ELITE COMMERCE MINDS
COMMERCE RAMA

Concept no.8

Section 37 of the Indian Partnership Act

Section 37 of the Indian Partnership Act, 1932, deals with the right of an outgoing partner in relation to any subsequent profits of the firm. Here's the key point:

When a partner retires, or if their connection with the firm ends due to death or any other reason, they are entitled to their share of the partnership profits until the final settlement is made. However, if the remaining partners continue to use the outgoing partner's share of the property or assets, the outgoing partner (or their legal representative) has two options:

1. Claim a Share of Profits: The outgoing partner can demand a portion of the profits generated from the use of their share of the property or assets.
2. Claim Interest on the Share of Property: Instead of profits, they can opt to receive interest at a rate of 6% per annum on their share of the property from the date of their departure until the settlement.

So, **Section 37** protects the rights of an outgoing partner by ensuring they receive fair compensation if the firm continues to benefit from their share of the partnership assets.

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Questions

Q.21). Ramesh, Suresh and Dinesh were partners sharing profits and losses in the ratio of 3:2 :1. Dinesh died on 1st May, 2024 on which date the capitals of Ramesh, Suresh and Dinesh after all necessary adjustments stood at ₹ 1,20,000, ₹ 80,000 and ₹ 50,000 respectively. Ramesh and Suresh decide to carry on the business for 8 months without settling the account of Dinesh. During the period of 8 months ended 31 st December, 2024, profit of ₹ 40,000 is earned by the firm.

State which of the two options available with Dinesh's Executor under Section 37 of the Indian Partnership Act, 1932 should be exercised.

Also calculate the total amount payable to Dinesh's Executor if Ramesh and Suresh clear the dues of Dinesh on 31st December, 2024

[[Ans.: Dinesh's Executor has the following options:

(i) Interest @ 6% p.a. on balance amount = ₹ 50,000 × 6/100 × 8/12 = ₹ 2,000;

(ii) Share in profit earned proportionate to his amount outstanding to total capital

₹ 50,000/₹ 2,50,000* × ₹ 40,000 = ₹ 8,000

***₹ 2,50,000 = ₹ 1,20,000 + ₹ 80,000 + ₹ 50,000**

Dinesh's Executor should exercise option (ii),

Total amount payable to Dinesh's Executor = ₹ 50,000 + ₹ 8,000 = ₹ 58,000.]

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Questions

Q.22). A, B, C and D were partners sharing profits in the ratio of 1 : 2 : 3 : 4. D die and his share was acquired by A and B equally. Goodwill was valued at 3 years' purchase of average profits of last 4 years, which were ₹40,000. General Reserve showed a balance of ₹1,30,000 and D's Capital in the Balance Sheet was ₹3,00,000 at the time of D's death. You are required to record necessary Journal entries in the books of the firm and prepare D's Capital Account on his death.

[Ans.: .]

COMMERCE RAMA

END OF CONCEPT.NO-8

END OF CHAPTER-6.
DEATH OF A PARTNER