### Facts

<table>
<thead>
<tr>
<th>Capital</th>
<th>BV</th>
<th>Share</th>
<th>Tax Base</th>
</tr>
</thead>
<tbody>
<tr>
<td>Riley</td>
<td>500000</td>
<td>60%</td>
<td>425000</td>
</tr>
<tr>
<td>Smith</td>
<td>400000</td>
<td>40%</td>
<td>330000</td>
</tr>
<tr>
<td>Total</td>
<td>900000</td>
<td></td>
<td>755000</td>
</tr>
</tbody>
</table>

### Assets (Book, FMV)

<table>
<thead>
<tr>
<th></th>
<th>Book</th>
<th>FMV</th>
</tr>
</thead>
<tbody>
<tr>
<td>Land</td>
<td>15000</td>
<td>55000</td>
</tr>
<tr>
<td>Other</td>
<td>885000</td>
<td>885000</td>
</tr>
<tr>
<td>Total</td>
<td>900000</td>
<td>940000</td>
</tr>
</tbody>
</table>

### Tyler's contribution

- **FMV Basis**
  - Cash: 170000
  - Equipment: 80000
  - Total: 250000

### Key trick is to recall identities:

- Also
- To solve the problem, what info do we need?
  - Assets Book
  - FMV
  - Why? Because rest follows mechanically from the shares.
  - Look at it this way: once we know the asset base and the new partner's share we can compute the bonus.
  - How? Bonus = new partner payment - new partner share * new asset base
  - Here Tyler pays $250,000 for 20% of a partnership with assets of BV $1,150,000. What is the bonus?
  - His share is 20% of $1,150,000 = $230,000. He pays in $250,000. What is the bonus to Riley and Smith?
  - Basically Tyler has to pay part of the $250,000 for assets not in the books and that is what is taken off the top from his payment and credited to Riley and Smith. Accounting reflects the economics.

### Bonus method (historical cost, no revaluation)

- **Step 1**: New Partnership Assets 1150000
- **Step 2**: Total Partner Capital 1150000
- **Step 3**: Tyler's share of capital 20%
- **Step 4**: Partnership asset base 1150000
- **Step 5**: Bonus to old partners 20000
- **Step 6**: New Capitalization
  - Original
  - Bonus
  - Net
  - Riley 500000 12000 512000
  - Smith 400000 8000 408000
  - Tyler 250000 -20000 230000
  - Total Partner Capital 1150000

### Goodwill method (with revaluation)

- **Step 1**: Tyler pays 250000 for a 20% interest
- **Step 2**: FMV of old assets 1000000
  - BV of old assets 900000
  - Gain 100000
  - Of which Land 40000
  - Hence Goodwill 60000
- **Step 3**: Riley's share of appreciation 60000
  - Smith's share of appreciation 40000
- **Step 4**: New Capitalization
  - Original
  - Bonus
  - Net
  - Riley 500000 60000 560000
  - Smith 400000 40000 440000
  - Tyler 250000 0 250000
  - Total Partner Capital 1250000

### Entry

- **Dr.**
  - Land 40000
  - Goodwill 60000
  - Cash 170000
  - Equipment 80000
- **Cr.**
  - Riley 60000
  - Smith 40000
  - Tyler 250000

### Balances

- Riley 512000
- Smith 408000
- Tyler 230000