1. Award: **10.00 points**

Assuming no impairment in value prior to transfer, assets transferred by a parent company to another entity it has created should be recorded by the newly created entity at the assets':

- cost to the parent company.
- → book value on the parent company's books at the date of transfer.
- fair value at the date of transfer.
- fair value of consideration exchanged by the newly created entity.

Book value on the parent company's books at the date of transfer is correct. The parent company transfers assets and liabilities to the created entity at book value. Recognition of fair values of the assets transferred in excess of their carrying values on the books of the transferring company is not appropriate in accounting for internal expansions. The other choices are incorrect per the above rule. External expansions use the acquisition method of accounting for business combinations. Under the acquisition method, the acquirer recognizes all assets acquired and liabilities assumed in a business combination and measures them at their acquisition-date fair values.

References

Multiple Choice	Learning Objective: 01-01 Understand and explain the reasons for and different methods of business expansion, the types of organizational structures, and the types of acquisitions.
Difficulty: 1 Easy	Learning Objective: 01-03 Make calculations and prepare journal entries for the creation of a business entity.

2. Award: **10.00 points**

Given the increased development of complex business structures, which of the following regulators is responsible for the continued usefulness of accounting reports?

- Securities and Exchange Commission (SEC)
- Public Company Accounting Oversight Board (PCAOB)
- Financial Accounting Standards Board (FASB)
- → All of the other answers are correct

All of the answer choices are correct; all three regulators contribute to the continued usefulness of accounting reports. The business environment in the United States is perhaps the most dynamic and vibrant in the world, characterized by rapid change and exceptional complexity. In this environment, regulators and standard setters such as the Securities and Exchange Commission (SEC), the Financial Accounting Standards Board (FASB), and the Public Company Accounting Oversight Board (PCAOB) are working to keep pace with a rapidly changing world in order to ensure *the continued usefulness of accounting reports* so that they continue to accurately reflect economic reality.

References

Multiple Choice	Difficulty: 1 Easy	Learning Objective: 01-01 Understand and explain the reasons for and different methods of business expansion, the types of organizational structures, and the types of acquisitions.

3. Award: **10.00 points**

A business combination in which the acquired company's assets and liabilities are combined with those of the acquiring company into a single entity is defined as:

- Stock acquisition
- Leveraged buyout
- → Statutory merger
- Reverse statutory rollup

Statutory merger is the correct answer. A statutory merger is a type of business combination in which only one of the combining companies survives and the other loses its separate identity. The acquired company's assets and liabilities are transferred to the acquiring company, and the acquired company is dissolved, or liquidated.

Stock acquisition is incorrect. A stock acquisition occurs when one company acquires the voting shares of another company and the two companies continue to operate as separate, but related, legal entities.

Leveraged buyout is incorrect. A leveraged buyout results when an acquiring company borrows the funds to buy another company. This practice was common in the 1980's. However, the resulting debt plagued many of those companies for many years.

Reverse statutory rollup is incorrect. A reverse statutory rollup is *not* a situation in which the acquired company's assets and liabilities are combined with those of the acquiring company into a single entity.

References

Multiple Choice	Difficulty: 1 Easy	Learning Objective: 01-04 Understand and explain the differences between different forms of business combinations.

4. Award: **10.00 points**

In which of the following situations do accounting standards not require that the financial statements of the parent and subsidiary be consolidated?

- A corporation creates a new 100 percent owned subsidiary
- A corporation purchases 90 percent of the voting stock of another company
- A corporation has both control and majority ownership of an unincorporated company
- → A corporation owns less-than a controlling interest in an unincorporated company

A corporation owns less-than a controlling interest in an unincorporated company is correct. The purchase of a less-than-majority interest in another corporation does not require that the financial statements of the parent and subsidiary be consolidated.

A corporation creates a new 100 percent owned subsidiary is incorrect. A new 100 percent owned subsidiary requires that the financial statements of the parent and subsidiary be consolidated.

A corporation purchases 90 percent of the voting stock of another company is incorrect. Financial managers consolidate a holding company's financial statements if it owns more than 50 percent of another company's equity.

A corporation has both control and majority ownership of an unincorporated company is incorrect. A corporation that has both control and majority ownership of an unincorporated company is required to consolidate the financial statements of the parent and subsidiary.

References

Multiple Choice	Difficulty: 1 Easy	Learning Objective: 01-01 Understand and explain the reasons for and different methods of business expansion, the types of organizational structures, and the types of acquisitions.

During its inception, Devon Company purchased land for $100,000 and a building for $180,000. After exactly 3 years, Devon transferred these assets and cash of $50,000 to a newly created subsidiary, Regan Company, in exchange for 15,000 shares of Regan's $10 par value stock. Devon uses straight-line depreciation. Useful life for the building is 30 years, with zero residual value. An appraisal at the time of transfer revealed that the building has a fair value of $200,000.

5. Award: **10.00 points**

Based on the information provided, at the time of the transfer, Regan Company should record:

- building at $180,000 and no accumulated depreciation.
- building at $162,000 and no accumulated depreciation.
- building at $200,000 and accumulated depreciation of $24,000.
- → building at $180,000 and accumulated depreciation of $18,000.

Building at $180,000 and accumulated depreciation of $18,000 is correct. This situation requires the accounting for internal expansion which uses book value to transfer assets and liabilities. Annual depreciation on the building is $6,000, and accumulated depreciation at the end of year 3 is $18,000. ($180,000 ÷ 30 years = $6,000 per year. $6,000 × 3 years = $18,000.) Thus, Regan Company should record the building at book value, $180,000, and accumulated depreciation of $18,000.

Building at $180,000 and no accumulated depreciation is incorrect. Regan Company must transfer over $18,000 of accumulated depreciation.

Building at $162,000 and no accumulated depreciation is incorrect. Regan Company must separately report the building and the accumulated depreciation. Netting the two amounts is not allowed.

Building at $200,000 and accumulated depreciation of $24,000 is incorrect. Fair values are not used in a situation of internal expansion, only book values are used.

References

Multiple Choice	Learning Objective: 01-03 Make calculations and prepare journal entries for the creation of a business entity.
Difficulty: 3 Hard	Learning Objective: 01-04 Understand and explain the differences between different forms of business combinations.

6. Award: **10.00 points**

Based on the information provided, what amount would be reported by Devon Company as investment in Regan Company common stock?

→ ○ $312,000

○ $180,000

○ $330,000

○ $150,000

$312,000 is correct. The journal entry below reflects the adjustment Devon Company would make as a result of the creation of Regan Company.

Investment in Regan Company Common Stock	312,000	
Accumulated Depreciation, Building	18,000	
Land		100,000
Building		180,000
Cash		50,000

$180,000 is incorrect. This amount is reported by Devon Company as a credit to the building.

$330,000 is incorrect. This amount is the total amount of debits in Devon Company's journal entry. However, Devon Company must also record $18,000 in accumulated depreciation related to the building. Annual depreciation on the building is $6,000, and accumulated depreciation at the end of year 3 is $18,000. ($180,000 ÷ 30 years = $6,000 per year. $6,000 × 3 years = $18,000.)

$150,000 is incorrect. This amount is the portion of Devon Company's investment allocated to the par value. However, on Devon Company's records, the par value and additional paid in capital are reported as a single amount under investments.

References

Multiple Choice	Learning Objective: 01-02 Understand the development of standards related to acquisition accounting over time.
Difficulty: 3 Hard	Learning Objective: 01-03 Make calculations and prepare journal entries for the creation of a business entity.

7. Award: **10.00 points**

Based on the preceding information, Regan Company will report:

- additional paid-in capital of $0.
- additional paid-in capital of $150,000.
- → additional paid-in capital of $162,000.
- additional paid-in capital of $180,000.

Additional paid-in capital of $162,000 is correct. The journal entry below reflects the adjustment Regan Company would make as a result of its creation from Devon Company.

Cash	50,000	
Building	180,000	
Land	100,000	
Accumulated Depreciation, Building		18,000
Common Stock, $10 par		150,000
Additional Paid-In Capital		162,000

Additional paid-in capital of $0 is incorrect. Because the cash, building, and land equal an amount greater than the par value common stock, additional paid-in capital is the plug value of $162,000.

Additional paid-in capital of $150,000 is incorrect. $150,000 is the value of the $10 par value common stock.

Additional paid-in capital of $180,000 is incorrect. $180,000 is the book value of the building, not the amount of additional paid-in capital.

References

Multiple Choice	Difficulty: 3 Hard	Learning Objective: 01-03 Make calculations and prepare journal entries for the creation of a business entity.

At its inception, Peacock Company purchased land for $50,000 and a building for $220,000. After exactly 4 years, Peacock transferred these assets and cash of $75,000 to a newly created subsidiary, Selvick Company, in exchange for 25,000 shares of Selvick's $5 par value stock. Peacock uses straight-line depreciation. When purchased, the building had a useful life of 20 years with no expected salvage value. An appraisal at the time of the transfer revealed that the building has a fair value of $250,000.

8. Award: **10.00 points**

Based on the information provided, at the time of the transfer, Selvick Company should record:

→ ○ the building at $220,000 and accumulated depreciation of $44,000.

○ the building at $220,000 with no accumulated depreciation.

○ the building at $176,000 with no accumulated depreciation.

○ the building at $250,000 with no accumulated depreciation.

The building at $220,000 and accumulated depreciation of $44,000 is correct. Under accounting for internal expansion, assets are transferred at book value, not fair value. Accumulated depreciation is calculated as follows: $220,000 ÷ 20 = $11,000 per year × 4 years = $44,000.

Accumulated depreciation should be transferred to Selvick Company upon creation. Also, the building should be transferred to Selvick at historical cost of $220,000.

References

Multiple Choice	Learning Objective: 01-03 Make calculations and prepare journal entries for the creation of a business entity.
Difficulty: 3 Hard	Learning Objective: 01-04 Understand and explain the differences between different forms of business combinations.

9. Award: **10.00 points**

Based on the information provided, what amount would be reported by Peacock Company as investment in Selvick Company common stock?

○ $125,000

○ $250,000

→ ○ $301,000

○ $345,000

$301,000 is correct. Peacock's investment in Selvick is calculated as follows. Building $220,000 + Land $50,000 + Cash $75,000 – Accumulated Depreciation $44,000 = $301,000.

$125,000 is incorrect. This amount represents the amount paid for par value common stock. However, there is additional paid-in capital that is added to this amount on Peacock Company's balance sheet for a total of $301,000.

$250,000 is incorrect. The building at $220,000 with no accumulated depreciation is incorrect. The building at $220,000 and accumulated depreciation of $44,000 is correct. Under accounting for internal expansion, assets are transferred at book value, not fair value. Accumulated depreciation is calculated as follows: $220,000 ÷ 20 = $11,000 per year × 4 years = $44,000.

$345,000 is incorrect. Peacock must debit accumulated depreciation of $44,000 because Peacock has transferred the building to Selvick and must remove the accumulated depreciation from its books.

References

Multiple Choice	Learning Objective: 01-02 Understand the development of standards related to acquisition accounting over time.
Difficulty: 3 Hard	Learning Objective: 01-03 Make calculations and prepare journal entries for the creation of a business entity.

10. Award: **10.00 points**

Based on the preceding information, Selvick Company will report additional paid-in capital of:

- $125,000.
- → $176,000.
- $220,000.
- $250,000.

$176,000 is correct. Selvick Company will record common stock at $5 par value for $125,000. Selvick will also record $176,000 of additional paid-in capital. See the journal entry below for reference.

Cash	75,000	
Building	220,000	
Land	50,000	
Accumulated Depreciation, Building		44,000
Common Stock, $5 par		125,000
Additional Paid-In Capital		176,000

$125,000 is incorrect. This is the amount recorded for common stock at $5 par value.

$220,000 is incorrect. This is the amount recorded for the building at historical cost.

$250,000 is incorrect. This is an incorrect amount to report for additional paid-in capital per Selvick Company's books.

References

Multiple Choice	Difficulty: 3 Hard	Learning Objective: 01-03 Make calculations and prepare journal entries for the creation of a business entity.

11. Award: **10.00 points**

Which of the following situations best describes a business combination to be accounted for as a statutory merger?

- Both companies in a combination continue to operate as separate, but related, legal entities.
- → Only one of the combining companies survives and the other loses its separate identity.
- Two companies combine to form a new third company, and the original two companies are dissolved.
- One company transfers assets to another company it has created.

Only one of the combining companies survives and the other loses its separate identity is correct. A statutory merger is a type of business combination in which only one of the combining companies survives and the other loses its separate identity. The acquired company's assets and liabilities are transferred to the acquiring company, and the acquired company is dissolved, or liquidated. The operations of the previously separate companies are carried on in a single legal entity following the merger.

Both companies in a combination continue to operate as separate, but related, legal entities is incorrect. This situation represents a stock acquisition: both companies in a combination continue to operate as separate, but related, legal entities.

Two companies combine to form a new third company, and the original two companies are dissolved is incorrect. This situation represents a statutory consolidation: two companies combine to form a new third company, and the original two companies are dissolved.

One company transfers assets to another company it has created is incorrect. This situation represents an internal expansion: one company transfers assets to another company it has created.

References

Multiple Choice	Difficulty: 1 Easy	Learning Objective: 01-04 Understand and explain the differences between different forms of business combinations.

12. Award: **10.00 points**

A statutory consolidation is a type of business combination in which:

- one of the combining companies survives and the other loses its separate identity.
- one company acquires the voting shares of the other company and the two companies continue to operate as separate legal entities.
- two publicly traded companies agree to share a board of directors.
- → each of the combining companies is dissolved and the net assets of both companies are transferred to a newly created corporation.

Each of the combining companies is dissolved and the net assets of both companies are transferred to a newly created corporation is correct. A statutory consolidation is a business combination in which both combining companies are dissolved and the assets and liabilities of both companies are transferred to a newly created corporation. The operations of the previously separate companies are carried on in a single legal entity, and neither of the combining companies remains in existence after a statutory consolidation.
One of the combining companies survives and the other loses its separate identity is incorrect. This situation represents a statutory merger: one of the combining companies survives and the other loses its separate identity.
One company acquires the voting shares of the other company and the two companies continue to operate as separate legal entities is incorrect. This situation represents a stock acquisition: one company acquires the voting shares of the other company and the two companies continue to operate as separate legal entities.
Two publicly traded companies agree to share a board of directors is incorrect. This situation does not represent a statutory consolidation.

References

Multiple Choice	Difficulty: 1 Easy	Learning Objective: 01-04 Understand and explain the differences between different forms of business combinations.

In order to reduce the risk associated with a new line of business, Conservative Corporation established Spin Company as a wholly owned subsidiary. It transferred assets and accounts payable to Spin in exchange for its common stock. Spin recorded the following entry when the transaction occurred:

Cash and receivables	23,000	
Inventory	15,000	
Land	30,000	
Buildings	100,000	
Equipment	95,000	
Accounts Payable		20,000
Accumulated Depreciation—Buildings		32,000
Accumulated Depreciation—Equipment		30,000
Common Stock		56,000
Additional Paid-In Capital		125,000

13. Award: **10.00 points**

Based on the preceding information, what number of shares of $7 par value stock did Spin issue to Conservative?

- 10,000
- 7,000
- → 8,000
- 25,000

8,000 is correct. Spin issued $56,000 of common stock at $7 par value for a total of 8,000 shares.

References

Multiple Choice	Difficulty: 3 Hard	Learning Objective: 01-05 Make calculations and business combination journal entries in the presence of a differential, goodwill, or a bargain purchase element.

14. Award: **10.00 points**

Based on the preceding information, what was the book value of Conservative's assets transferred to Spin Company?

- $243,000
- $263,000
- $221,000
- → $201,000

$201,000 is correct per the following calculation. Cash and Receivables $23,000 + Inventory $15,000 + Land $30,000 + Buildings $100,000 + Equipment $95,000 – Accumulated Depreciation (Buildings) $32,000 – Accumulated Depreciation (Equipment) $30,000 = $201,000

References

Multiple Choice	Learning Objective: 01-01 Understand and explain the reasons for and different methods of business expansion, the types of organizational structures, and the types of acquisitions.
Difficulty: 3 Hard	Learning Objective: 01-03 Make calculations and prepare journal entries for the creation of a business entity.

15. Award: **10.00 points**

Based on the preceding information, what amount did Conservative report as its investment in Spin after the transfer of assets and liabilities?

- → $181,000
- $221,000
- $263,000
- $243,000

$181,000 is correct. Conservative recorded common stock of $56,000 and additional paid-in capital of $125,000 for a total of $181,000 reported as an investment in Spin. Below is the journal entry that Conservative would record.

Investment in Spin Company Common Stock	181,000	
Accumulated Depreciation - Buildings	32,000	
Accumulated Depreciation - Equipment	30,000	
Accounts Payable	20,000	
Cash and Receivables		23,000
Inventory		15,000
Land		30,000
Buildings		100,000
Equipment		95,000

References

Multiple Choice	Learning Objective: 01-02 Understand the development of standards related to acquisition accounting over time.
Difficulty: 3 Hard	Learning Objective: 01-03 Make calculations and prepare journal entries for the creation of a business entity.

16. Award: **10.00 points**

Based on the preceding information, immediately after the transfer,

- Conservative's total assets decreased by $23,000.
- → Conservative's total assets decreased by $20,000.
- Conservative's total assets increased by $56,000.
- Conservative's total assets remained the same.

Conservative's total assets decreased by $20,000 is correct. Conservative transferred assets totaling $201,000 and in turn received an investment in Spin Company of $181,000. The difference between the two is a decrease of $20,000. Cash and receivables $23,000 + Inventory $15,000 + Land $30,000 + Buildings $100,000 + Equipment $95,000 – Accumulated Depreciation (Buildings) $32,000 – Accumulated Depreciation (Equipment) $30,000 = $201,000.

References

Multiple Choice	Difficulty: 3 Hard	Learning Objective: 01-03 Make calculations and prepare journal entries for the creation of a business entity.

Rivendell Corporation and Foster Company merged as of January 1, 20X2. To effect the merger, Rivendell paid finder's fees of $40,000, legal fees of $13,000, audit fees related to the stock issuance of $10,000, stock registration fees of $5,000, and stock listing application fees of $4,000.

17. Award: **10.00 points**

Based on the preceding information, what amount relating to the business combination would be expensed under the acquisition method?

- $72,000
- $19,000
- → $53,000
- $63,000

$53,000 is correct. Costs that are directly related to the business combination are expensed. Finder's fees of $40,000 + legal fees of $13,000 = $53,000.
$72,000 is incorrect. This answer choice incorporates all of the stock issuance costs that are to be recorded in a separate temporary “suspense” account as incurred. These costs are eventually treated as a reduction to additional paid-in capital.
$19,000 is incorrect. This answer choice incorporates part of the stock issuance costs that are to be recorded in a separate temporary “suspense” account as incurred. These costs are eventually treated as a reduction to additional paid-in capital.
$63,000 is incorrect. This answer choice incorporates part of the stock issuance costs that are to be recorded in a separate temporary “suspense” account as incurred. These costs are eventually treated as a reduction to additional paid-in capital.

References

Multiple Choice	Difficulty: 3 Hard	Learning Objective: 01-05 Make calculations and business combination journal entries in the presence of a differential, goodwill, or a bargain purchase element.

18. Award: **10.00 points**

Based on the preceding information, under the acquisition method:

- $72,000 of stock issue costs are treated as goodwill.
- → $19,000 of stock issue costs are treated as a reduction in the paid-in capital.
- $19,000 of stock issue costs are expensed.
- $72,000 of stock issue costs are expensed.

$19,000 of stock issue costs are treated as a reduction in the paid-in capital is correct. Fees related to stock issue costs are treated as a reduction to additional paid-in capital.
$72,000 of stock issue costs are treated as goodwill is incorrect. Stock issue costs are not associated with the calculation of goodwill.
$19,000 of stock issue costs are expensed is incorrect. Stock issue costs are treated as a reduction to the additional paid-in capital account and are not expensed.
$72,000 of stock issue costs are expensed is incorrect. Stock issue costs, in this example, are not equal to $72,000, and are also not expensed per the explanation above.

References

Multiple Choice	Difficulty: 3 Hard	Learning Objective: 01-05 Make calculations and business combination journal entries in the presence of a differential, goodwill, or a bargain purchase element.

Miguel Corporation and Forest Company merged as of January 1, 20X2. Miguel paid a finder's fee of $36,000 and legal fees of $8,000. Miguel also paid audit fees related to the stock issuance of $12,000, stock registration fees of $7,000, and stock listing application fees of $3,000.

19. Award: **10.00 points**

Based on the preceding information, under the acquisition method, what amount relating to the business combination would be expensed?

- $22,000
- $36,000
- → $44,000
- $66,000

$44,000 is correct. Costs that are directly related to the business combination are expensed. Finder's fee of $36,000 + legal fees of $8,000 = $44,000.
$22,000 is incorrect. This answer choice incorporates part of the stock issuance costs that are to be recorded in a separate temporary “suspense” account as incurred. These costs are eventually treated as a reduction to additional paid-in capital.
$36,000 is incorrect. The full amount of expense relating to the business combination would include both the finder’s fee and legal fees.
$66,000 is incorrect. This answer choice incorporates all of the stock issuance costs that are to be recorded in a separate temporary “suspense” account as incurred. These costs are eventually treated as a reduction to additional paid-in capital.

References

Multiple Choice	Difficulty: 3 Hard	Learning Objective: 01-05 Make calculations and business combination journal entries in the presence of a differential, goodwill, or a bargain purchase element.

20. Award: **10.00 points**

Based on the preceding information, under the acquisition method

→ ○ $22,000 of stock issue costs are treated as a reduction in the issue price.

○ $22,000 of stock issue costs are expensed.

○ $66,000 of stock issue costs are classified as goodwill.

○ $66,000 of stock issue costs are expensed.

$22,000 of stock issue costs are treated as a reduction in the issue price is correct. Fees related to stock issue costs are treated as a reduction in the issue price and thus a reduction to additional paid-in capital. Stock issue costs equal audit fees related to stock issuance of $12,000 + stock registration fees of $7,000 + stock listing application fees of $3,000 = $22,000
$22,000 of stock issue costs are expensed is incorrect. Stock issue costs are treated as a reduction to the additional paid-in capital account and are not expensed.
$66,000 of stock issue costs are classified as goodwill is incorrect. Stock issue costs are not associated with the calculation of goodwill.
$66,000 of stock issue costs are expensed is incorrect. Stock issue costs, in this example, are not equal to $66,000, and are also not expensed per the explanation above.

References

Multiple Choice	Difficulty: 3 Hard	Learning Objective: 01-05 Make calculations and business combination journal entries in the presence of a differential, goodwill, or a bargain purchase element.

21. Award: **10.00 points**

Burrough Corporation paid $80,000 to acquire all of Helyar Company's net assets. Helyar reported assets with a book value of $60,000 and fair value of $98,000 and liabilities with a book value and fair value of $23,000 on the date of combination. Burrough also paid $3,000 to a search firm for a finder's fee related to the acquisition. What amount will be recorded as goodwill by Burrough Corporation while recording its investment in Helyar?

○ $0

→ ○ $5,000

○ $8,000

○ $13,000

$5,000 is correct. The fair value of consideration given by Burrough Corporation is $80,000. The fair value of net assets acquired is $75,000 ($98,000 – $23,000). The difference between the two is $5,000 of Goodwill. The journal entry to record Burrough's acquisition is below.

Investment in Helyar	75,000	
Goodwill	5,000	
Finder's Fees Expense	3,000	
Cash		83,000

$0 is incorrect. Goodwill is recorded because there is a $5,000 difference between the fair value of the consideration exchanged and the fair value of the identifiable net assets acquired.
$8,000 is incorrect. Finder's fees are not a component of the goodwill calculation.
$13,000 is incorrect. The fair value of consideration given by Burrough Corporation is $80,000. The fair value of net assets acquired is $75,000 ($98,000 – $23,000). The difference between the two is $5,000 of Goodwill.

References

Multiple Choice	Difficulty: 3 Hard	Learning Objective: 01-05 Make calculations and business combination journal entries in the presence of a differential, goodwill, or a bargain purchase element.

22. Award: **10.00 points**

Simmons Corporation paid $170,000 to acquire all of Bush Company's net assets. Bush reported assets with a book value of $189,000 and a fair value of $206,000 and liabilities with a book value and fair value of $48,000 on the date of the combination. Simmons also paid $8,000 to a search firm for a finder's fee related to the acquisition. What amount will be recorded as goodwill by Simmons Corporation when recording its investment in Bush?

- $29,000
- $20,000
- → $12,000
- $10,000

$12,000 is correct. The fair value of consideration given by Simmons Corporation is $170,000. The fair value of net assets acquired is $158,000 ($206,000 – $48,000). The difference between the two is $12,000 of Goodwill. The journal entry to record Simmons' acquisition is below.

Investment in Helyar	158,000	
Goodwill	12,000	
Finder's Fees Expense	8,000	
Cash		178,000

$29,000 is incorrect. The fair value of Bush's assets must be used to calculate the fair value of net assets acquired. Book value is not allowed under acquisition accounting.
$20,000 is incorrect. Finder's fees are not a component of the goodwill calculation.
$10,000 is incorrect. The fair value of consideration given by Simmons Corporation is $170,000. The fair value of net assets acquired is $158,000 ($206,000 – $48,000). The difference between the two is $12,000 of Goodwill. The journal entry to record Simmons' acquisition is below.

References

Multiple Choice	Difficulty: 3 Hard	Learning Objective: 01-05 Make calculations and business combination journal entries in the presence of a differential, goodwill, or a bargain purchase element.

Plummet Corporation reported the book value of its net assets at $400,000 when Zenith Corporation acquired 100 percent ownership. The fair value of Plummet's net assets was determined to be $510,000 on that date.

23. Award: **10.00 points**

Based on the preceding information, what amount of goodwill will be reported in consolidated financial statements presented immediately following the combination if Zenith paid $550,000 for the acquisition?

- $0
- $50,000
- $150,000
- → $40,000

$40,000 is correct. The fair value of consideration given by Zenith Corporation is $550,000. The fair value of net assets acquired is $510,000. The difference between the two is $40,000 of Goodwill.
$0 is incorrect. Goodwill is recorded because there is a $40,000 difference between the fair value of the consideration exchanged and the fair value of the identifiable net assets acquired.
$50,000 is incorrect. The fair value of consideration given by Zenith Corporation is $550,000. The fair value of net assets acquired is $510,000. The difference between the two is $40,000 of Goodwill.
$150,000 is incorrect. The fair value of Plummet's net assets must be used to calculate goodwill. Book value is not allowed under acquisition accounting.

References

Multiple Choice	Difficulty: 3 Hard	Learning Objective: 01-05 Make calculations and business combination journal entries in the presence of a differential, goodwill, or a bargain purchase element.

24. Award: **10.00 points**

Based on the preceding information, what amount will be recorded by Zenith as its investment in Plummet, if it paid $500,000 for the acquisition?

- $610,000
- $400,000
- $500,000
- → $510,000

$510,000 is correct. The fair value of consideration given by Zenith Corporation is $500,000. The fair value of net assets acquired is $510,000. Thus, the fair value of consideration given by Zenith Corporation is less than the fair value of net assets acquired, resulting in a bargain purchase.

References

Multiple Choice	Learning Objective: 01-02 Understand the development of standards related to acquisition accounting over time.
Difficulty: 3 Hard	Learning Objective: 01-05 Make calculations and business combination journal entries in the presence of a differential, goodwill, or a bargain purchase element.

25. Award: **10.00 points**

Based on the preceding information, what amount of goodwill will be reported in consolidated financial statements presented immediately following the combination if Zenith paid $500,000 for the acquisition?

- → $0
- $50,000
- $150,000
- $40,000

$0 is correct. This situation results in a bargain purchase because the fair value of consideration given by Zenith Corporation is less than the fair value of net assets acquired. In a bargain purchase scenario, goodwill is not recorded, rather a gain on bargain purchase is credited.

Investment in Plummet	510,000	
Cash		500,000
Gain on Bargain Purchase		10,000

References

Multiple Choice	Difficulty: 3 Hard	Learning Objective: 01-05 Make calculations and business combination journal entries in the presence of a differential, goodwill, or a bargain purchase element.

Mercury Corporation acquired 100 percent of the stock of Jupiter Company when the book value of Jupiter's net assets was $250,000. The fair value of Jupiter's net assets was $280,000 on the acquisition date.

26. Award: **10.00 points**

Based on the preceding information, what amount of goodwill will be reported in consolidated financial statements presented immediately following the combination if Mercury paid $295,000 for the acquisition?

- $0
- $5,000
- → $15,000
- $45,000

$15,000 is correct. The fair value of consideration given ($295,000) is $15,000 greater than the fair value of net assets acquired ($280,000). The fair value of Jupiter's net assets should be used rather than the book value.

References

Multiple Choice	Difficulty: 3 Hard	Learning Objective: 01-05 Make calculations and business combination journal entries in the presence of a differential, goodwill, or a bargain purchase element.

27. Award: **10.00 points**

Based on the preceding information, what amount will be recorded by Mercury as its investment in Jupiter if it paid $275,000 for the acquisition?

- $250,000
- $275,000
- → $280,000
- $300,000

$280,000 is correct based on the calculation and journal entry below.

Fair value of consideration given	$ 275,000	
Fair value of net assets acquired	(280,000)	
Gain on bargain purchase	$ 5,000	
Investment in Jupiter	280,000	
Cash		275,000
Gain on Bargain Purchase		5,000

Fair value is used in the calculation because this situation represents an external expansion.

References

Multiple Choice	Learning Objective: 01-02 Understand the development of standards related to acquisition accounting over time.
Difficulty: 3 Hard	Learning Objective: 01-05 Make calculations and business combination journal entries in the presence of a differential, goodwill, or a bargain purchase element.

28. Award: **10.00 points**

Based on the preceding information, what amount of goodwill will be reported in consolidated financial statements presented immediately following the combination if Mercury paid $275,000 for the acquisition?

- ($5,000)
- → $0
- $5,000
- $25,000

$0 is correct. No goodwill is reported in the consolidated financial statements because the fair value of consideration given is less than the fair value of net assets acquired. This scenario is a bargain purchase depicted below.

Fair value of consideration given	$ 275,000	
Fair value of net assets acquired	(280,000)	
Gain on bargain purchase	$ 5,000	
Investment in Jupiter	280,000	
Cash		275,000
Gain on Bargain Purchase		5,000

References

Multiple Choice	Difficulty: 3 Hard	Learning Objective: 01-05 Make calculations and business combination journal entries in the presence of a differential, goodwill, or a bargain purchase element.

29. Award: **10.00 points**

The fair value of net identifiable assets of a reporting unit of X Company is $300,000. On X Company's books, the carrying value of this reporting unit's net assets is $350,000, which includes $60,000 of goodwill. If the fair value of the reporting unit as a whole is $335,000, what amount of goodwill impairment will be recognized for this unit?

- $0
- → $15,000
- $25,000
- $35,000

$15,000 is correct. The fair value of the reporting unit *as a whole* is $335,000. The book value of the reporting unit is $350,000. Because the fair value is less than the book value, an impairment loss occurs of $15,000. This $15,000 loss is a reduction in goodwill to $45,000 from $60,000.
$0 is incorrect. The fair value of the reporting unit is less than the book value of the reporting unit, resulting in an impairment loss.
$25,000 and $35,000 are incorrect. The amount of goodwill impairment is only $15,000. The key in this question is the phrase "*as a whole*" which renders the $300,000 amount useless for the purposes of this question.

References

Multiple Choice	Difficulty: 3 Hard	Learning Objective: 01-05 Make calculations and business combination journal entries in the presence of a differential, goodwill, or a bargain purchase element.

30. Award: **10.00 points**

The fair value of net identifiable assets of a reporting unit of Y Company is $270,000. The carrying value of the reporting unit's net assets on Y Company's books is $320,000, including $50,000 of goodwill before any impairment. If the reported goodwill impairment for the unit is $10,000, what would be the fair value of the entire reporting unit?

- $320,000
- → $310,000
- $270,000
- $290,000

$310,000 is correct. The fair value of consideration given is $320,000. The fair value of net identifiable assets is $270,000. The difference is $50,000 of goodwill as described in the question. If goodwill is impaired by $10,000, then goodwill is now reported as $40,000. $40,000 of goodwill + the fair value of net identifiable assets ($270,000) equals $310,000, the fair value of the entire reporting unit.
$320,000 is incorrect. This answer choice does not take into account the impairment of goodwill.
$270,000 is incorrect. This answer choice represents the fair value of net assets acquired only and does not take into consideration the amount of goodwill on Y Company's books.

References

Multiple Choice	Difficulty: 3 Hard	Learning Objective: 01-05 Make calculations and business combination journal entries in the presence of a differential, goodwill, or a bargain purchase element.

Following its acquisition of the net assets of Dan Company, Empire Company assigned goodwill of $60,000 to one of the reporting divisions. Information for this division follows:

	Carrying Amount	Fair Value
Cash	$ 20,000	$ 20,000
Inventory	35,000	40,000
Equipment	125,000	160,000
Goodwill	60,000	
Accounts Payable	30,000	30,000

31. Award: **10.00 points**

Based on the preceding information, what amount of goodwill will be reported for this division – after any necessary impairments – if the fair value of the entire reporting unit is determined to be $200,000?

- $0
- $60,000
- $30,000
- → $50,000

$50,000 is correct. Currently, Empire Company is reporting this division with a book value of $210,000. (Cash $20,000 + Inventory $35,000 + Equipment $125,000 + Goodwill $60,000 – Accounts Payable $30,000.) If the fair value is determined to be $200,000, then goodwill is impaired by this $10,000 difference, thus goodwill should be reported as $50,000.
$0 is incorrect. The fair value of Empire's division is less than its book value thus requiring an impairment to goodwill. However, the impairment loss of $10,000 does not reduce goodwill to $0, rather to $50,000.
$60,000 is incorrect. The fair value of Empire's division is less than its book value thus requiring an impairment to goodwill. Goodwill is reduced by $10,000 and does not remain at $60,000.
$30,000 is incorrect. The fair value of Empire's division is less than its book value thus requiring an impairment to goodwill. However, the impairment loss of $10,000 does not reduce goodwill to $30,000, rather to $50,000.

References

Multiple Choice	Difficulty: 3 Hard	Learning Objective: 01-05 Make calculations and business combination journal entries in the presence of a differential, goodwill, or a bargain purchase element.

32. Award: **10.00 points**

Based on the preceding information, what amount of goodwill impairment will be recognized for this division if its fair value is determined to be $195,000?

→ ○ $15,000

○ $30,000

○ $60,000

○ $55,000

$15,000 is correct. Currently, Empire Company is reporting this division with a book value of $210,000. (Cash $20,000 + Inventory $35,000 + Equipment $125,000 + Goodwill $60,000 – Accounts Payable $30,000.) If the fair value is determined to be $195,000, then goodwill is impaired by this $15,000 difference, thus goodwill should be reported as $45,000.

References

Multiple Choice	Difficulty: 3 Hard	Learning Objective: 01-05 Make calculations and business combination journal entries in the presence of a differential, goodwill, or a bargain purchase element.

33. Award: **10.00 points**

Based on the preceding information, what amount of amount of goodwill impairment will be recognized for this division if its fair value is determined to be $245,000?

→ ○ $0

○ $5,000

○ $60,000

○ $55,000

$0 is correct. Currently, Empire Company is reporting this division with a book value of $210,000. (Cash $20,000 + Inventory $35,000 + Equipment $125,000 + Goodwill $60,000 – Accounts Payable $30,000.) If the fair value is determined to be $245,000, then goodwill is not impaired because fair value is greater than book value. The fair value of $245,000 is greater than the book value of $210,000 on Empire's books, thus resulting in no goodwill impairment.

References

Multiple Choice	Difficulty: 3 Hard	Learning Objective: 01-05 Make calculations and business combination journal entries in the presence of a differential, goodwill, or a bargain purchase element.

Public Equity Corporation acquired Lenore Company through an exchange of common shares. All of Lenore's assets and liabilities were immediately transferred to Public Equity. Public's common stock was trading at $20 per share at the time of exchange. Following selected information is also available.

	Public Equity	
	Before acquisition	After acquisition
Par value of shares outstanding	$ 200,000	$ 250,000
Additional paid-in capital	$ 350,000	$ 550,000

34. Award: **10.00 points**

Based on the preceding information, what number of shares was issued at the time of the exchange?

- 5,000
- 17,500
- → 12,500
- 10,000

12,500 is correct. After acquisition, Public Equity's stock equals $800,000 ($250,000 + $550,000). Before acquisition, Public Equity's stock equals $550,000 ($200,000 + $350,000). The difference of $250,000 represents the acquisition of Lenore Company. $250,000 ÷ $20 per share = 12,500 shares issued at the time of exchange.
10,000 is incorrect. This number is found by taking the difference between additional paid-in capital before and after acquisition ($200,000) and dividing it by $20 per share. However, the total value of stock is required to determine the number of shares issued.

References

Multiple Choice	Learning Objective: 01-01 Understand and explain the reasons for and different methods of business expansion, the types of organizational structures, and the types of acquisitions.
Difficulty: 3 Hard	Learning Objective: 01-05 Make calculations and business combination journal entries in the presence of a differential, goodwill, or a bargain purchase element.

35. Award: **10.00 points**

Based on the preceding information, what is the par value of Public's common stock?

- $10
- $1
- $5
- → $4

$4 is correct. The difference between the par value of shares outstanding before and after acquisition is $50,000 ($250,000 – $200,000). After acquisition, Public Equity's stock equals $800,000 ($250,000 + $550,000). Before acquisition, Public Equity's stock equals $550,000 ($200,000 + $350,000). The difference of $250,000 represents the acquisition of Lenore Company. $250,000 ÷ $20 per share = 12,500 shares issued at the time of exchange. $50,000 ÷ 12,500 shares = $4 par value.

References

Multiple Choice	Learning Objective: 01-01 Understand and explain the reasons for and different methods of business expansion, the types of organizational structures, and the types of acquisitions.
Difficulty: 3 Hard	Learning Objective: 01-05 Make calculations and business combination journal entries in the presence of a differential, goodwill, or a bargain purchase element.

36. Award: **10.00 points**

Based on the preceding information, what is the fair value of Lenore's net assets, if goodwill of $56,000 is recorded?

- $306,000
- $244,000
- → $194,000
- $300,000

$194,000 is correct. The fair value of consideration given by Public Equity Corporation is $250,000 ($800,000 – $550,000). If goodwill of $56,000 is recorded, then the fair value of Lenore's identifiable net assets must be $194,000. This problem backs into the fair value of net assets by providing the amount of goodwill.

Fair value of consideration given	$ 250,000
Goodwill	(56,000)
Fair value of net assets acquired	$ 194,000

References

Multiple Choice	Learning Objective: 01-02 Understand the development of standards related to acquisition accounting over time.
Difficulty: 3 Hard	Learning Objective: 01-05 Make calculations and business combination journal entries in the presence of a differential, goodwill, or a bargain purchase element.

Nash Company acquired Seel Corporation through an exchange of common shares. All of Seel's assets and liabilities were immediately transferred to Nash. Nash's common stock was trading at $25 per share at the time of the exchange. The total par value of Nash's stock outstanding before and after the acquisition was $750,000 and $840,000, respectively. Nash's additional paid-in capital before and after the acquisition were $200,000 and $560,000, respectively.

37. Award: **10.00 points**

Based on the preceding information, what number of shares did Nash issue at the time of the exchange?

- 3,600
- 5,000
- 14,400
- → 18,000

18,000 is correct. After acquisition, Nash Company's stock equals $1,400,000 ($840,000 + $560,000). Before acquisition, Nash Company's stock equals $950,000 ($750,000 + $200,000). The difference of $450,000 represents the acquisition of Seel Company. $450,000 ÷ $25 per share = 18,000 shares issued at the time of exchange.
14,400 is incorrect. This number is found by taking the difference between additional paid-in capital before and after acquisition ($360,000) and dividing it by $25 per share. However, the total value of stock is required to determine the number of shares issued.

References

Multiple Choice	Learning Objective: 01-01 Understand and explain the reasons for and different methods of business expansion, the types of organizational structures, and the types of acquisitions.
Difficulty: 3 Hard	Learning Objective: 01-05 Make calculations and business combination journal entries in the presence of a differential, goodwill, or a bargain purchase element.

38. Award: **10.00 points**

Based on the preceding information, what is the par value of Nash's common stock?

- $1
- → $5
- $6
- $18

$5 is correct. The difference between the par value of shares outstanding before and after acquisition is $90,000 ($840,000 – $750,000). After acquisition, Nash Company's stock equals $1,400,000; before acquisition, Nash Company's stock equals $950,000. The difference of $450,000 represents the acquisition of Seel Company. $450,000 ÷ $25 per share = 18,000 shares issued at the time of exchange. $90,000 ÷ 18,000 shares = $5 par value.

References

Multiple Choice	Learning Objective: 01-01 Understand and explain the reasons for and different methods of business expansion, the types of organizational structures, and the types of acquisitions.
Difficulty: 3 Hard	Learning Objective: 01-05 Make calculations and business combination journal entries in the presence of a differential, goodwill, or a bargain purchase element.

39. Award: **10.00 points**

Based on the preceding information, what is the fair value of Seel's net assets if goodwill of $20,000 is recorded in the acquisition?

→ $430,000

$470,000

$540,000

$580,000

$430,000 is correct. The fair value of consideration given by Nash Company is $450,000 ($1,400,000 – $950,000). If goodwill of $20,000 is recorded, then the fair value of Seel's identifiable net assets must be $430,000. This problem backs into the fair value of net assets by providing the amount of goodwill.

Fair value of consideration given	$ 450,000
Goodwill	(20,000)
Fair value of net assets acquired	$ 430,000

References

Multiple Choice	Learning Objective: 01-02 Understand the development of standards related to acquisition accounting over time.
Difficulty: 3 Hard	Learning Objective: 01-05 Make calculations and business combination journal entries in the presence of a differential, goodwill, or a bargain purchase element.

Pursuing an inorganic growth strategy, Wilson Company acquired Venus Company's net assets and assigned them to four separate reporting divisions. Wilson assigned total goodwill of $134,000 to the four reporting divisions as given below:

	Alpha	Beta	Gamma	Delta
Carrying value	$ 200,000	$ 320,000	$ 370,000	$ 300,000
Goodwill included in carrying value	20,000	34,000	50,000	30,000
Fair value of net identifiable assets at year-end	150,000	300,000	390,000	280,000
Fair value of reporting unit at year-end	180,000	350,000	360,000	295,000

40. Award: **10.00 points**

Based on the preceding information, what amount of goodwill will be reported for Alpha at year-end?

→ $0

$20,000

$30,000

$10,000

$0 is correct. At year-end, the fair value of the Alpha reporting unit is $180,000. The carrying value of Alpha at year-end is $20,000 greater at $200,000. An impairment loss of $20,000 will be applied to goodwill to reduce the carrying value to the fair value. This impairment loss will effectively eliminate goodwill for the Alpha division.
$20,000 is incorrect. Goodwill is impaired by $20,000, thus reducing the amount to zero for Alpha.

References

Multiple Choice	Difficulty: 3 Hard	Learning Objective: 01-05 Make calculations and business combination journal entries in the presence of a differential, goodwill, or a bargain purchase element.

41. Award: **10.00 points**

Based on the preceding information, what amount of goodwill will be reported for Beta at year-end?

- $0
- $14,000
- → $34,000
- $50,000

$34,000 is correct. Beta will report goodwill of $34,000 because the fair value of the Beta division is greater than the carrying value. This means that no impairment loss is necessary, and goodwill remains at $34,000. Goodwill will be tested for impairment at the next year-end.
Goodwill does not change for Beta at year-end because the fair value of the reporting unit is greater than the carrying value.

References

Multiple Choice	Difficulty: 3 Hard	Learning Objective: 01-05 Make calculations and business combination journal entries in the presence of a differential, goodwill, or a bargain purchase element.

42. Award: **10.00 points**

Based on the preceding information, for Gamma

- no goodwill should be reported at year-end.
- goodwill impairment of $30,000 should be recognized at year-end.
- goodwill impairment of $20,000 should be recognized at year-end.
- → goodwill of $40,000 should be reported at year-end.

Goodwill of $40,000 should be reported at year-end is correct. The fair value of the Gamma reporting unit is $10,000 less than the carrying value. Thus, an impairment loss is necessary. Goodwill is impaired by $10,000, reducing its value to $40,000.
No goodwill should be reported at year-end is incorrect. Goodwill should be reported at year-end because the fair value was only $10,000 less than the carrying value.

References

Multiple Choice	Difficulty: 3 Hard	Learning Objective: 01-05 Make calculations and business combination journal entries in the presence of a differential, goodwill, or a bargain purchase element.

43. Award: **10.00 points**

Based on the preceding information, for Delta:

- no goodwill should be reported at year-end.
- → goodwill impairment of $5,000 should be recognized at year-end.
- goodwill impairment of $20,000 should be recognized at year-end.
- goodwill of $30,000 should be reported at year-end.

Goodwill impairment of $5,000 should be recognized at year-end is correct. The fair value of the Delta reporting division is $5,000 less than the carrying value. Thus, an impairment loss is necessary. Goodwill is impaired by $5,000, reducing its value to $25,000.

References

Multiple Choice	Difficulty: 3 Hard	Learning Objective: 01-05 Make calculations and business combination journal entries in the presence of a differential, goodwill, or a bargain purchase element.

44. Award: **10.00 points**

Based on the preceding information, what would be the total amount of goodwill that Wilson should report at year-end?

- $0
- → $99,000
- $79,000
- $94,000

$99,000 is correct. Alpha $0 + Beta $34,000 + Gamma $40,000 + Delta $25,000 = $99,000.

References

Multiple Choice	Difficulty: 3 Hard	Learning Objective: 01-05 Make calculations and business combination journal entries in the presence of a differential, goodwill, or a bargain purchase element.

45. Award: **10.00 points**

Which of the following observations is (are) consistent with the acquisition method of accounting for business combinations?

I. Expenses related to the business combination are expensed.
II. Stock issue costs are treated as a reduction in the issue price.
III. All merger and stock issue costs are expensed.
IV. No goodwill is ever recorded.

- III
- IV
- → I and II
- I, II, and IV

I and II are correct. I and II are consistent with the acquisition method of accounting for business combinations. All costs of bringing about and consummating a business combination are charged to an acquisition expense as incurred. Examples of traceable costs include finders' fees, consulting fees, travel costs, and so on. The costs of issuing equity securities used to acquire the acquiree are treated in the same manner as stock issues costs are normally treated, as a reduction in the paid-in capital associated with the securities.
III is not consistent with the acquisition method of accounting for business combinations.
IV is incorrect because goodwill is often recorded. Under the acquisition method, an acquirer measures and recognizes goodwill from a business combination based on the difference between the total fair value of the acquired company and the fair value of its net identifiable assets.

References

Multiple Choice	Difficulty: 1 Easy	Learning Objective: 01-05 Make calculations and business combination journal entries in the presence of a differential, goodwill, or a bargain purchase element.

46. Award: **10.00 points**

Which of the following observations refers to the term differential?

- ○ Excess of consideration exchanged over fair value of net identifiable assets.
- ○ Excess of fair value over book value of net identifiable assets.
- → ○ Excess of consideration exchanged over book value of net identifiable assets.
- ○ Excess of fair value over historical cost of net identifiable assets.

Excess of consideration exchanged over book value of net identifiable assets is correct. The total difference at the acquisition date between the fair value of the consideration exchanged and the book value of the net identifiable assets acquired is referred to as the differential. The image below provides a graphic to understand the differential versus goodwill. The numbers are arbitrary for the purposes of this question.

Total differential $310,000	Goodwill $100,000	Fair value of consideration $610,000
	Excess fair value of net identifiable assets $210,000	Fair value of net identifiable assets $510,000
	Book value of net identifiable assets $300,000	Book value of net identifiable assets $300,000

References

Multiple Choice	Difficulty: 1 Easy	Learning Objective: 01-05 Make calculations and business combination journal entries in the presence of a differential, goodwill, or a bargain purchase element.

47. Award: **10.00 points**

Which of the following observations concerning "goodwill" is NOT correct?

- → ○ Once written down, it may be written up for recoveries.
- ○ It must be tested for impairment at least annually.
- ○ A goodwill impairment loss must be reported as a separate line item within income from continuing operations unless it relates to discontinued operations.
- ○ It must be reported as a separate line item in the balance sheet.

Once written down, it may be written up for recoveries is correct. Once written down, goodwill may *not* be written up for subsequent recoveries.
It must be tested for impairment at least annually is incorrect. The statement is true, thus making the answer choice false. Goodwill is tested for impairment at least annually.
A goodwill impairment loss must be reported as a separate line item within income from continuing operations unless it relates to discontinued operations is incorrect. The statement is true, thus making the answer choice false. A goodwill impairment loss is reported as a separate line item within income from continuing operations unless it relates to discontinued operations. If a goodwill impairment loss relates to discontinued operations, then the loss will be reported under the discontinued operations section of the income statement.
It must be reported as a separate line item in the balance sheet is incorrect. The statement is true, thus making the answer choice false. Goodwill must be reported as a separate line item in the balance sheet.

References

Multiple Choice	Difficulty: 1 Easy	Learning Objective: 01-05 Make calculations and business combination journal entries in the presence of a differential, goodwill, or a bargain purchase element.

48. Award: **10.00 points**

Big Company acquired the following assets and liabilities of Little Company (fair values listed below) for $470,000 cash.

Inventory	$ 70,000
Land	100,000
Buildings and Equipment	320,000
Current Liabilities	50,000

Assuming these items are all recorded at their acquisition date fair values, what additional item needs to be recorded and how will it be accounted for in the future?

→ ◯ $30,000 Goodwill, capitalized and tested for impairment

◯ $30,000 Bargain purchase, recognized in current earnings

◯ $30,000 Bargain purchase, capitalized and recognized over time

◯ $30,000 Goodwill, capitalized and amortized over time

$30,000 Goodwill, capitalized and tested for impairment is correct. The fair value of the consideration given, $470,000, exceeds the acquisition-date fair value of Little Company's net identifiable assets, $440,000, by $30,000. This $30,000 difference is capitalized and tested annually for impairment. The journal entry to record the acquisition is below.

Investment in Little Company	440,000		($70,000 + $100,000 + $320,000 – $50,000)
Goodwill	30,000		
Cash		470,000	

$30,000 Bargain purchase, recognized in current earnings is incorrect. This situation is not a bargain purchase because the fair value of consideration given exceeds the acquisition-date fair value of Little Company's net identifiable assets.
Goodwill is no longer amortized over time. The FASB ruled that goodwill, rather, is tested annually for impairment. Private companies, however, have the option of amortizing goodwill on a straight-line basis over a period not to exceed 10 years.

References

Multiple Choice	Difficulty: 3 Hard	Learning Objective: 01-05 Make calculations and business combination journal entries in the presence of a differential, goodwill, or a bargain purchase element.

49. Award: **10.00 points**

Company X acquired for cash all of the outstanding common stock of Company Y. How should Company X determine in general the amounts to be reported for the inventories and long-term debt acquired from Company Y?

	Inventories	Long-term debt
A.	Fair value	Fair value
B.	Fair value	Recorded value
C.	Recorded value	Fair value
D.	Recorded value	Recorded value

→ ◯ Option A

◯ Option B

◯ Option C

◯ Option D

Option A is correct. The acquiring company, Company X, accounts for the combination by recording each asset acquired, each liability assumed, and the consideration given in exchange at fair value.

References

Multiple Choice	Difficulty: 2 Medium	Learning Objective: 01-05 Make calculations and business combination journal entries in the presence of a differential, goodwill, or a bargain purchase element.

50. Award: **10.00 points**

Point Company purchased 90 percent of Sharpe Corporation's voting stock on January 1, 20X2 for $5,580,000. Prior to the acquisition, Point held a 10 percent equity position in Sharpe Company. On January 1, 20X2 Pointe's 10 percent investment in Sharpe has a book value of $340,000 and a fair value of $620,000. On January 1, 20X2 Point records the following:

- debit Gain on Revaluation of Sharpe's Stock $280,000.
- → credit Gain on Revaluation of Sharpe's Stock $280,000.
- credit Investment in Sharpe Stock $5,860,000.
- debit Investment in Sharpe Stock $6,200,000.

Credit Gain on Revaluation of Sharpe's Stock $280,000 is correct. An acquirer that held an equity position in an acquiree immediately prior to the acquisition date must revalue that equity position to its fair value at the acquisition date and recognize a gain or loss on the revaluation. In this case, Point Company must recognize a gain of $280,000 ($620,000 – $340,000). The journal entry would be as follows:

Investment in Sharpe Company Stock	280,000	
Gain on Revaluation of Sharpe Company Stock		280,000

Debit Gain on Revaluation of Sharpe's Stock $280,000 is incorrect. There would be a credit on revaluation of Sharpe's stock, not a debit.
Credit Investment in Sharpe Stock $5,860,000 is incorrect. There would be a debit to the investment account, not a credit.

Debit Investment in Sharpe Stock $6,200,000 is incorrect. The debit to investment in Sharpe stock would be for $5,580,000. The remaining 10 percent of Sharpe Corporation's voting stock has already been recognized in a prior entry and remeasured before the acquisition date.

References

Multiple Choice	Difficulty: 3 Hard	Learning Objective: 01-06 Understand additional considerations associated with business combinations.

51. Award: **10.00 points**

The length of the measurement period allowed to value the assets and liabilities in an acquired business combination starts on the date of acquisition and lasts until:

- All necessary information about the facts of the acquisition is obtained
- All necessary information about the facts of the acquisition is obtained, not to exceed one month
- All necessary information about the facts of the acquisition is obtained, not to exceed one reporting period
- → All necessary information about the facts of the acquisition is obtained, not to exceed one year

All necessary information about the facts of the acquisition is obtained, not to exceed one year is correct. One type of uncertainty in business combinations arises from numerous required fair value measurements. Because the acquirer may not have sufficient information available immediately to properly ascertain fair values, ASC 805 allows for a period of time, called the measurement period, to acquire the necessary information. The measurement period ends once the acquirer obtains the necessary information about the facts as of the acquisition date but may not exceed one year beyond the acquisition date.

All necessary information about the facts of the acquisition is obtained is incorrect. This answer choice does not list a timeframe of the measurement period, that being one year.

References

Multiple Choice	Difficulty: 1 Easy	Learning Objective: 01-06 Understand additional considerations associated with business combinations.

52. Award: **10.00 points**

ASC 805 requires contingent consideration in a business combination to be classified as:

- an asset.
- → a liability or equity.
- an asset or equity.
- an asset or a liability.

A liability or equity is correct. ASC 805 requires contingent consideration in a business combination to be valued at fair value as of the acquisition date (and classified as either a liability or equity).

References

Multiple Choice	Difficulty: 1 Easy	Learning Objective: 01-06 Understand additional considerations associated with business combinations.

53. Award: **10.00 points**

For all acquired contingencies, the acquirer should do all of the following except:

- → provide documentation from the acquirer's attorney regarding pending lawsuits and loan guarantees.
- provide a description of each contingency.
- disclose the amount recognized at the acquisition date.
- describe the estimated range of possible undiscounted outcomes of the contingency.

Provide documentation from the acquirer's attorney regarding pending lawsuits and loan guarantees is correct. The acquirer does not need to provide documentation from the acquirer's attorney regarding pending lawsuits and loan guarantees. Note that the accounting for acquiree contingencies is no different from the accounting for any other contingency.

References

Multiple Choice	Difficulty: 2 Medium	Learning Objective: 01-06 Understand additional considerations associated with business combinations.

54. Award: **10.00 points**

ASC 805 requires that acquired ongoing research and development projects be treated in all of the following ways except:

- recorded at acquisition-date fair values.
- classified as intangible assets having indefinite lives.
- → expensed immediately.
- tested for impairment periodically.

Expensed immediately is correct. The FASB concluded in ASC 805 that these projects are assets and should be recorded at their acquisition-date fair values, even if they have no alternative use. These projects should be classified as having indefinite lives and, therefore, should not be amortized until completed and brought to market. They should be tested for impairment in accordance with current standards.

References

Multiple Choice	Difficulty: 2 Medium	Learning Objective: 01-06 Understand additional considerations associated with business combinations.

55. Award: **10.00 points**

On January 1, 20X2, Alaska Corporation acquired Mercantile Corporation's net assets by paying $160,000 cash. Balance sheet data for the two companies and fair value information for Mercantile Corporation immediately before the business combination are given below:

	Alaska	Mercantile	
	Book Value	Book Value	Fair Value
Cash	$ 200,000	$ 30,000	$ 30,000
Accounts Receivable	40,000	22,000	22,000
Inventory	120,000	25,000	36,000
Patents	50,000	20,000	40,000
Buildings and Equipment	330,000	250,000	150,000
Less: Accumulated Depreciation	(140,000)	(150,000)	
Total Assets	$ 600,000	$ 197,000	$ 278,000
Accounts Payable	$ 85,000	$ 55,000	$ 55,000
Notes Payable	100,000	80,000	80,000
Common Stock:			
$5 par value	120,000		
$2 par value		20,000	
Additional Paid-In Capital	140,000	25,000	
Retained Earnings	155,000	17,000	
Total Liabilities and Equities	$ 600,000	$ 197,000	

Required:

Prepare the journal entry to record the acquisition of Mercantile Corporation.

Cash	30,000	
Accounts Receivable	22,000	
Inventory	36,000	
Patents	40,000	
Buildings and Equipment	150,000	
Goodwill	*17,000*	
Accounts Payable		55,000
Notes Payable		80,000
Cash		160,000

Or if the cash paid is reported net of cash received:

Accounts Receivable	22,000	
Inventory	36,000	
Patents	40,000	
Buildings and Equipment	150,000	
Goodwill	*17,000*	
Accounts Payable		55,000
Notes Payable		80,000
Cash		130,000

References

Essay	Learning Objective: 01-02 Understand the development of standards related to acquisition accounting over time.
Difficulty: 3 Hard	Learning Objective: 01-05 Make calculations and business combination journal entries in the presence of a differential, goodwill, or a bargain purchase element.

56. Award: **10.00 points**

On January 1, 20X2, Line Corporation acquired all of the common stock of Staff Company for $300,000. On that date, Staff's identifiable net assets had a fair value of $250,000. The assets acquired in the purchase of Staff are considered to be a separate reporting unit of Line Corporation. The carrying value of Staff's net assets at December 31, 20X2, is $310,000. The fair value of the reporting unit is determined to be 260,000.

Required:

1) Explain how goodwill is tested for impairment for a reporting unit.
2) Determine the amount, if any, of impairment loss to be recognized at December 31, 20X2.

1. To test for the impairment of goodwill, the fair value of the reporting unit is compared with its carrying amount. If the fair value of the reporting unit exceeds its carrying amount, the goodwill of that reporting unit is considered unimpaired. On the other hand, if the carrying amount of the reporting unit exceeds its fair value, an impairment of the reporting unit's goodwill is measured as the excess of the carrying amount of the reporting unit over the fair value of the reporting unit.
2. The $310,000 carrying value exceeds the $260,000 fair value, indicating impairment. Impairment loss = Carrying value ($310,000) − Fair value ($260,000) = $50,000.

References

Essay	Difficulty: 3 Hard	Learning Objective: 01-05 Make calculations and business combination journal entries in the presence of a differential, goodwill, or a bargain purchase element.

57. Award: **10.00 points**

SeaLine Corporation is involved in the distribution of processed marine products. The fair values of assets and liabilities held by three reporting units and other information related to the reporting units owned by SeaLine are as follows:

	Unit X	Unit Y	Unit Z
Cash	$ 15,000	$ 45,000	$ 35,000
Accounts Receivables	15,000	18,000	10,000
Inventory	35,000	60,000	35,000
Land	30,000	45,000	20,000
Buildings	120,000	80,000	50,000
Equipment	140,000	45,000	50,000
Accounts Payable	25,000	45,000	25,000
Fair Value of Reporting Unit	360,000	230,000	220,000
Carrying Value of Investment	375,000	240,000	240,000
Goodwill Included in Carrying Value	50,000	25,000	40,000

Required:
Determine the amount of goodwill that SeaLine should report in its current financial statements.

	Unit X	Unit Y	Unit Z
Goodwill included in carrying value	$ 50,000	$ 25,000	$ 40,000
Implied goodwill at year-end	30,000	0	45,000
Goodwill to be reported at year-end	30,000	0	40,000

Total Goodwill reported = $70,000

References

Essay	Difficulty: 3 Hard	Learning Objective: 01-05 Make calculations and business combination journal entries in the presence of a differential, goodwill, or a bargain purchase element.