

Chapter 5 · Retirement and Death of a Partner

CBSE Class 12 Accountancy (055) · Part A · Unit 1 = 36 marks · Ultimate Revision Sheet

60-SECOND RECALL

Gaining Ratio	New Share – Old Share (the mirror of admission)
If nothing stated	Remaining partners gain in their OLD ratio , so new ratio = old ratio between them
Goodwill entry	Gaining Partners' Capital A/c Dr. → Retiring Partner's Capital A/c Cr.
Old ratio for	Reserves · Revaluation · writing off existing goodwill
Amount due	Transferred to Retiring Partner's Loan A/c if not paid immediately
On death	Everything as on retirement, plus share of profit till date of death → Executor's A/c

1. Retirement — Meaning

CONCEPT A partner may retire (a) with the consent of all partners, (b) as per an express agreement, or (c) in a partnership at will, by giving **written notice** to all other partners.

The retiring partner is entitled to his capital, his share of goodwill, his share of revaluation profit and reserves, and his share of profit up to the date of retirement.

2. New Ratio and Gaining Ratio

THE FORMULA

Gaining Ratio = New Share – Old Share

Admission asks for **sacrifice**; retirement asks for **gain**. Same subtraction, opposite direction.

CASE 1 — nothing stated Remaining partners continue in their **old mutual ratio**.

$A:B:C = 3:2:1$, C retires. New ratio $A:B = 3:2$. Gaining ratio = $3:2$ as well.

CASE 2 — retiring partner's share taken in a stated ratio $A:B:C = 5:3:2$. C retires; A and B take his share equally.

C 's share $2/10$ split equally = $1/10$ each.

$A = 5/10 + 1/10 = 6/10$ $B = 3/10 + 1/10 = 4/10$ → **New ratio 3:2**, gaining ratio **1:1**.

CASE 3 — new ratio given directly Subtract old from new for each remaining partner to get the gaining ratio.

TRAP Gaining ratio and new ratio are **the same only when the question is silent**. The moment a specific split is stated, they differ — and goodwill must be charged in the **GAINING ratio**.

3. Goodwill on Retirement

THE ONLY ENTRY (AS 26)

Particulars	Dr	Cr
Gaining Partners' Capital A/c Dr. (gaining ratio) To Retiring Partner's Capital A/c (Retiring partner's share of goodwill adjusted)	...	...

$$\text{Amount} = \text{Firm's Goodwill} \times \text{Retiring Partner's Share}$$

TRAP — goodwill already in the books Write it off **first** among **ALL** partners including the retiring one, in the **OLD** ratio:

All Partners' Capital A/c Dr. (old ratio) To Goodwill A/c

Then pass the gaining-ratio entry.

4. Revaluation, Reserves and the Retiring Partner's Account

Revaluation profit/loss and all reserves are shared among **ALL** partners including the retiring one, in the **OLD** ratio — he was a partner while they accrued.

RETIRING PARTNER'S CAPITAL A/c — FORMAT

Particulars	₹	Particulars	₹
To Drawings A/c	...	By Balance b/d	...
To Goodwill A/c (written off, old ratio)	...	By General Reserve A/c (old ratio)	...
To Revaluation A/c (loss)	...	By Revaluation A/c (profit)	...
To Profit & Loss A/c (Dr. bal.)	...	By Gaining Partners' Capital A/c (goodwill)	...
To Bank A/c (amount paid)	...	By Interest on Capital A/c	...
To Retiring Partner's Loan A/c (balance unpaid)	...	By Profit & Loss Suspense A/c (share till date)	...
	XXX		XXX

5. Settlement of the Amount Due

Mode of payment	Entry
Paid fully in cash	Retiring Partner's Capital A/c Dr. To Bank A/c
Not paid — transferred to loan	Retiring Partner's Capital A/c Dr. To Retiring Partner's Loan A/c
Part cash, part loan	Both of the above, split
Interest on the loan	6% p.a. if the deed is silent (Sec 37 allows 6% or share of profit, at his option)

6. Death of a Partner

Everything is treated **exactly as on retirement**, with **three additions**.

THE THREE EXTRAS 1. Share of profit till the date of death — must be calculated.

2. The amount due goes to the **Executor's A/c**, not a loan account.

3. Death may occur mid-year, so time apportionment is needed.

SHARE OF PROFIT TILL DATE OF DEATH — two methods

(a) Time Basis = Last year's profit $\times$ (Months or days till death / 12 or 365) $\times$ Deceased's share

(b) Sales Basis = Sales till date of death $\times$ (Last year's profit / Last year's sales) $\times$ Deceased's share

Entry: Profit & Loss Suspense A/c Dr. To Deceased Partner's Capital A/c

WORKED EXAMPLE A, B, C share 2:2:1. C dies on 31 May. Last year's profit ₹1,20,000. Year ends 31 March.

Period = 1 April to 31 May = 2 months

Profit till death = 1,20,000 $\times$ 2/12 = ₹20,000

C's share = 20,000 $\times$ 1/5 = ₹4,000

P&L Suspense A/c Dr. ₹4,000 To C's Capital A/c ₹4,000

TRAP P&L Suspense A/c is used only for the deceased partner's share, and it appears on the **ASSETS** side of the new balance sheet until adjusted. Do not credit the whole firm's profit to it.

7. Question Triggers what the wording is really asking

If the question says...	Do this
"C retires" (nothing else about ratio)	New ratio = old ratio of remaining; gaining ratio same
"A and B take C's share equally"	Gaining ratio 1:1 , then recompute new ratio
"goodwill of the firm is ₹X"	Gainers Dr. (gaining ratio) $\rightarrow$ Retiring partner Cr.
"goodwill appears in the books"	Write off among ALL partners in OLD ratio first
"general reserve appears"	Distribute to ALL partners incl. retiring, old ratio
"amount to be paid in instalments"	Transfer to Loan A/c ; interest 6% if silent
"C died on 30 June"	Compute profit till date $\rightarrow$ P&L Suspense A/c
"sales till date of death were ₹X"	Sales basis , not time basis
"amount payable to his executor"	Transfer to Executor's A/c , not Loan A/c
"joint life policy matured"	Credit all partners in old ratio
"capitals of remaining partners to be in the new ratio"	Adjust capitals; surplus/deficit to Cash or Current A/c

MOST-ASKED BOARD QUESTIONS

1. [6M] Prepare Revaluation A/c, Partners' Capital A/cs and the Balance Sheet after retirement.
2. [6M] Prepare the deceased partner's Capital A/c and his Executor's A/c.
3. [3-4M] Calculate the gaining ratio and pass the goodwill entry.
4. [3M] Calculate the deceased partner's share of profit till the date of death.
5. [1M] Give the formula for gaining ratio. $\rightarrow$ New share - Old share
6. [1M] Where is P&L Suspense A/c shown? $\rightarrow$ Assets side of the balance sheet

THE HABIT THAT SCORES — Retirement is admission run backwards. Wherever admission says **sacrifice**, retirement says **gain**; wherever admission credits the **old** partners, retirement credits the **retiring** one. Learn the pair together and you have covered roughly a third of Unit 1.