***. 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