

Chapter 6 : Retirement of a Partner

Common Errors

1. Distribution of retiring partner's share of goodwill in old ratio instead of gaining ratio.
2. While passing journal entries, writing only Partners' name without mentioning Capital or Current Account.
3. In adjustment of capital questions, wrong calculation of closing cash balance due to wrongly adding or deducting cash brought in or withdrawn by the existing partners.
4. In adjustment of capital questions, forgetting to show Current Account balances in the balance sheet.
5. Wasting lot of precious time in tallying balance sheet totals, resulting in nervousness and loss of marks in subsequent questions.
6. In case Revaluation Account involves some increase in a new Liability or a new asset that is not there in the existing balance sheet, students forget to incorporate it in the new balance sheet.
7. Not transferring existing goodwill, reserves/surplus, advertisement suspense retiring partner's loan in Partners' Capital Accounts.
8. Not passing final settlement or loan entry in a question requiring journal entries.
9. Not reading the requirement of the question. Preparing ledger accounts in a question requiring journal entries.

1 Mark Questions

1. Can a retiring partner get share in the profits subsequent to his retirement profits?
2. How goodwill is recorded on the retirement of a partner?
3. Name three items that are credited to the account of a retiring partner.
4. What is the nature of the amount due to an outgoing partner?
5. Why are assets and liabilities revalued on the death or retirement of a partner?
6. Why is gaining ratio calculated?
7. Give one difference between sacrificing ratio and gaining ratio.
8. State the need for treatment of goodwill on retirement of a partner.
9. Is a Retiring Partner liable for firm's acts after his retirement?

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10. Give the two circumstances when gaining ratio may be applied.
11. Why is it necessary to distribute Accumulated Profits / Losses and Reserves at the time of retirement of a partner?
12. Why a retiring partner is entitled to a share of goodwill of the firm?

13. Calculate new profit sharing ratio and gaining ratio in the following cases:-

a) X, Y and Z are partners sharing profits and losses in the ratio of 3:4:5.

i) X retires ii) Y retires iii) Z retires

(Ans.: New Ratio/ Gaining Ratio: 4:5, 3:5 and 3:4)

b) Tanu, Manu and Rena are partners sharing profits and losses in the ratio of 4:3:2. Tanu retires and remaining partners decide to take Tanu's share in the ratio of 3:2.

(Ans.: New Ratio/ Gaining Ratio: 3:2)

c) A, B and C are partners in the firm sharing profits in the ratio of 3:2:1. B retired and his share was divided equally between A and C.

(Ans.: New Ratio 2:1/ Gaining Ratio: 1:1)

d) Anuj, Babu and Rani share profit in the ratio of 5:4:2. Babu retires and his share is taken by Rani.

(Ans.: New Ratio 5:6/ Entire Gain: Rani)

14. Ashish, Barmon, and Chander are partners sharing profits and losses in the ratio of 2:1:2 respectively. Chander retires and Ashish and Barman decide to share the profits and losses equally in future. Calculate the gaining ratio.

(Ans.: 1:3)

15. P, Q and R are partners in a firm sharing profits in the ratio of 4:5:5. Q retires and his share was taken by P and R in the ratio 2:5. Find out the new ratio and the gaining ratio.

(Ans.: New Ratio 19:30 / Gaining Ratio: 2:5)

16. X, Y and Z were partner sharing profits in the ratio of $\frac{7}{15}$, $\frac{1}{3}$ and $\frac{1}{5}$ respectively. X retires and his share was taken by Y and Z in the ratio of 2:3. Find out the new ratio and the gaining ratio.

(Ans.: New Ratio 13:12 / Gaining Ratio: 2:3)

17. A, B and C are partners sharing profits in the ratio of $\frac{1}{3}:\frac{1}{9}:\frac{5}{9}$. C retires and surrenders $\frac{3}{4}$ th of his share in favour of A and remaining in favour of B. Calculate the new ratio and gaining ratio.

(Ans.: New Ratio 3:1 / Gaining Ratio: 3:1)

3/4 Mark Questions

18. Mitu, Udit and Sunny are partners sharing profit equally. Sunny retires and the goodwill of the firm is valued at ₹ 54,000. No goodwill account appears in the books of the firm. Mitu and Udit share future profit in the ratio of 3:2. Make necessary journal entry for goodwill.

(Ans.: Dr. Mitu's Capital A/c - ₹ 14,400 and Udit's Capital A/c - ₹ 3,600; Cr. Sunny's Capital A/c - ₹ 18,000)

19. Tanu, Priya and Mayank are partners' sharing profit in the ratio of 3:2:1. Priya retires and on the date of Priya's retirement goodwill is valued at ₹ 90,000. Goodwill already appears in the books at a value of ₹ 48,000. New ratio of Tanu and Mayank is 3:2. Make the necessary journal entries.

(Ans.: (i) Dr. Tanu's Capital A/c - ₹ 24,000, Priya's Capital A/c - ₹ 16,000 and Mayan's Capital A/c - ₹ 8,000; Cr. Goodwill A/c - ₹ 48,000; (ii) Dr. Tanu's Capital A/c - ₹ 9,000 and Mayan's Capital A/c - ₹ 21,000; Cr. Priya's Capital A/c - ₹ 30,000)

20. B, K and P are partners sharing profits in the ratio of 2:3:4. P retires and for this purpose goodwill is valued at one and half year's purchase of average super profits of last three years, which are as under:

I year ₹ 50,000, II year ₹ 55,000, III year ₹ 75,000.

The normal profits for similar firms is ₹ 45,000.

Pass the necessary journal entry.

(Ans.: Dr. B's Capital A/c - ₹ 4,000 and K's Capital A/c - ₹ 6,000; Cr. P's Capital A/c - ₹ 10,000)

21. R, N and S were partners in a firm sharing profits and losses in the ratio of 5:3:2. N retired and the new profit ratio between R and S is 2:3. On N's retirement the goodwill of the firm was valued at ₹ 1,20,000. Pass the necessary journal entry.

(Ans.: Dr. S's Capital A/c - ₹ 48,000; Cr. R's Capital A/c - ₹ 12,000 and N's Capital A/c - ₹ 36,000)

22. Mohan, Mohit and Sonit are partners sharing profit in the ratio 3 : 2 : 1. Mohan retires from the partnership. In order to settle his claim, the following revaluation of assets and liabilities was agreed upon:

(i) The value of Machinery is increased by ₹ 25,000.

(ii) The value of Investment is increased by ₹ 2,000.

(iii) A provision for outstanding bill standing in the books at ₹ 1,000 is now not required.

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(iv) The value of Land and Building is decreased by ₹ 12,000.

Give journal entries.

(Ans.: Revaluation Profit- ₹ 16,000)

23. A, B and C are partners sharing profits and losses in the ratio of 2:2:1. B retires from the firm on 31st March 2018. On the date of B's retirement, the following balances appeared in the books of the firm:

Profit and Loss A/c ₹ 50,000, General Reserve ₹ 30,000, Workmen Compensation Reserve ₹ 40,000 and Deferred Revenue Expenditure ₹ 30,000.

Pass journal entries in the following cases:

- i) When they want to transfer the above mentioned items to their capital accounts.
- ii) When they do not want to transfer the above mentioned items to their capital accounts but prefer to record an adjustment entry for the same.

(Ans.: (i) Dr. Profit and Loss A/c - ₹ 50,000, General Reserve A/c - ₹ 30,000 and Workmen Compensation Reserve A/c - ₹ 40,000; Cr. A's Capital A/c - ₹ 48,000, B's Capital A/c - ₹ 48,000, C's Capital A/c - ₹ 24,000 ; (i) Dr. A's Capital A/c - ₹ 12,000, B's Capital A/c - ₹ 12,000 and C's Capital A/c - ₹ 6,000; Cr. Deferred Revenue Expenditure A/c - ₹ 30,000 (ii) Dr. A's Capital A/c - ₹ 24,000, C's Capital A/c - ₹ 12,000, Cr. B's Capital A/c - ₹ 36,000)

24. Roopam, Sunder and Shalini are partners sharing profit in the ratio of 5:3:2. Roopam retired, when their capitals were: ₹ 46,000, ₹ 42,000 and ₹ 38,000 respectively after making all adjustments on retirement. Sunder and Shalini decided to have a total capital of the firm at ₹ 84,000 in the proportion of 7:5. Calculate actual cash to be paid or brought in by each partner and make necessary journal entries.

(Ans.: Sunder brings - ₹ 7,000, Shalini withdraws - ₹ 3,000)

25. Sumit, Amit and Namit are partners sharing profit in the ratio of 4:3:1. when Amit retired , their adjusted capitals were ₹ 76,000, ₹ 45,000 and ₹ 34,000 respectively. Sumit and Namit decided to have their capitals in the ratio of 3:2. The necessary adjustments were to be made in cash only. Calculate actual cash to be paid off or brought in by each partner.

(Ans.: Namit brings - ₹ 7,000, Sumit withdraws - ₹ 10,000)

26. N, D and R were partners sharing profit and losses in the ratio of 3:2:1. On D's retirement their capital showed the following balances:

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N ` 1,00,000 , D ` 50,000, R ` 50,000.

N and R decided to share future profits and losses equally. D was to be paid and it was decided that N and R would bring in sufficient cash so as to pay D and make their capitals proportionate to their new profit sharing ratio. Show the necessary adjustments.

(Ans.: R brings - ` 50,000)

6/8 Mark Questions

27. Balance Sheet of R, S and T who were sharing profits in the ratio 5:3:2 as on 1st April, 2018 was as follows:

Liabilities	`	Assets	`
Creditors	20,000	Cash	16,000
Employees' Provident Fund	26,000	Debtors	16,000
R's Capital	1, 00,000	Stock	80,000
S's Capital	70,000	Furniture	34,000
T's Capital	50,000	Building	1, 20,000
	2, 66,000		2, 66,000

T retires on the above date and it was agreed that: T's share of Goodwill be ` 8,000; 5% Provision for doubtful debts to be made on debtors; Sundry Creditors be valued ` 4,000 more than the book value. Pass necessary Journal entries for the above transactions on T's retirement.

(Ans.: T's Loan - ` 58,960)

28. X, Y and Z were partners sharing profits and losses in the ratio of 5:3:2. Their Balance Sheet as at 1st April, 2018 was as follows:

Liabilities	`	Assets	`
Sundry Creditors	10,000	Cash	2,000

Retirement of a Partner

Employees' Provident Fund	5,000	Sundry Debtors	8,000
Reserve Fund	6,000	Stock	40,000
Workmen's Compensation Reserve	2,000	Furniture	13,000
Capitals :		Patents	4,000
<i>X</i> 50,000		Buildings	60,000
<i>Y</i> 35,000		Goodwill	6,000
<i>Z</i> 25,000	1, 10,000		
	1, 33,000		1, 33,000

Z retires on above date and the partners agreed that:

1. Goodwill is to be valued at two years' purchase of the average profits of last four years. Profits for the years ending 31st March were: 2015: ` 14,400, 2016: ` 20,000, 2017: ` 10,000 (Loss), 2018: ` 15,600.
2. 5% provision for doubtful debts to be made on debtors.
3. Stock be appreciated by 10%.
4. Patents are valueless.
5. Buildings be appreciated by 20%.
6. Sundry Creditors to be paid ` 2,000 more than the book value.

Pass Journal entries and prepare Revaluation Account, Capital Accounts and the Balance Sheet of the new firm.

(Ans.: Revaluation Profit - ` 9,600, ; X's Capital A/c - ` 53,300, Y's Capital A/c- ` 36,980, Z's Loan - ` 31,320; Balance Sheet Total - ` 1,38,600)

- 29.** A, B and C were partners in a firm sharing profits in the ratio of 3:2:1 respectively. The Balance Sheet of the firm as at 31st March, 2018 stood as follows:

Retirement of a Partner

Liabilities	`	Assets	`
Creditors	9,500	Cash at Bank	1,250
Bills Payable	2,500	Debtors	8,000
Reserve Fund	6,000	Less : Provision	250
A's Capital	20,000	Stock	12,500
B's Capital	15,000	Motor Vans	4,000
C's Capital	12,500	Machinery	17,500
		Buildings	22,500
	65,500		65,500

B retired from the firm on the above date subject to the following conditions:

- (a) Goodwill of the firm be valued at ` 9,000 and is not to be shown in the books of the firm.
- (b) Machinery would be depreciated by 10% and Motor Vans by 15%.
- (c) Stock would be appreciated by 20% and Buildings by 10%.
- (d) The provision for doubtful debts would be increased by ` 975.
- (e) Liability for workmen's compensation to the extent of ` 825 would be created.

It was agreed that A and C would share profits in future in the ratio of 3:2 respectively. Prepare the Revaluation Account, Capital Accounts of the partners and the Balance Sheet of new firm.

(Ans.: Revaluation Profit - ` 600; A's Capital A/c - ` 22,400, C's Capital A/c- ` 11,500, B's Loan - ` 20,400; Balance Sheet Total - ` 66,925)

- 30.** X, Y and Z are partners sharing profits in the ratio of their Capitals. Their Balance Sheet as at March 31, 2018 is as under:

Retirement of a Partner

Liabilities	`	Assets	`
Capitals :		Bank	44,800
X 2, 00,000		Sundry Debtors	1, 72,000
Y 2, 00,000		Stock	3, 00,000
Z 1, 00,000	5, 00,000	Furniture and fittings	46,000
Reserve Fund	40,000		
Sundry Creditors	20,000		
Outstanding Expenses	2,800		
	5, 62,800		5, 62,800

X retired on this date:

Additional Information :

- (i) Furniture and fittings were undervalued by ` 4,000.
- (ii) An amount of ` 12,000 due from Mr. Suraj, a debtor, was doubtful and a provision for the same is required.
- (iii) Stock be valued at 90%.
- (iv) Goodwill of the firm be valued at ` 60,000.
- (v) ` 1, 00,000 be transferred to X's loan account and balance be paid through bank.
Bank overdraft be arranged, if required.
- (vi) Y and Z will share future profits in 5:3.

Pass necessary journal entries and prepare Balance Sheet of the new firm.

(Ans.: Revaluation Loss - ` 38,000; Amount paid to X - ` 1,24,800, Y's Capital A/c - ` 1,87,300, Z's Capital A/c - ` 89,900; Balance Sheet Total - ` 4,80,000)

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- 31.** X, Y and Z are in partnership sharing profits in the ratio of 3:2:1. On 31st October, 2018. Z retires from the firm. Their Balance Sheet on this date was as follows:

Liabilities	`	Assets	`
Sundry Creditors	1, 20,000	Bank	25,000
Outstanding Expenses	10,000	Debtors	1, 65,000
Profit and Loss Account	1, 50,000	Stock	2, 50,000
Capital Accounts :		Investments	3, 00,000
X 5, 00,000		Fixed assets	5, 40,000
Y 3, 00,000			
Z 2, 00,000	10, 00,000		
	12, 80,000		12, 80,000

The following was agreed upon:

- (i) Goodwill of the firm is valued at ` 1, 50,000. Z sells his share of goodwill to X and Y in the ratio of 4:1.
- (ii) Stock is revalued at ` 3, 00,000 and debtors are revalued at ` 1, 50,000.
- (iii) Outstanding expenses be brought down to ` 3,000.
- (iv) Investments are sold at a loss of 10%.
- (v) Z is paid off in full.

Pass necessary journal entries and prepare Balance Sheet of the new firm.

(Ans.: Revaluation Profit - ` 12,000; Amount paid to Z - ` 2,52,000, X's Capital A/c - ` 5,61,000, Y's Capital A/c - ` 3,49,000; Balance Sheet Total - ` 10,33,000, Bank A/c - ` 43,000)

- 32.** X, Y and Z were sharing profits and losses in proportion to their capitals. Their Balance Sheet was as under:

Retirement of a Partner

Liabilities	`	Assets	`
Sundry Creditors	20,000	Buildings	1, 00,000
Employees' Provident Fund	1,600	Machinery	48,000
Contingency Reserve	4,500	Stock	18,000
Employees' Compensation Reserve	4,500	Debtors	20,000
X	76,000	Less : Provision	400
Y	57,000	Bank	8,000
Z	38,000	Cash	8,000
	2, 01,600		2, 01,600

Y decided to retire due to old age. They agreed to the following adjustments in the books of accounts to decide Y's share:

- (a) Buildings to be appreciated by 20%.
- (b) Provision for doubtful debts is to be increased by ` 575.
- (c) Out of total insurance premium paid, ` 3,000 is to be treated as prepared insurance.
- (d) Machinery is to be depreciated by 20%.
- (e) Goodwill of the entire firm is to be valued at ` 72,000. Y's share is to be adjusted in the accounts of X and Z.
- (f) X and Z also decided that the total capital of the firm after Y's retirement will be ` 1, 80,000 in their profit-sharing ratio i.e. actual cash to be brought in or paid to a partner as the case may be.

Prepare Revaluation Account, the Capital Accounts of all the partners and the Balance Sheet of the New Firm.

Retirement of a Partner

(Ans.: Revaluation Profit - ` 12,825; Y's Loan - ` 88,275, X's Capital A/c- ` 1,20,000, Y's Capital A/c - ` 60,000; Balance Sheet Total - ` 2,89,875, Cash A/c - ` 83,450)

- 33.** A, B and C were partners sharing profits in the ratio of 1/2, 1/3 and 1/6 respectively. Balance Sheet of the firm as at 31st March, 2018 was:

Liabilities	`	Assets	`
Sundry Creditors	24,000	Cash at Bank	2,500
General Reserve	12,000	Debtors	16,000
Capital A/cs :		Less : Provision for	500
A	40,000	Stock	25,000
B	30,000	Motors Vans	8,000
C	25,000	Plant and Machinery	35,000
	95,000	Factory Building	45,000
	1, 31,000		1, 31,000

B retires on 1st April, 2018 subject to the following adjustments:

- (a) Goodwill of the firm to be valued at ` 18,000 and B's share of the same be adjusted to that of A and C who are going to share in future profits in the ratio of 3:1.
- (b) Plant to be depreciated by 10% and Motors Vans by 15%.
- (c) Stock to be appreciated by 20% and Building by 10%.
- (d) The Provision for Doubtful Debts to be increased by ` 1,950.

Prepare revaluation Account, Partner's Capital Accounts and the Balance Sheet of the firm after B's retirement.

(Ans.: Revaluation Profit - ` 2,850; B's Loan - ` 40,950, A's Capital A/c- ` 42,925, C's Capital A/c - ` 25,975; Balance Sheet Total - ` 1,333,850)

Retirement of a Partner

- 34.** X, Y and Z were partner sharing profits and losses in the ratio of 5:3:2 respectively. As at 31st March, 2018 the Balance Sheet of the firm stood as follows:

Liabilities	`	Assets	`
Sundry Creditors	5,300	Fixed Assets	25,000
Expenses Outstanding	700	Stock	11,000
Reserve	3,000	Book Debts	9,000
Capitals :		Cash at Bank	2,000
X 20,000			
Y 10,000			
Z 8,000	38,000		
	47,000		47,000

On this date Y decided to retire and for this purpose:

- (a) Goodwill was valued at ` 19,000;
- (b) Fixed assets were valued at ` 30,000;
- (c) Stock was considered as worth ` 10,000.

Y was to be paid through cash, brought in by X and Z, in such a way as to make their capitals proportionate to their new profit sharing ratio which was to be X $\frac{3}{5}$ and Z $\frac{2}{5}$. Goodwill was to be passed through books without raising a Goodwill Account.

Record these matters in the journal of the firm and prepare the resultant Balance Sheet.

(Ans.: Revaluation Profit - ` 4,000; Amount paid to Y - ` 17,800, X's Capital A/c - ` 27,000, Z's Capital A/c - ` 18,000; Balance Sheet Total - ` 51,000)

Retirement of a Partner

- 35.** L, M and N were equal partners. Their Balance Sheet as at 31st March, 2018 was as under:

BALANCE SHEET

Liabilities	`	Assets	`
B/P	1, 00,000	Bank	1, 00,000
Creditors	2, 00,000	Stock	1, 00,000
General Reserve	1, 50,000	Furniture	1, 40,000
Profit and Loss A/c	30,000	Debtors	2,25,000
Capitals :		Less : Provision	25,000
<i>L</i> 3, 00,000		Land and Building	6, 00,000
<i>M</i> 2, 00,000			
<i>N</i> 1, 60,000	6, 60,000		
	11, 40,000		11, 40,000

M retired on 1st April, 2018. L and N decided to continue the business sharing profits in the ratio of 3:2. Following terms were agreed:

- (a) Goodwill of the firm was valued at ` 2, 88,000.
- (b) Reserve for bad and doubtful debts to be maintained at 10% on debtors.
- (c) Land and building to be increased to ` 6, 60,000.
- (d) Furniture to be reduced by ` 40,000.
- (e) Rent outstanding was ` 7, 500.

Remaining partners decided to bring sufficient cash in the business to pay off M and to maintain a bank balance of ` 1, 24,000. They also decided to readjust their capitals as per their new profit sharing ratio.

Retirement of a Partner

Prepare necessary Ledger Accounts and Balance Sheet.

(Ans.: Revaluation Profit - ₹ 15,000; Amount paid to M - ₹ 3,61,000, L's Capital A/c - ₹ 4,39,500, N's Capital A/c - ₹ 4,39,500; Balance Sheet Total - ₹ 11,86,500)

FILL IN THE BLANKS QUESTIONS

Q. 1 Complete the following Accounts and Balance Sheet by filling the missing amounts at the time of retirement of Q:

REVALUATION ACCOUNT

Dr.

Cr.

Particulars	₹	Particulars	₹
To Furniture A/c	16,000	By Land and Building A/c	?
To Outstanding Rent A/c	?	By Provision for Doubtful Debts A/c	1,000
To Gain (profit) transferred to P's Capital A/c ? Q's Capital A/c ? R's Capital A/c ?	?		
	25,000		25,000

PARTNERS' CAPITAL ACCOUNTS

Dr.

Cr.

Particulars	P ₹	Q ₹	R ₹	Particulars	P ₹	Q ₹	R ₹
To Q's Capital A/c	?		?	By Balance b/d	1,20,000	80,000	64,000
To Bank A/c		?		By General Reserve A/c	20,000	20,000	20,000
To Balance c/d	?		?	By Profit and	4,000	4,000	4,000

Retirement of a Partner

				Loss A/c			
				By P's Capital A/c		19,200	
				By R's Capital A/c		19,200	
				By Revaluation A/c Gain	2,000	2,000	2,000
				By Bank A/c	49,000		1,05,000
	?	?	?		1,95,000	1,44,400	1,95,000

BALANCE SHEET OF RECONSTITUTED FIRM as on....

Liabilities	₹	Assets	₹
Capital A/cs:		Land and Building	2,64,000
P ?		Furniture	40,000
R ?	?	Stock	40,000
		Debtors	90,000
Creditors	80,000	Less: Provision for Doubtful Debts	9,000
Bills Payable	40,000	Bank	?
Outstanding Expenses	3,000		
	4,74,600		4,74,600

(Ans.: Revaluation Gain - ₹ 6,000; P's Capital A/c - ₹ 1,75,800, R's Capital A/c - ₹ 1,75,800,; Bank Balance - ₹ 49,600)