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# RETIREMENT OF PARTNER

## MODULE- I


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# Topics to be covered in this Module


- Meaning and Liability of Retirement of Partner
- Rights of Retiring Partner
- Adjustments/Accounting treatment required at the time of retirement of a partner
- Accounting treatment required at the time of retirement of a partner
- Difference between Gaining Ratio and sacrificing Ratio
- Calculating Gaining Ratio - Different Cases

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# Meaning of Retirement of a Partner

Withdrawal of a partner from the partnership with the consent of other partners or as per the provisions of the partnership deed or by giving notice of retirement is termed as retirement of a partner. A partner who cut his connection with the firm is called a retiring partner or outgoing partner. Retirement of a partner leads to reconstitution of a partnership firm as the original agreement between the partners comes to an end. The business may continue with a new agreement with the remaining partners. When a partner retires, his share in the firm is to be correctly ascertained and settled.

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# Rights of a Retiring Partner

A retiring partner is entitled to get his share of capital, interest on capital, revaluation profit, share of profit etc. up to the date of his retirement. Similarly he is liable for his share in all the losses like accumulated loss, revaluation loss, Drawings, interest on drawings, share of current year's loss up to the date of retirement, drawings, interest on drawings etc. till the date of his retirement. He is not liable for any loss incurred by the firm after his retirement.

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# Adjustments/Accounting treatment required at the time of retirement of a partner


1. Calculation of new profit sharing ratio and gaining ratio
2. Treatment of goodwill
3. Treatment of accumulated profit and losses 4.Revaluation of assets and liabilities

5.Ascertainment of profit and loss upto the date of retirement
6. Calculation of total amount due to the retiring partner
7. Settlement of total amount due to the retiring partner
8.Adjustment of capitals of the continuing partners

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# Accounting treatment required at the time of retirement of a partner

**I. Calculation of New profit sharing ratio and gaining ratio** At the time of retirement of a partner, the business continues with the remaining partners.

## New Ratio

The ratio, in which the continuing partners decide to share the future profits and losses, is known as new profit sharing ratio.

## Gaining Ratio

The ratio in which the continuing partners acquire the outgoing partner's share is called gaining ratio.It is called gaining ratio because the continuing partners stand to gain by acquiring the retiring partner's share in profits.

**Gaining Ratio = New Share – Old Share**

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# Difference between sacrificing and Gaining Ratio

| Bases of Differenc | Sacrificing Ratio | Gaining Ratio |
|---|---|---|
| Meaning | The ratio in which the old partners sacrifice their share of profit in favour of the new partner | The ratio in which the continuing partners acquire the outgoing partner's share is called gaining ratio. |
| When to calculate | It is calculated at the time of admission of a partner and change in profit sharing ratio | It is calculated at the time of retirement/death of a partner and change in profit sharing ratio |
| Purpose | It is calculated to know how much each partner needs to sacrifice for the new partner | It is calculated to know how much more each partner will gain when a partner retires or die |

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# Difference between Gaining Ratio and sacrificing Ratio

| Bases of Difference | Sacrificing Ratio | Gaining Ratio |
|---|---|---|
| **Objective** | It is used to share the goodwill brought in cash by new partner between old partners | Gaining ratio is used to determine the compensation payable to the retiring by the continuing partners |
| Calculation | Old Share– New Share | New Share-Old Share |
| Effect on Capital | Old Partners Capital Accounts are credited in the sacrificing ratio | Remaining partners capital accounts are debited in gaining ratio |

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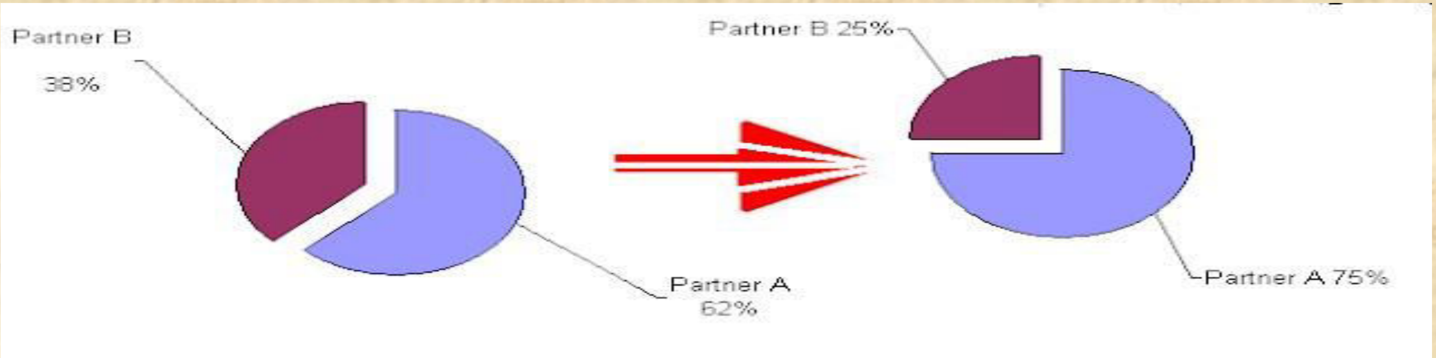
# Calculating Gaining Ratio - Different Cases

**Case-1** **Relative Ratio between remaining partners unchanged**

**Case-2** **When the profit sharing ratio between continuing partners is changed/the new ratio between remaining partners is given**

**Case-3** **When the continuing partners acquire (Purchase) the retiring partner's share of profit in an agreed ratio.**

**Case-4** **When entire share of the retiring partner is taken by only one continuing partner**



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# Case-1

## Relative Ratio between remaining partners unchanged

If the continuing partners maintain their relative ratio, the **gaining ratio** and the **new ratio** will be the same.

**In this case there is no need to calculate gaining ratio, new ratio and gaining ratio will be the same**

# Case-1
# Relative Ratio between remaining partners unchanged

**Q.X,Y and Z are partners sharing profits in the ratio of 1/2,3/10,1/5 or (5/10:3/10:2/10).Calculate the new ratio and sacrificing ratio if X retires.**

**Old ratio of X,Y and Z = 5:3:2 New ratio of Y and Z = 3:2**

**Gaining Ratio = New share – Old share**

**Y's Gain = 3/5 – 3/10 or 6/10 – 3/10 =3/10**

**Z's Gain = 2/5 – 2/10 or 4/10 – 2/10 = 2/10**

**Gaining ratio of Y and Z = 3:2**

**In this type problem (Case-1) Gaining Ratio = New Ratio So in this type problem there is no need to calculate gaining ratio**

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# Case-2

## When the profit sharing ratio between continuing partners is changed/The new ratio between remaining partners is given

**If the continuing partners decide to share future profits in some other ratio, the gaining ratio will also change.**

**In this case it is necessary to calculate gaining ratio.**

**Gaining Ratio = New Share – Old Share**

**In this case old share and new share of continuing partners is given**

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# Case-2

## When the profit sharing ratio between continuing partners is changed/The new ratio between remaining partners is given

**Q.**A,B and C were sharing profits in the ratio of 3:2:1.C retires from the firm. A and B decided to share future profits in the ratio of 7:5.Calculate gaining ratio.

Old ratio of A,B and C = 3:2:1 New ratio of A and B = 7:5

Gaining Ratio = New Share – Old Share

A's Gain = 7/12 – 3/6 or 7/12 -6/12 =1/12

B's Gain = 5/12 – 2/6 or 5/12 – 4/12 =1/12

Gaining ratio = **1:1**

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# Question for Practice

1. A, B and C were partners sharing profits in the ratio of 12, 25 and 110. Find the new ratio of the remaining partners if C retires.

2. From the following particulars, calculate the new profit-sharing ratio of the partners:

(a) Shiv, Mohan and Hari were partners in a firm sharing profits in the ratio of 5: 5: 4. Mohan retired and his share was divided equally between Shiv and Hari.

(b) P, Q and R were partners sharing profits in the ratio of 5: 4: 1. P retires from the firm.

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1. New profit ratio of A : B will be 5 : 4

2. a)Shiv and Hari new profit ratio = 15 : 13

   b)New Profit Ratio Q: R = 4:1

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