

ANSWER KEY & MARKING SCHEME · CBSE CLASS 12

Reconstitution of Partnership: Retirement and Death of a Partner

Accountancy · Chapter 4 · Use this with the Board Paper · Companion to Quick Drill

HOW TO USE

Attempt the Board Paper first (closed-book, full time). Then come here. For 2-mark+ questions, compare your answer to the model. For 3-4 mark questions, also consult the **Topper Templates** below — these show the exact step-by-step structure that scores full marks per CBSE marking-scheme conventions.

MODEL ANSWERS · BOARD PAPER**Section A — VSA (1 mark × 4)****Q1. How is the gaining ratio calculated on retirement of a partner? [1 mark]**

Ans: Gaining ratio = New share – Old share, for each continuing partner.

Q2. In whose ratio is the retiring partner compensated for his share of goodwill? [1 mark]

Ans: Continuing partners' capital A/cs are debited in the gaining ratio and the retiring partner's capital A/c is credited with his share.

Q3. What is the default rate of interest under Section 37 of the Indian Partnership Act 1932 on the amount due to an outgoing partner? [1 mark]

Ans: 6% per annum, when the deed is silent (or share of profits earned on the unpaid amount — at his option).

Q4. In which ratio is the profit on revaluation distributed on the retirement of a partner? [1 mark]

Ans: Among ALL partners (including the retiring partner) in their OLD profit-sharing ratio.

Section B — SA-I (2 marks × 3)**Q5. A, B and C are partners sharing profits 5 : 3 : 2. C retires. A takes 3/4 of C's share and B takes 1/4 of C's share. Calculate the new profit-sharing ratio and the gaining ratio. [2 marks]**

Ans: C's share = $2/10$. Gain A = $2/10 \times 3/4 = 3/20$. Gain B = $2/10 \times 1/4 = 1/20$. New A = $5/10 + 3/20 = 13/20$. New B = $3/10 + 1/20 = 7/20$. New ratio A:B = 13:7. Gaining ratio A:B = 3:1.

Q6. X, Y and Z share profits 5 : 3 : 2. Z retires. The firm's goodwill is valued at ₹ 1,50,000 and the gaining ratio of X and Y is 3 : 1. Pass the journal entry adjusting goodwill. [2 marks]

Ans: Z's goodwill = $1,50,000 \times 2/10 = ₹30,000$. X pays 22,500 (3/4); Y pays 7,500 (1/4). Entry: X's Capital A/c Dr ₹22,500; Y's Capital A/c Dr ₹7,500; To Z's Capital A/c ₹30,000. (AS-26 — no goodwill asset.)

Q7. P, Q and R share profits 4 : 3 : 2. R died on 30 June 2025; last year's profit was ₹ 90,000. The firm's financial year ends on 31 March 2026. Compute R's share of profit up to the date of death on the TIME basis. [2 marks]

Ans: Days lived: 1 Apr–30 Jun = 91. Share = $90,000 \times 91/365 \times 2/9 \approx ₹4,986$. Entry: P&L Suspense A/c Dr ₹4,986; To R's Capital A/c ₹4,986.

Section C — SA-II (3 marks × 3)**Q8. Distinguish between sacrificing ratio and gaining ratio on any three bases. [3 marks]**

Ans: (1) MEANING: Sacrificing = old partners give up share for new partner; Gaining = continuing partners take over retiring/deceased partner's share. (2) EVENT: Sacrificing on ADMISSION; Gaining on RETIREMENT/DEATH. (3) FORMULA: Sacrificing = Old – New; Gaining = New – Old. (4) USE: Sacrificing distributes new partner's premium; Gaining determines who compensates retiring/deceased partner.

Q9. A, B and C share profits 5 : 3 : 2. C retires. On the date of retirement: Stock is reduced by ₹ 4,000; a provision for doubtful debts of ₹ 2,000 is created; Building is appreciated by ₹ 21,000; an unrecorded creditor of ₹ 3,000 is brought into the books. Prepare the Revaluation Account and show how the balance is transferred. [3 marks]

Ans: REVALUATION A/c — Dr: Stock 4,000 + Provision 2,000 + Unrecorded creditor 3,000 = ₹9,000. Cr: Building ₹21,000. Profit = 21,000 – 9,000 = ₹12,000. Transferred to ALL partners' Capital A/cs in OLD ratio 5:3:2: A ₹6,000, B ₹3,600, C ₹2,400. Check: 6,000+3,600+2,400 = 12,000 ✓.

Q10. Explain the treatment of (i) goodwill on the retirement of a partner under AS-26, (ii) a Joint Life Policy on the death of a partner, and (iii) interest on the unpaid amount due to a retiring partner when the partnership deed is silent. [3 marks]

Ans: (i) AS-26: self-generated goodwill NOT raised as asset. Retiring partner's share = Firm goodwill × his old share. Entry: Continuing Capital A/cs Dr (gaining ratio); To Retiring Capital A/c. (ii) JLP sum on death credited to JLP A/c and distributed among ALL partners (incl. deceased) in OLD ratio; deceased's share Cr to his capital A/c. (iii) Section 37: when deed silent, outgoing partner (or estate) entitled to interest @ 6% p.a. on unpaid amount OR share of profits earned on it, at his option.

Section D — Long Answer (Numerical) (8-13 marks)

Q11. A, B and C are partners sharing profits in the ratio 5 : 3 : 2. Their Balance Sheet as on 31 March 2025 stood at — Liabilities: Creditors ₹ 40,000; General Reserve ₹ 30,000; Capital A/cs: A ₹ 1,00,000, B ₹ 80,000, C ₹ 60,000 (total ₹ 2,40,000). Total ₹ 3,10,000. Assets: Building ₹ 1,20,000; Stock ₹ 50,000; Debtors ₹ 40,000; Cash ₹ 1,00,000. Total ₹ 3,10,000. C retires on the following terms: (a) Building is appreciated by ₹ 21,000; Stock is reduced by ₹ 4,000. (b) A provision for doubtful debts of ₹ 2,000 is created on Debtors. (c) An unrecorded creditor of ₹ 3,000 is to be brought into the books. (d) Firm's goodwill is valued at ₹ 1,50,000; A and B will share future profits in the ratio 13 : 7 (gaining ratio 3 : 1). (e) The amount due to C is to be transferred to his Loan Account. Prepare the Revaluation Account, Partners' Capital Accounts and the Balance Sheet of the reconstituted firm. [13 marks]

Ans: Gaining ratio 3:1 (given). C's goodwill = 1,50,000 × 2/10 = ₹30,000. A pays 22,500 (3/4); B pays 7,500 (1/4). REVALUATION A/c: Dr Stock 4,000 + Provision 2,000 + Unrecorded creditor 3,000 = 9,000. Cr Building 21,000. Profit ₹12,000 → A 6,000, B 3,600, C 2,400 (old ratio 5:3:2). RESERVE ₹30,000 → A 15,000, B 9,000, C 6,000. CAPITAL A/cs — C: 60,000 + 2,400 + 6,000 + 30,000 = ₹98,400 → C's Loan A/c. A: 1,00,000 + 6,000 + 15,000 – 22,500 = ₹98,500. B: 80,000 + 3,600 + 9,000 – 7,500 = ₹85,100. BALANCE SHEET 31-Mar-2025 — LIABILITIES: Creditors 40,000 + Unrecorded creditor 3,000 + C's Loan 98,400 + Capitals (A 98,500 + B 85,100 = 1,83,600) = ₹3,25,000. ASSETS: Building 1,41,000 + Stock 46,000 + Debtors 38,000 + Cash 1,00,000 = ₹3,25,000. ✓

Q12. Explain the matters that require adjustment at the time of retirement of a partner and the modes by which the amount due to him may be settled. [8 marks]

Ans: MATTERS: (1) NEW RATIO + GAINING RATIO — gain = New – Old. (2) GOODWILL — retiring partner's share = Firm goodwill × old share; AS-26 no asset, gainers' Capital A/cs Dr, Retiring Cr. (3) REVALUATION — profit/loss to ALL partners (incl. retiring) in OLD ratio. (4) RESERVES + P&L — ALL partners in OLD ratio. (5) JLP/POLICIES — surrender value (on retirement) to all in old ratio. MODES OF SETTLEMENT: (a) LUMP SUM cash; (b) RETIRING PARTNER'S LOAN A/c with deed interest or @ 6% p.a. (Sec 37) if silent; (c) INSTALMENTS with interest on unpaid balance. Sec 37 also lets retiring partner claim share of profits on unpaid balance instead of interest.

★ **TOPPER TEMPLATE – 6-8 mark: 'Prepare Revaluation A/c, Partners' Capital A/cs and compute the amount due to the retiring partner.'**

Annual

Step 1 [1 mark]	New ratio + gaining ratio (working note)	State old share, new share, gain = New – Old for each continuing partner on common denominator. Show gaining ratio as a:b.
Step 2 [2 marks]	Revaluation Account	Dr losses (asset ↓, liability ↑, new provisions, unrecorded liabilities). Cr gains (asset ↑, liability ↓, unrecorded assets). Balance → ALL partners (incl. retiring) in OLD ratio.
Step 3 [1 mark]	Distribute reserves + goodwill	Reserves + accumulated P&L → ALL partners in OLD ratio. Goodwill: gaining partners' Capital A/cs Dr (gaining ratio); Cr retiring partner with his share.
Step 4 [2 marks]	Partners' Capital Accounts	Columnar A/cs. Cr retiring: opening + reval profit + reserves + goodwill from gainers. Dr retiring: drawings + reval loss + accumulated loss. Balance of continuing partners c/d; retiring transferred to Loan A/c or paid in cash.
Step 5 [2 marks]	Amount due + settlement	Amount due = Capital + Reserves + Reval profit + Goodwill – Drawings – Reval loss. Settlement: lump sum cash, transfer to Loan A/c, or instalments with @ 6% p.a. interest (Sec 37).

COMMON LOSS OF MARKS:

- Sharing reval profit/reserves in NEW ratio.
- Debiting retiring partner with goodwill instead of crediting.
- Wrong direction in Revaluation A/c.
- Forgetting Sec 37 @ 6% p.a. on unpaid balance.
- Failing to transfer balance to Retiring Partner's Loan A/c.

★ **TOPPER TEMPLATE – 3-4 mark: new ratio + gaining ratio**

Most years

Step 1 [1 mark]	State old + new shares	Write old and new share of each continuing partner on common denominator.
Step 2 [2 marks]	Compute gain	Gain = New – Old per partner. Sum MUST equal retiring partner's share.
Step 3 [1 mark]	Gaining ratio + state	Express as single ratio. State: 'New ratio = a:b; Gaining ratio = x:y.'

COMMON LOSS OF MARKS:

- Using Old – New instead of New – Old.
- Assuming gaining ratio = old ratio of continuing partners always.
- Sum of gains ≠ retiring partner's share.

★ **TOPPER TEMPLATE – 3-4 mark: goodwill journal on retirement**

Most years

Step 1 [1 mark]	Compute retiring partner's share	Retiring share = Firm goodwill × his old share.
Step 2 [2 marks]	Pass entry	Continuing Capital A/cs Dr (gaining ratio); To Retiring Capital A/c. Show each gainer's amount.
Step 3 [1 mark]	Write off existing goodwill	If goodwill in old B/S: All Capital A/cs Dr (OLD ratio); To Goodwill A/c. State AS-26.

COMMON LOSS OF MARKS:

- Reversed direction (Dr retiring).
- Old ratio instead of gaining ratio.
- Raising goodwill as asset (AS-26 violation).

★ **TOPPER TEMPLATE — 4-6 mark: 'Prepare the executor's account of a deceased partner.'**

Most years

Step 1 [1 mark]	Share of profit up to date of death	Time basis: Last year's profit \times (days lived \div 365) \times his share. Entry: P&L Suspense A/c Dr; To Deceased's Capital A/c.
Step 2 [2 marks]	Other adjustments through capital	Cr: opening capital + reval profit + reserves + JLP share + goodwill from continuing partners. Dr: drawings + reval loss + accumulated loss.
Step 3 [1 mark]	Transfer to Executor's A/c	Deceased Partner's Capital A/c Dr; To Deceased's Executor's A/c. Total amount payable to heirs.
Step 4 [2 marks]	Executor's A/c — settlement	Cr: opening balance + interest @ 6% p.a. (Sec 37) on unpaid balance per period. Dr: cash/instalments paid. Balance c/d till final payment.

COMMON LOSS OF MARKS:

- Skipping P&L Suspense entry for share of profit up to death.
- Forgetting JLP distribution among ALL partners in old ratio.
- Omitting Section 37 interest @ 6% p.a.
- Confusing time basis with turnover basis.

MARKING SCHEME — GENERAL NOTES

- Working notes for new ratio, gaining ratio, goodwill and revaluation MANDATORY (-1 if missing).
- Sharing reval/reserves only among continuing partners = most-deducted error.
- Reversed goodwill direction loses entire goodwill marks.
- Forgetting Sec 37 @ 6% p.a. on unpaid balance loses settlement marks.
- Mismatched Balance Sheet totals = auto -1 mark.
- State final figures with ₹ symbol and comma format.