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Competency Statement

- ☐ The student's will be able to :
 - Understand the meaning of retirement of partners in partnership business.
 - Learn to calculate various ratios connected to retirement of partnership.
 - Understand the treatment of goodwill
 - Know the effects of reserves, accumulated Profit / Loss
 - Learn the effects of revaluation of assets and reassessment of liabilities.
 - Understand the adjustments to be made for remaining partner's capital.
 - To know the various modes of final payment to be made to retiring partner.

4.1 Introduction :

When one member ceases to be a partner and the remaining partners continue to carry on the business of the firm it is called as Retirement of a Partner. It is one of the modes of reconstitution of partnership. The new partnership business will continue with the remaining partners and the retiring partner will get the amount payable to him after considering net balance of Capital and Current Account, his share of Profit or Loss on revaluation of assets and liabilities, his share of accumulated profit, goodwill etc. Partner may retire from the business due to old age, misunderstandings amongst the partners, loss in business or want to start new business venture etc.

A partner may retire

1. By giving notice to remaining partners in the case of partnership at will
2. In accordance with the agreement by the partners
3. With the consent of all partners.

4.2 New Ratio

The ratio in which the continuing partners decide to share the future Profits and Losses is known as New Profit Sharing Ratio.

Illustrations:

1. A, B and C share profits and losses in the ratio of 4:2:1, if B retires what will be the new ratio?
Ans. The new ratio of A and C will be 4:1. It is cancelling by canceling B's share.

2. X, Y, and Z share profits and losses equally. Z retires and his share is acquired by X and Y in the ratio of 3:1. Calculate New Profit sharing ratio.

Ans: Calculation of New Profit Sharing Ratio

Old Ratio = X : Y: Z = 1:1:1

Z's share is acquired by X and Y in the ratio of 3:1

X's gain = $\frac{1}{3} \times \frac{3}{4} = \frac{3}{12}$

Y's gain = $\frac{1}{3} \times \frac{1}{4} = \frac{1}{12}$

X's New Share = $\frac{1}{3} + \frac{3}{12} = \frac{7}{12}$

Y's New Share = $\frac{1}{3} + \frac{1}{12} = \frac{5}{12}$

New Profit Sharing Ratio of X and Y = 7:5

4.3 Gain / Benefit Ratio

The ratio in which the continuing partners acquire the retiring partner's share is called gain ratio. It is normally used to write off goodwill created or raised to the extent of retiring partner's share only.

Gain Ratio = New Ratio - Old Ratio

Illustration 1:

A, B and C are sharing Profits and Losses in the ratio of 4:3:2. B retires and A and C share future profits equally. Calculate gain ratio.

Gain Ratio = New Ratio - Old Ratio

A's Gain = $\frac{1}{2} - \frac{4}{9} = \frac{1}{18}$

C's Gain = $\frac{1}{2} - \frac{2}{9} = \frac{5}{18}$

Gain Ratio of A and C is 1:5

Illustration 2:

X, Y and Z are sharing Profits and Losses in the ratio of 4:3:2. Z retires the new ratio of X and Y is 3:2. Calculate the gain ratio.

X's Gain = $\frac{3}{5} - \frac{4}{9} = \frac{7}{45}$

Y's Gain = $\frac{2}{5} - \frac{3}{9} = \frac{3}{45}$

Gain Ratio of X and Y is 7:3

Illustration 3:

P, Q, and R are partners sharing Profits in the ratio of 2:2:1. Q retired. Calculate the gain ratio.

Old Ratio = 2:2:1

New Ratio = 2:1

P's gain = $\frac{2}{3} - \frac{2}{5} = \frac{4}{15}$

R's gain = $\frac{1}{3} - \frac{1}{5} = \frac{2}{15}$

Gain Ratio = 4:2 i.e. 2:1

4.4 Treatment of goodwill

Sr. No.	Transaction	Journal Entry
1.	When goodwill of the entire firm is raised and retained in the business	Goodwill A/cDr. To All partner's capital A/c (old profit sharing ratio) Goodwill will appear in new Balance Sheet.
2.	When goodwill of entire firm is raised and then written off	a) When goodwill is raised Goodwill A/cDr. To all Partners' capital A/c (Old Profit sharing ratio) b) When goodwill is written off Continuing partner's Capital A/cDr. (New profit sharing ratio) To Goodwill A/c Goodwill will not appear in New Balance Sheet.
3.	When goodwill is raised to the extent of retiring partner's share and retained in business.	Goodwill A/cDr. To Retiring Partners' capital A/c Goodwill will appear in New Balance Sheet to that extent.
4.	When goodwill is raised to the extent of Retiring partner's share and then written off	1) Goodwill A/cDr. To Retiring Partner's capital A/c 2) Continuing partner's capital A/cDr. To Goodwill A/c (Gain ratio) Goodwill will not appear in New Balance Sheet
5.	In case goodwill already appears in the old Balance Sheet.	The difference in goodwill amount can be shown either in Profit and Loss adjustment account/ Revaluation A/c in Md Ratio or in Partner's capital / Current Account.

4.5 Transfer of Reserve Fund or General Reserve / Accumulated Profit or loss

On Retirement of a partner any reserve, accumulated profit/ loss is transferred to Capital or Current A/c in the their profit sharing ratio to all partners or only share of retiring partner to his Capital / Current A/c, as per the instructions given in the problem.

If any type of reserve / accumulated profit is transferred the entry will be :

All types of Reserves / Accumulated profits A/cDr.

To Partner's Capital / Current A/c

(Being balance transfer to all partners including retiring partner in their profit sharing ratio)

Any accumulated loss appearing on asset side of Balance Sheet is transferred to all partners in their profit sharing ratio. the entry will be:

All Partners Capital / Current A/cDr.

To Profit and Loss A/c

(Being accumulated loss debited to all partner's capital/ current A/c)

4.6 Revaluation of Assets and re-assessment of liabilities.

When the partner retires from the business it is desirable to revalue assets and liabilities to bring their values at the correct position. The benefit of such change in the value of Assets and Liabilities will be given to the retiring partner as well. To Show the changes in the value of Assets and liabilities Revaluation Account is opened. After showing all the effects in Revaluation Account/Profit and Loss Adjustment account the balance appearing in the account will be transferred to partner's capital account in their profit Sharing Ratio.

(Note : For more details about effects in revaluation account and specimen of Revaluation account/ Profit and Loss Adjustment Account please refer the previous topic (i.e. admission of partner)

4.7 Adjustment of Capital :

On retirement of a partner the continuing partner may decide to rearrange their capital in their new profit sharing ratio. For this Purpose.

- i) The total capital of the firm is divided among the partners in their new profit sharing ratio.
- ii) New capital balance is then compared with the latest capital balance of each partner.
- iii) Surplus or Deficit in individual Capital A/c is calculated.
- iv) Such Surplus may be withdrawn by the partner (i.e. paid to partner) or transferred to Current A/c or Loan A/c. Deficit may be brought in by the partner or transferred to Current A/c or Loan A/c

Sr. No.	Transaction	Journal Entry
1.	If Surplus is paid back to continuing partners	Continuing Partners Capital A/cDr. To Cash / Bank A/c.
2.	If Surplus on capital account is not paid but transferred to Loan Account or Current Account.	Continuing Partners Capital A/c.....Dr. To Continuing Partner's Current / Loan A/c.
3.	If continuing partner brings cash towards his deficiency in the capital account	Cash / Bank A/cDr. To Continuing Partner's Capital A/c
4	If deficit is transferred to Loan Account or Current Account	Continuing Partners Current / Loan A/cDr. To Continuing Partners capital A/c

Ascertainment of Retiring Partner's share of profit on retirement

If a partner retires from firm on any day during accounting year, then it is necessary to compute profit from date of last Balance Sheet to date of retirement.

Profit of current year is calculated either on the basis of the last year's profit or average profit. Proportionate profit for the part of year (i.e. from date of Balance Sheet to date of retirement) is calculated. Share of Retiring Partner is calculated on the basis of proportionate Profit.

For transfer of such Profit or Loss following journal entries are drafted in the books of the firm.

Transfer of Profit to Retiring Partner's Capital / Current A/c

Profit and Loss Suspense A/cDr.

To Retiring Partner's Capital /Current A/c. Transfer of
Retiring Partner's Capital / Current A/cDr.

To Profit and Loss Suspense A/c

4.8 Total Payable amount to retiring partner

Sr. No.	Transaction	Journal Entry
1.	Lumpsum : The entire amount payable to retiring partner is paid in one installment at a time.	Retiring Partner's Capital A/cDr. To Cash / Bank A/c.
2. (A)	Installment: The amount due to retiring partner may be paid and Balance is transferred to Loan A./c.	Retiring Partner's Capital A/cDr. To Retiring Partner's Loan A/c.
2. (B)	When interest charged on Loan Account	Interest A/cDr. To Retiring Partner's Loan A/c
2. (C)	When interest paid in cash	Retiring Partner's Loan A/cDr. To Bank A/c
3.	If the total amount due to retiring Partner is transferred to loan account	Retiring Partner's Capital A/cDr. To Retiring Partner's Loan A/c
4.	If amount due to retiring partner is partly paid in cash and balance due transferred to Loan Account	Retiring Partner's Capital A/cDr. To Cash/ Bank A/c To Retiring Partner's Loan A/c

Illustrations

1. Given below is a Balance Sheet of Raja, Rani and Pradhan who were partners in a firms sharing profits and losses in the ratio 5:3:2

Their Balance Sheet as on 31st March 2019 was as follows.

Balance Sheet as on 31-03-2019

Liability	Amt (₹)	Assets	Amt (₹)
Creditors	11,200	Cash	7,600
Bank Overdraft	9,700	Debtors	18,000
Reserve Fund	15,000	Stock	17,500
Capital A/c:		Machinery	30,000
Raja	42,000	Land	70,000
Rani	37,000	Furniture	5,000
Pradhan	33,200		
	1,48,100		1,48,100

On 1st April 2018 Pradhan retired on the following terms.

- Goodwill of the firm will be raised in the Books at ₹ 20,000
- Stock be reduced by 10 % and Furniture by 5% and Machinery by 11%
- R.B.D.D. be maintained at 5% on debtors.
- ₹ 200 to be written off from Creditors.
- Out of the amount due to Pradhan ₹ 5000 to be paid by cash and remaining amount to be transferred to his loan account.

Prepare a) Profit and Loss adjustment Account, Partner's capital A/c, Balance sheet of new firm.

Solution :

In the Books of Partnership firm
Profit and Loss Adjustment Account

Dr

Cr.

Particulars	Amt (₹)	Particulars	Amt (₹)	Amt (₹)
To Stock A/c	1,750	By Creditors A/c		200
To Furniture A/c	250	By Partners Capital A/c (loss)		
To R.B.D.D. A/c	900	Raja	3,000	
To Machinery A/c	3,300	Rani	1,800	6,000
		Pradhan	1,200	
	6,200			6,200

Dr.

Partner's Capital Account

Cr.

Particular	Raja (₹)	Rani (₹)	Pradhan (₹)	Particulars	Raja (₹)	Rani (₹)	Pradhan (₹)
To P & L Adj. A/c (Loss)	3,000	1,800	1,200	By Balance b/d	42,000	37,000	33,200
To Cash A/c			5,000	By Reserve Fund A/c	7,500	4,500	3,000
To Pradhan's Loan A/c			34,000	By Goodwill A/c	10,000	6,000	4,000
To Balance c/d	56,500	45,700					
	59,500	47,500	40,200		59,500	47,500	40,200

Balance Sheet as on 1st April 2019

Liabilities	Amt ₹	Amt ₹	Assets	Amt ₹	Amt ₹
Creditors	11,200		Cash		2,600
Less: Written off	200	11,000	Debtors	18,000	
Bank Overdraft		9,700	Less: R. D. D 5%	900	17,100
Partners Capital A/c			Stock	17,500	
Raja		56,500	Less: Depreciation	1750	15,750
Rani		45,700	Machinery	30,000	
Pradhan's Loan A/c		34,000	Less: Depreciation	3,300	26,700
			Land		70,000
			Furniture	5000	
			Less: Depreciation	250	4,750
			Goodwill		20,000
		1,56,900			1,56,900

2. Following is the Balance Sheet of the firm of Nana, Nani and Sona who share Profits and Losses in the ratio of their Capital

Balance Sheet as on 31st March 2019

Liability	Amt (₹)	Assets	Amt (₹)
Capital A/c:		Machinery	20,000
Nana	50,000	Building	55,000
Nani	20,000	Stock	12,000
Sona	30,000	Debtors	12,000
Creditors	10,000	Less: R.D.D.	<u>1,000</u>
Bills Payable	5,000	Cash	17,000
	1,15,000		1,15,000

Sona retires from the business on 1st April 2019 and the following Adjustment were agreed.

1. Stock is to be valued at 92% of its Book Value
2. R.D.D. is to be maintained at 10% on debtors
3. The value of Building is to be appreciated by 20%
4. The Goodwill of the firm be fixed at ₹ 12000. Sona's share in the same be adjusted in the accounts of continuing partners in Gain Ratio.
5. The entire Capital of the new firm be fixed at ₹ 1,60,000 between Nana and Nani in their New Profit sharing ratio which is fixed at 3:1 making adjustment in Cash.
6. Amount payable to Sona paid in cash.

Prepare : Revaluation A/c, Partnership Capital A/c , Balance Sheet as on 1st April 2019.

Solution :

In the Books of the firm

Dr.	Revaluation A/c		Cr.
Particulars	Amt (₹)	Particulars	Amt (₹)
To Stock A/c	960	By Building A/c	11,000
To R.D.D. A/c	200		
To Partners Capital A/c (Profit)			
Nana	4,920		
Nani	1,968		
Sona	2,952		
	<u>9,840</u>		
	11,000		11,000

Dr.	Partner's Capital Account						Cr.
Particular	Nana (₹)	Nani (₹)	Sona (₹)	Particulars	Nana (₹)	Nani (₹)	Sona (₹)
To Goodwill	3,000	600	36,552	By Balance b/d	50,000	20,000	30,000
To cash A/c				By P & L Adj. A/c	4,920	1,968	2,952
To Balance c/d	1,20,000	40,000		(Profit)			
				By Goodwill A/c			3,600
				By Cash A/c	68,080	18,632	
	1,23,000	40,600	36,552		1,23,000	40,600	36,552

Working Note:**1. Calculation of Gain Ratio**

Old Ratio : 5: 2: 3

New Ratio : 3:1

Gain Ratio = New Ratio – Old Ratio

$$\text{Nana's Gain Ratio} = \frac{3}{4} - \frac{5}{10} = \frac{30 - 20}{40} = \frac{10}{40}$$

$$\text{Nani's Gain Ratio} = \frac{1}{4} - \frac{2}{10} = \frac{10-8}{40} = \frac{2}{40}$$

Gain Ratio = 10:2 i.e. 5:1

Balance Sheet as on 1st April 2019

Liabilities	Amt ₹	Amt ₹	Assets	Amt ₹	Amt ₹
Creditors		10,000	Cash		67,160
Bills payable		5,000	Stock	12,000	
Capital A/c:			Less: Reduction	960	11,040
Nana		1,20,000	Debtors	12,000	
Nani		40,000	Less : R.D.D	1200	10,800
			Building	55,000	
			Add : Appreciation	11,000	66,000
			Machinery		20,000
		1,75,000			1,75,000

3. The Balance Sheet of Shyam Traders Pune is as follows, Partners share Profit and Losses as 5:2:3**Balance Sheet as on 31st March 2019**

Liabilities	Amt ₹	Amt ₹	Assets	Amt ₹	Amt ₹
Capital Account:			Plan & Machinery		32,000
Rambha		36,000	Building		40,000
Menka		32,000	Stock		20,400
Urvashi		17,600	Debtors	16,800	
Creditors		20,000	Less: R. D. D.	800	16,000
Bill Payable		1,200	Bank		12,400
General Reserve		14,000			
		1,20,800			1,20,800

Menka retired from the business on 1st April 2019 on the following terms. The assets were revalued as under.

- Stock at ₹ 28,000
 - Building is appreciated by 10%
 - R.D.D. is to be increased upto ₹ 1000
 - Plant and Machinery is to be depreciated by 10%
- The Goodwill of retiring partner is valued at ₹ 8000 and the remaining Partners decided that Goodwill be written back in their New Profit sharing ratio which will be 5:3
 - Amount due to Menka is to be transferred to her Loan Account

Prepare : Profit and Loss Adjustment A/c , Capital Account of partners, Balance Sheet of new firm.

In the Books of Shyam Traders Pune

Dr.

Profit and Loss Adjustment A/c

Cr.

Particulars		Amt (₹)	Particulars	Amt (₹)
To R. D. D (1000-800)		200	By Stock A/c	7,600
To Plant & Machinery		3,200	By Building A/c	4,000
To Partners Capital A/c's (profit)				
Rambha	4,100			
Menka	1,640			
Urvashi	2,460	8,200		
		11,600		11,600

Dr.

Partner's Capital Account

Cr.

Particular	Rambha (₹)	Menka (₹)	Urvashi (₹)	Particulars	Rambha (₹)	Menka (₹)	Urvashi (₹)
To Goodwill A/c	5,000	-	3,000	By Balance b/d	36,000	32,000	17,600
To Loan A/c	-	44,440	-	By Goodwill A/c	-	8,000	-
To Balance c/d	42,100	-	21,260	By General Reserve A/c	7,000	2,800	4,200
				By P & L Adj. A/c (Profit)	4,100	1,640	2,460
	47,100	44,440	24,260		47,100	44,440	24,260

Balance Sheet as on 1st April 2019

Liabilities	Amt ₹	Amt ₹	Assets	Amt ₹	Amt ₹
Creditors		20,000	Stock	20,400	
Bills Payable		1,200	Add : Appreciation	7,600	28,000
Capital A/c :			Building	40,000	
Rambha	42,100		Add : Appreciation	4,000	44,000
Urvashi	21,260	63,360	Debtors	16,800	
Menka's loan A/c		44,440	Less : R.D.D	1,000	15,800
			Plant & Machinery	32,000	
			Less : Depreciation	3,200	28,800
			Bank		12,400
		1,29,000			1,29,000

4. Kale, Gore and Pandhare were partners sharing Profit and losses in the ratio 3:3: 2. Their Balance sheet as on 31st March 2018 is as follows.

Balance Sheet as on 31st March 2018

Liabilities	Amt ₹	Assets	Amt ₹
Capital Account:		Building	10,000
Kale	11,000	Plan & Machinery	10,700
Gore	15,000	Lice Stock	10,000
Pandhare	8,000	Debtors	5,000
Creditors	8,900	Stock	6,600
Bill Payable	2,000	Bank	6,600
Reserve Fund	4,000		
	48,900		48,900

On 1 st April 2018 Mr. Pandhare retired from the firm on the following terms.

1. Assets to be revalued as Stock ₹ 6300, Plant and Machinery ₹ 10,000 Live Stock ₹10,200
2. Goodwill of the firm is to be valued at ₹ 4,000, however only Pandhare's share in it is to be raised in the books and written off immediately.
3. R.D.D to be maintained at 10 % on debtors.
4. ₹ 100 to be written off from Creditors.
- 5) The amount payable to Mr. Pandhare to be transferred to his loan account.

Prepare : Profit and Loss Adjustment account, Partners Capital Account, Balance Sheet of new firm.

Solution :

In the Books of Shyam Traders Pune

Dr.			Cr.		
Profit and Loss Adjustment A/c					
Particulars	Amt (₹)	Particulars		Amt (₹)	
To Plant & Machinery A/c	700	By Live Stock A/c		200	
To Stock A/c	300	By Creditors A/c		100	
To R.D.D	500	By Partners Capital A/c (Loss)			
		Kale	450		
		Gore	450		
		Pandhare	300	1,200	
	1,500			1,500	

Dr.				Cr.			
Partner's Capital Account							
Particular	Kale (₹)	Gore (₹)	Pandhare (₹)	Particulars	Kale (₹)	Gore (₹)	Pandhare (₹)
To Goodwill A/c.	5,00	500		By Balance b/d	11,000	15,000	8,000
To P & L Adj. A/c	450	450	300	By Reserve Fund A/c	1,500	1,500	1,000
(Loss)				By Goodwill A/c			1,000
To Loan A/c			9,700				
To Balance c/d	11,550	15,550					
	12,500	16,500	10,000		12,500	16,500	10,000

Balance Sheet as on 1st April 2018

Liabilities	Amt ₹	Amt ₹	Assets	Amt ₹	Amt ₹
Capital Account:			Building		10,000
Kale	11,550		Pant & Machinery	10,700	
Gore	15,550	27,100	Less : Depreciation	700	10,000
Pandhare's Loan A/c		9,700	Live Stock	10,000	
Creditors	8,900		Add : Appriciation	200	10,200
Less : Written off	100	8,800	Debtors	5,000	
Bills Payable		2,000	Less : R.D.D.	500	4,500
			Stock	6,600	
			Less : Depreciation	300	6,300
			Cash		6,600
		47,600			47,600

5. Given Below is the Balance Sheet of Vaishali, Madhuri, and Menka who were sharing profit and losses in the ratio 3:3:3:

Balance Sheet as on 31st March 2019

Liabilities	Amt (₹)	Amt (₹)	Assets	Amt (₹)	Amt (₹)
Creditors		10,500	Cash		19,500
Bank Overdraft		5,000	Debtors	16,000	
General Reserve		12,000	Less : R.D.D.	2,000	14,000
Capital A/c :			Furniture		15,000
Vaishali		28,700	Machinery		40,000
Madhuri		31,800	Motor car		25,000
Manasi		30,000	Profit & loss A/c		4,500
		1,18,000			1,18,000

Vaishali retired on 1st April 2019 form the firm on the following terms.

- Furniture be valued ₹ 14,000, Machinery at ₹ 38,000 and Motor car ₹ 23,800
- R.D.D. be maintained at 5% on Debtors
- Goodwill of the firm be valued at ₹ 15,000. However only Vailshali's share in it is to be raised in the Books.
- A part payment of ₹ 10,000 be made to Vaishali and the balance be transferred to her Loan Account.

Prepare Profit and Loss Adjustment Account , Partners Capital A/c, Balance Sheet of new firm.

In the Books of the firm

Dr.	Profit and Loss Adjustment A/c				Cr.
Particulars	Amt (₹)	Amt (₹)	Particulars	Amt (₹)	Amt (₹)
To Furniture A/c		1,000	By R.D.D		1,200
To Machinery A/c		2,000	By Partners Capital A/c (Loss)		
To Motor Car A/c		1,200	Vaishali	1,000	
			Madhuri	1,000	
			Manasi	1,000	3,000
		4,200			4,200

Dr.	Partner's Capital Account						Cr.
Particular	Vaishali (₹)	Madhuri (₹)	Manasi (₹)	Particulars	Vaishali (₹)	Madhuri (₹)	Manasi (₹)
To P & L A/c	1,500	1,500	1,500	By Balance b/d	28,700	31,800	30,000
To P & L Adj. A/c (Loss)	1,000	1,000	1,000	By General Reserve	4,000	4,000	4,000
To Cash A/c	10,000			By Goodwill A/c	5,000		
To Vaishali's Loan A/c	25,200						
To Balance c/d		33,300	31,500				
	37,700	35,800	34,000		37,700	35,800	34,000

Balance Sheet as on 1st April 2019

Liabilities	Amt ₹	Amt ₹	Assets	Amt ₹	Amt ₹
Creditors		10,500	Cash		9,500
Bank Overdraft		5,000	Debtors	16,000	
Vaishali's Loan A/c:		25,200	Less : R.D.D.	800	15,200
Capital A/c:			Furniture	15,000	
Madhuri		33,300	Less Depreciation	1,000	14,000
Manasi		31,500	Machinery		38,000
			Motor car	25,000	
			Less Depreciation	1,200	23,800
			Goodwill		5,000
		1,05,500			1,05,500

6. Following is the Balance Sheet of Anil, Sunil and Suresh who were sharing Profit and Losses equally.

Balance Sheet as on 31st March 2019

Particular	Amt ₹	Amt ₹	Assets	Amt ₹	Amt ₹
Creditors		20,300	Bank		8,400
Bills payable		10,600	Debtors	18,000	
General Reserve		13,500	Less :R.D.D	900	17,100
Capital A/c:			Computer		17,500
Anil		43,600	Land & Building		70,000
Sunil		35,000	Machinery		10,000
Suresh		32,000	Furniture		20,000
			Goodwill		12,000
		1,55,000			1,55,000

On 1st April 2019 Suresh retired from the firm on the following terms.

- Land and Building be appreciated by 10% and Computer be reduced by ₹ 1,900.
- Debtors were all good and R.D.D. was no longer required.
- Machinery be revalued at ₹ 9,400
- Goodwill of the firm be valued at ₹ 16,500.
- Furniture were sold at ₹ 21,800 and part payment of ₹ 15,000 was made to Suresh by R.T.G.S. and balance was transferred to his Loan Account.

Prepare: Profit and Loss Adjustment A/c , Partners capital A/c's, Balance Sheet of Anil and Sunil

Solution:

In the Books of Anil And Sunil

Dr.

Profit and Loss Adjustment A/c

Cr.

Particulars	Amt ₹	Amt ₹	Particulars	Amt ₹	Amt ₹
To Computer A/c		1,900	By Land and Building A/c		7,000
To Machinery A/c		600	By R.D.D A/c		900
To Partners Capital A/c:			By Furniture A/c		1,800
(profit)					
Anil	2,400				
Sunil	2,400				
Suresh	2,400	7,200			
		9,700			9,700

Dr.

Partner's Capital Account

Cr.

Particular	Anil (₹)	Sunil (₹)	Suresh (₹)	Particulars	Anil (₹)	Sunil (₹)	Suresh (₹)
To Bank A/c			15,000	By Balance b/d	43,600	35,000	32,000
To Suresh			25,400	By General Reserve	4,500	4,500	4,500
Loan A/c				By P & L Adj. A/c (Profit)	2,400	2,400	2,400
To Balance c/d	52,000	43,400		By Goodwill A/c	1,500	1,500	1,500
	52,000	43,400	40,400		52,000	43,400	40,400

Balance Sheet as on 1st April 2019

Particular	Amt ₹	Assets	Amt ₹
Creditors	20,300	Bank	15,200
Bills Payable	10,600	Debtors	18,000
Suresh's Loan A/c	25,400	Computer	15,600
Capital Account :		Land & Building	77,000
Anil	52,000	Machinery	9,400
Sunil	43,400	Goodwill	16,500
	1,51,700		1,51,700

7. Given below is the balance Sheet of Jaya, Maya and Mamta, who were sharing Profit and losses as 3:3:2

Balance Sheet as on 31st March 2019

Particular	Amt ₹	Assets	Amt ₹
Creditors	34,400	Bank	21,600
Bills payable	9,200	Plant and Machinery	34,800
Capital Account :		Debtors	50,000
Jaya	48,000	Live Stock	25,200
Maya	52,000	Equipments	16,000
Mamta	36,000	Investment	48,000
General Reserve	16,000		
	1,95,600		1,95,600

On 1st April 2019 Mamta retired from the firm on the following terms.

- Assets to be revalued as under
Live Stock ₹ 24,000; Plant and Machinery ₹ 32,000, Equipments ₹ 16,800
- An item of ₹ 400 from Creditors is no longer a liability and hence should be properly adjusted.
- Mr. Ram, our customer may or may not be able to pay his debts of ₹ 2000
- The amount due to Mamta be transferred to her Loan Account.

Pass necessary Journal Entries in the books of the firm.

Journal entries in the books of Partnership firm

Date	Particulars	LF	Debit ₹	Credit ₹
2019 April 1	General Reserve A/c Dr. To Jaya's Capital A/c To Maya's Capital A/c To Mamta's Capital A/c (Being General Reserve distributed among partners)		16,000	- 6,000 6,000 4,000
	Revaluation A/c Dr. To Live Stock A/c To Plant and Machinery A/c To R.D.D. A/c (Being assets depreciated and R.D.D. Provided on Debtors)		6,000	1,200 2,800 2,000
	Equipment A/c Dr. Creditors A/c To Revaluation A/c (Being Equipments appreciated in value and creditors decreased in value)		800 400	1,200
	Jaya's Capital A/c Dr. Maya's Capital A/c Dr. Mamta's capital A/c Dr. To Revaluation A/c (Being loss on revaluation distributed and transferred to capital accounts)		1,800 1,800 1,200	4,800
	Mamta's Capital A/c Dr. To Mamta's Loan A/c (Being balance amount due to mamta transferred to her loan A/c)		38,800	38,800

Working Note :-

- 1) Calculation of profit on Revaluation of Assets and Liabilities

Dr.

Revaluation Account

Cr.

Particular	Amt ₹	Particular	Amt ₹
To Live Stock A/c	1,200	By Equipments A/c	8,00
To Plant and Machinery	2,800	By Creditors A/c	400
To R.D.D. A/c	2,000	By Partners Capital Accounts (loss)	
		Jaya	1,800
		Maya	1,800
		Mamta	1,200
			4,800
	6,000		6,000

Dr.

Partner's Capital Account

Cr.

Particular	Anil (₹)	Sunil (₹)	Suresh (₹)	Particulars	Anil (₹)	Sunil (₹)	Suresh (₹)
To Revaluation A/c (Loss)	1,800	1,800	1,200	By Balance c/d	48,000	52,000	36,000
To Suresh Loan A/c			38,800	By General Reserve	6,000	6,000	4,000
To Balance c/d	52,200	56,200					
	54,000	58,000	40,000		54,000	58,000	40,000
				By Balance b/d	52,200	56,200	

EXERCISE - 4

(A) Select the most appropriate alternatives from those given below and rewrite the sentence.

- The Profit or Loss from revaluation on retirement of partner is shared by
 a) The remaining partners b) All the partners
 c) Only retiring partner d) Bank
- Decrease in the value of assets should be to Profit and Loss Adjustment Account.
 a) Debited b) Credited c) Added d) Equal
- The balance of the capital account of retired partner is transferred to his account if it is not paid.
 a) Loan b) Personal c) Current d) Son's
- Gain ratio....., Ratio less Old Ratio Gain Ratio.....Ratio less Old Ratio.
 a) New b) Equal c) Capital d) Sacrifice
- New Ratio = Old Ratio + Ratio
 a) Gain b) Capital c) Sacrifice d) Current
- Apte, Bhate and Chitale are sharing $\frac{1}{2}$, $\frac{3}{10}$, and $\frac{1}{5}$ if Apte retire their new ratio will be
 a) 5:2 b) 3:2 c) 5:3 d) 2:5

(B) Write the word, term, phrase, which can substitute each of the following statement.

- Credit balance of Profit and Loss Adjustment Account.
- The Ratio in which the continuing partners are benefited due to Retirement of Partner.
- Debit balance of Revaluation Account
- The ratio which is obtained by deducting Old Ratio from New Ratio.
- Money value of business reputation earned by the firm over a number of years.
- Partner's Account where Loss or Profit on revaluation is transferred.

(C) State whether the following statement are true or false with reasons.

1. Gain ratio means New ratio minus old ratio.
2. Retiring partners share in Profit up to the date of his retirement will be debited to Profit and Loss Suspense Account
3. On retirement of a partner sacrifice ratio is considered.
4. Retiring Partner is called an outgoing partner
5. On retirement of a partner, remaining partner will share the goodwill in their profit sharing ratio
6. Retiring partner is not entitled to share in General Reserve and Accumulated Profit.

(D) Fill in the blanks and rewrite the following sentence :

1. New Ratio (less) = Gain ratio
2. Retiring Partner's share of goodwill is to remaining partner's capital account .
3. Revaluation A/c is also known as account
4. On retirement, the balance at a current Account of a partner is transferred to his account.
5. A proportion in which the continuing partners get the share of retiring partner is known asratio.

(E) Answer the following.

1. What is meant by Retirement of a Partner?
2. What is Benefit Ratio?
3. What is New Ratio?
4. How is the amount due to the retiring partner settled?
5. How is Gain Ratio calculated?
6. Why is retiring partner's capital account credited with goodwill?

Practical Problems

1. The Balance Sheet of Mr. Mama, Kaka and Mr. Baba who shared profit and losses as 4:3:3 respectively.

Balance Sheet as on 31 st March 2018

Liabilities	Amt ₹	Amt ₹	Assets	Amt ₹	Amt ₹
Suppliers		7,000	Cash		4,500
Loan		5,000	Sundry Debtors	5,000	
General Reserve		6,250	Less : R:D:D	500	4,500
Capital Account:			Live Stock		12,500
Mama		20,000	Motor Car		4,000
Kaka		15,000	Furniture		17,500
Baba		12,250	Plant		22,500
		65,500			65,500

Kaka retires on 1st April 2018 on the following terms.

1. The share of Kaka in Goodwill of the firm is valued at ₹ 2,700
2. Furniture to be depreciated by 10% and Motor Car by 12.5%
3. Live Stock to be appreciated by 10% and Plant by 20%
4. A provision of ₹ 2,000 to be made for a claim of compensation.
5. R.D.D. is no longer necessary.
6. The amount payable to Kaka should be transferred to his Loan A/c

Ans. : 1. Profit and loss Adj. A/c profit ₹ 2,000, Balance Sheet Total ₹ 72200, kaka's loan A/c ₹ 20,175.

2. The Balance Sheet of Ram, Shyam and Ghanshyam sharing profits and losses 3:2:1 respectively. Their position on 31-3-2019 were as follows.

Balance Sheet as on 31st March 2019

Liabilities	Amt ₹	Assets	Amt ₹
Capitals :		Bank	54,000
Ram	1,20,000	Debtors	90,000
Shyam	90,000	Building	60,000
Ghanshyam	60,000	Investment	1,50,000
Creditors	22,000		
Bills payable	12,000		
Loan	50,000		
	65,500		3,54,000

Ghanshyam retired on 1st April 2019 on the following terms.

1. Building and Investment to be appreciated by 5% and 10% respectively.
2. Provision for Doubtful Debts to be created at 5% on Debtors.
3. The provision of ₹ 3,000 be made in respect of Outstanding Salary.
4. Goodwill of the firm is valued at ₹ 90,000 and partners decide that goodwill should be written back.
5. The amount payable to the Retiring partner be transferred to his Loan A/c.

Prepare : Profit and Loss Adjustment A/c , Partners Capital A/c, Balance Sheet of New firm.

Ans. : Profit and Loss Adjustment A/c. Profit = ₹ 10,500, Balance Sheet Total = ₹ 3,67,500, Ghanshyam's Loan A/c = ₹ 76,750

- 3 The Balance Sheet of the Anu, Renu and Dinu is as follows, the partners are sharing profits and losses in the proportion of 2:2:1 respectively.

Balance Sheet as on 31st March 2019

Liabilities	Amt ₹	Amt ₹	Assets	Amt ₹	Amt ₹
Creditors		8,000	Bank		5,000
Bills Payable		2,000	Debtors	20,000	
General Reserve		5,000	Less : R.D.D	1,000	19,000
Capital Account:			Furniture		15,000
Anu		40,000	Machinery		4,000
Renu		30,000	Free hold Property		27,000
Dinu		15,000	Goodwill		30,000
		1,00,000			1,00,000

Dinu retires from the firms on 1st April 2019 on the following terms.

- The assets are to be revalued as freehold property ₹ 30,000, Machinery ₹ 5000, Furniture ₹ 12000, All debtors are good.
- Goodwill of the firm be valued at thrice the average profit for preceding five years. Profits of the firm for the year.

2014-15	₹ 1,000	2015-16	₹ 10,500	2016-17	₹ 10,000
2017-18	₹ 16,000	2018-19	₹ 10,000		
- Dinu should be paid ₹ 3,000 by cheque
- The Balance of Dinu's capital A/c should be kept in the business as loan.

Prepare: Profit and loss adjustment A/c, Capital Accounts of partners , Balance Sheet of the new firm.

(Ans. Profit and Loss adjustment A/c Profit ₹ 8,600, Balance sheet total ₹1,05,600, Bank Balance ₹ 2000, Dinu's Loan A/c ₹ 14720)

- Rohan, Rohit and Sachin are partners in a firm sharing profit and losses in the proportion 3:1:1 respectively. Their balance sheet as on 31st March 2018 is as shown below.**

Balance Sheet as on 31st March 2018

Liabilities	Amt ₹	Assets	Amt ₹
Creditors	40,000	Bank	12,500
General Reserve	50,000	Debtors	60,000
Bills payable	25,000	Live Stock	50,000
Capital Accounts :		Building	75,000
Rohan	1,25,000	Plant and Machinery	35,000
Rohit	1,00,000	Motor Truck	1,00,000
Sachin	50,000	Goodwill	57,500
	3,90,000		3,90,000

On 1st April, 2018 Sachin retired and the following adjustments have been agreed upon.

- Goodwill was revalued at ₹ 50,000
- Assets and Liabilities were revalued as follows.
 Debtors ₹ 50,000, Live Stock, ₹ 45,000; Building ₹1,25,000, Plant and Machinery ₹ 30,000, Motor Truck ₹ 95,000 and Creditors ₹ 30,000

- Rohan and Rohit contributed additional capital through Net Banking of ₹ 50,000 and ₹ 25,000 respectively.
- Balance of Sachin's Capital Account is transferred to his Loan Account.

Give Journal entries in the books of new firm.

- Shah, Lodha and Dhole were partners sharing profits and losses in the ratio of 4:3:3. Their Balance Sheet as on 31st March 2019 is given below.

Balance Sheet as on 31st March 2019

Liabilities	Amt ₹	Amt ₹	Assets	Amt ₹	Amt ₹
Sundry Creditors		20,000	Cash		9,000
Bills payable		4,000	Sundry Debtors	10,000	
Capital Account:			Less: R.D.D.	1,000	9,000
Shah		45,000	Furniture		25,000
Lodha		35,000	Computers		43,000
Dhole		27,000	Vehicles		45,000
		1,31,000			1,31,000

On 1st April 2019, Mr. Lodha retired from the firm on the following terms.

- Goodwill is to be valued at an average Profits and Losses of the last five years which were as follows.

Years	Profit/Loss
2015	₹ 35,000
2016	₹ 20,000
2017	₹ 30,000
2018	₹ 20,000
2019	₹ 25,000

- Computers to be depreciated by 10%
- Furniture to be revalued at ₹ 27,500
- Vehicles appreciated by 20%
- R.D.D. was no longer necessary
- Shah and Dhole will share the future profits and losses in the ratio of 2:1
- It was decided that goodwill should not appear in the books of a new firm and amount payable to Lodha is to be transferred to his Loan A/c

Prepare : Profit and Loss adjustment A/c , Partners capital accounts, Balance sheet of new firm,

(Ans. : Profit on Revaluation ₹ 8,200, Balance Sheet Total ₹ 1,39,200)

Activity :

- Visit to Partnership firm and collect the procedure of Retirement and calculate retiring partners share of goodwill.
- Visit any lawyers office and obtain the procedure for preparation of New Partnership Deed after Retirement of an existing partner.

