

CHAPTER-4

RECONSTITUTION OF A PARTNERSHIP FIRM- RETIREMENT/DEATH OF A PARTNER

(A) RETIREMENT OF A PARTNER

Section A: One Mark Questions

I. Fill in the blanks:

1. _____ ratio is used to distribute accumulated profits and losses at the time of retirement of a partner.
2. Profit or loss on revaluation is shared among the partners in _____ ratio on retirement of a partner.
3. New ratio - Old ratio = _____
4. Accumulated losses are transferred to the Capital Accounts of the partners at the time of retirement in their _____ ratio.
5. General reserve is to be transferred to _____ Accounts at the time of retirement of a partner.
6. Goodwill raised to the extent of retiring partner's share only is to be debited to continuing partners capital accounts in _____ ratio.
7. In the absence of any instruction Retiring Partner's Capital A/c is closed by transferring its balance to _____ A/c
8. _____ ratio is used for adjustment of continuing partners capitals.
9. X, Y and Z are the partners sharing profits and losses in the ratio of 3:2:1. If Y retires, the new ratio of X and Z will be _____.
10. Share gained is calculated by deducting _____ share from the New Share.
11. The ratio in which the remaining partners' will share future profits after retirement is called _____ ratio.
12. The balance in the retiring partner's loan A/c is shown on the _____ side of the B/S till the last installment is paid.
13. The amount paid to the Retiring Partner in excess of what is due to him is called _____ goodwill.
14. In the absence of any agreement as the disposed of amount due to Retiring Partner, Sec _____
 - a. of the Indian Partnership Act, 1932 is applicable.
15. If goodwill already appears in the books, it will be written off by debiting _____ A/c in their OPSR.

III. True or False Type Questions:

1. Profit or loss on revaluation is transferred to All Partners' Capital Accounts in case of retirement of a partner.
2. Accumulated profit is transferred to Continuing Partners Capital Accounts.
3. Adjustment of partners' capitals of the remaining partners is to be made in the New Ratio.
4. $\text{New Share} = \text{Old share} + \text{share sacrificed}$.
5. Share gained is computed by deducting Old share from the New Share.
6. Increase in the value of asset is debited to Revaluation Account.
7. Gain ratio is used to adjust the goodwill raised to the extent of retiring partner share only.
8. Full value of goodwill raised on retirement is credited to All Partners Capital Accounts including retiring partner in their old ratio.
9. Sec 37 of the Indian Partnership Act, 1932 states that the outgoing partner has an option to receive either interest @ 6% p.a. till the date of payment or such share of profits which has been earned with his money.

Section B: Two Marks Questions

1. Mention any two circumstances for retirement of a partner.
2. What is Gain Ratio?
3. State any two differences between sacrificing ratio and gaining ratio.
4. State any two purposes of calculating new profit sharing ratio.
5. Name two methods of treatment of goodwill?
6. How do you close the Revaluation Account on retirement of a partner?
7. Pass the journal entry for adjusting retiring partners share of goodwill when no goodwill is raised.
8. Mention any two modes of payment on settlement of Retiring Partner's Capital Account.
9. Pass the journal entry to close Retiring Partner's Capital Account when the payment is made immediately.
10. Give the journal entry to close Revaluation Account when when it is transferred to Loan A/c.
11. Give the journal entry to close Revaluation Account when there is a profit.
12. Give the journal entry to close Revaluation Account when there is a loss.
13. Why do firms revalue the assets and liabilities on retirement?
14. Why retiring partner is entitled to a share of goodwill of the firm?
15. A, B, C are partners in a firm sharing Profits and Losses in the ratio of 3:2:1. If B retires, then what Will be the NPSR of A & B.
16. Pass the journal entry for Deceased Partner's Share of profits for the intervening period:

(B) DEATH OF A PARTNER

Section A: One Marks Questions

I. Fill in the blanks

1. Executors account is generally prepared at the time of _____ of a partner.
2. Accounting treatment at the time of retirement and death is _____.
3. The period from date of the last Balance Sheet and the date of the partners' death is called _____ period.
4. _____ Account is debited for the transfer of share of accrued profit of a deceased partner.
5. Accrued profit is calculated on the basis of _____.
6. Amount payable to the Executors of the deceased partner is transferred to _____ account

II. Multiple Choice Questions:

1. Accrued profit is ascertained on the following ways:
 - (a) Average profit
 - (b) Previous year's profit
 - (c) On sales
 - (d) All of the above.
2. Amount due to deceased partner is settled in the following manner:
 - (a) Immediate full payment
 - (b) Transferred to Loan Account
 - (c) Partly paid in cash and the balance transferred to Loan A/c
 - (d) All of the above.
3. Deceased partner's share of profit in the accrued profit may be calculated on the basis of:
 - (a) Last years profit
 - (b) average profit of past few years
 - (c) Sales
 - (d) All the above
4. Amount payable to the Executors of the deceased partner is transferred to:
 - (a) Executors Loan Account
 - (b) Executors Account
 - (c) Remaining Partners' Capital A/cs
 - (d) Non of the above
5. Items to be considered while calculating the amount payable to the deceased partner is:
 - (a) His share of capital
 - (b) His share in reserve
 - (c) His share in accrued profit
 - (d) All the above

III. True of False

1. Deceased partner's claim is transferred to his Executor's Account
2. Deceased partners' share of profit for the year intervening period may be calculated on the basis of last year's profit/ average of past few years or on the basis of sales.
3. Deceased partner may be paid in one lump sum or installments with interest.

4. Retirement normally takes place at the end of an accounting period, where as death of a partner may occur any time.
5. Amount payable to the Executors of the deceased partner is transferred to Executors Loan Account

IV. Very Short Answer Questions:

1. Who is an 'Executor'?
2. When do you prepare Executors Account?
3. Which account is credited for the share of accrued profit of a deceased partner?
4. What is intervening period?
5. How do you close the Executors Account?

Section B: Two Marks Questions

1. Give the meaning of accrued profit.
2. State any two differences between retirement and death of a partner.
3. Write any two ways of settlement of claims to the deceased partner.
4. Write the journal entry to close the deceased partner's Capital Account.
5. Pass Journal entry for transfer of accrued profit of the deceased partner.
6. Write the journal entry for cash paid immediately to the executors of the deceased partner.
7. How do you close the executors account when the payment is not made immediately?
8. A, B, C were partners in a firm sharing profits in the ratio of 5:4:1. The profit of the firm for the year ending on 31-3-2017 was ₹ 1,00,00. B dies on 30-6-2017. Calculate B's share of profit from 1-4-2-17 to 30-6-2017.
9. Deceased Partners' Share of Profit = _____
10. Give the Journal Entry when retiring partner's whole amount is treated as loan.
11. Pass the Journal Entry when retiring partner is partly paid in cash and the remaining amount is treated as loan
12. P, Q and R are partners in a firm sharing profits in the ratio of 3;2:1. R retires and the balance in his Capital Account after making necessary adjustments workout to be ₹60, 000 .P and Q agreed to pay him ₹ 75,000 in full settlement of his claim.
Find out the hidden goodwill.