

4. Reconstitution of Partnership (Retirement of Partner)

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

1. 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

2. Decrease in the value of assets should be.....to Profit and Loss Adjustment Account.

a) Debited

b) Credited

c) Added

d) Equal

3. 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

4. Gain ratio....., Ratio less Old Ratio Gain Ratio.....Ratio less Old Ratio.

a) New

b) Equal

c) Capital

d) Sacrifice

5. New Ratio = Old Ratio +..... Ratio

a) Gain

b) Capital

c) Sacrifice

d) Current

6. 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.

1 Credit balance of Profit and Loss Adjustment Account.

Ans: Profit on Revaluation Account

2 The Ratio in which the continuing partners are benefited due to Retirement of Partner.

Ans: Gain Ratio

3 Debit balance of Revaluation Account

Ans: Loss on Revaluation

4 The ratio which is obtained by deducting Old Ratio from New Ratio.

Ans: Gain Ratio

5 Money value of business reputation earned by the firm over a number of years.

Ans: Goodwill

6 Partner's Account where Loss or Profit on revaluation is transferred.

Ans: Capital / Current account

(C) (1) State whether the following statements are True or False with reasons

(1) Gain ratio means New ratio minus Old ratio,

Ans. This statement is True

As per definition, profit sharing ratio which is acquired by the continuing partners from the retiring partner is called gain ratio. If gain ratio added to old ratio we will get New ratio, It means $\text{New ratio} = \text{Old ratio} + \text{Gain ratio}$ by interchanging the terms, we will get $\text{Gain ratio} = \text{New ratio} - \text{Old ratio}$.

(2) Retiring partner's share in profit up to the date of his retirement will be debited to Profit and Loss Suspense Account.

Ans. This statement is True

If a partner retires from the firm during the accounting year, the profit or loss for the period from the date of last balance sheet to the date of retirement is calculated on the basis of last year's profit or average profit and accredited to retiring partner's

capital Ac and for time being It debited to new account called Profit and Loss Expense Ne. This is because final accounts cannot be prepared on any date during the accounting year.

(3) On retirement of a partner, sacrifice ratio is considered.

Ans. This statement is False.

On retirement of a partner, his share is acquired by continuing partners in certain proportion and it is nothing but gain for them. Therefore, on retirement of a partner instead of sacrifice ratio gain ratio is considered.

(4) Retiring partner is called an outgoing partner.

Ans. This statement is True.

When a person retires from the firm due to health issues, financial issues or personal reasons then it is known as person retires from the business and for the business, he is an outgoing partner.

(5) On retirement of a partner, remaining partner will share the goodwill in their profit sharing ratio.

Ans. This statement is False.

On retirement of a partner, after giving retiring partner's share in goodwill and if goodwill is written off, then remaining partners will adjust the goodwill in their new profit sharing ratio.(If raised to full extent and written off)

(6) Retiring partner is not entitled to share in general reserve and accumulated profit.

Ans. This statement is False.

General reserve and accumulated profit are created out of past undistributed are the outcome of hard work of all the partners including retiring partner. Hence, retiring profit, such profits partner's has right to share general reserve and accumulated profit. He is therefore, entitled to get share in general reserve and accumulated profit.

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

1. New Ratio (less)..... = Gain ratio

Ans: Old Ratio

2. Retiring Partner's share of goodwill is.....to remaining partner's capital account.

Ans: Debited

3. Revaluation A/c is also known as.....account.

Ans: Profit and Loss Adjustment

4. On retirement, the balance at a current Account of a partner is transferred to hisaccount.

Ans: Capital

5. A proportion in which the continuing partners get the share of retiring partner is known asratio.

Ans: Gain

(E) (1) Answer the following:

(1) What is meant by Retirement of a Partner?

Ans. Retirement of a partner refers to a process in which a partner leaves the firm or severs his relations with other partners on account of his old age, continued ill health. Loss of interest in the firm, misunderstanding amongst the partners, etc.

(2) What is Benefit Ratio?

Ans. Profit sharing ratio which is acquired by the continuing partners on account of retirement or death of a partner is called Benefit Ratio or Gain Ratio.

(3) What is New Ratio?

Ans. The ratio in which profits or losses are shared by the continuing partners after retirement of a partner is called New Profit Sharing Ratio.

(4) How is the amount due to the retiring partner settled?

Ans. The amount due to a retiring partner is settled as per the terms of partnership agreement or otherwise mutually agreed upon either in lump sum or in Instalments.

(5) How is Gain Ratio calculated?

Ans. Gain ratio is calculated at the time of retirement of a partner by deducting old ratio from new ratio.

(6) Why is retiring partner's capital account credited with goodwill?

Ans. Goodwill is an Intangible assets or benefits accrued to the firm and its benefits are transferred to retiring partner's Capital A/c by giving credit.