

RETIREMENT AND DEATH OF A PARTNER

24.1 INTRODUCTION

Akshay, John and Rahim are partners in a firm. John is the oldest among all. Due to his old age and poor health, he expresses his inability to continue as a partner in the firm. Therefore, he decides to retire from the partnership and the same is agreed upon by Akshay and Rahim. In this way, John retires from the partnership which dissolves the existing partnership agreement. Similarly, death of a partner may take place at any time which also dissolves the partnership. Whenever due to retirement or death, partnership is dissolved, it becomes necessary to settle the claims of the retiring or deceased partner. After retirement or death, a new partnership is formed between the remaining partners. This lesson focuses on the process of settling the accounts of a retiring and deceased partner.

24.2 OBJECTIVES

After going through this lesson, you will be able to :

- state the meaning of retirement of a partner;
- calculate new profit sharing ratio and gaining ratio of remaining partners;
- record and make adjustments relating to goodwill;
- explain the need for revaluation of assets and liabilities at the time of retirement;
- illustrate the recording of changes arising from revaluation of assets and liabilities of the firm;

- illustrate the treatment of accumulated reserves and undistributed profits at the time of retirement of partner;
- adjust the partners' capital accounts;
- illustrate various methods of settling retiring person's claim and the related accounting treatment;
- prepare the accounts of a partnership firm relating to retirement of a partner;
- calculate profit upto the date of death of a partner;
- prepare the deceased partner's executor's accounts;

24.3 RETIREMENT – MEANING AND ADJUSTMENT IN PROFIT SHARING RATIO

The word 'retirement' refers to a situation where a partner leaves the firm and the remaining partners continue the business of the firm.

Ajit, Aslam and Anthony are partners of a firm. Due to old age and poor health, Aslam expressed his inability to participate in the activities of the business. Accordingly, the partners decide to allow him to withdraw from the partnership. Thus, due to various reasons like old age, poor health, bad relations etc., an existing partner may desire to retire from the partnership.

Due to the retirement of a partner or partners, old partnership comes to an end and a new partnership between the remaining partners comes into existence. At the time of retirement, the retiring partner settles his claim in the partnership firm.

Apart from the reasons mentioned above, a partner may cease to be a partner due to other circumstances, such as -

- i) partner being expelled from the firm, as per the terms of partnership;
- ii) death of a partner;
- iii) insolvency of a partner;
- iv) at his or her own will.

A retiring partner will claim the following amounts at the time of his retirement —

- i) balance to the credit of his capital account;
- ii) his share in firm's goodwill which has not been yet credited to his Capital A/c;
- iii) share of any profit arising due to revaluation of assets and liabilities;
- iv) share of any reserves, and undistributed profits.

On retirement, the retiring partner is to be paid the amount due to him. Depending on the availability of funds, the remaining partners of the firm may decide to pay off the retiring partner's share in a lump sum or in instalments. In the later case, interest may also be paid on the amount paid after the retirement date.

The terms and conditions of retirement of a partner are usually provided in the partnership deed. If not, they can be agreed upon by the partners at time of retirement. As you know whenever any change in the partnership takes place, various adjustments in accounts of the firm become necessary. These adjustments relate to -

- a) profit sharing ratio;
- b) goodwill;
- c) revaluation of assets and liabilities;
- d) reserves and other accumulated profits.

After making all these adjustments, the retiring partner's account is settled.

Let us discuss these adjustments in detail.

ADJUSTMENT RELATING TO PROFIT SHARING RATIO

One immediate effect of the retirement of a partner is that the profit sharing ratio of the continuing partners may be changed. The share of the retiring partner is distributed among the continuing partners. For example, A, B and C are partners, sharing profits in the ratio of 3:2:1. Now A retires from the partnership. His share, i.e., $\frac{3}{6}$ of profits will now be distributed between B and C. Thus, we may say that the profit sharing ratio of remaining partners may be changed due to the retirement of a partner. **The ratio in which retiring partner's share is distributed between old partners is known as gaining ratio.**

Gaining Ratio = New Ratio - old Ratio.

There are various alternatives of distributing the retiring partner's share. Let us illustrate these alternatives :

i) Retiring Partner's Share Distributed in Old Ratio

In this case the retiring partner's share is distributed in old ratio between the remaining partners. Let us consider the following example :

X, Y and are partners sharing profits in the ratio of 3:2:1. Y retires and the remaining partners decide to take up Y's share in the old ratio, i.e., 3 : 1.

Find the new ratio of X and Z.

Old ratio between X and Z = $3/6$ and $1/6$.

Y's (retiring partner) ratio = $2/6$.

Now distribute Y's share between X and Z in their old ratio,

Gain to X = $2/6 \times 3/4 = 1/4$

Gain to Z = $2/6 \times 1/4 = 1/12$

Gain = New Ratio - Old Ratio

New Ratio = Old Ratio + Gain

X's new ratio = $3/6 + 1/4 = 3/4$

Z's new ratio = $1/6 + 1/12 = 1/4$

You may note that the new ratio is same as old ratio that existed between X and Z before retirement.

Note: If nothing is specified in the question, it will be presumed that Retiring Partner's share has been distributed in old ratio.

ii. **Retiring Partner's Share being equally distributed between remaining partners.**

The continuing partners often decide to share the retiring partner's share equally between them. The following example illustrates this :-

A, B, C and D are partners sharing profit in the ratio 3:2:2:1. A retires from the firm and others divide his share equally among them. Let us find the new ratio

A's share = $3/8$

No. of remaining partners = 3

So, gain to each of the remaining partners = $3/8 \times 1/3 = 1/8$

New ratio = old ratio + gain

B's new ratio = $2/8 + 1/8 = 3/8$

C's new ratio = $2/8 + 1/8 = 3/8$

D's new ratio = $1/8 + 1/8 = 2/8$

New ratio of B, C and D is 3:3:2

iii. **Retiring Partner's Share is taken fully by one of the partners.**

At times, the retiring partner's share is fully taken up by one of the continuing partners. In such a case, the retiring partner's share will be added to that partner's old share. Only his new share will be different from his old share.

The other partners will continue to share profits in the same old ratio.
An illustration is given below :-

Amar, Brij and Chander share profits in the ratio of 3:2:1. Brij retires and his share is taken by Chander, so Chander's new share will be $\frac{1}{6} + \frac{2}{6} = \frac{3}{6}$. Amar's ratio will remain unchanged i.e. $\frac{3}{6}$. Thus, the new profit sharing ratio of Amar and Chander will be 1:1.

Let us take another illustration to make it more clear:

Illustration - 1

Bhagat, Azad and Sukhdev are partners sharing profits in the ratio of 3:2:1. Sukhdev expresses his willingness to retire. Find the new ratio of Bhagat and Azad if terms for retirement provide the following-

- Gaining ratio is same as old ratio
- Gaining ratio is equal.
- Gaining ratio is 2:3.
- Bhagat takes up fully the share of Sukhdev.

Solution

Let us find the gain in the ratio of remaining partners due to retirement of Sukhdev in four different cases -:

Sukhdev's share = $\frac{1}{6}$

- Gaining ratio is old ratio, i.e., 3:2.

$$\text{Bhagat's gain} = \frac{1}{6} \times \frac{3}{5} = \frac{3}{30}$$

$$\text{Azad's gain} = \frac{1}{6} \times \frac{2}{5} = \frac{2}{30}$$

$$\therefore \text{Bhagat's new share} = \frac{3}{6} + \frac{3}{30} = \frac{18}{30}$$

$$\text{Azad's new share} = \frac{2}{6} + \frac{2}{30} = \frac{12}{30}$$

New profit sharing ratio of Bhagat and Azad = 3:2

- Gaining ratio is equal, i.e., 1:1

$$\text{Bhagat's gain} = \frac{1}{6} \times \frac{1}{2} = \frac{1}{12}$$

$$\text{Azad's gain} = \frac{1}{6} \times \frac{1}{2} = \frac{1}{12}$$

$$\therefore \text{Bhagat's new share} = \frac{3}{6} + \frac{1}{12} = \frac{7}{12}$$

New Profit sharing ratio of Bhagat and Azad = 7:5

- c) Gaining ratio is 2:3
 Bhagat's gain = $1/6 \times 2/5 = 2/30$
 Azad's gain = $1/6 \times 3/5 = 3/30$
 \therefore Bhagat's new share = $3/6 + 2/30 = 17/30$
 Azad's new share = $2/6 + 3/30 = 13/30$
 New profit sharing ratio of Bhagat & Azad = 17:13
- d) Bhagat takes over Sukhdev's share fully.
 Bhagat's gain = $1/6$
 Azad's gain = Nil
 Therefore Bhagat's new share = $3/6 + 1/6 = 4/6$
 Azad's new share = $2/6 + \text{Nil} = 2/6$
 New profit sharing ratio of Bhagat & Azad = 2:1

INTEXT QUESTIONS 24.1

- A. Give any three circumstances under which a partner may retire from partnership.
- i) _____
 - ii) _____
 - iii) _____
- B. New ratio of continuing partner _____
- C. If A, B and C were sharing profits in the ratio of 3:2:1 and B retires giving his share equally to A and C. Which of the following is the new ratio of A and C after retirement:
- i) 3:1
 - ii) 1:2
 - iii) 2:1
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24.4 TREATMENT OF GOODWILL

Since the remaining partners enjoy the future benefits of the goodwill of the firm generated by all including the retiring partner in the past, the retiring partner must be compensated for his share of goodwill.

The basis of computing the goodwill of the firm and the manner of compensating the retiring partner for his share of goodwill are mentioned in the terms of agreement relating to retirement of a partner.

The treatment of goodwill has been discussed in the following situations:

i) Goodwill Raised in the Books of firm at full value.

In this situation, goodwill is valued and is raised in the books of the firm at full value. The same is credited to all the partners' capital accounts (including the retiring partner) in the old profit sharing ratio. The following transfer voucher is prepared for recording the goodwill:

M/S.....		Dated.....
Voucher No.....		Amount Rs.
Debit	Goodwill A/c	
Credit	All Partners' Capital A/cs (Being goodwill of the firm is raised at full value and credited to partners' capital A/cs in old profit sharing ratio.)	
Sd/- Manager		Sd/- Accountant

Journal entry

Goodwill A/c	Dr	To All Partners' Capital A/cs
		(Being goodwill of the firm is raised at full value and credited to partners' capital a/cs in old ratio).

ii) Goodwill A/c raised in the books and then written off.

Often the remaining partners may decide not to show any Goodwill A/c in the books. Under such circumstances, Goodwill A/c is first raised in the books at its full value and credited to all partners in old profit sharing ratio. Then it is written off by debiting the remaining partners' capital a/cs and crediting goodwill in the new profit sharing ratio.

The following two transfer Vouchers are prepared:

(i)

M/S.....		Dated.....
Voucher No.....		Amount Rs.
Debit	Goodwill A/c	
Credit	All Partners' Capital A/cs (Being goodwill of the firm is raised at full value and credited to all partners' capital A/Cs in old profit sharing ratio.)	
Sd/- Manager		Sd/- Accountant

(ii)

M/S.....		Dated.....
Voucher No.....		Amount Rs.
Debit	(Remaining) Partners' Capital A/cs	
Credit	Goodwill A/c (Being goodwill A/c written off by debiting remaining partners' capital A/Cs in new profit sharing ratio.)	
Sd/- Manager		Sd/- Accountant

Journal entries:

- i) Goodwill A/c Dr.
 To All Partners' Capital A/cs
 (Being goodwill of the firm raised
 at full value and credited to all partners'
 Capital a/cs in old profit sharing ratio.)
- ii) (Remaining) Partners' Capital A/cs Dr.
 To Goodwill A/c
 (Being goodwill a/c written off by debiting
 remaining partners' capital A/cs in new
 profit sharing ratio.)

Alternative Treatment

Under this alternative, no goodwill A/c is raised but the retiring partners' share of goodwill is calculated and credited to his capital A/c and the same being debited to remaining partners' capital a/cs in their gaining ratio.

M/S.....		
Voucher No.....		Dated.....
		Amount Rs.
Debit	(Remaining) Partners' Capital A/Cs	
Credit	Retiring Partner's Capital A/C (Being the retiring partner's share of goodwill debited to remaining partners' capital A/Cs in their gaining ratio.)	
Sd/- Manager		Sd/- Accountant

Journal entry

Remaining Partners' Capital A/cs

To Retiring Partner's Capital a/c
(Being the retiring partner's share of goodwill debited to remaining partners' capital A/cs in their gaining ratio)

Illustration 2

P, Q and R are partners sharing profits in the ratio of 2 : 2 : 1. R retired and it was agreed upon that -

- (i) R's share be distributed between P and Q in old ratio,
- (ii) Goodwill of the firm be valued at Rs.80,000. Give the accounting vouchers and journal entries for recording goodwill, if it was decided -
 - (a) to raise Goodwill A/c in the books of the firm, and
 - (b) that only R's share be recorded and no Goodwill A/c should appear.

(a) Raising goodwill in the books of the firm

M/S.....		Amount Rs.
Voucher No.....		Dated.....
Debit	Goodwill A/C	80,000
		80,000
Credit	P's Capital A/C	32,000
	Q's Capital A/C	32,000
	R's Capital A/C	16,000
	(Being goodwill of the firm is raised at full value and credited to all partners' capital A/Cs in 2:2:1 ratio.)	
		80,000
Sd/- Manager		Sd/- Accountant

(b) Only R's share is recorded.

M/S.....		Amount Rs.
Voucher No.....		Dated.....
Debit	P's Capital A/c	8,000
	Q's Capital A/c	8,000
		16,000
Credit	R's capital A/c	16,000
	(Being the R's share of goodwill debited to P's & Q's capital A/Cs in their gaining ratio, i.e., 1:1.)	
		16,000
Sd/- Manager		Sd/- Accountant

(a) Journal entry for raising goodwill in the books of the firm -

Goodwill A/c Dr.	80,000
To P's capital A/c	32,000
To Q's capital A/c	32,000
To R's capital A/c	16,000

(Being goodwill of the firm is raised at full value and credited to all partners' capital A/Cs in 2:2:1 ratio.)

(b) Journal entry for recording only R's share -

P's capital A/c Dr.	8,000
Q's capital A/c Dr.	8,000
To R's capital A/c	16,000

(Being R's Share of goodwill debited to P's and Q's capital A/Cs in their gaining ratio, i.e., 1:1)

(iii) Goodwill A/c already appearing in the books of the firm and revalued at the time of retirement.

This amount may be revalued at the time of retirement. The revalued amount of goodwill may be more or less than what is already appearing in the books of the firm.

I. If revalued amount of goodwill is more than that of the book value.

Increase in value of goodwill is debited to goodwill A/C and credited to all partners' capital A/Cs in old profit sharing ratio. This has been illustrated in the following voucher and journal entry -

Increase in Goodwill

M/S.....		Dated.....
Voucher No.....		Amount Rs.
Debit	Goodwill A/c	
Credit	All Partners' Capital A/Cs (Being the difference due to increase in the value of goodwill is credited to all partners' capital A/Cs in the old profit sharing ratio.)	
Sd/- Manager		Sd/- Accountant

Journal Entry -

Goodwill A/c Dr.

To All Partners' capital A/Cs

(Being the difference due to increase in the value of goodwill is credited to all partners' capital A/Cs in the old profit sharing ratio.)

- II. If revalued amount of goodwill is less than that of the book value. Decrease in value of goodwill is debited to all partners' capital A/Cs in old profit sharing ratio and credited to goodwill A/C. This has been illustrated in the following voucher and journal entry -

Decrease in Goodwill

M/S.....		Dated.....
Voucher No.....		Amount Rs.
Debit	All Partners' Capital A/Cs	
Credit	Goodwill A/C (Being the difference in value of goodwill is debited to all partners' capital A/Cs in old profit sharing ratio.)	
Sd/- Manager		Sd/- Accountant

Journal entry -

All Partners' Capital A/Cs Dr.

To Goodwill A/C

(Being the difference due to decrease in value of goodwill is debited to all partners' capital A/Cs in old profit sharing ratio.)

WRITING OFF GOODWILL

After adjusting increase or decrease in the value of goodwill, the remaining partners may decide to write off the goodwill A/C from the books. In such a case following transfer voucher is prepared:

Voucher No.....	M/S.....	Dated.....
		Amount Rs.
Debit	(Remaining) Partners' Capital A/Cs	
Credit	Goodwill A/C (Being the goodwill A/c is written off by debiting the remaining partners' capital A/Cs in new profit sharing ratio.)	
Sd/- Manager	Sd/- Accountant	

This can be illustrated by the following journal entry :

Remaining Partners' Capital A/c	Dr.
To Goodwill A/c	
(Being the goodwill A/c is written off by debiting the remaining partners' capital A/Cs in new profit sharing ratio.)	

INTEXT QUESTIONS 24.2

Fill in the blanks by choosing suitable words from brackets.

- (i) A Retiring partner's share of goodwill is _____ to his capital at the time of retirement. (debited/credited)

- (ii) If goodwill account appears in the books of the firm and there is no change in the value of goodwill at the time of retirement of a partner, the retiring partner's capital account is _____ for his share of goodwill. (adjusted/not adjusted)

- (iii) If the remaining partners, after retirement of a partner, decide to write off goodwill account appearing in the books, Goodwill account will be _____ (debited / credited) and it will be distributed in _____ (old / new) ratio.

- (iv) For recording only retiring partner's share of goodwill in the transfer voucher _____ account is debited and _____ account is credited in _____ ratio. (Remaining Partners' Capital, Retiring Partner's Capital, Gaining, old)

24.5 REVALUATION OF ASSETS AND LIABILITIES

You may recall that revaluation of Assets and Liabilities takes place at the time of admission of a partner. Similarly, such a revaluation may take place when a partner retires from the firm. This is done to adjust the changes in values of assets and liabilities. Any profit arising out of these changes will be shared by all the partners in their old profit sharing ratio. Various adjustments pertaining to revaluation of Assets and Liabilities are as under -

- (i) For increase in value of assets -

A transfer voucher is prepared and the following journal entry is passed :-

Assets A/Cs	Dr.
To Revaluation A/C	
(Being the value of assets increased)	

- (ii) For decrease in value of assets -

A transfer voucher is prepared and the following journal entry is passed :-

Revaluation A/C	Dr.
To Assets A/Cs	
(Being the value of Assets decreased.)	

- (iii) For increase in value of liabilities -

A transfer voucher is prepared and the following journal entry is passed:

Revaluation A/c	Dr.
To Liabilities A/cs	
(Being the value of Liabilities increased.)	

- (iv) For decrease in value of Liabilities-

A transfer voucher is prepared and the following journal entry is passed:-

Liabilities A/cs	Dr.
To Revaluation A/c	
(Being the value of liabilities decreased)	

After the above adjustments are made in the Revaluation A/c, it will reveal profit or loss on revaluation. This profit or loss is distributed among all partners including the retiring partner in the old profit sharing ratio.

(i) Accounting Vouchers

Voucher No.....		M/S.....	Dated.....	Amount Rs.
Debit	Revaluation A/c			600
				600
Credit	Stock A/c (Being the adjustment made for the devaluation of stock.)			600
				600
Sd/- Manager			Sd/- Accountant	

Voucher No.....		M/S.....	Dated.....	Amount Rs.
Debit	Land and Buildings A/c			10,000
	Investments A/c			700
	Provision for Bad Debts A/c			800
				15,000
Credit	Revaluation A/c (Being the adjustment made for increase in the value of assets.)			15,000
				15,000
Sd/- Manager			Sd/- Accountant	

Voucher No.....		M/S.....	Dated.....	Amount Rs.
Debit	Revaluation A/c			10,900
				10,900
Credit	Rohit's Capital A/c			6,540
	Mohit's Capital A/c			2,180
	Sohan's Capital A/c			2,180
	(Being profit on revaluation credited to all partners' capital A/c in old profit sharing ratio i.e., 3:1:1)			10,900
Sd/- Manager			Sd/- Accountant	

(ii) **Revaluation A/c**

Particulars	Amount Rs.	Particulars	Amount Rs.
To Stock	600	By Land & Building	10,000
To Profit on Revaluation transferred to : Rohit's cap. 6,540 Mohit's Cap. 2,180 Sohan's Cap. 2,180	10,900	By Investment	700
	<u>11,500</u>	By Provision for Bad debts	800
			<u>11,500</u>

Dr. Partners' Capital A/cs Cr

Date	V. No	Particulars	Rohit Rs.	Mohit Rs.	Sohan Rs.	Date	V. No	Particulars	Rohit Rs.	Mohit Rs.	Sohan Rs.
							3	By Revaluation A/c	6,540	2,180	2,180

Journal Entries

Date	Particulars	L.F.	Dr. Amount (Rs.)	Cr. Amount (Rs.)
	Revaluation A/c Dr To Stock A/c (Being decrease in value of stock.)		600	600
	Land and Building Dr. Investment A/c Dr. Provision for Bad Debts A/c Dr. To Revaluation A/c (Being increase in value of assets viz. land and buildings, investment and reduction in the provision for bad debts.)		10,000 700 800	11,500
	Revaluation A/c Dr. To Rohit's capital A/c To Mohit's capital A/c To Sohan's capital A/c (Being profit on revaluation credited to all partners' capital a/cs in old profit sharing ratio, i.e., 3:1:1).		10,900	6,540 2,180 2,180

Note: Revaluation A/c is also known as Profit and Loss Adjustment A/c.

ADJUSTMENT REGARDING RESERVES AND OTHER ACCUMULATED PROFITS

A transfer voucher is prepared debiting the relevant (reserves and undistributed profits) account and crediting partner's capital A/Cs (including the retiring partner's capital account.).

Note: The adjustment for reserves, etc. is to be made among partners on retirement whether it is specifically given or not.

In case, Profit and Loss A/C shows a debit balance in the books of the firm then this account will be debited to Partners' Capital A/Cs (including the retiring partner's capital A/C) and Profit & Loss A/C will be credited for the amount in the transfer voucher.

INTEXT QUESTIONS 24.3

- A. Fill in the blanks with suitable word or words:
- (i) The debit balance of Revaluation A/C shows _____
 - (ii) Accumulation Profits shown in the Balance sheet are transferred to the _____ side of _____ at the time of retirement of a partner.
 - (iii) The value of buildings has been increased at the time of retirement of a partner. _____ A/c will be debited and _____ A/c will be credited with the increase.
- B. There was a reduction in the value of a trade creditor at the time of retirement of partner. What will be the journal entry for the above?
-

24.6 SETTLEMENT OF RETIRING PARTNER'S CLAIM

The retiring partner's claim consists of :-

- (a) his capital on the date of retirement;
- (b) share of goodwill of the firm;
- (c) his share of profit or loss on account of revaluation of assets or liabilities;
- (d) his share of general reserves, etc. appearing in the books of the firm.

The total amount so calculated is the claim of the retiring partner. He will be interested in receiving the amount at the earliest. However, the financial resources of the firm may not be adequate to make the payment to the

retiring partner. There are two alternatives available. The firm may make payment to retiring partner in -

- (i) lump sum;
- (ii) instalments.

(i) Payment in Lump sum

This is the alternative which the retiring partner would prefer to. His total claim may be paid either out of the funds available with the firm or out of the funds brought in by the remaining partners.

Illustration 4

Hari, Shri and Puri are partners, sharing profits in the ratio of 4 : 3 : 3. Their Balance Sheet as at 31st Dec. 1996 is as under:

Balance Sheet as at 31st Dec. 1996

Liabilities	Amount (Rs.)	Assets	Amount(Rs)
Capital		Buildings	1,800
Hari 1,600		Plant	1,400
Shri 1,200		Motor Car	400
Puri <u>1,200</u>	4,000	Stock	1,000
General Reserve	500	Debtors 700	
Creditors	800	(-) Provision <u>100</u>	600
		Cash at Bank	100
	<u>5,300</u>		<u>5,300</u>

Shri retires on that date on the following terms :-

- (i) The goodwill of the firm is to be valued at Rs.800.
- (ii) Stock and Buildings to be appreciated by 10%.
- (iii) Plant to be depreciated by 5%.
- (iv) Provision for bad debts is to be cancelled.
- (v) A liability of Rs.200 to be provided for in the books.
- (vi) - Goodwill account is to be written off.

The amount due to Shri is paid out of the funds brought in by Hari and Puri for that purpose in their new profit sharing ratio. Shri is paid in full.

Give the accounting vouchers, accounting entries, Revaluation account and partner's capital accounts.

Solution

First, we calculate the new profit sharing ratio of Hari and Puri. Since nothing in the terms of retirement, it is assumed that Hari and Puri's gaining ratio remains 4 : 3.

$$\text{Gain of Hari} = 3/10 \times 4/7 = 12/70$$

$$\text{Gain of Shri} = 3/10 \times 3/7 = 9/70$$

$$\text{So, Hari's new ratio} = \text{Old Ratio} + \text{Gain} = 4/10 + 12/70 = 4/7$$

$$\text{Puri's new ratio} = \text{Old Ratio} + \text{Gain} = 3/10 + 9/70 = 3/7$$

NAME OF THE FIRM		
Voucher No.1		Dated 31.12.96
		Amount Rs.
Debit	Goodwill A/c	800
		800
Credit	Hari's Capital A/c	320
	Shri's Capital A/c	240
	Puri's Capital A/c	240
	(Being Goodwill A/c raised in the books of the firm at the retirement of Shri and credited to partners in 4:3:3)	800
Sd/- Manager		Sd/- Accountant

NAME OF THE FIRM		
Voucher No.2		Dated 31.12.96
		Amount Rs.
Debit	Revaluation A/c	270
		270
Credit	Plant A/c	70
	Liability A/c	200
	(Being plant depreciated by 5% and a liability provided at Rs.200 for revaluation on Shri's retirement)	270
Sd/- Manager		Sd/- Accountant

NAME OF THE FIRM		Dated 31.12.96	
Voucher No.3		Amount Rs.	
Debit	Building A/c	180	
	Stock A/c	100	
	Provision for Bad Debts A/c	100	
		380	
Credit	Revaluation A/c	380	
	(Being the entry for appreciation in Building and Stock at 10% and cancelling Provision for Bad debts on Revaluation on Shri's retirement)		
		380	
Sd/- Manager		Sd/- Accountant	

Dr.		Revaluation A/c		Cr.	
Particulars	Amount Rs.	Particulars	Amount Rs.		
To Plant	70	By Stock	100		
To Liability A/c	200	By Investment	180		
To Hari's Capital A/c 44		By Provision for	100		
To Hari's Capital A/c 33		bad debts			
To Puri's Capital A/c 33	110				
	380				380

NAME OF THE FIRM		Dated 31.12.96	
Voucher No. 4		Amount Rs.	
Debit	Revaluation A/c	110	
	General Reserve A/c	500	
		610	
Credit	Hari's Capital A/c	244	
	Shri's Capital A/c	183	
	Puri's Capital A/c	183	
(Being the entry for crediting profit on revaluation and General reserve among partners in their profit ratio 4:3:3, on Shri's retirement)			
		610	
Sd/- Manager		Sd/- Accountant	

Voucher No.5		NAME OF THE FIRM	Dated 31.12.96
			Amount Rs.
Debit	Hari's Capital A/c		457
	Puri's Capital A/c		343
			800
Credit	Goodwill A/c		800
	(Being the entry for writing off of goodwill by Hari and Puri in their new ratio 4:3)		
			800
Sd/- Manager			Sd/- Accountant

Dr.				Hari's Capital A/c				Cr.			
Date	V. No.	Particulars	Amount Rs.	Date	V. No.	Particulars	Amount Rs.				
1996 Dec31	5	To Goodwill A/c	457	1996 Dec31	-	By Balance b/d	1,600				
				1996 Dec31	4	By Revaluation A/c	44				
				1996 Dec31	4	By General Reserve	200				
				1996 Dec31	4	By Goodwill A/c	320				
1996 Dec31		To Balance C/d	2,634	1996 Dec31	6	By Bank A/c	927				
			3,091				3,091				
				1997 Jan	1	By Balance b/d	2,634				

Dr.				Shri's Capital A/c				Cr.			
Date	V. No.	Particulars	Amount Rs.	Date	V. No.	Particulars	Amount Rs.				
1996 Dec31	8	To Bank A/c	1,623	1996 Dec31	-	By Balance b/d	1,200				
				1996 Dec 31	4	By Revaluation A/c	33				
				1996 Dec 31	4	By General Reserve	150				
				1996 Dec31	4	By Goodwill A/c	240				
			1,623				1,623				
				1997 Jan	1	By Balance b/d	2,634				

The amount due to Shri is Rs.1,623 which will be brought by Hari and Puri in their profit sharing ratio which will be Rs.927 and Rs.696 respectively.

Dr. Puri's Capital A/c Cr.

Date	V. No.	Particulars	Amount Rs.	Date	V. No.	Particulars	Amount Rs.
1996 Dec31	5	To Goodwill A/c	343	1996 Dec31	3	By Balance b/d	1,200
			/	1996 Dec31	4	By Revaluation A/c	33
				1996 Dec31	4	By General Reserve A/c	150
				1996 Dec31	4	By Goodwill A/c	240
1996 Dec31		To Balance C/d	1,975	1996 Dec 31	6	By Bank A/c	695
			2,318				2,318
				1997 1 Jan		By Balance b/d	1,975

NAME OF THE FIRM

Voucher No.6

Dated 31.12.96
Amount
Rs.

Credit	Hari's Capital A/c (Being cash brought in by Hari to pay of Shri)	927
		927

Sd/-
Manager

Sd/-
Accountant

NAME OF THE FIRM

Voucher No.7

Dated 31.12.96
Amount
Rs.

Credit	Puri's Capital A/c (Being cash brought in by Puri to pay of Shri)	696
		696

Sd/-
Manager

Sd/-
Accountant

Stamp	Received	NAME OF THE FIRM	
		Voucher No.7	Dated 31.12.96 Amount Rs.
		Debit	1,623
		Shri's Capital A/c (Being Shri paid in full and final settlement on his retirement)	1,623
		Sd/- Manager	Sd/- Accountant

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Date	Particulars	L.F.	Dr. Amount (Rs.)	Cr. Amount (Rs.)
1996 31 Dec	Goodwill A/c Dr To Hari's Capital A/c To Shri's Capital A/c To Puri's Capital A/c (Being the goodwill raised to Rs.800 in the books of the firm).		800	320 240 240
"	Revaluation A/c Dr To Plant A/c To Liability A/c (Being plant depreciated by 5% and liability on Shri's A/c Rs.200 for revaluation on Shri's retirement.)		270	70 200
	Bad Debts A/c Dr To Provision for Bad Debts A/c Dr (Being the bad debts and stock provision for bad debts cancelled on Shri's retirement.)		180 100 100	380

Date	Particulars	L.F.	Dr. Amount (Rs.)	Cr. Amount (Rs.)
1996 31 Dec	Revaluation A/c Dr General reserve A/c Dr To Hari's Capital To Shri's Capital To Puri's Capital (Being revaluation profit and General reserve distributed among all partners in ratio of 4:3:3)		110 500	244 183 183
"	Hari's Capital A/c Dr Puri's Capital A/c Dr To Goodwill A/c (Being the goodwill written off in the new ratio of 4:3)		457 343	800
"	Bank A/c Dr To Hari's Capital A/c To Puri's Capital A/c (Being cash brought in by Hari & Puri to pay off Shri)		1,623	927 696
"	Shri's Capital A/c Dr To Bank A/c (Being Shri paid in full & final settlement on his retirement)		1,623	1,623

ii) Payment through instalments

In this case the retiring partner is to be paid in instalments. Usually, some amount is paid immediately on retirement and the balance is shown in the books of the firm as his loan account. Naturally, the loan amount will carry some rate of interest.

Unless the agreement between the partners provides otherwise, the outgoing partner has two options. He can either opt to share the future profits on the basis of the balance remaining due to him or receive interest @ 6% per annum on the amount.

When the amount is transferred to loan account, the same is paid in one or more instalments as agreed upon. It is also decided as to when each of the instalments is to be paid.

An instalment consists of two parts -

- (i) Part of the amount due to the retiring partner.
- (ii) Interest, at the agreed rate, on the amount outstanding from the last instalment payment.

Every time an instalment is to be paid, interest due is credited first to the loan account of the retiring partner by preparing a Transfer Voucher. Then the instalment is paid by preparing a Debit Voucher.

Illustration - 5

Taking the figures of the previous illustration, show the accounting voucher for opening the retiring partner's loan account assuming that he is paid 25% of the amount due immediately and the balance in three equal yearly instalments. The interest payable is 10% p.a.

Solution

The amount due to Shri = Rs.1,623

He is paid 25% immediately, i.e. Rs.405.75. The following debit voucher is prepared for recording the payment:

Stamp	Received	NAME OF THE FIRM		
		Voucher No.1	Dated 31.12.96	
				Amount Rs.
		Debit	Shri's Capital A/c (Being the payment made to Shri on his retirement, 25% of his claim of Rs.1,623.)	406
			406	
		Sd/- Manager	Sd/- Accountant	

The balance amount in Shri's Capital account is transferred to his loan account through a transfer voucher as follows:

NAME OF THE FIRM		
Voucher No.2	Dated 31.12.96	
		Amount Rs.
Debit	Shri's Capital A/c	1,217
		1,217
Credit	Shri's Loan A/c (Being the entry for transferring the balance due to Shri to his loan A/c)	1,217
		1,217
Sd/- Manager		Sd/- Accountant

INTEXT QUESTIONS 24.4

- A. List the various claims of a retiring partner:
1. _____ 2. _____ 3. _____ 4. _____
- B. Mention the two modes of settling the total claims of the retiring partner: 1. _____ 2. _____
- C. Find the total amount due to Harish who is retiring as a partner:
1. Balance in Harish's capital account Rs.10,000
 2. Balance in Harish's wife's loan A/c Rs.8,000
 3. Harish's share of goodwill Rs.4,000
 4. Profit & Loss Account shows a debit balance of Rs.1,200
 5. Profit on Revaluation of Assets/Liabilities Rs.1,000
 6. Harish's Profit sharing ratio before retirement is 1/2

Answer = Rs.

- D. Out of the total amount due to Harish in Question C above, 50% is paid immediately in cash and the balance is to be paid after one year. Fill in following blanks by details relating to it:

Name of the Voucher	Name of the Account Debited or Credited or both
---------------------	--

1.

2.

24.7 ADJUSTMENT OF REMAINING PARTNERS' CAPITAL ACCOUNT AFTER RETIREMENT

You have already studied about the adjustment of capital accounts in your previous lesson. Similarly adjustment of capital accounts is made after the retirement of a partner. Often the continuing partners fix the total capital of their firm and decide to keep their respective capital accounts in proportion to their profit sharing ratio. In such cases, the capital required by each partner is calculated on the basis of new profit sharing ratio. The capitals of the partners, thus, calculated, will be compared with the balances standing to the credit of respective partners capital accounts. If there is a surplus in the capital account, the amount is withdrawn by the concerned partner. The partner will bring in cash, in case the balance in the capital account is less than the calculated amount.

Illustration - 6

Aman, Akshay and Shudhansu are partners of a firm sharing profits and losses in the ratio of 2:2:1. Akshay retires from the firm and his share is equally taken up by the remaining partners. Aman and Shudhansu decide to fix the capital of the new firm at Rs.80,000. After adjusting for the settlement of Akshay's retirement, the capital of Aman stood at Rs.45,000 and that of Shudhansu at Rs.35,000. They decide to adjust their capital accounts in their new profit sharing ratio.

Solution

Firstly, we find out the new profit sharing ratio. Akshay's profit sharing ratio = $\frac{2}{5}$. His profit sharing ratio is equally shared by remaining partners. So, gain to Aman $\frac{2}{5} \times \frac{1}{2} = \frac{1}{5}$

$$\text{Gain to Sudhansu} : \frac{2}{5} \times \frac{1}{2} = \frac{1}{5}$$

$$\text{New Ratio} = \text{old ratio} + \text{gain}$$

$$\text{Aman's New Ratio} = \frac{2}{5} + \frac{1}{5} = \frac{3}{5}$$

$$\text{Shudhansu's New Ratio} = \frac{1}{5} + \frac{1}{5} = \frac{2}{5}$$

Secondly, based on new ratio we calculate their capital in proportion to the new ratio.

Total capital of the new firm : Rs. 80,000

Aman's Share in New Ratio : $80,000 \times \frac{3}{5} = \text{Rs. } 48,000$

Shudhansu's share in New Ratio : $80,000 \times \frac{2}{5} = \text{Rs. } 32,000$

On comparing Aman's share in the new capital of the firm with the amount standing to the credit of his capital account, it is seen that he has to bring in Rs.3,000 (Rs.48,000 (-) 45,000) in cash, the following credit voucher will be prepared:

NAME OF THE FIRM		
Voucher No.1		Dated 31.12.96
		Amount Rs.
Credit	Aman's Capital A/c (Being cash brought in to make his capital in proportion to his new profit ratio)	3,000
		3,000
Sd/- Manager		Sd/- Accountant

Similarly, Shudhansu's share in new firm's capital is Rs.32,000 while Rs.35,000 stand credited to his capital. So, he will withdraw Rs.3,000 (35,000 (-) 32,000) from the firm so as to make his capital in proportion to his new profit sharing ratio. The following debit voucher will be prepared to record the withdrawal:

Stamp	Received	NAME OF THE FIRM		
		Voucher No.2	Dated 31.12.96 Amount Rs.	
		Debit	Shudhansu's Capital A/c (Being cash withdrawn so as to make his Capital A/c in proportion to his ratio)	3,000
				3,000
		Sd/- Manager	Sd/- Accountant	

After posting the above two vouchers, the capital account of Aman and Shudhansu will be in proportion to their new profit sharing ratio.

Adjustment of remaining partners' capital accounts in their profit sharing ratio, when the total capital of the new firm is not being fixed.

In such cases the following steps may be adopted:

Add the balance standing to the credit of partners' capital A/cs. The total so obtained will be the total capitals. This capital will be divided according to the new profit sharing ratio.

For example, the credit balance of Ritu's account is Rs.50,000 and of Shashi's account is Rs.25,000. Their new profit sharing ratio is 3:2. The total capital of the firm is Rs.75,000 (Rs.50,000 + Rs.25,000) which will be divided among them in their profit-sharing ratio.

Thus, Ritu's capital will be
 $= Rs.75,000 \times \frac{3}{5} = Rs.45,000$ and

Shashi's capital will be
 $= Rs.75,000 \times \frac{2}{5} = Rs.30,000.$

Ritu will withdraw Rs.5,000 to bring down the amount of her capital and Shashi will bring in Rs.5,000 to raise his capital upto the required level. It

may be noted that the total capital of the firm can be arrived at by another procedure also:

$$\Rightarrow \text{TOTAL CAPITAL} = \text{TOTAL OF ASSETS (after revaluation)} \\ - \text{(-) Total of outsider's liabilities (after revaluation).}$$

Once the partner's capital in proportion to their ratio is calculated, it is compared with the balance standing in their respective capital accounts. If any partner has excess balance in his capital account, he is allowed to withdraw the difference in cash. The partner having a deficit will bring in cash to make his capital in proportion to his profit sharing ratio.

Illustration 7

In a partnership firm, there were four partners - Ankur, Bose, Chander and David, having the profit ratio as 4:3:3:2. Chander retired and his account was settled by lumpsum payment. Then, the position of the firm stood as follows:-

- (i) Building Rs.40,000; Plant Rs.20,000; stock Rs.15,000; Debtors Rs.8,000; Cash at Bank Rs.5,000.
- (ii) Creditors Rs.4,000.

Ankur, Bose and David, the remaining partners, having their new ratio as 4:3:2 decide to adjust their Capitals in the profit sharing ratio. Find their new capitals and show their Balance Sheet.

Solution

First, we find the total capital of the firm of Ankur, Bose and David:-

$$\text{Total capital} = \text{Total Assets} - \text{Total Outsiders' Liabilities}$$

Total Assets :-	Building	Rs. 40,000
	Plant	Rs. 20,000
	Stock	Rs. 15,000
	Debtors	Rs. 8,000
	Cash at Bank	Rs. 5,000
		Rs. 88,000

Total outsiders' liabilities:- Creditors Rs. 4,000

So Total Capital = Rs. 88,000 - Rs.4,000 = Rs.84,000

Profit sharing ratio = 4:3:2

Ankur's Capital : $84,000 \times \frac{4}{9} =$ Rs. 37,333

Bose's Capital : $84,000 \times \frac{3}{9} =$ Rs. 28,000

David's Capital : $84,000 \times \frac{2}{9} =$ Rs. 18,667

Rs. 84,000

Balance Sheet of Ankur, Bose and David

As on

Liabilities	Amount(Rs.)	Assets	Amount(Rs.)
Ankur's Capital	37,333	Building	40,000
Bose's Capital	28,000	Plant	20,000
David's Capital	18,667	Stock	15,000
Creditors	4,000	Debtors	8,000
		Cash at Bank	5,000
	<u>88,000</u>		<u>88,000</u>

INTEXT QUESTIONS 24.4

- A. Rakesh, Suresh and Mahesh are partners in a firm. After Suresh's retirement, the profit sharing ratio between Rakesh and Mahesh is 3:2. They also decide to fix the firm's capital at Rs.50,000. Find the individual capitals of partners.

Rakesh's Capital Rs.....

Mahesh's Capital Rs.....

- B. Following information is available about a firm just after the retirement of one of the partners of the firm:

Total assets before Revaluation Rs. 40,000; Total assets after Revaluation Rs.60,000; Total outsider's liabilities after revaluation Rs.15,000; Total outsider's liabilities before revaluation Rs. 20,000.

Three continuing partners are equal partners and they decide to adjust their capitals in the profit sharing ratio. Find the capital of each partner and the total capital of firm.

Rs..... Rs..... Rs..... Rs.....

24.8 DEATH OF A PARTNER

When a partner dies, his representatives or the executors of his estate are entitled to all the rights which have been stated earlier in respect of retirement of a partner. Since the time of death is uncertain, it may take place any time during the accounting period. The representatives of the deceased partner are entitled to his share of profits earned from the **beginning of the accounting period to the date of death.**

The representatives are entitled to the following -

- (a) The amount standing to the credit of the deceased partner's capital account;
- (b) His share in the goodwill of the firm;
- (c) His share of undistributed profit or reserves;
- (d) His share of profits earned from the beginning of the accounting period to the date of death;
- (e) His share of the profit on revaluation of assets and liabilities;
- (f) His share of the proceeds of joint life policy, if any;
- (g) His salary and interest on capital due to him till the date of death, if provided under the partnership deed.

The representatives are expected to bear the following :

- (a) his share of reduction in the value of goodwill, if any,
- (b) his drawings, interest on drawings, and
- (c) his share of loss that may have occurred till the date of his retirement.

Note: The above adjustments are made in the capital account of the deceased partner and then the balance in the capital account is transferred to an **account opened in the name of his executor.**

The method of payment of the amount of the deceased partner depends on the agreement and the executor. But in the absence of such an agreement, interest is payable at 6% per annum or at the option of the executor, in the share of profit earned with the use of the amount due.

Calculation of Profit upto the Date of Death of a Partner.

The representatives of the deceased partner are entitled to his share of profits earned till the date of death. But the actual amount of profit earned can only

be ascertained if the accounts are closed. This may be inconvenient. So, profits may be estimated on the basis of time or on the basis of sales or turnover.

i) Time Basis

In this the profit will be assumed to have arisen uniformly over the year. For example:

The total profit of the year is Rs. 24,000 and a partner dies after two months of the close of previous year; the profit for the two months will be Rs. 4,000 i.e. $24,000 \times \frac{2}{12}$. If the deceased partner took $\frac{3}{10}$ of profits, his share of profits till the date of death will be $4,000 \times \frac{3}{10} = \text{Rs. } 1,200$.

ii) Turnover or Sales Basis

Under this method we should know (a) Previous Year Sales, (b) Sales till the date of death. For example: X dies on 1st March, 1995. Accounts being closed on 31st December every year. The profit till the date of death is ascertained on the sales basis, assuming profits for 1995 would be same as for 1994. The following information is available for 1994:

Sales for 1994	Rs. 12,000
Sales of January and February, 1995	Rs. 3,000
Profit for 1994	Rs. 2,400

Then, profit on the basis of sales will be

$$2,400 \times \frac{3,000}{12,000} = \text{Rs. } 600$$

If X's executor was entitled to $\frac{1}{4}$ share of profits, he has to be credited by Rs. 150 i.e. $600 \times \frac{1}{4}$ for profits till the date of death.

Illustration - 8

Following is the Balance Sheet of Sunny, Honey and Ronnie as on 31st December 1997:

Liabilities		Amount(Rs.)	Assets		Amount(Rs.)
Creditors		2,000	Building		10,000
Reserve Fund		3,200	Stock		4,000
Capital Accounts			Bills Receivable		6,000
Sunny	10,000		Cash at Bank		5,000
Honey	5,000		Cash in Hand		200
Ronnie	5,000	20,000			
		25,200			25,200

Ronnie died on 31st March, 1998. Under the terms of partnership deed, the executors of deceased partner were entitled to:

- Amount standing to the credit of partner's capital account.
- Interest on capital @ 5% per annum.
- Share of goodwill on the basis of twice the average of the past three year's profits.
- Share of profit from the closing of the last financial year to the date of death on the basis of last year's profits.

Profits for 1995, 1996 and 1997 were respectively Rs.6000, Rs.8,000 and Rs.7,000. Profits were shared in the ratio of capitals.

Pass the necessary journal entries and draw up Ronnie's capital account. Also show the preparation of Accounting Vouchers.

Solution

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Particulars	L. F.	Dr. Amount (Rs.)	Cr. Amount (Rs.)
Reserve Fund A/c Dr To Ronnie's Capital A/c (Being transfer of Ronnie's share of reserve fund to his Capital A/c)		800	800
Interest on Capital A/c Dr To Ronnie's Capital A/c (Being interest @ 5% credited to Ronnie's Capital A/c upto 31st March)		63	63
Goodwill A/c Dr To Ronnie's Capital A/c (Being transfer of goodwill to Ronnie's Capital A/c)		3,500	3,500
Profit and Loss Appropriation A/c Dr To Ronnie's Capital A/c (Being transfer to Ronnie's share of profit to his capital A/c upto 31st March)		437	437
Ronnie's Capital A/c Dr To Ronnie's Executors A/c (Being transfer of amount due to Ronnie's Executors' A/c)		9,800	9,800

Working Notes

(i) Ronnie's share of reserve fund

Total Reserve Fund = Rs.3,200

$$\text{Ronnie's share} = 3,200 \times \frac{1}{4} = \text{Rs. } 800$$

(ii) Ronnie's interest on capital

Amount of capital = Rs.5,000

Rate = 5% per annum

Time = 3 months

$$\text{Interest} = 5,000 \times \frac{5}{100} \times \frac{3}{12} = \frac{250}{4} = \text{Rs. } 63$$

(iii) Ronnie's share of Goodwill

Three years profits = Rs.6,000 + Rs.8,000 + Rs.7,000 = Rs.21,000

Average profits = $\frac{21,000}{3} = \text{Rs.}7,000$

Goodwill = Rs.7,000 × 2 = Rs.14,000

Ronnie's share = Rs.14,000 × $\frac{1}{4}$ = Rs.3,500

(iv) Ronnie's share in profit

Last is year's profit = Rs.7,000

Ronnie's share = Rs.7,000 × $\frac{1}{4}$ × $\frac{3}{12}$ = Rs. 437

(v)		Rs.
Ronnie's amount of capital	=	5,000
His share of Reserve Fund	=	800
His interest on capital	=	63
His interest on profits	=	437
His interest on goodwill	=	3,500

Rs. 9,800

NAME OF THE FIRM		
Voucher No.....		Dated
		Amount Rs.
Debit	Reserve Fund A/c	800
	Interest A/c	62
	Goodwill A/c	3,500
	P&L Appropriation A/c	437
		<u>4,800</u>
Credit	Ronnie's Capital A/c	4,800
	(Being transfer of Ronnie's share of reserve fund, goodwill, profit and interest @ 5% to his Capital account)	<u>4,800</u>
Sd/- Manager		Sd/- Accountant

24.9 WHAT YOU HAVE LEARNT

I. Retirement

1. Whenever due to some reasons like old age, poor health, bad relations etc. a partner desires to withdraw from the partnership, retirement of the partner takes place.
2. Due to retirement, the following changes take place in the firm :-
 - (i) end of existing partnership agreement and beginning of reconstituted partnership firm based on a new partnership agreement between remaining or continuing partners;
 - (ii) settlement of claims of retiring partner;
 - (iii) change in profit sharing ratio;
 - (iv) adjustment of goodwill, if any;
 - (v) revaluation of assets and liabilities;
 - (vi) adjustments related to reserves and other accumulated profit.

II. Death

1. When a partner dies, his representatives or the executors are entitled to whatever due to him.
2. Executor or the representative of the deceased partner is entitled to the following :
 - (i) The amount standing to the credit of the deceased partner's capital account;
 - (ii) His share in the goodwill of the firm, still to be brought into the books;
 - (iii) His share of profits earned from the beginning of the year to the date of death;
 - (iv) His share of the undistributed profits or reserves;
 - (v) His share of profit on revaluation of assets and liabilities but his share of loss on such revaluation will be deducted;
 - (vi) His share of the proceeds of the joint life policy, if any;
 - (vii) His share of reduction in the value of goodwill, if any;

- (viii) His drawing, interest on drawings and his share of loss that may have occurred till the date of his death;
- (ix) His salary or interest due to him till the date of death, if provided under the partnership deed;

3. Calculation of Profit : Two Methods:

- (i) Time basis
- (ii) Sales basis or turnover basis.

24.10 TERMINAL QUESTIONS

1. Two cases of retirement are given to you in the following columns. Under each of them, various items have been mentioned. Identify the items forming part of the retiring partner's claim and also find the total claim in each case:

I	II
i) Capital Rs.40,000	i) Total goodwill Rs.6,000
ii) Loan due to bank Rs.2,000	ii) His share of goodwill Rs.300
iii) His salary arrears Rs.5,000	iii) His capital Rs.10,000
iv) His share of past losses Rs.400	iv) His share of past profits Rs.600

2. Calculate the ratios;

- (i) Find the Gaining ratio : A, B and C are partners in a firm sharing 3:2:1. B retires
 - (a) A's & C's new ratio 3:2
 - (b) A's & C's new ratio 3:1
 - (c) A's & C's new ratio 4:1
- (ii) Find the new ratio : X, Y and Z are partners sharing 4:3:2. X retires and gaining ratio
 - (a) 3:2
 - (b) Equal
 - (c) Fully taken by Z

3. George, John and Jacob are partners sharing profits and losses equally. Jacob decides to retire on 31st December 1995

The Balance sheet of the firm is follows :

Liabilities	Amount (Rs.)	Assets	Amount (Rs.)
Capital A/c		Buildings	80,000
George 1,00,000		Goodwill	60,000
John 80,000		Plant	90,000
Jacob <u>60,000</u>	2,40,000	Stock	60,000
Creditors	80,000	Cash	30,000
	<u>3,20,000</u>		<u>3,20,000</u>

The value of Goodwill was fixed at Rs.57,000. The buildings increased in value by Rs.30,000 and plant valued at Rs.78,000. It was also agreed to provide 5% for bad debts in respect of debtors. Prepare the accounting voucher for effecting the retirement of Jacob assuming that the amount due to Jacob is transferred to his loan account.

4. P,Q & R were carrying on business in partnership sharing profits and losses in the ratio of 3:2:1. On 31st December 1994, their balance sheet stood as follows :

Liabilities	Amount (Rs.)	Assets	Amount (Rs.)
Capital A/cs			
P's 60,000		Buildings	40,000
Q's 50,000		Plant	50,000
R's <u>40,000</u>	1,50,000	Stock	30,000
General Reserve	20,000	Debtors	50,000
Creditors	30,000	Cash	30,000
	<u>2,00,000</u>		<u>2,00,000</u>

Q retires from the partnership on the above date.

It was agreed: i) plant to be depreciated by 15%;(ii) Buildings to be appreciated by 10%; (iii) Provision for Bad debts to be at 5% on debtors; (iv) General Reserve to be distributed; (v) Q to be paid Rs. 20,000 immediately and the balance in two instalments of equal amounts at the end of 1995 and 1996 along with interest @ 6% p.a.

Show the preparation of Accounting Vouchers and the Balance Sheet of P and R immediately after retirement of Q.

5. The balance sheet of A,B and C on 31st Dec. 1993 is given below:-

Liabilities	Amount (Rs.)	Assets	Amount (Rs.)
Capital A/cs			
A's 40,000		Plant and Machinery	60,000
B's 30,000		Debtors	20,000
C's 20,000	90,000	Cash	15,000
Creditors	10,000	P & L Account	5,000
	<u>1,00,000</u>		<u>1,00,000</u>

They were showing profits and losses in the ratio of 4:3:2 when C decides to retire on the above date on following terms:

- i) A and B to take up C's share of future profits in the ratio that existed between them before retirement of C.
- ii) Goodwill of the firm valued at Rs.27,000 and no Goodwill account in the books of A and B.
- iii) Plant to be depreciated by 10% and to provide for Bad Debts at 5% on debtors.
- iv) Accumulated losses to be closed.
- v) Z be paid Rs.10,000 immediately and the balance at the end of 1994.
- vi) The capital of the entire firm of A and B fixed at Rs. 84,000. The partners capital accounts to be in their profit sharing ratio. The difference being brought in or withdrawn in cash by the partner.

Show Revaluation Account, Partners' capital Account and the Balance Sheet of A and B.

6. Rajat and Avinash are partners. The Partnership Deed provides:
- 1) That the profit be divided as follows: Rajat one half Avinash one Third and carried to a Reserve Account one sixth.

That in the of death of a partner, his Executor will be entitled to be paid out:

- a) The capital to his credit at the date of death
- b) His proportion of Reserve at the date of the last Balance sheet.
- c) His proportion of profit to date of death based on the average profits of the last three completed years. On 31st December 1994 the Balance Sheet of the firm was as follows:

Liabilities	Amount (Rs.)	Assets	Amount (Rs.)
Rajat's Capital	90,000	Bills Receivable	20,000
Avinash's Capital	60,000	Investment	50,000
Reserve	30,000	Cash	1,40,000
	2,10,000		2,10,000

The profits for the three years were 1992 Rs.42,000; 1993 - Rs.39,000 and 1994 -Rs.45,000.

Avinash died on 1st May 1995. Show the working of Avinash's (i) Share of Reserve, (ii) Share of Profits, and (iii) Share of goodwill and draw up Avinash's Executor's A/c. Also show the preparation of Accounting Vouchers.

24.11 ANSWERS TO INTEXT QUESTIONS

- 24.1 A. (i) old age
 (ii) poor health
 (iii) bad relations
 or any other suitable circumstance.
- B. Old ratio + Gain in ratio.
- C. 2:1
- 24.2 (i) credited (ii) not adjusted (iii) credited; new
 (iv) Remaining Partners' capital a/cs; Retiring Partner's Capital A/c; Gaining ratio.
- 24.3 A. (i) Loss (ii) Credit; Partners' capital a/cs
 (iii) Building, Revaluation
- B. (i) Trade Creditor's A/c Dr
 To Revaluation A/c
 (Being value of a trade creditor reduced)
- 24.4 A. (1) Credit balance of retiring partner's capital a/c,
 (2) His share of goodwill not credited,
 (3) His share of profit on revaluation of assets or liabilities.
 (4) His share of General Reserve A/c
- B. (i) Lump sum
 (ii) Instalments
- C.
$$\text{Rs. } 13,900 = \left(\text{Rs. } 10,000 + \text{Rs. } 4,000 + \left(\frac{1}{2} \times 1000 \right) \right) - \left(\frac{1}{2} \times 1200 \right)$$
- D. (i) Debit - Harish's Capital A/c
 (ii) Transfer - Harish's Capital A/c - Dr
 Harish's Loan A/c - Cr

- 24.5 A. Rs.30,000 (Rakesh's Capital A/c)
Rs.20,000 (Mahesh's capital A/c)
- B. Rs.15,000, Rs.15,000, Rs.15,000 =Rs.45,000
- 24.6 (i) Deceased
(ii) Credited
(iii) Executor's
(iv) Time, Sales