

1. How is goodwill adjusted in the books of a firm when a partner retires from partnership or dies?

ANS. Retiring (or deceased) partner's share of goodwill is credited to his capital account and debited to the continuing partners' capital accounts in their gaining ratio.

2. State the ratio in which profit/loss on revaluation will be shared by the partners when a partner retires.

ANS. When a partner retires, any profit or loss on revaluation of assets/liabilities will be shared by all the partners (including the retiring partner) in their old profit-sharing ratio.

3. How are accumulated profits and losses dealt with when a partner retires from a firm?

ANS. All undistributed profits (e.g., general reserve, credit balance of profit and loss account) and all undistributed losses (e.g., debit balance of profit and loss account) should be transferred to the capital accounts of the partners (including the outgoing partner) in their old profit-sharing ratio.

4. Why is it considered necessary to revalue assets and reassess liabilities on the retirement of a partner?

ANS. It is necessary to revalue assets and reassess liabilities on the date of retirement/death of a partner in order to find out any unaccounted profit/loss which is to be shared by the partners (including the retiring/deceased partner) in their old profit-sharing ratio.

5. What are the adjustments required on retirement of a partner from the firm?

ANS. Adjustments are required for the following matters on the retirement of a partner from the firm : (i) His share in the goodwill of the firm. (ii) His share in the profit or loss on revaluation of assets and liabilities. (iii) His share in the accumulated profits and losses.

6. State any two items of deduction that may have to be made from the amount payable to a retiring partner.

ANS. (i) His share in the loss on revaluation of assets and liabilities. (ii) His share in any accumulated loss.

7. R, S and T are partners sharing profits in the ratio of $\frac{1}{2}$, $\frac{2}{5}$ and $\frac{1}{10}$. Find the new profit-sharing ratio of R and S if T retires.

ANS. Profit sharing ratio of R, S and T is $\frac{1}{2} : \frac{2}{5} : \frac{1}{10}$ or 5 : 4 : 1. On T's retirement, the new profit-sharing ratio of R and S is 5 : 4.

8. When is a partner liable for debts incurred by the firm after his retirement?

ANS. A retired partner is liable for debts incurred by the firm after his retirement until public notice of the retirement is given. Such notice may be given either by the retired partner or by any member of the reconstituted firm.

9. P, Q and R were partners in a firm sharing profits in the ratio of 5 : 4 : 3. Their capitals were ₹ 40,000, ₹ 50,000 and ₹ 1,00,000 respectively. State the ratio in which the goodwill of the firm amounting to ₹ 1,20,000 will be adjusted on the retirement of R.

ANS. R's share of goodwill ($\frac{3}{12} \times ₹ 1,20,000$) or ₹ 30,000 will be credited to his capital account and debited to the capital accounts of P and Q in their gaining ratio which is 5 : 4.

10. How will the firm show the amount payable to the retiring partner, if it is not in a position to pay immediately the amount due to him on his retirement?

ANS. The amount will be shown as a loan from the retiring partner to be paid back subsequently.

11. Can a retired partner claim a share in the subsequent profits of the firm?

ANS. A retired partner is entitled, at his discretion, to interest at 6% p.a. on the amount due from the date of his retirement to the date of payment or to that portion of the profit which is earned by the firm with the amount due to the retired partner.

12. How can the net amount due to the retiring partner be settled?

ANS. The amount can be settled in cash immediately or it can be transferred to his loan account to be settled subsequently.

13. State the ratio in which the retiring partner's share of goodwill is debited to the continuing partners.

ANS. Retiring partner's share of goodwill is debited to the continuing partners in their gaining ratio.

14. On the retirement of a partner, how is the profit-sharing ratio of the continuing partners decided?

ANS. The profit-sharing ratio of the continuing partners is decided by their mutual agreement.

15. On the retirement of a partner, when it is not necessary to calculate the gaining ratio?

ANS. It is not necessary to calculate the gaining ratio when the continuing partners continue to share profits in the same ratio that existed between them prior to retirement of a partner.

16. When are the gaining ratio and profit-sharing ratio same?

ANS. Gaining ratio is equal to the profit-sharing ratio when the continuing partners continue to share profits in the same ratio that existed between them prior to the retirement of a partner.

17. A, B and C were partners in a firm sharing profits in the ratio of 5 : 3 : 2. Their capitals were ₹ 50,000, ₹ 60,000 and ₹ 90,000 respectively. State the ratio in which the goodwill of the firm amounting to ₹ 1,00,000 will be adjusted on the retirement of C.

ANS. C's share of goodwill ($\frac{2}{10} \times ₹ 1,00,000$) or ₹ 20,000 will be credited to his capital account and debited to the capital accounts of A and B in their gaining ratio which is 5 : 3.

18. What is the entitlement of the retiring partner in the goodwill of the firm?

OR, For which share of goodwill is a partner entitled at the time of his retirements?

ANS. The retiring partner is entitled to get from the continuing partners an amount for goodwill on the basis of his profit-sharing proportion.