



Long answer type Questions

Q1. Explain the modes of payment to a retiring partners.

The total amount due towards a retiring partner can be paid in any of the following manner:

(i) In lump sum: If the amount due to the retiring partner is to be paid in lump sum on the day of his/her retirement. This method is usually adopted when the amount payable is small and the following entry is passed to record such a payment.

Date	Particulars		L.F.	Dr. Rs.	Cr. Rs.
	Retiring Partner's Capital A/c	Dr.			
	To Cash/Bank A/c Capital A/c				
	(Being retiring partner paid in cash)				

(ii) In instalments: Sometimes, the amount payable to the retiring partner is quite a large amount which a firm is unable to pay in one payment. In such cases, the amount not paid at the time of retirement (or amount which has been decided to be paid in instalments) is transferred to his/her loan account. In this case, the retiring partner receives equal instalments along with the interest on the amount outstanding. The following necessary journal entry is to be passed:

Date	Particulars		L.F.	Dr. Rs.	Cr. Rs.
	Retiring Partner's Capital A/c	Dr.			
	To Retiring Partner's Loan A/c				
	(Being retiring partner's capital account transferred to the retiring partner's loan account @ % p.a.)				

(iii) Partly in Cash and Partly in Instalments: If the amount due to the retiring

partner is to be paid partly in cash and partly in equal instalments, then a certain amount is paid in cash to the retiring partner on the date of the retirement and the rest amount due to him/her is transferred to his/her loan account. The following necessary journal entry is to be passed:

Journal					
Date	Particulars		L.F.	Dr. Rs.	Cr. Rs.
	Retiring Partner's Capital A/c	Dr.			
	To Cash/Bank A/c Capital A/c				
	(Amount transferred to the partner's loan account)				
	To Cash A/c (Amount paid in cash immediately on the date of the retirement)				
	(Being retiring partner partly paid in cash and balance transferred to the partner's loan account)				

***** END *****