VIDYA BHAWAN BALIKA VIDYA PITH

शक्तिउत्थानआश्रमलखीसरायबिहार

Class 12 commerce   Sub. ACT Date 09.06.2021

Teacher name – Ajay Kumar Sharma

Reconstitution Retirement/Death of a Partner

Question 1:

What are the different ways in which a partner can retire from the firm?

ANSWER:

The following are the different ways in which a partner can retire from a firm.

i. ***With the consent of all other partners***: A partner must take the consent of all the co-partners of the firm before his/her retirement. Thereafter, the partner can retire from the firm if and only if all the partners agree on the decision of his/her retirement.

ii) ***With an express agreement by all the partners***: In case of written agreement among the partners a partner may retire from the firm by expressing his/her intention of leaving the firm though a notice to the other partners of the firm.

iii) ***By giving a written notice***: If partnership among the partners is at will then a partner may retire by giving notice in writing to all the other partners informing them about his/her intention to retire.

Question 2:

Write the various matters that need adjustments at the time of retirement of partner/partners.

ANSWER:

The following are the various matters that need to be adjusted at the time of retirement of partners/partner.

1. Calculation of new gaining ratio of all the remaining partners of the firm.

2. Calculation of new ratio of the remaining partners of the firm.

3. Calculation of goodwill of the new firm and its accounting treatment.

4. Revaluation of assets and liabilities of the new firm.

5. Distribution of accumulated profits and losses and reserves among all the partners (including the retiring partner).

6. Treatment of Joint Life Policy

7. Settlement of the amount due to the retiring partner

8. Adjustment of capital accounts of the remaining partners in their new profit sharing ratio.

Question 3:

Distinguish between sacrificing ratio and gaining ratio.

ANSWER:

Basis of Difference	**Sacrificing ratio**	**Gaining Ratio**
1. Meaning	It is the ratio in which old partners agree to sacrifice their share of profit in favour of new partners/partner	It is the ratio in which continuing partner acquires the share of profit from outgoing partner/partner
2. Calculation	Sacrificing Ratio = Old Ratio – New Ratio	Gaining Ratio = New Ratio – Old Ratio
3. Time	It is calculated at the time of admission of new partners/partner.	It is calculated at the time of retirement/death of old partners/partner.
4. Objective	It is calculated to ascertain the share of profit and loss given up by the existing partners in favour of new partners/partner.	It is calculated to ascertain the share of profit and loss acquired by the remaining partners (of the new firm in case of retirement) from the retiring or deceased partner.
5. Effect	It reduces the profit share of the existing partners.	It increases the profit share of the remaining partners.

Question 4:

Why do firm revaluate assets and reassess their liabilities on retirement or on the event of death of a partner?

ANSWER:

At the time of retirement or death of a partner, it becomes inevitable to revalue the assets and liabilities of the firm for ascertaining their true and fair values. The revaluation is necessary as the value of assets and liabilities may increase or decrease with the passage of time. Further, it may be possible that there are certain assets and liabilities that remained unrecorded in the books of accounts. The retiring or the deceased partner may be benefited or may bear loss due to change in the values of assets and liabilities. Therefore, the revaluation of the assets and liabilities is necessary in order to ascertain the true profit or loss that is to be divided among all the partners in their old profit sharing ratio.

Question 5:

Why a retiring/deceased partner is entitled to a share of goodwill of the firm?

ANSWER:

Goodwill is an intangible asset of a firm that is earned by the efforts of all the partners of the firm. After the retirement or death of a partner, the fruits of the past performance and reputation will be shared only by the remaining partners. Thus the remaining partners should compensate the retiring or the deceased partner by entitling him/her a share of firm's goodwill.
