Karan's Capital A/c (WN 1)	29,333			
		By General Reserve A/c (₹ 10,000 × 4/10)	4,000			
		By Profit & Loss Suspense A/c (Int. on Capital)	1,333			
		(₹ 80,000 × 5/100 × 4/12)				
		By Profit & Loss Suspense A/c (WN 2)	30,000			
	1,59,333		1,59,333			

Solution:

Working Notes:

 Valuation of Firm's Goodwill and Sadhu's Share of Goodwill: Firm's Goodwill = Average Profit × No. of Years' Purchase = ₹ 55,000 × 2 = ₹ 1,10,000.

Sadhu's Share in Goodwill = \mathbb{T} 1,10,000 × 4/10 = \mathbb{T} 44,000. It is contributed by Raja and Karan in their gaining ratio, *i.e.*, 1 : 2. Raja's contribution = \mathbb{T} 44,000 × 1/3 = \mathbb{T} 14,667 Karan's contribution = \mathbb{T} 44,000 × 2/3 = \mathbb{T} 29,333.

2. Calculation of Sadhu's share of profit up to the date of death:

Sales up to 31st July, 2023 = ₹ 2,70,000

Profit according to sales =
$$\frac{₹ 1,25,000}{₹ 4,50,000} \times ₹ 2,70,000 = ₹ 75,000$$

Sadhu's Share of Profit = ₹ 75,000 × 4/10 = ₹ 30,000.

Illustration 12.

Sonali, Sohan and Shivain were partners in a pen manufacturing firm. They were sharing profits and losses in the ratio of 2 : 2 : 1. On 31st March, 2022 their Balance Sheet as follows:

BALANCE SHEET OF	= S	0	Ν	ALI	, S	OHAN	AND SHIVAIN
	-				,		

as at 31st March, 2022						
Liabilities		₹	Assets	₹		
Capital A/cs:			Land and Building	6,00,000		
Sonali	4,00,000		Plant and Machinery	5,00,000		
Sohan	4,00,000		Debtors	1,60,000		
Shivain	4,00,000	12,00,000	Stock	1,40,000		
General Reserve		1,00,000	Cash in Hand	1,20,000		
Creditors		3,60,000	Cash at Bank	1,80,000		
Bills Payable		40,000				
		17,00,000		17,00,000		

Sohan died on 30th June, 2022. According to Partnership Deed, his executors were entitled to:

- (i) Interest on capital @ 12% p.a.
- (ii) His share of goodwill which was ₹ 48,000.
- (iii) His share of profit till the date of death was to be calculated on the basis of sales. The sales from 1st April, 2022 to 30th June, 2022 were ₹ 2,50,000. The sales and profits of the firm for the year ending 31st March, 2022 were ₹ 20,00,000 and ₹ 5,00,000 respectively.

Prepare Sohan's Capital Account to be presented to his executors. (CBSE 2023)

Solution:

Dr. SC	DHAN'S CAP	Cr.	
Particulars	₹	Particulars	₹
To Sohan's Executor's A/c	5,25,000	 By Balance b/d By Interest on Capital A/c (₹ 4,00,000 × 12/100 × 3/12) By General Reserve (₹ 1,00,000 × 2/5) By Profit & Loss Suspense A/c (WN 1) By Sonali's Capital A/c (WN 2) By Shivain's Capital A/c (WN 2) 	4,00,000 12,000 40,000 25,000 32,000 16,000
	5,25,000		5,25,000

Working Notes:

1. Sohan's share of profit till 30th June, 2022 on the basis of sales:

$$= \left(\frac{₹ 5,00,000}{₹ 20,00,000} \times ₹ 2,50,000\right) \times 2/5 = ₹ 25,000.$$

2. Sohan's Share of Goodwill of ₹ 48,000 is contributed by Sonali and Shivain in their gaining ratio, *i.e.*, 2 : 1.

Illustration 13.

M, *B* and *V* were partners in a firm sharing profits and losses in the ratio of 6:3:1. On 30th September, 2022, *V* died. Their partnership deed provided for the following payments on the death of a partner.

- (i) Balance in Partner's Capital Account. Balance in V's Capital Account on 31st March, 2022 was ₹ 1,50,000.
- (ii) Salary till the date of death. *V* was allowed a monthly salary of ₹ 50,000.
- (iii) Share of goodwill which will be calculated on the basis of three years' purchase of average profits of three completed years prior to death. The total profit of last three completed years was ₹ 1,50,000.
- (iv) Share in the profits of the firm till the date of death calculated on the basis of average profits of the last three completed years.
- (v) V had withdrawn ₹ 10,000 in 1st July, 2022 for personal use. Interest on her drawings amount to ₹ 500.

Firm closes its accounts every year on 31st March.

Prepare V's Capital Account to be presented to her executors. (CBSE 2023)

Dr.		V'S CAPITA	L ACCOUNT	Cr.
	Particulars	₹	Particulars	₹
	To Drawings A/c	10,000	By Balance <i>b/d</i>	1,50,000
	To Interest on Drawings A/c	500	By Salary A/c (₹ 50,000 × 6)	3,00,000
	To V's Executors' A/c (Balancing Figure)	4,57,000	By Profit & Loss Suspense A/c (WN 1)	2,500
			By <i>M</i> 's Capital A/c (₹ 15,000 × 2/3) (WN 2)	10,000
			By <i>B</i> 's Capital A/c (₹ 15,000 × 1/3) (WN 2)	5,000
		4,67,500		4,67,500

Solution:

Working Notes:

1. *V*'s Share of Profit = $\frac{₹1,50,000}{3} \times \frac{6}{12} \times \frac{1}{10} = ₹2,500.$

2. Goodwill of the firm = Average Profit $\times 3 = \frac{\cancel{1}{50,000}}{3} \times 3 = \cancel{1}{50,000}$

V's Share of Goodwill = \gtrless 1,50,000 \times 1/10 = \gtrless 15,000, which is contributed by M and B in their gaining ratio, *i.e.*, 6 : 3 or 2 : 1.

Illustration 14 (Deceased Partner's Share of Goodwill and Profit).

Ram, Ghanshyam and Vrinda were partners in a firm sharing profits in the ratio of 4 : 3 : 1. The firm closes its books on 31st March every year. On 1st February, 2017, Ghanshyam died and it was decided that the new profit-sharing ratio between Ram and Vrinda will be equal. The Partnership Deed provided for the following on the death of a partner:

(a) His share of goodwill be calculated on the basis of half of the profits credited to his account during the previous four completed years.

The firm's profits for the last four years were:

2012-13-₹ 1,20,000, 2013-14-₹ 80,000, 2014-15-₹ 40,000, and 2015-16-₹ 80,000.

(b) His share of profit in the year of his death was to be computed on the basis of average profit of past two years.

Pass necessary Journal entries relating to goodwill and profit to be transferred to Ghanshyam's Capital Account. Also show your workings clearly. (Delhi 2016 C)

Solution	JOURNAL				
Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
2017					
Feb. 1	Vrinda's Capital A/c	Dr.		60,000	
	To Ghanshyam's Capital A/c				60,000
	(Ghanshyam's share of goodwill adjusted by debiting gaining				
	partner (Vrinda) and crediting deceased partner (Ghanshyam))				
	Vrinda's Capital A/c	Dr.		18,750	
	To Ghanshyam's Capital A/c				18,750
	(Ghanshyam's share of profit till the date of death adjusted by debiting gaining partner (Vrinda))				

Working Notes:

1. Calculation of Ghanshyam's Share of Goodwill:

Total profit of last four years = ₹ 1,20,000 + ₹ 80,000 + ₹ 40,000 + ₹ 80,000 = ₹ 3,20,000 Ghanshyam's share in last four years' profit = ₹ 3,20,000 × 3/8 = ₹ 1,20,000Ghanshyam's share of Goodwill = ₹ 1,20,000 × 1/2 = ₹ 60,000.

2. Calculation of Gaining Ratio: Gain of a Partner = New Profit Share – Old Profit Share

Ram's Gain = $\frac{1}{2} - \frac{4}{8}$ = Nil; Vrinda's Gain = $\frac{1}{2} - \frac{1}{8} = \frac{4-1}{8} = \frac{3}{8}$

Hence, Vrinda is the only gaining partner.

3. Ghanshyam's share of profit till the date of death:

Average profit of past two years = $\frac{40,000 + 80,000}{2} = 80,000$

Profit for 10 months (from 1st April, 2016 to 1st February, 2017) = ₹ 60,000 × 10/12 = ₹ 50,000

Ghanshyam's share of profit = ₹ 50,000 × 3/8 = ₹ 18,750.

Due to change of profit-sharing ratio in the new firm, Ghanshyam's share of profit will be adjusted through Vrinda's Capital Account (gaining partner). Alternatively, it may be adjusted through Profit & Loss Suspense Account but in that case, balance in Profit & Loss Suspense Account is adjusted by transferring it to the Capital Accounts of the continuing partners in their gaining ratio.

Illustration 15 (Calculation of Normal Profit and Deceased Partner's Share of Profit).

Pawan, Prem and Poonam were partners in a firm sharing profits in the ratio of 3: 4: 3. On 1st September, 2023, Pawan died. According to partnership deed, deceased partner's share in profits was to be determined on the basis of last year's profit which was \gtrless 6,30,000 which includes \gtrless 50,000 of abnormal gain and \gtrless 20,000 of abnormal loss. The past data shows that firm's profits have been increasing by 10% every year.

Calculate Pawan's share of profits up to the date of death. The accounts are closed on 31st March every year.

Solution:

Calculation of Estimated Profit of Current Year	₹
Last Year's Profit	6,30,000
Less: Abnormal Gain	50,000
	5,80,000
Add: Abnormal Loss	20,000
Adjusted Normal Profit	6,00,000
Add: 10% Expected Increase	60,000
Expected Profit of Current Year	6,60,000

Expected Profit for 5 months (From 1st April, 2023 to 31st August, 2023)

$$= ₹ 6,60,000 \times \frac{5}{12} = ₹ 2,75,000$$

Pawan's Share of Profit = ₹ 2,75,000 × $\frac{3}{10}$ = ₹ 82,500.

Note: Pawan's (Deceased Partner) share in profit is calculated on the basis of normal profit of last year. Therefore, for calculating normal profit the Abnormal gain/profit is deducted and Abnormal loss is added to last year's profit.

Illustration 16.

On 31st March, 2014, the Balance Sheet of Pooja, Qureshi and Ross, who were partners in a firm was as under:

Liabilities		₹	Assets	₹
Sundry Creditors		2,50,000	Building	2,60,000
Reserve Fund		2,00,000	Investment	1,10,000
Capital A/cs:			Qureshi's Loan	1,00,000
Рооја	1,50,000		Debtors	1,50,000
Qureshi	1,00,000		Stock	1,20,000
Ross	1,00,000	3,50,000	Cash	60,000
		8,00,000		8,00,000

Qureshi died on 1st July, 2014. The profit-sharing ratio of the partners was 2 : 1 : 1. On the death of a partner, the Partnership Deed provided for the following:

- (i) His share in the profits of the firm till the date of his death will be calculated on the basis of average profits of last three completed years.
- (ii) Goodwill of the firm will be calculated on the basis of total profit of last two years.
- (iii) Interest on loan given by the firm to a partner will be charged at the rate of 6% p.a. or ₹ 4,000, whichever is more.
- (iv) Profits for the last three years were ₹ 45,000; ₹ 48,000 and ₹ 33,000.

Prepare Qureshi's Capital Account to be rendered to his executors. (Delhi 2015 C)

Solution:

Dr. Q	URESHI'S CAP	Cr.	
Particulars	₹	Particulars	₹
To Qureshi's Loan A/c	1,00,000	By Balance <i>b/d</i>	1,00,000
To Interest on Loan A/c	4,000	By Profit & Loss Suspense A/c	2,625
To Qureshi's Executors' A/c	68,875	By Pooja	13,500
		By Ross	6,750
		By Reserve	50,000
	1,72,875		1,72,875

Working Notes:

1.

Average Profit =
$$\frac{\cancel{45,000} + \cancel{48,000} + \cancel{33,000}}{3} = \cancel{42,000}$$

Expected Profit till date of death = $\cancel{42,000} \times \frac{3}{12} = \cancel{10,500}$
Qureshi's Share of Profit = $\cancel{10,500} \times \frac{1}{4} = \cancel{2,625}$

2.

Qureshi's Contribution = \mathbb{T} 81,000 × $\frac{1}{4}$ = \mathbb{T} 20,250

Pooja's Contribution = ₹ 20,250 ×
$$\frac{2}{3}$$
 = ₹ 13,500

Ross's Contribution = ₹ 20,250 ×
$$\frac{1}{3}$$
 = ₹ 6,750

Interest on Loan = ₹ 1,00,000 ×
$$\frac{6}{100}$$
 × $\frac{3}{12}$ = ₹ 1,500.

Illustration 17.

The Balance Sheet of X, Y and Z as at 31st March, 2023 was:

Liabilities		₹	Assets	₹
Bills Payable		2,000	Cash at Bank	5,800
Employees' Provident Fund		5,000	Bills Receivable	800
Workmen Compensation Reserve		6,000	Stock	9,000
General Reserve		6,000	Sundry Debtors	16,000
Loans		7,100	Furniture	2,000
Capital A/cs:			Plant and Machinery	6,500
X	22,750		Building	30,000
Y	15,250		Advertisement Suspense A/c	6,000
Ζ	12,000	50,000		
		76,100		76,100

The profit-sharing ratio was 3:2:1. Z died on 31st July, 2023. The Partnership Deed provides that:

- (a) Goodwill is to be calculated on the basis of three years' purchase of the five years' average profit. The profits for the years ended 31st March, were: 2023: ₹ 24,000; 2022: ₹ 16,000; 2021: ₹ 20,000; 2020: ₹ 10,000 and 2019: ₹ 5,000.
- (b) Deceased partner to be given share of profits till the date of death on the basis of profits for the previous year.
- (c) Assets have been revalued as: Stock ₹ 10,000; Debtors ₹ 15,000; Furniture ₹ 1,500; Plant and Machinery
 ₹ 5,000; Building ₹ 35,000. A Bill Receivable for ₹ 600 was found worthless.
- (d) ₹ 12,233 were paid immediately to Z's Executors and the balance was to be paid in two equal annual instalments together with interest @ 10% p.a. on the amount outstanding.

Give Journal entries and show Z's Executors' Account till it is finally settled.

3.

4.

Solutio	JOURNAL				
Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
2023 July 31	Revaluation A/c To Sundry Debtors A/c To Furniture A/c To Plant and Machinery A/c To Bills Receivable A/c (Decrease in the value of assets recorded)	Dr.		3,600	1,000 500 1,500 600
	Building A/c Stock A/c To Revaluation A/c (Increase in the value of assets recorded)	Dr. Dr.		5,000 1,000	6,000
	Revaluation A/c To X's Capital A/c To Y's Capital A/c To Z's Capital A/c (Gain (profit) on revaluation transferred to all Partners' Capital A/cs)	Dr.		2,400	1,200 800 400
	X's Capital A/c Y's Capital A/c To Z's Capital A/c (Z's share of Goodwill contributed by remaining Partners in their gaining ratio)	Dr. Dr.	-	4,500 3,000	7,500
	Profit & Loss Suspense A/c To Z's Capital A/c (Proportionate share of profits for 4 months transferred to Z's Capital A/c	Dr.		1,333	1,333
	Workmen Compensation Reserve A/c To X's Capital A/c To Y's Capital A/c To Z's Capital A/c (Workmen Compensation Reserve distributed among all partners)	Dr.		6,000	3,000 2,000 1,000
	General Reserve A/c To X's Capital A/c To Y's Capital A/c To Z's Capital A/c (Amount of General Reserve transferred to all Partners' Capital Accounts)	Dr.		6,000	3,000 2,000 1,000
	X's Capital A/c Y's Capital A/c Z's Capital A/c To Advertisement Suspense A/c (Advertisement Suspense A/c written off)	Dr. Dr. Dr.		3,000 2,000 1,000	6,000
	Z's Capital A/c To Z's Executors' A/c (Z's Capital Balance transferred to Z's Executors' A/c)	Dr.		22,233	22,233

Dr.		Z'S CAPITAL ACCOUNT			Cr.
Particulars		₹	Particulars		₹
To Advertisement Suspense A/c To Z's Executors' A/c (Transferred) (Balancing Figure)		1,000 22,233 23,233	By Bala By Reva By Profi By X's C By Y's C By Gen By Worl	12,000 400 1,333 4,500 3,000 1,000 1,000 23,233	
Dr.		7′S EXECUTO	RS' ACCO	UNT	Cr.
Date	Particulars	₹	Date	Particulars	₹
2023 July 31 2024	To Bank A/c	12,233	2023 July 31 2024	By Z's Capital A/c	22,233
Mar. 31	To Balance c/d	10,667	Mar. 31	By Interest A/c $(\neq 10,000 \times 8/12 \times 10/100)$	667
		22,900		(10,000 × 8/12 × 10/100)	22,900
2024 July 31	To Bank A/c (₹5,000 + ₹667 + ₹333)	6,000	2024 April 1	By Balance b/d	10,667
2025			July 31 2025	By Interest A/c (₹ 10,000 × 4/12 × 10/100)	333
Mar. 31	To Balance <i>c/d</i>	5,333	Mar. 31	By Interest A/c (Accrued) (₹ 5.000 × 10/100 × 8/12)	333
		11,333		· · · · · · · · · · · · · · · · · · ·	11,333

Note: The date of closing the books of account is 31st March and date of payment of instalment is 31st July.

5,500

5,500

2025

April 1

July 31

By Balance *b/d*

By Interest A/c (₹ 5,000 × 10/100 × 4/12)

5,333

5,500

167

Working Notes:

2025

1. Adjustment of Goodwill:

July 31 To Bank A/c (₹ 5,000 + ₹ 333 + ₹ 167)

Average Profit =
$$\frac{\notin (24,000+16,000+20,000+10,000+5,000)}{5} = \notin 15,000$$

Goodwill valued at 3 years' purchase of average profit = ₹ 15,000 × 3 = ₹ 45,000

Z's 1/6th share of Goodwill should be = ₹ 45,000 × 1/6 = ₹ 7,500

Z's share of goodwill ₹ 7,500 will be contributed by X and Y in their gaining ratio, *i.e.*, 3 : 2.

- 2. Unless agreed otherwise, gaining ratio of continuing partners will be same as their old profit-sharing ratio.
- 3. Average profit for 4 months on the basis of last year's profit = ₹ 24,000 × 4/12 = ₹ 8,000

∴ Z's 1/6 share of profit should be = ₹ 8,000 × 1/6 = ₹ 1,333.

Illustration 18.

A, *B* and *C* were partners in a firm sharing profits and losses in the ratio of 3:2:1. *C* died on 30th June, 2016. After all the necessary adjustments, his Capital Account showed a credit balance of ₹ 70,600. C's executor was paid ₹ 10,600 on 1st July, 2016 and the balance in three equal yearly instalments starting from 30th June, 2017 with interest @ 10% p.a. on the unpaid amount. The firm closes its books on 31st March every year.

Prepare *C*'s Executor's Account till the amount is finally paid. (*CBSE 2019 C*)

Dr.	C'S EXECUTOR'S ACCOUNT			Cr.	
Date	Particulars	₹	Date	Particulars	₹
2016			2016		
July 1	To Bank A/c	10,600	June 30	By C's Capital A/c	70,600
2017			2017		
March 31	To Balance c/d	64,500	March 31	By Interest A/c	4,500
				(₹60,000 × 10/100 × 9/12)	
		75,100			75,100
2017			2017		
June 30	To Bank A/c (₹20,000 + ₹6,000)	26,000	April 1	By Balance <i>b/d</i>	64,500
2018			June 30	By Interest A/c	1,500
March 31	To Balance c/d	43,000	2018	(₹60,000 × 10/100 × 3/12)	
			March 31	By Interest A/c	3,000
				(₹40,000 × 10/100 × 9/12)	
		69,000			69,000
2018			2018		
June 30	To Bank A/c (₹20,000 + ₹4,000)	24,000	April 1	By Balance <i>b/d</i>	43,000
2019		, i	June 30	By Interest A/c	1,000
March 31	To Balance <i>c/d</i>	21,500	2019	(₹ 40,000 × 10/100 × 3/12)	, i
			March 31	By Interest A/c	1,500
				(₹ 20,000 × 10/100 × 9/12)	
		45,500			45,500
2010			2010		
2019 June 30	To Bank Δ/c (₹ 20.000 ± ₹ 2.000)	22,000	April 1	By Balance h/d	21 500
Julie 50	$10^{\circ} \text{ bunk} P(C(X \ge 0,000 \pm X \ge 0,000))$	22,000		By Interest Δ/c	500
			June 50	(₹ 20.000 × 10/100 × 3/12)	500
		22.000		(\ 20,000 × 10/100 × 3/12)	22,000
					,000

Solution:

Illustration 19.

The Balance Sheet of *A*, *B* and *C* who were sharing profits in the ratio of 3 : 3 : 4 as at 31st March, 2019 was as follows:

Liabilities	₹	Assets	₹
General Reserve	40,000	Cash	4,000
Bills Payable	15,000	Stock	43,000
Loan from Bank	30,000	Investments	70,000
Capitals:		Land and Buildings	1,58,000
A 60,00	0		
<i>B</i> 90,00	ס		
C 40,00	1,90,000		
	2,75,000		2,75,000

BALANCE SHEET OF A, B AND	C	as at	31st	March,	2019
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A died on 1st October, 2019. The partnership deed provided for the following on the death of a partner:

(a) Goodwill of the firm be valued at two years' purchase of average profits for the last three years.

- (b) The profit for the year ending 31st March, 2019 was ₹ 50,000.
- (c) Interest on capital was to be provided @ 6% p.a.
- (d) The average profits of the last three years were ₹ 35,000.

Prepare A's Capital Account to be rendered to his executors.

(CBSE 2020 C)

Solution:

Dr.	A'S CAPITAL ACCOUNT		
Particulars	₹	Particulars	₹
To A's Executor's A/c (Balancing Figure)	1,02,300	ByBalance b/d ByGeneral Reserve A/c (₹ 40,000 × 3/10)ByInterest on Capital A/c (₹ 60,000 × 6/12 × 6/100)ByProfit & Loss Suspense A/c (₹ 50,000 × 6/12 × 3/10) (WN 1)ByB's Capital A/c (WN 2)ByC's Capital A/c (WN 2)	60,000 12,000 1,800 7,500 9,000 12,000
	1,02,300		1,02,300

Working Notes:

- 1. A's share of profit till the date of death is calculated on the basis of the profit of the year ending 31st March, 2019.
- 2. A's share of Goodwill = ₹70,000 × 3/10 = ₹21,000 which is contributed by B and C in their gaining ratio of 3:4.

Illustration 20 (Profit-sharing Ratio of Continuing Partners Changes).

Amar, Bhuwan and Chaman were partners sharing profits and losses in the ratio of 3:2:1. Bhuwan died on 30th June, 2024. Loss from the beginning of the accounting year till the date of his death was estimated at ₹ 1,80,000. Amar and Chaman decided to share future profits in the ratio of 3 : 2 *w.e.f.* 1st July, 2024.

Pass the necessary Journal entries to record Bhuwan's share of profit/loss up to the date of death.

JOURNAL						
Particulars		L.F.	Dr. (₹)	Cr. (₹)		
Bhuwan's Capital A/c	Dr.		60,000			
To Profit & Loss Suspense A/c (₹ 1,80,000 × 2/6)				60,000		
(Share of loss of Bhuwan debited to his Capital Account)						
Profit & Loss Suspense A/c	Dr.		60,000			
To Amar's Capital A/c				18,000		
To Chaman's Capital A/c				42,000		
(Bhuwan's share of loss adjusted to Amar's and Chaman's Capital Accounts in Gaining Ratio, <i>i.e.</i> , 3 : 7)	their					
Alternatively, instead of passing above two entries following entry may be passed:						
Bhuwan's Capital A/c	Dr.		60,000			
To Amar's Capital A/c				18,000		
To Chaman's Capital A/c				42,000		
(Bhuwan's share of loss adjusted to Capital Accounts of Amar and Chaman in their Gaining Ratio, <i>i.e.</i> , 3 : 7)						
	JOURNAL Particulars Bhuwan's Capital A/c To Profit & Loss Suspense A/c (₹ 1,80,000 × 2/6) (Share of loss of Bhuwan debited to his Capital Account) Profit & Loss Suspense A/c To Amar's Capital A/c To Chaman's Capital A/c (Bhuwan's share of loss adjusted to Amar's and Chaman's Capital Accounts in Gaining Ratio, <i>i.e.</i> , 3 : 7) Alternatively, instead of passing above two entries following entry may be passed: Bhuwan's Capital A/c To Amar's Capital A/c To Amar's Capital A/c Bhuwan's capital A/c To Amar's Capital A/c Keman's Capital A/c To Chaman's Capital A/c To Amar's Capital A/c To Chaman's Capital A/c (Bhuwan's share of loss adjusted to Capital Accounts of Amar and Chaman in their Gaining Ratio, <i>i.e.</i> , 3 : 7)	JOURNAL Particulars Bhuwan's Capital A/c Dr. To Profit & Loss Suspense A/c (₹ 1,80,000 × 2/6) Dr. (Share of loss of Bhuwan debited to his Capital Account) Dr. Profit & Loss Suspense A/c Dr. To Amar's Capital A/c Dr. To Chaman's Capital A/c Dr. (Bhuwan's share of loss adjusted to Amar's and Chaman's Capital Accounts in their Gaining Ratio, <i>i.e.</i> , 3 : 7) Dr. Alternatively, instead of passing above two entries following entry may be passed: Bhuwan's Capital A/c To Chaman's Capital A/c Dr. To Amar's Capital A/c Dr. Image: Capital A/c Dr. Alternatively, instead of passing above two entries following entry may be passed: Bhuwan's Capital A/c Dr. To Amar's Capital A/c Dr. To Chaman's Capital A/c Dr. (Bhuwan's share of loss adjusted to Capital Accounts of Amar and Chaman in their Gaining Ratio, <i>i.e.</i> , 3 : 7)	Particulars L.F. Bhuwan's Capital A/c Dr. To Profit & Loss Suspense A/c (₹ 1,80,000 × 2/6) Dr. (Share of loss of Bhuwan debited to his Capital Account) Dr. Profit & Loss Suspense A/c Dr. To Amar's Capital A/c Dr. To Chaman's Capital A/c Dr. (Bhuwan's share of loss adjusted to Amar's and Chaman's Capital Accounts in their Gaining Ratio, <i>i.e.</i> , 3 : 7) Dr. Alternatively, instead of passing above two entries following entry may be passed: Bhuwan's Capital A/c To Chaman's Capital A/c Dr. To Amar's Capital A/c Dr. To Amar's Capital A/c Dr. Bhuwan's Capital A/c Dr. To Chaman's Capital A/c Dr. Bhuwan's share of loss adjusted to Capital Accounts of Amar and Chaman in their Gaining Ratio, <i>i.e.</i> , 3 : 7) <td>ParticularsL.F.Dr. (र)Bhuwan's Capital A/cDr.60,000To Profit & Loss Suspense A/c (र 1,80,000 × 2/6)Dr.60,000(Share of loss of Bhuwan debited to his Capital Account)Dr.60,000Profit & Loss Suspense A/cDrDr.60,000To Amar's Capital A/cDrDr.60,000To Chaman's Capital A/cDrDr.60,000Bhuwan's Share of loss adjusted to Amar's and Chaman's Capital Accounts in their Gaining Ratio, <i>i.e.</i>, 3 : 7)Dr.60,000Alternatively, instead of passing above two entries following entry may be passed: Bhuwan's Capital A/c To Chaman's Capital A/c To Chaman's Capital A/c To Chaman's Capital A/c To Chaman's Capital A/c (Bhuwan's share of loss adjusted to Capital Accounts of Amar and Chaman in their Gaining Ratio, <i>i.e.</i>, 3 : 7)60,000</td>	ParticularsL.F.Dr. (र)Bhuwan's Capital A/cDr.60,000To Profit & Loss Suspense A/c (र 1,80,000 × 2/6)Dr.60,000(Share of loss of Bhuwan debited to his Capital Account)Dr.60,000Profit & Loss Suspense A/cDrDr.60,000To Amar's Capital A/cDrDr.60,000To Chaman's Capital A/cDrDr.60,000Bhuwan's Share of loss adjusted to Amar's and Chaman's Capital Accounts in their Gaining Ratio, <i>i.e.</i> , 3 : 7)Dr.60,000Alternatively, instead of passing above two entries following entry may be passed: Bhuwan's Capital A/c To Chaman's Capital A/c To Chaman's Capital A/c To Chaman's Capital A/c To Chaman's Capital A/c (Bhuwan's share of loss adjusted to Capital Accounts of Amar and Chaman in their Gaining Ratio, <i>i.e.</i> , 3 : 7)60,000		

Solution:

Working Note:

Calculation of Gaining Ratio:

Amar's Gain = $\frac{3}{5} - \frac{3}{6} = \frac{3}{30}$; Chaman's Gain = $\frac{2}{5} - \frac{1}{6} = \frac{7}{30}$;

Thus, Gaining Ratio is 3 : 7.