



Q4. Why do firm revalue assets and reassess their liabilities on retirement or on the event of death of a partner?

Sol: At the time of retirement or death of a partner, it becomes essential to revalue the assets and liabilities of the firm for finding out their true and fair values. Revaluation is needed as the value of assets and liabilities may increase or decrease with the passage of time. Further, it may be possible that certain assets and liabilities are left unrecorded in the books of accounts. The retiring or the deceased partner may be benefited or may bear loss due to change in the values of assets and liabilities. Therefore, the revaluation of the assets and liabilities is necessary to ascertain the true profit or loss which is to be distributed among all the partners in their old profit-sharing ratio.

Q5. Why a retiring/deceased partner is entitled to a share of goodwill of the firm?

Sol: The retiring/deceased partner is entitled to a share of goodwill of the firm because goodwill is an intangible asset which is earned by the efforts of all the partners in the firm. In the future, the fruits of past performance and reputation will be shared only by the remaining partners after the retirement or death of a partner. Therefore, the remaining partners should compensate the retiring/deceased partner by entitling him/her a share of the firm's goodwill.

***** END *****