concept no.1

Basis Introduction why is this chapter important

A partner has the right to retire from the firm after giving due notice in advance. Old partnership comes to an end after the retirement of a partner, but the firm continues and a new partnership comes into existence between the remaining partners.
A retiring partner is entitled to get the following :

1. Share in Goodwill:– Goodwill of the firm is valued and the retiring partner's share of goodwill is credited to his Capital Account.

2. Share in Reserves :– Reserves are the undistributed profits of the previous years. Hence, the retiring partner's share of reserves or undistributed profits is also credited to his Capital Account.

3. Share in Revaluation of Assets and Liabilities :– Assets and Liabilities are revalued on the date of retirement and retiring partner's share of profit is credited or the loss is debited to his Capital Account.

Total amount due to the retiring partner, thus ascertained, is either paid off immediately or is transferred to his loan account, to be paid afterwards.

Accounting Problems :– Following accounting problems arise on the retirement of a partner :

1. Calculation of new profit sharing ratio and gaining ratio of the continuing partners.
2. Treatment of Goodwill.
3. Accounting Treatment for Revaluation of Assets and Liabilities.
4. Accounting Treatment of Reserves, accumulated profits and losses.



COMMERCE RAMA

END OF CONCEPT.NO-1

Concept no.

② Retirement of a Partner (New Ratio and Gaining Ratio)