

## CHAPTER 4

# Retirement & Death of a Partner

CBSE Class 12 · Accountancy Part I · Ch 4 ·  
Reconstitution

CBSE · Accountancy · Class 12

### WHAT THIS CHAPTER DOES

**A** Compute the new profit-sharing ratio and the gaining ratio.

**B** Treat goodwill correctly on retirement — gainers Dr, leaver Cr.

Boards prep that builds confidence, not anxiety.

**TODAY'S MISSION**

# Today's mission

1

Compute the new profit-sharing ratio and the gaining ratio.

2

Treat goodwill correctly on retirement — gainers Dr, leaver Cr.

3

Prepare the Revaluation Account and distribute in OLD ratio.

4

Compute share of profit up to date of death and prepare the Executor's Account.

## WHY THIS MATTERS

# Why this chapter matters

- 1 8-12 marks every CBSE board paper.
- 2 Same machinery as admission — flipped from sacrificing to gaining ratio.
- 3 Real-world: every partnership eventually faces retirement and death.

TOPIC

**A**

# Retirement & the need to adjust

**THEOREM · LOAD-BEARING RESULT**

# What is retirement of a partner?

Retirement is the voluntary withdrawal of an existing partner. Under Section 32 of the Indian Partnership Act 1932, a partner may retire (a) with consent of all other partners, (b) per an express agreement, or (c) in an at-will partnership, by written notice to all others. The firm continues with the remaining partners under a reconstituted agreement.

**STATEMENT**

Five items adjusted on retirement: (1) new ratio + **GAINING** ratio; (2) goodwill — Dr gainers in gaining ratio, Cr retiring partner; (3) revaluation of assets and reassessment of liabilities; (4)

**WHY THIS MATTERS**

- The retiring partner gives up future profits, so he must be compensated for goodwill and his stake in revalued net worth
- Pre-retirement gains/losses belong to ALL partners incl
- him — hence OLD ratio governs revaluation and reserves.

**WATCH OUT FOR**

**NOTE** Retirement does NOT dissolve the firm — business continues. Confusing retirement with dissolution is an instant theory deduction.

TOPIC

**B**

# New ratio & gaining ratio

TOPIC

# Computing the new and gaining ratios

## NEW PROFIT-SHARING RATIO

Continuing partners absorb the retiring partner's share. New share = Old share + portion taken over. If silent, default = OLD MUTUAL ratio of continuing partners → gaining ratio equals their old mutual ratio. Bring shares to common denominator and add the

## GAINING RATIO

Gaining ratio = New – Old for each continuing partner. Most important ratio on retirement because the goodwill adjustment is made in EXACTLY this ratio — gainers' Capital A/cs Dr in this ratio. Sum of gains MUST equal retiring partner's share — arithmetic check.

## SILENT VS UNEQUAL TAKE-OVER

Silent → gainers take in OLD MUTUAL ratio = gaining ratio. Unequal take-over (e.g. 'A takes 3/4 of C, B takes 1/4') → fresh gaining-ratio computation needed. CBSE mixes both versions across sets — never assume default if wording specifies.

## SACRIFICE VS GAIN — REVERSED DIRECTION

Admission: Sacrifice = Old – New, distributes incoming premium. Retirement: Gain = New – Old, debits gainers for retiring partner's goodwill. Wrong choice flips the goodwill direction 180° — guaranteed –2 marks.

**WORKED EXAMPLE**

# Gaining ratio (silent case)

**1** A, B, C share 4:3:2. C retires; A and B share his profits in their old mutual ratio.

**2** Old:  $A=4/9$ ,  $B=3/9$ ,  $C=2/9$ . Distribute C's  $2/9$  in  $A:B = 4:3$ .

**3** Gain A =  $2/9 \times 4/7 = 8/63$ . Gain B =  $2/9 \times 3/7 = 6/63$ .

**4** New A =  $4/9 + 8/63 = 36/63$ . New B =  $3/9 + 6/63 = 27/63$ .

**5** New ratio  $A:B = 36:27 = 4:3$ .

**6** GAINING RATIO  $A:B = 8:6 = 4:3$  (equals old mutual ratio — silent case).

**WORKED EXAMPLE**

# Gaining ratio (unequal take-over)

- 1 A, B, C share 5:3:2. C retires. A takes  $\frac{3}{4}$  of C, B takes  $\frac{1}{4}$  of C.
- 2 C's share =  $\frac{2}{10}$ . Gain A =  $\frac{2}{10} \times \frac{3}{4} = \frac{3}{20}$ . Gain B =  $\frac{2}{10} \times \frac{1}{4} = \frac{1}{20}$ .
- 3 New A =  $\frac{5}{10} + \frac{3}{20} = \frac{13}{20}$ . New B =  $\frac{3}{10} + \frac{1}{20} = \frac{7}{20}$ .
- 4 Check:  $\frac{13}{20} + \frac{7}{20} = 1$ . ✓
- 5 New ratio A:B = 13:7. GAINING RATIO A:B = 3:1 (NOT old mutual 5:3).

TOPIC

C

# Treatment of goodwill on retirement

TOPIC

# How goodwill is adjusted on retirement

## RETIRING PARTNER'S RIGHT TO GOODWILL

Retiring partner helped build firm reputation — entitled to his share of firm's goodwill on leaving. Continuing partners GAIN his future profit share, so THEY compensate him. Entry: gaining partners' Capital A/cs Dr (gaining ratio); To Retiring Partner's Capital A/c (his share). CBSE 4-mark

## AS-26 STILL BINDING

AS-26 applies on retirement too: only purchased goodwill recorded; self-generated NOT raised. No asset created — adjustment through capital A/cs only. Existing goodwill in old B/S is FIRST written off among ALL partners (incl. retiring) in OLD ratio before the gainers-pay-leaver entry

## FORMULA FOR RETIRING PARTNER'S SHARE

Retiring partner's share of goodwill = Total firm goodwill × his OLD share. Firm goodwill is given or computed via capitalisation / super-profit / average-profit methods. His share is Cr to him, Dr to gainers in gaining ratio. Sum of gainer Drs = Cr to retiring partner —

## DIRECTION MEMORY HOOK

Mnemonic: 'Gainers PAY, Leaver RECEIVES.' Gainers buy out leaver's future-profit claim — their A/cs go down (Dr); his goes up (Cr). Reversing direction loses 2-3 marks every time — top-3 CBSE deduction error in the partnership unit.

**WORKED EXAMPLE**

# Goodwill adjustment on retirement

- 1** A, B, C share 5:3:2. C retires. Firm goodwill ₹1,50,000. Gaining ratio A:B = 3:1.
- 2** C's share =  $1,50,000 \times \frac{2}{10} = ₹30,000$ .
- 3** A pays  $30,000 \times \frac{3}{4} = ₹22,500$ ; B pays  $30,000 \times \frac{1}{4} = ₹7,500$ .
- 4** Entry: A's Capital A/c Dr ₹22,500; B's Capital A/c Dr ₹7,500; To C's Capital A/c ₹30,000.
- 5** AS-26: no goodwill asset. Check:  $22,500 + 7,500 = 30,000 \checkmark$ .
- 6** If existing goodwill ₹20,000 in old B/S, write off first in OLD ratio: A Dr 10,000, B Dr 6,000, C Dr 4,000; To Goodwill A/c ₹20,000.

TOPIC

**D**

# Revaluation, reserves & amount due

TOPIC

# Revaluation A/c, reserves and amount payable

## REVALUATION A/C — ALL PARTNERS SHARE

Assets/liabilities restated at current values before the partner leaves — profit/loss belongs to ALL partners incl. retiring, as changes accrued under OLD agreement. Direction: asset ↓ or liability ↑ = LOSS (Dr); asset ↑ or liability ↓ = GAIN (Cr). Balance → ALL partners

## ACCUMULATED RESERVES & PROFITS

General reserve, WCR surplus, credit balance of P&L in old B/S was earned under OLD agreement — distributed to ALL partners (incl. retiring) in OLD ratio. Debit balance of P&L (accumulated loss) similarly borne by all. CBSE 6-mark numericals always embed at least

## AMOUNT DUE TO RETIRING PARTNER

Closing capital A/c shows AMOUNT DUE. Cr: opening + reval profit + reserves + goodwill (from gainers) + JLP share. Dr: drawings + reval loss + accumulated loss + share of existing goodwill written off. Closing balance = amount payable. CBSE 8-mark questions award explicit

## MODES OF SETTLEMENT

Three modes: (1) LUMP SUM cash; (2) Transfer to RETIRING PARTNER'S LOAN A/c with deed interest or @ 6% p.a. under Sec 37 if silent; (3) INSTALMENTS with interest on unpaid balance. Sec 37 also lets the retiring partner choose share of profits earned on unpaid amount instead of @ 6%

**WORKED EXAMPLE**

# Revaluation Account on retirement

**1** A, B, C share 5:3:2. C retires. Stock –₹4,000; PDD ₹2,000 created; Building +₹21,000; unrecorded creditor ₹3,000.

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**2** Dr (losses):  $4,000 + 2,000 + 3,000 = ₹9,000$ .

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**3** Cr (gain): Building ₹21,000.

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**4** Profit =  $21,000 - 9,000 = ₹12,000$ .

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**5** OLD ratio 5:3:2 → A 6,000, B 3,600, C 2,400. Check: sum = 12,000 ✓. Retiring C gets his share.

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TOPIC

**E**

# Death of a partner

TOPIC

# Death of a partner — additional adjustments

## SAME AS RETIREMENT + THREE ADD-ONS

Death is treated like retirement on the date of death — gaining ratio, goodwill direction, revaluation and reserves in OLD ratio all apply identically. THREE extras: (a) share of profit up to date of death; (b) JLP + individual policies; (c) deceased partner's EXECUTOR'S A/c for

## SHARE OF PROFIT UP TO DATE OF DEATH

Estate entitled ONLY UP TO DATE OF DEATH. CBSE bases: (a) TIME — Last year's profit  $\times$  (days lived  $\div$  365)  $\times$  his share; (b) TURNOVER — (Sales till death  $\div$  Last year sales)  $\times$  Last year profit  $\times$  his share; (c) AVERAGE OF LAST N YRS on time basis; (d) AGREED FORMULA. Entry: P&L

## JOINT LIFE POLICY (JLP)

Single policy on joint lives of all partners; firm pays premiums. On death of ANY partner, FULL SUM ASSURED received by firm, Cr to JLP A/c, then distributed to ALL partners (incl. deceased) in OLD ratio. Deceased's share  $\rightarrow$  his capital  $\rightarrow$  executor. Individual policies on partners' lives assigned to firm treated

## EXECUTOR'S ACCOUNT

Deceased Partner's Capital A/c Dr; To Deceased's Executor's A/c — transfers closing capital balance. Settled over time: Cr each period with interest @ 6% p.a. (Sec 37 default) on unpaid balance; Dr cash payments to heirs. Closes on final instalment. CBSE 6-mark questions reward a clean period-wise

## WORKED EXAMPLE

# Share of profit up to date of death — TIME basis

1 A, B, C share 4:3:2. Last year profit ₹90,000. C died 30 Jun 2025 (year ends 31 Mar 2026).

2 Days lived: 1 Apr–30 Jun = 91 days.

3 Share =  $90,000 \times (91 \div 365) \times 2/9$ .

4  $90,000 \times 91/365 = ₹22,438$ . Then  $\times 2/9 = ₹4,986$ .

5 Entry: P&L Suspense A/c Dr ₹4,986; To C's Capital A/c ₹4,986.

## WORKED EXAMPLE

# Executor's Account with Section 37 interest

- 1 Amount due to deceased C on 30 Jun 2025: ₹1,00,000.
- 2 Terms: ₹40,000 paid immediately; balance ₹60,000 in 2 annual instalments of ₹30,000 + interest @ 6% p.a.
- 3 Yr 1 (30 Jun 2025→2026): interest on 60,000 @ 6% = ₹3,600. Pay 30,000 + 3,600 = ₹33,600. Bal = ₹30,000.
- 4 Yr 2 (30 Jun 2026→2027): interest on 30,000 @ 6% = ₹1,800. Pay 30,000 + 1,800 = ₹31,800. Bal = nil.
- 5 Total paid = 40,000 + 33,600 + 31,800 = ₹1,05,400 (principal 1,00,000 + interest 5,400).
- 6 Check: interest 3,600 + 1,800 = 5,400 ✓.

## TOPIC

# Gaining ratio vs sacrificing ratio

## TRAP → TRUTH

× **MISTAKE** Gaining ratio is the same as the sacrificing ratio used on admission.

✓ **CORRECT** They are OPPOSITE concepts. On RETIREMENT, continuing partners GAIN the outgoing partner's share:  $\text{Gain} = \text{New} - \text{Old}$ . On ADMISSION old partners SACRIFICE share:  $\text{Sacrifice} = \text{Old} - \text{New}$ . The wrong choice flips the goodwill entry by 180°.

## TOPIC

# Direction of the goodwill entry on retirement

### TRAP → TRUTH

× **MISTAKE** Retiring partner's share of goodwill is debited to him and credited to the continuing partners.

✓ **CORRECT** The outgoing partner gives up future profits — he must be COMPENSATED. So his share of goodwill is CREDITED to him; continuing (gaining) partners' Capital A/cs are DEBITED in the GAINING ratio. Mnemonic: 'Gainers pay, leaver receives.' Reversed direction loses 2-3 marks.

TOPIC

# AS-26 still applies on retirement

## TRAP → TRUTH

- × **MISTAKE** On retirement, the firm's goodwill is raised as an asset and credited to all partners in the old ratio.
- ✓ **CORRECT** AS-26 still permits ONLY purchased goodwill. Self-generated goodwill is NOT raised even on retirement; adjustment runs entirely through capital accounts (Dr gainers, Cr retiring partner). Existing goodwill in the old Balance Sheet is first WRITTEN OFF among ALL partners in their OLD ratio.

## TOPIC

# Revaluation profit/loss — who shares it

## TRAP → TRUTH

- × **MISTAKE** Revaluation profit or loss on retirement is shared only by the continuing partners in their new ratio.
- ✓ **CORRECT** Revaluation profit/loss reflects pre-retirement value changes, so it belongs to ALL partners (including retiring) in their OLD ratio. Retiring partner's share is credited (or debited) to his capital A/c before computing the amount due.

TOPIC

# Reserves and accumulated profits at retirement

## TRAP → TRUTH

- × **MISTAKE** Existing reserves are kept with the firm and shared only by the continuing partners.
- ✓ **CORRECT** General reserve, WCR surplus, credit balance of P&L (and debit balance = accumulated loss) all belong to PAST operations and are distributed among ALL partners — including the retiring partner — in OLD ratio at the moment of retirement.

TOPIC

# Interest on unpaid balance — Section 37

## TRAP → TRUTH

× **MISTAKE** If the firm pays the retiring partner in instalments, no interest is payable unless the deed says so.

✓ **CORRECT** Under Section 37 of the Indian Partnership Act 1932, if the deed is SILENT, the outgoing partner is entitled to interest @ 6% per annum on the unpaid balance OR a share of profits earned on his unpaid amount, at his option. If the deed specifies a rate, deed prevails.

## TOPIC

# Share of profit up to date of death

### TRAP → TRUTH

- × **MISTAKE** A deceased partner gets a full year's share of profit; he is dead so the firm decides.
- ✓ **CORRECT** Deceased partner's estate is entitled to share of profit only UP TO THE DATE OF DEATH. CBSE bases: (a) TIME — Last year's profit  $\times$  (days lived  $\div$  365)  $\times$  his share; (b) TURNOVER — (Sales till death  $\div$  Last year's sales)  $\times$  Last year's profit  $\times$  his share; (c) AGREED FORMULA. Entry: P&L Suspense A/c Dr; To Deceased's Capital A/c.

## TOPIC

# Joint Life Policy on death of a partner

### TRAP → TRUTH

× **MISTAKE** On the death of a partner, the Joint Life Policy amount is paid only to the deceased partner's executors.

✓ **CORRECT** JLP sum assured is received by the FIRM (the firm is the policyholder). It is credited to the JLP A/c and distributed among ALL partners — including the deceased — in OLD ratio. Deceased's share goes to his capital, then to his executor. Individual policies assigned to the firm are treated identically.

TOPPER TEMPLATE · MARK-BY-MARK

# 6-8 mark: 'Prepare Revaluation A/c, Partners' Capital A/cs and compute the amount due to the

- 1 NEW RATIO + GAINING RATIO (WORKING NOTE)**  
1 m

State old share, new share, gain = New – Old for each continuing partner on common denominator. Show gaining ratio as a:b.
- 2 REVALUATION ACCOUNT**  
2 m

Dr losses (asset ↓, liability ↑, new provisions, unrecorded liabilities). Cr gains (asset ↑, liability ↓, unrecorded assets). Balance → ALL partners (incl. retiring) in OLD ratio.
- 3 DISTRIBUTE RESERVES + GOODWILL**  
1 m

Reserves + accumulated P&L → ALL partners in OLD ratio. Goodwill: gaining partners' Capital A/cs Dr (gaining ratio); Cr retiring partner with his share.
- 4 PARTNERS' CAPITAL ACCOUNTS**  
2 m

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.
- 5 AMOUNT DUE + SETTLEMENT**  
2 m

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).

**TOPPER TEMPLATE · MARK-BY-MARK**

# 3-4 mark: new ratio + gaining ratio

- 1 STATE OLD + NEW SHARES**  
1 m Write old and new share of each continuing partner on common denominator.
- 2 COMPUTE GAIN**  
2 m Gain = New – Old per partner. Sum MUST equal retiring partner's share.
- 3 GAINING RATIO + STATE**  
1 m Express as single ratio. State: 'New ratio = a:b; Gaining ratio = x:y.'

**TOPPER TEMPLATE · MARK-BY-MARK**

# 3-4 mark: goodwill journal on retirement

**1 COMPUTE RETIRING PARTNER'S SHARE****1 m**

Retiring share = Firm goodwill × his old share.

**2 PASS ENTRY****2 m**

Continuing Capital A/cs Dr (gaining ratio); To Retiring Capital A/c. Show each gainer's amount.

**3 WRITE OFF EXISTING GOODWILL****1 m**

If goodwill in old B/S: All Capital A/cs Dr (OLD ratio); To Goodwill A/c. State AS-26.

**PYQ PATTERNS**





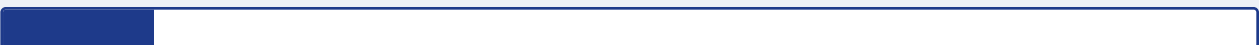
# Top PYQ patterns to drill

<b>#1</b>	Prepare Revaluation A/c, Capital A/cs and compute amount due to retiring partner; show settlement mode. (6-8 marks)	Annual — guaranteed
<b>#2</b>	Calculate the new profit-sharing ratio and gaining ratio of continuing partners. (3-4 marks)	Most years
<b>#3</b>	Journal entries for goodwill on retirement (Dr gainers, Cr retiring). (3-4 marks)	Most years
<b>#4</b>	Share of profit of deceased partner up to date of death (time/turnover/last year) + entry. (3-4 marks)	2019, 2021, 2022, 2024
<b>#5</b>	Executor's A/c with mode of settlement (@ 6% p.a. if silent	Sec 37). (4-6 marks) — 2018, 2020, 2023

**MARKS DISTRIBUTION**

# 10-year marks distribution

**10-YEAR PYQ MARKS DISTRIBUTION**

Full numerical: Revaluation + Capital A/cs + amount due / executor's A/c		<b>60%</b>
Goodwill on retirement (gaining ratio, AS-26)		<b>24%</b>
Gaining ratio (incl. unequal gain)		<b>20%</b>
Share of profit up to date of death		<b>16%</b>
Settlement — instalments with interest, loan A/c		<b>12%</b>

**RECAP · MEMORISE THESE**

# Recap

**1** Ratios — Gain = New – Old (retirement).  
Goodwill adjustment — Dr GAINERS in gaining ratio, Cr retiring/deceased partner.

**2** All-partners items — Revaluation profit/loss AND accumulated reserves are shared by ALL partners (including retiring/deceased) in OLD ratio.

**3** Death extras — Share of profit up to date of death (time / turnover / agreed); JLP distributed in OLD ratio; Executor's A/c with @ 6% p.a. interest under Section 37.

**WHAT'S NEXT**

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# What's next

- Chapter 5 — Dissolution of a Partnership Firm (Realisation A/c, capital deficiency).
- Sit the 15-MCQ Quick Drill under a 20-min timer.
- Then the full Board-Pattern Paper — 40 marks, 75 min.

# You've mastered the most reliable partnership long-answer.

Gaining ratio, goodwill, Executor's A/c — now prove it.

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