

RETIREMENT AND DEATH OF A PARTNER

1. An existing partner may wish to withdraw from a firm for various reasons.
2. The amount due to a retiring partner will be the total of :-
 - a. His capital in the firm
 - b. His share in firm's accumulated profits and losses.
 - c. His share of profit or loss on revaluation of assets and liabilities
 - d. His share of profits till the date of retirement
 - e. His remuneration and interest on capital.
 - f. His share in firm's goodwill.
3. The ratio in which the continuing (remaining) partners have acquired the share from the outgoing partner is called gaining ratio.

GAIN RATIO = NEW RATIO – OLD RATIO

4. Share of goodwill of outgoing partner will be debited to gaining partners in their gaining ratio.
 - i. When goodwill already appear in the books of firm

Old Partners' capital A/c Dr.

To goodwill A/c

(old profit sharing ratio)
 - ii. Share of retire partner in goodwill

Gaining partners' capital A/c Dr.

To Retiring partner's capital A/c

(Gain Ratio)

5. At the retirement of a partner Profit & Loss on Revaluation of Assets and liabilities and balances of accumulated Profits and losses will be distributed among all partners (including outgoing partner) in their old ratio.
6. The outstanding balance of outgoing partner's capital A/c may be settled by fully or partly payment and (or) transferring into his loan account.

- i. When payment is made in lump sum

Retire partner capital A/c Dr.

To Cash/Bank A/c

- ii. When payment is made in installment.

(a) Share of retire partner's transfer to his loan account

Retire partner's capital account Dr

To Retire partner's loan account.

(b) When interest on Loan due

Interest A/c Dr

To Retire partner's loan A/c

(c) When Installment paid

Retire partner's loan A/c Dr.

To Cash/Bank A/c

TUTORIAL NOTE: As per the Partnership Act 1932 of Sec. 37 when agreement is not made between partners. Following two option available for settlement of amount of retire/ deceased partners.

1. When rate of interest on loan of retire partner not given than @ 6% interest allowed till final settlement.

2. To get that portion of profit, which has been earned by the firm with the help

of amount payable to the executors of the deceased partner.

1 AND 3 MARKS QUESTIONS

Q.1 What is meant by retirement of a partner?

Ans. Retirement of a partner is one of the modes of reconstituting the firm in which old partnership comes to an end and a new partner among the continuing (remaining) partners (i.e., partners other than the outgoing partner) comes into existence.

Q.2 'How can a partner retire from the firm?

Ans. A partner may retire from the firm;

- i) In accordance with the terms of agreement; or
- ii) With the consent of all other partners; or
- iii) Where the partnership is at will, by giving a notice in writing to all the partners of his intention to retire.

Q.3 What do you understand by 'Gaining Ratio'?

Ans. Gaining Ratio means the ratio by which the share in profit stands increased. It is computed by deducting old ratio from the new ratio.

Q.4 What do you understand by 'Gaining Partner'?

Ans. Gaining Partner is a partner whose share in profit stands increased as a result of change in partnership.

Q.5 Give two circumstances in which gaining ratio is computed.

Ans. Gaining Ratio is computed in the following circumstances: (i) When a partner retires or dies. (ii) When there is a change in profit-sharing ratio.

Q.6 Why is it necessary to revalue assets and reassess liabilities at the time of retirement of a partner?

Ans. At the time of retirement or death of a partner, assets are revalued and liabilities are reassessed so that the profit or loss arising on account of such revaluation up to the date of retirement or death of a partner may be ascertained and adjusted in all partners' capital accounts in their old profit-sharing ratio.

Q.7 Why is it necessary to distribute Reserves Accumulated, Profits and Losses at the time of retirement or death of a partner?

Ans. Reserves, accumulated profits and losses existing in the books of account as on the date of retirement or death are transferred to the Capital Accounts (or Current Accounts) of all the partners (including outgoing or deceased partner) in their old profit-sharing ratio so that the due share of an outgoing partner in reserves, accumulated profits/losses gets adjusted in his Capital or Current Account.

Q.8 What are the adjustments required on the retirement or death of a partner?

Ans. At the time of the retirement or death of a partner, adjustments are made for the following:

(i) Adjustment in regard to goodwill.

(ii) Adjustment in regard to revaluation of assets and reassessment of liabilities.

(iii) Adjustment in regard to undistributed profits.

(iv) Adjustment in regard to the Joint Life Policy and individual policies.

Q.9 X wants to retire from the firm. The profit on revaluation of assets on the date of retirement is Rs. 10,000. X is of the view that it be distributed among all the partners in their profit-sharing ratio whereas Y and Z are of the view that this profit be divided between Y and Z in new profit-sharing ratio. Who is correct in this case?

Q.10 How is goodwill adjusted in the books of a firm -when a partner retires from partnership?

To Retiring/Deceased Partner's Capital A/c [With his share of goodwill]

All Partners' Capital/Current A/c ...Dr. [Old Ratio]

Q.11 X, Y and Z are partners sharing profits and losses in the ratio of 3 : 2 : 1. Z retires and the following Journal entry is passed in respect of Goodwill:

The value of goodwill is Rs. 60,000. What is the new profit-sharing ratio between X and Y?

Ans. Without calculating the gaining ratio, the amount to be adjusted in respect of goodwill can be calculated directly with the help of following statement:

STATEMENT SHOWING THE REQUIRED ADJUSTMENT FOR GOODWILL

Particulars	X(Rs.)	V(Rs.)	Z(Rs.)
Right of goodwill before retirement (3:2:1)	30,000	20,000	10,000
(Old Ratio) Right of goodwill after retirement	20,000	40,000	—
(Balancing Figure) (New Ratio)			
Net Adjustment	(-) 10,000	(+) 20,000	(-) 10,000

The new ratio between X and Y is 1 : 2.

Q.12 State the ratio in which profit or loss on revaluation will be shared by the partners when a partner retires. ;

Ans. Profit or loss on revaluation of assets/liabilities will be shared by the partners (including the retiring partner) in their old profit-sharing ratio.

Q.13 How is the account of retiring partner settled?

Ans. The retiring partner account is settled either by making payment in cash or by promising the retiring partner to pay in installments along with interest or by making payment partly in cash and partly transferring to his loan account. The following Journal entry is passed:

Retiring Partner's Capital A/c ...Dr.

To Cash* [If paid in cash] Or

To Retiring Partner's Loan [If transferred to loan]

14. Aparna, Manisha and Sonia are partners sharing profits in the ratio of 3:2:1. Manisha retires and goodwill of the firm is valued at Rs. 1,80,000. Aparna and Sonia decided to share future in the ratio of 3:2. Pass necessary Journal entries.

Journal

Aparna's Capital A/c	Dr.	18,000
Sonia's Capital A/c	Dr.	42,000
To Manisha's Capital A/c		60,000

(Goodwill credited to Manisha's capital and debited to continuing partners' capitals in the gaining ratio)

(3)

15. Give the journal entry to distribute the Workmen's Compensation Reserve of Rs. 60000 at the time of retirement of Sajjan. The firm has three partners viz. Rajat Sajjan and Kavita:

- When there is no claim against the Workmen's Compensation Reserve .
- When there is a liability of RS. 24000 against Workmen's Compensation Reserve.
- When there is a liability of Rs 75000 against Workmen's Compensation Reserve.

JOURNAL:

a) Workmen's Compensation Reserve Dr	60000
To Rajat	20000
To Sajjan	20000
To Kavita	20000
b) Workmen's Compensation Reserve Dr	36000
To Rajat	12000

To Sajjan	12000
To Kavita	12000
c) Revaluation Dr.	15000
To Workmen's Compensation Reserve	15000

16. P, Q and R are partners sharing in the ratio of 3:2:1. The partnership deed provides that in the event of the death of any partner, profit of the previous year will be the basis of calculation of share of profit till the date of death of the deceased partner. The profit for the year ending 31-3-2016 was RS. 48000. Q died. Pass necessary journal entry to record the deceased partner's share of profits:

- If the continuing partners decide to acquire the deceased partner's share equally
- If the continuing partners decide to share future profits in the ratio of 3:1

JOURNAL:

a) P Dr	2000.
R Dr	2000
To Q	4000
b) P/L Suspense Dr	4000
To Q	4000

Or

c) P Dr	3000.
R Dr	1000
To Q	4000

17. X, Y and Z are partners sharing in the ratio of 4: 3:2. X retires and his share is taken up by Y and Z in the ratio of 2:1. Find out the new ratio and the gaining ratio.

Y's new share $\frac{3}{9} + (\frac{4}{9} \times \frac{2}{3})$

Z's New Share $\frac{2}{9} + (\frac{4}{9} \times \frac{1}{3})$

NPSR 17:10

GR 2:1

18. X, Y and Z are partners sharing profits in the ratio of 5: 3:2. Y retires selling his share to X and Z for Rs. 30000. Rs 20000 being paid by X and Rs. 10000 paid by Z. The profit for the year after Y's retirement is Rs. 49000. X and Z bring necessary amount in cash and Y is paid off. Pass necessary journal entries to:

a) Record the sale of Y's share to X and Z

b) Distribute the profit between X and Z.

JOURNAL:

Cash A/c Dr. 30000

To X 20000

To Z 10000

Y 30000

To Cash 30000

P/l App Dr. 49000

To X 34300

To Z 14700

19. Amit, Balan and Chander were partners in a firm sharing in the ratio of $\frac{1}{2}$, $\frac{1}{3}$ and $\frac{1}{6}$ respectively. Chander retired on 1-4-2015. The Balance Sheet of the firm on the date of Chander's retirement was as follows:

Balance Sheet of Amit, Balan And Chander as on 1-4-2014

Liabilities	Rs	Assets	Rs
Sundry creditors	12600	Bank	4100
Provident fund	3000	Debtors: 30000	29000
		Less Prov 1000	
General reserve	9000	Stock	25000
Capitals		Investments	10000
Amit	40000	Patents	5000
Balan	36500	Machinery	48000
Chander	20000		
	121100		121100

It was agreed:

- Goodwill will be valued at Rs. 27000
- Depreciation of 10% was to be provided on machinery
- Patents were to be reduced by 20%
- Liability on account of Provident Fund was estimated at Rs. 2400
- Chander took over investment for Rs. 15800
- Amit and Balan decided to adjust their capitals in proportion of their profit sharing ratio by opening current accounts.

SOLUTION:

REVALUATION ACCOUNT

Particulars	Amount	Particulars	Amount
To Machinery	4800	By Provident fund	600
To Patents	1000	By investment	5800
TO Profit			

Amit	300		
Balan	200		
Chander	100		
	6400		6400

PATNER'S CAPITAL ACCOUNT

Particulars	Amit	Balan	Chander	Particulars	Amit	Balan	Chander
To Chander	2700	1800		By Bal	40000	36500	20000
To Inv			15800	By GR	4500	300	1500
To Chander's Loan			10300	By Amit			2700
To Balan's current a/c		5900		By Balan			1800
To Bal c/d	48000	32000		By Reval	300	200	100
				By Aimt's Current a/c	5900		
	50700	39700	26100		50700	39700	26100

20. The Balance Sheet of A, B and C on 31st December 2007 was as under :

BALANCE SHEET as at 31.12.2007

Liabilities Rs.	Amount Rs.	Assets	Amount
A's Capital	40,000	Buildings	20,000
B's Capital	30,000	Motor Car	18,000
C's Capital	20,000	Stock	20,000
General Reserve	17,000	Investments	1,20,000
Sundry Creditors	1,23,000	Debtors	40,000
		Patents	12,000
	2,30,000		2,30,000

The partners share profits in the ratio of 8 : 4 : 5. C retires from the firm on the same date subject to the following terms and conditions:

- i) 20% of the General Reserve is to remain as a reserve for bad and doubtful debts.
- ii) Motor Car is to be decreased by 5%.
- iii) Stock is to be revalued at Rs.17, 500.
- iv) Goodwill is valued at' 2 ½ years purchase of the average profits of last 3 years.

Profits were; 2001: Rs.11,000; 2001: Rs. 16,000 and 2003: Rs.24,000.

C was paid in July, A and B borrowed the necessary amount from the Bank on the security of Motor Car and stock to payoff C.

Prepare Revaluation Account, Capital Accounts and Balance Sheet of A and B.

Ans. SOLUTION

REVALUATION ACCOUNT

Particulars	Rs.	Particulars	Rs.
To Motor Cars A/C	900	By Loss transferred to	
To Stock A/C	2,500	A's Capital A/c	Rs.1,600
		B's Capital A/c	Rs.800
		C's Capital A/c	1,000
			3400
	3,400		3,400

PARTNERS CAPITAL ACCOUNT

Particulars	A Rs.	B Rs.	C Rs.	Particulars	A Rs.	B Rs.	C Rs.
To C's Capital A/c	8,334	4,166	-	By Balance b/d	40,000	30,000	20,000
To Revaluation A/c (Loss)	1,600	800	1,000	By General Res. A/c	6,400	3,200	4,000
To Bank A/c	-	-	35,500	By A's Capital A/c	-	-	8,334
To Balance c/d	36,466	28,234	-	By B's Capital A/c	-	-	4,166

46,400	33,200	36,500	46,400	33,200	36,500
By Balance b/d			36,466	28,234	-

1.

BALANCE SHEET OF A AND B

Liabilities	Rs.	Assets	Rs.
Sundry creditors	1,23,000	Building	20,000
Bank Loan	35,500	Motor Card	17,100
Capital A	36,466	Stock	17,500
B <u>28,234</u>	64,700	Investment	1,20,000
		Debtors	36,600
		Patents	12,000
	2,23,200		2,23,200

21. A, Band C were partners in a firm sharing profits equally: Their Balance Sheet on.31.12.2007 stood as:

BALANCE SHEET AS AT 31.12.07

Liabilities	Rs.	Assets	Rs.
A	Rs. 30,000	Goodwill	18,000
B	Rs. 30,000	Cash	38,000
C	<u>Rs. 25,000</u>	Debtors	43,000
Bills payable	20,000	Less: Bad Debt provision	<u>3,000</u> 40,000
Creditors	18,000	Bills Receivable	25,000
Workers Compensation Fund	8,000	Land and Building	60,000
Employees provide4nt Fund	60,000	Plant and Machinery	40,000
General Reserve	30,000		
	2,21,000		2,21,000

It was mutually agreed that C will retire from partnership and for this purpose following terms were agreed upon.

- i) Goodwill to be valued on 3 years' purchase of average profit of last 4 years which were 2004 : Rs.50,000 (loss); 2005 : Rs. 21,000; 2006: Rs.52,000; 2007 : Rs.22,000.
- ii) The Provision for Doubtful Debt was raised to Rs. 4,000.
- iii) To appreciate Land by 15%.
- iv) To decrease Plant and Machinery by 10%.
- v) Create provision of Rs.;600 on Creditors.
- vi) A sum of Rs.5,000 of Bills Payable was not likely to be claimed.
- vii) The continuing partners decided to show the firm's capital at 1,00,000 which would be in their new profit sharing ratio which is 2:3. Adjustments to be made in cash

Make necessary accounts and prepare the Balance Sheet of the new partners.

Ans.

REVALUATION ACCOUNT

Particulars	Rs.	Particulars	Rs.
To Provision for Debts A/c	1,000	By Land A/c	9,000
To Plant & Machinery A/c	4,000	By Provision on Creditors A/c	600
To Profit transferred to		By Bills Payable A/c	5,000
A's Capital A/c	Rs. 3,200		
B's Capital A/c	Rs. 3,200		
C's Capital A/c	Rs. 3,200		9,600
	14,600		14,600

PARTNER'S CAPITAL ACCOUNTS

Particulars	ARs.	BRs.	CRs.	Particulars	A Rs.	B Rs.	C Rs.
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To Goodwill A/c	6,000	6,000	6,000	By Balance b/d	30,000	30,000	25,000
To C's Capital A/c	2,250	9,000	-	By General Reserve	10,000	10,000	10,000
To C's Loan A/c	-	-	46,116	By Workmen A/c	2,667	2,667	2,666
Compensation Fund							
To Balance c/d	40,000	60,000	-	By Revalu A/c (profit)	3,200	3,200	3,200
				By A's Capital A/c	-	-	2,250
				By B's Capital A/c	-	-	9,000
				By Cash A/c (Deficiency)	2,383	29,133	-
48,250				75,000	52,116	48,250	75,000
				By Balance b/d	40,000	60,000	-

BALANCE SHEET as at 31.12.07

Liabilities	Rs.	Assets	Rs.
Bills Payable	15,000	Debtors	43,000
Creditors	17,400	Less: Provision	<u>4,000</u> 39,000
Employees Provident Fund	25,000	60,000	Bills Receivables
C's Loan	46,116	Land & Buildings	69,000
A's Capital	40,000	Plant & Machinery	36,000
B'S Capital	<u>60,000</u> 1,00,000	Cash	69,516
	2,38,516		2,38,516

22. Himanshu, Gagan and Naman are partners sharing profits and losses in the ratio of 3:2:1 on March 31, 2007, Naman retires

The various assets and liabilities of the firm on the date were as follows:

Cash Rs. 10,000, Building Rs. 1,00,000, Plant and Machinery Rs. 40,000, Stock Rs. 20,000, Debtors Rs. 20,000 and Investments Rs. 30,000.

The following was agreed upon between the partners on Naman's retirement:

- (i) Building to be appreciated by 20%.
- (ii) Plant and Machinery to be depreciated by 10%.

- (iii) A provision of 5% on debtors to be created for bad and doubtful debts.
- (iv) Stock was to be valued at Rs.18,000 and Investment at Rs. 35,000.

Record the necessary Journal entries to the above effect and prepare the revaluation account.

(Ans. Revaluation A/c = Rs. 18,000)

23. Pankaj, Naresh and Saurabh are partners sharing profits in the ratio of 3:2:1.

Naresh retired from the firm due to his illness. On that date the Balance sheet of the firm was as follows:

Balance sheet as on March 31st 2013

Liabilities	Amount	Assets	Amount
General Reserve	12,000	Bank	7,600
Sundry Creditors	15,000	Debtors 6,000	
Bills Payable	12,000	Less: Provision for D.debts	5,600
Outstanding Salary	2,200	4,00	9,000
Provision for legal damages	6,000	Stock	41,000
Capitals		Furniture	80,000
Pankaj 46,000		Premises	
Naresh 30,000	96,000		
Saurabh 20,000			
	1,43,200		1,43,200

Additional Information:

- (i) Premises have appreciated by 20% ,Stock depreciated by 10% and provision for doubtful debts was to be made 5% on debtors. Further, provision for legal damages is to be made for Rs. 1,200 and furniture to be brought up to Rs. 45,000.
- (ii) Goodwill of the firm be valued at RS. 42,000.
- (iii) Rs.26,000 from Naresh's Capital Account be transferred to his loan account and balance be paid through bank; if required, necessary loan may be obtained from bank.
- (iv) New profit sharing ratio of Pankaj and Saurabh is decided to be 5:1.

Give the necessary ledger accounts and Balance Sheet of the firm after Naresh's retirement.

(Ans. Revaluation A/c – Rs. 18,000; Balance Sheet – 1,54,000)

24. Find out missing figures of the following financial statements of Partnership firm.
(Chapter-5-Retirement/Death of a Partner)

Revaluation Account			
Particulars	Amount Rs.	Particulars	Amount Rs.
To Provision for Doubtful Debts A/c	10,000	By Computer Account	24,000
To warranty Claim A/c	(a)	By Land and Building	1,00,000
To Provision for outstanding Repairs A/c	30,000		
To Profit transferred to :			
A's Capital A/c			
(b)			
B's Capital A/c	(c)		
C's Capital A/c	(d)		
	1,24,000		1,24,000

Partners' Capital Accounts							
Particulars	A	B	C	Particulars	A	B	C
To B's Capital	(i)	Nil	(j)	By Balance B/d	(f)	(g)	(h)
(Goodwill)				By capital a/cs:			
To Bank	Nil	1,00,0	Nil	A		90,000	

		00					
To B's Loan A/c	Nil	6,40,000	Nil	C		30,000	
To Bal C/d	8,40,000	Nil	2,80,000	By Revaluation A/c	30,000	20,000	10,000
					9,30,000	7,40,000	3,10,000

Balance Sheet after retirement			
Liabilities	Amount Rs.	Assets	Amount Rs.
Creditors	2,16,000	Cash at Bank	56,000
Provision for outstanding repairs	(m)	Debtors	2,00,000
Warranty claim	24,000	Less: Provision for Bad Debts (k)	(l)
B's Loan	6,40,000	Stock	1,80,000
Capital A/cs		Computer	24,000
A 8,40,000		Machinery	4,80,000
C 2,80,000	11,20,000	Land and Building	
		10,00,000	
		Less : Appreciation	11,00,000
		1,00,000	0
	20,30,000		20,30,000

Ans. (a) 24,000 (b)30,000 (c)20,000 (d)10,000 (e)60,000 (f)9,00,000
 (g)6,00,000 (h)3,00,000 (i)90,000(j)30,000(k)
 10,000(l)1,90,000(m)30,000.

25. Ajay, Vijay and Naresh were partners sharing profits in the proportions of $\frac{1}{2}$, $\frac{1}{3}$ and $\frac{1}{6}$ respectively. The balance sheet of the firm on 31st March 1998 was as follows

Balance sheet as on 31st March 1998

Liabilities	Amount	Assets	Amount
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	Rs.		Rs.
Sundry Creditors a/c	17000	Cash at Bank	10000
Provident fund	13000	Debtors 40000 Less Provision 1000	39000
Reserve Fund	18000	Stock	15000
Capitals		Investment	16000
Ajay	40000		
Vijay	30000		
Naresh	20000		
		Patents	8000
		Plant & Machinery	50000
	138000		138000

Naresh retired on the above date on the following terms.

1. Goodwill of the firm was valued at Rs.42, 000 but it was not to remain in the books of the new firm.
2. Value of the patents was to be reduced by 20% and that of plant and machinery by 10%
3. Naresh took over the investments at a value of Rs 17800
4. Provision for doubtful debts was to be raised to 6%.

Liability on account of provident fund was only Rs 12,600

Show the journal entries for the treatment of goodwill, Prepare Revaluation a/c, Capital a/c of the partners and the balance sheet of Ajay and Vijay after Naresh's retirement.

SOLUTION

Journal

Date	Particulars	LF	Amount Rs	Amount Rs.
1.	Goodwill a/c Dr. To Ajay's Capital a/c To Vijay's Capital a/c To Naresh's Capital a/c (Being goodwill raised at its present value)		42000	21000 14000 7000
2.	Ajay's Capital a/c Dr Vijay's Capital a/c Dr To Goodwill a/c (Being goodwill written off in new ratio 3:2)		25200 16800	42000

Revaluation account

Particulars	Amount Rs	Particulars	Amount Rs.
To Patents	1600	By Investment	1800

To Plant & Machinery	5000	By Loss on Revaluation trfd to capital a/c Ajay 3100 Vijay 2067 Naresh 1033	6200
To Provision for doubtful debts	1400		
	8000		8000

Partner's Capital account

Particulars	Ajay Rs.	Vijay Rs.	Nares h Rs.	Particulars	Ajay Rs.	Vijay Rs.	Nares h Rs.
To Revaluation a/c	3100	2067	1033	By balance b/d	40000	30000	20000
To Goodwill a/c	25200	16800	17800	By General Reserve	9000	6000	3000
To balance c/d	41900	31266		By Provident Fund a/c	200	133	67
To Naresh's Loan a/c			11234	By Goodwill a/c	21000	14000	7000
	70200	50133	30067		70200	50133	30067

Balance Sheet(After Naresh's death)

Liabilities	Amount	Assets	Amount

	Rs.		Rs.
Sundry creditors	17000	Cash at bank	10000
Provident Fund	12600	Debtors 40000	
		Less Provision for	
Naresh's loan	11234	Doubtful debts 2400	37600
Capitals		Stock	15000
Ajay 41900			
Vijay 31266	73166		
		Patents	6400
		Plant and Machinery	45000
	114000		