Death of a Partner

A partnership firm is a type of organisation that is established by two or more individuals with a common objective of revenue generation. The organisation witnesses changes in certain events such as admission of a new partner, retirement or death of an existing partner. In the event of death of a partner, the structure of the partnership is changed in the same way as when a partner retires. The impact of such a change is discussed in this article.

Treatment of Reserves, Accumulated Profits and Accumulated Losses in the Case of Death of a Partner	
Reserves, Existing Goodwill, accumulated profits/losses appearing in the Balance Sheet of the firm at the time of death of a new partner belong to all partners including the retiring or deceased partner. Hence these should be distributed among all the partners in their old profit sharing ratio.	
Following Journal Entries Are Required to Be Passed:	
(1) Distribution of Existing Goodwill	***All Partners' Capital A/c Dr.*** ***To Goodwill A/c***
(2) Distribution of Reserves	***Reserve fund/General Reserve A/c Dr.*** ***To All Partners' Capital A/c***
(3) Distribution of Accumulated Losses	***All Partners' Capital A/c Dr.*** ***To Profit & Loss A/c***
(4) Distribution of Accumulated Profits	***Profit & Loss A/c Dr.*** ***To All Partners' Capital A/c***

What is Deceased Partner?

According to the Indian Partnership Act, 1932. Deceased partner is one who has discontinued the partnership due to his death. A contract between the partners of the enterprise is not dissolved by the death of a partner, the estate of a dead partner is not responsible for any act of the enterprise done after his death.

The accounting treatment in the occurrence of death of a partner is :

- Similar to that, when a partner retires and that in case of deceased partner his belonging is transferred to his legal enforcers and settled in a similar way as that of the partner who retires
- However, there is one primary distinction, the retirement usually takes place during the closure of an accounting period or financial year, the death of a partner may take place any time
- Therefore, in the case of a partner, his rights shall also incorporate his share of gains or loss, interest on drawings (if any), interest on capital from the last date of the

Balance Sheet to the date of his death of these, the main issue associates to the computation of profit for a moderate period

- Since, it is contemplated burdensome to close the books and outline final a/c, for the period, the dead partner's share of profit may be computed on the ground of previous year's gain (or aggregate of past few years) or on the base of sales

<table>
<tr><td colspan="2">(a) Linking Death of a Partner With Retirement of a Partner</td></tr>
<tr><td>(a) Common accounting treatment in case of Retirement of a Partner and Death of a Partner:</td><td>(Assuming retirement to be on the date of Balance Sheet)
Partners Capital Balance
Existing goodwill
Partner's share in the present value of Firm's Goodwill
Revaluation Profit or Loss
Reserves, Surplus and Fictitious Assets
Drawings made by the partner
Asset/Liability taken over by a partner
Partner's Loan given on Assets side or Liabilities side</td></tr>
<tr><td>(b) Special accounting treatments required in case of Death of a Partner only:</td><td>Salary/Commission to a Partner
Interest on Capital
Interest on Drawings
Interest on Loan
Share in current year's Profits</td></tr>
<tr><td colspan="2">Accounting treatments at the time of Death of a Partner is an extension of the Retirement of a Partner. In the above-mentioned list, treatment of category 'A' items is exactly the same both for retirement & death. There will be no effect of date of death.
But for the treatment of category 'B' items date of death plays a very important role.</td></tr>
<tr><td colspan="2">(B) Calculation of Category 'b' Items:</td></tr>
<tr><td>i. Salary to the deceased partner:</td><td>Monthly Salary x Time Period
Commission as per the agreement for this period only (if any).
Time Period = Period from the date of last Balance Sheet to the date of Death
{This period can be in months, weeks or days.}</td></tr>
<tr><td>(B) Calculation of Category 'b' Items:</td><td>Capital Balance as per the last Balance Sheet x Rate of Int./100× Time Period/12</td></tr>
</table>

iii. Interest on Drawings	• We'll use the rules of Interest on Drawings learned earlier and of course, keep in mind the 'Time Period'.
iv. Interest on Loan	• Amount of Loan as per the last Balance Sheet x Rate of Int./100× Time Period/12
v. Share in Current Year's Profits	• To compute the deceased partner's share in estimated profits there are following two approaches/basis: • Time Basis – Under this approach his profit share for the current year is computed on the basis of last year's profit or last few years' average profits. • Formula:Last Year's Profit × Time Period/12 × Deceased Partner's Share Or Average Profits × Time Period/12 × Deceased Partner's Share • Turnover Basis– In this case, his profit share for the current year is estimated using last year's sales and last year's profits. • Formula: Step 1. Compute Profits % of last year: Last Year's Profit/Last Year's Sales × 100 Step 2. Firm's estimated profit till the date of death: Current Year's Sales up to the date of death × Profit % Step 3. Decease Partner's share Firm's Profit as per Step 2 × Deceased Partner's ratio