

PROBLEM 14-1

- (1) \$21,000. After having sold 30% of his/her interest to Partner D, Partner B's capital balance will be 70% of \$30,000, or \$21,000.
- (2) \$49,285. If the book value of capital reflects current values, then the \$115,000 of capital traceable to the original partners will represent 70% of the capital of the new partnership. Therefore, the capital of the new partnership must have a total value of \$164,285 ($\$115,000 \div 70\%$). The total value less the capital of the original partners represents the value of the consolidation to be paid by the new Partner D. This value is \$49,285 ($\$164,285 - \$115,000$).
- (3) \$30,333. If the current value of the original partners' capital is \$24,000 less than book value, then the current value is \$91,000. The \$91,000 represents 75% of the capital of the new partnership. Therefore, the capital of the new partnership must have a total value of \$121,333 ($\$91,000 \div 75\%$). The total value less the capital of the original partners represents the value of the consideration to be paid by the new Partner D. This value is \$30,333 ($\$121,333 - \$91,000$).
- (4) B's new capital balance is \$32,500.

	<u>Partnership</u>	<u>A</u>	<u>B</u>	<u>C</u>	<u>D</u>
Book value of capital before sale	\$115,000	\$70,000	\$30,000	\$15,000	.....
Contribution by new partner.....	<u>70,000</u>	<u>4,167</u>	<u>2,500</u>	<u>1,666</u>	<u>\$61,667</u>
New capital balance	<u>\$185,000</u>	<u>\$74,167</u>	<u>\$32,500</u>	<u>\$16,666</u>	<u>\$61,667</u>

- (5) B's new capital balance is \$37,500.

	<u>Partnership</u>	<u>A</u>	<u>B</u>	<u>C</u>	<u>D</u>
Book value of capital before sale	\$115,000	\$70,000	\$30,000	\$15,000	.....
Goodwill suggested by transaction*.....	25,000	12,500	7,500	5,000	.....
Contribution by new partner.....	<u>70,000</u>	<u>.....</u>	<u>.....</u>	<u>.....</u>	<u>\$70,000</u>
New capital balance	<u>\$210,000</u>	<u>\$82,500</u>	<u>\$37,500</u>	<u>\$20,000</u>	<u>\$70,000</u>

*The suggested value of the entire partnership is \$210,000 ($\$70,000 \div 1/3$), of which \$70,000 represents the investment from the new partner. Therefore, the value traceable to the original partners must be \$140,000 ($\$210,000 - \$70,000$), of which \$115,000 is traceable to the existing recorded book value. The goodwill value is then represented by the difference between the \$140,000 suggested value and the book value of \$115,000.

- (6) A's new capital balance is \$77,250.

	<u>Partnership</u>	<u>A</u>	<u>B</u>	<u>C</u>	<u>D</u>
Book value of capital before sale	\$115,000	\$70,000	\$30,000	\$15,000	.....
Contribution by new partner.....	<u>70,000</u>	<u>7,250</u>	<u>4,350</u>	<u>2,900</u>	<u>\$55,500</u>
New capital balance	<u>\$185,000</u>	<u>\$77,250</u>	<u>\$34,350</u>	<u>\$17,900</u>	<u>\$55,500</u>

Problem 14-1, Concluded

(7) A's new capital balance is \$94,167.

	<u>Partnership</u>	<u>A</u>	<u>B</u>	<u>C</u>	<u>D</u>
Book value of capital before sale	\$115,000	\$70,000	\$30,000	\$15,000	.....
Write-up of existing assets.....	25,000	12,500	7,500	5,000	.....
Goodwill suggested by transaction*	23,333	11,667	7,000	4,667	.....
Contribution by new partner.....	<u>70,000</u>	.....	.....	.....	<u>\$70,000</u>
New capital balance	<u>\$233,333</u>	<u>\$94,167</u>	<u>\$44,500</u>	<u>\$24,667</u>	<u>\$70,000</u>

*The suggested value of the entire new partnership is \$233,333 ($\$70,000 \div 30\%$) of which \$70,000 represents the investment from the new partner. Therefore, the value traceable to the original partners must be \$163,333 ($\$233,333 - \$70,000$), of which \$115,000 is traceable to the existing recorded book value. The difference between the \$163,333 and the \$115,000 represents unrecorded value of \$48,333. Of the \$48,333, \$25,000 is traceable to understated tangible assets and the balance is traceable to goodwill.

(8) A's new capital balance is \$54,500.

	<u>Partnership</u>	<u>A</u>	<u>B</u>	<u>C</u>	<u>D</u>
Book value of capital before sale	\$115,000	\$ 70,000	\$30,000	\$15,000	.....
Interest in write-down of assets ..	<u>(25,000)</u>	<u>(12,500)</u>	<u>(7,500)</u>	<u>(5,000)</u>	.....
Adjusted capital	\$ 90,000	\$ 57,500	\$22,500	\$10,000	.....
Contribution by new partner.....	<u>22,000</u>	<u>(3,000)</u>	<u>(1,800)</u>	<u>(1,200)</u>	<u>\$28,000</u>
New capital balance	<u>\$112,000</u>	<u>\$ 54,500</u>	<u>\$20,700</u>	<u>\$ 8,800</u>	<u>\$28,000</u>

(9) A's new capital balance is \$57,500.

	<u>Partnership</u>	<u>A</u>	<u>B</u>	<u>C</u>	<u>D</u>
Book value of capital before sale	\$115,000	\$ 70,000	\$30,000	\$15,000	.....
Interest in write-down of assets ..	<u>(25,000)</u>	<u>(12,500)</u>	<u>(7,500)</u>	<u>(5,000)</u>	.....
Adjusted capital	\$ 90,000	\$ 57,500	\$22,500	\$10,000	.....
Contribution by new partner.....	22,000	.....	.....	.....	\$22,000
Goodwill traceable to new partner*	<u>8,000</u>	.....	.....	.....	<u>8,000</u>
New capital balance	<u>\$120,000</u>	<u>\$ 57,500</u>	<u>\$22,500</u>	<u>\$10,000</u>	<u>\$30,000</u>

*The suggested value of the new partnership after recognizing the asset write-down is \$120,000 ($\$90,000 \div 75\%$). Therefore, the incoming partner should have conveyed \$30,000 ($\$120,000 - \$90,000$) for his/her 25% interest. The fact that he/she contributed tangible assets with a value of only \$22,000 suggests that there is \$8,000 of goodwill also being contributed.