

INTERNATIONAL INDIAN SCHOOL RIYADH

ACCOUNTANCY WORK SHEET 4 – CLASS 12

CHAPTER: DEATH OF A PARTNER

Q.1 State any two deductions that may have to be made from the amount payable to the legal representative of a deceased partner. **(July 2009. Marks 1)**

Q.2 What is the need for treatment of goodwill on the death of a partner?
(March 2010. Marks 1)

Q.3 A, B and C are partners in a firm whose books are closed on March 31st each year. C died on 30th June 2009 and according to the agreement, the share of profits of a deceased partner up to the date of the 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 have been: 2005, Rs.14,000; 2006, Rs.18,000; 2007, Rs.16,000; 2008, Rs.10,000 (loss) and 2009, Rs.16,000. Calculate C's share of the profits upto the date of death and pass necessary journal entry.
(March 2010. Marks 3)

Q.4 P, Q and R were partners in a firm sharing profits in 2:2:1 ratio. The partnership deed provided that on the death of a partner his executors will be entitled for the following:

- (i) Interest on capital @ 12% p.a.
- (ii) Interest on drawings @ 18% p.a.
- (iii) Salary of Rs. 12,000 p.a.
- (iv) Share in the profit of the firm (upto the date of death) on the basis of previous year's profit.

P died on 31.5.2006. His capital was Rs. 80,000. He had withdrawn Rs. 15,000 and interest on his drawings was calculated as Rs. 1,200. The profit of the firm for the previous year ended 31.3.2006 was Rs. 30,000.

Prepare P's capital account to be presented to his executors.

(March 2008. Marks 4)

Q.5 Indu and Hema were partners. The partnership deed provided for:

- (a) Profits to be divided as Indu $\frac{1}{2}$, Hema $\frac{1}{3}$ and $\frac{1}{6}$ th to be transferred to reserves.
- (b) The accounts are closed on March 31st each year.
- (c) In the event of the death of a partner the executors will be entitled to:
 - (i) Capital to the credit on the date of the death.

- (ii) Interest on capital at 12% p.a
- (iii) Proportion of profit to the date of death based on the average profits credited for the last 3 years.
- (iv) Share of goodwill based on three years purchase of the average profits of the preceding 3 years.

The following information is provided to you:

(Indu's Capital Rs. 120,000, Hema's Capital Rs. 80,000, Reserves Rs. 30,000, Cash Rs. 110,000, Investments Rs. 70,000)

Prepare Indu's capital account to be presented to her executors who died on April 30th, 2007. The profits for the three preceding years were Rs. 84,000 Rs. 90,000 and Rs. 99,000. **July 2008. Mark 6)**

Q.6 X, Y and Z were partners sharing profits in the ratio of 3:2:1. On 31st March 2008, their balance sheet stood as under.

Liabilities	Rs.	Assets	Rs.
<u>Capitals:</u>		Cash at bank	70,000
X : 75,000		Investments	50,000
Y : 70,000		Patents	15,000
Z : <u>50,000</u>	195,000	Stock	25,000
		Debtors	20,000
Creditors	72,000	Buildings	75,000
General reserve	24,000	Machinery	36,000
	291,000		291,000

Y died on 31st May 2008. It was agreed that:

- (a) Goodwill was valued at 3 years' purchase of the average profits of the last five years, which were, 2003: Rs. 40,000; 2004 : Rs. 40,000 2005 : Rs.30,000; 2006: Rs. 40,000 and 2007; Rs. 50,000.
- (b) Machinery was valued at Rs. 70,000, Patents at Rs. 20,000 and buildings at Rs. 66,000.
- (c) For the purpose of calculating Y's share of profits till the date of his death, it was agreed that the same be calculated based on the average profits for the last 2 years.
- (d) The executor of deceased partner is to be paid the entire amount due by means of cheque.

Prepare Y's capital account to be rendered to is executor and also a journal entry for the settlement of the amount due to the executor.

(March 2009. Marks 6)

Q.7 Ramesh, Suresh and Dinesh were partners in a firm sharing profits in the ratio of 3:3:4. Their capitals were Rs. 500,000; Rs. 400,000 and Rs. 500,000 respectively. The firm closes its books on 31st March every year. On 31.3.2006 Ramesh died. The executor of a deceased partner, according to the agreement, was entitled for the following:

- (i) Interest on capital from the first day of the accounting year till the date of his death @ 9% p.a.
- (ii) His share of goodwill – The goodwill of the firm on Ramesh's death was valued at Rs. 180,000.
- (iii) His share of profits. The profit of the firm for the year ended 31.3.2006 was Rs. 120,000.

Ramesh's executor was paid the sum due in two equal annual instalments with interest @ 10% p.a.

Prepare Ramesh's capital account as on 31.3.2006 to be presented to his executor and his executor's loan account for the years ending 31.3.2007 and 31.3.2008.

(July 2009. Marks 6)

Q.8 A, B and C are partners in a trading firm. The firm has a fixed capital of Rs.60,000 held equally by all the partners. Under the partnership deed the partners were entitled to:

- (a) A and B to a salary of Rs.1,800 and Rs.1,600 per month respectively.
- (b) In the event of death of a partner, goodwill was to be valued at 2 years purchase of the average profit of the last 3 years.
- (c) Profit upto the date of death based on the profits of the previous year.
- (d) Partners were to be charged interest on drawings at 5% p.a and allowed interest on capitals at 6% p.a.

A died on January 1st 2011. His drawings to the date of death were Rs.2,000 and the interest thereon was Rs.60. The profits of three years ending March 31st 2008, 2009 and 2010 were: Rs.21,200, 3,200 (Dr) and Rs.9,000 respectively. Prepare A's capital account to calculate the amount to be paid to his executors.

(July 2011 Marks 6)

Q.9 A, B and C were partners in a firm sharing profits in the ratio of 2:1:1. Their Balance Sheet as on 31.3.2010 was as follows.

Liabilities.	Amount. Rs.	Assets.	Amount. Rs.
<u>Capital accounts:</u>		Furniture	9,000
A 10,000		Stock	4,000
B 5,000		Debtors	6,000
C <u>5,000</u>	20,000	Bills Receivable	2,000
General Reserve	3,200	Cash at Bank	5,000
Creditors	3,000	Cash in hand	200
	<u>26,200</u>		<u>26,200</u>

On 30.6.2010 C died. Under the provisions of partnership deed the executors of a deceased partner were entitled to the following:

- (i) Amount standing to the credit of partners capital account.
- (ii) Interest on Capital @ 5% p.a.
- (iii) Share of goodwill on the basis of two years purchase of the average profits of last three years.
- (iv) Share of profit in the year of his death, till the date of his death on the basis of the last year's profit.

The profits of the firm during the previous three years were as follows:

Year	Profit Rs.
2007-2008	5,000
2008-2009	9,000
2009-2010	7,000

C's executors were paid Rs. 800 on 1.7.2010 and the balance in three equal instalments of equal intervals of 6 months starting from 31.12.2010 with interest @ 10% per annum.

Pass necessary journal entries, at the time of C's death, prepare C's Capital Account and C's Executor's Account upto 31.12.2010.

(March 2011. Marks 8)

Q. 10. A, B, C and D are partners sharing profits in the ratio of 3: 2:1:4 A dies and his share is acquired by B and C in the ratio of 3:2.

Calculate new profit-sharing ratio and gaining ratio. Also write entry related to goodwill valued at Rs. 30,000 on the death of A.