**Chapter 3**

**Problem I**

1.

|  |  |  |
| --- | --- | --- |
| Ben, capital | 350,000 |  |
| Pet, capital (50% x P700,000) |  | 350,000 |

2. The total capital of BIG Entertainment Galley remains at P1,480,000. The total amount paid by Pet to Ben does not affect the partnership and Pet does not become a partner with the assignment of half of Ben’s interest.

**Problem II**

1.

a. D, capital…………………………………………………………… 24,000

F, capital…………………………………………………......... 24,000

b.1.

*D, capital (P72,000 x ¼)………………………………………… 18,000*

*E, capital (P48,000 x ¼)………………………………………… 12,000*

*F, capital…………………………………………………. 30,000*

The capital balances of the partners after the admission of F would be as follows:

D E F (book value) Total\_

Capital before admission…P 72,000 P 48,000 P120,000

x: Interest remained……….. ¾ ¾ \_\_\_\_\_\_\_\_

Capital after admission….. P54,000 P 36,000 P 30,000 P120,000

Therefore, the profit and loss ratio of the partners after the admission of F would be as follows:

D, capital (70% x ¾)……………………………………………… 52.50%

E, capital (30% x ¾)………………………………………………. 22.50%

F, capital (equivalent to interest acquired)…………………. 25.00%

Total………………………………………………………………….100.00%

b.2

b.2.1

*D, capital (P72,000 x ¼)………………………………………… 18,000*

*E, capital (P48,000 x ¼)………………………………………… 12,000*

*F, capital…………………………………………………. 30,000*

*The positive excess of P6,000 represents a personal gain of D and E, computed as follows:*

Amount paid (P21,600 + P14,400)…………………………………. P 36,000

Less: BV of interest acquired –

(P 120,000 x ¼)…………………………….................................. 30,000

Excess (Gain of D and E – personal in nature)….……………….. P 6,000

*The partnership does not record this gain because it was not benefited from it.*

b.2.2

*Assets (Goodwill)……………………………………………….. 24,000*

*D, capital (P24,000 x 70%).……………………………........ 16,800*

*E, capital (P24,000 x 30%).……………………………......... 7,200*

Or,

Amount paid (P21,600 + P14,400)…………….. P36,000 / ¼ P144,000 (100%)

Less: BV of interest acquired –

(P 120,000 x ¼)……………………………..... 30,000 120,000 (100%)

Excess……………………………………………….... P 6,000

Divided by (capitalized at): Interest acquired ¼

Revaluation of Asset Upward………………….. P24,000 P 24,000 (100%)

*D, capital [(P72,000 + P16,800) x ¼]………………………… 22,200*

*E, capital [(P48,000 + P7,200) x ¼]…………………………… 13,800*

*F, capital…………………………………………………...... 36,000*

The capital balances of the partners after the admission of F would be as follows:

D E F (amount paid) Total\_

Capital before admission… P 72,000 P 48,000 P 120,000

Revaluation upward………. 16,0800 7,200 24,000

Capital balance after

revaluation………………. P 88,800 P 55,200 P144,000

x: Interest remained……….. ¾ ¾ \_\_\_\_\_\_\_\_

Capital after admission….. P66,600 P 41,400 P 36,000 P144,000

Capital interest %.............. 25

P & L %: D (3/4 x 70%)…… 52.50

E (3/4 x 30%)…… 22.50

F (1/4)…………… 25

It should be observed that the total capital balance after the admission increases equivalent to the revaluation of assets amounting to P24,000. The reason of such adjustments is to equalize the capital of the new partner to the amount paid.

b.3

b.3.1

*D, capital (P72,000 x ¼)………………………………………… 18,000*

*E, capital (P48,000 x ¼)………………………………………… 12,000*

*F, capital…………………………………………………. 30,000*

*The negative excess of P3,600 represents a personal loss of D and E, computed as follows:*

Amount paid ……………………….…………………………………. P 26,400

Less: BV of interest acquired –

(P 120,000 x ¼)……………………………............................... 30,000

Excess (Loss of D and E – personal in nature)….………………… P( 3,600)

b.3.2

The entry to record the transaction in the books follows:

*D, capital (P14,400 x 70%).…………………………………….. 10,080*

*E, capital (P14,400 x 30%).……………………………………... 4,320*

*Assets ……………………………………………………........ 14,400*

Or,

Amount paid ………………………….………….. P 26,400 / ¼ P 105,600 (100%)

Less: BV of interest acquired –

(P 120,000 x ¼)……………………………..... 30,000 . 120,000 (100%)

Excess……………………………………………….. P( 3,600)

Divided by: Interest acquired………………….. ¼

Revaluation of Asset Downward..…………….. P(14,400) P(14,400) (100%)

*D, capital [(P72,000 – P10,080) x ¼]………………………. 15,480*

*E, capital [(P48,000 – P4,320) x ¼]………………………….. 10,920*

*F, capital…………………………………………………... 26,400*

The capital balances of the partners after the admission of F would be as follows:

D E F (amount paid) Total\_

Capital before admission….P 72,000 P 48,000 P120,000

Revaluation downward…… 10,080 4,320 14,400

Capital balance after

revaluation……………….. P 61,920 P 48,680 P 105,600

x: Interest remained………… ¾ ¾ \_\_\_\_\_\_\_\_

Capital after admission….. P46,440 P 32,760 P 26,400 P 105,600

Capital interest %.............. 25

P & L %: D (3/4 x 70%)…… 52.50

E (3/4 x 30%)…… 22.50

F (1/4)…………… 25

Comparison between b.3.1 and b.3.2:

Schedule of Account Balances

Net Goodwill/Asset Capital\_\_\_\_\_\_\_\_\_\_

Assets Revaluation = D E F\_\_\_

Book Value Approach

Balances before admission P 120,000 P 72,000 P 48,000

Admission ( 18,000) (12,000) P 30,000

Balances after admission

of F P 120,000 P -0- P 54,000 P 36,000 P 30,000

Revaluation Approach

Balances before admission P 120,000 P 72,000 P 48,000

Revaluation P 24,000 16,800 7,200

Admission ( 22,200) (13,800) P 36,000

Balances after admission

of F P 120,000 P 24,000 P 66,600 P 41,400 P 36,000

Depreciation/impairment\* ( 24,000) ( 12,600) ( 5,400) ( 6,000)

Totals P 120,000 P -0- P 54,000 P 36,000 P 30,000

\*new profit and loss ratio (D, 52.50%; E, 22.50%, and F, 25.00%)

The two methods will yield the same results computed as follows;

Capital\_\_\_\_\_\_\_\_\_\_

D E F\_\_\_

Balances after admission of F (BV approach) P 54,000 P 36,000 P30,000

Balances after admission of F (Revaluation approach) 54,000 36,000 30,000

Gain or (loss) through use of book value approach P -0- P -0- P -0-

**Problem III**

**a: No Bonus or No Revaluation**.

The total agreed capital is equal to total agreed capital:

Total agreed capital (given)………………………………………….P 48,000

Less: Total agreed capital (P24,000 + P12,000 + P12,000)………. 48,000

Difference…………………………………………………………………P -0-

The entry to record the transaction in the books follows:

*D, capital (P72,000 x ¼)………………………………………… 18,000*

*E, capital (P48,000 x ¼)………………………………………… 12,000*

*F, capital…………………………………………………. 30,000*

**b: Bonus to New Partner**.

The total contributed capital (TCC) is equal to total agreed capital (TAC), so no revaluation (goodwill) should be recognized as follows:

Total agreed capital (given)…………………………………………P 48,000

Less: Total contributed capital (P24,000 + P12,000 + P12,000)…. 48,000

Difference………………………………………………………………..P -0-

The new partner’s contributed capital is less than the agreed capital, the difference is attributable to bonus to new partner:

J’s contributed capital (given)……………………………………...P 12,000

J’s agreed capital: (P48,000 x 35%)…………………………………. 16,800

Difference (bonus to new partner)………………………………….P 4,800

The entry to record the transaction in the books follows:

*Cash……………………………………………………………….. 12,000*

*G, capital (P4,800 x 60%)………………………………………. 2,880*

*H, capital (P4,800 x 40%)………………………………………. 1,920*

*J, capital ……………..…………………………………. 16,800*

**c: Revaluation (Goodwill) to New Partner**

The total contributed capital (TCC) is less than the total agreed capital (TAC), so revaluation (goodwill) should be recognized as follows:

Total agreed capital: (P18,000 / 1/3)……………………………….P 54,000

Less: Total contributed capital (P24,000 + P12,000 + P12,000)… 48,000

Difference (revaluation/goodwill)…………………………………..P 6,000

The new partner’s contributed capital is less than the agreed capital, the difference of P6,000 in (a) is attributable to revaluation/goodwill to new partner:

J’s contributed capital (given)……………………………………...P 12,000

J’s agreed capital (given) ………..…………………………………. 18,000

Difference (revaluation/goodwill to new partner)………………P 6,000

The entry to record the transaction in the books follows:

*Cash………………………………………………………………..12,000*

*Assets (goodwill)………………………………………………… 6,000*

*J, capital ……………..…………………………………. 18,000*

**d: Bonus to Old Partners**.

The total contributed capital (TCC) is equal to total agreed capital (TAC), so no revaluation (goodwill) should be recognized as follows:

Total agreed capital (should equal to TCC

since it is a bonus method)……………………………………P 60,000

Less: Total contributed capital

[(P24,000 + P12,000 + (P30,000 – P6,000)]……………….…. 60,000

Difference………………………………………………………………..P -0-

The new partner’s contributed capital is greater than his agreed capital, the difference is attributable to bonus to old partners:

J’s contributed capital (P30,000 – P6,000)………………………..P 24,000

J’s agreed capital: (P60,000 x 30%)………………………………... 18,000

Difference (bonus to old partners)..………………………………. .P( 6,000)

The entry to record the transaction in the books follows:

*Tangible asset…………………………………………………….30,000*

*Mortgage payable……………………………………. 6,000*

*J, capital ……………..…………………………………. 18,000*

*G, capital (P6,000 x 60%)…………………………….. 3,600*

*H, capital (P6,000 x 40%)…………………………….. 2,400*

**e: Revaluation (Goodwill) to Old Partners**.

The total contributed capital (TCC) is less than the total agreed capital (TAC), so revaluation should be recognized as follows:

Total agreed capital (given) ………………………………………... P 76,800

Less: Total contributed capital (P24,000 + P12,000 +

P 8,400, revaluation + P28,800)…………………………. 73,200

Difference (revaluation/goodwill)………………..………………… P 3,600

The new partner’s contributed capital is equal to the agreed capital, the difference of P3,600 in (a) is attributable to revaluation (goodwill) to old partners:

J’s contributed capital………………………………………………… P 28,800

J’s agreed capital: (P76,800 x 37.5%)….………………………….... 28,800

Difference …………………………..…………………………………… P -0-

The entries to record the transaction in the books follows:

*Equipment………………………………………………………… 8,400*

*G, capital (P8,400 x 60%)…………………………….. 5,040*

*H, capital (P8,400 x 40%)……………………………… 3,360*

*Cash………….…………………………………………………….28,800*

*Other assets………………………………………………………. 3,600*

*J, capital ……………..…………………………………. 28,800*

*G, capital (P3,600 x 60%)…………………………….. 2,160*

*H, capital (P3,600 x 40%)……………………………… 1,440*

**f: Bonus and Revaluation (Goodwill) to New Partner**.

The total contributed capital (TCC) is less than the total agreed capital (TAC), so revaluation (goodwill) should be recognized as follows:

Total agreed capital (given)…………………………………………P 60,000

Less: Total contributed capital (P24,000 + P12,000 + P12,000)… 48,000

Difference (revaluation/goodwill) …………………..…………….. P 12,000

The new partner’s contributed capital is less than the agreed capital, the difference of P15,000 are composed of revaluation of P12,000 in (a) above and the balance is bonus to new partner:

J’s contributed capital (given)……………………………………... P 12,000

J’s agreed capital: (P60,000 x 45%)…………………………………. 27,000

Difference (total bonus and revaluation)..………………………...P 15,000

Less: Revaluation / goodwill to new partner………………………. 12,000

Bonus to new partner…………………………………………………... P 3,000

The entry to record the transaction in the books follows:

*Cash……………………………………………………………….. 12,000*

*Assets (goodwill)………………………………………………… 12,000*

*G, capital (P3,000 x 60%)………………………………………. 1,800*

*H, capital (P3,000 x 40%)………………………………………. 1,200*

*J, capital ……………..…………………………………. 27,000*

To record the admission of J.

**g: Bonus and Revaluation to Old Partners**.

The total contributed capital (TCC) is less than the total agreed capital (TAC), so revaluation (goodwill) should be recognized as follows:

Total agreed capital (given)…………………………………………P 72,000

Less: Total contributed capital (P24,000 + P12,000 + P18,000)…. 54,000

Difference (revaluation/goodwill)…………………....……………. P 18,000

The new partner’s contributed capital is greater than the agreed capital, the difference of P3,600 is bonus to old partners since there is already a revaluation(goodwill) as indicated by (a) above.

J’s contributed capital (given).…………………………………….. P18,000

J’s agreed capital: (P72,000 x 20%)………………………………… 14,400

Difference (bonus to old partners)………………………………… P( 3,600)

Less: Revaluation / goodwill to old partners……………………… 18,000

Total bonus and revaluation to old partners.……………………. P 21,600

The P3,600 difference is considered as a bonus since there was a transfer of capital (as indicated by the decrease in capital of the new partner) made by the new partner to the old partners.

The entry to record the transaction in the books follows:

*Cash………………………………………………………………..18,000*

*Assets (goodwill)…………………………………………………18,000*

*J, capital ……………..………………………………… 14,400*

*G, capital (P21,600 x 60%)…………………………….. 12,960*

*H, capital (P21,600 x 40%)…………………………….. 8,640*

**h: Revaluation (Goodwill) to New and Old Partners**.

The total contributed capital (TCC) is less than the total agreed capital (TAC), so revaluation (goodwill) should be recognized as follows:

Total agreed capital (given)…………………………………………P 72,000

Less: Total contributed capital (P24,000 + P12,000 + P18,000)…. 54,000

Difference (revaluation/goodwill ) …………………..……………. P 18,000

The new partner’s contributed capital is less than the agreed capital, the difference of P18,000 in (a) is attributable to revaluation (goodwill) to new partner and old partners:

J’s contributed capital (given)…………………………………….. P 18,000

J’s agreed capital: (P72,000 x 30%)………………………………... 21,600

Difference (revaluation/goodwill to new partner)..…………….P 3,600

Less: Revaluation / goodwill computed in (a)..…………………. 18,000

Revaluation/goodwill to old partners……….……………………..P 14,400

The entry to record the transaction in the books follows:

*Cash………………………………………………………………..18,000*

*Assets (goodwill)…………………………………………………18,000*

*J, capital ……………..…………………………………. 21,600*

*G, capital (P14,400 x 60%)…………………………… 8,640*

*H, capital (P14,400 x 40%)……………………………. 5,760*

**i: Bonus to Old Partners with Bonus Amount Given**.

The total contributed capital (TCC) is equal to total agreed capital (TAC), so no revaluation (goodwill) should be recognized as follows:

Total agreed capital (should equal to TCC

since it is a bonus method)……………………………………P 60,000

Less: Total contributed capital

[(P24,000 + P12,000 + P24,000)……………...…………….…. 60,000

Difference………………………………………………………………..P -0-

The new partner’s contributed capital is greater than his agreed capital, the difference is attributable to bonus to old partners:

J’s contributed capital…………………….. …………………………P 24,000

J’s agreed capital (P24,000 – P6,000).……………………………... 18,000

Difference (bonus to old partners)..……………………………….. P( 6,000)

The entry to record the transaction in the books follows:

*Cash………………………………………………………………..24,000*

*J, capital ……………..…………………………………. 18,000*

*G, capital (P6,000 x 60%)…………………………….. 3,600*

*H, capital (P6,000 x 40%)…………………………….. 2,400*

**j: Bonus to New Partner with an Indication of Bonus.**

There is an overstatement of asset amounting to P2,400 (P6,000 – P3,600) that is needed to be recorded to comply with the provisions of GAAP recognizing overvaluation of net assets. Therefore, the contributed capital of partner G and H are as follows:

G, capital: P24,000 – (P2,400 x 60%)………………………….P 22,560

H, capital: P12,000 – (P2,400 x 40%)…………………………. 11,040

Total contributed capital before the admission………….. P 33,600

The total contributed capital (TCC) is equal to total agreed capital (TAC), so no revaluation (goodwill) should be recognized as follows:

Total agreed capital (should equal to TCC

since it is a bonus method)…………………………………… P 40,800

Less: Total contributed capital [P33,600 (a) + P7,200].………… 40,800

Difference………………………………………………………………..P -0-

The new partner’s contributed capital is less than the agreed capital, the difference is attributable to bonus to new partner:

J’s contributed capital (given)……………………………………...P 7,200

J’s agreed capital: (P40,800 x 30%)…………………………………. 12,240

Difference (bonus to new partner)………………………………….P 5,040

The entries to record the transaction in the books follows:

*G, capital (P2,400 x 60%)………………………………………. 1,440*

*H, capital (P2,400 x 40%)………………………………………. 960*

*Equipments……………………………………………… 2,400*

*Cash……………………………………………………………….. 7,200*

*G, capital (P5,040 x 60%)………………………………………. 3,024*

*H, capital (P5,040 x 40%)………………………………………. 2,016*

*J, capital ……………..…………………………………. 12,240*

**k: Revaluation (Goodwill) to Old Partners with an Indication of a Revaluation (Goodwill)**.

There is an understatement of asset amounting to P6,000 (P12,600 – P6,600) that is needed to be recorded (also even in cases of overstatement) as long as the revaluation (goodwill) approach is being used. Therefore, the contributed capital of partner G and H are as follows:

G, capital: P24,000 + (P6,000 x 60%)………………………….P 27,600

H, capital: P12,000 + (P6,000 x 40%)………………………….. 14,400

Total contributed capital before the admission…………...P 42,000

The total contributed capital (TCC) is less than the total agreed capital (TAC), so revaluation (goodwill) should be recognized as follows:

Total agreed capital (P18,000 / ¼ )\*…..……….………………….....P 72,000

Less: Total contributed capital [P42,000 (a) + P18,000]………..… 60,000

Difference (revaluation/goodwill ) …………………..……………....P 12,000

\*The old partner’s total contributed capital of P42,000 should not be used as a basis because it will result to a negative revaluation. In cases of revaluation and there is no specification as to upward or downward adjustments, the presumption should always be upward. The P18,000 was capitalized by ¼ to determine the value of the partnership as a whole.

The new partner’s contributed capital is equal to the agreed capital, the difference of P12,000 in (a) is attributable to revaluation (goodwill) to old partners:

J’s contributed capital (given)……………………………………...P 18,000

J’s agreed capital……………………………………………………… 18,000

Revaluation/goodwill to new partner……….……………………...P -0-

The entries to record the transaction in the books follows:

*Other assets…………………………………………………….... 6,000*

*G, capital (P6,000 x 60%)…………………………….. 3,600*

*H, capital (P6,000 x 40%)…………………………….. 2,400*

*Cash……………………………………………………………….. 18,000*

*Assets (goodwill)………………………………………………… 12,000*

*J, capital ……………..…………………………………. 18,000*

*G, capital (P12,000 x 60%)…………………………… 7,200*

*H, capital (P12,000 x 40%)……………………………. 4,800*

**l: Revaluation (Goodwill) to New Partner with Revaluation Amount Given**.

The total contributed capital (TCC) is less than the total agreed capital (TAC), so revaluation (goodwill) should be recognized as follows:

Total agreed capital (TCC, P60,000 + P7,200, goodwill) ……….P 67,200

Less: Total contributed capital (P24,000 + P12,000 + P24,000)… 60,000

Difference (revaluation/goodwill ) …………………..……………..P 7,200

The new partner’s contributed capital is less than the agreed capital, the difference of P7,200 in (a) is attributable to revaluation (goodwill) to new partner:

J’s contributed capital (given)……………………………………...P 24,000

J’s agreed capital: (P24,000 + P7,200)……………………………… 31,200

Revaluation/goodwill to new partner……….……………………..P 7,200

The entry to record the transaction in the books follows:

*Cash……………………………………………………………….. 24,000*

*Assets (goodwill)………………………………………………… 7,200*

*J, capital ……………..…………………………………. 31,200*

To record the admission of J.

## m: Withdrawals Instead of Revaluation.

The total contributed capital (TCC) is greater than total agreed capital (TAC), so it should have been a negative revaluation. Since there was an indication that capital balances should equal to the profit and loss (old or new) ratio, then the difference should be considered as withdrawals (if it is a positive revaluation it should have been additional investment and if the TCC = TAC, it should have been settlement between partners) instead of negative revaluation.

Total agreed capital (given)………………………………………...P 48,000

Less: Total contributed capital (P24,000 + P12,000 + P24,000).. 60,000

Difference (withdrawals)……………………………………………..P 12,000

The new partner’s contributed capital is less than the agreed capital, the difference is attributable to bonus to new partner:

J’s contributed capital (given)……………………………………...P 24,000

J’s agreed capital: (P48,000 x 50%)…………………………………. 24,000

Difference……………………………..………………………………….P -0-

The withdrawals of P12,000 should be attributable to the old partners computed as follows:

Total agreed capital (given)……………………………. P 48,000

Less: J’s agreed capital (P48,000 x 50%)……………… 24,000

Total agreed capital of the old partners……………… P 24,000

Less: G’s agreed capital (P24,000 x 60%)………………P 14,400

H’s agreed capital (P24,000 x 40%)……………… 9,600 24,000

G’s withdrawal: P24,000 – P14,400……………………… P 9,600

H’s withdrawal: P12,000 – P9,600……………………….. P 2,400

The entry to record the transaction in the books follows:

*Cash (P24,000 – P12,000)………………………………………. 12,000*

*G, capital…………………………………………………………. 9,600*

*H, capital………………………………………………………….. 2,400*

*J, capital ……………..…………………………………. 24,000*

**n: Bonus and Revaluation (Goodwill) When Not Specifically Stated**.

**n.1: Revaluation (Goodwill) or Bonus to New Partner**.

**n.1.1: Bonus Approach.**

The total contributed capital (TCC) is equal to the total agreed capital (TAC), so no revaluation (goodwill) should be recognized as follows:

Total agreed capital (should equal to TCC,

since it is a bonus method)……………………………………P 54,000

Less: Total contributed capital (P24,000 + P12,000 + P18,000).. 54,000

Difference……………………………..…………………..…………….P -0-

The new partner’s contributed capital is less than the agreed capital, the difference is attributable to bonus to new partner:

J’s contributed capital (given).…………………………………... P 18,000

J’s agreed capital: (P54,000 x 40%)………………………………… 21,600

Difference (bonus to new partner)..………………………………..P 3,600

The entry to record the transaction in the books follows:

*Cash………………………………………………………………..18,000*

*G, capital (P3,600 x 60%)……………………………………… 1,260*

*H, capital (P3,600 x 40%)………………………………………. 1,440*

*J, capital ……………..…………………………………. 21,600*

**n.1.2: Revaluation (Goodwill) Approach.**

The total contributed capital (TCC) is less than the total agreed capital (TAC), so revaluation (goodwill) should be recognized as follows:

Total agreed capital:

(P24,000 + P12,000) / (100% - 40%)…………………………... P 60,000

Less: Total contributed capital (P24,000 + P12,000 + P18,000).. 54,000

Difference (revaluation/goodwill).…………………..…………….P 6,000

The new partner’s contributed capital is less than the agreed capital, the difference of P6,000 in (a) is attributable to revaluation (goodwill) to new partner:

J’s contributed capital (given).…………………………………….P 18,000

J’s agreed capital: (P60,000 x 40%)……………………………….. 24,000

Difference (revaluation/goodwill to new partner)..…………... P 6,000

The entry to record the transaction in the books follows:

*Cash………………………………………………………………..18,000*

*Assets (goodwill)………………………………………………… 6,000*

*J, capital ……………..…………………………………. 24,000*

**The following items should be observed:**

1. **The New Profit and Loss Ratio**. The capital interest of J is 40%, while his profit and loss is 25%, so the new profit and loss interest of the new partnership is computed as follows:

\_\_\_\_G H \_ J\_\_\_\_

Capital interest %.............. 40

P & L %: G (60% x 75%)…… 45

H (40% x 75%)…… 30

J ……..…………… 25

2. **The Capital Balances of the New Partners**. After admission of partner J, the capital balances of the new partners are computed as follows:

Bonus Approach (total agreed capital)

* refer to Alternative 1 above:

G, capital (P24,000 – P2,160)………………………………P 21,840

H, capital (P12,000 – P1,440)……………………………… 10,560

J, capital…………………………………………………....... 21,600

Total……………………………………………………………. P 54,000

Revaluation (goodwill) Approach (total agreed capital)

* refer to Alternative 2 above:

G, capital……………………………………………………...P 24,000

H, capital……………………………………………………… 12,000

J, capital (P60,000 x 40%)………………………………….. 24,000

Total…………………………………………………………….P 60,000

***Schedule of Account Balances***

Net Goodwill/Asset Capital\_\_\_\_\_\_\_\_\_\_

Assets Revaluation = G H J\_\_\_

Bonus Approach

Balances after admission

of J P 54,000 P -0- P 21,840 P 10,560 P 21,600

Revaluation Approach

Balances after admission

of J P 54,000 P 6,000 P 24,000 P 12,000 P 24,000

Depreciation/impairment\* ( 6,000) ( 2,700) ( 1,800) ( 1,500)

Totals P 54,000 P -0- P 21,300 P 10,200 P 22,500

**\*new profit and loss ratio (G, 45%; H, 30%, and J, 25%)**

The two methods will yield the same results computed as follows;

Capital\_\_\_\_\_\_\_\_\_\_

G H J\_\_

Balances after admission of J (Bonus approach) P 21,840 P10,560 P 21,600

Balances after admission of J (Revaluation approach) 21,300 10,200 22,500

Gain or (loss) through use of bonus approach P 540 P 360 P( 900)

**n.2: Revaluation (Goodwill) or Bonus to Old Partners**.

**n.2.1: Bonus Approach.**

The total contributed capital (TCC) is equal to the total agreed capital (TAC), so no revaluation (goodwill) should be recognized as follows:

Total agreed capital (should equal to TCC,

since it is a bonus method)……………………………………P 54,000

Less: Total contributed capital (P24,000 + P12,000 + P18,000).. 54,000

Difference……………………………..…………………..…………….P -0-

The new partner’s contributed capital is greater than the agreed capital, the difference is attributable to bonus to old partners:

J’s contributed capital (given).……………………………………..P 18,000

J’s agreed capital: (P54,000 x 30%)………………………………… 16,200

Difference (bonus to old partners)..…………………………………P 1,800

The entry to record the transaction in the books follows:

*Cash………………………………………………………………..18,000*

*J, capital ……………..…………………………………. 16,200*

*G, capital (P1,800 x 60%)…………………………….. 1,080*

*H, capital (P1,800 x 40%)……………………………… 720*

**n.2.2: Revaluation (Goodwill) Approach.**

The total contributed capital (TCC) is greater than the total agreed capital (TAC), so revaluation (goodwill) should be recognized as follows:

Total agreed capital: P18,000 / 30%...............…………………...P 60,000

Less: Total contributed capital (P24,000 + P12,000 + P18,000).. 54,000

Difference (revaluation/goodwill).…………………..…………….P 6,000

The new partner’s contributed capital is equal to the agreed capital, the difference of P6,000 in (a) is attributable to revaluation (goodwill) to old partners:

J’s contributed capital (given).…………………………………….P 18,000

J’s agreed capital: (P60,000 x 30%)……………………………….. 18,000

Difference………………………………………………....…………… P -0-

The entry to record the transaction in the books follows:

*Cash………………………………………………………………..18,000*

*Assets (goodwill)………………………………………………… 6,000*

*J, capital ……………..…………………………………. 18,000*

*G, capital (P6,000 x 60%)…………………………….. 3,600*

*H, capital (P6,000 x 40%)……………………………… 2,400*

**The following items should be observed:**

1. **The New Profit and Loss Ratio**. The capital interest of J is 30%, while his profit and loss is 40%, so the new profit and loss interest of the new partnership is computed as follows:

\_\_\_\_G H \_ J\_\_\_\_

Capital interest %.............. 30

P & L %: G (60% x 60%)…… 36

H (40% x 60%)…… 24

J ……..…………… 40

2. **The Capital Balances of the New Partners**. After admission of partner J, the capital balances of the new partners are computed as follows:

Bonus Approach (total agreed capital)

* refer to Alternative 1 above:

G, capital (P24,000 + P1,080)…..…………………………… P 25,080

H, capital (P12,000 + P720)………………………………… . 12,600

J, capital…………………………………………………........ 16,200

Total……………………………………………………………. P 54,000

Revaluation (goodwill) Approach (total agreed capital)

* refer to Alternative 2 above:

G, capital (P24,000 + P3,600)……………………………...P 27,600

H, capital (P12,000 + P2,400)………………………………. 14,400

J, capital (P60,000 x 30%)………………………………….. 18,000

Total…………………………………………………………….P 60,000

**Schedule of Account Balances**

Net Goodwill/Asset Capital\_\_\_\_\_\_\_\_\_\_

Assets Revaluation = G H J\_\_\_

Bonus Approach

Balances after admission

of J P 54,000 P -0- P 25,080 P 12,720 P 16,200

Revaluation Approach

Balances after admission

of J P 54,000 P 6,000 P 27,600 P 14,400 P 18,000

Depreciation/impairment\* ( 6,000) ( 2,160) ( 1,440) ( 2,400)

Totals P 54,000 P -0- P 25,440 P 12,960 P 15,600

**\*new profit and loss ratio (G, 36%; H, 24%, and J, 40%)**

The two methods will yield the same results computed as follows;

Capital\_\_\_\_\_\_\_\_\_\_

G H J\_\_

Balances after admission of J (Bonus approach) P 25,080 P 12,720 P 16,200

Balances after admission of J (Revaluation approach) 25,440 12,960 15,600

Gain or (loss) through use of bonus approach P( 360) P( 240) P 600

**Problem IV**

1. Phoenix, Capital 22,500

Dallas, Capital 22,500

2. Phoenix, Capital 18,000

Tucson, Capital 10,000

Dallas, Capital 28,000

3. Cash 60,000

Phoenix, Capital (P60,000 - P40,000) × .50 10,000

Tucson, Capital 10,000

Dallas, Capital 40,000

(P90,000 + P50,000) + P60,000 = P200,000; Therefore, no goodwill is to be recognized.

Dallas, capital = P200,000 × 0.20 = P40,000

4. Goodwill 20,000

Phoenix, Capital 10,000

Tucson, Capital 10,000

P40,000/0.20 = P200,000

Goodwill = P200,000 - (P90,000 + P50,000 + P40,000) = P20,000

Cash 40,000

Dallas, Capital 40,000

**Problem V**

1. Book value of interest acquired = (P180,000 + P90,000) × 1/3 = P90,000

Bonus Method

Cash 90,000

Moore, Capital 90,000

2. Book value of interest acquired = (P180,000 + P120,000) × 0.45 = P135,000

Book value of interest is greater than assets invested.

Bonus Method

Cash 120,000

Brown, Capital (0.60 × P15,000) 9,000

Coss, Capital (0.40 × P15,000) 6,000

Moore, Capital 135,000

The goodwill method is not applicable because the partners agreed to total capital interest of P300,000.

3. Book value of interest acquired (P180,000 + P120,000) ×  = P100,000

Bonus method cannot be used because Moore will not accept less than P120,000 capital interest.

Goodwill Method

Total capital implied from contract [P120,000/(1/3)] P360,000

Minus current capital balance + Moore's investment (P180,000 + P120,000) 300,000

Goodwill P60,000

Goodwill 60,000

Brown, Capital (0.60 × P60,000) 36,000

Coss, Capital (0.40 × P60,000) 24,000

Cash 120,000

Moore, Capital 120,000

4. Book value of interest acquired (P180,000 + P40,000) × ¼ = P55,000

Book value of interest acquired is greater than assets invested.

Bonus Method

Cash 40,000

Brown, Capital (0.60 × P15,000) 9,000

Coss, Capital (0.40 × P15,000) 6,000

Moore, Capital 55,000

5. Book value of interest acquired (P180,000 + P35,000) × 0.20 = P43,000

Book value of interest acquired is greater than the asset invested.

Goodwill Method

Total capital P225,000

Minus recorded value of net assets + Moore's investment (P180,000 + P35,000) 215,000

Goodwill P10,000

Cash 35,000

Goodwill 10,000

Moore, Capital 45,000

6. Book value of interest acquired (P180,000 + P150,000) × (1/3) = P110,000

Book value of interest acquired is less than asset invested.

Bonus Method

Land 150,000

Brown, Capital (0.60 × P40,000) 24,000

Coss, Capital (0.40 × P40,000) 16,000

Moore, Capital 110,000

Goodwill Method

Net value of firm implied by contract [P150,000/(1/3)] P450,000

Minus current capital + Moore's investment (P180,000 + P150,000) 330,000

Goodwill P120,000

Goodwill 120,000

Brown, Capital (0.60 × P120,000) 72,000

Coss, Capital (0.40 × P120,000) 48,000

Land 150,000

Moore, Capital 150,000

7. Bonus Method

Brown, Capital (0.30 × P92,000) 27,600

Coss, Capital (0.30 × P88,000) 26,400

Moore, Capital 54,000

**Problems- VI**

1. (a) Goodwill method:

Cash………………………………………………………… 5,000

Goodwill…………………………………………………… 4,200

Mason, Capital………………………………………… 2,520

Norris, Capital………………………………………….. 1,680

Oster, Capital………………………………………….. 5,000

Computation of goodwill:

Total capital after adjustment for goodwill,

P5,000 / .25…………………………………………….. P20,000

Total capital before adjustment for goodwill.….. 15,800

Goodwill allowed old partners……………………..P 4,200

Distribution of goodwill:

Mason: 3/5 of P4,200…………………………………P 2,250

Norris: 2/5 of P4,200…………………………………….. 1,680

P 4,200

(b)Bonus method:

Cash………………………………………………………… 5,000

Mason, Capital………………………………………… 630

Norris, Capital………………………………………….. 420

Oster, Capital………………………………………….. 3,950

Computation of bonus:

Amount invested by Oster………………………….. P 5,000

Oster’s interest, 25% of P 15,800………………..….... 3,950

Bonus allowed old partners………………………… P 1,050

Distribution of bonus:

Mason: 3/5 of P1,050…………………………………. P 630

Norris: 2/5 of P1,050……………………………….…… 420

P 1,050

(c) The bonus method will be preferred by Oster, who will gain P350. Norris will gain P140,

while Mason will lose P490.

COMPARISON WHEN GOODWILL IS FOUND TO EXIST

Good- Other Mason Norris Oster

will\_\_ Assets Capital Capital Capital

When goodwill method is used….. P4,200 P15,800 P8,520 P6,480 P5,500

When bonus method is used……… P15,800 P6,630 P5,220 P3,950

Add recognition of goodwill

(gain distributed in profit and loss

ratio, equally)………………………. P4,200 1,400 1,400 1,400

P4,200 P15,800 P8,030 P6,620 P5,350

Gain (loss) through use of

bonus method………………………. (P 490) P 140 P350

COMPARISON WHEN GOODWILL IS NOT REALIZED

Good- Other Mason Norris Oster

will\_\_ Assets Capital Capital Capital

When bonus method is used……… P15,800 P6,630 P5,220 P3,950

When goodwill method is used….. P4,200 P15,800 P8,520 P6,480 P5,500 Deduct write-off of goodwill

(loss distributable equally)………… P4,200 1,400 1,400 1,400

P15,800 P7,120 P5,080 P3,600

Gain (loss) through use of

bonus method………………………. (P 490) P 140 P350

2. (a) Goodwill method:

Cash………………………………………………………… 5,000

Goodwill…………………………………………………… 2,200

Oster, Capital………………………………………….. 7,200

Computation of goodwill:

Total capital after adjustment for goodwill,

P10,800 / .60……………………………………………...P18,000

Total capital before adjustment for goodwill….. . 15,800

Goodwill allowed to Oster………………………….. P 2,200

(b)Bonus method:

Cash………………………………………………………… 5,000

Mason, Capital…………………………………………… 792

Norris, Capital…………………………………………….. 528

Oster, Capital………………………………………….. 6,320

Computation of bonus:

Oster’s interest, 40% of P 15,800………………..….... 6,320

Amount invested by Oster………………………….. P 5,000

Bonus allowed to Oster……………………………… P 1,320

Charge to partners for bonus allowed to Oster:

Mason: 3/5 of P1,320…………………………………. P 792

Norris: 2/5 of P1,320……………………………………. 528

P 1,320

(c) The goodwill method will be preferred by Oster, who will gain P146.66. Norris’ loss is

P205.33, and Mason’s gain is P58.67.

COMPARISON WHEN GOODWILL IS FOUND TO EXIST

Good- Other Mason Norris Oster

will\_\_ Assets Capital Capital Capital

When goodwill method is used….. P2,200 P15,800 P6,000 P4,800 P7,200

When bonus method is used……… P15,800 P5,208 P4,272 P6,320

Add recognition of goodwill

(gain distributed in profit and loss

ratio, equally)………………………. P2,200 733.33 733.33 733.34

P2,200 P15,800 P5,941.33 P5,005.33 P7,053.34

Gain (loss) through use of

bonus method………………………. (P 58.67) P 205.33 (P146.66)

COMPARISON WHEN GOODWILL IS NOT REALIZED

Good- Other Mason Norris Oster

will\_\_ Assets Capital Capital Capital

When bonus method is used……… P15,800 P5,208 P4,272 P3,950

When goodwill method is used….. P2,200 P15,800 P6,000 P4800 P7,200 Deduct write-off of goodwill

(loss distributable equally)………… P2,200 733.33 733.33 733.34

P15,800 P5,266.67 P4,066.67 P6,466.66

Gain (loss) through use of

bonus method………………………. (P58.67) P205.33 (P146.66)

**Problem VII**

1. The total interest of the retiring partner K amounted to:

Capital interest………………………………………………….P 36,000

Add (deduct):

Share in net income…………………………………….. 7,200

Loan receivable………………………………………….( 6,000)

Total Interest of K before his retirement..............................P 37,200

2.

a. Payment at Book Value (Settlement price is equal to the interest of retiring partner).

The entry to record the transaction in the books follows:

*K, capital…………………………………………………………. 37,200*

*Cash………………………….………………………….. 37,200*

b. Payment at More than Book Value ((Settlement price is greater than the interest of retiring partner).

b.1. **Bonus to Retiring Partner**. The excess is considered bonus chargeable to L and M.

The entry to record the transaction in the books follows:

*K, capital…………………………………………………………. 37,200*

*L, capital (P4,800 x 5/7)……………………………………….. 3,429*

*M, capital (P4,800 x 2/7)………………………………………. 1,371*

*Cash………………………….………………………….. 42,000*

Amount paid………………………..………………………….. P 42,000

Less: BV of K’s total interest (30%).……..……........................ 37,200

Bonus to Retiring Partner……………………………………… P 4,800

**The following items should be observed:**

1. It should be observed that under bonus approach, undervaluation of net assets should not be recorded for this will be in contradiction of current accounting standards.

2. The capital balances of the partners after the retirement of K are as follows:

L, capital (P48,000 + P12,000, profit – P3,429, bonus)………………P56,571

M, capital (P18,000 + P4,800 profit – P1,371, bonus)……………….. 21,429

Assuming the same data, ***except that by mutual agreement*** the inventory is to be adjusted to their fair value. Then, the undervalued asset should be recorded first before the settlement.

The entries to record the transaction in the books follows:

*Inventory………………………………………………………… 4,800*

*K, capital (P4,800 x 30%)……………………………. 1,440*

*L, capital (P4,800 x 50%)…………………………….. 2,400*

*M, capital (P4,800 x 20%)…………………………… 960*

*K, capital………………………………………………………….38,640*

*L, capital (P3,360 x 5/7)……………………………………….. 2,400*

*M, capital (P3,360 x 2/7)……………………………………… 960*

*Cash………………………….…………………………... 42,000*

Amount paid………………………..…………………………... P 42,000

Less: BV of K’s total interest (30%) - (P37,200 + P1,440)...... 38,640

Bonus to Retiring Partner……………………………………..… P 3,360

**b.2: Partial Revaluation (Goodwill) to Retiring Partner**.

The entries to record the transaction in the books follows:

*Inventory………………………………………………………… 4,800*

*K, capital (P4,800 x 30%)…………………………….. 1,440*

*L, capital (P4,800 x 50%)…………………………….. 2,400*

*M, capital (P4,800 x 20%)……………………………. 960*

*K, capital…………………………………………………………. 38,640*

*Assets (Goodwill)……………………………………………….. 3,360*

*Cash………………………….………………………….. 42,000*

Amount paid………………………..…………………………........ P 42,000

Less: BV of K’s total interest (30%) - P37,200 + P1,440............... 38,640

Partial revaluation (goodwill) to Retiring Partner………......… P 3,360

**The following items should be observed:**

1. Some argue that, in accordance with the cost basis, only the revaluation (goodwill) of P3,360 that has been purchased should be recorded.

2. The situation at bar is the same situation in admission by investment Case 9, that recognition of understatement of assets is in compliance with GAAP under the revaluation (goodwill) approach.

3. The capital balances of the partners after the retirement of K are as follows:

L, capital (P48,000 + P12,000, profit + P2,400, adjustment).………P62,400

M, capital (P18,000 + P4,800, profit + P960 adjustment)…….…… 23,760

A ***modified version*** of this ***partial revaluation (goodwill) approach*** happens assuming that when ***assets and liabilities are revalued only to the extent of the excess payment*** to K, the entry to record the transaction is as follows:

*K, capital…………………………………………………………. 37,200*

*Assets ……………)………………………………………………. 4,800*

*Cash………………………….………………………….. 42,000*

Amount paid………………………..………………………….......... P 42,000

Less: BV of K’s total interest (30%)……………………................... 37,200

Partial revaluation (goodwill) to Retiring Partner……….......… .P 4,800

**b.3: Total Revaluation (Goodwill) to Retiring Partner**.

The entries to record the transaction in the books follows:

*Inventory………………………………………………………… 4,800*

*K, capital (P4,800 x 30%)…………………………….. 1,440*

*L, capital (P4,800 x 50%)…………………………….. 2,400*

*M, capital (P4,800 x 20%)……………………………. 960*

The excess is considered as revaluation (goodwill) to be recognized.

*Assets (Goodwill)……………………………………………….. 11,200*

*K, capital (P11,200 x 30%)…………………………….. 3,360*

*L, capital (P11,200 x 50%)…………………………….. 5,600*

*M, capital (P11,200 x 20%)……………………………. 2,240*

Amount paid………………………..………………………….. P 42,000

Less: BV of K’s total interest (30%) - P31,000 + P1,200......... 36,640

Partial revaluation (goodwill) to Retiring Partner………… P 3,360\*

Divided by (capitalized at): Profit and loss % of K................. 30%

Total Revaluation (goodwill)…………………………………. P 11,200

**\*The P3,360 represents K’s 30% interest in revaluation (goodwill) of P11,200. Notice that the P3,360 represents K’s interest in the gain, which would be realized if the revaluation (goodwill) were sold. Therefore, K’s percentage is used to suggest the total value of the revaluation (goodwill).**

*K, capital (P 38,640 + P3,360)…………………………………. 42,000*

*Cash………………………….………………………….. 42,000*

**The following items should be observed:**

1. Whether part or all of the goodwill is recognized, opponents of this procedure contend that transactions between partners should not be viewed as arm’s length; therefore, the measure of revaluation (goodwill) may not be determined objectively. Also, inequitable results may be produced if the remaining partners subsequently changed their profit and loss ratio.

2. The capital balances of the partners after the retirement of K are as follows:

L, capital (P48,000 + P12,000, profit + P2,400, adjustment + P5,600).P68,000

M, capital (P18,000 + P4,400, profit + P960 adjustment + P2,240)….. 26,000

For purposes of comparison, let us ***assume that there is no undervalued inventory amounting to P4,800*** in Case 2 above. Refer to the following schedule for comparison.

**Schedule of Account Balances**

Goodwill/Asset Capital\_\_\_\_\_\_\_\_\_\_

Revaluation L M\_\_\_\_\_

Bonus Approach

Balances after retirement of K P -0- P 56,571 P 21,429

Partial Revaluation (Goodwill) Approach

Balances after retirement of K\* P 4,800\*\* P 60,000 P 22,800

Depreciation/impairment\*\*\* ( 4,800) ( 3,429) ( 1,371)

Totals P -0- P 58,971 P 21,429

\*excluding undervalued inventory of P2,400 and P960 for L and M, respectively.

\*\* P42,000 – P37,200 = P4,800, partial revaluation

\*\*\* old profit and loss ratio (L, 5/7 and M, 2/7)

Total Revaluation (Goodwill) Approach

Balances after retirement of K\* P 16,000\*\* P 68,000 P 26,000

Depreciation/impairment\*\*\* ( 16,000) ( 11,429) ( 4,571)

Totals P -0- P 56,571 P 21,429

\*excluding undervalued inventory of P2,400 and P960 for L and M, respectively.

\*\* P42,000 – P37,200 = P4,800, partial revaluation / 30% = P16,000.

L, capital: (P48,000 + P12,000) + (P16,000 x 50%) = P68,000

M, capital: (P18,000 + P4,800) + (P16,000 x 20%) = P 26,000

\*\*\* old profit and loss ratio (L, 5/7 and M, 2/7)

The three methods will yield the same results computed as follows;

Total\_\_\_\_\_\_\_

L M\_\_

Balances after retirement of K (Bonus approach) P 56,571 P 21,249

Balances after retirement of K (Partial Revaluation approach) P 56,571 P 21,249

Balances after retirement of K (Total Revaluation approach) P 56,571 P 21,249

**c: Payment at Less than Book Value ((Settlement price is less than the interest of retiring partner)**.

**c.1. Bonus to Remaining Partners**. The excess is considered bonus chargeable to L and M.

The entry to record the transaction in the books follows:

*K, capital…………………………………………………………. 37,200*

*Cash………………………….………………………….. 31,200*

*L, capital (P6,000 x 5/7)………………………………. 4,286*

*M, capital (P6,000 x 2/7)……………………………… 1,714*

Amount paid………………………..…………………………… P 31,200

Less: BV of K’s total interest (30%).……..……........................ 37,200

Bonus to Remaining Partners…………………………………. P 6,000

The capital balances of the partners after the retirement of K are as follows:

L, capital (P48,000 + P12,000, profit + P4,286, bonus)……………..P64,286

M, capital (P18,000 + P4,800 profit + P1,714, bonus)……………….. 24,514

**c.2: Partial Revaluation/Write-down of Specific Assets (Share of Retiring Partner)**.

The entry to record the transaction in the books follows:

*K, capital…………………………………………………………. 37,200*

*Specific Asset…..……………………………………… 6,000*

*Cash………………………….………………………….. 31,200*

Amount paid………………………..…………………………… P 31,200

Less: BV of K’s total interest (30%)………………………......... 37,200

Partial revaluation/write-down of specific assets……..… P 6,000

The capital balances of the partners after the retirement of K are as follows:

L, capital (P48,000 + P12,000, profit)………………………….………P60,000

M, capital (P18,000 + P4,800, profit)…………………………….…… 22,800

**c.3: Total Revaluation/Write-down of Assets (Entire Entity)**.

The entries to record the transaction in the books follows:

*K, capital (P20,000 x 30%)…………………………………...... 6,000*

*L, capital (P20,000 x 50%)………………………………………10,000*

*M, capital (P20,000 x 20%)……………………………………. 4,000*

*Assets……………………………………………………..... 20,000*

To record write-down of assets computed as follows:

Amount paid………………………..…………………………….P 31,200

Less: BV of K’s total interest (30%)……………………….......... 37,200

Partial revaluation/write-down of asset……………………..P 6,000\*

Divided by (capitalized at): Profit and loss % of K................ 30%

Total Revaluation/Write-down of assets….………………….P 20,000

\*The P6,000 represents K’s 30% interest in write-down of assets of P20,000. Notice that the P6,000 represents K’s interest in the loss.

*K, capital (P 37,200 - P6,000)………………………………. 31,200*

*Cash………………………….………………………... 31,200*

The capital balances of the partners after the retirement of K are as follows:

L, capital (P48,000 + P12,000, profit – P10,000)…………………………...P50,000

M, capital (P18,000 + P4,800, profit - P4,000)………………………...….. 18,800

*Assets (Goodwill)……………………………………………….. 11,200*

*K, capital (P11,200 x 30%)…………………………….. 3,360*

*L, capital (P11,200 x 50%)…………………………….. 5,600*

*M, capital (P11,200 x 20%)……………………………. 2,240*

To record total revaluation (goodwill) computed as follows:

Amount paid………………………..………………………….. P 42,000

Less: BV of K’s total interest (30%) - P31,000 + P1,200......... 38,640

Partial revaluation (goodwill) to Retiring Partner………… P 3,360\*

Divided by (capitalized at): Profit and loss % of K................ 30%

Total Revaluation ……………………………………………….. 11,200

**Problem VIII**

1. Grey, Capital P200,000 + (P30,000 × 2/6) 210,000

Portney, Capital (P20,000 × 3/4) 15,000

Ross, Capital (P20,000 × 1/4) 5,000

Cash 230,000

2. Goodwill (P20,000 ÷ 2/6) 60,000

Portney, Capital 30,000

Grey, Capital 20,000

Ross, Capital 10,000

Grey, Capital 230,000

Cash 230,000

**Problem IX**

1. (a) C, Capital 105,000

A, Capital 21,000

B, Capital 14,000

Cash 140,000

(b) Goodwill 35,000

C, Capital 35,000

C, Capital 140,000

Cash 140,000

(c) 0.5X = P35,000

X = P70,000

Goodwill 70,000

A, Capital 21,000

B, Capital 14,000

C, Capital 35,000

C, Capital 140,000

Cash 140,000

2. The bonus method is more objective. That is, the bonus method does not require the allocation of a subjective value to goodwill. Since this is not an arm’s length transaction, there is no objective basis to revalue the firm as a whole.

**Problem X**

(1) Since a debit was made to Agler’s capital account, a bonus was paid to the retiring partner of P80,000 (5/8 goodwill = P50,000), resulting in a total payment to Colter of P230,000. The entry would be:

Agler, Capital 50,000

Bates, Capital 30,000

Colter, Capital 150,000

Cash 230,000

(2) Under the partial goodwill approach, only the goodwill attributed to the retiring partner is recorded. Thus, the payment to Colter was P210,000 (P150,000 + P60,000).

Under the total Goodwill, since P66,000 was credited, total goodwill of P220,000 (P66,000/0.3) is recorded. Colter is allocated P44,000 (P220,000 × 0.20). Thus, the payment to Colter was P194,000 (P150,000 + P44,000).

**Problem XI**

**1. Partnership Books Retained**

|  |  |  |
| --- | --- | --- |
| *Entries in the Books of the New Corporation using the Partnership Books:* | | |
| Inventories (P36,000 – P 30,600) . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . | 5,400 |  |
| Equipment (P84,000 – P72,000) . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . | 12,000 |  |
| Goodwill . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . | 12,000 |  |
| Allowance for Doubtful Accounts (P1,200 – P720) . . . . . . . . . . . . |  | 480 |
| Accumulated Depreciation of Equipment (P36,600 – P31,200). . |  | 5,400 |
| Accrued expenses . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . |  | 1,320 |
| AA, Capital (P22,200 x 0.80) . . . . . . . . . . . . . . . . . . . . . . . . . . . . |  | 17,760 |
| BB, Capital (P22,200 x 0.20) . . . . . . . . . . . . . . . . . . . . . . . . . . . . . |  | 4,440 |
| *To adjust assets and liabilities to agreed amounts and to divide net gain of P22,200 between partners in 4:1 ratio* |  |  |
|  |  |  |
| AA, Capital (P57,588 + P17,760) . . . . . . . . . . . . . . . . . . . . . . . . . . . . | 75,348 |  |
| BB, Capital (P19,212 + P4,440) . . . . . . . . . . . . . . . . . . . . . . . . . . . . . | 23,652 |  |
| Common stock (P10 par x 9,000 shares) . . . . . . . . . . . . . . . . . . . . |  | 90,000 |
| Paid-in capital in excess of par [(P11 – P10) x 9,000 shares] . . . . |  | 9,000 |
| *To record distribution of common stock of J & K Corporation to partners;*  *AA: (P57,588 + P17,760) / P11 per share = 6,850 shares*  *BB: (P19,212 + P4,440) / P11per share = 2,150 shares*  *Total shares................................................ 9,000 shares* |  |  |

**2. New Books Opened for the Corporation**

|  |  |  |
| --- | --- | --- |
| *Entries in the Books of the Partnership:* |  |  |
| Inventories (P36,000 – P 30,600) . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . | 5,400 |  |
| Equipment (P84,000 – P72,000) . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . | 12,000 |  |
| Goodwill . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . | 12,000 |  |
| Allowance for Doubtful Accounts (P1,200 – P720) . . . . . . . . . . . . |  | 480 |
| Accumulated Depreciation of Equipment (P36,600 – P31,200). . |  | 5,400 |
| Accrued expenses . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . |  | 1,320 |
| AA, Capital (P22,200 x 0.80) . . . . . . . . . . . . . . . . . . . . . . . . . . . . |  | 17,760 |
| BB, Capital (P22,200 x 0.20) . . . . . . . . . . . . . . . . . . . . . . . . . . . . . |  | 4,440 |
| *To adjust assets and liabilities to agreed amounts and to divide net gain of P22,200 between partners in 4:1 ratio* |  |  |
|  |  |  |
| Receivable from A&B Corporation (P76,800 + P22,200) . . . . . . . . . . | 99,000 |  |
| Accounts Payable . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . | 42,000 |  |
| Accrued expenses . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . | 1,320 |  |
| Allowance for Doubtful Accounts . . . . . . . . . . . . . . . . . . . . . . . . . . . . | 1,200 |  |
| Accumulated Depreciation of Equipment . . . . . . . . . . . . . . . . . . . . . | 36,600 |  |
| Cash . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . |  | 14,400 |
| Accounts Receivable . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . |  | 33,720 |
| Inventories . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . |  | 36,000 |
| Equipment . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . |  | 84,000 |
| Goodwill . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . |  | 12,000 |
| *To record transfer of assets and liabilities to A&B Corporation.* |  |  |
|  |  |  |
| Common Stock of A & B Corporation (9,000 shares x P11) . . . . . . . | 99,000 |  |
| Receivable from A & B Corporation . . . . . . . . . . . . . . . . . . . . . . . |  | 99,000 |
| *To record receipt of 9,000 shares of P10 par common stock valued at P11 a share in payment for net assets transferred to A & B Corporation.* |  |  |
|  |  |  |
| AA, Capital (P57,588 + P17,760) . . . . . . . . . . . . . . . . . . . . . . . . . . . . | 75,348 |  |
| BB, Capital (P19,212 + P4,440) . . . . . . . . . . . . . . . . . . . . . . . . . . . . . | 23,652 |  |
| Common Stock of J & K Corporation . . . . . . . . . . . . . . . . . . . . . . . |  | 99,000 |
| *To record distribution of common stock of J & K Corporation to partners;*  *AA: (P57,588 + P17,760) / P11 per share = 6,850 shares*  *BB: (P19,212 + P4,440) / P11per share = 2,150 shares*  *Total shares................................................ 9,000 shares* |  |  |

**In the Accounting Records of the Corporation:**

|  |  |  |
| --- | --- | --- |
| *Entries in the Books of the New Corporation:* |  |  |
| Cash . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . | 14,400 |  |
| Accounts Receivable . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . | 33,720 |  |
| Inventories . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . | 36,000 |  |
| Equipment (P84,000 - P36,600). . . . . . . . . . . . . . . . . . . . . . . . . . . . . . | 47,400 |  |
| Goodwill . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . | 12,000 |  |
| Allowance for Doubtful Accounts . . . . . . . . . . . . . . . . . . . . . . . . |  | 1,200 |
| Accounts Payable . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . |  | 42,000 |
| Accrued Expenses . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . |  | 1,320 |
| Payable to A & B Partnership . . . . . . . . . . . . . . . . . . . . . ............. |  | 99,000 |
| *To record acquisition of assets and liabilities from A&B Partnership.* |  |  |

|  |  |  |
| --- | --- | --- |
| Payable to A & B Partnership . . . . . . . . . . . . . . . . . . . . . . . . . | 99,000 |  |
| Common stock, P10 par (9,000 x P10) . . . . . . . . . . . . . . . . . . . . . |  | 90,000 |
| Paid-In Capital in Excess of Par . . . . . . . . . . . . . . . . . . . . . . . . . . |  | 9,000 |
| *To record issuance of 9,000 shares of common stock valued at P11 a share in payment for net assets of A&B Partnership.* |  |  |

**Problem XII**

Cash 8,700

Trade Accounts Receivable 13,250

Inventories 28,000

Equipment 35,000

Allowance for Doubtful Accounts 800

Notes Payable 10,000

Trade Accounts Payable 9,800

Payable to Sade and Tipp 64,350

To record acquisition of net assets from Sade & Tipp LLP.

Payable to Sade and Tipp 64,350

Common Stock, P1 par 10,000

Paid-in Capital Excess of Par 54,350

To record issuance of 10,000 shares of common stock to

Sade and Tipp.

**Problem XII**

1. Cash 20,000

Inventory 15,000

Equipment 67,000

Snow, Capital 102,000

Cash 50,000

Land 120,000

Mortgage Payable 40,000

Waite, Capital 130,000

2. Snow, Capital 7,680

Waite, Capital 16,320

Income Summary 24,000

Snow Waite Total

Net loss to be allocated

Interest on capital investment

P102,000 × 10% P10,200

P130,000 × 10% P13,000 P23,200

Salaries to partners 15,000 20,000    35,000

58,200

Allocation 40:60 (32,880)     (49,320)   (82,200)

Net loss allocated to partners P(7,680) P(16,320) P(24,000)

3. Cash 70,000

Snow, Capital (P13,400 × 40%) 5,360

Waite, Capital (P13,400 × 60%) 8,040

Young, Capital 83,400

Capital interest of Snow (P102,000 - P7,680) P94,320

Capital interest of Waite (P130,000 - P16,320) 113,680

Investment of Young   70,000

Total capital interest in new partnership 278,000

Percentage acquired by Young        30%

Capital interest of Young 83,400

Investment by Young   (70,000)

Bonus to Young P13,400

4. Income Summary 150,000

Snow, Capital (P150,000 × 20%) 30,000

Waite, Capital (P150,000 × 50%) 75,000

Young, Capital (P150,000 × 30%) 45,000

5. Snow, Capital\* 118,960

Waite, Capital (P18,960 × 50/80) 11,850

Young, Capital (P18,960 × 30/80) 7,110

Cash 40,000

Note Payable 60,000

\*P102,000 - P7,680 - P5,360 + P30,000 = P118,960

**Multiple Choice Problems**

1. c

***Note:*** A partnership is not dissolved when a partner assigns his or her interest in the partnership to a third party because such an assignment does not in itself change the relations among partners. Such assignment only entitles the assignee to receive the assigning interest partner’s interest in future partnership profits and in partnership assets in the event of liquidation. The assignee does not become a partner, however, and does not obtain the right to share in management of the partnership. If the assignee does not become a partner, the only change required on the partnership books is for transfer of the capital interest of the assignor partner to the assignee. The assignment by A to D of his 50% interest in the BIG Entertainment Company is recorded are follows:

A, Capital (P168,000 x 1/4)................................................................. 42,000

D, Capital................................................................................ 42,000

The amount of the capital transfer is equal to the recorded amount of A’s capital at the time of the assignment, and it is independent of the consideration received by A for his 1/4 interest. If the recorded amount of A’s is P42,000, then the amount of the transfer entry is P42,000, regardless of whether D pay A P42,000 or some amount. Therefore, the capital of the partnership after the assignment of interest remains the same at P480,000.

2. c

Amount paid……………………………………………………………………………….P 200,000

Less: Book value of interest acquired: (P100,000 + P200,000 + P300,000) x 25%.. 150,000

Excess – partial goodwill…………………………………………………………………P 50,000

Divided by: capitalization rate based on interest acquired…………………....... 25%

Goodwill or revaluation of asset upward…………………………………………….P 200,000

Jethro: [P200,000 + (P200,000 x 30%)] x 75% = P195,000

3. b

Amount paid P40,000

Less: Book value of interest acquired:

(P140,000 x ¼) 35,000

Excess P 5,000

Capitalized at: P&L of W 1/4

Goodwill/revaluation P20,000

E: [P80,000 + (P20,000 x 60%)] x 3/4 = P69,000

G: [P40,000 + (P20,000 x 30%)] x 3/4 = P34,500

D: [P20,000 + (P20,000 x 10%)] x 3/4 = P16,500

4. a

Amount paid………………………………………………………………………………P 60,000

Less: Book value of interest acquired: P120,000 x 40%…………………................. 48,000

Difference…………..……………………………………………………………………....P 12,000

Divided by: Capital Interest…………………………………………………………....... 40%

Goodwill…………………………………………………………………………………….P 30,000

LL: P50,000 + (P30,000 x ½) = P65,000 – (P60,000 x ½) = P35,000

QQ: P70,000 + (P30,000 x ½) = P85,000 – (P60,000 x ½) = P55,000

DD: Since there is an adjustment, the capital of the new partner will always be the same with the amount paid, P60,000.

5. d - The amount that Richard will pay Ray depends on many factors and cannot be determined from the information provided here.

6. b

Amount paid P132,000

Less: Book value of interest acquired

(P444,000 x 1/5) 88,800

Gain- personal (to N, S & J) P 43,200

7. c

Total agreed capital\* (P74,000 + P130,000 + P96,000)/80% ............ P 375,000

Less: Total contributed capital \*...............…………………………...... 375,000

Difference .......................................………………..…………………..........P 0

\*since no goodwill or revaluation is allowed total agreed capital is the same with total contributed capital.

The contributed capital or investment of the new partner will be computed based on total agreed capital.

Total contributed capital………………………………………….. . P 375,000

Less: Total contributed capital of old partners............................ 300,000

Investment or contribution of new partner.................................... P 75,000

or,

Total contributed capital………………………………………….. . P 375,000

Multiplied by: Capital interest of Jones (new partner)………... 20%

Investment or contribution of new partner.................................. P 75,000

8. b

Total Agreed Capital P180,000

Multiplied by: Interest acquired by K 1/3

Agreed capital of K P 60,000

Cash investment by K 50,000

Bonus to K P 10,000

Therefore, E= P70,000 – (P10,000 x 70%) = P63,000

D= P60,000 – (P10,000 x 30%) = P57,000

J= P50,000

9. b - Total capital is P200,000 (P110,000 + P40,000 + P50,000) after the new investment. As Kansas's portion is to be 30 percent, the capital balance would be P60,000 (P200,000 × 30%). Since only P50,000 was paid, a bonus of P10,000 must be taken from the two original partners based on their profit and loss ratio: Bolcar –P7,000 (70%) and Neary – P3,000 (30%). The reduction drops Neary's capital balance from P40,000 to P37,000.

10. d

|  |  |  |  |
| --- | --- | --- | --- |
|  | Total of old partners' capital |  | P 80,000 |
|  | Investment by new partner |  | 15,000 |
|  | Total of new partnership capital |  | P 95,000 |
|  | Capital amount credited to Johnson |  |  |
|  | (P95,000 x .20) |  | P 19,000 |

11. b

|  |  |  |
| --- | --- | --- |
|  | LL invests P40,000 and total capital specified as P150,000: | |
|  | Investment in partnership | P   40,000 |
|  | New partner's proportionate book value |  |
|  | [(P110,000 + P40,000) x 1/3] | (50,000) |
|  | Difference (investment < book value) | P  (10,000) |
|  |  |  |
|  | Method: Bonus or goodwill to new partner |  |
|  |  |  |
|  | Specified total resulting capital | P 150,000 |
|  | Total net assets not including goodwill |  |
|  | (P110,000 + P40,000) | (150,000) |
|  | Estimated goodwill | P      -0- |
|  |  |  |
|  | Therefore, bonus of P10,000 to new partner |  |
|  | Boris' capital = P54,000 = P60,000 - (P10,000 x 6/10) | |

12. a – “***preferable accounting method” refers to bonus method***

Total agreed capital = Total contributed capital (under the bonus method)

(P70,000 + P30,000 + P40,000).......................................................................... P 140,000

Multiplied by: interest acquired by new partner.............................................. 20%

Capital of new partner Chapman...................................................................... P 28,000

Less: Investment by Chapman.............................................................................. 40,000

Bonus to old partners to be allocated equally to old partners –

Adams and Bye........................................................................................... P 12,000

13. c - [P120,000 - (P170,000 + P260,000 + P120,000)(.25)]

14. c

|  |  |  |
| --- | --- | --- |
|  | Scott invests P36,000 for a 1/5 interest: |  |
|  | Investment in partnership | P   36,000 |
|  | New partner's proportionate book value |  |
|  | [(P120,000 + P36,000) x .20] | (31,200) |
|  | Difference (investment > book value) | P  4,800 |
|  |  |  |
|  | Method: Goodwill to prior partners |  |
|  | 1/5 estimated total resulting capital | P   36,000 |
|  | Estimated total resulting capital |  |
|  | (P36,000 / .20) | P 180,000 |
|  | Estimated total resulting capital | P 180,000 |
|  | Total net assets not including goodwill |  |
|  | (P120,000 + P36,000) | (156,000) |
|  | Estimated goodwill/adjustment to prior partners | P   24,000 |
|  | ***(Use the same procedure in Nos. 9 and 10)*** |  |

15. b - Total capital is P270,000 (P120,000 + P90,000 + P60,000) after the new investment. However, the implied value of the business based on the new investment is P300,000 (P60,000/20%). Thus, goodwill of P30,000 must be recognized with the offsetting allocation to the original partners based on their profit and loss ratio: Bishop – P18,000 (60%) and Cotton P12,000 (40%). The increase raises Cotton's capital from P90,000 to P102,000.

16. c

Total agreed capital\* P120,000 /60% ............................................. P300,000

Multiplied by: Capital interest of Jones (new partner)………...... 60%

Agreed capital of R.............................................................................P 180,000

Note: The investment of D is used as the basis to determine total agreed capital, otherwise using the capital balance of D will lead to a “negative” goodwill or revaluation downward.

17. c

Total agreed capital\* (P250,000/20%)....................................... P 1,250,000

Less: Total contributed capital of R and S:

(P500,000 + P400,000 + P40,000) + P250,000................. 1,190,000

Goodwill or revaluation to old partners................................... P 60,000

Riley: P500,000 + (P40,000 x 60%) + (P60,000 x 60%) = P560,000

or,

|  |  |  |  |
| --- | --- | --- | --- |
|  | Contributed  Capital | Agreed  Capital | Goodwill |
| Riley [P500,000 + (P40,000 x 60%)] | P 524,000 | ***P 560,000*** | P 36,000 60% |
| Smith [P400,000 + (P40,000 x 40%)] | 416,000 |  | 24,000 40% |
|  | P 940,000 | P1,000,000 | P 60,000 |
| Tyler | 250,000 | 250,000 / 20% | -0- |
| Total | P 1,190,000 | P1,250,000 100% | P 60,000 |

18. c

Total agreed capital\* ................................................................. P 260,000

Less: Total contributed capital of L, M, and N

(P120,000 + P70,000 – P30,000 + P60,000) + P40,000.... 260,000

Difference..................................................................................... P 0

Total agreed capital P 260,000

Multiplied by: Interest acquired 20%

Capital credited to Ole P 52,000

or,

|  |  |  |  |
| --- | --- | --- | --- |
|  | Contributed  Capital | Agreed  Capital |  |
| Old Partners: (P120,000+P70,00  - P30,000 + P60,000) | P 220,000 |  |  |
| New Partner: Ole | \_\_40,000 | **P 52,000** 20%\* |  |
|  | P 260,000 | P 260,000 | P -0- |

\* P52,000 is derived from multiplying P260,000 by 20%.

***Notes:***

*1. The partners agreed that assets should revalued using fair value.*

*2. Since problem is silent, bonus method is used.*

19. a - Admission by purchase. The implied value of the company is P900,000 (P270,000/30%). Since the money is going to the partners rather than into the business, the capital total is P490,000 before realigning the balances. Hence, goodwill of P410,000 must be recognized based on the implied value (P900,000 – P490,000). This goodwill is assumed to represent unrealized business gains and is attributed to the original partners according to their profit and loss ratio. They will then each convey 30 percent ownership of the P900,000 partnership to Darrow for a capital balance of P270,000.

Formal presentation:

Amount paid ………………………….………….. P 270,000 / 30% P900,000 (100%)

Less: BV of interest acquired –

(P220,000 + P160,000 + P110,000) x 30%….... 147,000 490,000 (100%)

Excess……………………………………………….. P123,000

Divided by: Interest acquired………………….. 20%

Goodwill or revaluation of Asset …………….. P410,000 P410,000 (100%)

The entry would be as follows;

Goodwill/Asset 410,000

Williams (40%) 164,000 Jennings (40%) 164,000 Bryan (20%) 82,000

Williams [P220,000 + (P410,000 x 40%)] x 30% 115,200

Jennings [P160,000 + (P410,000 x 40%)] x 30% 97,200

Bryan [P110,000 + (P410,000 x 20%)] x 30% 57,600

Darrow 270,000

20. d - Admission by investment. Since the money goes into the business, total capital becomes P740,000 (P490,000 + P250,000). Darrow is allotted 30 percent of this total or P222,000. Because Darrow invested P250,000, the extra P28,000 is assumed to be a bonus to the original partners. Jennings will be assigned 40 percent of this extra amount or P11,200. This bonus increases Jennings’ capital from P160,000 to P171,200.

Formal presentation:

Total agreed capital\* (same with total contributed capital)…... P 740,000

Less: Total contributed capital (P220,000 + P160,000 +

P110,000 + P250,000)..............…………………………....... 740,000

Difference .......................................………………..…………………...... ..P 0

\*since no goodwill or revaluation is allowed total agreed is the same with total contributed capital.

The new partner’s contributed capital is equal to the agreed capital, the difference of P3,600 in (a) is attributable to revaluation (goodwill) to old partners:

Darrow’s contributed capital………………………………………… P 250,000

Darrow’s agreed capital: (P740,000 x 30%)……………………... .... 222,000

Bonus to old partners ........................……………………………….....P 28,000

Jennings: [P160,000 + (P28,000 x 40%)] = P171,200

or, alternatively

|  |  |  |  |
| --- | --- | --- | --- |
|  | Contributed Capital (CC) | Agreed Capital (AC) |  |
| W | 220,000 |  | 11,200 40% |
| J | 160,000 | 171,200 | 11,200 40% |
| B | 110,000 | \_\_\_\_\_\_\_ | 5,600 20% |
|  | 490,000 | 518,000 | 28,000 |
| D | 250,000 | 222,000 30% | 28,000 |
| Total | 740,000 | 740,000 | 0 |

|  |  |  |  |
| --- | --- | --- | --- |
| 21. | d | As specified no bonus or goodwill recognized. |  |
|  |  | 5/6 estimated total resulting capital | P 150,000 |
|  |  | Estimated total resulting capital (P150,000 / 5/6) | 180,000 |
|  |  | Required investment (P180,000 x 1/6) | P   30,000 |

|  |  |  |
| --- | --- | --- |
| 22. | d | Direct purchase; reclassify CCs capital only (if silent – book value). |

23. d

Total contributed capital\*

(P140,000 + P40,000) / 4/5 ............................................. P225,000

Less: Total contributed capital of Allen and David.............. 180,000

Investment by David...................................................................P 45,000

\*since no goodwill or revaluation is allowed total agreed capital is the same with total contributed capital.

24. c

Total agreed capital (140,000 + 40,000) / 3/4.............................P 240,000

Less: Total contributed capital

(P140,000 + P40,000 + P50,000)........................................ . 230,000

Goodwill/revaluation...........................………………..…………..P 10,000

Note: since the problem indicates that there is goodwill/revaluation of asset downward, total agreed capital should be higher compared to total contributed capital (to achieve this objective the capital of old partners should be used as a basis)

Cash 50,000

Goodwill/assets 10,000

David, capital (1/4 x P240,000) 60,000

25. b

Total agreed capital (P40,000) / 1/5............................................ P200,000

Less: Total contributed capital

(P140,000 + P40,000 + P40,000)......................................... 220,000

Revaluation of asset / inventory decreased……..………….... P( 20,000)

Note: since the problem indicates that there is revaluation of asset downward, total agreed capital should be lower compared to total contributed capital.

26. b – refer to No. 25 for computation

Allen: P140,000 – (P20,000 x 3/4) = P125,000

Daniel: P40,000 – (P20,000 x 1/4) = P35,000

27. d

Amount paid (P34,000 + P10,000) P 44,000

Less: Book value of Allen and Daniel (1/5) x P180,000 ) 36,000

Partial goodwill/revaluation adjustment P 8,000

Capitalized at 1/5

Revaluation of land P 40,000

28. a.

Allen: [P140,000 + (P40,000 x 3/4)] x 4/5 = P136,000

Daniel: [P40,000 + (P40,000 x 1/4)] x 4/5 = P40,000

29. b

Total agreed capital (given)........................................................P220,000

Less: Total contributed capital

(P140,000 + P40,000 + P40,000).......................................... 220,000

Difference..............................................………………..…………....P 0

*Note: Since total agreed and total contributed are the same, therefore is no goodwill or revaluation.*

Total Agreed Capital P220,000

Multiplied by: Interest acquired by David 1/5

Agreed capital of David P 44,000

Cash investment by David 40,000

Bonus to David P 4,000

Cash 40,000

Allen (P4,000 x 3/4) 3,000

Daniel (P4,000 x 1/4) 1,000

David 44,000

30. d – refer to No. 29

Allen = P140,000 – (P10,000 x 3/4) = P137,000

Daniel = P40,000 – (P10,000 x 1/4) = P39,000

31. a

Total agreed capital (P50,000) / 1/5............................................P250,000

Less: Total contributed capital

(P140,000 + P40,000 + P50,000)......................................... 230,000

Goodwill/revaluation...........................………………..…………. P 20,000

Note: since the problem indicates that there is goodwill/revaluation of asset downward, total agreed capital should be higher compared to total contributed capital (to achieve this objective the capital of the new partners should be used as a basis)

32. a - A P10,000 bonus is paid to Costello (P100,000 is paid rather than the P90,000 capital balance). This bonus is deducted from the two remaining partners according to their profit and loss ratio (2:3). A reduction of 60 percent (3/5) is assigned to Burns or a decrease of P6,000 which drops that partner’s capital balance from P30,000 to P24,000.

33. a - (P121,000 − P100,000) x 35/60 = P12,250]

34. c - (P39,000 + P7,200 − P750 = P45,450)

35. b

Amount paid P 102,000

Less: Book value of Williams

P70,000 + (P360,000 – P300,000) x 20% 82,000

Partial goodwill/revaluation adjustment P 20,000

Capitalized at P&L of Dixon 20%

Goodwill/revaluation P100,000

Brown: P65,000 + (P60,000 x 20%) + (P100,000 x 20%) P 97,000

Lowe: P150,000 + (P60,000 x 60%) + (P100,000 x 60%) P246,000

36. a

Amount paid P 74,000

Less: Book value of Dixon (20%): (P210,000 – P160,000) 50,000

Partial goodwill/revaluation adjustment P 24,000

Capitalized at P&L of Dixon 20%

Goodwill/revaluation P120,000

37. b

Amount paid……………………………………………………………………………P 80,000

Less: Book value of Interest of Bolger

P60,000 + [(P170,000 + P210,000 + P100,000) – (P180,000 +

P200,000 + P75,000)] x 35%........................................................................ 68,750

Partial Goodwill (to retiring partner)……………………………………………….P 11,250

Incidentally, the entry for the retirement (payment to Bolger) would be:

Bolger, capital……………………………………………… 68,750

Goodwill……………………………………………………… 11,250

Cash………………………………………………..... 80,000

Therefore, the *capital of Grossman after the retirement* of Bolger would be, *P66,250* [P55,000 + (45% x P25,000)].

38. c – no goodwill or revaluation therefore, bonus.

Tiffany 50,000

Ron (P10,000 x3/5) 6,000

Stella (P10,000 x 2/5) 4,000

Cash 60,000

39. a – refer to No. 38 (P80,000 – P6,000 = P74,000)

40. d

Amount paid P 56,000

Less: Book value of Tiffany (1/6) ) 50,000

Partial goodwill/revaluation adjustment P 6,000

Capitalized at 1/6 Goodwill/revaluation P 36,000

41. c - Roberts receives an additional P60,000 above her capital balance.

Amount paid P 160,000

Less: Book value of Robert (40%) 100,000

Partial goodwill/revaluation adjustment P 60,000

Capitalized at 40% Goodwill/revaluation P 150,000

Goodwill/assets 150,000

Peter (20%) 30,000 Robert (40%) 60,000

Dana (40%) 60,000

Robert (P100,000 + P60,000) 160,000

Cash 160,000

Therefore: Peter: P80,000 + P30,000 = P110,000

42. d – refer to No. 41

Dana: P60,000 + P60,000 = P120,000

43. e – refer to No. 41

Total Assets before retirement (P80,000 + P100,000 + P60,000) P240,000

Add: Goodwill/revaluation of asset 150,000

Less: Cash paid 160,000

Total assets after retirement P230,000

44. d

Total Assets before retirement (P80,000 + P100,000 + P60,000) P240,000

Less: Cash paid 160,000

Total assets after retirement P 80,000

45. c

|  |  |  |
| --- | --- | --- |
| Total Capital of L (wherein goodwill should be generated) |  |  |
| Total assets, fair value (P40,000 + P52,000 + P94,000 +  P320,000 + P64,000) | P 570,000 |  |
| Less: Total liabilities ( P110,000 + P200,000) | \_\_310,000 | P 260,000 |
| Less; Total Capital of M |  |  |
| Total assets, fair value (P30,000 + P56,000 + P114,000 +  P280,000 + P44,000) | P 524,000 |  |
| Less: Total liabilities ( P80,000 + P150,000) | 230,000 | 294,000 |
| Goodwill |  | P 34,000 |

46. c

L, Capital and M, Capital are each P94,000 if L's goodwill is recognized. Total capital is P588,000, and total liabilities and capital amount to P1,128,000.

47. d

(1) Goodwill (revaluation) method:

Amount paid P 36,000

Less: Book value of interest acquired (P100,000 x 30%)) 30,000

Partial goodwill/revaluation adjustment P 6,000

Capitalized at 30% Goodwill/revaluation P 20,000

Therefore, the capital balances after the admission of OO:

Adams: [P60,000 + (P20,000 x 60%)] x 70%………………………P 72,000

Brown: [P40,000 + (P20,000 x 40%)] x 70%...…………………….. 48,000

Call.............................................……………………………………. \_\_36,000

Total capital after admission…………………………………….. .P156,000

(2) If Book (or bonus) method is used, the capital balances would be:

Adams...............................................................……………………P 60,000

Brown..............................................................…………………….. 40,000

Call: (P60,000 + P40,000) x 30%…………………………………. ..\_\_ 30,000

Total capital after admission…………………………………….. .P130,000

For purposes of comparing bonus and goodwill, there are two alternatives presented:

Alternative 1: If goodwill is found to exist:

Adams Brown Call

Goodwill Method is used…………………. P72,000 P48,000 P36,000

BV/Bonus Method is used………………… P60,000 P40,000 P30,000

Add: Goodwill \*……................................... 8,400 5,600 6,000

P68,400 P45,600 P36,000

(Gain) loss – BV/bonus method…………. P 3,600 P 2,400 P 0

Adams: 70% x 6/10 = 42%

Brown: 70% x 4/10 = 28%

Call 30%

Alternative 2: If goodwill is not realized and written-off as a loss:

Adams Brown Call

Goodwill Method is used…………………. P 72,000 P48,000 P36,000

Less: Write-off of goodwill \*………………. 8,400 5,600 6,000

P63,600 P42,400 P30,000

BV/Bonus Method is used………………… P60,000 P40,000 P30,000

(Gain) loss – bonus method………………. P 3,600 P 2,400 P 0

***Note:*** The bonus method adheres to the historical cost concept and it is often used in accounting practice. It is objective that is establishes total capital of the new partnership at an amount based on actual consideration received from the new partner. The bonus method indirectly acknowledges the existence of goodwill by giving a bonus to either old or new partners.

The goodwill method results in the recognition of an asset implied by a transaction rather than recognizing an asset actually purchased. Historically, goodwill has been recognized only when purchased so that a more objective measure of its value is established. Therefore, opponents of the goodwill method contend that goodwill is not determined objectively and other factors may have influenced the amount of investment required from the new partners.

Although either method can be used in achieving the required interest for the new partner, the two methods offer the same ultimate results only:

1. When the incoming partner’s percentage share of profit and loss and percentage interest in assets upon admission are equal, and

2. When the former partners continue to share profits and losses between themselves in the original ratio.

If these conditions are not fully met, however, results will be different.

48. d – refer to No. 47 for Note.

(1) Goodwill method: Using the capital balance of new partner as a basis of computing total agreed capital,:

Total agreed capital (P5,000/25%)……………………………………. P20,000

Less: Total contributed capital (P6,000/P4,800+P5,000)…………… 15,800

Goodwill to old partners…………………………………………………. P 4,200

Therefore, the capital balances after the admission of OO:

MM: [P6,000+(P4,200x3/5)]…………………………………………………. P 8,520

NN: [P4,800+(P4,200x2/5)]………………………………………………….. 6,480

OO………………………………………………………………………………. 5,000

Total agreed capital………………………………………………………… P20,000

(2) If bonus method is used, the capital balances would be:

Total agreed capital (P6,000+P4,800+P5,000)………………………….......... P 15,800

Multiplied by: OO’s capital interest…………………………………………..... 25%

Agreed capital to be credited to OO………………………………………... P 3,950

Contributed/Invested capital of OO…………………………………….......... 5,000

Bonus to MM and NN (old partner)………………………………………......... P 1,050

The bonus would be added to MM and NN:

MM: [P60,000+(1,050,000x3/5)]……………………………………………. P 6.630

NN: [P4,800+(P1,050x2/5)]………………………………………………….. 5,220

OO……………………………………………………………………………… 3,950

Total agreed capital……………………………………………………….. P 15,800

For purposes of comparing bonus and goodwill, there are two alternatives presented:

Alternative 1: If goodwill is found to exist:

MM NN OO

Goodwill Method is used…………………. P8,520 P6,480 P5,000

Bonus Method is used……………………... P6,630 P5,220 P3,950

Add: Goodwill (allocated equally)…….. 1,400 1,400 1,400

P8,030 P6,620 P5,350

(Gain) loss – bonus method………………. P 490 P (140) P 350 (d)

Alternative 2: If goodwill is not realized and written-off as a loss:

MM NN OO

Goodwill Method is used…………………. P8,520 P6,480 P5,000

Less: Write-off of goodwill

(allocated equally)…………………. 1,400 1,400 1,400

P7,120 P5,080 P3,600

Bonus Method is used……………………... P6,630 P5,220 P3,950

(Gain) loss – bonus method………………. P 490 P (140) P 350 (d)

49. a – refer to No. 47 for Note.

Goodwill method: Using the capital balance of new partner as a basis of computing total agreed capital.

Total agreed capital (P500,000/25%)……………………………………. P2,000,000

Less: Total contributed capital (P600,000/P480,000+P500,000)…….. 1,580,000

Goodwill to old partners…………………………………………………... P 420,000

Therefore, the capital balances after the admission of CC:

AA: [P600,000+(P420,000x3/5)]…………………………………………… P 852,000 (d)

BB: [P480,000+(P420,000x2/5)]……………………………………………. 648,000

CC……………………………………………………………………………… 500,000

Total agreed capital………………………………………………………….. P 2,000,000

Bonus Method:

Total agreed capital (P600,000+P480,000+P500,000)………………... P 1,580,000

Multiply by: CC’s capital interest………………………………………… 25%

Agreed capital to be credited to CC………………………………….. P 395,000

Contributed/Invested capital of CC……………………………………. 500,000

Bonus to AA and BB (old partners)………………………………………. P 105,000

The bonus would be added to AA and BB:

AA: [P600,000+(1,050,000x3/5)]……………………………………………. P 663,000

BB: [P480,000+(P105,000x2/5)]……………………………………………… 522,000

CC………………………………………………………………………………. 395,000

Total agreed capital………………………………………………………… P 1,580,000

For purposes of comparing bonus and goodwill, assume that goodwill is not realized and it should be written-off as a loss:

AA BB CC

Goodwill Method is used…………………. P852,000 P648,000 P500,000

Add: Goodwill (allocated equally)…….. 140,000 140,000 140,000

P712,000 P508,000 P360,000

Bonus Method is used……………………... P663,000 P522,000 P395,000

(Gain) loss – bonus method………………. P 49,000 P (14,000) P 35,000

50. b

Total Roy Gil

Capital, before adjustment………………… P309,000 P94,800 P214,200

Less: Net adjustment\*……………………….. 35,400 11,800 23,600

Capital, after adjustment………………….. P273,600 P83,000 P190,600

Less: Portion covered by common stock,

par P10 (720 share to each partner).. 14,400 7,200 7,200

Portion to be covered by preferred stock,

par P100…………………………………..... P259,200 P75,800 P183,400

Shares to be issued:

Preferred stock………………………. 2,592 758 1,834

Common stock……………………… 1,440 720 720

\*FV, P40,000 + P68,000 + P180,600 – BV, P60,000 + 90,000 + P174,000.

51. d

Fair value of the assets (P200,000 + P24,000)……………………………. P224,000

Less: Total liabilities……………………………………………………………. 40,000

Fair value of Net Assets……………………………………………………… P184,000

Less: Common stock at P1 par (10,000 shares x 2 x 1 par)…………… 20,000

Additional paid-in capital………………………………………………… P164,000

52. b

Unadjusted capital balances (P140,000 + P120,000)…………………… P260,000

Add (deduct): adjustments:

Allowances for doubtful accounts……………………………… (10000)

Revaluation of inventory (P160,000 - P140,000)………………... 20,000

Additional depreciation……………………………………………. (3,000)

Adjusted capital balances equivalent to the total shares issued…… P267,000

53. c

Unadjusted assets (P10,500 + P15,900 + P42,000 + P60,000)…………… P 128,400

Add (deduct): adjustments:

Allowances for doubtful accounts……………………………… ( 1,200)

Short-term prepayments............................................................... 800

Revaluation of inventory (P48,000 – P42,000)...………………... 6,000

Revaluation of equipment (P72,000 – P60,000)………………... 12,000

Adjusted asset balance............................................................................. P146,000

54. c

Adjusted asset balance............................................................................. P146,000

Less: Liabilities (P16,400 + P750).................................................................. 17,150

Adjusted net assets..................................................................................... P128,850

Less: Common stock, P5 par x 10,000 shares.....................……………....... 50,000

Additional paid-in capital…………………………………………………… P 78,850

**THEORIES**

**True or False**

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 1. | False | 6. | False | 11. | True | 16. | True | 21. | False | 26. | False | 31. | True |
| 2. | True | 7. | False | 12. | True | 17. | True | 22. | True | 27. | True | 32. | True |
| 3. | False | 8. | True | 13. | True | 18. | False | 23. | False | 28. | False |
| 4. | True | 9. | False | 14. | False | 19. | False | 24. | True | 29. | True |
| 5. | False | 10. | False | 15, | True | 20. | True | 25. | False | 30. | False |

***Note for the following numbers:***

**1. A dissolution occurs every time there is a change in relationship among the partners. This can occur when a new partner enters the partnership or an existing partner leaves the partnership. A dissolution occurs when the partnership is going out of business but the termination of business is not a requirement for a dissolution.**

**3. A new partner's liability for actions that occurred before joining the partnership is limited to the amount invested in the partnership.**

**5. Regardless how a new partner enters a partnership, the other partners have to approve the admission because they must accept unlimited liability due to actions of the new partner taken on behalf of the partnership.**

**6. There is no necessary relationship between the percentage of equity acquired and the amount of profit or loss received. These are separate contractual issues.**

**7. There are three methods that may be used when a new partner is paying an amount more than book value for the investment: revaluation of existing assets, bonus method, and goodwill method. The partners do not have to choose one method. It would not be inconsistent to revalue the assets and apply either the bonus or the goodwill method to record the investment.**

**9. Existing partners share the difference between market value and book value equally if that is the manner in which profits and losses are shared. If profits and losses are shared in some other manner, then the difference between market and book values are shared in that manner.**

**10. While it is possible that an error has been made, it is more likely that the existing partners recognized an increase in their capital accounts via a bonus. The difference between the amount credited to the new partner’s capital account and the amount invested is shared by the existing partners.**

**14. New partners may receive a bonus if they bring value to the partnership in excess of the tangible assets invested. This additional amount may be from such things as expertise, experience, or business contacts. The bonus allocated to the new partner is payment for these types of unidentifiable assets contributed to the partnership.**

**18. Goodwill may be recognized with regard to the existing partners but it may also be recognized with regard to the new partner.**

**19. When goodwill is recognized with regard to the new partner, the new partner’s capital account will be greater than the amount invested by the recognized goodwill.**

**21. The articles of partnership may include an agreement on the length of advanced notice a partner must give before withdrawing from a partnership. Failure to provide the agreed notice may result in the withdrawing partner being liable for damages suffered by the partnership.**

**23. If existing partners acquire a withdrawing partner’s equity, they can divide the purchase of that equity among themselves in any manner they choose.**

**25. Partnership assets may be revalued but they may also remain at their carrying value.**

**26. The revaluation of the partnership’s assets is unrelated to the purchase of the withdrawing partners ownership interest in the partnership.**

**28. The revaluation of partnership assets at the time of a partner’s withdrawal has no impact on the recognition of a bonus or goodwill.**

**30. While the partners can recognize either the withdrawing partner’s goodwill or the entire partnership’s goodwill, there is no requirement to recognize any goodwill when a partner withdraws from a partnership.**

**Multiple Choice**

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 33. | b | 38. | e | 43. | c | 47. | a | 53. | c | 58. | a | 63. | c |
| 34 | d | 39. | e | 44. | c | 48. | c | 54. | c | 59. | c | 64. | d |
| 35. | d | 40. | d | 45. | d | 50. | c | 55. | c | 60. | b | 65. | c |
| 36. | d | 41. | d | 46. | c | 51. | a | 56. | b | 61. | b | 66. | d |
| 37. | a | 42. | b | 47. | b | 52. | d | 57. | b | 62. | b | 67. | d |
| 68. | a |