

# Retirement / Death of a Partner

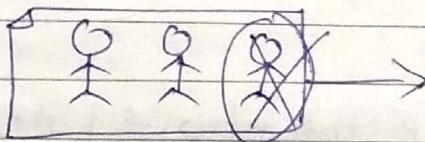
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→ Retirement of a partner means that a partner ceases to be a partner of the firm



\*put an end\*



→ A partner may retire

(a) if there is an agreement to that effect

(b) if all other partners agree to his retirement.

(c) if he has given his consent in writing to retire  
(in case of partnership at will)

at will

fixed

→\* liability of retiring partner toward third party continues till the date of retirement. Also he is continue to be liable even after retirement if PUBLIC NOTICE is not given

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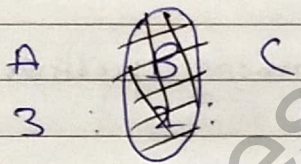
TOPICS

- 1) Calculation of New Ratio and Gaining Ratio
- 2) Treatment of goodwill
- 3) Treatment of free reserve
- 4) Treatment of Accumulated losses
- 5) Revaluation of Asset and liability
- 6) Retiring partner's LOAN A/c
- 7) Capital Adjustment - 4 cases

Gaining Ratio

e.g (1) A, B, C are 3:2:1 partners, B retires find  
 (i) New ratio (ii) Gaining Ratio

Soln



- (i) NR = 3:1
- (ii) G-R = 3:1

e.g (2) Refer Practice Questions

Retirement Partner



## GOODWILL

- ① Existing Goodwill i.e. appearing in B/S shall be written off among all partners in Old Ratio

P. Capital A/c Dr. (Old Ratio) xx  
To Goodwill A/c ————— xx

- ② Goodwill is valued at \_\_\_\_\_ (i.e. given in adjustment)

Step 1:- Calculate retiring partner's share

Step 2:- Gaining Partner's Capital A/c Dr. xxx  
To Retiring partner's Capital A/c — His share xx  
To Sacrificing partners Capital A/c — (if any)

(being goodwill adjusted among partners)

- ③ Hidden Goodwill

$$\begin{aligned} & \xrightarrow{\text{GRT}} \\ & = \text{Total lumpsum payment to retiring partners} \\ & \quad (-) \\ & \quad \text{Retiring partner's Adjusted capital balance} \end{aligned}$$

\* Refer PG-19



## Capital Adjustment

(Case 1) When total capital of the firm is given

Step 1 :- Divide the total capital in New Ratio among continuing partners

Step 2 :- Any surplus or deficiency is adjusted through CASH A/C or CURRENT A/C

(Case 2) When existing partners adjust their existing capitals in new Ratio

Step 1 :- Total capital = Combined Adjusted capitals of Remaining partners

Step 2 :- Divide the above total capital in New Ratio among continuing partners

Step 3 :- Any surplus or deficiency is transferred to CASH A/C or CURRENT A/C

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Case (3) When retiring partner is paid in cash brought in by remaining partners and also their capital is to be adjusted.

Step 1) Total Capital = Combined Adjusted Capitals of remaining partners  
(+)

Amount payable to retiring partner

Step 2) :- Divide the total capital among remaining partners in NEW RATIOS

Step 3) :- Any surplus/deficiency is adjusted through CASH A/C always

Case (4) When retiring partner is paid in cash brought in by remaining partners and also capital is to be adjusted

along with desired cash or Bank balance

Step (1) Total Capital = Combined adjusted capital of remaining partners

(+) Amount payable to retiring partner  
(+) Required (desired) cash or Bank balance  
(-) Existing cash or bank balance



Step 2:- Divide the above total capital among remaining partners in NEW RATIO

Step 3 - Any surplus or deficiency adjusted through CASH A/c

How to prepare partner's loan A/c

Eg 1) B retires on 1st April 2018, and his loan A/c balance was ₹ 300,000 which was payable to him in three equal annual installment together with interest @ 10% p.a. Prepare B's loan A/c

Soln

D.D.		B's loan A/c		C.R.	
DATE	Particulars	₹	DATE	Particulars	₹
31.3.19	To Cash A/c <sup>(3)</sup> (100000+300000)	300,000	1.4.2018	By B's Capital A/c <sup>(1)</sup>	300,000
31.3.19	To balance c/d	200,000	31.3.2019	By inte. <sup>(2)</sup>	30,000
		<u>330,000</u>		{ 10% of 300,000 }	
31.3.20	To Cash A/c <sup>(3)</sup> (100000+200000)	120,000	1.4.19	By bal b/d <sup>(1)</sup>	200,000
31.3.20	To bal. c/d	100,000	31.3.20	By interest <sup>(2)</sup>	20,000
		<u>220,000</u>		{ 10% of 200,000 }	
31.3.21	To Cash A/c (100000+10000)	110,000	1.4.20	By bal. b/d <sup>(1)</sup>	100,000
		<u>110,000</u>	31.3.21	By interest <sup>(2)</sup> (10% of 100000)	10,000
					<u>110,000</u>



eg(2) C's Loan A/c balance is ₹ 200,000 on 1<sup>st</sup> April 2018 it is payable in four equal annual installment together with @ 12% p.a  
Prepare Loans A/c

## C's Loan A/c

31.3.17	To Cash A/c (50,000 + 24,000)	74,000	1.4.18	By C's Capital A/c	200,000
				By interest	24,000
31.3.19	To bal. b/d	150,000			
		<u>24,000</u>			<u>224,000</u>
31.3.20	To Cash A/c (50,000 + 18,000)	68,000	1.4.19	By bal. b/d	150,000
			31.3.20	By int.	18,000
31.3.20	To bal. b/d	109,000			
		<u>168,000</u>			<u>168,000</u>
31.3.21	To Cash A/c (50,000 + 12,000)	62,000	1.4.20	By bal. b/d	100,000
31.3.21	To bal. b/d	50,000	31.3.21	By interest	12,000
		<u>112,000</u>			<u>112,000</u>
31.3.22	To Cash A/c	56,000	1.4.21	By bal. b/d	50,000
			31.3.22	By int.	6,000
		<u>56,000</u>			<u>56,000</u>

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Eg (3) C's Loan A/c balance on 1.4.2018 is ₹ 27000.  
This balance is payable in three annual installment together with interest @ 10% P.a. The first two installment are ₹ 11,500 each (including interest)  
Prepare C's Loan A/c

Soln

Dr.

Date	Particulars	₹	Date	Particulars	₹
31.3.19	To Cash	11500	1.4.2018	By C's Capital A/c <sup>(1)</sup>	27000
31.3.19	To bal. b/d	18200	31.3.2019	By interest <sup>(2)</sup>	2700
					29700
31.3.19	To Cash	11500	1.4.20	By bal. b/d	18200
31.3.19	To bal. b/d	8520	31.3.20	By int.	1820
		20020			20020
31.3.21	To Cash	9372	1.4.20	By bal. b/d	8520
31.3.21	To bal. b/d	MIL	31.3.21	By interest	852
		9372			9372
		<del>142020</del>			



# Death of a Partner

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→ In case of death of a partner we have to calculate :-

- (i) Gaining Ratio
- (ii) Share of goodwill
- (iii) revaluation profit or loss
- (iv) share in free Reserve
- (v) Share in Artificial asset
- (vi) Share in existing goodwill
- (vii) JOC or JOD (if any)

Same

as

Partners

\*\*  
(viii). Share of profit or loss from B/S date upto the date of death.

→ The balance of deceased partner is transferred to his executor A/c i.e.

Deceased partner's capital A/c — Dr.

To Deceased <sup>Partner</sup> executor A/c

(being amount transferred to executor A/c)



## \* Share of Profit or Loss of Deceased Partners \*

- (1) Share of profit is credited to Capital A/c and also shown under Asset in the Balance sheet.
- (2) Share of loss is debited to Capital A/c and also shown under Liability in the Balance sheet.
- (3) This profit or loss is transferred in the name of

\*  
P and L Suspense A/c  
 \*

### (4) Journal Entries

(a) for share of profit

P and L Suspense A/c      Dr. xx  
 To deceased partner's Capital A/c  
 (being share of profit transferred to Capital A/c)

"Asset side on B/S"

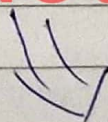
(b) for share of loss

Deceased partner's Capital A/c      Dr. xx  
 To P and L Suspense A/c      ——— xx

\* When ever new Ratio is given then the above Journal entries will not be passed, rather we have to pass the following journal entries:-

"Liability on B/S"

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(a) for share of Profit

Same or goodwill entry of retirement }  
 Gaining partner's Capital A/c Dr.  
 To decreased partner's Capital A/c  
 To sacrificing partner's Capital A/c (if any)

(b) for share of loss

~~Decreased partner's Capital A/c Dr.  
 Sacrificing partner's Capital A/c Dr (if any)  
 To Gaining partner's Capital A/c  
 To profit suspense A/c~~

\* When ever new ratio is given

Decreased partner's Capital A/c Dr.  
 Sacrificing partner's Capital A/c Dr (if any)  
 To gaining partner's Capital A/c



eg (1) On the basis of TIME

X, Y, Z are 3:2:1 partners, They follow calendar year. On 28<sup>th</sup> Feb 2019 X died. He is entitled to share profit and losses on the basis of last 3 years average profits.

- 2018 - 45000
- 2017 - 28000
- 2016 - 17000
- 2015 - 30,000

Pass journal entries.

$$\frac{(20 \cdot N)}{= \frac{17000 + 28000 + 45000}{3}}$$

A.P = 30,000

$$30,000 \times \frac{2}{12} = \frac{5000}{6} \times 3 \xrightarrow{\text{x's share}} \text{2500}$$

Share of Profit = 2500

2500  $\rightarrow$  P and L Suspense A/c

P and L Suspense A/c Dr 2500  
To X's Capital A/c ——— 2500



eg 2) X, Y, Z are 3:2:1 partners. They follow financial year and Z died on 1st July 2019. His share of profit or loss is to be calculated on the basis of average profits of last 2 years.

$$2018-19 = 28500$$

$$2017-18 = 43500$$

After the death of Z, the new ratio of X and Y is 5:3

Pass Journal Entry

Sol<sup>n</sup> :-

$$\text{(W.W) A.P.} = \frac{28500 + 43500}{2} = \frac{72000}{2} = 36000 \times \frac{3}{12} = 9000$$

$$\text{Z's Share} = \left( 9000 \times \frac{1}{6} \right) = 1500$$

Entries

X's Cap. Dr. 1125  
 Y's Cap. Dr. 375  
 To Z's Capital A/c — 1500

$$X = \frac{3}{6} - \frac{5}{8} = \frac{2430}{48}$$

$$Y = \frac{2}{6} - \frac{3}{8} = \frac{1618}{48}$$

(given)

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eg(3) On the basis of Sales (Turnover)

X, Y, Z are 3:2:1 partners and they follow calendar year. Y died on 31st March 2019. Y's share of profit or loss is to be calculated on the basis of sales (Turnover)

Sale for the year ended 2018 = 1200000

Profit for the year ended 2018 = 240000

Sale from 1 Jan 2019 to 31 March 2019 = 200000

Pass journal entry.

Soln

Dr. Suspense A/c 13333  
To Y's Capital A/c 13333

$$\text{Profit (\%)} = \frac{240000}{1200000} \times 100$$

$$= 20\%$$

$$\text{Profit} = \frac{20}{100} \times 200000$$

$$= 40,000$$

$$\text{Y's Share} = 40,000 \times \frac{2}{6}$$

$$= 13333$$



Q9.4):- X, Y, Z are equal partners and they follow financial year. On 30<sup>th</sup> September 2019 Y died and his share of profit is to be based on sales. After death of Y, the new ratio of X and Z is 3:1

Sale for the year 2018-19 = 270,000

Loss for the year 2018-19 = 94,500

Sales from 1<sup>st</sup> April 2019 to 30<sup>th</sup> Sept 2019 = 90,000

Pass Journal entries:-

Y's Capital A/c — Dr. 10,500

Z's Capital A/c — Dr. 2,625

To X's Capital A/c — 13,125

$$\text{WN:- Loss \%} = \frac{94500}{270000} \times 100 = 35\%$$

$$\text{Loss} = \frac{35}{100} \times 90,000 = 31,500$$

$$\text{Y's Share of Loss} = 31,500 \times \frac{1}{3} = 10,500$$

$$X: \frac{1}{3} - \frac{3}{4} = \frac{4-9}{12} = \frac{-5}{12} \text{ (gain)}$$

$$Z: \frac{1}{3} - \frac{1}{4} = \frac{4-3}{12} = \frac{1}{12} \text{ (sacr.)}$$

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