

Reconstitution of Partnership Firm: Retirement / Death of a Partner

I. State which of the following is correct:

Question 1.

At what rate is interest payable on the amount remaining unpaid to the executor of deceased partner, in absence of any agreement among partners, when (s)he opts for interest and not share of profit.

- (a) 12% p.a.
- (b) 8%p.a.
- (c) 6%p.a.
- (d) 7.5%p.a.

▼ [Answer](#)

Answer: (c) 6%p.a.

Question 2.

Partnership will be dissolved if

- (a) profit sharing ratio changed
- (b) admission of a new partner
- (c) retirement of a partner
- (d) All of these

▼ [Answer](#)

Answer: (d) All of these

Question 3.

Gaining Ratio:

- (a) Old Ratio – New Ratio
- (b) New Ratio – Old Ratio
- (c) Old Ratio + Old Ratio
- (d) All of these.

▼ [Answer](#)

Answer: (b) New Ratio – Old Ratio

Question 4.

At the time retirement of a partner, ratio is calculated:

- (a) old
- (b) sacrifice
- (c) gaining
- (d) All of these.

▼ [Answer](#)

Answer: (c) gaining

Question 5.

After the death of an existing partner, shares of remaining partner will

- (a) increase
- (b) decrease
- (c) not change
- (d) All of these.

▼ [Answer](#)

Answer: (a) increase

Question 6.

At the time of retirement of an existing partner, goodwill already shown in the books is written off in ratio.

- (a) old
- (b) new
- (c) sacrifice
- (d) gaining

▼ [Answer](#)

Answer: (a) old

Question 7.

Goodwill of the deceased partner will be debited in remaining partners' capital Account in ratio.

- (a) old
- (b) new

- (c) sacrifice
- (d) gaining

▼ Answer

Answer: (d) gaining

Question 8.

At the time of retirement of a partner, goodwill will be credited in partner's capital Account.

- (a) old
- (b) gaining
- (c) retiring
- (d) All of these.

▼ Answer

Answer: (c) retiring

Question 9.

At the time of retirement of a partner, account is prepared.

- (a) revaluation A/c
- (b) profit and loss A/c
- (c) balance sheet
- (d) All of these.

▼ Answer

Answer: (a) revaluation A/c

Question 10.

The retiring/deceased partner must be compensated in the form of premium (goodwill) for the share of profit in favour of continued partners. .

- (a) sacrificed
- (b) gained
- (c) obtained
- (d) None of these.

▼ Answer

Answer: (a) sacrificed

Question 11.

A, B and C are partners sharing profits in ratio 4 : 3 : 2. B retires, selling his share of profit to A and C for ₹ 7200 (₹. 4,000 paid by A and B 3,200 paid by C). The new profit sharing ratio of A and C would be:

- (a) 17:10
- (b) 15:12
- (c) 19 : 8
- (d) None of these

▼ Answer

Answer: (a) 17:10

Question 12.

Profit or loss on revaluation of assets and liabilities at the time of retirement of a partner is shared by

- (a) all partners in their old ratio
- (b) remaining partners in old ratio
- (c) remaining partners in gaining ratio
- (d) retired partner only

▼ Answer

Answer: (a) all partners in their old ratio

Question 13.

At the time of death of a partner account is prepared.

- (a) Representative Account
- (b) Deceased Partner's Capital A/c
- (c) Profit and Loss Account
- (d) All of these.

▼ Answer

Answer: (a) Representative Account

Question 14.

After retirement of a partner, share of remaining partner will

- (a) increase
- (b) decrease
- (c) not change
- (d) postpone.

▼ Answer

Answer: (a) increase

Question 15.

Retirement of a partner is of partnership firm.

- (a) dissolution
- (b) winding up
- (c) reconstitution
- (d) None of these.

▼ Answer

Answer: (c) reconstitution

Question 16.

If there is any balance left unpaid to the retiring / deceased partner, then interest @ will be given in the absence any provision of partnership deed.

- (a) 6 %

- (b) 57 %
- (c) 5.5 %
- (d) 6.5 %

▼ Answer

Answer: (a) 6 %

II. Fill in the blanks with correct word:

Question 17.

At the time of retirement of a partner _____ ratio will be calculated.

▼ Answer

Answer: gaining

Question 18.

To calculate new ratio, at the time of retirement of a partner _____ ratio is added in old ratio.

▼ Answer

Answer: gaining

Question 19.

If a firm wants that effect of revaluation must be shown in new firm then _____ accounts prepared.

▼ Answer

Answer: revaluation

Question 20.

When any existing partner wants to leave the firm, it is called _____ of a partner.

▼ Answer

Answer: retirement

Question 21.

When any partner dies, _____ account is opened for the transfer of profit or loss.

▼ Answer

Answer: Profit and loss suspense

Question 22.

Goodwill accruing to outgoing partner is adjusted in the capital accounts in _____ ratio.

▼ Answer

Answer: gaining ratio.

Question 23.

Goodwill already appearing in the books of old firm must be written off in _____ ratio among all partners in the old firm.

▼ Answer

Answer: Old

Question 24.

In the event of reconstitution if general reserve is to be continued, it will be adjusted in the _____ in gaining ratio.

▼ Answer

Answer: Capital accounts.

Question 25.

After the death of a partner, partnership firm will _____.

▼ Answer

Answer: continue.

Question 26.

After the death of a partner, partnership will _____.

▼ Answer

Answer: dissolve.

III. State whether the following statements are true or false:

Question 27.

At the time of retirement of a partner revaluation account is prepared.

▼ Answer

Answer: True

Question 28.

At the time of death of a partner, realisation account is prepared.

▼ Answer

Answer: False

Question 29.

Revaluation account is prepared many times in the life of a firm.

▼ [Answer](#)

Answer: True

Question 30.

Retirement or death of a partner will reconstitute the firm.

▼ [Answer](#)

Answer: True

Question 31.

If any partner retires from the firm then gaining ratio is calculated.

▼ [Answer](#)

Answer: True

Question 32.

In the event of death of a partner, sacrifice ratio is calculated.

▼ [Answer](#)

Answer: False

Question 33.

Revaluation account is a real account.

▼ [Answer](#)

Answer: True

Question 34.

According to Section 37 of Partnership Act, 1932, interest @ 6% is payable on retiring partner's loan .

▼ [Answer](#)

Answer: True

Question 35.

Accumulated losses are shared in old ratio.

▼ [Answer](#)

Answer: True

Question 36.

If any partner retires/ dies before the closing of the books then estimated profit is entered through Profit & Loss account.

▼ [Answer](#)

Answer: False

Question 37.

After death of a partner, firms business will be closed.

▼ [Answer](#)

Answer: False

Question 38.

Firm may continue business after retiring a partner.

▼ [Answer](#)

Answer: True

Question 39.

After death of a partner, share of remaining partners will decrease.

▼ [Answer](#)

Answer: False

Question 40.

There may be hidden good will in a partnership firm.

▼ [Answer](#)

Answer: True

Question 41.

At the time of retirement of a partner, it is necessary to prepare revaluation account.

▼ [Answer](#)

Answer: True

IV. One word Questions:

Question 42.

What is meant by 'Gaining Ratio' on retirement of a partner?

▼ [Answer](#)

Answer: The ratio in which retiring Partner's Share is distributed between remaining Partner is called gaining ratio.

Question 43.

P, Q and R were partners in a firm. On 31st March, 2018 R retired. The amount payable to R ₹ 2,17,000 was transferred to his loan account. R agreed to receive interest on this amount as per the provisions of Partnership Act, 1932. State the rate at which interest will be paid to R. (CBSE Delhi 2019)

▼ Answer

Answer: Rate of interest will be 6% p.a.

Question 44.

Aman, Bimal and Deepak are partners sharing profits in the ratio of 2 : 3 : 5. The goodwill of the firm has been valued at ₹ 37,500. Aman retired. Bimal and Deepak decided to share profits equally in future. Calculate gain/sacrifice of Bimal and Deepak on Aman's retirement and also pass necessary journal entry for the treatment of goodwill. (CBSE Outside Delhi 2019)

▼ Answer

Answer: Old Ratio = 2:3:5

New Ratio = 1:1 (on Aman's Retirement)

Bimal's Gain = $\frac{1}{2} - \frac{3}{10} = \frac{2}{10}$ Deepak's Gain = $\frac{1}{2} - \frac{5}{10} = \text{nil}$ Firm's Goodwill = 37,500 . Aman's share = $\frac{2}{10} \times 37,500 = 7,500$

Journal				
Date	Particulars	LF	Dr. Amt. (₹)	Cr. Amt. (₹)
	Bimal's Capital A/c Dr. To Aman's Capital A/c [being adjustment made for the treatment goodwill on Aman's retirement]		7,500	7,500

Question 45.

Riyansh, Garv and Kavleen were partners in a firm sharing profit and loss in the ratio of 8 : 7 : 5. On 2nd November 2018, Kavleen died. Kavleen's share of profits till the date of her death was calculated at ₹ 9,375. Pass the necessary journal entry.

▼ Answer

Answer:

JOURNAL

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
2018 Nov, 2	Profit and Loss Suspense A/c To Kavleen's Capital A/c (Being Kavleen's share of profit up to the date of her death transferred to her capital account)	Dr.	9,375	9,375

Question 46.

At the time of retirement how is the new profit sharing ratio among the remaining partners calculated? (CBSE Compt. 2019)

▼ Answer

Answer: The new share of each of the remaining partner is calculated as his/her own share in the firm plus the share acquired from the retiring partner.

Question 47.

In which ratio do the remaining partners acquire the share of profit of the retiring partner? (CBSE Compt. 2017)

▼ Answer

Answer: Gaining ratio.

Question 48.

At the time of retirement of a partner, state the condition when there is no need to compute gaining ratio. (CBSE 2013 Compartment OD)

▼ Answer

Answer: When the remaining partners share profits in old ratio.

Question 49.

On the retirement of a partner, how is the profit sharing ratio of the remaining partners decided? (CBSE 2013 Compartment OD)

▼ Answer

Answer: On the basis of old profit sharing ratio.

Question 50.

Why is gaining ratio of the remaining partners calculated at the time of retirement/death of a partner?

▼ Answer

Answer: Gaining ratio of the remaining partners is calculated to determine amount of goodwill payable by them to retired/deceased partner.

Question 51.

State the ratio in which share of goodwill of the retiring partner is debited to Capital Accounts of the remaining partners.

▼ Answer

Answer: In their gaining ratio.

Question 52.

Abha and Beena were partners sharing profits and losses in the ratio of 3 : 2 on April 1st 2013, they decided to admit Chanda for 1/5th share in the profits. They had a reserve of ₹ 25,000 which they wanted to show in their new balance sheet. Chanda agreed and the necessary adjustments were made in the books. On October 1st 2013, Abha met with an accident and died. Beena and Chanda decided to admit Abha's daughter Fiza in their partnership, who agreed to bring ₹ 2,00,000 as capital. Calculate Abha's share in the reserve on the date of her death. (CBSE Sample Paper 2015)

▼ Answer

Answer: ₹ 12,000

Question 53.

X, Y and Z were partners sharing profits and losses in the ratio of 3:2:2. Z retired and the amount due to him was ₹ 85,000. He was paid ₹ 5,000 immediately. The balance was payable in three equal annual instalments carrying interest @ 6% p.a. Pass necessary journal entry for recording the same on the date of Z's retirement. (Compt. Delhi 2017)

▼ Answer

Answer:

**Books of the X, Y, Z
Journal**

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
	Z's Capital A/c Dr.		85,000	
	To Cash/Bank A/c			5,000
	To Z's Loan A/c			80,000
	(Amount due to Z on his retirement transferred to his loan A/c after payment of ₹ 5,000)			

Question 54.

Ram, Mohan and Sohan were partners in a firm sharing profits in the ratio of 4 : 3 : 1. Mohan retired. His share was taken over equally by Ram and Sohan. In which ratio will the profit and loss on revaluation of

assets and liabilities on the retirement of Mohan be transferred to capital accounts of the partners?
(CBSE 2010 Compartment Delhi)

▼ [Answer](#)

Answer: In old profit sharing ratio.

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