

Retirement of a Partner

Adjustments

1. New PSR, Gaining Ratio
2. Goodwill Adjustment
3. Revaluation of Assets & Liabilities
4. Reserves
5. Joint Life Policy & Separate Life Policy
6. Amount due to Retiring Partner

1. New Profit Sharing Ratio

$$\text{New Share} = \text{Old Share} + \text{Gaining Share}$$

eg:

J T P
3 : 2 : 1

(a) J retires

New Ratio: $\rightarrow$ T : P
Gaining Ratio $\rightarrow$ 2 : 1

$$\text{Tina Gaining Share} = \frac{3}{6} \times \frac{2}{3} = \frac{6}{18}$$

$$\text{Pinku Gaining Share} = \frac{3}{6} \times \frac{1}{3} = \frac{3}{18}$$

$$\text{eg: } 3/6 \text{ --- } 3 : 2 : 1$$

↓

Retires & his share is acquired as follows

- T acquired $\frac{1}{10}$ th share from T & the balance share is acquired equally

$$\Rightarrow \text{T Gaining Share} = \frac{1}{10}$$

$$\text{Balance Share} = \frac{3}{6} - \frac{1}{10} = \frac{15-3}{30} = \frac{12}{30}$$

$\frac{12 \times 1}{30 \times 2} = \frac{12}{60}$

$\frac{12}{60}$

$$\text{T Gaining Share} = \frac{1}{10} + \frac{12}{60} = \frac{6+12}{60} = \frac{18}{60}$$

$$P = \frac{12}{60}$$

$$\text{GR} = 18:12$$

$$= 3:2$$

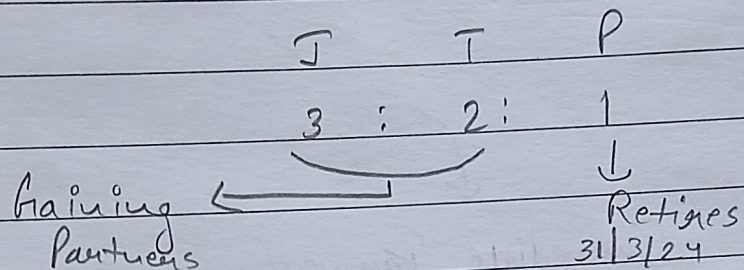
$$T = \frac{2}{6} + \frac{18}{60} = \frac{20+18}{60} = \frac{38}{60}$$

$$P = \frac{1}{6} + \frac{12}{60} = \frac{10+12}{60} = \frac{22}{60}$$

$$\text{NPSR} = 38:22$$

$$19:11$$

Goodwill Adjustment



Goodwill of the firm - ₹ 3,00,000

Journal :

Gaining Partner Cap. A/c
To Sacrificing Partner Cap. A/c

$$P. \text{ Share} = 3,00,000 \times \frac{1}{6}$$

$$= ₹ 50,000$$

→	J	Cap. A/c	Dr	30,000	
	3:2	Cap. A/c	Dr	20,000	
		To P Cap. A/c			50,000

Amt. due to Retiring Partner

Immediate Payment

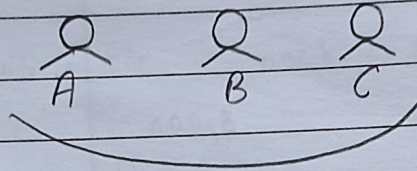
[only if mentioned in the ques]

Retiring Par. Cap. Dr
To Bank

Treated as Partner's Loan

Retiring Par. Cap. Dr
To Partner Loan
→ Liability

JOINT LIFE POLICY



Joint Life Policy
Life Ins. Policy

Death par ya
how par kitna
paisa milega

Assured Amt.

Amount which will
be paid by Ins. Co.
on Maturity/Death

Agar aaj policy cancel krni
to kitna paise milenge

Surrender
Value

Amount which will
be paid by Ins.
Co. if Policy is
cancelled

Har saal kitna
paisa dena hai

Insurance
Premium

Yearly Payment
to insurance Co.

Insurance premium to be treated as an expense

A B C
5 : 3 : 2

Assured Amt = ₹ 1,00,000

Insurance pre = ₹ 10,000

1st Year

JLP Premium

Dr. 10,000

To Bank

10,000

31/3/24

P & L A/c

Dr. 10,000

To

JLP

Premium A/c

10,000

Profit & Loss

C - Retired

L Policy Surrendered - 8,000

1. Bank Dr 8,000
To SLP 8,000

2. SLP Dr 8,000
To A Cap.
To B Cap.
To C Cap. } old Ratio

C - Died

1. Bank Dr 1,00,000
To SLP 1,00,000

2. SLP Dr 1,00,000
To A Cap.
To B Cap.
To C Cap. } old Ratio

SLP Alc is maintained

When Premium is treated as an Asset

A B C
5 : 3 : 2

Asset

1st Year SLP Premium Dr. 10,000
To Bank Alc 10,000

Surrender Value

1st Year - 6,0002nd Year - 9,0003rd Year - 14,0004th Year - 19,000

end of 1st Year — SLP Alc Dr — S.V. Amt. Receivable
P&L Alc Dr Asset
To SLP Premium Alc
Profit ↓
Capital ↓

2nd Year

JLP Premium ... Dr. 10,000

To Bank A/c 10,000

JLP A/c ... Dr. 3,000

P&L A/c ... Dr. 7,000

To JLP Premium 10,000

Surrender

1. Bank Dr 9000
To JLP 9000

- No Gain / No Loss - Nothing
+ If to Cap. A/c

Policy is surrendered at
£ 11,000

1. JLP Dr 2000 ^{Asset ↑}
To Revaluation 2000

OR

JLP Dr
To A } old Ratio
To B }
To C }

Death

1. Bank Dr 1,00,000
To JLP 1,00,000

2. JLP Dr ~~1,00,000~~ 91,000
To A } old Ratio
To B }
To C }

OR

JLP Dr 91,000
To Revaluation 91,000

↓
Old Partners Cap in Old Ratio

1. JLP 91,000
To Rev 91,000

2. Bank 1,00,000
To JLP 1,00,000

→ Amount in excess of SLP appearing in the Balance Sheet is a gain & credited to all partners by A/c in old Ratio

Death of Partner



A



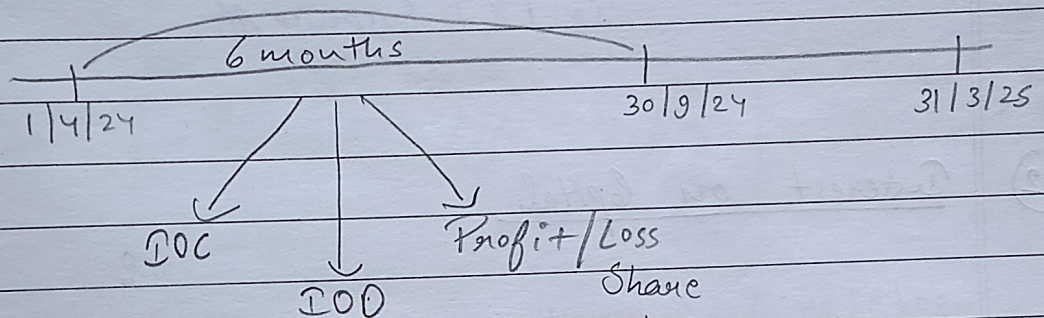
B



C

Death

30/9/2024



Preparation of
P & L A/c

Estimated
Basis

Profit: P & L App. ... Dr.
To C's Capital A/c

Time Basis

Sales Basis

Step 1 Calculation of profit on the basis of previous years profits [Average Profit]

Step 2 $\text{Profit} \times \frac{\text{TP}}{12} \times \left(\frac{1}{3}\right)$ Deceased Partner's Sh.

Step 1 Profit % on Sales = $\frac{\text{P.Y. Profit}}{\text{P.Y. Sales}}$

Step 2 Apply this Profit % on current period sale

Step 3 Find Partner's share in Profit

Journal Entry

Year end

P&L Suspense A/c ... Dr.
 To C's Capital A/c

→ P&L A/c ... Dr.
 To P&L Suspense A/c

② Interest on Capital.

30/9/24 : Interest on Capital ... Dr.
 To Deceased partner's Capital A/c

✓

Dr. Balance

→ P&L Suspense ... Dr.
 To Int. on Cap. A/c

⇒ P&L Suspense Balance = Profit Share + Int. on Cap.

JLP

→ Bank

To JLP

(3)

Separate Life Policy

	A	B	C
Sum Assured	5,00,000	3,00,000	2,00,000
30/4/24 Surrender Value	50,000	30,000	20,000

→ Premium is treated as an expense

1. Insurance Premium ...Dr.
To Bank A/c

2. P&L A/c ...Dr.
To Insurance Premium A/c

→ Total Premium borne by partners in PSR

B died on 30/4/24

Bank ... Dr. 3,00,000
To SLP Ac 3,00,000

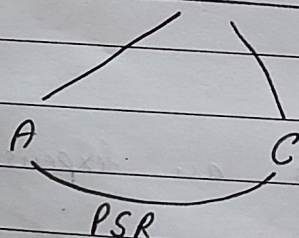
SLP Ac ... Dr. 3,00,000

To A Cap.
To B Cap. } in PSR
To C Cap.

→ A & C decided to Continue

A died on 31/7/24

Assured amt. 5,00,000



B ka Loss
hojayega

B's share in the
Surrender value of A & C $= [50,000 + 20,000] \times B's \text{ Share}$

Conclusion

On Death of a partner, deceased partner will be entitled to:

- 1) Sum assured of Deceased Partner Policy
 - 2) Surrender value of Remaining Partner Policy
- } $\times$ Deceased Partner's Profit Share

* Agar current ac ka balance diya hai toh ise chup
chup capital ac me de jao phir death ke baad ki
adjustment karo.

Dissolution of a Partnership

Firm

→ Application of Assets

1. Dissolution expenses
2. Payment to outside parties :
 - a) Creditors
 - b) Bank Loan
 - c) Outstanding expenses
 - d) Partners' Wife Loan
3. Partners' Loan
4. Partners' Capital
5. If Residue, divided b/w partners in their PSR

1. Closing of Partnership Books

Balance Sheet

as on...

Partner Capital A/c		Cash/Bank	10,000
M 40,000		Furniture	40,000
D 80,000		Machinery	70,000
M 30,000	1,50,000	Debtors 80,000	
General Reserve	20,000	(-) Prov. for DD (5,000)	75,000
Creditors	20,000	Goodwill	50,000
D's Loan	30,000		
M's Wife Loan	25,000		
	<u>2,45,000</u>		<u>2,45,000</u>

1. Closing of Assets

Realisation A/c	...Dr. 2,40,000
To Furniture A/c	40,000
To Machinery A/c	70,000
To Debtors A/c	80,000
To Goodwill A/c	50,000

Imp Points : (1) All fictitious Assets like Dr. Bal. of P&L A/c, Advertisement Susp. A/c are written off in partner Capital A/c

→ Partner Capital ...Dr.
To Fictitious Asset A/c

(2) If any provision is made for asset [Prov. for DD] then provision will be separately transfer to Realisation A/c

→ Provision for Doubtful Debt ...Dr.
To Realisation A/c

2. Closing the Liabilities

- Outside Liabilities :

Creditor A/c	... Dr.	20,000
M's Wife Loan A/c	... Dr.	25,000
To Realisation A/c		45,000

Imp. Points

1. Realisation A/c is prepared to settle the outside Liab.
2. Partners' Capital A/c & partner's Loan A/c are not transferred to Realisation.
3. General Reserves are transferred to partners' Cap. A/c.

3. Sale of Assets

Cash / Bank	... Dr.	Actual Amount Received
To Realisation A/c		

Partners takes over an asset

→ Partner Capital A/c ... Dr.
To Realisation A/c

4. Realisation / Dissolution Expenses

→ Paid in Cash / Bank

Realisation ... Dr.
To Bank A/c

→ Paid by Partner, on behalf of firm

Realisation ... Dr.
To Partners' Capital A/c

5. Payment of Liabilities

→ Paid in Cash

Realisation ... Dr.
To Bank A/c

→ Paid by Partner

Realisation ... Dr.
To Partner Capital A/c

6. Realisation Profit / Loss

Real. Dr.
To Part Cap

Part Cap Dr.
To Real.

Realisation A/c

Date: / /

Dr.

Cr.

Particulars	₹	Particulars	₹
To Furniture A/c		By Liabilities A/c	
To Machinery A/c		[except par. loan,	
To Debtors A/c		par. cap., Reserves]	
To Goodwill A/c		By Cash / Bank A/c	
		- furn.	
To Cash / Bank A/c		- Debtor	
- exp.		[Sale of Assets]	
- Creditors			
To Partner Capital A/c		By Partner Capital A/c	
(Liab. paid by Par.)		(Assets taken by par.)	
To Gain on Realisation		By Loss on Realisation	
transferred to Par. Cap.		transferred to Part. Cap.	

IMPORTANT POINTS :

1. Assumptions : a. If nothing is mentioned about payment of Liability



assumed that it is paid
at Book Value

b. If nothing is mentioned about Realisation of Assets



assume that Asset is not sold

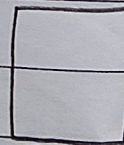
2. Asset is given in exchange of Liabilities



Liabilities is settled by asset

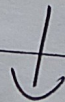
eg.

Q
Creditor - ₹10,000



Furniture
BV-9000

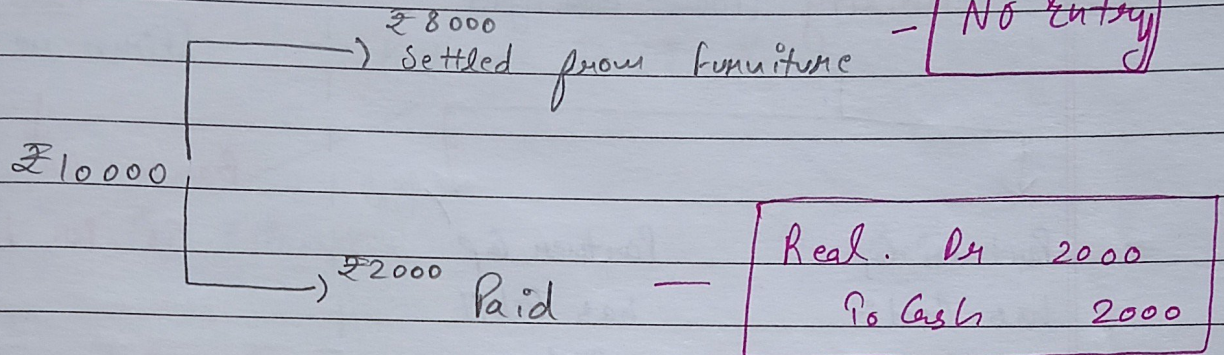
Full Settlement



No entry

eg. 2

creditors took furniture at ₹ 8000 & balance is paid in Cash



3. Unrecorded Assets / Liabilities



It is irrelevant that Asset/Liabilities is recorded or not because recorded asset/Liabilities are closed in Realisation A/c

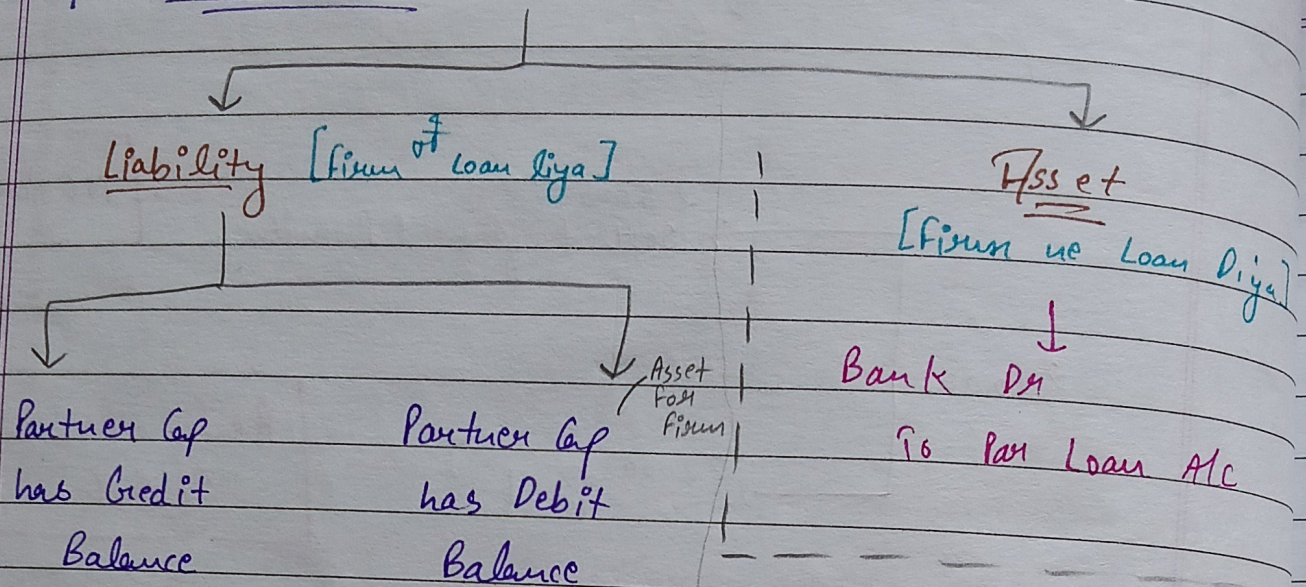
☞ Sale by Unrecorded Asset

Bank A/c ... Dr.
To Realisation

☞ Payment of Unrecorded Liabilities

Realisation A/c ... Dr.
To Bank A/c

4. Partners' Loan



1. Part Loan
To Bank

2. Part Cap
To Bank

Dr. Bal. — 40,000

Cr. Bal. — 10,000

Firm ne leke hai

Firm ne dena hai

Dr. Bal. — 30,000

1. Part Loan

To Part Cap

₹ 0000

10,000

Asset ↓

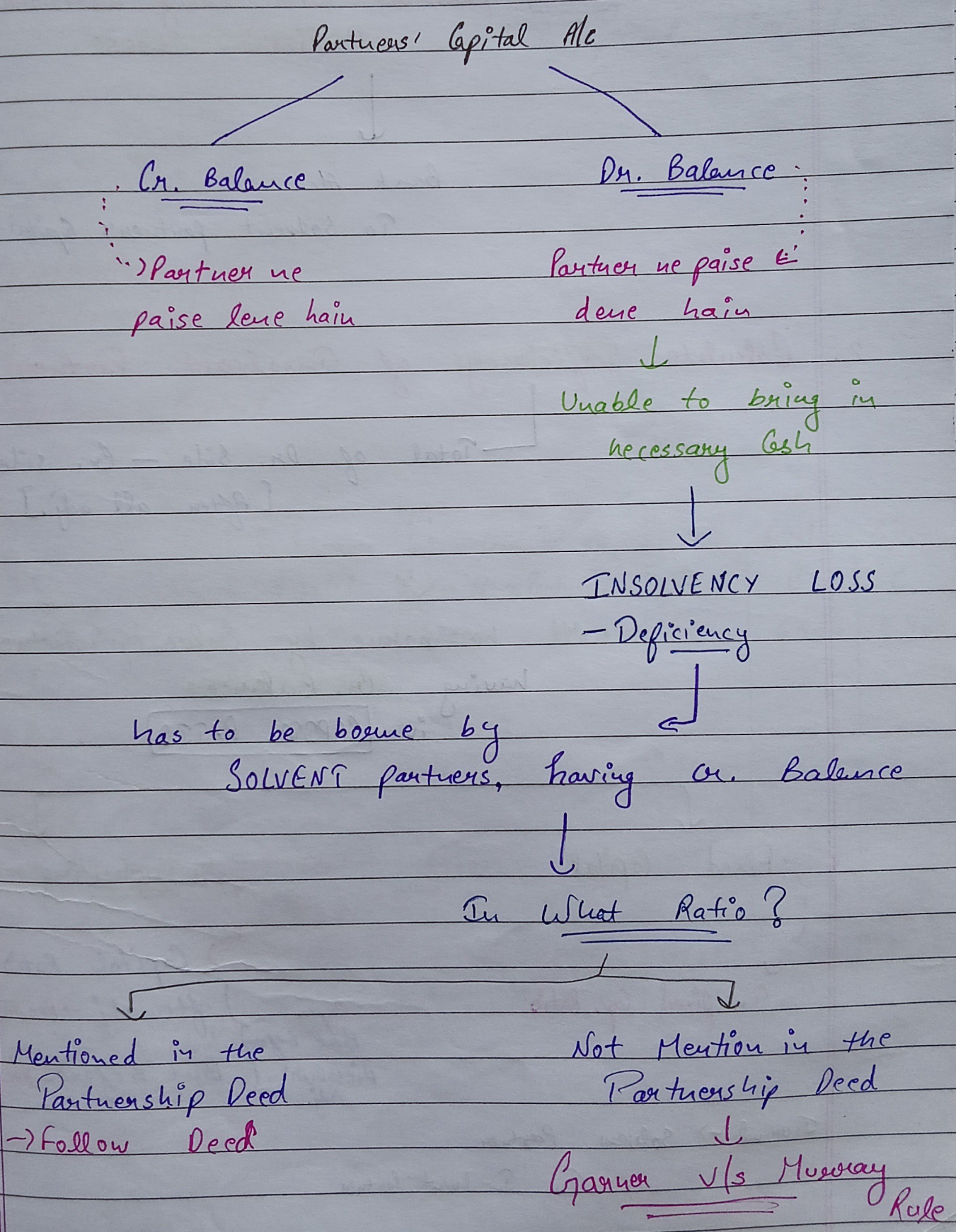
2. Bank

To Part Cap

30,000

30,000

Insolvency of a Partner



- Ganner v/s Murray Rule

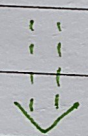
1. All the Solvent partners will bring additional ap.
= Realisation Loss



Bank A/c
To Solvent partner's Capital A/c

2. Calculate Deficiency of Insolvent Partner

Total of Dr. side - Cr. side
[After all adj.]



will be borne by Solvent Partners,
having Cr. Balance
in CAPITAL RATIO

Fixed Capital

Fluctuating Capital

In fixed Cap. Ratio

Capital Ratio

Cap. Bal before } after adj - Reserves, P&L A/c
Dissolution Adj. } But Before - Real, Profit/Loss

Journal → Solvent Partner
To Insolvent Partner

PERCEMEAL PAYMENTS

↓

Maximum Loss
Method

↓

Highest Relative
Capital Method

Sequence of Payment:

1. Realisation exp.
2. Outside Liab.
3. Partners' Loan
4. Partners' Capital

	Realisation [Cash]	Int. on Loan from Spouse	Int. on Partner Loan	Partner Cap.		
				A	B	C
Balance	—	2000	1000	9600	6000	8400
1. Sale on Investment	1000					
(-) Paid Int. on Spouse loan	(1000)	(1000)				
		1000	1000	9600	6000	8400
2. Sale of Furniture	2000					
(-) Int. on Spouse loan	(1000)	(1000)				
(-) Int. on Partner loan	(1000)		(1000)			
	—	—	—	9600	6000	8400
3. Sale of Machinery	1200					
Maximum Possible Loss						
[24000 - 1200] = 22800						
To be shared in 5:3:2				(11400)	(6840)	(4560)
				(1800)	(840)	3840
Deficiency of A & B to be shared by C				1800	840	(2640)
						1200

W.N. Highest Relative Capital Basis

	A	B	C
1. Capital Balance	76,000	48,000	36,000
2. Profit Sharing Ratio	2	2	1
[1 ÷ 2] 3. Capital per unit of share	38,000	24,000	36,000
[B share 48,000 ÷ 2 = 24,000 share] 4. Proportionate Capital, taking B as base	48,000	48,000	24,000
5. Excess [4-1]	28,000	—	12,000
6. Excess Capital per unit of share	14,000		12,000
7. Proportionate Capital taking C as a Base	24,000		12,000
Excess of A's Capital over C	4,000		—
⇒ Excess Capital	24,000		12,000

INSOLVENCY of ALL PARTNER



Dr. Bal. of all the partners & not able to bring necessary cash

Deficiency - Outside Liab, can't be paid