concept no.2

Retirement of a Partner (New Ratio and Gaining Ratio)



Gaining Ratio:

It is calculated when a partner retires or dies. When a partner retires or dies, his share of profit is taken over by the remaining partners. The ratio in which the remaining partners share increases is called the gaining ratio. Gaining ratio is the ratio in which the remaining partners will pay the amount of goodwill to the retiring partner. It is calculated as follows :

Gaining ratio = *Old Ratio - New Ratio.*

New Ratio:

When a partner is Retried, his share of profits is acquired by the continuing partners. This increases the continuing partner's shares of profits, hence the calculation of new profit sharing ratio becomes necessary.

Following types of problems may arise for the calculation of new profit sharing ratios, at the time of retirement of a new partner :

(1) If the new profit sharing ratios of the remaining partners are not given in the question, it will be assumed that the remaining partners continue to share profits and losses in the old ratio.

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Questions:

Type 1 :

Q.1) X, Y and Z are partners sharing profits and losses in the ratio of 3 : 2 : 1. Calculate the new ratios when : (i) X retires, (ii) Y retires, (iii) Z retires.

[ANS: (i) When X retires, the new ratio between Y and Z is 2 : 1
(ii) When Y retires, the new ratio between X and Z is 3 : 1
(iii) When Z retires, the new ratio between X and Y is 3 : 2]

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Q.2) (i) A, B and C are partners sharing profits in the ratio of 1/2 : 1/3 : 1/6, Find out the new ratio if B retires.
(ii) P, Q and R are partners sharing profits in the ratio of 1/2 : 2/5 : 1/10. Find out the new ratio if P retires.
[ANS: (i) When B retires, the new ratio between A and C is 3 : 1
(ii) When P retires, the new ratio between Q and R is 4 : 1]

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Type 2 :

Sometimes the remaining partners purchase the share of retiring partner in some specified proportions. In such cases the fraction of shares purchased by them is added to their old share and the new ratio is calculated.

Questions :

Q.3) A, B and C are partners in a firm sharing profits in the ratio of 5 : 4 : 3. B retired and his share was divided equally between A and C. Calculate the new profit sharing ratio of A and C.

[ANS: The new ratio between A and C is 7 : 5]

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Questions:

Q.4) A, B and C were partners sharing profits in the ratio of 5 : 4 : 3. C retired and his share was taken up by A and B in the ratio of 3 : 2. Find out the new ratio.

[ANS: The new ratio between A and B is 17 : 13]

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END OF CONCEPT.NO-2

Concept no.

3 Accounting Treatment of Goodwill on the Rertirement of a Partner :