Reconstitution of a Partnership Firm – Retirement/Death of a Partner

Standard difficulty · 20 questions · 40 marks · Time: 40 minutes

Name: _____ Date: _____ Score: ____ / 40

Show your working for Sections B and C. Answers are on the last page — try every question first!

Section A — Choose the correct answer — 8 × 1 = 8 marks

1. On retirement, the ratio in which the continuing partners gain is the:

(a) old ratio **(b)** capital ratio

(c) sacrificing ratio **(d)** gaining ratio

2. What is meant by “retiring partner’s loan account”?

(a) holds the amount due when it is not paid at once

(b) paying the amount due to a retiring partner in parts, with interest on the unpaid balance

(c) restating assets and liabilities at their current values

(d) debit balances that are written off to all partners in the old ratio

3. Which of these is CREDITED to a retiring partner’s capital account?

(a) the partner’s share of loss up to the date of retirement

(b) the partner’s share of revaluation loss

(c) the partner’s drawings

(d) interest on capital up to retirement

4. Isha, Vikram and Arjun share profits 4 : 3 : 2. Arjun retires, and Isha and Vikram take Arjun’s share in the ratio 3 : 5. What is the new profit-sharing ratio of Isha and Vikram?

(a) 19 : 17 **(b)** 7 : 5 **(c)** 4 : 3 **(d)** 3 : 5

5. Rahul, Ananya and Rohan share profits 1 : 2 : 3. Rohan retires, and the new ratio of Rahul and Ananya is 5 : 13. What is their gaining ratio?

(a) 2 : 7 **(b)** 5 : 13 **(c)** 1 : 2 **(d)** 7 : 2

6. Meera, Isha and Dev share profits 1 : 1 : 1. Dev retires, and the firm’s goodwill is valued at ₹9,000. What amount is credited to Dev’s capital account for goodwill?

(a) ₹3,000 **(b)** ₹4,000 **(c)** ₹9,000 **(d)** ₹6,000

7. Zoya, Rohan and Rahul share profits 5 : 4 : 1. Rahul dies on 30 November. The share of profit up to the date of death is based on last year’s profit of ₹6,00,000, on time basis (the year starts on 1 April). What is Rahul’s share of profit?

(a) ₹2,00,000 **(b)** ₹45,000 **(c)** ₹60,000 **(d)** ₹40,000

8. Zoya, Ananya and Priya share profits 3 : 3 : 2. Priya retires; Zoya and Ananya gain Priya’s share in the ratio 5 : 3. Goodwill is valued at ₹1,60,000. By how much is Zoya’s capital account debited for goodwill?

(a) ₹40,000 **(b)** ₹20,000 **(c)** ₹15,000 **(d)** ₹25,000

Section B — Short answer — 8 × 2 = 16 marks

9. What is the gaining ratio?

10. Explain each term: (a) executors (b) gaining ratio

11. Rahul, Ananya and Rohan share profits 1 : 2 : 3. Rohan retires and the new ratio of Rahul and Ananya is 1 : 1. Find the gaining ratio.

12. Meera, Vikram and Kabir share profits 2 : 2 : 1. Kabir retires, and the gaining ratio of Meera and Vikram is 3 : 1. Goodwill is valued at ₹80,000. Pass the journal entry for Kabir's share of goodwill.

13. Isha, Vikram and Ananya share profits 1 : 1 : 1. Ananya died, and the share of profit up to the date of death is to be based on sales. Last year's sales were ₹31,00,000 and profit ₹4,65,000. Sales from 1 April to the date of death were ₹2,40,000. Find Ananya's share of profit.

14. ₹4,00,000 is due to retiring partner Priya. It is paid in 5 equal yearly instalments with interest at 12% per annum on the unpaid balance. Find (a) the first payment (b) the second payment, each including interest.

15. Kabir, Priya and Isha share profits 3 : 2 : 1. On Isha's retirement, the general reserve is ₹12,000 and the revaluation shows a profit of ₹18,000. Find Isha's share of (a) the general reserve (b) the revaluation profit.

16. Isha, Dev and Vikram share profits 3 : 2 : 2. Dev retires. Goodwill is valued at 3 years' purchase of the average profit of the last three years, which were ₹1,36,000, ₹1,31,000, ₹1,32,000. Find the goodwill and Dev's share of it.

Section C — Word problems — 4 × 4 = 16 marks

17. Explain the adjustments needed on the retirement of a partner.

18. Rahul, Vikram and Isha share profits 3 : 2 : 2. Isha retires on 31 May. Isha's capital is ₹1,90,000 and drawings this year are ₹9,000. The general reserve is ₹56,000, revaluation shows a loss of ₹7,000, goodwill is valued at ₹56,000, and the share of profit to the date of retirement is based on last year's profit of ₹3,36,000 (time basis). Find the amount due to Isha.

19. Rahul, Ananya and Priya share profits 4 : 3 : 1. Priya died on 30 November. Priya's capital was ₹60,000, with interest on capital at 12% per annum. Goodwill is valued at ₹1,04,000, and the share of profit to the date of death is based on last year's profit of ₹96,000 (time basis, from 1 April). Find (a) the interest on capital (b) the share of profit (c) the share of goodwill (d) the total due to the executors.

20. Priya, Vikram and Arjun share profits 2 : 2 : 1. Arjun retires; Priya and Vikram gain in the ratio 1 : 1. Goodwill is valued at ₹20,000, the general reserve is ₹45,000 and the revaluation profit is ₹5,000. Pass the journal entries for goodwill, the reserve and the revaluation profit.

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Answer key

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Q	Answer	Working
1	**(d) gaining ratio**	—
2	**(a) holds the amount due when it is not paid at once**	—
3	**(d) interest on capital up to retirement**	—
4	**(a) 19 : 17**	Isha 16/36 + 3/36; Vikram 12/36 + 5/36
5	**(a) 2 : 7**	gain = new share − old share: 2/18 and 7/18
6	**(a) ₹3,000**	₹9,000 × 1/3
7	**(d) ₹40,000**	₹6,00,000 × 8/12 × 1/10
8	**(d) ₹25,000**	Priya's share ₹40,000 × 5/8
9	**The ratio in which the continuing partners acquire the share of the retiring or deceased partner: new share − old share.**	—
10	**(a) persons who receive the amount due to a deceased partner (b) the ratio in which the continuing partners gain the share of the retiring partner**	—
11	**2 : 1**	Rahul: 12/24 − 4/24 = 8/24; Ananya: 12/24 − 8/24 = 4/24
12	**Meera's Capital A/c Dr. ₹12,000 Vikram's Capital A/c Dr. ₹4,000 To Kabir's Capital A/c ₹16,000**	Kabir's share ₹80,000 × 1/5 = ₹16,000, borne 3 : 1
13	**₹12,000**	profit rate 15% of sales; ₹2,40,000 × 15/100 = ₹36,000; × 1/3
14	**(a) ₹1,28,000; (b) ₹1,18,400**	(a) ₹80,000 + ₹4,00,000 × 12/100 (b) ₹80,000 + ₹3,20,000 × 12/100
15	**(a) ₹2,000; (b) ₹3,000**	× 1/6
16	**₹3,99,000; ₹1,14,000**	average ₹3,99,000 ÷ 3 = ₹1,33,000; × 3; × 2/7
17	**New and gaining ratios, treatment of goodwill, revaluation of assets and liabilities, accumulated profits and losses, adjustment of capitals, and settlement of the amount due.**	—
18	**₹2,27,000**	₹1,90,000 + reserve ₹16,000 − revaluation ₹2,000 + goodwill ₹16,000 + profit ₹16,000 (₹3,36,000 × 2/12 × 2/7) − drawings ₹9,000
19	**(a) ₹4,800; (b) ₹8,000; (c) ₹13,000; (d) ₹85,800**	(a) ₹60,000 × 12/100 × 8/12 (b) ₹96,000 × 8/12 × 1/8 (c) ₹1,04,000 × 1/8
20	**(i) Priya's Capital A/c Dr. ₹2,000 Vikram's Capital A/c Dr. ₹2,000 To Arjun's Capital A/c ₹4,000**	goodwill borne in the gaining ratio; reserve and revaluation profit shared in the old ratio 2 : 2 : 1

Q	Answer	Working
	(ii) General Reserve A/c Dr. ₹45,000 **To Priya's Capital A/c ₹18,000** **To Vikram's Capital A/c ₹18,000** **To Arjun's Capital A/c ₹9,000** **(iii) Revaluation A/c Dr. ₹5,000** **To Priya's Capital A/c ₹2,000** **To Vikram's Capital A/c ₹2,000** **To Arjun's Capital A/c ₹1,000**	