

Chapter 4 Retirement or Death of a Partner

Question 1

X, Y, and Z are associates sharing profits and losses in the ratio 3:2: 1. Calculate the new ratios when (i) X retires (ii) Y retires (iii) Z retires

Solution: The new ratio of the left partners will be calculated by striking out the share of the retiring partners. Therefore,

(i) When X retires, the new ratio between Y and Z is 2:1

(ii) When Y retires, the new ratio between X and Z is 3:1

(III) When Z retires, the new ratio between X and Y is 3:2

Question 2

A, B, and C are associates in a company sharing profits in the ratio 5:4:3. B retired and his share was distributed evenly between A and C. Determine the new profit-sharing ratio of A and C.

Solution: B's share will be divided between A and C in the ratio of 1:1.

$$A \text{ will gain } \frac{1}{2} \text{ of } \frac{4}{12} = \frac{2}{12}$$

$$\text{Hence, } A's \text{ new share} = \frac{5}{12} + \frac{2}{12} = \frac{7}{12}$$

$$C \text{ will gain } \frac{1}{2} \text{ of } \frac{4}{12} = \frac{2}{12}$$

$$\text{Hence, } C's \text{ new share} = \frac{3}{12} + \frac{2}{12} = \frac{5}{12}$$

$$\text{New Ratio} = A \frac{7}{12} : C \frac{5}{12} \text{ or } 7 : 5$$

Question 3

A, B, C, and D are associates sharing profits in the ratio of 3:4:3:2. On the retirement of C, the goodwill was valued at ₹6,00,000. A, B and D decided to show future profits equally. Pass the necessary journal entry for the retirement of goodwill.

Solution: Calculation of Gaining Ratio:

$$\text{Gaining Ratio of A} = \frac{1}{3} - \frac{3}{12} = \frac{4-3}{12} = \frac{1}{12}$$

$$\text{Gaining Ratio of B} = \frac{1}{3} - \frac{4}{12} = \frac{4-4}{12} = 0$$

$$\text{Gaining Ratio of D} = \frac{1}{3} - \frac{2}{12} = \frac{4-2}{12} = \frac{2}{12}$$

Date	Particulars		L.F	Dr. (₹)	Cr. (₹)
	A's Capital A/c	Dr.		50,000	
	D's Capital A/c	Dr.		1,00,000	
	To C's Capital A/c				
	(C's share of goodwill debited to the account of A and D in the gaining ratio 1:2)				1,50,000

Question 4

A, B and C were partners sharing profits in the ratio of 5:4:3. C retired and his share was taken up by A and B in the ratio of 3:2. Find out the new ratio.

Solution:

C's share will be divided between A and B in the ratio of 3:2

$$A \text{ will gain } \frac{3}{5} \text{ of } \frac{3}{12} = \frac{9}{60}$$

$$\text{Hence, A's new share} = \frac{5}{12} + \frac{9}{60} = \frac{34}{60}$$

$$B \text{ will gain } \frac{2}{5} \text{ of } \frac{3}{12} = \frac{6}{60}$$

$$\text{Hence, B's new share} = \frac{4}{12} + \frac{6}{60} = \frac{26}{60}$$

$$\text{New Ratio} = A \frac{34}{60} : B \frac{26}{60} \text{ or } 17 : 13$$