



Q4. Discuss the various methods of computing the share in profits in the event of death of a partner?

Sol: A deceased partner's share of profits can be calculated on any of the following basis depending on the agreement between partners.

1. On the basis of time:

Profit up to the date of the death of the partner is calculated on the basis of last year's profit or average profit of last few years. In this approach, it is assumed that the profit will be uniform throughout the current year. The deceased partner will be entitled to the share of the profit proportionately up to the date of his/her death.

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Share of Deceased Partner in Profit =

Example:

L, M and N are equal partners. The profit of the firm for the years 2013, 2014 and 2015 are Rs 20,00,000, Rs 14,00,000 and Rs 26,00,000, respectively. N dies on 31 March 2016. The share of N in the firm's profit will be calculated on the basis of the average profit of the last three years. The firm closes its books every year on 31 December.

In this case, N's share in the profits will be calculated for four months, i.e. from 1 January 2016 to 31 March 2016.

2. On the basis of sale: Profit is calculated on the basis of last year's sale. In this situation, it is assumed that the net profit margin of the current year's sale is similar to that of the last year.

Example: P, Q and R are equal partners. Sales for the previous year and the profits were Rs 12,50,000 and Rs 1,25,000. R died on 30 June 2015. Sale of the current year till the date of R's death amounted to Rs 6,00,000. The firm closes its books on 31 December every year.

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