Concept no.6

Determination of Amount Payable to Executors

When a partner in a partnership firm passes away, the executor (or legal representative) of the deceased partner's estate may make certain demands or claims based on the partnership agreement and applicable laws. Key points to consider include:

1. Settlement of Accounts: The executor may demand a settlement of the deceased partner's capital account in the partnership. This includes :The deceased partner's share of capital contributed. Accrued profits up to the date of death. Share of goodwill, if applicable.

2. Share of Goodwill : The deceased partner's share in the goodwill of the firm must be calculated and paid as per the partnership agreement or prevailing market practices.

3. Share of Profits: The executor may demand the deceased partner’s share of profits up to the date of death. If the accounts are not immediately closed, profits may be calculated on a time-apportioned basis or based on turnover.

4. Right to Examine Books of Accounts

The executor has the right to inspect the partnership books of accounts to verify the settlement amount and ensure all dues to the deceased partner are properly calculated.

Concept no.6

Questions

Q.13) . Iqbal and Kamal are in partnership sharing profits and losses in 3 : 2. Kamal died three months after the date of the last Balance Sheet. According to the Partnership Deed, his legal heir is entitled to the following:

(a) His capital as per the last Balance Sheet.

(b) Interest on above capital @ 3% p.a. till the date of death.

(c) His share of profit till the date of death calculated on the basis of last year's profits.

His drawings are to bear interest at an average rate of 2% on the amount irrespective of the period.

The net profits for the last three years, after charging insurance premium, were ₹ 20,000; ₹ 25,000 and ₹ 30,000 respectively. Kamal's capital as per Balance Sheet was ₹ 40,000 and his drawings till the date of death were ₹ 5,000.

Draw Kamal's Capital Account to be rendered to his representatives

[Ans.: Balance due to Kamal—₹ 38,200.]

COMMERCE RAMA

ELITE COMMERCE MINDS
COMMERCE RAMA

Concept no.6

Q.14) . The Balance Sheet of Sadhu, Raja and Karan who were sharing profits in the ratio of 4:2:4 as at 31 st March, 2023 was as follows:BALANCE SHEET as at 31st March, 2023

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

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.
[Ans.: Amount due to Sadhu's Executors—₹ 1,39,333.]

COMMERCE RAMA

Concept no.6

Q.15). X and Y are partners. The Partnership Deed provides inter alia:

(a) That the Accounts be balanced on 31st March every year.

(b) That the profits be divided as: X one-half, Y one-third and carried to a Reserve one-sixth.

(c) That in the event of the death of a partner, his Executors be entitled to be paid:

(i) The Capital to his credit till the date of death.

(ii) His proportion of profits till the date of death based on the average profits of the last three completed years.(iii) By way of Goodwill, his proportion of the total profits for the three preceding years

(d) BALANCE SHEET as at 31st March, 2023

Liabilities		₹	Assets	₹
Capital A/cs:			Sundry Assets	21,000
X	9,000			
Y	6,000	15,000		
Reserve		3,000		
Creditors		3,000		
		21,000		21,000

Profits for three years ended 31st March, were: 2021—₹ 4,200; 2022—₹ 3,900; 2023—₹ 4,500. Y died on 1st August, 2023. Prepare necessary accounts

[Ans.: Amount due to Y's Executors—₹ 12,800.]

ELITE COMMERCE MINDS
COMMERCE RAMA

Concept no.6

Q.16) . Karim, Saleem and Raheem were partners in a firm sharing profits and losses in the ratio of 3 :4 ; 3. The firm closes its books on 31st March every year. On 1st October, 2019, Karim died. On Karim's death, the goodwill of the firm was valued at ₹ 3,50,000. Karim's share in the profits of the firm in the year of his death was to be calculated on the basis of average profits of last four years. The profits for the last four years were 2015-16—₹ 1,70,000; 2016-17—₹ 1,30,000; 2017-18—₹ 1,90,000 and 2018-19—₹ 1,10,000. The total amount payable to Karim's executors on his death was ₹ 7,35,000. It was paid on 15th October, 2019.
Pass necessary Journal entries for the above transactions in the books of the firm.
[Ans.: Karim's share of Goodwill = ₹ 1,05,000; Karim's share of profit = ₹ 22,500;
Amount transferred to Karim's Executors = ₹ 7,35,000.]

COMMERCE RAMA

ELITE COMMERCE MINDS
COMMERCE RAMA

Concept no.6

Q.17). A, B and C were partners in a firm sharing profits and losses in the ratio of 2:2: 1. Their books are closed on March 31 st every year.

B died on 1 st August, 2024. The executors of B are entitled to :

(i) His share of Capital i.e., ₹4,00,000 along-with his share of goodwill. The total goodwill of the firm was valued at 1.5 year's purchase of last year's profit.

(ii) His share of profit up to his date of death on the basis of sales till date of death. Sales for the year ended March 31, 2024 was ₹4,00,000 and profit for the same year was ₹ 80,000. Sales shows a growth trend of 25% and percentage of profit earning is increased by 4%.

(iii) Amount payable to B was transferred to his executors.

Pass necessary Journal Entries and show the workings clearly.

[Ans. Amount payable to R's Executors ₹4,64,000]

COMMERCE RAMA



END OF CONCEPT.NO-6

Concept no.

7 Adjustment of Capital