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தொகுப்பு: ந. சண்முகசுந்தரம் (மருதம் ஆசிரியர்), அ.எண்: 96598 38789
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HIGHER SECONDARY SECOND YEAR
Unit 6 / RETIREMENT AND DEATH OF A PARTNER
ACCOUNTANCY

Choose the correct answer

1. A partner retires from the partnership firm on 30th June. He is liable for all the acts of the firm up to the
(a) End of the current accounting period
(b) End of the previous accounting period
(c) Date of his retirement
(d) Date of his final settlement

2. On retirement of a partner from a partnership firm, accumulated profits and losses are distributed to the partners in the
(a) New profit sharing ratio (b) Old profit sharing ratio
(c) Gaining ratio (d) Sacrificing ratio

3. On retirement of a partner, general reserve is transferred to the
(a) Capital account of all the partners
(b) Revaluation account
(c) Capital account of the continuing partners
(d) Memorandum revaluation account

4. On revaluation, the increase in liabilities leads
(a) Gain (b) Loss (c) Profit (d) None of these

5. At the time of retirement of a partner, determination of gaining ratio is required
(a) To transfer revaluation profit or loss
(b) To distribute accumulated profits and losses
(c) To adjust goodwill (d) None of these

6. If the final amount due to a retiring partner is not paid immediately, it is transferred to
(a) Bank A/c (b) Retiring partner's capital A/c
(c) Retiring partner's loan A/c
(d) Other partners' capital A/c

7. 'A' was a partner in a partnership firm. He died on 31st March 2019. The final amount dueto him is RS. 25,000 which is not paid immediately. It will be transferred to
(a) A's capital account (b) A's current account
(c) A's Executor account (d) A's Executor loan account

8. A, B and C are partners sharing profits in the ratio of 2:2:1. On retirement of B, goodwill of the firm was valued as ` 30,000. Find the contribution of A and C to compensate B:
(a) Rs. 20,000 and Rs.10,000 (b) Rs.8,000 and Rs.4,000
(c) Rs.10,000 and Rs.20,000 (d) Rs.15,000 and Rs.15,000

9. A, B and C are partners sharing profits in the ratio of 4:2:3. C retires. The new profit sharing ratio between A and B will be
(a) 4:3 (b) 3:4 (c) 2:1 (d) 1:2

10. X, Y and Z were partners sharing profits and losses equally. X died on 1st April 2019. Find
out the share of X in the profit of 2019 based on the profit of 2018 which showed ` 36,000.
(a) Rs. 1,000 (b) Rs. 3,000 (c) Rs. 12,000 (d) Rs.36,000

Very short answer questions

1. What is meant by retirement of a partner?

4. What is the journal entry to be passed to transfer the amount due to the deceased partner to the executor of the deceased partner?

Short answer questions

2. Distinguish between sacrificing ratio and gaining ratio.

3. What are the ways in which the final amount due to an outgoing partner can be settled?

(a) For transferring accumulated profits and reserves

Date	Particulars		L.F.	Debit ₹	Credit ₹
	Profit and loss Appropriation A/c	Dr.		xxx	
	General reserve A/c	Dr.		xxx	
	Reserve fund A/c	Dr.		xxx	
	Workmen compensation fund A/c	Dr.		xxx	
	Investment fluctuation fund A/c	Dr.		xxx	
	To All partners' capital / current A/c (in the old ratio)				xxx

(b) For transferring accumulated loss

Date	Particulars		L.F	Debit ₹	Credit ₹
	All partners' capital / current A/c	Dr.		xxx	
	To Profit and loss A/c (in old ratio)				xxx

Illustration 2

Mary, Meena and Mariam are partners of a firm sharing profits and losses equally. Mary retired from the partnership on 1.1.2019. On that date, their balance sheet showed accumulated loss of ₹ 75,000 on the asset side of the balance sheet. Give the journal entry to distribute the accumulated loss.

6.4 Revaluation of assets and liabilities

When a partner retires from the partnership firm, the assets and liabilities are revalued as the current value may differ from the book value. There are two ways in which the revaluation of assets and liabilities may be dealt with in the accounts.

(a) Revised value of assets and liabilities are shown in the books

(b) Revised value of assets and liabilities are not shown in the books

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Following are the journal entries to be passed to record the revaluation of assets and liabilities:

Date	Particulars		L.F.	Debit ₹	Credit ₹
	1. For increase in the value of asset				
	Concerned asset A/c	Dr.		xxx	
	To Revaluation A/c				xxx
	2. For decrease in the value of asset				
	Revaluation A/c	Dr.		xxx	
	To Concerned asset A/c				xxx
	3. For increase in the amount of liabilities				
	Revaluation A/c	Dr.		xxx	
	To Concerned liability A/c				xxx
	4. For decrease in the amount of liability				
	Concerned liability A/c	Dr.		xxx	
	To Revaluation A/c				xxx
	5. For recording an unrecorded asset				
	Concerned asset A/c	Dr.		xxx	
	To Revaluation A/c				xxx
	6. For recording an unrecorded liability				
	Revaluation A/c	Dr.		xxx	
	To Concerned liability A/c				xxx
	7. For transferring the balance in revaluation A/c				
	(a) For profit on revaluation				
	Revaluation A/c	Dr.		xxx	
	To All partners' capital A/c (individually in old profit sharing ratio)				xxx
	(b) For loss on revaluation				
	All partner's capital A/c (individually in old profit sharing ratio)	Dr.		xxx	
	To Revaluation A/c				xxx

Format of revaluation account is as follows:

Dr. **Revaluation Account** Cr.

Particulars	₹	Particulars	₹
To Concerned asset A/c (net decrease)	xxx	By Concerned asset A/c (net increase)	xxx
To Concerned liability A/c (net increase)	xxx	By Concerned liability A/c (net decrease)	xxx
To All partners' capital A/c (profit on revaluation shared in old ratio) *	xxx	By All partners' capital A/c (loss on revaluation shared in old ratio)*	xxx
	xxx		xxx

*There will be either profit or loss on revaluation.

Illustration 4

Ramya, Sara and Thara are partners sharing profits and losses in the ratio of 5:3:2. On 1st April 2018, Thara retires and on retirement, the following adjustments are agreed upon:

(i) Increase the value of premises by ₹ 40,000.

(ii) Depreciate stock by ₹ 3,000 and machinery by ₹ 6,500.

(iii) Provide an outstanding liability of ₹ 500

Pass journal entries and prepare revaluation account.

Illustration 6

John, James and Raja are partners in a firm sharing profits and losses equally. Their balance sheet as on 31st March, 2019 is as follows:

Liabilities		₹	Assets		₹
Capital accounts:			Office equipment		70,000
John	80,000		Machinery		1,40,000
James	60,000		Sundry debtors	52,000	
Raja	1,00,000	2,40,000	Less: Provision for		
Sundry creditors		1,20,000	doubtful debts	2,000	50,000
			Stock		60,000
			Cash at bank		40,000
		3,60,000			3,60,000

Raja retired on 31st March, 2019 subject to the following conditions:

(i) Machinery is valued at ₹ 1,30,000

(ii) Value of office equipment is brought down by ₹ 2,000

(iii) Provision for doubtful debts should be increased to ₹ 3,000

(iv) Investment of ₹ 25,000 not recorded in the books is to be recorded now

Pass necessary journal entries and prepare revaluation account.

Illustration 8

Arya, Benin and Charles are partners sharing profits and losses in the ratio of 3:3:2. Charles retires and his share is taken up by Arya. Calculate the new profit sharing ratio and gaining ratio of Arya and Benin.

Illustration 10

Kumar, Kesavan and Manohar are partners sharing profits and losses in the ratio of 1/2, 1/3 and 1/6 respectively. Manohar retires and his share is taken up by Kumar and Kesavan equally. Find out the new profit sharing ratio and gaining ratio.

6.6.1 Existing goodwill

If goodwill already appears in the balance sheet, at the time of retirement if the partners decide, it can be written off by transferring it to all the partners' capital account / current account in the old profit sharing ratio. The following journal entry is to be passed:

Journal entry

Date	Particulars		L.F.	Debit ₹	Credit ₹
	All partners' capital / current A/c (in old ratio)	Dr.		xxx	
	To Goodwill A/c				xxx
	(Existing goodwill written off)				

Illustration 13

Naresh, Mani and Muthu are partners in a firm sharing profits and losses in the ratio of 2:2:1. On 31st March 2019, Muthu retires from the firm. On the date of Muthu's retirement, goodwill appeared in the books of the firm at ₹ 40,000. By assuming fluctuating capital method, pass the necessary journal entry if the partners decide to

(a) write off the entire amount of existing goodwill

(b) write off half of the amount of existing goodwill.

Profit and loss suspense account is a temporary account opened to transfer the share of retiring or deceased partner's share in current year's profit or loss upto the date of retirement or death.

Illustration 14

Justina, Navi and Rithika are partners sharing profits and losses equally. On 31.3.2019, Rithika retired from the partnership firm. Profits of the preceding years is as follows:

2016: ₹ 5,000; 2017: ₹ 10,000 and 2018: ₹ 30,000

Find out the share of profit of Ritika for the year 2019 till the date of retirement if

(a) Profit is to be distributed on the basis of the previous year's profit

(b) Profit is to be distributed on the basis of the average profit of the past 3 years

Also pass necessary journal entries by assuming that partners' capitals are fluctuating.

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(a) When the amount due is paid in cash immediately

Date	Particulars	L.F.	Debit ₹	Credit ₹
	Retiring partner's capital A/c Dr.		xxx	
	To Cash / Bank A/c			xxx

(b) When the amount due is not paid immediately in cash

Date	Particulars	L.F.	Debit ₹	Credit ₹
	Retiring partner's capital A/c Dr.		xxx	
	To Retiring partner's loan A/c			xxx

(c) When the amount due is partly paid in cash immediately

Date	Particulars	L.F.	Debit ₹	Credit ₹
	Retiring partner's capital A/c Dr.		xxx	
	To Cash / Bank A/c (amount paid)			xxx
	To Retiring partner's loan A/c			xxx

Retiring partner's loan account will appear on the liabilities side of the balance sheet prepared after retirement till it is completely settled.

Illustration 17

Charles, Muthu and Sekar are partners, sharing profits in the ratio of 3:4:2. Their balance sheet as on 31st December, 2018 is as under:

Liabilities	₹	₹	Assets	₹
Capital accounts:			Furniture	20,000
Charles	30,000		Stock	40,000
Muthu	40,000		Debtors	30,000
Sekar	20,000	90,000	Cash at bank	42,000
Workmen compensation fund		27,000	Profit and loss A/c (loss)	18,000
Sundry creditors		33,000		
		1,50,000		1,50,000

On 1.1.2019, Charles retired from the partnership firm on the following arrangements.

(i) Stock to be appreciated by 10%

(ii) Furniture to be depreciated by 5%

(iii) To provide ₹ 1,000 for bad debts

(iv) There is an outstanding repairs of ₹ 11,000 not yet recorded

(v) The final amount due to Charles was paid by cheque

Prepare revaluation account, partners' capital account and the balance sheet of the firm after retirement.

(i) To transfer the amount due to the deceased partner to the executor or legal representative of the deceased partner.

Date	Particulars	L.F.	Debit ₹	Credit ₹
	Deceased partner's capital A/c Dr.		xxx	
	To Deceased partner's executor A/c			xxx

(ii) For payment made

(a) When the amount due is paid in cash immediately

Date	Particulars	L.F.	Debit ₹	Credit ₹
	Deceased partner's executor A/c Dr.		xxx	
	To Cash / Bank A/c			xxx

(b) When the amount due is not paid immediately in cash

Date	Particulars	L.F.	Debit ₹	Credit ₹
	Deceased partner's executor A/c Dr.		xxx	
	To Deceased partner's executor loan A/c			xxx

(c) When the amount due is partly paid in cash immediately

Date	Particulars	L.F.	Debit ₹	Credit ₹
	Deceased partner's executor A/c Dr.		xxx	
	To Cash / Bank A/c (amount paid)			xxx
	To Deceased partner's executor loan A/c			xxx

Illustration 22

Ramesh, Ravi and Akash are partners who share profits and losses in their capital ratio. Their balance sheet as on 31.12.2017 is as follows:

Balance Sheet as on 31st December, 2017

Liabilities	₹	₹	Assets	₹	₹
Capital account:			Plant and machinery		45,000
Ramesh	30,000		Stock		22,000
Ravi	30,000		Debtors		15,000
Akash	20,000	80,000	Cash at bank		10,000
General reserve		8,000	Cash in hand		4,000
Creditors		8,000			
		96,000			96,000

Akash died on 31.3.2018. On the death of Akash, the following adjustments are made:

(i) Plant and machinery is to be valued at ₹ 54,000

(ii) Stock is to be depreciated by ₹ 1,000

(iii) Goodwill of the firm is valued at ₹ 24,000

(iv) Share of profit of Akash is to be calculated from the closing of the last financial year to the date of death on the basis of the average of the three completed years' profit before death. Profit for 2015, 2016 and 2017 were ₹ 66,000, ₹ 60,000 and ₹ 66,000 respectively.

Prepare the necessary ledger accounts and the balance sheet immediately after the death of Akash.

5. Vinoth, Karthi and Pranav are partners sharing profits and losses in the ratio of 2:2:1. Pranav retires from partnership on 1st April 2018. The following adjustments are to be made.

(i) Increase the value of land and building by ₹ 18,000

(ii) Reduce the value of machinery by ₹15,000

(iii) A provision would also be made for outstanding expenses for ₹ 8,000.

Give journal entries and prepare revaluation account.

9. Ramu, Somu, Gopu are partners sharing profits in the ratio of 3:5:7. Gopu retires and the share is purchased by Ramu and Somu in the ratio of 3:1. Find the new profit sharing ratio and gaining ratio.

13. Balu, Chandru and Nirmal are partners in a firm sharing profits and losses in the ratio of 5:3:2. On 31st March 2018, Nirmal retires from the firm. On the date of Nirmal's retirement, goodwill appeared in the books of the firm at ₹ 60,000. By assuming fluctuating capital account, pass the necessary journal entry if the partners decide to

(a) write off the entire amount of existing goodwill

(b) write off half of the existing goodwill.

22. Vijayan, Sudhan and Suman are partners who share profits and losses in their capital ratio. Their balance sheet as on 31.12.2018 is as follows:

Balance Sheet as on 31.12.2018

Liabilities	₹	₹	Assets	₹
Capital accounts:			Building	80,000
Vijayan	70,000		Stock	45,000
Sudhan	50,000		Debtors	25,000
Suman	30,000	1,50,000	Cash at bank	20,000
General reserve		18,000	Cash in hand	15,000
Creditors		17,000		
		1,85,000		1,85,000

Suman died on 31.3.2019. On the death of Suman, the following adjustments are made:

(i) Building is to be valued at ₹ 1,00,000

(ii) Stock to be depreciated by ₹ 5,000

(iii) Goodwill of the firm is valued at ₹ 36,000

(iv) Share of profit from the closing of the last financial year to the date of death on the basis of the average of the three completed years' profit before death.

Profit for 2016, 2017 and 2018 were ₹ 40,000, ₹ 50,000 and ₹ 30,000 respectively.

Prepare the necessary ledger accounts and the balance sheet immediately after the death of Suman.

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18. Saran, Arun and Karan are partners in a firm sharing profits and losses in the ratio of 4:3:3. Their balance sheet as on 31.12.2016 was as follows:

Liabilities	₹	₹	Assets	₹	₹
Capital accounts:			Buildings		60,000
Saran	60,000		Machinery		40,000
Arun	50,000		Investment		20,000
Karan	40,000	1,50,000	Stock		12,000
General reserve		15,000	Debtors	25,000	
			Less: Provision		
Creditors		35,000	Provision for		
			bad debts	1000	24,000
			Cash at bank		44,000
		2,00,000			2,00,000

Karan retires on 1.1.2017 subject to the following conditions:

(i) Goodwill of the firm is valued at ₹ 21,000

(ii) Machinery to be appreciated by 10%

(iii) Building to be valued at ₹ 80,000

(iv) Provision for bad debts to be raised to ₹ 2,000

(v) Stock to be depreciated by ₹ 2,000

(vi) Final amount due to Karan is not paid immediately

Prepare the necessary ledger accounts and show the balance sheet of the firm after retirement.

16. Manju, Charu and Lavanya are partners in a firm sharing profits and losses in the ratio of 5:3:2. Their balance sheet as on 31st March, 2018 is as follows:

Liabilities	₹	₹	Assets	₹
Capital accounts:			Buildings	1,00,000
Manju	70,000		Furniture	80,000
Charu	70,000		Stock	60,000
Lavanya	70,000	2,10,000	Debtors	40,000
Sundry creditors		40,000	Cash in hand	20,000
Profit and loss A/c		50,000		
		3,00,000		3,00,000

Manju retired from the partnership firm on 31.03.2018 subject to the following adjustments:

(i) Stock to be depreciated by ₹ 10,000

(ii) Provision for doubtful debts to be created for ₹ 3,000.

(iii) Buildings to be appreciated by ₹ 28,000

Prepare revaluation account and capital accounts of partners after retirement.

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