

Retirement or Death of a Partner

- Retirement of a Partner: A partner has the right to retire from the firm after giving due notice in advance.
- A retiring partner is entitled to get the following:
 - (i) Retiring partner's share of goodwill is credited to his capital account.
 - (ii) Retiring partner's share of reserves is also credited to his capital account.
 - (iii) Asset and liability is revalued at the time of retirement, then profit is credited or loss is debited in his capital account.
- Accounting problems arises at the time of retirement
 - 1) Calculation of new PSR and gaining ratio of the remaining / continuing partners.
 - 2) Treatment of goodwill.
 - 3) Treatment of revaluation
 - 4) Treatment of reserves, accumulated profits and losses.
 - 5) Payment of retiring partner.
 - 6) Adjustments of capitals.



1) CALCULATION OF NEW PROFIT SHARING RATIO

Case-1

If the new profit sharing ratios of the remaining old partners are not given in the question, it will be assumed that the remaining partners continue to share profits and losses in OR.

Illustration 2.

(i) Ratio of A, B & C = $\frac{1}{2} : \frac{1}{3} : \frac{1}{6} = 3:2:1$

$\therefore$ If B retires, ratio of A and C
 $= 3:1$

(ii) Ratio of P, Q & R = $\frac{1}{2} : \frac{2}{5} : \frac{1}{10} = 5:4:1$

$\therefore$ If P retires, ratio of Q and R
 $= 4:1$

Case-2

Sometimes the remaining partners purchase the share of retiring partner in some specified proportions. In such cases the fraction of shares purchased by them is added to their old share and new ratio is calculated.

Illustration 4.

C's share will be divided between A & B in 3:2

A will gain $\rightarrow \frac{3}{5} \times \frac{3}{12} = \frac{9}{60}$

$\therefore$ A's new share = $\frac{5}{12} + \frac{9}{60} = \frac{34}{60}$

B will gain $\rightarrow \frac{2}{5} \times \frac{3}{12} = \frac{6}{60}$



$$\therefore B's \text{ new share} = \frac{4}{12} + \frac{6}{60} = \frac{26}{60}$$

$$\text{New Ratio of A \& B} = \frac{36}{60} : \frac{26}{60}$$

$$= 17:13$$

Illustration 6.

Ratio of P, Q & R = 5:3:2

R retires and share is taken by P

$$\text{Share taken by P from R} = \frac{2}{10}$$

$$\therefore P's \text{ new share} = \frac{5}{10} + \frac{2}{10} = \frac{7}{10}$$

$$Q's \text{ new share} = \frac{3}{10} \text{ (unchanged)}$$

$$\text{New ratio of P \& Q} = 7:3$$

➤ Calculation of gaining ratio

- **Gaining Ratio:** It's a ratio in which the remaining partners share is increases. It is calculated when a partner retires or dies.

• Calculation of gaining ratio

- If new profit sharing ratio of remaining partner is not given, it will assume to share profits in OR. If new profit sharing ratio is given of remaining partners, we will calculate gaining ratio.

$$\text{Gaining ratio} = \text{New ratio} - \text{Old ratio}$$

BASIS	SACRIFICING RATIO	GAINING RATIO
MEANING	It's ratio in which the old partners surrender a part of their share in favour of new partner.	It's a ratio in which remaining partners acquire the outgoing (retire/death) partner's share.
WHEN CALCULATED	Calculated at the time of admission of new partner.	Calculated at the time of retirement/death of partner.
FORMULA	$SR = OR - NR$	$GR = NR - OR$
PURPOSE OF CALCULATION	New partner's share of goodwill is divided between the old partners in sacrificing ratio.	Goodwill paid to retiring partner is paid by the remaining partners in their gaining ratio.

2)

TREATMENT OF GOODWILL

The retiring partner is entitled to his share of goodwill at the time of retirement/death because the goodwill earned by the firm is the result of the efforts of all existing partners in the past.

Case 1: When goodwill A/C is not appeared in the books.

Gaining/continuing partner's capital A/C Dr.
 To retiring/sacrificing partners
 (retiring partner's share of goodwill is adjusted in to gaining partners in gaining ratio)

Case 2: When goodwill A/C is appeared in the books.

All partner's capital A/C Dr.
 To goodwill A/C
 (goodwill existing in the books is written off)



Case 3: Hidden Goodwill

Retiring partner's share of goodwill = Total payment to retiring partners - Retiring partner's adjusted capital final balance.

Ques- A, B and C are 3:2:1 partners. B retires and at the time of retirement

① Existing goodwill was ₹ 60,000

② Non-existing goodwill was ₹ 1,80,000

Pass journal entries.

Ans ①

A's capital A/c	Dr.	30,000
B's capital A/c	Dr.	20,000
C's capital A/c	Dr.	10,000

To goodwill A/c 60,000

(Existing goodwill is written off)

② Gaining ratio = 3:1.

A's capital A/c Dr 45,000

C's capital A/c Dr. 15,000

To B's capital A/c $[180000 \times \frac{2}{6}]$ 60,000

(retiring partner's g/w is adjusted to gaining partner in gaining ratio)

Illustration 17.

Gaining ratio = NR - OR

$$A = \frac{3}{5} - \frac{3}{6} = \frac{18 - 15}{30} = \frac{3}{30}$$

$$C = \frac{2}{5} - \frac{1}{6} = \frac{12 - 5}{30} = \frac{7}{30}$$

$$\boxed{= 3:7}$$



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Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
	A's capital A/c Dr.		120000	
	B's capital A/c Dr.		80000	
	C's capital A/c Dr.		40000	
	To Goodwill A/c			240000
	(g/w existing in books written off in old ratio)			
	A's capital A/c Dr.		60000	
	B's capital A/c Dr.		140000	
	To B's capital A/c			200000
	(B's share of g/w adjusted to remaining partner's in 3:7)			

Illustration 24.

Gaining ratio

$$A = \frac{3}{6} - \frac{3}{10} = \frac{30-18}{60} = \frac{12}{60} \text{ (Gain)}$$

$$B = \frac{2}{6} - \frac{3}{10} = \frac{20-18}{60} = \frac{2}{60} \text{ (Gain)}$$

$$C = \frac{1}{6} - \frac{2}{10} = \frac{10-12}{60} = -\frac{2}{60} \text{ (Sacrifice)}$$

$$A's \text{ share of g/w} = 600000 \times \frac{12}{60} = ₹1,20,000$$

$$B's \text{ share of g/w} = 600000 \times \frac{2}{60} = ₹20,000$$

$$C's \text{ share of g/w} = 600000 \times \frac{2}{60} = ₹20,000$$

$$D's \text{ share of g/w} = 600000 \times \frac{2}{10} = ₹1,20,000$$



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Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
	A's capital A/c Dr.		135000	
	B's capital A/c Dr.		135000	
	C's capital A/c Dr.		90000	
	D's capital A/c Dr.		90000	
	To goodwill A/c			450000
	(existing g/w written off in old ratio 3:3:2:2)			
	A's capital A/c Dr.		120000	
	B's capital A/c Dr.		20000	
	To C's capital A/c			20000
	To D's capital A/c			120000
	(Adjustment of capita goodwill in D's retirement)			
	Profit & loss A/c Dr.		12,00,000	
	To A's capital A/c			600000
	To B's capital A/c			400000
	To C's capital A/c			200000
	(Profit distributed among partner's in new ratio 3:2:1)			

3/★

REVALUATION OF ASSETS AND LIABILITIES

- At the time of retirement the assets and liabilities are revalued and revaluation A/c is prepared in same way.
- The only difference is that in case of retirement any P&L due to revaluation is divided among all the partners, including retiring, whereas in case of admission, new partner does not share such profit and loss on revaluation.



★ ADJUSTMENT OF ACCUMULATED PROFITS & RESERVES

(i) For distributing Reserves and profits

General reserve A/c Dr.

Reserve fund A/c Dr.

Profit & loss (Gr. bal.) Dr.

To all partner's capital / current A/c (in OR)

(ii) For distributing accumulated losses.

Partner's capital / current A/c Dr. (in OR)

To Profit & loss A/c (Dr. bal.)

(iii) For distributing surplus of specific reserves.

Workmen's Compensation Reserve A/c Dr.

Investment Fluctuation Reserve A/c Dr.

To partner's capital / current A/c (in OR)

Illustration 28.

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Date	Particulars	L.F.	Dr. (£)	Cr. (£)
2019 March 31	A's capital A/c Dr.		16000	
	B's capital A/c Dr.		24000	
	C's capital A/c Dr.		32000	
	To Profit & loss A/c			72000
	(Loss transferred to capital A/c in OR on A's retirement)			
	Workmen Compensation Reserve Dr.		45000	
	To A's capital A/c			10000
	To B's capital A/c			15000
	To C's capital A/c			20000
	(WCR transferred to capital accounts in OR on A's retirement)			



General reserve A/c	Dr.	120 000	
To provision for doubtful debt A/c			30 000
			20 000
To A's capital A/c			30 000
To B's capital A/c			40 000
(25% of general reserve transferred to IFR and bal. transferred to capital A/c in old ratio)			

Illustration 30.

General reserve	120 000
+ contingency reserve	70 000
	<u>190 000</u>

- Profit & loss A/c (Dr. bal.)	30 000
	<u>160 000</u>

- Advertisement suspense A/c	10 000
	<u>150 000</u>

Calculation of gaining ratio

$$A = \frac{2}{5} - \frac{5}{10} = \frac{4 - 5}{10} = \frac{-1}{10} \text{ (Sacrifice)}$$

$$C = \frac{3}{5} - \frac{2}{10} = \frac{6 - 2}{10} = \frac{4}{10} \text{ (Gain)}$$

* C's capital A/c	Dr.	60 000	
To B's capital A/c			45 000
To A's capital A/c			15 000
(Adjustment made for accumulated P&L on B's retirement)			



* ADJUSTMENTS OF CAPITALS

CASE 1 → When total capital of New firm is given

Step 1 → Divide the total capital as given in the New firm ratio of remaining partners. {To bal. c/d}

Step 2 → Any balance (surplus or deficiency) is adjusted through:

- (a) Cash A/c {if ques. is silent}
- (b) Current A/c if ques. is specifies

CASE 2 → When existing partners adjust their capitals in new ratio. {total capital of new firm is not given}

Step 1 → Total capital = Combined adjusted capital of remaining partners

Step 2 → Divide the above combined capital in new ratio.

Step 3 → Any balance is transferred to
① cash A/c or ② Current A/c

CASE 3 → When retiring partners is paid in cash brought in by remaining partners and also capital is to be adjusted

Step 1 → Total capital = Combined adjusted capital + Amount payable to retiring partner + Required Cash Balance - Existing Cash Balance



Step 2 → Divide the above total capital in New ratio

Step 3 → Adjust the balance through CASH A/C always.

Illustration 43.

Dr.		Revaluation A/C		Cr.	
Particulars	₹	Particulars	₹		
To machinery	50000	By land & building	240000		
To closing stock	100000	By sundry debtors	7000		
To provision doubtful debts	20350				
To profit					
Leena - 21900					
Madan - 21900					
Narish - 32850					
	76650				
	247000				247000

Dr.		Partner's Capital A/C			Cr.		
Particulars	Leena	Madan	Narish	Particulars	Leena	Madan	Narish
To deferred Expen.	28571	28571	42858	By bal. b/d	1250000	800000	1050000
To Madan's capital	160000	-	-	By revaluation	21900	21900	32850
To Narish capital	16000	-	-	By Leena's capi.	-	160000	16000
To Investment A/C	-	100000	-				
To Bills payable	-	853329	-				
To bal. c/d	1067329	-	1055992				
	1271900	981900	1098850		1271329	981900	1098850
To bal. c/d	1920000		1280000	By bal. b/d	1067329	-	1055992
				By bank A/C	852671		224008
	1920000		1280000		1920000		1280000



★ RETIREMENT AND SETTLEMENT OF LOAN

- (i) Retiring partner capital A/c Dr. — **PAID**
 To cash A/c
- (ii) Retiring partner capital A/c Dr. — **LOAN**
 To retiring partner loan A/c

Ques- On 1st april 2021, B retired & his share balance of ₹ 60,000 is transferred to his loan A/c. The balance ₹ 60,000 is to be repaid in three equal installments (annual) together with interest @ 10% p.a.

Ans-

1/04/21	31/03/21	31/03/22	31/03/23
B's loan 60000	20000 Int. 6000	20000 Int. 4000	20000 Int. 2000
	26000	24000	22000
	↑	↑	↑
	Firm will pay 1st installment	2nd installments	3rd installments

Illustration 48.

Dr.	Revaluation A/c		Cr.
Particulars	₹	Particulars	₹
To land & building	12000	By creditors	3000
		By loss transferred	
		Pihu's - 4500	
		Jeeta's - 3000	
		Nita's - 1500	9000
	12000		12000



Dr. Partner's Capital A/c				Cr.			
Particulars	Pihu	Greeta	Nita	Particulars	Pihu	Greeta	Nita
To Nita's capital	3000	6000	—	By bal. b/d	79000	70000	61000
To revaluation	4500	3000	1500	By general reserve	3900	2600	1300
To bank A/c	—	—	29800	By Pihu's capital	—	—	3000
To Nita's loan	—	—	40000	By Greeta's capital	—	—	6000
To bal. c/d	75400	63600	—				
	82900	72600	71300		82900	72600	71300

Dr. Nita's Loan A/c			Cr.		
Date	Particulars	₹	Date	Particulars	₹
2015 Sep. 30.	To bank A/c	12000	2015 April 1	By Nita's capital	40000
2016 March 31	To bank A/c	11500	Sep. 30	By interest A/c	2000
Mar. 31	To bal. c/d	20000	2016 Mar. 31	By interest A/c	1500
		43500			43500
2016 Sep. 30	To bank A/c	11000	2016 April 1	By bal. b/d	20000
2017 Mar. 31	To bank A/c	10500	Sep. 30	By interest A/c	1000
			2017 Mar. 31	By interest A/c	500
		21500			21500

Illustration 55.

Total capital

old capital of David	=	33000
old capital of Aslam	=	70500
Amount payable to Naresh	=	90500
		<u>194000</u>

New ratio of David & Aslam = 2:3

$$\begin{aligned} \text{David's new capital} &= \frac{2}{5} \times 194000 \\ &= 77600 \end{aligned}$$



$$\begin{aligned}\text{Aslam's new capital} &= \frac{3}{5} \times 135000 \\ &= 1,16,400\end{aligned}$$

∴ Amount to be brought by David & Aslam -

	D	A
New capital	77600	116400
- existing capital	33000	70500
	<u>44600</u>	<u>45900</u>

* Bank A/c Dr. 90500
 To David's capital A/c 44600
 To Aslam's capital A/c 45900
 (Amount brought in by continuing partners)

* Naresh's capital A/c Dr. 90500
 To Bank A/c 90500
 (Amount paid off to Naresh)

Illustration 58.

Amount agreed to be paid in full settlement = 150000
 — C's capital (after all adjustment) = 120000
 Hidden goodwill = 30000

• A's capital A/c Dr. 5000
 B's capital A/c Dr. 25000
 To C's capital A/c 30000
 (C's share of g/w adjusted to capital A/c of A & B in gaining ratio 1:5)