

MEANING OF KEY TERMS USED IN THIS CHAPTER

1. **Gaining Ratio** The ratio in which the continuing partners take the deceased partner's profit share is called **gaining ratio**.
2. **New Profit-sharing Ratio** The ratio in which the continuing partners (*i.e.*, partners other than an outgoing or deceased partner) agree to share future profits and losses, is known as **new profit-sharing ratio**.
3. **Profit & Loss Suspense Account** It is the account which is debited or credited to adjust the share of profit or loss till the date of death of the deceased partner when profit-sharing ratio of the continuing partners does not change.

CHAPTER SUMMARY

- The problems arising on the death of a partner are similar to those arising on retirement of a partner. Assets are revalued and liabilities are reassessed; the resultant gain (profit) or loss is transferred to the Capital Accounts of all partners including the deceased partner. *Goodwill, Accumulated Profits or Losses and General Reserve are also dealt in the same manner as is in the case of retirement.*
- **Deceased Partner's Share of Goodwill** is adjusted by debiting Gaining Partners' Capital Accounts and crediting Deceased Partner's Capital Account.

It is to be kept in mind that AS-26, *Intangible Assets* prescribes that self-generated Goodwill is not recognised in the books of account. Hence, it is adjusted through Capital/Current Accounts of the Gaining Partners.

Note: Write off the existing book value of goodwill (if any) appearing in the books of the firm.

All Partners' Capital/Current A/cs	...Dr.	[In old ratio]
To Goodwill A/c		[With existing book value of goodwill]

- **Share of Profit up to the Date of Death:** If a partner dies on any date after the date of the Balance Sheet, his share of profit is calculated from the beginning of the year to the date of death on the basis of time or sales. When his share of profit is calculated on the basis of time, it may be on the basis of previous years' profit or average profit of past years.

Journal Entry when Profit-sharing Ratio of remaining or continuing partners does not change:

Profit & Loss Suspense A/c	...Dr.	
To Deceased Partner's Capital A/c		

Journal Entry when Profit-sharing Ratio of remaining or continuing partners changes:

Continuing (Gaining) Partners' Capital/Current A/cs	...Dr.	[In Gaining Ratio]
To Deceased Partner's Capital A/c		

Alternatively following two entries may be passed:

Profit & Loss Suspense A/c	...Dr.	
To Deceased Partners' Capital A/c		
Remaining (Continuing) Partner's Capital A/cs	...Dr.	
To Profit & Loss Suspense A/c		

In Case of Loss: Reverse of the above entries are passed.

- Amount Due to a Deceased Partner:** The deceased partner's share is also calculated in the same way as in the case of retiring partner. Amount due to a deceased partner shown by his Capital Account is transferred to his Executors' Account. The entry will be:

Deceased Partner's Capital A/c ...Dr.
To Deceased Partner's Executors' A/c

- **Settlement of a Deceased Partner's Executors' Account:** If the amount is paid in cash or in instalments, the entry will be:

Deceased Partner's Executors' A/c ...Dr.
To Cash/Bank A/c

- In the absence of an agreement, the retiring partner or legal heir of deceased partner at his option is entitled to receive **either interest @ 6% p.a.** till the due amount is paid **or share of the profit** which has been earned by using the amount due to him (Section 37).