Chapter 6- Retirement/Death of a Partner

Question 1

A, B and C were partners sharing profits in the ratio of 1/2, 2/5 and 1/10. Find the new ratio of the remaining partners if C retires.

Solution:

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

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

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

Therefore, the new profir 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 = 514

Mohan share equally divided between Shiv and Hari 1: 1

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

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

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

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

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

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 2/5, 2/5 and 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 = 1/5

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

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

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

New Ratio = Old Ratio + Share taken from M

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

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

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

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 1/2, 3/10, and 1/5. Calculate the gaining ratio of remaining partners when Y retires from the firm.

Solution:

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

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

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

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

Question 6

(a) W, X, Y and Z are partners sharing profits and losses in the ratio of 1/3, 1/6, 1/3 and 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 4/9 of C's share and balance is acquired by B. Calculate the new profit-sharing ratio and gaining ratio.

Solution:

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

New ratio W: X: Z = 1: 1: 1

Gaining ratio = New ratio – Old ratio

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

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

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

So, Gaining ratio = 0: 1: 1

(b) Old Ratio A: B: C = 4 : 3 : 2

Profit Share of C's = $\frac{2}{9}$ $\frac{4}{9}$ of C's share is acquired by A and the left share is acquired by B

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

New Ratio = Old ratio + Share acquired from B

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

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

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

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

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

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 3/8, 1/2 and 1/8. Murli retires and surrenders 2/3rd 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 = $\frac{3}{8}$ X $\frac{2}{3}$ = $\frac{2}{8}$

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 = 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

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

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

New ratio = Old ratio + Share acquired from B

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

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

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

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

New ratio = Old ratio + Share acquired from B

A's new share = $\frac{4}{9}$ + $\frac{3}{18}$ = $\frac{8+3}{18}$ = $\frac{36}{54}$

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

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

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

New ratio = Old ratio – Share acquired from B

A's new share = $\frac{4}{9}$ – $\frac{9}{36}$ = $\frac{16+9}{36}$ = $\frac{25}{36}$

C's new share = $\frac{2}{9}$ – $\frac{3}{36}$ = $\frac{8+3}{36}$ = $\frac{11}{36}$

New profit sharing ratio between A and C = 25 : 11

(d) If B gives his share to A only

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

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

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

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

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

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

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

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

Debited amount from O's Capital A/c = 24,000 X $\frac{131}{24}$ = ₹ 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 share = $\frac{4}{10} - \frac{5}{10} = -\frac{1}{10}$ (Sacrificing)

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

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

Working Note 2: Goodwill Evaluation

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

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

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

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

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

Gaining ratio = 3:7

Working Note 2: Goodwill Evaluation

Arpana's Goodwill share = 60,000 X $\frac{3}{10}$ = ₹ 18,000

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

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

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

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

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

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

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

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

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 gaining ratio = $\frac{2}{3} - \frac{3}{6} = \frac{1}{6}$

Z's 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 share of goodwill=84,000 x $\frac{3}{6}$ = ₹ 42,000

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

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

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

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

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 gaining ratio = $\frac{5}{8} - \frac{4}{9} = \frac{13}{72}$

C's 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

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

Debited amount from C's Capital A/c = 10,800 X $\frac{11}{24}$ = ₹ 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 gaining ratio = $\frac{1}{2} - \frac{3}{6} = \frac{3-3}{6} = 0$

O's 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