CBSE Test Paper 05
Ch-5 Retirement or Death of a partner

1. X, Y and Z are partners sharing Profits and Losses in the ratio of 8 : 7 : 5. Z retires and his share is taken equally by X and Y. Find the new profit sharing ratio.
   a. 21 : 19
   b. 5 : 7
   c. 7 : 5
   d. 19 : 21
2. Gaining ratio is the ratio in which continuing partners have ______ the share from the outgoing partner
   a. Sacrificed
   b. Acquired and Sacrificed
   c. Acquired
   d. Both Acquired and Sacrificed
3. A, B and C are the partners sharing profits in the ratio of their capital which were ₹75000, ₹50000 and ₹25000 respectively. C retired and new profit sharing ratio between A and B was 1:2. On C's retirement the goodwill of the firm was valued at ₹30000. What amount of goodwill will be debited to B's Account?
   a. ₹10000
   b. ₹25000
   c. ₹12500
   d. ₹12000
4. How deceased partners executors account settled:
   a. Both Paid off immediately and Paid in instalments with interest
   b. Paid off immediately
   c. Paid in instalments without interest
   d. Paid in instalments with interest
5. R, Y and S were partners sharing profits in the ratio of 1:2:3 their capital ` 23000, ` 30000 and ` 17000 respectively. Y retired. Capital has to be fully paid in cash and whole amount is brought in cash by R and S to make their capital thereafter equal. Calculate amount brought by S
   a. 15000

b. 12000
c. 14000
d. 18000

6. A, B and C were partners in a firm sharing profits and losses in the ratio of 4 : 3 : 2. B retired and his share was taken over by A and C equally. Calculate the gaining ratio.

7. Why are heirs of a retiring/deceased partner entitled to the share of goodwill of the firm?

8. State the two financial rights acquired by a new Partner?

9. What are the different ways in which a partner can retire from the firm?

10. Give the journal entry to distribute workmen compensation reserve of Rs 70,000 at the time of retirement of Neeti when there is a claim of Rs 25,000 against it. The firm has three partners Raveena, Neeti and Rajat.

11. Write the various matters that need adjustments at the time of retirement of partner/partners.

12. A, B, C and D are partners sharing profits in the ratio of 3 : 3 : 2 : 2 respectively. D retires and A, B and C decide to share the future profits in the ratio of 3 : 2 : 1. Goodwill of the firm is valued at Rs 6,00,000. Goodwill already appears in the books at Rs 4,50,000. The profit for the 1st year after D's retirement amount to Rs 12,00,000. Give the necessary journal entries to record goodwill and to distribute the profits. Show your calculations clearly.

13. 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/c's of 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.

14. Rashmi and Pooja are partners in a firm. They share profits and losses in the ratio of 2:1. They admit Santosh into partnership firm on the condition that she will bring Rs. 30,000 for Goodwill and will bring such an amount that her capital will be 1/3 of the

total capital of the new firm. Santosh will be given 1/3 share in future profits. At the time of admission of Santosh, the Balance Sheet of Rashmi and Pooja was as under:

Balance sheet

Liabilities	Rs.	Assets	Rs.
Capital Account	...	Cash	90,000
Rashmi	1,35,000	Machinery	1,20,000
Pooja	1,25,000	Furniture	10,000
Creditors	30,000	Stock	50,000
Bills Payable	10,000	Debtors	30,000
	3,00,000		3,00,000

It was decided to:

a. Revalue stock at Rs. 45,000.
b. Depreciated furniture by 10% and machinery by 5%.
c. Make provision of Rs. 3,000 on sundry debtors for doubtful debts.

Prepare Revaluation Account, Partners: Capital Accounts and Balance Sheet of the new firm. Give full workings.

15. Xavier, Yusuf and Zaman were partners in a firm sharing profits in the ratio of 4 : 3 : 2. On 1st April, 2014 their balance sheet was as follows:

Balance Sheet

as on 1st April 2014

Liabilities		Amount (Rs)	Assets		Amount (Rs)
Sundry Creditors		41,400	Cash at Bank		33,000
Capital A/cs			Sundry Debtors	30,450	

Xavier	1,20,000		(-)Provision for Doubtful Debts	1,050	29,400
Yusuf	90,000		Stock		48,000
Zaman	60,000	2,70,000	Plant and Machinery		51,000
			Land and Building		1,50,000
		3,11,400 =======			3,11,400 ========

Yusuf had been suffering from ill health and thus gave notice of retirement from the firm. An agreement was, therefore, entered into as on 1st April, 2014, the terms of which were as follows:

i. The land and building be appreciated by 10%.
ii. The provision for bad debts is no longer necessary.
iii. The stock be appreciated by 20%.
iv. The goodwill of the firm be fixed at Rs 54,000. Yusuf's share of the same be adjusted into Xavier’s and Zaman’s capital accounts, who are going to share future profits in the ratio of 2: 1.
v. The entire capital of the newly constituted firm be readjusted by bringing in or paying necessary cash so that the future capitals of Xavier and Zaman will be in their profits sharing ratio.

Prepare revaluation account and partners' capital accounts.

Answer

1. a. 21 : 19, **Explanation:** X:Y:Z = 8:7:5 so, If Z Retires then Gaining Ratio will be:- X will Gain = $\frac{5}{20}$x$\frac{1}{2}$ =$\frac{5}{40}$ Y will Gain = $\frac{5}{20}$x$\frac{1}{2}$ = $\frac{5}{40}$ Hence, New Ratio will be :- X= $\frac{8}{20}+\frac{5}{40}$ = $\frac{21}{40}$ Y= $\frac{7}{20}+\frac{5}{40}$ = $\frac{19}{40}$ New Ratio = X : Y =21:19
2. c. Acquired, **Explanation:** When a partner retires from the firm, his share will be acquired by the continuing partners. The ratio in which they acquire the share of retired partner, is known as gaining ratio.
3. a. ₹10000, **Explanation:** Rs.10,000 will be shown in the account of B:
   Old Ratio = 3:2:1 (Capital Ratio)
   New Ratio of A and B after the retirement of C = 1:2
   B is the only gainer i.e. New ratio - old Ratio = 2/3- 2/6 =2/6
   B will be debited with 30,000 × 2/6 = 10,000
4. a. Both Paid off immediately and Paid in instalments with interest
   Explanation: Deceased partner's account can be settled by paying off to his executor:
   - Full amount immediately
   - In instalment with interest
5. d. 18000, **Explanation:** Total Capital = 23,000 + 30,000 + 17,000 = Rs.70,000
   New Capital of R and S will be 70,000/2 = 35,000 each after the retirement of Y
   Old capital of S = Rs.17,000
   New Capital of S = Rs. 35,000
   S will bring = 35,000 – 17,000 = Rs.18,000
6. A and C taken over B's Share equally So, Gaining Ratio of A and C = **1 : 1**
7. The retiring or deceased partner is entitled to his share of goodwill at the time of retirement/death because the goodwill had been earned by the firm at the time when he was a partner. The continuing partners will gain in future as a result of this goodwill earned so that is why the retiring or deceased partner is compensated by the existing partners in their gaining ratio.
8. The two financial rights acquired by a new/incoming partner;

1. Rights of share in future profits or losses of the new firm.
2. Rights on Assets of the firm.

9. The following are the different ways in which a partner can retire from a firm;
   1. **By giving a written notice:** If partnership among the partners is at will then a partner may retire by giving notice in writing to all the other partners informing them about his/her intention to retire.
   2. **With an express agreement by all the partners:** In case of written agreement among the partners a partner may retire from the firm by expressing his/her intention of leaving the firm though a notice to the other partners of the firm.
   3. **With the consent of all other partners:** A partner must take the consent of all the co-partners of the firm before his/her retirement. Thereafter, the partner can retire from the firm if and only if all the partners agree on the decision of his/her retirement.

10. **JOURNAL**

Date	Particulars	L.F.	Dr.	Cr.
	Workmen Compensation Reserve A/c Dr.		70,000	
	To Workmen Compensation Claim A/c			25,000
	To Raveena's Capital A/c			15,000
	To Neeti's Capital A/c			15,000
	To Rajat's Capital A/c			15,000
	(Being workmen compensation reserve Rs.25,000 transferred to claim and remaining Rs.45,000 distributed between old partners in their old ratio, i.e. , 1 : 1 : 1 on the retirement of Neeti.)			

11. Partnership as we know is mutual agreement among partners to carry on legal business. It can be formed at any time, when two or more person desire. In other words, partnership is always at will of partner. It is just possible that one of partners may express his inability to continue in the partnership and request other partner to allow him to retire from the firm. The following are the various matters that need to be adjusted at the time of retirement of partners/partner:

i. Calculation of new gaining ratio of all the remaining partners of the firm.
ii. Calculation of new ratio of the remaining partners of the firm.
iii. Calculation of goodwill of the new firm and its accounting treatment.
iv. Revaluation of assets and liabilities of the firm.
v. Distribution of accumulated profits and losses and reserves among all the partners (including the retiring partner).
vi. Settlement of the amount due to the retiring partner
vii. Adjustment of capital accounts of the remaining partners in their new profit sharing ratio.

12. **Working Note:**

Gain = New Share - Old Share

A's Gain = 3/6 - 3/10 = 6/30(Gain)

B's Gain = 2/6 - 3/10 = 1/30 (Gain)

C's Gain = 1/6 - 2/10 = -1/30 (Sacrifice)

D's Sacrifice = 2/10

Total Goodwill of The Firm = 12,00,000

A's Share = 12,00,000 $\times$ 6/30 = 2,40,000

B's Share = 12,00,000 $\times$ 1/30 = 40,000

C's Share = 12,00,000 $\times$ 1/30 = 40,000

D's Share = 12,00,000 $\times$ 2/10 = 2,40,000

Hence Gaining Partner Capital Account is Debited And Sacrificing Partners Capital Accounts Are Credited.

JOURNAL

Date	Particulars		L.F.	Debit	Credit
	A's Capital A/c	Dr.		1,35,000	
	B's Capital A/c	Dr.		1,35,000	
	C's Capital A/c	Dr.		90,000	
	D's Capital A/c	Dr.		90,000	
	To Goodwill A/c				4,50,000
	(Being Goodwill Appearing In The Books				

	Written Off In Old Ratio)				
	A's Capital A/c	Dr.		2,40,000	
	B's Capital A/c	Dr.		40,000	
	To C's Capital A/c				40,000
	To D;s Capital A/c				2,40,000
	(Being Adjustment Of Goodwill Made)				
	Profit and Loss Appropriation A/c	Dr.		12,00,000	
	To A's Capital A/c				6,00,000
	To B's Capital A/c				4,00,000
	To C's Capital A/c				2,00,000
	(Being Profit Distributed)				

13. The capital of the new firm = Total Capital of Y and Z after all adjustments = Rs. 70,000 + Rs. 50,000 = Rs. 1,20,000

.	**For Y (Rs.)**	**For Z (Rs.)**
New Capital based on New Profit Sharing Ratio of Y and Z i.e. 2:1 (total amount of capital being Rs. 1,20,000)	80,000	40,000
Existing capital after all adjustments at the time of retirement of X	70,000	50,000
Cash is being brought in or paid off by the existing partners	10,000 (Cash brought in)	10,000 (Cash to be paid)

Journal Entries

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

14. **REVALUATION ACCOUNT**

Dr.			**Cr.**
Particulars	**Rs.**	**Particulars**	**Rs.**
To Stock	5,000	By Loss Transferred to:	
To Furniture	1,000	Rashmi	10,000
To Machinery	6,000	Pooja	5,000
To Provision for Doubtful Debts	3,000		
	15,000		**15,000**

PARTNERS' CAPITAL ACCOUNT

Particulars	Rashmi Rs.	Pooja Rs.	Santosh Rs.	Particulars	Rashmi Rs.	Pooja Rs.
To Revaluation A/c (Loss)	10,000	5,000	--	By Balance b/d	1,35,000	1,25,000
To Balance c/d	1,45,000	1,30,000	--	By Premium for Goodwill A/c	20,000	10,000
Total	1,55,000	1,35,000	--	**Total**	1,55,000	1,35,000
To Balance	1,45,000	1,30,000	1,37,500	By Balance b/d	1,45,000	1,30,000

.				By Cash(145000+130000)x 3/2 x 1/3	--	--
Total	1,45,000	1,30,000	1,37,500	**Total**	1,45,000	1,30,000

BALANCE SHEET OF A, B & C

Dr.				**Cr.**
Liabilities	**Rs.**	**Assets**		**Rs.**
Creditors	30,000	Cash [W.N.1]		2,57,500
Bills Payable	10,000	Machinery		1,14,000
Rashmi's Capital	1,45,000	Furniture		9,000
Pooja's capital	1,30,000	Stock		45,000
Santosh's capital	1,37,500	Debtors	30,000	
.		Less:Provision	3,000	27,000
.	4,52,500	.	.	4,52,500

W.N.1 Calculation of Closing Cash:- 90,000 + 30,000 + 1,37,500 = 2,57,500.

15. **Revaluation Account**

Particulars		**Amount (Rs)**	**Particulars**	**Amount (Rs)**
To Profit Transferred to Capital A/cs			By Land and Building A/c	15,000
Xavier	11,400		By Provision for Doubtful Debts A/c	1,050
Yusuf	8,550		By Stock A/c	9,600
Zaman	5,700	25,650		

		25,650 ======		25,650 =======

Partner's Capital Account

Particulars	Xavier Amount (Rs)	Yusuf Amount (Rs)	Zaman Amount (Rs)	Particulars	Xavier Amount (Rs)	Yusuf Amount (Rs)	Zaman Amount (Rs)
To Yusuf's Capital A/c	12,000		6,000	By Balance b/d	1,20,000	90,000	60,000
To Yusuf's Loan A/c		1,16,550		By Revaluation A/c (Profit)	11,400	8,550	5,700
To Balance c/d	1,97,100		98,550	By Xavier's Capital A/c		12,000	
				By Zaman's Capital A/c		6,000	
				By Cash A/c(Balancing figure)	77,700		38,850
	2,09,100 =======	1,16,550 ======	1,04,550 ======		2,09,100 =======	1,16,550 =====	1,04,550 =======

Working Notes

Xavier’s new capital = 2,95,650 $\times \frac{2}{3}$ = Rs 1,97,100
Zaman’s new capital = 2,95,650 $\times \frac{1}{3}$ = Rs 98,550

1. **Calculation of Gaining Ratio**
   Gaining Ratio = New Share - Old Share
   Xavier = $\frac{2}{3} - \frac{4}{9} = \frac{6-4}{9} = \frac{2}{9}$
   Zaman = $\frac{1}{3} - \frac{2}{9} - \frac{3-2}{9} = \frac{1}{9}$
2. **Adjustment of Goodwill**
   Yusuf's share of goodwill = 54,000$\times \frac{3}{9}$ = Rs 18,000 to be contributed in gaining ratio

i.e., 2 : 1

Xavier will pay = 18,000 $\times \frac{2}{3}$ = Rs 12,000

Zaman will pay = 18,000 $\times \frac{1}{3}$ = Rs 6,000

3. **Calculation of New Capitals-** After retirement of a partner the remaining partners may decide to adjust their capital. Often the remaining partners determine the total amount of capital of the reconstituted firm and decide to keep their respective capital accounts in proportion to the new profit sharing ratio. The total capital of the firm may be more or less than the total of their capital at the time of retirement. The new capitals of the partners are compared with the balance standing to the credit of respective partner's capital account. If there is a surplus in the capital account, the amount is withdrawn by the concerned partner. The partner brings cash in case the balance in the capital account is less than the calculated amount.