

Chapter 6- Retirement/Death of a Partner

Question 1

A, B and C were partners sharing profits in the ratio of $\frac{1}{2}$, $\frac{2}{5}$ and $\frac{1}{10}$. Find the new ratio of the remaining partners if C retires.

Solution:

$$\text{Old Ratio A : B : C} = \frac{1}{2} : \frac{2}{5} : \frac{1}{10} \text{ or } 5 : 4 : 1$$

Since there is no information on how A and B acquired C's profit share after his retirement. So, A and B new profit sharing ratio will be evaluated by crossing out C's share.

$$\text{A's share} = \frac{1}{2} \times \frac{5}{5} = \frac{5}{10}$$

$$\text{B's share} = \frac{2}{5} \times \frac{2}{2} = \frac{4}{10}$$

Therefore, the new profit ratio of A : B will be 5 : 4

Question 2

From the following particulars, calculate the new profit-sharing ratio of the partners:

(a) Shiv, Mohan and Hari were partners in a firm sharing profits in the ratio of 5: 5: 4. Mohan retired and his share was divided equally between Shiv and Hari.

(b) P, Q and R were partners sharing profits in the ratio of 5: 4: 1. P retires from the firm.

Solution:

(a) Old Ratio Shiv: Mohan: Hari = 5: 5 :4

The profit share of Mohan = 5/14

Mohan share equally divided between Shiv and Hari 1: 1

$$\text{Mohan share taken by Shiv} = \frac{5}{14} \times \frac{1}{2} = \frac{5}{28}$$

$$\text{Mohan share taken by Hari} = \frac{5}{14} \times \frac{1}{2} = \frac{5}{28}$$

New Profit Share = Old profit share + Shares taken by Mohan

$$\text{Shiv's new share} = \frac{5}{14} + \frac{5}{28} = \frac{10+5}{28} = \frac{15}{28}$$

$$\text{Hari's new share} = \frac{4}{14} + \frac{5}{28} = \frac{8+5}{28} = \frac{13}{28}$$

Shiv and Hari new profit ratio = 15 : 13

(b) P : Q : R old share 5 : 4 : 1

$$\text{P's profit share} = \frac{5}{10}$$

Since, no information on how Q and R acquired P's profit share after his retirement, so Q and R new profit sharing ratio is evaluated just by crossing out P's share.

Therefore, New Profit Ratio Q: R = 4:1

Question 3

R, S and M are partners sharing profits in the ratio of $\frac{2}{5}$, $\frac{2}{5}$ and $\frac{1}{5}$. M decides to retire from the business and his share is taken by R and S in the ratio of 1: 2. Calculate the new profit-sharing ratio.

Solution:

Old Ratio R: S: M = 2: 2: 1

M retires from the company.

M's profit share = $\frac{1}{5}$

R's and S's share taken by M in ratio 1: 2

$$\text{Share taken by R} = \frac{1}{5} \times \frac{1}{3} = \frac{1}{15}$$

$$\text{Share taken by S} = \frac{1}{5} \times \frac{2}{3} = \frac{2}{15}$$

New Ratio = Old Ratio + Share taken from M

$$\text{R's new share} = \frac{2}{5} + \frac{1}{15} = \frac{6+1}{15} = \frac{7}{15}$$

$$\text{S's new share} = \frac{2}{5} + \frac{2}{15} = \frac{6+2}{15} = \frac{8}{15}$$

R and S new profit ratio = 7 : 8

Question 4

A, B and C were partners sharing profits in the ratio of 4 : 3 : 2. A retires, assuming B and C will share profits in the ratio of 2 : 1. Determine the gaining ratio.

Solution:

Old ratio A : B : C = 4 : 3 : 2

New ratio B : C = 2 : 1

Gaining ratio = New ratio – Old ratio

$$\text{B's Gaining ratio} = \frac{2}{3} - \frac{3}{9} = \frac{6}{9} - \frac{3}{9} = \frac{3}{9}$$

$$\text{C's Gaining ratio} = \frac{1}{3} - \frac{2}{9} = \frac{3}{9} - \frac{2}{9} = \frac{1}{9}$$

So, Gaining ratio B : C = 3 : 1

Question 5

X, Y and Z are partners sharing profits in the ratio of $\frac{1}{2}$, $\frac{3}{10}$, and $\frac{1}{5}$. Calculate the gaining ratio of remaining partners when Y retires from the firm.

Solution:

$$\text{Old ratio X: Y: Z} = \frac{1}{2} : \frac{3}{10} : \frac{1}{5} = \frac{5:3:2}{10}$$

After Y's retirement the ratio of X and Z would be 5 : 2

Gaining ratio = New ratio – Old ratio

$$\text{X's Gaining ratio} = \frac{5}{7} - \frac{5}{10} = \frac{15}{70}$$

$$\text{Z's Gaining ratio} = \frac{2}{7} - \frac{2}{10} = \frac{6}{70}$$

$$\text{Gaining ratio of X and Z will be} = \frac{15}{70} : \frac{6}{70} = \frac{15:6}{70} \text{ or } 5:2$$

Question 6

(a) W, X, Y and Z are partners sharing profits and losses in the ratio of $\frac{1}{3}$, $\frac{1}{6}$, $\frac{1}{3}$ and $\frac{1}{6}$ respectively. Y retires and W, X and Z decide to share the profits and losses equally in future.

Calculate gaining ratio.

(b) A, B, and C are partners sharing profits and losses in the ratio of 4: 3: 2. C retires from the business. A is acquiring $\frac{4}{9}$ of C's share and balance is acquired by B. Calculate the new profit-sharing ratio and gaining ratio.

Solution:

$$\text{(a) Old ratio W: X: Y: Z} = \frac{1}{3} : \frac{1}{6} : \frac{1}{3} : \frac{1}{6} \text{ or } 2: 1: 2: 1$$

$$\text{New ratio W: X: Z} = 1: 1: 1$$

Gaining ratio = New ratio – Old ratio

$$\text{W's Gaining ratio} = \frac{1}{3} - \frac{2}{6} = \frac{2-2}{6} = 0$$

$$\text{X's Gaining ratio} = \frac{1}{3} - \frac{1}{6} = \frac{2-1}{6} = \frac{1}{6}$$

$$\text{Z's Gaining ratio} = \frac{1}{3} - \frac{1}{6} = \frac{2-1}{6} = \frac{1}{6}$$

So, Gaining ratio = 0: 1: 1

$$\text{(b) Old Ratio A: B: C} = 4 : 3 : 2$$

Profit Share of C's = $\frac{2}{9}$ of C's share is acquired by A and the left share is acquired by B

$$\text{A acquired share} = \frac{2}{9} \times \frac{4}{9} = \frac{8}{81}$$

B acquired share = C's share – Share acquired by A

$$= \frac{2}{9} - \frac{8}{81} = \frac{10}{81}$$

$$\text{A's new share} = \frac{4}{9} + \frac{8}{81} = \frac{36+8}{81} = \frac{44}{81}$$

$$\text{B's new share} = \frac{3}{9} + \frac{10}{81} = \frac{27+10}{81} = \frac{37}{81}$$

So, A and B new ratio will be = 44: 37

Gaining ratio = New ratio – Old ratio

$$\text{A's Gaining ratio} = \frac{44}{81} - \frac{4}{9} = \frac{44-36}{81} = \frac{8}{81}$$

$$\text{B's Gaining ratio} = \frac{37}{81} - \frac{3}{9} = \frac{37-27}{81} = \frac{10}{81}$$

So, Gaining ratio will be = 8: 10 or 4: 5

Question 7

Kumar, Lakshya, Manoj and Naresh are partners sharing profits in the ratio of 3 : 2 : 1 : 4. Kumar retires and his share is acquired by Lakshya and Manoj in the ratio of 3 : 2. Calculate new profit-sharing ratio and gaining ratio of the remaining partners.

Solution:

3/10 of Kumar's share acquired by Lakshya and Manoj in 3: 2 ratio

$$\text{Lakshya acquired share} = \frac{3}{10} \times \frac{3}{5} = \frac{9}{50}$$

$$\text{Manoj acquired share} = \frac{3}{10} \times \frac{2}{5} = \frac{6}{50}$$

$$\text{Lakshya new share} = \frac{2}{10} + \frac{9}{50} = \frac{19}{50}$$

$$\text{Manoj new share} = \frac{1}{10} + \frac{6}{50} = \frac{11}{50}$$

$$\text{Naresh retained share} = \frac{4}{10} \text{ or } \frac{20}{50}$$

The new profit sharing ratio between Manoj, Lakshya, and Naresh will be 11: 19: 20

Question 8

A, B, and C were partners in a firm sharing profits in the ratio of 8 : 4 : 3. B retires and his share is taken up equally by A and C. Find the new profit-sharing ratio

Solution:

Old Ratio A: B: C = 8 : 4 : 3

B retires from the firm and his profit share is = 4/15

A and C took B's share in 1 : 1 ratio

$$\text{A acquired share} = \frac{4}{15} \times \frac{1}{2} = \frac{4}{30} = \frac{2}{15}$$

$$\text{C acquired share} = \frac{4}{15} \times \frac{1}{2} = \frac{4}{30} = \frac{2}{15}$$

New Ratio = Old ratio + Share acquired from B

$$\text{A's new share} = \frac{8}{15} + \frac{2}{15} = \frac{10}{15}$$

$$\text{B's new share} = \frac{3}{15} + \frac{2}{15} = \frac{5}{15}$$

New profit sharing ratio between A and C is $\frac{10}{15} : \frac{5}{15}$ or 2: 1

Question 9

A, B, and C are partners sharing profits in the ratio of 5 : 3 : 2. C retires and his share is taken by A. Calculate new profit-sharing ratio of A and B.

Solution:

Old Ratio A: B: C = 5 : 3 : 2

C retires from the firm and profit share is 2/10

A acquires entire C's share

New Ratio = Old Ratio + Share acquired from C

$$\text{A's new ratio} = \frac{5}{10} + \frac{2}{10} = \frac{7}{10}$$

$$\text{B's} = \frac{3}{10}$$

So, the new ratio between A: B will be 7: 3

Question 10

P, Q and R are partners sharing profits in the ratio of 7 : 5 : 3. P retires and it is decided that the profit-sharing ratio between Q and R will be the same as existing between P and Q. Calculate New profit-sharing ratio and Gaining Ratio.

Solution:

Old Ratio = P: Q : R = 7: 5: 3

New ratio between Q: R = 7: 5

Gaining Ratio = New Ratio – Old Ratio

$$\text{Q's Gaining ratio} = \frac{7}{12} - \frac{5}{15} = \frac{35-20}{60} = \frac{15}{60}$$

$$\text{R's Gaining ratio} = \frac{5}{12} - \frac{3}{15} = \frac{25-12}{60} = \frac{13}{60}$$

So, Gaining ratio will be = 15: 13

Question 11

Murli, Naveen and Omprakash are partners sharing profits in the ratio of $\frac{3}{8}$, $\frac{1}{2}$ and $\frac{1}{8}$. Murli retires and surrenders $\frac{2}{3}$ rd of his share in favour of Naveen and remaining share in favour of Omprakash. Calculate new profit-sharing ratio and gaining ratio of the remaining partners.

Solution:

Old Ratio = 3: 4: 1

Murali's retires with share $\frac{3}{8}$ $\frac{2}{3}$ share is surrendered by Murli in the favour of Naveen

Naveen acquired share = $\frac{3}{8} \times \frac{2}{3} = \frac{2}{8}$

Remaining share acquired by Omprakash = $\frac{3}{8} - \frac{2}{8} = \frac{1}{8}$

Gaining ratio = $\frac{2}{8} : \frac{1}{8} = 2:1$

New Ratio = Old ratio + Share acquired from B

Naveen new share = $\frac{4}{8} + \frac{2}{8} = \frac{6}{8}$

Omprakash new share = $\frac{1}{8} + \frac{1}{8} = \frac{2}{8}$

New profit sharing ratio between Naveen and Omprakash will be $\frac{6}{8} : \frac{2}{8} = 3: 1$

Question 12

A, B and C are partners in a firm sharing profits and losses in the ratio of 4 : 3 : 2. B decides to retire from the firm. Calculate new profit-sharing ratio of A and C in the following circumstances:

- (a) If B gives his share to A and C in the original ratio of A and C.
- (b) If B gives his share to A and C in equal proportion.
- (c) If B gives his share to A and C in the ratio of 3 : 1.
- (d) If B gives his share to A only.

Solution:

Old Ratio A: B: C = 4 : 3 : 2

B retires from the firm and his profit share is = $\frac{3}{9}$

(a) If B gives his share to A and C in the original ratio of A and C

Original ratio A : C = 4 : 2

$$\text{A acquired share} = \frac{3}{9} \times \frac{4}{6} = \frac{12}{54}$$

$$\text{C acquired share} = \frac{3}{9} \times \frac{2}{6} = \frac{6}{54}$$

New ratio = Old ratio + Share acquired from B

$$\text{A's new share} = \frac{4}{9} + \frac{12}{54} = \frac{24+12}{54} = \frac{36}{54}$$

$$\text{C's new share} = \frac{2}{9} + \frac{6}{54} = \frac{12+6}{54} = \frac{18}{54}$$

New profit sharing ratio between A and C = $\frac{36}{54} : \frac{18}{54}$ or 2: 1

(b) If B gives his share to A and C in equal proportion

$$\text{A acquired share} = \frac{3}{9} \times \frac{1}{2} = \frac{3}{18}$$

$$\text{C acquired share} = \frac{3}{9} \times \frac{1}{2} = \frac{3}{18}$$

New ratio = Old ratio + Share acquired from B

$$\text{A's new share} = \frac{4}{9} + \frac{3}{18} = \frac{8+3}{18} = \frac{11}{18}$$

$$\text{C's new share} = \frac{2}{9} + \frac{3}{18} = \frac{4+3}{18} = \frac{7}{18}$$

New profit sharing ratio between A and C = 11: 7

(c) If B gives his share to A and C in the ratio of 3 : 1

$$\text{A acquired share} = \frac{3}{9} \times \frac{3}{4} = \frac{9}{36}$$

$$\text{C acquired share} = \frac{3}{9} \times \frac{1}{4} = \frac{3}{36}$$

New ratio = Old ratio – Share acquired from B

$$\text{A's new share} = \frac{4}{9} - \frac{9}{36} = \frac{16-9}{36} = \frac{7}{36}$$

$$\text{C's new share} = \frac{2}{9} - \frac{3}{36} = \frac{8-3}{36} = \frac{5}{36}$$

New profit sharing ratio between A and C = 7 : 5

(d) If B gives his share to A only

A's new share = Old share of A + Share of B

$$= \frac{4}{9} + \frac{3}{9} = \frac{7}{9}$$

$$\text{C's new share} = \frac{2}{9}$$

New profit sharing ratio between A and C = 7 : 2

Question 13

L, M and O are partners sharing profits and losses in the ratio of 4 : 3 : 2. M retires and the goodwill is valued at ₹ 72,000. Calculate M's share of goodwill and pass the Journal entry for Goodwill. L and O decided to share the future profits and losses in the ratio of 5 : 3.

Solution:

Journal				
Particulars		L.F.	Debit ₹	Credit ₹
L's Capital A/c	Dr.		13,000	
O's Capital A/c	Dr.		11,000	
To M's Capital A/c (Being adjustment of M's goodwill share)				24,000

Working Note 1: Gaining Ratio Evaluation

Old Ratio L : M : O = 4 : 3 : 2

M retires from the firm

New Ratio between L : O = 5 : 3

Gaining Ratio

= New Ratio – Old Ratio

$$\text{L's share} = \frac{5}{8} - \frac{4}{9} = \frac{45-32}{72} = \frac{13}{72}$$

$$\text{O's share} = \frac{3}{8} - \frac{2}{9} = \frac{27-16}{72} = \frac{11}{72}$$

Gaining ratio between L and O = 13: 11

Working Note 2: Goodwill Evaluation

Firm's Goodwill = ₹ 72,000

$$\text{M's goodwill} = 72,000 \times \frac{3}{9} = ₹ 24,000$$

This goodwill share will be debited from remaining Partners' Capital A/c in 13 : 11 gaining ratio

$$\text{Debited amount from L's Capital A/c} = 24,000 \times \frac{13}{24} = ₹ 13,000$$

$$\text{Debited amount from O's Capital A/c} = 24,000 \times \frac{11}{24} = ₹ 11,000$$

Question 14

P, Q, R and S were partners in a firm sharing profits in the ratio of 5 : 3 : 1 : 1. On 1st January, 2019, S retired from the firm. On S's retirement, goodwill of the firm was valued at ₹ 4,20,000. New profit-sharing ratio among P, Q and R will be 4 : 3 : 3.

Showing your working notes clearly, pass necessary Journal entry for the treatment of goodwill in the books of the firm on S's retirement.

Solution:

Journal					
Date	Particulars		L.F.	Debit ₹	Credit ₹
1st Jan.	R's Capital A/c	Dr.		84,000	
	To P's Capital A/c				42,000
	To S's Capital A/c				42,000
	(Being goodwill adjusted)				

Working Notes 1: Gaining Ratio Evaluation

Gaining Ratio = New Ratio – Old Ratio

$$P's \text{ share} = \frac{4}{10} - \frac{5}{10} = -\frac{1}{10} \text{ (Sacrificing)}$$

$$Q's \text{ share} = \frac{3}{10} - \frac{3}{10} = 0$$

$$R's \text{ share} = \frac{3}{10} - \frac{1}{10} = \frac{2}{10}$$

Working Note 2: Goodwill Evaluation

$$P's \text{ Goodwill share} = 4,20,000 \times \frac{1}{10} = ₹ 42,000$$

$$Q's \text{ Goodwill share} = 4,20,000 \times \frac{2}{10} = ₹ 84,000$$

$$R's \text{ Goodwill share} = 4,20,000 \times \frac{1}{10} = ₹ 42,000$$

Question 15

Aparna, Manisha and Sonia are partners sharing profits in the ratio of 3 : 2 : 1. Manisha retired and the goodwill of the firm is valued at ₹ 1,80,000. Aparna and Sonia decided to share future profits in the ratio of 3 : 2. Pass necessary Journal entries.

Solution:

Journal				
Date	Particulars	L.F.	₹	₹
	Aparna's Capitals A/c	Dr.	18,000	
	Sonia's Capital A/c	Dr.	42,000	
	To Manisha's Capital A/c			60,000
	(Being Manisha's goodwill share adjusted to Aparna's and Sonia's Capital A/c as per their gaining ratio)			

Working Notes 1: Manisha's Goodwill Share Evaluation

Manisha's share = Firm's Goodwill X Manisha's Profit Share

Manisha's share = 1,80,000 X 1/3 = ₹ 60,000

Working Notes 1: Gaining Ratio Evaluation

Gaining ratio = New Ratio – Old Ratio

$$\text{Aparna's gain} = \frac{3}{5} - \frac{3}{6} = \frac{3}{10}$$

$$\text{Sonia's gain} = \frac{2}{5} - \frac{1}{6} = \frac{7}{30}$$

Gaining ratio = 3:7

Working Note 2: Goodwill Evaluation

$$\text{Aparna's Goodwill share} = 60,000 \times \frac{3}{10} = ₹ 18,000$$

$$\text{Sonia's Goodwill share} = 60,000 \times \frac{7}{10} = ₹ 42,000$$

Question 16

A, B and C are partners sharing profits in the ratio of 3 : 2 : 1. B retired and the new profit-sharing ratio between A and C was 2 : 1. On B's retirement, the goodwill of the firm was valued at ₹ 90,000. Pass necessary Journal entry for the treatment of goodwill on B's retirement.

Solution:

Journal				
Particulars	L.F.	Debit ₹	Credit ₹	
A's Capital A/c	Dr.	15,000		
C's Capital A/c	Dr.	15,000		
To B's Capital A/s			30,000	
(Being adjustment made on B's goodwill share)				

Working Notes 1: Gaining Ratio Evaluation

Old Ratio A: B: C = 3 : 2 : 1

B retires from the firm.

New Ratio A : C = 2 : 1

Gaining Ratio = New Ratio – Old Ratio

$$\text{A's share} = \frac{2}{3} - \frac{3}{6} = \frac{4-3}{6} = \frac{1}{6}$$

$$\text{C's share} = \frac{1}{3} - \frac{1}{6} = \frac{2-1}{6} = \frac{1}{6}$$

Gaining ratio = 1:1

Working Notes 2 : Goodwill Adjustment

Form Goodwill = ₹ 90,000

$$\text{B's Goodwill share} = 90,000 \times \frac{2}{6} = ₹ 30,000$$

This goodwill share will be debited from remaining Partners' Capital A/c in 1:1 gaining ratio

$$\text{Debited amount from A's Capital A/c} = 30,000 \times \frac{1}{2} = ₹ 15,000$$

$$\text{Debited amount from C's Capital A/c} = 30,000 \times \frac{1}{2} = ₹ 15,000$$

Question 17

Hanny, Pammy and Sunny are partners sharing profits in the ratio of 3 : 2 : 1. Goodwill is appearing in the books at a value of ₹ 60,000. Pammy retires and at the time of Pammy's retirement, goodwill is valued at ₹ 84,000. Hanny and Sunny decided to share future profits in the ratio of 2 : 1. Record the necessary Journal entries.

Solution:

Journal					
Date	Particulars		L.F.	Debit ₹	Credit ₹
	Hanny's Capital A/c	Dr.		30,000	
	Pammy's Capital A/c	Dr.		20,000	
	Sunny's Capital A/c			10,000	
	To Goodwill A/c				60,000
	(Being written-off old goodwill in old ratio)				
	Hanny's Capital A/c	Dr.		14,000	
	Sunny's Capital A/c	Dr.		14,000	
	To Pammy's Capital A/c				28,000
	(Being goodwill adjustment in gaining ratio)				

Working Notes 1: Pammy's Goodwill Share Evaluation

Pammy's share = Goodwill of the firm X Pammy's Profit Share

= 84,000 X 2/6 = ₹ 28,000 (to be borne by gaining partners in gaining ratio)

Working Notes 2: Gaining Ratio Evaluation

$$\text{Harry's gaining ratio} = \frac{3}{5} - \frac{3}{6} = \frac{1}{6}$$

$$\text{Sunny's gaining ratio} = \frac{1}{3} - \frac{1}{6} = \frac{1}{6}$$

Gaining Ratio = 1:1

Question 18

X, Y and Z are partners sharing profits in the ratio of 3 : 2 : 1. Goodwill is appearing in the books at a value of ₹ 60,000. Y retires and at the time of Y's retirement, goodwill is valued at ₹ 84,000. X and Z decided to share future profits in the ratio of 2 : 1. Pass the necessary Journal entries through Goodwill Account.

Solution:

Journal					
Date	Particulars		L.F.	Debit ₹	Credit ₹
	X's Capital A/c	Dr.		30,000	
	Y's Capital A/c	Dr.		20,000	
	Z's Capital A/c	Dr.		10,000	
	To Goodwill A/c Being goodwill written off)				60,000
	X's Capital A/c	Dr.		14,000	
	Z's Capital A/c	Dr.		14,000	28,000
	To Y's Capital A/c				28,000
	(Being goodwill adjustment of Y)				

Working Notes 1 : Gaining Ratio Evaluation

Old Ratio X : Y : Z = 3 : 2 : 1

New Ratio X : Z = 2 : 1

Gaining Ratio = New Ratio – Old Ratio



$$X's \text{ gaining ratio} = \frac{2}{3} - \frac{3}{6} = \frac{1}{6}$$

$$Z's \text{ gaining ratio} = \frac{1}{3} - \frac{1}{6} = \frac{1}{6}$$

Gaining ratio of X and Z = 1 : 1

Working Notes 2 : Goodwill Share Evaluation in 3:2:1 ratio

$$X's \text{ share of goodwill} = 84,000 \times \frac{3}{6} = ₹ 42,000$$

$$Y's \text{ share of goodwill} = 84,000 \times \frac{2}{6} = ₹ 28,000$$

$$Z's \text{ share of goodwill} = 84,000 \times \frac{1}{6} = ₹ 14,000$$

Working Notes 3 : Retiring Partner's Goodwill Share Evaluation

X and Z will acquire the goodwill share of Y in 2 : 1 gaining ratio

$$\text{Debited amount from X's Capital A/c} = 84,000 \times \frac{2}{3} = ₹ 56,000$$

$$\text{Debited amount from Z's Capital A/c} = 84,000 \times \frac{1}{3} = ₹ 28,000$$

Question 19

A, B and C are partners sharing profits in the ratio of 4/9 : 3/9 : 2/9. B retires and his capital after making adjustments for reserves and gain (profit) on revaluation stands at ₹ 1,39,200. A and C agreed to pay him ₹ 1,50,000 in full settlement of his claim. Record necessary Journal entry for adjustment of goodwill if the new profit-sharing ratio is decided at 5 : 3.

Solution:

Journal					
Date	Particulars		L.F.	Debit ₹	Credit ₹
	A's Capital A/c	Dr.		5,850	
	C's Capital A/c	Dr.		4,950	
	To B's Capital A/c				10,800
	(Being goodwill adjustment of B)				

Working Notes 1 : B's Goodwill Share Evaluation

Profit sharing ratio of A: B: C = 4/9 : 3/9 : 2/9

B retires from the firm and other partners agreed to pay him ₹ 1,50,000

After making necessary adjustments B's capital amounting ₹1,39,200

$$\text{Hidden goodwill} = 1,50,000 - 1,39,200 = ₹ 10,800$$

Working Notes 2 : Gaining Ratio Evaluation

New profit sharing ratio between A : B is 5 : 3

Gaining Ratio = New Ratio – Old Ratio

$$A's \text{ gaining ratio} = \frac{5}{8} - \frac{4}{9} = \frac{13}{72}$$

$$C's \text{ gaining ratio} = \frac{3}{8} - \frac{2}{9} = \frac{11}{72}$$

Gaining ratio of A and C = 13 : 11

Working Notes 3 : B's Goodwill Share Evaluation

A and C will acquire the goodwill share of B in 13 : 11 gaining ratio

$$\text{Debited amount from A's Capital A/c} = 10,800 \times \frac{13}{24} = ₹ 5,850$$

$$\text{Debited amount from C's Capital A/c} = 10,800 \times \frac{11}{24} = ₹ 4,950$$

Question 20

M, N and O are partners in a firm sharing profits in the ratio of 3 : 2 : 1. Goodwill has been valued at ₹ 60,000. On N's retirement, M and O agree to share profits equally. Pass the necessary Journal entry for treatment of N's share of goodwill.

Solution:

Journal					
Date	Particulars		L.F.	Debit ₹	Credit ₹
	O's Capital A/c	Dr.		20,000	
	To N's Capital A/c				20,000
	(Being adjustment of N's goodwill share)				

Working Notes 1 : Gaining Ratio Evaluation

Old Ratio M : N : O = 3 : 2 : 1

New Ratio M : O = 1 : 1

Gaining Ratio = New Ratio – Old Ratio

$$M's \text{ gaining ratio} = \frac{1}{2} - \frac{3}{6} = \frac{3-3}{6} = 0$$

$$O's \text{ gaining ratio} = \frac{1}{2} - \frac{1}{6} = \frac{3-1}{6} = \frac{2}{6}$$

Gaining ratio is only received by O in 2/6 ratio

Working Notes 2 : Retiring Partner's Goodwill Share Evaluation

Goodwill share of N = 60,000 X 2/6 = ₹ 20,000

N's share of goodwill will be brought by O only.

So, only O's Capital Account will be debited with ₹ 20,000