Chapter-5
Retirement and death of a partner

1: A, B and C are partners sharing profit and loss in the ratio of then on retirement of the gaining ratio/new, ratio will be

Solution: On A’s Retirement 2: 1

On B’s Retirement 3: 1

On C’ s retirement 3:1

2: A, B, & C share profit in the ratio 3:2:1 on C’s death his taken by A & b in the rate of 2:1 Calculate new ratio.

Solution: in this case gaining ratio = 2:1 (given)

A’s old share = 3/6 B’s old share = 2/6 & C’s share = 1/6

A’s gain =2/3 of c’s share 2/3 *1/6 =2/18

B’s gain = 1/3 of C’s share =1/3 *1/6 =1/18

A’s new share = A’s old + gain

=2/6 +1/18 = 11/18

B, s new share = B’s old share + B’s gain

=2/6 + 1/18= 7/18

New ratio =11:7

3: A, B, C are partners in the ratio of 3:2:1 C retires & A & B decide to share future profit in the ratio of 5:3

Solution. A’s Gain = 5/8 - 3/6 = 3/24

B’s gain   =3/8-3/6=3/24

Gaining ratio =3 :1

Distinction between the Sacrificing and Gaing Ratio

Basic	Sacrificing Ratio	Gaining Ratio
1. Meaning	It is the ratio in which the old partners surrender a part of their share of profits in favour of a new partner.	It is the ratio in which the remaining partners acquire the outgoing partner’s share of profit
2. When Calculated	At the time of admission of new partner	At the time retirement or death of a partner.
3. Formula	Sacrificing Ratio = Old Ratio – New ratio	Gaining Ratio = New Ratio – Old Ratio
4. Purpose I	New partners share of goodwill is divide between old partners in this ratio.	Retiring or deceased partner’s share of goodwill is paid by the continuing partners in the ratio.

4: M. N. & p are partners in a firm P retires & the goodwill of firm is valued at 30000. M & N decide to share future profits in the ratio of pass necessary adjustment entries.

1. if goodwill A/c already appears in books at 18000

2.   When no goodwill A/c appears in the books.

Solution :

Old ratio of M, n &p= 1:1:1 (sharing ratio in not given it true as equal) New ratio = 3:2

M’s gain   = 3/5   1/3   = 4/15

N’s gain   = 2/5 – 1/3   1/15

Gaining ratio   = 4:1

Ps share of goodwill = $30,000 \times \frac{1}{3}$ = Rs. 10,000

Journal

Date	Particulars	L.F.	Debit (Rs.)	Credit (Rs.)
	M's capital A/c Dr. N's capital A/c Dr. P's capital A/c Dr. To Goodwill A/c (Being the existing goodwill written off in old ratio i.e. 1:1:1)		9000 6,000 6,000	18,000
	M's capital A/c Dr. N's capital A/c Dr. To P's Capital A/c (Being adjustment made for goodwill on retirement in giving ratio i.e., 4 : 1)		8,000 2,000	10,000

Case 2 : When No goodwill already appears in the books then only second entry will be done.

5: R, S & T are partners in a firm sharing profit & loss in the ratio of 2 : 2 : 1. T Retires and his balance in capital a/c after adjustment for reserve & revaluation of assets & liabilities comes out to be Rs. 50000. Rs. & S agree to pay him Rs. 60000. Give journal entry for the adjustment of goodwill.

Solution :

New ratio between R & S = gaining ratio = 2:2 or 1:1

T's share of goodwill (hidden) = 60000- 50000 = 10000

Hence adjustment entry is

Journal

Date	Particulars	L.F.	Debit (Rs.)	Credit (Rs.)
	R's capital A/c Dr. To T's capital A/c Dr. To T's capital A/c (T's share of goodwill adjustment in gaining ratio i.e. 1:1)		5,000 5,000	10,000

6 : X, Y and Z are partners in a firm sharing profits and losses in the ratio of 2:1:1, Y retires on 31st march, 2011. On that date, there was a balance Rs. 24,000 in general reserve and Rs. 16,000 in profit and loss A/c of the firm. Give Journal entries.

Solution:

Journal

Date	Particulars	L.F.	Debit (Rs.)	Credit (Rs.)
	General Reserve A/c Dr. P & L A/c Dr. To X's capital A/c Dr. To Y's capital A/c To Z's capital A/c (Reserve & Surplus amount distributed in old ratio on Y's retirement)		24,000 16,000	20,000 10,000 10,000

7 : P, Q and R are partner's sharing profits and losses in the ratio 3:2:1. P retires and on that date there was workmen's compensation fund amount Rs. 30,000.

In the Balance Sheet. But actual liability on this account was for Rs. 12,000 on that date. Give Journal Entry.

Solution: Excess amount in Workmen's Compensation Fund = Rs. 30,000 – Rs. 12,000 = Rs. 18,000 (Cr.)This will be transferred to all partner's Capital A/c in old ratio

Journal

Date	Particulars	L.F.	Debit (Rs.)	Credit (Rs.)
	Workmen Compensation Fund A/c Dr. To P's capital A/c To Q's capital A/c To R's capital A/c To Claim for workmen compensation fund A/c (Excess amount in Workmen Compensation Fund capital A/cs in old ratio) is transferred to parties		30,000	9,000 6,000 3,000 12,000

8 : A, B and C are equal partners. A retires and on that date there was a debit balance of L 15,000 in P & L A/c. Give Journal entry.

Solution :

Date	Particulars	L.F.	Debit (Rs.)	Credit (Rs.)
	A's capital A/c Dr. B's capital A/c Dr. C's capital A/c Dr. To P & L A/c (Loss in P&L A/c written off (in old ratio) on A's retirement)		5,000 5,000 5,000	15,000

10 : A, B and C are partners in a firm. B retires from the firm on the Jan 2015. On the date of his retirement Rs. 66,000 were due to him. It was decided that the payment will be done in 3 equal yearly installments together with interest @ 10% p.a. on the unpaid balance, Prepare B's Loan A/c.

Solution :

B's Loan A/c

Date	Particulars	L.F	Rs.	Date	Particulars	L.F	Rs.

2015 Dec 31	Bank A/c (22,000+6600) Balance c/d	28,600 44,000	2015 Dec 31	B’s Capital A/c By Interest A/c (10% of 66,000)	66,000 6,600
		72,600			72,600
2016 Dec 31	Bank A/c Balance c/d	26,400 22,000	2015 Jan 1	Balance b/d Br. Interest A/c (10% of 44,000)	44,000 4,400
		48,400			48,400
2017 Dec 31	Bank A/c (Final Payment)	24,200	2017 Jan 1 Dec 31	Balance b/d Interest A/c (10% of 22,000)	22,000 2,200
		24,200			24,200

11: X, Y and Z are partners in a firm sharing profits in the ratio of 2:2:1 X retires and after all adjustments the Capital A/cs of the Y and Z have a balance of Rs. 70,000 and Rs. 50,000 respectively. They decided to adjust their capitals in new profit sharing ratio by withdrawing or bringing cash. Give necessary Journal entries and show your working clearly.

Solution:

The capital of the new firm

= Total Capital of Y and Z after adjustments

= 70,000 + 50,000

= 1,20,000

	Y (Rs.)	Z (Rs.)
New Capital based on New Ratio i.e. 2:1 (total being 1,20,000) Existing capital after adjustments	80000 70,000	40,000 50,000
Cash is being brought or paid off	10,000 (brought in)	10,000 (to be paid)

Journal Entries

	Particulars	L.F	Debit (Rs.)	Credit (Rs.)
1.	Bank A/c Dr. To Y's Capital A/c (Amount to be brought in by Y)		10,000	10,000
2.	Z's Capital A/c Dr. To Bank A/c (Amount to be withdrawn by Y)		10,000	10,000

12 : A, B and C are partner sharing profits in the ratio of 3:2:1. A on 31st July 2015. The profits of the firm for the year ending 31st March 2015 year Rs. 42000. Calculate A's share for the period from 1st April to 31st July 2015 on basis of last year's profits. Pass necessary journal entry also.

Solution : A's Profit = Preceding year's profit × Proportionate Period × Share of A

$$Rs.\ 42,000 \times \frac{4}{12} \times \frac{3}{6}$$

Rs. 7,000

Date	Particulars	L.F.	Debit (Rs.)	Credit (Rs.)
2015 July, 31	Profit and Loss Suspense a/c Dr. To A's Capital A/c (A's share of profit transferred to his capital A/c		7,000	- 7,000

13 : If in the – 1 given above the sales for the last year are Rs. 2,10,000 and for the current year upto 31st July are say Rs. 90,000 then Profits from 3st April to 31st July 2015.

Solution : = $\frac{90,000}{2,10,000} \times 42,000$ = Rs. 18,000

A's share = Rs. $18,000 \times \frac{3}{6}$ = 9,000

Journal Entry will be

Date	Particulars	L.F.	Debit (Rs.)	Credit (Rs.)
2015 July, 31	P&L Suspense A/c Dr. To A's Capital A/c (Being A's share of profit till date of his death transferred to his capital A/c		9,000	9,000

Problem 1: (Preparation of balance sheet of the reconstituted firm) Vijay, Vivek and Vinay are partners in a firm sharing profits in 2:2:1 ratio, On 31.3.2015 Vivek retires from the firm. On the date of Vivek's retirement the balance sheet the firm was as follows:

Balance Sheet of Vijay, Vivek and Vinay

Particulars	(Rs.)	Assets	(Rs.)
Creditors	54,000	Bank	55,000
Bill Payable	24,000	Debtor 12,000 Less: Provision for Doubtful 800	11,200
Outstanding Rent	4,400	Stock	18,000
Provision for Legal Cluim	12,000	Furniture	8,200
Capital : Vijay 92,000 Vivek 60,000 Vinay_ 40,000	1,92,000	Premises	1,94,000
	2,86,400		2,86,400

On Vivek's retirement it was agreed that :

i. Premises will be appreciated by 5% and furniture will be appreciated by Rs. 2,000 Stock will be depreciated by 10%

ii. Provision for bad debts was to be made at 5% on debtors and provision legal damages to be made for Rs. 14,400.

iii. Goodwill of the firm is valued at Rs. 48,000.

iv. Rs. 50,000 from Vivek's Capital A/c will be transferred to his Loan A/c and balance will be paid by cheque.

Prepare revaluation a/c, partners Capital A/cs and Balance Sheet of Vijay Vinay after Vivek's retirement.

Solution :

Revaluation Account

Particulars		(Rs.)	Assets	(Rs.)
To Stock		1,800		
To Provision for legal Claim		2,400		
To Profit Transferred			By Premises	9,700
Vijay	3,080		By Furniture	2,000
Vivek	3,080		By Provision For doubtful debts	200
Vinay_	1,540	7,400		
		11,900		11,900

Capital Account

Particulars	Vijay	Vivek	Vinay	Particulars	Vijay	Vivek	Vinay
Vivek's Capital	12,800	-	6,400	By Balance b/d	92,000	60,000	40,000
Vivek's Loan	-	50,000	-	By Revaluation A/c	3,080	3,080	1,540
Bank	-	32,280	-	By Vijay's Capital	-	12,800	-
	82,280	-	35,140	By Vinay's	-	6,400	-

Balance c/d				Capital			
	95,080	82,280	41,540		95,080	82,280	41,540

Balance Sheet

As at 31st March 2015

Liabilities	(Rs.)	Assets		(Rs.)
Creditors	54,400			
Bill Payable	24,000	Bank		22,920
Outstanding Rent	4,400	Debtors	12,000	
Provision for legal claims	14,400	Less provision	600	11,400
Vijay's	50,000	Stock		16,200
Vivek's	82,280	Furniture		10,000
Vinay's	35,140	Premises		2,03,700
	2,64,220			2,64,220

Working Note :

1. New Provision of bad debts on debtors (5%) = 5% of Rs. 12,000 = 600 provision Rs. 800 as given in the balance Sheet. Excess of Rs. 200 is profit transferred to revaluation A/c

2. Goodwill of the firm = 48,000 Vivek share = $48,000 \times \frac{2}{5}$ =Rs. 19,200 be given Vijay & Vinay in Gaining Ratio i.e. 2:1

Goodwill contributed by Vijay = $Rs.19,200 \times \frac{2}{3}$ = Rs. 12,800.

Goodwill contributed by Vijay = $Rs.19,200 \times \frac{1}{3}$ = Rs. 6,400.

3. Vivek's total amount due on retirement = Rs 82,280

Less: amount transferred to his loan A/c = Rs. 50,000

Amount to be paid by cheque = Rs. 32,280

Problem 2: (Death of a partner) M, N and 0 were partners in a firm sharing profits and losses equally.

Their Balance Sheet on 31-12-2014 was as follows:

Liabilities	(Rs.)	Assets	(Rs.)
Capitals :			
M 70,000			60,000
N 70,000		Plant and machinery	30,000
O 70,000	2,10,000	Stock	95,000
General Reserve	30,000	Sundry Debtors	40,000
Creditors	20,000	Cash at Bank	35,000
		Cash in Hand	
-	2,60,000		2,60,000

N died on 14th March, 2015. According to the Partnership Dead, executers on the deceased partner are entitle to :

(i) Balance of partner's capital A/c

(ii) Interest on capital @ 5% p.a.

(iii) Share of goodwill calculated on the basis of twice the average of past there years profits.

(iv) Share of profits from the closure of the last accounting year till the date of the death on the basis of twice the average of three completed year's profit before death. Profits for 2012, 2013 and 2014 were Rs. 80,000, Rs. 90,000 and Rs. 1,00,000 respectively. Show the working for deceased partner's share of goodwill and profits till the date of his death. Pass the necessary journal entries and prepare N's Capital A/c to be renderer to his executers.

Solution :

Journal

Date	Particulars	L.F		

			Debit (Rs.)	Credit (Rs.)
2015 March, 14th	General Reserve A/c Dr. To N's Capital A/c (Being transfer of N's share of general reserve of his Capital A/c)		10,000	10,000
	Interest on Capital A/c Dr. To N's Capital A/c (Being interest 5% p.a. credited to N's Capital A/c upto 14/03.2010)		700	700
	M's Capital A/c Dr. O's Capital A/c Dr. To N's Capital A/c (Being goodwill adjusted in gaining ratio i.e. 1:1)		30,000 30,000	60,000
	Profit and Loss Suspense's A/c Dr. To N's Capital A/c (Being the transfer to N's share of profit to his capital A/c)		12,000	12,000
	N's Capital A/c Dr. To N's Executor A/c (Being the transfer of amount due to N's executor A/c)		1,52,700	1,52,700

N's Capital A/c

Particulars	(Rs.)	Particulars	(Rs.)
To N's Executors A/c	1,52,700	By Balance b/d By General Reserve A/c By Interest on Capital A/c $\left(70,000\times\frac{5}{100}\times\frac{73}{365}\right)$ By M's Capital A/c By O's Capital A/c	70,000 10,000 700 30,000 30,000

		By Profit & Loss $\left(90,000 \times 2 \times \frac{73}{365} \times \frac{1}{3}\right)$	12,000
	1,52,700		1,52,700

Working Note :

1. Calculation of Goodwill

Average profit for 3 years

$\frac{(Rs.\ 80,000 + 90,000 + 1,00,000)}{2}$ = Rs. 90,000

Goodwill of the firm = Average Profit $\times$ No. Of year of Purchase

= $90,000 \times 2$ = Rs. 1,80,000

Total N's Share in Goodwill = $1,80,000 \times \frac{1}{3}$ = 60,000

2. Time from the date of last balance Sheet (31st December, 2014) to the date of death (14th March, 2015)

= 31 days of January + 28 days of Feb (2015 is not a leap year) + 14 days of March = 73 days

Payment for deceased : Partner payment for deceased partner either in lump sum or in installments.

a. When payment is made in full (lump sum)

Accounting entry in this case will be

Deceased Partner's Executor A/c   Dr.

To Bank A/c

b. When Payment is made in installments. When payment is made in installments interest is paid on installments at agreed price or @ 6% per annum.

Journal entries are :

(i) When interest is allowed

Interest A/c   Dr.

To Deceased Partner's Executor A/c

(ii) When installment is paid :

Deceased partner's Executors A/c Dr.

To Bank A/c   (interest & installment amount)

Problem 3 : The balance sheet of PQ & R as 31st Dec.2012 was as follows.

Liabilities		(Rs.)	Assets	(Rs.)
Bill Payable		20,000	Cash at Bank	1,58,000
Employees Provident Fund		50,000	Bills Receivable	8,000
Workmen compensation reserve		90,000	Stock	90,000
Loan		1,71,000	Sundry Debtors	1,60,000
Capitals Accounts:			Furniture	20,000
P	2,27,500		Plant & Machinery	65,000
Q	1,52,500		Building	3,00,000
R	1,20,000	5,00,000	Advertisement Suspense	30,000
-		8,31,000		8,31,000

The profit ratio was 3:2:1 R died on 30th April 2013. The partnership deed provides that :

a. Goodwill is to be calculate on the basis of 3 years purchase of preceding 5 years average profits. The profits were 2012. Rs. 2,40,000, 2011 Rs. 1,60,000, 2010 Rs. 2,00,000 2009 Rs. 1,00,000 and 2008. Rs. 50,000.

b. Deceased partner should be given share of profits upto the date of death on the basis

of previous your profits.

c. The assets have been revalued as under Stock Rs. 1,00,000 Debtors Rs. 3,50,000. A bill for Rs. 6000 was found worthless.

d. A sum of Rs. 72,333 was paid immediately to R's executor & balance is paid in two equal installments (annual) with interest of 10% p.a. on outstanding amount. 1st installment was paid on 30th April 2014.

Prepare Revolution account & R's Executor account till it is finally settled. Accounts are closed on 31st December each year.

Solution :

Revaluation Account

Particulars	(Rs.)	Particulars	(Rs.)
To provision for Doubtful debts To Furniture To Plant & Machinery To Bill Receivable To Profits transferred to P's capital A/c 12,000 Q's capital A/c 8,000 R's capital A/c 4000	10,000 5,000 15,000 6,000 24,000	By Stock By Building	10,000 50,000
	60,000		60,000

R's Capital A/c

Date	Particulars	(Rs.)	Date	Particulars	(Rs.)
30.4.13	To advertisement A/c $\left(30,000 \times \frac{1}{6}\right)$	5,000	1.1.13	By Balance b/d By workmen Compensation reserve By Revaluation A/c By P's Capital A/c (goodwill)	1,20,000 15,000 4,000 45,000

To R's Executor A/c	2,22,333	By Q's capital A/c (goodwill)	30,000
		By P&L Suspense A/c	13,333
	2,27,333		2,27,333

R's Executor Account

Date	Particulars	(Rs.)	Date	Particulars	(Rs.)
3.4.13	To Bank A/c	72,333	30.4.13	By R's capital A/c	2,22,333
31.12.13	To Balance c/d	1,60,000	31.12.13	By interest A/c $\left(10\% \, on 1,50,000 \times \frac{8}{12}\right)$	10,000
		2,32,333			2,32,333
30.4.14	To Bank A/c 75000 <u>15,000</u> -	90,000	1.1.14	By Balance b/d	1,60,000
31.12.14	To Balance c/d	80,000	30.4.14	By interest A/c $\left(\frac{10}{100} \times 1,50,000 \times \frac{4}{12}\right)$ 5000 Add $\left(\frac{10}{100} \times 75,000 \times \frac{8}{12}\right)$ 5000	10,000
		1,70,000			1,70,000
30.4.15	To Bank A/c 75,000 Add Interest _ <u>7,500</u>	82,500	1.1.15	By Balance b/d	80,000
			30.4.15	By interest A/c $\left(\frac{10}{100} \times 75,000 \times 4\right)$	2,500
		82,500			82,500

Working Note :

Average Profit = 2,40,000 + 1,60,000+2,00,000+1,00,000+50,000 = Rs. 1,50,000 Goodwill = $Rs. 1,50,000 \times 3$ = Rs. 4,50,000

R's share = $4,50,000 \times \frac{1}{6} Rs. 75,000$

Contribution by P&Q in ratio 3:2

P's share = $\frac{3}{5} \times 75000$ = 45000 Q's share $\frac{2}{5} \times 75,000$ Rs. 30,000

R's share of profits = $2,40,000 \times \frac{4}{12} \times \frac{1}{6}$ = Rs. 13,333

Important Questions Part-1

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1. **What is meant by retirement of a partner?**
   Ans. Retirement of a partner is one of the modes of reconstituting the firm in which old partnership comes to an end and a new partner among the continuing (remaining) partners (i.e., partners other than the outgoing partner) comes into existence.
2. **How can a partner retire from the firm?**
   Ans. A partner may retire from the firm;
   i. In accordance with the terms of agreement; or
   ii. With the consent of all other partners; or
   iii. Where the partnership is at will, by giving a notice in writing to all the partners of his intention to retire.
3. **What do you understand by 'Gaining Ratio'?**
   Ans. Gaining Ratio means the ratio by which the share in profit stands increased. It is computed by deducting old ratio from the new ratio.
4. **What do you understand by 'Gaining Partner'?**
   Ans Gaining Partner is a partner whose share in profit stands increased as a result of change in partnership.
5. **Give two circumstances in which gaining ratio is computed.**
   Ans. Gaining Ratio is computed in the following circumstances:
   i. When a partner retires or dies.
   ii. When there is a change in profit-sharing ratio.
6. **Why is it necessary to revalue assets and reassess liabilities at the time of retirement of a partner?**
   Ans. At the time of retirement or death of a partner, assets are revalued and liabilities are reassessed so that the profit or loss arising on account of such revaluation up to the date of retirement or death of a partner may be ascertained and adjusted in all partners' capital accounts in their old profit-sharing ratio.
7. **Why is it necessary to distribute Reserves Accumulated, Profits and Losses at the time of retirement or death of a partner?**

Ans. Reserves, accumulated profits and losses existing in the books of account as on the date of retirement or death are transferred to the Capital Accounts (or Current Accounts) of all the partners (including outgoing or deceased partner) in their old profit-sharing ratio so that the due share of an outgoing partner in reserves, accumulated profits/losses gets adjusted in his Capital or Current Account.

8. **What are the adjustments required on the retirement or death of a partner?**
   Ans. At the time of the retirement or death of a partner, adjustments are made for the following:
   i. Adjustment in regard to goodwill.
   ii. Adjustment in regard to revaluation of assets and reassessment of liabilities.
   iii. Adjustment in regard to undistributed profits.
   iv. Adjustment in regard to the Joint Life Policy and individual policies.
9. **X wants to retire from the firm. The profit on revaluation of assets on the date of retirement is Rs. 10,000. X is of the view that it be distributed among all the partners in their profit-sharing ratio whereas Y and Z are of the view that this profit be divided between Y and Z in new profit-sharing ratio. Who is correct in this case?**
   Ans. X is correct because according to the Partnership Act a retiring partner is entitled to share the profit up to the date of his retirement. Since the profit on revaluation arises before a partner retires, he is entitled to the profit.
10. **How is goodwill adjusted in the books of a firm -when a partner retires from partnership?**
    Ans. When a partner retires (or dies), his share of profit is taken over by the remaining partners. The retiring partner's share is taken up by one of the remaining partners. In this case, the retiring partner's share is added to that of partner's existing share. Only his/her share changes. The other partners continue to share profit in the existing ratio. Therefore, in case of retirement of a partner, the goodwill is adjusted through partner's capital accounts. The retiring partner's capital account is credited with. his/her share of goodwill and remaining partner's capital account is debited in their gaining ratio.
11. **State the ratio in which profit or loss on revaluation will be shared by the partners when a partner retires.**
    Ans. Profit or loss on revaluation of assets/liabilities will be shared by the partners (including the retiring partner) hi their old profit-sharing ratio.

12. **How is the account of retiring partner settled?**
Ans. The retiring partner account is settled either by making payment in cash or by promising the retiring partner to pay in installments along with interest or by making payment partly in call and partly transferring to his loan account. The -following Journal entry is passed:
Retiring Partner‘s Capital A/c …Dr.
To Cash* [If paid in cash] Or
To Retiring Partner‘s Loan

Important Questions Part-2

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1. **State the two financial rights acquired by a new Partner?**
   Ans. New partner is admitted to the partnership if it provided in the partnership deed or all the existing partners agree to admit the new partner. Section 31 of the Indian Partnership Act 1932 Provides that a person may be admitted as a new partner into a partnership firm with the consent of all the Partners.
2. **Give the name of the compensation which is paid by a new Partner to sacrificing Partners for sacrificing their share of profits.**
   Ans. When a partner joins the firm, he gets the following two rights along with others:
   i. Right to share future profit of the firm and
   ii. Right to share the assets of the firm.
3. **Enumeration the matters that need adjustment at the time of admission of a new Partner.**
   Ans. The matter that needs adjustment of the time of admission of a new partner is:
   i. Adjustment in profit sharing ratio and adjustment of capital
   ii. Adjustment for goodwill
   iii. Adjustment of Profit / Loss arising from the Revolution of Assets and Reassessment of Liabilities.
   iv. Adjustment of accumulated profits, reserves and losses.
4. **Give two circumstances in which sacrificing Ratio may be applied.**
   Ans. Circumstances in which sacrificing Ratio may be applied are:
   i. At the time of admission of a new partner for distributing goodwill brought in by the new partner.
   ii. For adjustment goodwill in case of change in Profit - sharing ratio of existing partners.
5. **Why is it necessary to revalue assets and reassess liabilities of a firm in case of admission of a new partner?**
   Ans. The assets are revalued and liabilities of a firm are reassess, at the time of admission of a partner because the new partner should; neither benefit nor suffer because change in the value of assets and liabilities as on the date of admission.

6. **What are the accumulated profit and accumulated losses?**
   Ans. The profit accumulated over the years and have not been credited to partners' capital A/c are known as accumulated Profit or undistributed profit, e.g. the General Reserve, Profit and Loss A/c (credit balance).
   The losses which have not yet been written off to the debit of Partners' Capital A/c are known as accumulated Losses, e.g. the Profit and Loss A/c appearing on the assets side of Balance Sheet, etc.
7. **Explain the treatment of goodwill in the books of a firm on the admission of a new Partner when goodwill already appears in the Balance sheet at its full value and the new partner brings his share of good will in cash.**
   Ans. By following accounting standard - 10, the existing goodwill (i.e. goodwill appearing in the Balance Sheet) is written off to the old partners Capital a/c in their old profit sharing ratio.
   Old partners capital A/c Dr. .....
   To Goodwill A/c [in old Ratio]
   [Being the existing g/w written off in the old ratio.]
8. **Under what circumstances the premium for goodwill paid by the incoming Partner will not recorded in the books of Accounts?**
   Ans. When the premium for goodwill is paid by the incoming partner privately, it is not recorded in the books of A/c as it is as a matter outside the business.
9. **A and B share profits and losses in the Ratio of 4:3, they admit C with 3/7th share; which he gets 2/7th from A and 1/7 from B. What is the new profit sharing ratio?**
   Ans. A : - = 4/7-2/7 =2/7
   B : : = 3/7-1/7=2/7
   C : =2/7+1/7=3/7
   New Profit sharing Ratio is 2:2:3.
10. **The capital of A and B are Rs. 50,000 and Rs. 40,000. To Increase the Capital base of the firm to Rs. 1, 50,000, they admit C to join the firm; C is required to Pay a sum of Rs. 70,000, what is the amount of premium of goodwill?**
    Ans. The total capital of the firm is Rs. 90,000.
    To increase the capital base to Rs. 1, 50,000,
    C is to bring in Rs. 60,000 (Rs. 1, 50,000 - 9, 00, 00)
    But he bring in Rs. 70,000.

Therefore, the excess of Rs. 10,000 represent premium for goodwill.

11. **Distinguish between New Profit - sharing ratio and sacrificing ratio?**

Ans. Distinction between New Profit - Sharing ratio and sacrificing ratio:

New Profit sharing	Ratio Sacrificing Ratio
1) It is related to all the Partners	1) It is related to old partners only (Including new)
2) It is the ratio in which the all	2) It is the ratio in which old partners Partner (including new) will share have sacrificed their share in favour Profit in future. Of new Partner or when profit Sharing Ratio is hanged.
3) New Profit sharing Ratio	3) Sacrificing Ratio = Old Ratio - Sacrificing Ratio Old Ratio New Ratio

Important Questions Part-4

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1. **At the time of change in profit sharing ratio among the existing partners, where will you record an unrecorded liability?**
   Ans. Revaluation Account-Debit side
2. **Anand, Bhutan and Chadha are partners sharing profits in ratio of 3:2:1. On 1st April 2007, they decided to share profits equally.Name the partners who is gaining on consequence of such change.**
   Ans. Chadha.
3. **Give two characteristics of goodwill.**
   Ans.
   i. it is an intangible asset having a definite value.
   ii. It helps in earning more profit.
4. **Name any two factors affecting goodwill of a partnership firm.**
   Ans. (i) Favorable location (ii) Time period
5. **In a partnership firm assets are Rs.5, 00,000 and liabilities are Rs. 2, 00,000. The normal profit rate is 15%. State the amount of normal profits.**
   Ans. Rs.45,000
6. **State the amount of goodwill, if goodwill is to be valued on the basis of 2 years' purchase of last year's profit. Profit of the last year was Rs.20, 000.**
   Ans. Rs.40,000
7. **Where will you record increase in machinery' in case of change in profit sharing ratio among the existing partners?**
   Ans. Revaluation Account- Credit Side.
8. **Name two methods for valuation of goodwill in case of partnership firm.**
   Ans. (i) Average Profit Method (ii) Super Profit Method
9. **Give formula for calculating goodwill under super profit method'.**
   Ans. Goodwill = Super Profit x Number of Years' Purchase.
10. **Pass the journal entry for increase in the value of assets or decrease in the value of liabilities in the Revaluation A/c?**

Ans. Assets A/c Dr. (with the amount of increase)

Liabilities A/c Dr. (with the amount of decrease)

To Revaluation A/c (with the total amount of gain)

(Being revaluation of assets and liabilities)

11. **P,Q and R are partners in a firm sharing profits in the ratio of 2:2:1 on 1.4.2007 the partners decided to share future profits in the ratio of 3:2:1 on that day balance sheet of the firm shows General Reserve of Rs 50,000. Pass entry for distribution of reserve.**

    Ans. General Reserve A/c Dr. 50,000

    To P‘s Capital A/c 20,000

    To Q‘s Capital A/c 20000

    To R‘s Capital A/c 10000

    (Being Reserve distributed)

12. **The gaining partner‘s should compensate to sacrificing partner‘s with the amount of gain.‖ Journalise this statement.**

    Ans. Gaining Partner‘s Capital A/c Dr

    To Sacrificing Partner‘s Capital A/c

    (Being compensation given by gaining partner to sacrificing partner)

13. **What are the two main rights acquired by the incoming new partner in a partnership firm?**

    Ans, The two main rights are:

    (i) Right to share the assets of the firm.

    (ii) Right to share the future profits of the firm.

14. **A and B are partners, sharing profits in the ratio of 3:2. C admits for 1/5 share . State the sacrificing ratio.**

    Ans. Sacrificing Ratio - 3:2.

15. **How should the goodwill of the firm be distributed when the sacrificing ratio of any of the existing partner is negative (i.e. he is gaining)**

    Ans. In this case the partner with a negative sacrificing ratio, i.e. the gaining partner to the extent of his gain should compensate to the sacrificing partner to the extent of his gain.

16. **In case of admission of a partner, in which ratio profits or loss on revaluation of assets and reassessment of liabilities shall be divided?**

Ans. Old ratio.

17. **Give journal entry for distribution of 'Accumulated Profits' in case of admission of a partner.**

    Ans. Accumulated Profit A/c Dr.

    To Old Partners Capital A/c

    (Being distribution of accumulated profits among old partners)

18. **At the time of admission of partner where will you record "unrecorded investment"?**

    Ans. Revaluation Account- Credit side.

19. **The goodwill of a partnership is valued at Rs.20,000. State the amount required by a new partner, if he is coming for 1/5 share in profits.**

    Ans. Rs.4,000.

20. **What journal entries should be passed when the new partner brings his share of goodwill in kind?**

    Ans (i) Assets A/c Dr -

    To Premium for goodwill A/c

    (ii) Premium for goodwill A/c Dr -

    To Sacrificing Partners' Capital A/c

21. **What journal entries will be passed when the new partner is unable to bring his share of goodwill in cash?**

    Ans. New Partner's Capital A/c Dr. - -

    To Sacrificing Partners' Capital A/c

22. **In case of admission of a new partner, goodwill was already appearing in the books of the firm. Give journal entry for its treatment**

    Ans Old Partners Capital A/c Dr.

    To Goodwill A/c -

    (Being old goodwill written off among old partners)

23. **At the time of admission of a new partner, workmen's compensation reserve in appearing in the Balance sheet as Rs 1,000. Give journal entry if workmen's compensation at the time of admission is estimated at Rs 1,200.**

    Ans: Revaluation A/c 200

    To Workmen's Compensation Reserve A/c 200

    (Being workmen's compensation estimated at Rs. 1,200)

24. **Give journal entry for recording deceased partner‘s share in profit from the closure of last balance sheet till the date of his death.**

    Ans. Profit & Loss Suspense Account Dr.

    To Deceased Partner‘s Capital Account

    (Being share of profit to deceased partners)

25. **Define gaining ratio.**

    Ans. Gaining ratio is the ratio in which remaining/continuing partners acquire the share of the outgoing partner(s).

26. **Give two circumstances in which gaining ratio can be applied.**

    Ans. (i) Retirement of a partner (ii) Death of a partner. .

27. **At the time of retirement of a partner give journal entry for writing off the existing goodwill.**

    Ans. All Partners Capital (including retiring) A/c Dr.

    To Goodwill A/c

    (Being old goodwill written off among all partners in, old ratio)

Important Questions Part-4

1. **How can a partner retire from firm?**
   Ans. A partner can retire from the firm with the consent of all the partners.
2. **Define Gaining Ratio.**
   Ans. Share of Retiring partner is acquired by the Remaining partners, Ratio in which they acquire the Retiring partners share is known as Gaining Ratio. In simple words, after the retirement of a partner, his share is distributed by the Remaining partners, ratio in which they distribute the share of Retiring partner, is called Gaining ratio.
3. **What is the formula of Gaining Ratio?**
   Ans. Gaining Ratio = New Ratio - Old Ratio
4. **State any two deductions that have to be made from the amount payable to the legal representative of a deceased partner.**
   Ans.
   i. Accumulated losses
   ii. Loss on Revaluation of assets and reassessment of liabilities.
5. **State the need for treatment of Goodwill on retirement of a partner.**
   Ans. At the time of retirement of a partner, continuing partners will pay the due amount of goodwill to him in their gaining ratio.
6. **When is Partner's Executors Account prepared?**
   Ans. Partner's Executors Account is prepared at the time of death of a partner.
7. **Give two circumstances in which the gaining ratio is applied.**
   Ans:
   1. At the time of retirement or death
   2. At the time of change in profit sharing ratio

8. **Distinguish between Gaining Ratio and Sacrificing Ratio.**

Basis	Gaining Ratio	Sacrificing Ratio
Meaning	In this ratio continuing partners get the share from the retiring partner	In this ratio old partners sacrifices their share in favour of new partner
Time of	It is calculated at the time of	It is calculated when a new partner

Calculation	Retirement or death of a partner	is admitted
Formula	New Ratio - Old Ratio	Old Ratio - New Ratio

9. **Who is an Executor?**
   Ans : Executor is the person who is entitled to all rights or amounts due to the deceased partner. The Executor will be entitled to the balance of capital account (Capital Balance, share of profit, Interest on capital , Reserves and Accumulated profits etc. , and he will be debited for Drawings and Interest on drawings).
10. **What Adjustments are to be done at the time of Retirement?**
    Ans: following adjustments are to be done at the time of Retirement :
    a. Calculation of New Profit Sharing Ratio and Gaining Ratio
    b. Treatment of Goodwill (Calculation of Retiring partners share and adjustment of same)
    c. Revaluation of Assets and Reassessment of Liabilities
    d. Treatment of Accumulated profits and Reserves (General Reserves etc.)
    e. Adjustment of Interest on capital , Salary, commission payable to retiring partner
    f. Treatment of Joint Life Policy (if any)
    g. Payment to the Retiring partner in lump sum or in installment or may be treated as loan.
    h. Adjustment of Capital (Remaining partners)
11. **For which share of goodwill a partner is entitled at the time of his retirement?**
    Ans. According to his share of profit in a firm.
12. **State the ratio in which the retiring partner's share of goodwill is debited to remaining partners.**
    Ans. At the time of retirement of a partner, his share of goodwill is debited to the existing partners in gaining ratio

13. **Give the Journal entry to distribute the 'Workmen Compensation Reserve' of Rs.60,000 at the time of retirement of Vinod, when there is no claim against it. The has three partners**
    Ans.

Workmen Compensation Reserve	Dr	60,000	
To Kunwar's Capital A/c			20,000

To Vinod's Capital A/c			20,000
To Himanshu's Capital A/c			20,000

14. **Give the Journal Entry to distribute the 'Workmen Compensation Reserve' of Rs.70,000 at the time of retirement of Neeti, when there is claim of Rs.25,000 against it. The firm has three partners Raveena, Neeti and Rajat.**

Workmen Compensation Reserve	Dr	70,000	
To Raveena's Capital A/c			15,000
To Neeti's Capital A/c			15,000
To Rajat's Capital A/c			15,000
To Workmen Compensation Reserve	Reserve		25,000