In accordance with the constant or consensus among all the members.

ii. In accordance with the partnership agreement which has already been signed.

iii. In accordance with the written notice, if the partnership is at will.

***Adjustments***

*The adjustments that need to be done at the time of retirement of a partner are as follows:*

1. Calculation of new profit sharing ratio

2. Revaluation of assets and liabilities

3. Adjustment regarding undistributed profits and losses

4. Adjustment regarding goodwill

5. Adjustment of capital

6. Ascertainment of due amount to retiring partner

7. Mode of payment to the outgoing partners.

***1. Calculation Of New Profit Sharing Ratio***

When somebody left the firm, his share which left to the firm is gain to remaining partners. After retirement of someone, if the new profit sharing ratio is not given, then it has to be understand that they will continue old ratio. The new profit sharing ratio of the remaining partners is determined in the following way:

Suppose, three partners A,B and C are sharing profits and losses in the ratio of 2:3:1, as there is no fresh or new agreement between between A and B, the new profit sharing ratio between A and B will be 2:3 by eliminating the share of C.

In the above calculation, gaining ratio of A and B will be:

A= 2/5-2/6 = 1/15

B = 3/5-3/6 = 1/10

Thus, gaining ratio is calculated by deducting old ratio from new ratio i.e.

**Gaining ratio = New profit sharing ratio - Old profit sharing ratio**

In the case of new ratio between the remaining partners are given, the gaining ratio calculation will be the same. However, it should not be confused with the sacrificing ratio which is calculated at the time of admission of a new partner and change in profit sharing ratio. Sacrificing ratio is calculated by deducting new ratio from old one. On the other hand, gaining ratio is computed by subtracting old ratio from new one.

***2. Revaluation Of Assets And Liabilities***

The retiring partner has the right to share the increase or decrease in value of assets and liabilities of the firm during the retirement period. To find out the profit or loss, a revaluation account is opened as in the case of admission of a partner. If there is an increase in the value of any assets then concerned asset account will be debited and revaluation account will be credited. In the same way, if there is decrease in the value of any asset then concerned asset will be credited and revaluation account will be debited. Similarly, if there is an increase in the value of liabilities, revaluation account is debited and concerned liability account is credited and vice versa.

The profit or loss on revaluation is to be divided among all the remaining and outgoing partners in their old profit sharing ratio. After the revaluation, the assets and liabilities will appear in the balance sheet either at original value (book value) or at revised value. If assets and liabilities are to be recorded at unchanged value then a memorandum revaluation account will have to prepared.

***3. Adjustment Regarding undistributed Profits And Losses***

At the time of retirement of a partner, there may be some accumulated profits or losses in the forms of any reserve or credit balance of profit and loss account or debit balance of profit and loss account etc. All such amount should be distributed among all the partners, outgoing or remaining, in their old profit sharing ratio. Sometimes, only the share of outgoing partners may transfer to his capital account and balance is shown in the balance sheet. Such can be done only when the remaining partners agreed for it.

***4. Adjustment Regarding Goodwill***

The valuation of goodwill has been discussed in admission of a partner. The same process should be followed here too. But during the time of retirement, the retiring partner has the right to get his share of goodwill of the firm. Therefore, to give effect to the same, the following adjustment must be carried out.

**A. Goodwill already appears in the books**

*i. if old value of goodwill is equal to new valuation of goodwill:*

- Adjustment entry is not needed

*ii. If the existing value of goodwill is less than the new valuation:*

Goodwill A/C.........Dr.(excess value)

To all partners' capital A/C

Note: The excess amount of goodwill is transferred to remaining and outgoing partners according to old profit sharing ratio.

*iii. If the existing value of goodwill is greater than new valuation:*

All partners' capital A/C..........Dr.(less value)

To Goodwill A/C

**B. Goodwill not already appeared in the book**

*i. Goodwill raised at its full value:*

Goodwill A/C.............Dr.

To All partners' capital A/C

*ii. Goodwill raised at its full value and written off immediately:*

Goodwill A/C ...........Dr.

To all partners' capital A/C (old profit sharing ratio)

*iii. Goodwill raised at only retired partner's capital account and immediately written off:*

Goodwill A/C............Dr.

To retired partner's capital A\C

***5. Adjustment Of Capital***

When a partner retires from the business and if he is to be paid off his due amount immediately, the total capital of the firm is reduced. In such case, the retiring partner may be requested to keep the amount due to him as loan to the firm, so as to be paid gradually in the future. On the other hand, the remaining partner may bring necessary amount in new profit sharing ratio or in same agreed ratio to make payment to the retiring partner. Then afterwards, if agreed, the capitals of remaining partners may be required to be adjusted in new profit sharing ratio in any one of the following three ways:

*A. When the total capital is not given:*

Step 1: Calculation of the total capital of the new firm as:

Total capital of the new firm = Aggregate of adjusted old capitals of remaining partners.

Step 2: Calculations of new capitals of remaining or continuing partners:

New capital of a continuing partner= Total capital X New ratio

Step 3: Any excess of new capital of a remaining partner, is to be paid off in cash and for the deficiency, the continuing partner has to bring in cash.

*B. When the total capital is given:*

Step 1: Calculation of continuing partners' new capital

New capital of continuing partner= Total capital given X New ratio

Step 2: Any excess capital to be paid to and any deficiency is to be brought by the continuing partners.

*C. When the retiring partner is to be paid through cash brought by the remaining partners so that their capitals would be in accordance with new ratio:*

Step 1: Calculation of total capital of new firm

Total capital = Aggregate of old capitals after all adjustment + Shortage of cash to make payment to retiring partner

Step 2: Calculation of new capital of continuing partners

= Total capital of new firm X New ratio

Step 3: Deficiency to be brought in by the remaining or continuing partners.

***6. Ascertainment Of Due Amount To The Outgoing Partners***

*The total amount to be given to the retiring partners includes the following:*

i. The balance shown by retired partnering capital account.

ii. The balance shown by retired partnering current account.

iii. Any interest or commission due to retiring partners.

iv. Any salary due to retiring partners.

v. Any share of profit or loss till the date of retirement.

vi. Share in the goodwill of the firm.

vii. Gain or loss on revaluation of assets and liabilities.

viii. Any share in the accumulated profits or funds as well as losses appearing in the balance sheet till the date of retirement.

ix. Share of joint life policy.

x. With drawing and interest on with drawing till the time of retirement.

The net amount due to the retiring partner is determined after the necessary addition and deduction of the above items.

***7. Mode Of Payment To The Outgoing Partners***

There are different ways of treating the due amount to the outgoing partner. Some of them are as follows:

*A. If the due amount is paid off immediately:*

Outgoing partner's capital A/C...............Dr.

To bank/cash A/C

*B. Payment is made privately (if the remaining partners purchase the share of retiring partner in some agreed ratio or in the profit sharing ratio):*

Retiring partner's capital A/C.............Dr.

To remaining partners' capital A/C

C. If payment is not made privately (remaining partners bring cash in the business and there after the retiring partner is paid off):

**\*** When cash brought in by the old partners:

Cash/Bank A/C..............Dr.

To remaining partners' capital A/C

**\*** When outgoing partner is paid off:

Outgoing partner's capital A/C.............Dr.

To Cash/Bank A/C

*D. With due agreement the amount due to the outgoing partner may be transferred to a loan account to be paid gradually with or without interest:*

*\** While due amount is transferred to loan account:

Retiring partner's capital A/C...........Dr.

To Retiring partner's loan A/C

\* If interest has to be paid and due:

Interest A/C................Dr.

To retiring partner's loan A/c

\* Paying of the installment:

Retiring partner's loan A/C.............Dr.

To Bank A/C