

CHAPTER

6

Death of a Partner

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 **gaining ratio**.
- 2. **New Profit-sharing Ratio** The ratio in which the continuing partners (*i.e.*, partners other than the deceased partner) agree to share future profits and losses, is **new profit-sharing ratio**.
- 3. **Profit & Loss Suspense Account** It is the account which is debited or credited to adjust the estimated 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		

6.2 Double Entry Book Keeping—CBSE XII

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

- **Amount Due to a Deceased Partner:** Amount due to 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/cheque 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).

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Solved Questions

Illustration 1.

Priya, Riya and Siya are partners sharing profits in the ratio of 4 : 3 : 1 respectively. It is provided in the Partnership Deed that on the death of any partner, her share of goodwill was to be valued at half of the profits credited to her account during the four previous completed years.

Riya died on 1st January, 2012. The firm's profits for the last four years were: 2008—₹ 1,20,000; 2009—₹ 80,000; 2010—₹ 40,000 and 2011—₹ 80,000. Determine the amount that should be credited to Riya in respect of her share of Goodwill. On the date of Riya's death, one of the old Debtors whose account was closed last year by transferring his debt amounting to ₹ 8,000 to Bad Debts Account, has now promised to pay the amount fully.

Pass necessary Journal entries for the above mentioned transactions at the time of Riya's death. (AI 2012 C)

Solution:

Firm's total profits for last four years = ₹ 1,20,000 + ₹ 80,000 + ₹ 40,000 + ₹ 80,000 = ₹ 3,20,000

Riya's share of last four years' profit = ₹ 3,20,000 × $\frac{3}{8}$ = ₹ 1,20,000

Riya's share of Goodwill = ₹ 1,20,000 × $\frac{1}{2}$ = ₹ 60,000.

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Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
2012 Jan. 1	Priya's Capital A/c (₹ 60,000 × 4/5) ...Dr. Siya's Capital A/c (₹ 60,000 × 1/5) ...Dr. To Riya's Capital A/c (Being Riya's share of goodwill adjusted)		48,000 12,000	60,000

Note: Accounting entry will not be passed for the promise made by a debtor whose account was closed last year by transferring his debts amounting to ₹ 8,000 to Bad Debts Account, since it is an event and not a transaction.

There is another view that promise to pay be recognised as income (Bad Debts Recovered) and debtors be increased by ₹ 8,000. In that case, following entries would also be passed in addition to above entry:

		₹		₹
Debtors A/c ...Dr.		8,000		
To Bad Debts Recovered A/c				8,000
Bad Debts Recovered A/c ...Dr.		8,000		
To Revaluation A/c				8,000
Revaluation A/c ...Dr.		8,000		
To Priya's Capital A/c				4,000
To Riya's Capital A/c				3,000
To Siya's Capital A/c				1,000

6.4 Double Entry Book Keeping—CBSE XII

Illustration 2 (Preparation of Deceased Partner's Capital Account).

Bhatt and Seth were carrying on a business in partnership sharing profits and losses in the ratio of 3 : 2. They closed their books of account every year on 31st March. Their Balance Sheet as at 31st March, 2025 was:

Liabilities	₹	Assets	₹
Bhatt's Capital	90,000	Furniture	20,000
Seth's Capital	60,000	Stock	1,00,000
Reserve	30,000	Debtors	50,000
Creditors	20,000	Cash	30,000
	2,00,000		2,00,000

Seth died on 1st August, 2025. Partnership Deed provided that in the event of death of a partner, partner's heirs would be entitled to be paid out:

- Capital to his credit till the date of death.
- His share of reserve till the date of the last Balance Sheet.
- His share of profits till the date of his death based on the average profits of the last three accounting years.
- By way of goodwill, his share of total profits for the preceding three accounting years.

The profits for the three preceding accounting years were:

31st March, 2023	₹ 41,800
31st March, 2024	₹ 39,200
31st March, 2025	₹ 45,000

Prepare Seth's Capital Account by transferring due amount to Seth's Legal Heir's Loan Account. Clearly show your calculations.

Solution:

Dr.		SETH'S CAPITAL ACCOUNT		Cr.	
Date	Particulars	₹	Date	Particulars	₹
2025			2025		
August 1	To Seth's Legal Heir's Loan A/c —Transfer	1,28,000	April 1	By Balance b/d	60,000
			August 1	By Reserve A/c	12,000
			August 1	By Profit & Loss Suspense A/c —Profit	5,600
			August 1	By Bhatt's Capital A/c (Goodwill)	50,400
		1,28,000			1,28,000

Working Notes:

- Average Profit of the three preceding accounting years:

$$\text{Average Profit} = \frac{\text{₹ } 41,800 + \text{₹ } 39,200 + \text{₹ } 45,000}{3} = \frac{\text{₹ } 1,26,000}{3} = \text{₹ } 42,000.$$

- Seth's Share of Profit for four months of 2025–26 = ₹ 42,000 × $\frac{4}{12} \times \frac{2}{5}$ = ₹ 5,600.

- Seth's Share of Goodwill = ₹ 1,26,000 × $\frac{2}{5}$ = ₹ 50,400.

Illustration 3.

A, B and C were partners sharing profits and losses in the ratio of 5 : 3 : 2. On 31st March, 2025, their Balance Sheet stood as:

Liabilities	₹	Assets	₹
Capital A/cs:		Goodwill	25,000
A	1,50,000	Leasehold	1,00,000
B	1,25,000	Patents	30,000
C	75,000	Machinery	1,50,000
Workmen Compensation Reserve	10,000	Stock	50,000
General Reserve	20,000	Debtors	1,40,000
Sundry Creditors	1,55,000	Cash at Bank	40,000
	<u>3,50,000</u>		<u>5,35,000</u>
			<u>5,35,000</u>

C died on 1st August, 2025. It was agreed that:

- Goodwill of the firm is to be valued at $2\frac{1}{2}$ years purchase of the average of annual profits of the last 4 years. The profits for the preceding years were ₹ 65,000; ₹ 60,000; ₹ 80,000 and ₹ 75,000.
- Machinery be valued at ₹ 1,40,000; Patents be valued at ₹ 40,000; Leasehold be valued at ₹ 1,25,000 on 1st August, 2025.
- For the purpose of calculating C's share in the profits of 2025–26, the profits in 2025–26 should be taken to have accrued on the same scale as in 2024–25.
- A sum of ₹ 21,000 to be paid immediately to the executors of C and the balance to be paid in four equal half-yearly instalments together with interest @ 10% p.a.

Prepare C's Capital Account and C's Executors' Account for 2025–26.

Note: The firm closes its accounts on 31st March every year.

(AI 2006, Modified)

Solution:

Dr.			C'S CAPITAL ACCOUNT			Cr.		
Date	Particulars	₹	Date	Particulars	₹			
2025			2025					
Aug. 1	To Goodwill A/c	5,000	April 1	By Balance b/d	75,000			
Aug. 1	To C's Executors' A/c (Balancing Figure)	1,21,000	Aug. 1	By Revaluation A/c (Gain)	5,000			
				By A's Capital A/c (Goodwill)	21,875			
				By B's Capital A/c (Goodwill)	13,125			
				By Profit & Loss Suspense A/c (WN 2)	5,000			
				By Workmen Compensation Reserve A/c	2,000			
				By General Reserve A/c	4,000			
		<u>1,26,000</u>			<u>1,26,000</u>			

6.6 Double Entry Book Keeping—CBSE XII

Dr.		C'S EXECUTORS' ACCOUNT				Cr.
Date	Particulars	₹	Date	Particulars	₹	
2025			2025			
Aug. 1	To Bank A/c	21,000	Aug. 1	By C's Capital A/c	1,21,000	
2026			2026			
Jan. 31	To Bank A/c (₹ 25,000 + ₹ 5,000)	30,000	Jan. 31	By Interest A/c (₹ 1,00,000 × 10/100 × 6/12)	5,000	
Jan. 31	To Balance c/d	75,000				
		1,26,000			1,26,000	
2026			2026			
March 31	To Balance c/d	76,250	Feb. 1	By Balance b/d	75,000	
			March 31	By Interest A/c (₹ 75,000 × 10/100 × 2/12)	1,250	
		76,250			76,250	

Working Notes:

- Calculation of Goodwill:

	₹
(a) Total profits for past 4 years	2,80,000
(b) Average profit (₹ 2,80,000/4)	70,000
(c) Goodwill (₹ 70,000 × 2½)	1,75,000
(d) C's share (₹ 1,75,000 × 2/10)	35,000
- C's share of profit to the date of death = ₹ 75,000 × 4/12 × 2/10 = ₹ 5,000.

Illustration 4.

The Balance Sheet of X, Y and Z who are sharing profits in the ratio of 2 : 3 : 1, as at 31st March, 2026 is given below:

Liabilities	₹	Assets	₹
X's Capital A/c	2,00,000	Goodwill	24,000
Y's Capital A/c	4,00,000	Land and Building	5,00,000
Z's Capital A/c	6,00,000	Investments	1,00,000
Workmen Compensation Reserve	40,000	(Market Value ₹ 92,000)	
Investments Fluctuation Reserve	20,000	Stock	1,60,000
Provision for Doubtful Debts	20,000	Debtors	6,00,000
Creditors	7,20,000	Bank	5,92,000
		Advertising Suspense A/c	24,000
	20,00,000		20,00,000

Z died on 1st April, 2026 and X and Y decided to share future profits and losses in the ratio of 3 : 2 and 50% of the amount payable to Z is to be paid immediately and the balance in two equal instalments together with interest @ 10% p.a.

Other Information:

- Goodwill is to be valued at two years' purchase of average profits of last three completed years. The profits were—2023–24 ₹ 90,000; 2024–25 ₹ 1,80,000 and 2025–26 ₹ 2,70,000.
- Land and Building was found undervalued by ₹ 50,000 and Stock was found overvalued by ₹ 16,000.
- Provision for Doubtful Debts is to be made equal to 5% of the Debtors.
- Claim on account of Workmen Compensation is ₹ 16,000.

Pass necessary Journal entries and prepare the necessary Ledger Accounts and the Balance Sheet of the new firm.

Solution:

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Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
2026				
April 1	X's Capital A/c ...Dr. Y's Capital A/c ...Dr. Z's Capital A/c ...Dr. To Goodwill A/c (Existing goodwill written off)		8,000 12,000 4,000	24,000
April 1	X's Capital A/c (₹ 3,60,000 × 8/30) ...Dr. To Y's Capital A/c (₹ 3,60,000 × 3/30) To Z's Capital A/c (₹ 3,60,000 × 5/30) [Goodwill adjusted by debiting gaining partner (X for 8/30) and crediting sacrificing partners (Y for 3/30) and (Z for 5/30)] (WN 1 and 2)		96,000	36,000 60,000
April 1	Land and Building A/c ...Dr. To Revaluation A/c (Increase in value of assets recorded)		50,000	50,000
April 1	Revaluation A/c ...Dr. To Stock A/c To Provision for Doubtful Debts A/c (Decrease in value of assets and increase in provisions recorded)		26,000	16,000 10,000
April 1	Revaluation A/c ...Dr. To X's Capital A/c To Y's Capital A/c To Z's Capital A/c (Transfer of gain (profit) on revaluation)		24,000	8,000 12,000 4,000
April 1	Workmen Compensation Reserve A/c ...Dr. To Workmen Compensation Claim A/c To X's Capital A/c To Y's Capital A/c To Z's Capital A/c (Transfer of workmen compensation reserve)		40,000	16,000 8,000 12,000 4,000
April 1	Investments Fluctuation Reserve A/c ...Dr. To Investments A/c To X's Capital A/c To Y's Capital A/c To Z's Capital A/c (Transfer of investment fluctuation Reserve)		20,000	8,000 4,000 6,000 2,000
April 1	X's Capital A/c ...Dr. Y's Capital A/c ...Dr. Z's Capital A/c ...Dr. To Advertisement Suspense A/c (Transfer of balance of Advertisement Suspense Account)		8,000 12,000 4,000	24,000
April 1	Z's Capital A/c ...Dr. To Z's Executors' A/c (Balance in Z's capital transferred to Executors' Account)		6,62,000	6,62,000
April 1	Z's Executors' A/c ...Dr. To Bank A/c (50% of amount due paid to Z's executors)		3,31,000	3,31,000

6.8 Double Entry Book Keeping—CBSE XII

Dr. REVALUATION ACCOUNT				Cr.	
Particulars	₹	Particulars	₹		
To Stock A/c	16,000	By Land and Building A/c	50,000		
To Provision for Doubtful Debts A/c	10,000				
To Gain (Profit) on Revaluation transferred to:					
X's Capital A/c	8,000				
Y's Capital A/c	12,000				
Z's Capital A/c	4,000				
	24,000				
	50,000				
				50,000	

Dr. PARTNERS' CAPITAL ACCOUNTS								Cr.		
Particulars	X (₹)	Y (₹)	Z (₹)	Particulars	X (₹)	Y (₹)	Z (₹)			
To Goodwill A/c	8,000	12,000	4,000	By Balance b/d	2,00,000	4,00,000	6,00,000			
To Y's Capital A/c (Goodwill)	36,000	...	...	By X's Capital A/c (Goodwill)	...	36,000	60,000			
To Z's Capital A/c (Goodwill)	60,000	...	...	By Revaluation A/c (Gain)	8,000	12,000	4,000			
To Adv. Susp. A/c	8,000	12,000	4,000	By Work. Com. Res. A/c	8,000	12,000	4,000			
To Z's Executors' A/c	...	...	6,62,000	By Inv. Fluc. Res. A/c	4,000	6,000	2,000			
To Balance c/d	1,08,000	4,42,000	...							
	2,20,000	4,66,000	6,70,000		2,20,000	4,66,000	6,70,000			

BALANCE SHEET as at 1st April, 2026

Liabilities	₹	Assets	₹
X's Capital	1,08,000	Land and Building	5,50,000
Y's Capital	4,42,000	Investments	92,000
Z's Executors' A/c (WN 3)	3,31,000	Stock	1,44,000
Creditors	7,20,000	Debtors	6,00,000
Workmen Compensation Claim	16,000	Less: Provision for Doubtful Debts	30,000
		Bank	5,70,000
			2,61,000
	16,17,000		16,17,000

Working Notes:

1. Calculation of Gain/(Sacrifice) of Share:

	New Share	Old Share	Difference
X	3/5	2/6	3/5 - 2/6 = 8/30 (Gain)
Y	2/5	3/6	2/5 - 3/6 = - 3/30 (Sacrifice)

2. Calculation of Goodwill:

$$(i) \text{ Average Profit} = \frac{\text{₹ } 90,000 + \text{₹ } 1,80,000 + \text{₹ } 2,70,000}{3} = \text{₹ } 1,80,000.$$

$$(ii) \text{ Firm's Goodwill} = \text{₹ } 1,80,000 \times 2 = \text{₹ } 3,60,000.$$

$$(iii) \text{ Z's share in Goodwill} = \text{₹ } 3,60,000 \times 1/6 = \text{₹ } 60,000.$$

Since, Y is sacrificing 3/30 of his share of profit, therefore, X will also compensate Y proportionately by ₹ 36,000 (i.e., ₹ 3,60,000 × 3/30).

3.

Dr. Z'S EXECUTORS' ACCOUNT				Cr.	
Particulars	₹	Particulars	₹		
To Bank A/c	3,31,000	By Z's Capital A/c	6,62,000		
To Balance c/d	3,31,000				
	6,62,000				
				6,62,000	

Illustration 5.

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, 2025. Balance Sheet of the firm as at 31st March, 2025 is as follows:

BALANCE SHEET as at 31st March, 2025

Liabilities	₹	Assets	₹
A's Capital	1,20,000	Plant and Machinery	1,20,000
B's Capital	80,000	Furniture	75,000
C's Capital	40,000	Investments	20,000
A's Current A/c	8,000	Stock-in-Trade	32,000
B's Current A/c	2,500	Sundry Debtors	25,000
General Reserve	30,000	Bills Receivable	11,000
Bills Payable	17,000	Cash at Bank	18,500
Sundry Creditors	20,000	Cash in Hand	11,000
		C's Current A/c	5,000
	3,17,500		3,17,500

Following decisions were taken by the surviving partners:

- Goodwill of the firm is valued at ₹ 30,000.
- A Provision for Doubtful Debts is to be raised @ 5% on Debtors.
- While Plant and Machinery is to be depreciated by 10%, Furniture and Stock-in-Trade are to be appreciated by 5% and 10% respectively.
- Advertising Expenses ₹ 2,100 are to be carried forward to the next accounting year and, therefore, it is to be adjusted through the Revaluation Account.
- A and B are to share profits and losses equally in future.
- Profit for the year ended 31st March, 2025 was ₹ 4,08,000 and C's share in profit is to be determined on the basis of profit for the year ended 31st March, 2025.
- The Fixed Capital Accounts Method is to be converted into the Fluctuating Capital Accounts Method by transferring Current Account balances to the respective Partners' Capital Accounts.

Prepare Revaluation Account, Capital Accounts of the three Partners, showing the necessary adjustments at C's death; and prepare C's Executors' Account to show that C's Executors were paid in two half-yearly equal instalments *plus* the interest of 10% p.a. on the unpaid balance; the first instalment was paid on 31st December, 2025.

Solution:

Dr.		REVALUATION ACCOUNT		Cr.	
Particulars	₹	Particulars	₹		₹
To Provision for Doubtful Debts A/c	1,250	By Furniture A/c	3,750		
To Plant and Machinery A/c	12,000	By Stock-in-Trade A/c	3,200		
		By Advertising Expenses A/c	2,100		
		By Loss on Revaluation transferred to:			
		A's Capital A/c	2,100		
		B's Capital A/c	1,400		
		C's Capital A/c	700		4,200
	13,250				13,250

6.10 Double Entry Book Keeping—CBSE XII

Dr.			PARTNERS' CAPITAL ACCOUNTS			Cr.		
Particulars	A (₹)	B (₹)	C (₹)	Particulars	A (₹)	B (₹)	C (₹)	
To Partner's Current A/c	...	...	5,000	By Balance b/d	1,20,000	80,000	40,000
To C's Capital A/c (WN 1)	...	5,000	...	By Partners' Current A/cs	8,000	2,500	...	
To Revaluation A/c	2,100	1,400	700	By General Reserve A/c	15,000	10,000	5,000	
To C's Capital A/c (WN 2)	...	17,000	...	By B's Capital A/c	...	...	5,000
To C's Executors' A/c	...	...	61,300	(Goodwill)	...	...	...
To Balance c/d	1,40,900	69,100	...	By B's Capital A/c (WN 2)	...	...	17,000
	1,43,000	92,500	67,000		1,43,000	92,500	67,000	

Dr.			C'S EXECUTORS' ACCOUNT			Cr.		
Date	Particulars	₹	Date	Particulars	₹			
2025			2025					
Dec. 31	To Bank A/c (₹ 30,650 + ₹ 3,065)	33,715	June 30	By C's Capital A/c	61,300			
2026			Dec. 31	By Interest A/c (@ 10% for 6 months) (₹ 61,300 × 10/100 × 6/12)	3,065			
March 31	To Balance c/d	31,416	2026					
		65,131	March 31	By Interest A/c*	766			
2026					65,131			
June 30	To Bank A/c	32,182	2026					
		32,182	April 1	By Balance b/d	31,416			
			June 30	By Interest A/c (₹ 30,650 × 10/100 × 3/12)	766			
					32,182			

*(₹ 61,300 + ₹ 3,065 - ₹ 33,715) × 10/100 × 3/12 = ₹ 766.

Working Notes:

1. Gain/(Sacrifice) of Each Partner:	A	B	C
New Share	1/2	1/2	...
Old Share	3/6	2/6	1/6
Gain/(Sacrifice)	1/2 - 3/6 = Nil	1/2 - 2/6 = 1/6	-1/6 (Sacrifice)

∴ B will compensate C for his share of Goodwill, i.e., ₹ 30,000 × 1/6 = ₹ 5,000. He is only gaining partner.

2. Share of profit of C from 1st April, 2025 to 30th June, 2025 is debited to B's Capital Account due to change in new profit-sharing ratio.

3. C's Share of profit = ₹ 4,08,000 × 1/6 × 3/12 = ₹ 17,000.

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

Illustration 6.

The Balance Sheet of M, N and O who are sharing profits and losses in the ratio of 5 : 3 : 2 respectively was as follows on 31st March, 2026:

Liabilities	₹	Assets	₹
Sundry Creditors	12,000	Goodwill	10,000
Employees' Provident Fund	6,000	Patents	52,000
Investment Fluctuation Reserve	7,000	Machinery	62,400
Workmen Compensation Reserve	7,000	Investment	6,000
Capital A/cs:		Stock	20,000
M	1,35,000	Sundry Debtors	24,000
N	95,000	Less: Provision for Doubtful Debts	4,000
O	74,000	Loan to O	1,000
	3,04,000	Cash at Bank	600
		Advertisement Expenditure	2,000
		Profit & Loss A/c	1,50,000
		O's Drawings	12,000
	3,36,000		3,36,000

O died on 1st April, 2026 and M and N decide to share future profits and losses in the ratio of 3 : 5. It was agreed that:

- (i) Goodwill of the firm be valued at 2½ years' purchase of average of four completed years' profits which were: 2022–23—₹ 2,02,000; 2023–24—₹ 28,000; 2024–25—₹ 32,000.
- (ii)
 - Patents are undervalued by ₹ 14,000 and machinery overvalued by ₹ 13,600.
 - All debtors are good. A debtor whose dues of ₹ 400 were written off as bad debts paid 50% in full settlement.
 - Unaccounted Accrued Income of ₹ 2,200 is to be accounted.
 - ₹ 1,000 included in Sundry Creditors is not likely to arise.
 - A claim of ₹ 1,000 on account of Workmen Compensation to be provided for.
- (iii) Investment be sold for ₹ 8,200 and a sum of ₹ 11,200 be paid to executors of O immediately. The balance to be paid in four equal half-yearly instalments with interest @ 10% p.a. at half year rest.

Show Revaluation Account, Capital Account of Partners and the Balance Sheet of the new firm.

Note: Firm enjoys bank overdraft facility.

Solution:

REVALUATION ACCOUNT			
Dr.			Cr.
Particulars	₹	Particulars	₹
To Machinery A/c	13,600	By Patents A/c	14,000
To Gain (Profit) transferred to:		By Provision for Doubtful Debts A/c	4,000
M's Capital A/c	5,000	By Bad Debts Recovered A/c	200
N's Capital A/c	3,000	By Accrued Income A/c	2,200
O's Capital A/c	2,000	By Sundry Creditors A/c	1,000
	10,000	By Investment A/c	2,200
	23,600		23,600

6.12 Double Entry Book Keeping—CBSE XII

Dr. PARTNERS' CAPITAL ACCOUNTS				Cr.			
Particulars	M (₹)	N (₹)	O (₹)	Particulars	M (₹)	N (₹)	O (₹)
To Drawings A/c	...	...	12,000	By Balance b/d	1,35,000	95,000	74,000
To Goodwill A/c	5,000	3,000	2,000	By Revaluation A/c (Profit)	5,000	3,000	2,000
To Profit & Loss A/c	75,000	45,000	30,000	By N's Capital A/c (Goodwill) (WN 1)	8,750	...	14,000
To M's Capital A/c	...	8,750	...	By Investment Fluctuation Reserve A/c	3,500	2,100	1,400
To O's Capital A/c	...	14,000	...	By Workmen Compensation Reserve A/c	3,000	1,800	1,200
To O's Loan A/c	...	...	1,000				
To Advertisement Expenditure A/c	1,000	600	400				
To Bank A/c	...	...	11,200				
To O's Executors' A/c	...	...	36,000				
To Balance c/d	74,250	30,550	...				
	1,55,250	1,01,900	92,600		1,55,250	1,01,900	92,600

BALANCE SHEET OF THE NEW FIRM as at 1st April, 2026

Liabilities	₹	Assets	₹
Sundry Creditors	11,000	Patents	66,000
Employees' Provident Fund	6,000	Machinery	48,800
O's Executors' A/c	36,000	Stock	20,000
Workmen Compensation Claim	1,000	Sundry Debtors	24,000
Bank Overdraft (WN 3)	2,200	Accrued Income	2,200
M's Capital A/c	74,250		
N's Capital A/c	30,550		
	1,61,000		1,61,000

Working Notes:

1. Calculation of Gain/(Sacrifice) of Each Partner:

$$M's \text{ Gain} = 3/8 - 5/10 = \frac{15 - 20}{40} = -5/40 \text{ (Sacrifice);}$$

$$N's \text{ Gain} = 5/8 - 3/10 = \frac{25 - 12}{40} = 13/40 \text{ (Gain).}$$

2. Adjustment of Goodwill:

$$\text{Firm's Goodwill} = \frac{(\text{₹ } 2,02,000 + \text{₹ } 28,000 + \text{₹ } 32,000 + \text{₹ } 1,50,000)}{4} \times 2.5 = \text{₹ } 70,000$$

$$M's \text{ Sacrificed Share of Goodwill} = \text{₹ } 70,000 \times 5/40 = \text{₹ } 8,750;$$

$$N's \text{ Gained Share of Goodwill} = \text{₹ } 70,000 \times 13/40 = \text{₹ } 22,750;$$

$$O's \text{ Sacrificed Share of Goodwill} = \text{₹ } 70,000 \times 2/10 = \text{₹ } 14,000.$$

N is the only gaining partner.

3. Dr. BANK ACCOUNT				Cr.	
Particulars	₹	Particulars	₹		
To Balance b/d	600	By O's Capital A/c	11,200		
To Investment A/c (Sale)	8,200				
To Bad Debts Recovered A/c	200				
To Balance c/d	2,200				
	11,200				11,200

Illustration 7. (Admission-cum-Death: Treatment of Goodwill).

A and B are partners in a firm sharing profits in the ratio of 3 : 2. They admitted C as a partner for 1/5th share of profit on 1st April, 2026. He brings ₹ 4,500 as a premium out of his share of ₹ 6,000. On the same date B died. According to his will, the executors should donate his share to a school for providing scholarships to the students.

Pass Journal entries to give effect to the above.

Solution:

JOURNAL

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
2026 April 1	Cash A/c To Premium for Goodwill A/c (A part of share of goodwill brought by C)	...Dr.	4,500	4,500
April 1	Premium for Goodwill A/c C's Current A/c A's Capital A/c To B's Capital A/c (Sacrificing partner (B) compensated with the share of goodwill)	...Dr. ...Dr. ...Dr.	4,500 1,500 6,000	12,000

Working Notes:

1. Calculation of Sacrifice/(Gain) Share:

	A	B	C
Old Share	3/5	2/5	...
New Share	4/5	...	1/5
	<u>-1/5 Gain</u>	<u>2/5 Sacrifice</u>	<u>-1/5 Gain</u>

2. Calculation of Share of Goodwill:

For 1/5th Share of C, Goodwill = ₹ 6,000

Value of Firm's Goodwill = ₹ 6,000 × 5/1 = ₹ 30,000

For 2/5th sacrifice of B, value of Goodwill = ₹ 30,000 × 2/5 = ₹ 12,000

For 1/5th Gain of A, value of Goodwill = ₹ 30,000 × 1/5 = ₹ 6,000.

Illustration 8. (Death-cum-Admission: Share of Profit to the Deceased Partner).

Ram, Manohar and Joshi were partners in a firm. Joshi died on 30th June, 2026 and on the same date his daughter Arpita is admitted for 1/5th share in profits. She brings ₹ 80,000 for her share of capital. Joshi left a will and according to it, his total dues were to be donated to an Old Age Home in the locality where business was being carried on. According to the agreement, the share of profits of a deceased partner up to the date of death is to be calculated on the basis of the average profits for the last five years. The net profits for the last 5 years ended 31st March, were: 2021-22—₹ 24,000; 2022-23—₹ 8,000; 2023-24—₹ 16,000; 2024-25—₹ 10,000 (loss) and 2025-26—₹ 16,000. Ram, Manohar and Arpita decided to visit old age homes regularly to help the aged people.

Pass Journal entries to give effect to the above.

Solution:

JOURNAL

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
2026 June 30	Profit & Loss Suspense A/c To Joshi's Capital A/c (Share of profit credited to the deceased partner)	...Dr.	900	900
	Bank A/c To Arpita's Capital A/c (Arpita brings her share of capital in cash)	...Dr.	80,000	80,000

6.14 Double Entry Book Keeping—CBSE XII

Working Note:

$$\text{Average Profit} = \frac{\text{₹ } 24,000 + \text{₹ } 8,000 + \text{₹ } 16,000 - \text{₹ } 10,000 + \text{₹ } 16,000}{5} = \frac{\text{₹ } 54,000}{5} = \text{₹ } 10,800$$

$$\text{Joshi's Share of Profit} = \text{₹ } 10,800 \times \frac{3}{12} \times \frac{1}{3} = \text{₹ } 900.$$

Illustration 9 (Treatment of Goodwill).

D, E, F, P and Z were partners in a firm sharing profits and losses in the ratio of 5 : 4 : 3 : 2 : 1 respectively. Unfortunately, *P* and *Z* met with a tragic car accident in which both of them died. The goodwill of the firm was valued at ₹ 1,50,000 and *D, E* and *F* decided to share the future profits and losses in the ratio of 4 : 6 : 5.

Give the Journal entries to record the above.

Solution:

JOURNAL

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
	<i>E's</i> Capital A/c ...Dr.		20,000	
	<i>F's</i> Capital A/c ...Dr.		20,000	
	To <i>P's</i> Capital A/c			20,000
	To <i>Z's</i> Capital A/c			10,000
	To <i>D's</i> Capital A/c			10,000
	(Goodwill adjusted by debiting gaining partners and crediting sacrificing partners)			

Working Note:

STATEMENT SHOWING THE REQUIRED ADJUSTMENT FOR GOODWILL

Partners	<i>D</i> (₹)	<i>E</i> (₹)	<i>F</i> (₹)	<i>P</i> (₹)	<i>Z</i> (₹)
Share of Goodwill before Death of <i>P</i> and <i>Z</i> (5 : 4 : 3 : 2 : 1)	50,000	40,000	30,000	20,000	10,000
Share of Goodwill after Death of <i>P</i> and <i>Z</i> (4 : 6 : 5)	40,000	60,000	50,000	...	...
Gain (+)/Sacrifice (-)	(-)10,000	(+)20,000	(+)20,000	(-)20,000	(-)10,000

Alternatively:

	<i>D</i>	<i>E</i>	<i>F</i>
I. Their New Shares	4/15	6/15	5/15
II. Their Old Shares	5/15	4/15	3/15
III. Gain/(Sacrifice) (I - II)	(1/15) (Sacrifice)	2/15 (Gain)	2/15 (Gain)

In this case, *D* has also sacrificed his share to the extent of 1/15 in favour of *E* and *F*. They are required to compensate *D* along with *P* and *Z* for their sacrifice.

Illustration 10.

Following is the Balance Sheet of *Punita, Rashi* and *Seema* who are sharing profits in the ratio 2 : 1 : 2 as on 31st March, 2013:

Liabilities	₹	Assets	₹
Creditors	38,000	Building	2,40,000
Bills Payable	2,000	Stock	65,000
Capital A/cs: <i>Punita</i>	1,44,000	Debtors	30,000
<i>Rashi</i>	92,000	Cash at bank	5,000
<i>Seema</i>	1,24,000	Profit & Loss A/c	60,000
	3,60,000		
	4,00,000		4,00,000

Punita died on 30th September 2013. She had withdrawn ₹ 44,000 from her capital on July 1, 2013. According to the partnership agreement, she was entitled to interest on capital @ 8% p.a. Her share of profit till the date of death was to be calculated on the basis of the

average profits of the last three years. Goodwill was to be calculated on the basis of three times the average profits of the last four years. The profits for the years ended 2009–10, 2010–11 and 2011–12 were ₹ 30,000, ₹ 70,000 and ₹ 80,000 respectively.

Prepare Punita's Capital Account to be rendered to her executors.

(Sample Paper 2015)

Solution:

PUNITA'S CAPITAL ACCOUNT			
Dr.			Cr.
Particulars	₹	Particulars	₹
To Bank A/c (Drawings)	44,000	By Balance b/d	1,44,000
To Profit & Loss A/c (₹ 60,000 × 2/5)	24,000	By Interest on Capital A/c (WN 1)	4,880
To Punita's Executors' A/c (Balancing Figure)	1,22,880	By Profit & Loss Suspense A/c (WN 2)	6,000
		By Rashi's Capital A/c (WN 3)	12,000
		By Seema's Capital A/c (WN 3)	24,000
	<u>1,90,880</u>		<u>1,90,880</u>

Working Notes:

$$1. \quad \text{Interest on Capital} = ₹ 1,44,000 \times 8/100 \times 3/12 = ₹ 2,880$$

$$= ₹ 1,00,000 \times 8/100 \times 3/12 = ₹ 2,000$$

$$\text{Total} = ₹ 4,880$$

$$2. \quad \text{Punita's Share in Profit till Death} = \frac{₹ 70,000 + ₹ 80,000 - ₹ 60,000}{3} \times 6/12 \times 2/5 = ₹ 6,000.$$

$$3. \quad \text{Value of Firm's Goodwill} = \frac{₹ 30,000 + ₹ 70,000 + ₹ 80,000 - ₹ 60,000}{4} \times 3 = ₹ 90,000.$$

Punita's Share in Goodwill = ₹ 90,000 × 2/5 = ₹ 36,000, which is contributed by Rashi and Seema in their gaining ratio, i.e., 1 : 2.

Illustration 11.

Dev, Swati and Sanskar were partners in a firm sharing profits in the ratio of 2 : 2 : 1. On 31st March, 2014, their Balance Sheet was as follows:

Liabilities	₹	Assets	₹
Capital A/cs:		Building	1,04,000
Dev	77,000	Inventory	16,000
Swati	87,000	Trade Receivables	23,000
Sanskar	<u>46,000</u>	Cash	40,000
Trade Payables	17,000	Profit & Loss A/c	57,000
Bank Loan	13,000		
	<u>2,40,000</u>		<u>2,40,000</u>

On 30th June, 2014 Dev died. According to partnership agreement, Dev was entitled to interest on capital at 12% per annum. His share of profit till the date of his death was to be calculated on the basis of the average profits of last four years. The profits of the last four years were:

Year	2010–11	2011–12	2012–13	2013–14
Profit (₹)	2,04,000	1,80,000	90,000	(57,000) Loss

On 1st April, 2014, Dev withdrew ₹ 15,000 to pay for his medical bills.

Prepare Dev's Account to be presented to his executors.

(Delhi 2015)

6.16 Double Entry Book Keeping—CBSE XII

Solution:

DEV'S CAPITAL ACCOUNT			
Dr.		Cr.	
Particulars	₹	Particulars	₹
To Drawings A/c (Medical Bills)	15,000	By Balance b/d	77,000
To Profit & Loss A/c (WN 3)	22,800	By Interest on Capital A/c (WN 1)	2,310
To Dev's Executors' A/c (Balancing Figure)	51,935	By Profit & Loss Suspense A/c (WN 2)	10,425
	89,735		89,735

Working Notes:

- Date of Death of Dev = 30th June, 2014

Period from 1st April, 2014 to 30th June, 2014 = 3 Months.

$$\text{Interest on Dev's Capital} = ₹ 77,000 \times \frac{12}{100} \times \frac{3}{12} = ₹ 2,310.$$
- Calculation of Dev's Share in Profit:

(i) Average Profit of the Firm = $\frac{₹(2,04,000 + 1,80,000 + 90,000 - 57,000)}{4} = ₹ 1,04,250.$

(ii) Dev's Share of Profit = $₹ 1,04,250 \times 2/5 \times 3/12 = ₹ 10,425.$
- Share in Profit & Loss A/c (Debit Balance of Profit & Loss A/c) = $₹ 57,000 \times 2/5 = ₹ 22,800.$

Illustration 12.

A, B and C are partners sharing profits in the ratio of 4 : 3 : 1. As per Partnership Deed, on the death of any partner, his share of goodwill is to be valued at half of the profits credited to his account during the previous four completed years.

B died on 1st May, 2026. The firm's profits for the last four years ended 31st March, were: 2023—₹ 1,00,000; 2024—₹ 80,000; 2025—₹ 60,000; 2026—₹ 1,60,000.

Calculate the amount that should be credited to B in respect of his share of goodwill.

Solution: Total Profit for the last 4 years = ₹ (1,00,000 + 80,000 + 60,000 + 1,60,000)
= ₹ 4,00,000.

Profit credited to B during the last 4 years = ₹ 4,00,000 × 3/8 = ₹ 1,50,000.

B's Share of Goodwill is valued at half of the profits credited to his Account during the last 4 years = ₹ 1,50,000 × 1/2 = ₹ 75,000.

Unsolved Questions

- DK, PK and GK were partners in a firm sharing profits and losses in the ratio of 5 : 3 : 2. PK died on 31st May, 2026. His share of profit from the closure of the last accounting year till the date of death, was to be calculated on the basis of the average of three completed years of profits before death. Profits for the years ended 31st December, 2023, 2024 and 2025 were ₹ 17,000; ₹ 15,000 and ₹ 13,000 respectively.

Calculate PK's share of profit till his death and pass the necessary Journal entry for the same.

[Ans.: PK's Share of Profit—₹ 1,875.]

2. From the following information, estimate share of the deceased partner in profits from the accounting date till the date of death:

Sales for the year 2025—₹ 4,00,000; Profit for the year 2025—₹ 80,000; Date of death 1.4.2026; Sales from 1.1.2026 to 31.3.2026—₹ 70,000; Share of deceased partner—2/5.

[Ans.: % of Profit to Sales—20%; Profit for the relevant period—₹ 14,000; Share of the deceased partner—₹ 5,600.]

3. X, Y and Z were partners in a firm. Z died on 31st May, 2026. His share of profit from the closure of the last accounting year till the date of death was to be calculated on the basis of the average of three completed years of profits before death. Profits for the years ended 31st March, 2024, 2025 and 2026 were ₹ 18,000; ₹ 19,000 and ₹ 17,000 respectively.

Calculate Z's share of profit till his death and pass necessary Journal entry for the same when:

- profit-sharing ratio of remaining partners does not change, and
- profit-sharing ratio of remaining partners changes, new ratio being 3 : 2.

[Ans.: (i) Dr. Profit & Loss Suspense A/c and Cr. Z's Capital A/c—₹ 1,000;

(ii) Dr. X's Capital A/c—₹ 800; Y's Capital A/c—₹ 200; Cr. Z's Capital A/c—₹ 1,000.]

4. The Balance Sheet of A, B and C, who were sharing profit in the ratio of 3 : 3 : 4, as on 31st March, 2026 was as follows:

Liabilities	₹	Assets	₹
Bills Payable	5,000	Cash	16,000
Loan	12,000	Bank	50,000
General Reserve	10,000	Stock	44,000
Capitals A/cs:		Furniture	47,000
A	60,000	Land and Building	60,000
B	60,000	A's Loan	10,000
C	80,000		
	2,00,000		
	2,27,000		2,27,000

A died on 30th June, 2026. The Partnership Deed provided for the following on the death of a partner:

- Goodwill of the firm be valued at two years' purchase of average profit for the last three years.
- Share of profit or loss till the date of death was to be calculated on the basis of sales. Sales for the year ended 31st March, 2026 amounted to ₹ 4,00,000 and that from 1st April to 30th June, 2026 to ₹ 1,50,000. The profit for the year ended 31st March, 2026 was ₹ 1,00,000.
- Interest on Capital was to be provided @ 6% p.a.
- The average profit of the last three years was ₹ 42,000.
- According to A's will, the executors should donate his share to a "Home meant for Physically Challenged Children".

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

[Ans.: A's Executors' A/c—₹ 90,350; A's Share of Profit—₹ 11,250; A's Share of Goodwill—₹ 25,200.]

5. Anil, Bhanu and Chandu were partners in a firm sharing profits in the ratio of 5 : 3 : 2. On 31st March, 2025, their Balance Sheet was as under:

Liabilities	₹	Assets	₹
Creditors	91,000	Buildings	2,00,000
Bank Overdraft	1,00,000	Machinery	30,000
Reserve Fund	6,000	Stock	10,000
Capital A/cs:		Patents	11,000
Anil	30,000	Debtors	8,000
Bhanu	25,000	Cash	8,000
Chandu	15,000		
	70,000		
	2,67,000		2,67,000

6.18 Double Entry Book Keeping—CBSE XII

Due to an accident, Anil died on 1st October, 2025. Anil's family became financially weak. Bhanu and Chandu decided to admit Anil's daughter in the business. It was agreed between Anil's executors and the remaining partners that:

- Goodwill to be valued at $2\frac{1}{2}$ years' purchase of the average profit of the previous four years which were: Year 2021–22: ₹ 13,000; Year 2022–23: ₹ 12,000; Year 2023–24: ₹ 20,000; Year 2024–25: ₹ 15,000.
- Patents be valued at ₹ 8,000; Machinery at ₹ 28,000; and Building at ₹ 2,50,000.
- Profit for the year 2025–26 be taken as having accrued at the same rate as that of the previous year.
- Interest on capital be provided at 10% p.a.
- Half of the amount due to Anil be paid immediately.

Prepare Anil's Capital Account and Anil's Executors' Account as on 1st October, 2025.

[Ans.: Anil's Share of Goodwill—₹ 18,750; Anil's Share of Profit—₹ 3,750. Amount Paid to Anil's Executors—₹ 39,750; Amount still payable to Anil's Executors—₹ 39,750.]

6. X, Y and Z were partners in a firm sharing profits and losses in the ratio of 3 : 2 : 1. Z died on 31st March, 2026. The Balance Sheet of the firm as at that date was:

Liabilities	₹	Assets	₹
X's Capital A/c	1,20,000	Plant and Machinery	1,20,000
Y's Capital A/c	80,000	Furniture and Fittings	75,000
Z's Capital A/c	40,000	Investments	20,000
X's Current A/c	8,000	Stock-in-Trade	32,000
Y's Current A/c	2,500	Sundry Debtors	25,000
Reserve	30,000	Bills Receivable	11,000
Bills Payable	17,000	Cash at Bank	11,000
Sundry Creditors	20,000	Cash in Hand	18,500
		Z's Current A/c	5,000
			3,17,500
			3,17,500

The following decisions were taken by the remaining partners:

- A Provision for Doubtful Debts is to be raised at 5% on Sundry Debtors.
- While Plant and Machinery is to be depreciated by 10%, Furniture and Stock-in-Trade are to be appreciated by 5% and 10% respectively.
- Advertising Expenses ₹ 2,100 are to be carried forward to the next accounting year and, therefore, it is to be adjusted through the Revaluation Account.
- Goodwill of the firm is valued at ₹ 30,000.
- The Fixed Capital Accounts Method is to be converted into the Fluctuating Capital Accounts Method by transferring the Current Account balances to the respective Partners' Capital Accounts.

Prepare the Revaluation Account and Partners' Capital Accounts.

[Ans.: Loss on Revaluation—₹ 4,200; Capital Account Balances: X—₹ 1,37,900; Y—₹ 89,100; Z's Executors' A/c—₹ 44,300.]