

**E14-5  
Facts**

	<b>Capital</b>	Share	<b>Assets</b>	BV	FMV	<== W/o revaluation			
Bolger	60000		35% Inventory	180000	170000				
Grossman	55000		45% Equipment	200000	210000		== With Revaluation ==>		
Swanson	35000		20% Land	75000	100000				
<b>Total Cap</b>	<b>150000</b>								
Liabilities	305000								
<b>Total Liab</b>	<b>455000</b>			<b>455000</b>	<b>480000</b>				
							<b>Balance Sheet (revalued)</b>		
							<b>Liabilities</b>	<b>Assets</b>	
							Bolger	80000 Inventory	170000
							Grossman	80714 Equipment	210000
							Swanson	46429 Land	100000
							<b>Total Cap</b>	<b>207143</b> Goodwill	32143
							Liabilities	305000	
							<b>Total Liab</b>	<b>512143</b>	<b>512143</b> <=====

Analysis  
Step 1

Bolger wants to sell her interest for 80000  
 Implicit revaluation gain is 20000  
 Her share of tangibles (inventory etc.) is 8750  
 The pure goodwill to her then is 11250  
 So the entire goodwill must be worth 32143

====> now do one of 2 balance sheets (not required by the problem, but just do for fun).  
 the revalued balance sheet is the "economic" balance sheet just before withdrawal

Part 1

Easy. Grossman's new share = old share plus Bolger's share. \$115000.

Part 2

Under the bonus method, only the \$10,000 decrease in inventory is recognized. Allocating this to partners reduces Bolger's capital to 60,000 - 35% \* 10,000 = 56,500. So the "bonus" paid to Grossman is \$23,500 (why??). This is to be shared by the remaining partners under their old ratios, i.e. 45:20. So Grossman's capital will bear 45/65 fraction of \$23,500.

Grossman's new balance is 55000 less 4500 inventory writeoff less 16269.231 or 34231  
 While Swanson's new balance is 35000 less 2000 inventory writeoff less 7230.7692 or 25769

**New Balance Sheet**

<b>Liabilities</b>	<b>Assets</b>	
Grossman	34231 Inventory	170000
Swanson	25769 Equipment	200000
<b>Total Cap</b>	<b>60000</b> Land	75000
Liabilities	305000	
Bolger	80000	
<b>Total Liab</b>	<b>445000</b>	<b>445000</b>

Part 3

Under the goodwill method, since the partners' profit sharing ratios will change, we may want to recognize only the part of the goodwill arising to Bolger and credit it to her account. The amount of goodwill paid to her will be carried on the books.

====> **New Balance Sheet**

FMV of NET assets	175000		<b>Liabilities</b>	<b>Assets</b>
Bolger's share	68750 <= Cap. of \$60,000 + 35% of revaluation		Grossman	66250 Inventory 170000
Sale Price	80000		Swanson	40000 Equipment 210000
Goodwill payment	11250 <==== Excess of payment over share		<b>Total Cap</b>	<b>106250</b> Land 100000
This amount will be carried as goodwill.	=====		Liabilities	305000 Goodwill 11250
			Bolger	80000
			<b>Total Liab</b>	<b>491250 491250</b>

Alternatively, recognize the entire amount of goodwill.

Then we have

**New Balance Sheet**

<b>Liabilities</b>	<b>Assets</b>	
Grossman	80714 Inventory	170000
Swanson	46429 Equipment	210000
<b>Total Cap</b>	<b>127143</b> Land	100000
Liabilities	305000 Goodwill	32143
Bolger	80000	
<b>Total Liab</b>	<b>512143</b>	<b>512143</b> =====