Chapter 21

Retirement of A Partner

1 It is same like admission of a partner.

2 Journal entries for distribution of accumulated Profits & Loss are same as that of Admission i.e. Old Partners in Old Profit Sharing Ratio.

3 Revaluation of Assets & Liabilities is same as in Admission.

4 Benefit / Gain Ratio = New Ratio – Old Ratio

5 When date of B/S & date of retirement are different, Calculate retiring Partners' Share in profit from the date of Balance sheet upto date of retirement. This share in profit is debited to P & L suspense a/c and credited to retiring partner's capital a/c. P & L Suspense a/c should be shown in the B/S on the asset side.

6 Balance in retiring partner's capital a/c should be paid to him either in cash or it may be transferred to his loan a/c. In absence of information it should be transferred to loan a/c.Retiring partner's loan is a liability for the business.

Amount paid to retiring partner

Retiring Partners Capital A/c Dr.
To Cash / Bank A/c (Paid Amount)
To Retiring Partners Loan A/c (Unpaid Amt.)

7. Goodwill treatment in retirement :

Method I : Goodwill of the firm is raised

It means entire firms Goodwill is recorded as an Asset.

Method II : Goodwill of the retiring partner is raised:

It means only retiring partners share in Goodwill is recorded as an Asset.

Method III : Goodwill adjustment without opening goodwill A/c : It means retiring partner's share of goodwill is adjusted directly to the capital A/c of the gaining partners.

8. Joint Life Policy :

It is an insurance policy taken by the partnership firm on the lives of the partners jointly. This policy is normally taken to provide for funds on the death of a partner. This policy matures on the death of a partner or after the expiry of a certain period whichever is early. If however the policy is surrendered then the surrender value received will always be less than the premium paid.

- Joint life policy will be matured only on death of a partner. When a partner retires or on dissolution Joint Life Policy will be surrendered.

Treatment of Joint Life Policy:

There are three different ways of treating the premium paid on the Joint Life Policy.

(A) **Treated as an expense -** It means the premium paid by the firm is treated as an expense and shown in the P & L A/c on the debit side. On maturity the entire policy amount received is credited to all partners in their old ratio.

(B) **Treated as an Asset -** In this method the premium paid is treated as an asset. The surrender value of the asset is shown as an asset. Every year the difference between the premium paid and the surrender value is treated as a loss & debited to the P & L A/c. On maturity/ surrender of the policy the balance in Joint Life Policy A/c is distributed among all partners in old ratio.

(C) **Reserve is created –** In this method an amount equal to the premium paid is transferred every year from the P & L Appropriation A/c to the Joint Life Policy Reserve A/c. Joint Life Policy Reserve appears on the liability side and Joint Life Policy is shown on the asset side at Surrender value. The difference between premium paid & surrender value is transferred every year to the Joint Life Policy Reserve A/c. On maturity / surrender balance in Joint Life Policy reserve and Joint Life Policy A/c is distributed among all the partners.

Example:

1) A,B & C are partners sharing profits in the ratio of 3 : 2 : 1. C retires
Goodwill of firm = ₹30,000

Show necessary journal entries if:

a)	Total Goodwill of firm is raised.	c)	C's share of Goodwill is raised.
b)	Goodwill of the firm is raised.	d)	C's share of Goodwill is raised and written off
e)	If Goodwill adjustment is to be done without opening Goodwill A/c		

2) A, B and C are partners sharing profits in the ratio of 3 : 2 : 1. A joint life policy is taken on 1st March 2008 for ₹10,00,000, Premium Payable ₹30,000 p.a. On 1st May premium paid is treated as an expenses. Show the treatment of joint life policy. Assuming

a) C dies on 15th July 2010.

b) C retires on 15th July 2010. Surrender value was 50,000/-

3) A, B and C are partners sharing profits in the ratio of 3 : 2 : 1. A joint life policy is taken on 1st March 2008 for ₹10,00,000, Premium Payable ₹30,000 p.a. On 1st May 2007 premium paid is treated as assets. Show the treatment of joint life policy. Assuming

a) C dies on 15th July 2010.

b) C retires on 15th July 2010. The surrender value were as follows

2,000 – NIL, 2009 = ₹20,000 and 2010 =₹10,000

4) A, B and C are partners sharing profits in the ratio of 3 : 2 : 1. The firm has taken individual policy of ₹2,00,000, ₹1,50,000, ₹1,00,000 on the lives of A and B and C separately. The surrender value is 30% of the policy. What will be the treatment of the Insurance Policy if (a) C dies (b) C retires.

5) A, B and C are partners sharing profits in the ratio of 3 : 2 : 1. A joint life policy is taken on 1st March 2008 for ₹10,00,000, Premium Payable ₹30,000 p.a. On 1st May 2007 premium paid is treated as assets and reserve is created. Show the treatment of joint life policy. Assuming

a) C dies on 15th July 2010. b) C retires on 15th July 2010. The surrender values were as follows

2,008 – NIL, 2009 = ₹20,000 and 2010 =₹40,000

MULTIPLE CHOICE QUESTIONS

1. Retiring or outgoing partner:
   (a) Is liable for all firm's liabilities
   (b) Is not liable for any liabilities of the firm
   (c) Is liable for obligations incurred before his retirement
   (d) Is liable for obligations incurred with his consent only

2. Outgoing partner is compensated for parting with firm's future profits in favour of remaining partners. In what ratio do the remaining partners share such compensation amount?
   (a) Gaining Ratio (b) Capital Ratio (c) Sacrificing Ratio (d) Profit Sharing Ratio

3. Joint Life Policy is taken by the firm on the life(s) of ....
   (a) All the partners jointly
   (b) All the partners severely
   (c) On the life of all the partners and employees of the firm
   (d) 'a' and 'b'

4. At the time of retirement of a partner, firm gets .... from the insurance company against the Joint Life Policy taken jointly for all the partners.
   (a) Policy amount
   (b) Surrender value
   (c) Policy value for the retiring partner and surrender value for the rest
   (d) Surrender value for all the partners

5. At the time of retirement of a partner, firm gets .... from the insurance company against the Joint Life Policy taken severaly for each partner.
   (a) Policy amount
   (b) Surrender value
   (c) Policy value for the retiring partner and surrender value for the rest
   (d) Surrender value for all the partners

6. Claim of the retiring partner is payable in the following form
   (a) Fully in cash
   (b) Fully transferred to loan account to be paid later with some interest on it
   (c) Partly in cash and partly as loan repayable later with agreed interest
   (d) Any of the above method

7. A, B and C were partners sharing profits and losses in the ratio of 3:2:1. A retired and firm received from the joint life policy ₹7,500 which was appearing in the balance sheet at ₹10,000. JLP is credited and cash debited with ₹7,500, what will be the treatment for the balance in Joint Life Policy?

   (a) Credited to Partner's Current Account in profit sharing ratio

   (b) Debited to Revaluation Account

   (c) Debited to Partner's Capital Account in profit sharing ratio

   (d) Either 'b' or 'c'

8. The profit or loss in the second part of the memorandum revaluation account is transferred to the continuing partners in the __________.

   (a) Old Profit Sharing Ratio (b) New Profit Sharing Ratio (c) Gaining Ratio (d) none

9. The balance to the credit of retiring partners capital account if not paid in cash must be transferred to ___________.

   (a) Loan A/c (b) Revaluation A/c (c) Reserve A/c (d) none

10. The profit or loss disclosed by the revaluation account at the time of retirement of a partner is transferred to the capital accounts of the partners in the ______________ ratio.

    (a) Old (b) capital (c) New (d) Gain

11. When the goodwill is to be raised in the books at the time of retirement of a partner, then the capital accounts of ______________ partners are to be credited.

    (a) all the (b) remaining (c) None (d) Retiring

12. It is given that, at the time of the retirement of a partner, the total debtors (all good) are ₹10,000 and there is a reserve for doubtful debts to the extent of ₹500. This amount of reserves ____________ be transferred to the capital accounts of the partners at the time of retirement.

    (a) should (b) should not (c) None (d) No opinion

13. When premium payable on the life policy taken on the life of partners is treated as an asset, then at the end of the year, the balance in joint life policy account in excess of its surrender value is treated as ______________.

    (a) profit (b) loss (c) None (d) No opinion

14. When premium payable on the life policy taken on the life of partners is treated as an asset, then the amount received on the maturity of the policy in excess of its surrender value is a ________________.

    (a) profit (b) loss (c) None (d) No opinion

15. When premium paid on the policy is treated as an asset and reserve is to be maintained, then the policy account appears on the ______________ side of the balance-sheet.

    (a) assets (b) liabilities (c) None (d) No opinion

16. Joint life policy reserve account should be transferred to the capital account of ______________ partners.

(a) all the (b) remaining (c) None (d) No opinion

17. In case the assets and liabilities are to appear at their original values in the balance-sheet after the retirement of a partner, then the balance of the first part of the memorandum revaluation account is transferred to the capital accounts of the partners in –

(a) New profit sharing ratio (b) Old profit sharing ratio
(c) Capital ratio (d) none

18. All accumulated losses are transferred to the capital accounts of the partners in –

(a) New profit sharing ratio (b) Old profit sharing ratio
(c) Capital ratio (d) none

19. If the goodwill raised at the time of retirement of a partner is to be written off, then the capital accounts of the remaining partners are debited in –

(a) New profit sharing ratio (b) Old profit sharing ratio
(c) Capital ratio (d) none

20. The amount received from the insurance company on the joint life policy of the partners in excess of its surrender value is credited to the capital accounts of the partners –

(a) In their respective profit sharing ratio
(b) In their respective capital ratio
(c) Equally
(d) none

21. The balance of general reserves is to be transferred to the capital accounts of the partners in –

(a) Old profit sharing ratio (b) New profit sharing ratio (c) Capital ratio (d) none

22. Joint Life Policy reserve account is to be transferred to

(a) all the partners in the old profit sharing ratio
(b) continuing partners in their new ratio
(c) the capital account
(d) retiring partner and continuing partner who sacrifices his ratio

23. When a partner retires, decrease in the value of a liability is credited to

(a) Liability account (b) Profit & Loss Adjustment account
(c) Realisation account (d) None

24. Profit on revaluation of assets and liabilities at the time of retirement of a partner will be credited to

(a) remaining partners in the profit sharing ratio
(b) all the partners in their old ratio
(c) remaining partners in their gaining ratio.
(d) None

25. Accumulated Profits/Losses & Reserves on retirement of a partner are shared by the partners in their:

(a) Capital Ratio (b) New Profit Sharing Ratio
(c) Old Profit Sharing Ratio (d) Gaining Ratio

26. A, B and C are partners with profits sharing ratio 4:3:2. B retires and goodwill ₹10,800 shown in books of account. If A & C shares profits in 5:3, then find the gain ratio.

(a) 13:11 (b) 17:11 (c) 31:11 (d) 14:21

27. X, Y and Z are partners in the ratio of ½ : 2/5 : 1/10. What will be new ratio of the remaining partners if X retire:

(a) 2 : 1 (b) 4 : 1 (c) 5 : 1 (d) 3 : 1

28. X, Y and Z were partners in the ratio of 1/5, 1/3 and 7/15 respectively, Z retires and his share was taken up by X and Y in the ratio of 3 : 2. The new ratio of X and Y will be :

(a) 13 : 12 (b) 12 : 15 (c) 12 : 13 (d) 14 : 15

29. X, Y and Z are partners sharing profits & losses in the ratio of 4/9 : 1/3 : 2/9 respectively. Y retires. The gaining ratio and the new profit sharing ratio will be:

(a) 1 : 1, 1 : 1 (b) 1 : 2, 1 : 2 (c) 2 : 1, 2 : 1 (d) None of these

30. A, B and C share profits in the ratio of 4/9, 1/3 and 2/9. B retires. The new ratio if B's share is purchased by A will be:

(a) 4 : 2 (b) 2 : 7 (c) 7 : 2 (d) None of these

31. A, B and C are partners sharing profits in the ratio of 1/2, 2/5 and 1/10. B retires and his share is taken up by A and C in the ratio of 1 : 5. The new profit sharing ratio of A and C will be:

(a) $\frac{1}{2}:\frac{1}{10}$ (b) 13 : 17 (c) 17 : 13 (d) None of these

32. A, B and C share profits as 1/2 to A, 1/3 to B, 1/6 to C. B retires and his share is taken up by A and C in the ratio of 1 : 3. The new profit sharing ratio will be:

(a) $\frac{1}{2}:\frac{1}{6}$ (b) 5 : 7 (c) 7 : 5 (d) None of these

33. X, Y and Z are partners sharing profits & losses in the ratio of 4/9 : 1/3 : 2/9 respectively. Y retires and his share is taken up by X and Z in the ratio of 13 : 11. The new profit sharing ratio will be:

(a) 3 : 5 (b) 1 : 1 (c) 8 : 2 (d) None of these

34. A, B and C are partners with profits sharing ratio 4:3:2. B retires and goodwill ₹10,800 was shown in books of account. If A & C shares profits in 5:3, then find the value of goodwill shared between A and C.

(a) ₹1,850 and ₹1,950 (b) ₹1,650 and ₹1,750
(c) ₹2,000 and ₹1,600 (d) ₹1,950 and ₹1,650

35. C, D and E are partners sharing profits and losses in the proportion of ½, 1/3 and 1/6. D retired and the new profit sharing ratio between C and E is 3:2 and the reserve of ₹12,000 is divided amount the partners in the ratio:

(a) 2000:4000:6000 (b) 5000:5000:2000
(c) 4000:6000:2000 (d) 6000:4000:2000

36. The capitals of A, B and C are ₹1,00,000; ₹75,000 and ₹50,000, profits are shared in the ratio of 3:2:1. B retires on the basis of share purchased by other partners then the new ratio between A and C is 3:1. Find the capital of A and C.

(a) ₹1,50,000 and ₹1,00,000 (b) ₹1,46,250 and ₹42,000
(c) ₹1,56,250 and ₹68,750 (d) ₹86,250 and ₹46,250

37. A, B and C takes a Joint Life Policy, after five years B retires from the firm. Old profit sharing ratio is 2:2:1. After retirement A and C decides to share profits equally. They had taken a Joint Life Policy of ₹2,50,000 with the surrender value ₹50,000. What will be the treatment in the partner's capital account on receiving the JLP amount if joint life premium is fully charged to revenue and when paid?

(a) ₹50,000 credited to all the partners in old ratio
(b) ₹2,50,000 credited to all the partners in old ratio
(c) ₹2,00,000 credited to all the partners in old ratio
(d) No treatment is required

38. A, B and C takes a Joint Life Policy, after five years, B retires from the firm. Old profit sharing ratio is 2:2:1. After retirement A and C decides to share profits equally. They had taken a Joint Life Policy of ₹2,50,000 with the surrender value ₹50,000. What will be the treatment in the partner's capital account on receiving the JLP amount if joint life policy is maintained at the surrender value?

(a) ₹50,000 credited to all the partners in old ratio
(b) ₹2,50,000 credited to all the partners in old ratio
(c) ₹2,00,000 credited to all the partners in old ratio
(d) No treatment is required

39. A, B and C takes a Joint Life Policy, after five years B retires from the firm. Old profit sharing ratio is 2:2:1. After retirement A and C decide to share profits equally. They had taken a Joint Life Policy of ₹2,50,000 with the surrender value ₹50,000. What will be the treatment in the partner's capital account on receiving the JLP amount if joint life policy is maintained at surrender value along with the reserve?

(a) ₹50,000 credited to all the partners in old ratio
(b) ₹25,000 credited to all the partners in old ratio
(c) ₹2,00,000 credited to all the partners in old ratio
(d) Distribute JLP Reserve Account in old profit sharing ratio

40. A, B and C are partners sharing profits in the ratio 2:2:1. On retirement of B, goodwill was valued as ₹30,000. Find the contribution of A and C to compensate B.

(a) ₹20,000 and ₹10,000 (b) ₹8,000 and ₹4,000
(c) They will not contribute anything (d) Information is insufficient for any comment

41. A, B and C were partners in a firm sharing profits and losses in the ratio of 2:2:1 respectively with the capital balance of ₹50,000 for A and B, for C ₹25,000. B declared to retire from the firm and balance in reserve on the date was ₹15,000. If goodwill of the firm was valued as ₹30,000 and profit on revaluation was ₹7,050 then what amount will be transferred to the loan account of B.

(a) ₹70,820 (b) ₹50,820 (c) ₹25,820 (d) ₹58,820

42. A, B and C are partners sharing profits and losses in the ratio of 3:2:1. C retires on a decided date and goodwill of the firm is to be valued at ₹60,000. Find the amount payable to retiring partner on account of goodwill.

(a) ₹30,000 (b) ₹20,000 (c) ₹10,000 (d) ₹60,000

43. A, B and C were partners sharing profits and losses in the ratio of 3:2:1. A retired and goodwill of the firm is to be valued at ₹24,000 and goodwill account is to be raise which is not appearing in the balance sheet. What will be the treatment for goodwill?

(a) Credited to Revaluation Account at ₹24,000

(b) Credited to Partners Capital Account ₹24,000 in profits sharing ratio

(c) Only A's Capital Account credited with ₹12,000

(d) Only A's Capital Account credited with ₹24,000

44. Balances of M/s. Ram, Rahul and Rohit sharing profits and losses in proportionate to their capitals, stood as follows: Capital Accounts : Ram ₹3,00,000; Rahul ₹2,00,000 and Rohit ₹1,00,000. Ram desired to retire from the firm and the remaining partners decided to carry on, Joint Life Policy of the partners surrendered and cash obtained ₹60,000. What will be the treatment for JLP?

(a) ₹60,000 credited to Revaluation Account (b) ₹60,000 credited to Joint Life Policy Account

(c) ₹30,000 debited to Ram's Capital Account (d) Either 'a' or 'b'

45. Balances of A, B and C sharing profits and losses in proportionate to their capitals, stood as follows: Capital Accounts: A ₹2,00,000; B ₹3,00,000 and C ₹2,00,000; JLP Reserve ₹80,000 and JLP ₹80,000. A desired to retire from the firm and the remaining partners decided to carry on in equal ratio, Joint Life Policy of the partners surrendered and cash obtained ₹80,000. What will be the treatment for JLP?

(a) Cash received credited to Revaluation Account

(b) JLP Reserve balance credited to Partner's Capital Account in old profit sharing ratio

(c) JLP Reserve balance credited to Partner's Capital Account in new profit sharing ratio

(d) Cash received credited to Partner's Capital Account in old profit sharing ratio

46. Balances of A, B and C sharing profits and losses in proportionate to their capitals, stood as follows: Capital Accounts: A ₹2,00,000; B ₹3,00,000 and C ₹2,00,000. A desired to retire from the firm, B and C share the future profits equally. Goodwill of the entire firm be valued at ₹1,40,000 and no goodwill account being raised.

(a) Credit Partner's Capital Account with old profit sharing ratio for ₹1,40,000

(b) Credit Partner's Capital Account with new profit sharing ratio for ₹1,40,000

(c) Credit A's Account with ₹40,000 and debit B's Capital Account with ₹10,000 and C's Capital Account with ₹30,000

(d) Credit Partner's Capital Account with gaining ratio for ₹1,40,000

47. Balances of A, B and C sharing profits and losses in proportionate to their capitals, stood as follows: Capital Accounts: A ₹2,00,000; B ₹3,00,000 and C ₹2,00,000. JLP Reserve and JLP at ₹80,000. A desired to retire from the firm, B and C share the future profits equally. Joint life policy of the partners surrendered and cash obtained ₹80,000. Goodwill of the entire firm be valued at ₹1,40,000 and no goodwill account being raised. Revaluation loss was ₹10,000. Amount due to A is to be settled on the following basis: 50% on retirement and the balance 50% within one year. The total capital of the firm is to be the same as before retirement. Individual capitals in their profit sharing ratio. Find the balances of Partner's Capital Account.

(a) ₹3,50,000 each (b) ₹3,20,000 each (c) ₹1,90,000 each (d) ₹1,30,000 each

48. Balances of Ram, Hari & Mohan sharing profits and losses in the ratio 2:3:2 stood as follows: Capital Accounts: Ram ₹10,00,000; Hari ₹15,00,000; Mohan ₹10,00,000; Joint Life Policy ₹3,50,000. Hari desired to retire from the firm and the remaining partners decided to carry on with the future profit sharing ratio of 3:2. Joint Life Policy of the decided to carry on with the future profit sharing ratio of 3:2. Joint Life Policy of the partners surrendered and cash obtained ₹3,50,000. What would be the treatment for JLP?

(a) ₹3,50,000 credited to Partner's Capital Account in new ratio

(b) ₹3,50,000 credited to Partner's Capital Account in old ratio

(c) ₹3,50,000 credited to Partner's Capital Account in capital ratio

(d) ₹3,50,000 credited to JLP Account

49. A, B and C takes a Joint Life Policy, after five years. B retires from the firm. Old profit sharing ratio is 2 : 2 : 1. After retirement A and C decides to share profits equally. They had taken a Joint Life Policy of ₹5,00,000 with the surrender value ₹1,00,000. What will be the treatment in the partner's capital account on receiving the JLP amount if joint life premium is fully charged to revenue as and when paid?

(a) ₹1,00,000 credited to all the partners in old ratio

(b) ₹5,00,000 credited to all the partners in old ratio

(c) ₹4,00,000 credited to all the partners in old ratio

(d) No treatment is required

50. A, B and C takes a Joint Life Policy, after five years B retires from the firm. Old profit sharing ratio is 2 : 2 : 1. After retirement A and C decides to share profits equally. They had taken a Joint Life Policy of ₹5,00,000 with the surrender value ₹1,00,000. What will be the treatment in the partner's capital account on receiving the JLP amount if joint life policy is maintained at the surrender value?

(a) ₹1,00,000 credited to all the partners in old ratio

(b) ₹5,00,000 credited to all the partners in old ratio

(c) ₹4,00,000 credited to all the partners in old ratio

(d) No treatment is required