



St. Lawrence High School



A Jesuit Christian Minority Institution

Study Material 4

Sub: ACCOUNTANCY

Class 12

Chapter: Unit 2: Reconstitution of Partnership

Date: 17/08/2020

Topic: Retirement & Death of Partner

RETIREMENT & DEATH OF PARTNER

In case of retirement/ death of partner the following adjustments are required:

1. Calculation of new ratio and gaining ratio
2. Treatment of goodwill
3. Revaluation of assets and reassessment of liabilities
4. Distribution of undistributed profits and reserves
5. Adjustment regarding P/L Suspense A/C
6. Payment to the retiring partner or executor of deceased partner (in case of death)

1. Calculation of new ratio and gaining ratio

In case of retirement / death of a partner new profit sharing ratio must be calculated in between the remaining partners. If the problem is silent we may assume that rest ratio be their new profit sharing ratio. Say for example the old ratio among X, Y and Z is 5:3:2. Z retired from the firm and the new ratio is not given then we need assume that the new ratio between X and Y is 5:3 i.e., their rest ratio.

Here gaining ratio can be calculated as follows:

$$\text{GAINING RATIO} = \text{NEW RATIO} - \text{OLD RATIO}$$

2. Treatment of goodwill

In case of retirement/death of partner goodwill must be raised at its full value and written-off without opening goodwill account as follows:

Remaining Partners Capital A/C Dr. (Gaining ratio)

To, Retiring/Deceased Partners Capital A/C (his share of goodwill)

3. Revaluation of assets and reassessment of liabilities

(i) Increase in assets and decrease in liabilities:

Assets A/C.....Dr

Liabilities A/C.....Dr

To, Revaluation A/C

(ii) Decrease in assets and increase in liabilities:

Revaluation A/C.....Dr

To, Assets A/C

To, Liabilities A/C

(iii) Profit on revaluation:

Revaluation A/C.....Dr

To, Old partners capital A/C (Old Ratio)

(iv) Loss on revaluation:

Old partners capital A/C.....Dr (Old Ratio)

To, Revaluation A/C

4. Distribution of undistributed profits and reserves

(i) Distribution of undistributed profits:

General Reserve A/C.....Dr

P/L (Cr.) A/C.....Dr

To, Old Partners Capital A/C (Old Ratio)

(ii) Distribution of undistributed loss:

Old Partners Capital A/CDr (Old Ratio)

To, P/L (Dr) A/C

5. Adjustment regarding P/L Suspense A/C

If date of last balance sheet and the date of retirement/death are not same we need to calculate the amount of profit from the date of balance sheet to the date of retirement/ death. The retiring partner or the representative of deceased partner will get proportion of share of profit. Accounting treatment regarding this profit is as follows:

(i) If profit sharing ratio of the remaining partners is not changed:

Profit & Loss Suspense A/CDr

To, Retiring/Deceased Partners capital A/C (His share of profit)

The value of P/L Suspense A/C must be disclosed in the new balance sheet asset side.

(ii) If profit sharing ratio of the remaining partners is changed:

Remaining Partners Capital/ Current A/CDr (Gaining ratio)

To, Retiring/ Deceased Partners Capital A/C (His share of profit)

6. Payment to the retiring partner or executor of deceased partner

(a) In case of retirement:

Retiring Partners Capital A/C Dr.

To, Cash / Bank A/C (if paid)

To, Retiring Partners Loan A/C (if transfer to loan)

It may so happen that entire amount is paid or entire amount is transferred to loan account or partly paid and partly transfer to loan account.

(b) In case of death:

(i) Amount due to deceased partner transfer to his executor A/C:

Deceased Partners Capital A/CDr

To, Deceased Partners Executor A/C

(ii) Amount due to executor is paid off or transferred to his loan account:

Deceased Partners Executors A/CDr

To, Cash/ Bank A/C

OR

To, Deceased Partners Executors Loan A/C

STEPS OF SOLUTION:

- 1) Journals
 - 2) Revaluation A/C
 - 3) Partners Capital A/C
 - 4) Balance sheet of the reconstituted firm
 - 5) Retiring partners loan account or Partners Executors Loan account (in case of death)
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