

**Chapter 02****Consolidation of Financial Information****Multiple Choice Questions**

1. At the date of an acquisition which is not a bargain purchase, the acquisition method
- A. consolidates the subsidiary's assets at fair value and the liabilities at book value.
  - B. consolidates all subsidiary assets and liabilities at book value.
  - C. consolidates all subsidiary assets and liabilities at fair value.
  - D. consolidates current assets and liabilities at book value, long-term assets and liabilities at fair value.
  - E. consolidates the subsidiary's assets at book value and the liabilities at fair value.
2. In an acquisition where control is achieved, how would the land accounts of the parent and the land accounts of the subsidiary be combined?

	<u>Parent</u>	<u>Subsidiary</u>
A)	Book Value	Book Value
B)	Book Value	Fair Value
C)	Fair Value	Fair Value
D)	Fair Value	Book Value
E)	Cost	Cost

- A. Entry A.
- B. Entry B.
- C. Entry C.
- D. Entry D.
- E. Entry E.

3. Lisa Co. paid cash for all of the voting common stock of Victoria Corp. Victoria will continue to exist as a separate corporation. Entries for the consolidation of Lisa and Victoria would be recorded in

- A. a worksheet.
- B. Lisa's general journal.
- C. Victoria's general journal.
- D. Victoria's secret consolidation journal.
- E. the general journals of both companies.

4. Using the acquisition method for a business combination, goodwill is generally defined as:

- A. Cost of the investment less the subsidiary's book value at the beginning of the year.
- B. Cost of the investment less the subsidiary's book value at the acquisition date.
- C. Cost of the investment less the subsidiary's fair value at the beginning of the year.
- D. Cost of the investment less the subsidiary's fair value at acquisition date.
- E. is no longer allowed under federal law.

5. Direct combination costs and stock issuance costs are often incurred in the process of making a controlling investment in another company. How should those costs be accounted for in a pre-2009 purchase transaction?

	<u>Direct Combination Costs</u>	<u>Stock Issuance Costs</u>
A)	Increase Investment	Decrease Investment
B)	Increase Investment	Decrease Paid-In Capital
C)	Increase Investment	Increase Expenses
D)	Decrease Paid-In Capital	Increase Investment
E)	Increase Expenses	Decrease Investment

- A. Entry A.
- B. Entry B.
- C. Entry C.
- D. Entry D.
- E. Entry E.

6. How are direct and indirect costs accounted for when applying the acquisition method for a business combination?

	<u>Direct Costs</u>	<u>Indirect Costs</u>
A.	Expensed	Expensed
B.	Increase investment account	Decrease additional paid-in capital
C.	Expensed	Decrease additional paid-in capital
D.	Increase investment account	Expensed
E.	Increase investment account	Increase investment account

- A. Entry A.
- B. Entry B.
- C. Entry C.
- D. Entry D.
- E. Entry E.

7. What is the *primary* accounting difference between accounting for when the subsidiary is dissolved and when the subsidiary retains its incorporation?

- A. If the subsidiary is dissolved, it will not be operated as a separate division.
- B. If the subsidiary is dissolved, assets and liabilities are consolidated at their book values.
- C. If the subsidiary retains its incorporation, there will be no goodwill associated with the acquisition.
- D. If the subsidiary retains its incorporation, assets and liabilities are consolidated at their book values.
- E. If the subsidiary retains its incorporation, the consolidation is not formally recorded in the accounting records of the acquiring company.

8. According to GAAP, the pooling of interest method for business combinations

- A. Is preferred to the purchase method.
- B. Is allowed for all new acquisitions.
- C. Is no longer allowed for business combinations after June 30, 2001.
- D. Is no longer allowed for business combinations after December 31, 2001.
- E. Is only allowed for large corporate mergers like Exxon and Mobil.

9. An example of a difference in types of business combination is:

- A. A statutory merger can only be effected by an asset acquisition while a statutory consolidation can only be effected by a capital stock acquisition.
- B. A statutory merger can only be effected by a capital stock acquisition while a statutory consolidation can only be effected by an asset acquisition.
- C. Both a statutory merger and a statutory consolidation requires dissolution of at least one company.
- D. A statutory consolidation requires dissolution of the acquired company while a statutory merger does not require dissolution.
- E. Both a statutory merger and a statutory consolidation can only be effected by an asset acquisition but only a statutory consolidation requires dissolution of the acquired company.

10. Acquired in-process research and development is considered as

- A. a definite-lived asset subject to amortization.
- B. a definite-lived asset subject to testing for impairment.
- C. an indefinite-lived asset subject to amortization.
- D. an indefinite-lived asset subject to testing for impairment.
- E. a research and development expense at the date of acquisition.

11. Which one of the following is a characteristic of a business combination accounted for as an acquisition?

- A. The combination must involve the exchange of equity securities only.
- B. The transaction establishes an acquisition fair value basis for the company being acquired.
- C. The two companies may be about the same size, and it is difficult to determine the acquired company and the acquiring company.
- D. The transaction may be considered to be the uniting of the ownership interests of the companies involved.
- E. The acquired subsidiary must be smaller in size than the acquiring parent.

12. Which one of the following is a characteristic of a business combination that is accounted for as an acquisition?

- A. Fair value only for items received by the acquirer can enter into the determination of the acquirer's accounting valuation of the acquired company.
- B. Fair value only for the consideration transferred by the acquirer can enter into the determination of the acquirer's accounting valuation of the acquired company.
- C. Fair value for the consideration transferred by the acquirer as well as the fair value of items received by the acquirer can enter into the determination of the acquirer's accounting valuation of the acquired company.
- D. Fair value for only consideration transferred and identifiable assets received by the acquirer can enter into the determination of the acquirer's accounting valuation of the acquired company.
- E. Only fair value of identifiable assets received enters into the determination of the acquirer's accounting valuation of the acquired company.

13. A *statutory merger* is a(n)

- A. business combination in which only one of the two companies continues to exist as a legal corporation.
- B. business combination in which both companies continues to exist.
- C. acquisition of a competitor.
- D. acquisition of a supplier or a customer.
- E. legal proposal to acquire outstanding shares of the target's stock.

14. How are *stock issuance costs* and *direct combination costs* treated in a business combination which is accounted for as an acquisition when the subsidiary will retain its incorporation?

- A. Stock issuance costs are a part of the acquisition costs, and the direct combination costs are expensed.
- B. Direct combination costs are a part of the acquisition costs, and the stock issuance costs are a reduction to additional paid-in capital.
- C. Direct combination costs are expensed and stock issuance costs are a reduction to additional paid-in capital.
- D. Both are treated as part of the acquisition consideration transferred.
- E. Both are treated as a reduction to additional paid-in capital.

Bullen Inc. acquired 100% of the voting common stock of Vicker Inc. on January 1, 20X1. The book value and fair value of Vicker's accounts on that date (prior to creating the combination) follow, along with the book value of Bullen's accounts:

	Bullen Book <u>Value</u>	Vicker Book <u>Value</u>	Vicker Fair <u>Value</u>
Retained earnings, 1/1/X1	\$250,000	\$240,000	
Cash and receivables	170,000	70,000	\$70,000
Inventory	230,000	170,000	210,000
Land	280,000	220,000	240,000
Buildings (net)	480,000	240,000	270,000
Equipment (net)	120,000	90,000	90,000
Liabilities	650,000	430,000	420,000
Common stock	360,000	80,000	
Additional paid-in capital	20,000	40,000	

15. Assume that Bullen issued 12,000 shares of common stock with a \$5 par value and a \$47 fair value to obtain all of Vicker's outstanding stock. In this acquisition transaction, how much goodwill should be recognized?

- A. \$144,000.
- B. \$104,000.
- C. \$64,000.
- D. \$60,000.
- E. \$0.

16. Assume that Bullen issued 12,000 shares of common stock with a \$5 par value and a \$42 fair value for all of the outstanding stock of Vicker. What is the consolidated Land as a result of this acquisition transaction?

- A. \$460,000.
- B. \$510,000.
- C. \$500,000.
- D. \$520,000.
- E. \$490,000.

17. Assume that Bullen issued 12,000 shares of common stock with a \$5 par value and a \$42 fair value for all of the outstanding shares of Vicker. What will be the consolidated Additional Paid-In Capital and Retained Earnings (January 1, 20X1 balances) as a result of this acquisition transaction?

- A. \$60,000 and \$490,000.
- B. \$60,000 and \$250,000.
- C. \$380,000 and \$250,000.
- D. \$464,000 and \$250,000.
- E. \$464,000 and \$420,000.

18. Assume that Bullen issued preferred stock with a par value of \$240,000 and a fair value of \$500,000 for all of the outstanding shares of Vicker in an acquisition business combination. What will be the balance in the consolidated Inventory and Land accounts?

- A. \$440,000, \$496,000.
- B. \$440,000, \$520,000.
- C. \$425,000, \$505,000.
- D. \$400,000, \$500,000.
- E. \$427,000, \$510,000.

19. Assume that Bullen paid a total of \$480,000 in cash for all of the shares of Vicker. In addition, Bullen paid \$35,000 for secretarial and management time allocated to the acquisition transaction. What will be the balance in consolidated goodwill?

- A. \$0.
- B. \$20,000.
- C. \$35,000.
- D. \$55,000.

20. Assume that Bullen paid a total of \$480,000 in cash for all of the shares of Vicker. In addition, Bullen paid \$35,000 to a group of attorneys for their work in arranging the combination to be accounted for as an acquisition. What will be the balance in consolidated goodwill?

- A. \$0.
- B. \$20,000.
- C. \$35,000.
- D. \$55,000.

Prior to being united in a business combination, Botkins Inc. and Volkerson Corp. had the following stockholders' equity figures:

	<u>Botkins</u>	<u>Volkerson</u>
Common stock (\$1 par value)	\$ 220,000	\$ 54,000
Additional paid-in capital	110,000	25,000
Retained earnings	360,000	130,000

Botkins issued 56,000 new shares of its common stock valued at \$3.25 per share for all of the outstanding stock of Volkerson.

21. Assume that Botkins acquired Volkerson on January 1, 2010. At what amount did Botkins record the investment in Volkerson?

- A. \$56,000.
- B. \$182,000.
- C. \$209,000.
- D. \$261,000.
- E. \$312,000.

22. Assume that Botkins acquired Volkerson on January 1, 2010. Immediately afterwards, what is consolidated Common Stock?

- A. \$456,000.
- B. \$402,000.
- C. \$274,000.
- D. \$276,000.
- E. \$330,000.



23. Chapel Hill Company had common stock of \$350,000 and retained earnings of \$490,000. Blue Town Inc. had common stock of \$700,000 and retained earnings of \$980,000. On January 1, 2011, Blue Town issued 34,000 shares of common stock with a \$12 par value and a \$35 fair value for all of Chapel Hill Company's outstanding common stock. This combination was accounted for as an acquisition. Immediately after the combination, what was the consolidated net assets?

- A. \$2,520,000.
- B. \$1,190,000.
- C. \$1,680,000.
- D. \$2,870,000.
- E. \$2,030,000.

24. Which of the following is a *not* a reason for a business combination to take place?

- A. Cost savings through elimination of duplicate facilities.
- B. Quick entry for new and existing products into domestic and foreign markets.
- C. Diversification of business risk.
- D. Vertical integration.
- E. Increase in stock price of the acquired company.

25. Which of the following statements is true regarding a statutory merger?

- A. The original companies dissolve while remaining as separate divisions of a newly created company.
- B. Both companies remain in existence as legal corporations with one corporation now a subsidiary of the acquiring company.
- C. The acquired company dissolves as a separate corporation and only the acquiring company survives.
- D. The acquiring company acquires the stock of the acquired company as an investment.
- E. A statutory merger is no longer a legal option.

26. Which of the following statements is true regarding a statutory consolidation?

- A. The original companies dissolve while remaining as separate divisions of a newly created company.
- B. Both companies remain in existence as legal corporations with one corporation now a subsidiary of the acquiring company.
- C. The acquired company dissolves as a separate corporation and becomes a division of the acquiring company.
- D. The acquiring company acquires the stock of the acquired company as an investment.
- E. A statutory consolidation is no longer a legal option.

27. In a transaction accounted for using the acquisition method where consideration transferred exceeds book value of the acquired company, which statement is true for the acquiring company with regard to its investment?

- A. Net assets of the acquired company are revalued to their fair values and any excess of consideration transferred over fair value of net assets acquired is allocated to goodwill.
- B. Net assets of the acquired company are maintained at book value and any excess of consideration transferred over book value of net assets acquired is allocated to goodwill.
- C. Acquired assets are revalued to their fair values. Acquired liabilities are maintained at book values. Any excess is allocated to goodwill.
- D. Acquired long-term assets are revalued to their fair values. Any excess is allocated to goodwill.

28. In a transaction accounted for using the acquisition method where consideration transferred is less than fair value of net assets acquired, which statement is true?

- A. Negative goodwill is recorded.
- B. A deferred credit is recorded.
- C. A gain on bargain purchase is recorded.
- D. Long-term assets of the acquired company are reduced in proportion to their fair values. Any excess is recorded as a deferred credit.
- E. Long-term assets and liabilities of the acquired company are reduced in proportion to their fair values. Any excess is recorded as an extraordinary gain.

29. Which of the following statements is true regarding the acquisition method of accounting for a business combination?

- A. Net assets of the acquired company are reported at their fair values.
- B. Net assets of the acquired company are reported at their book values.
- C. Any goodwill associated with the acquisition is reported as a development cost.
- D. The acquisition can only be effected by a mutual exchange of voting common stock.
- E. Indirect costs of the combination reduce additional paid-in capital.

30. Which of the following statements is true?

- A. The pooling of interests for business combinations is an alternative to the acquisition method.
- B. The purchase method for business combinations is an alternative to the acquisition method.
- C. Neither the purchase method nor the pooling of interests method is allowed for new business combinations.
- D. Any previous business combination originally accounted for under purchase or pooling of interests accounting method will now be accounted for under the acquisition method of accounting for business combinations.
- E. Companies previously using the purchase or pooling of interests accounting method must report a change in accounting principle when consolidating those subsidiaries with new acquisition combinations.

The financial statements for Goodwin, Inc., and Corr Company for the year ended December 31, 20X1, prior to Goodwin's acquisition business combination transaction regarding Corr, follow (in thousands):

	<u>Goodwin</u>	<u>Corr</u>
Revenues	\$2,700	\$600
Expenses	<u>1,980</u>	<u>400</u>
Net income	<u>\$ 720</u>	<u>\$200</u>
Retained earnings 1/1	\$2,400	\$400
Net income	720	200
Dividends	<u>(270)</u>	<u>(0)</u>
Retained earnings, 12/31	<u>\$2,850</u>	<u>\$600</u>
Cash	\$ 240	\$ 220
Receivables and inventory	1,200	340
Buildings (net)	2,700	600
Equipment (net)	<u>2,100</u>	<u>1,200</u>
Total assets	<u>\$6,240</u>	<u>\$2,360</u>
Liabilities	\$1,500	\$ 820
Common stock	1,080	400
Additional paid-in capital	810	540
Retained earnings	<u>2,850</u>	<u>600</u>
Total liabilities & stockholders' equity	<u>\$6,240</u>	<u>\$2,360</u>

On December 31, 20X1, Goodwin issued \$600 in debt and 30 shares of its \$10 par value common stock to the owners of Corr to acquire all of the outstanding shares of that company. Goodwin shares had a fair value of \$40 per share. Goodwin paid \$25 to a broker for arranging the transaction. Goodwin paid \$35 in stock issuance costs. Corr's equipment was actually worth \$1,400 but its buildings were only valued at \$560.

31. In this acquisition business combination, at what amount is the investment recorded on Goodwin's books?

- A. \$1,540.
- B. \$1,800.
- C. \$1,860.
- D. \$1,825.
- E. \$1,625.

32. In this acquisition business combination, what total amount of common stock and additional paid-in capital is recorded on Goodwin's books?

- A. \$265.
- B. \$1,165.
- C. \$1,200.
- D. \$1,235.
- E. \$1,765.

33. Compute the consolidated revenues for 20X1.

- A. \$2,700.
- B. \$720.
- C. \$920.
- D. \$3,300.
- E. \$1,540.

34. Compute the consolidated receivables and inventory for 20X1.

- A. \$1,200.
- B. \$1,515.
- C. \$1,540.
- D. \$1,800.
- E. \$2,140.

35. Compute the consolidated expenses for 20X1.

- A. \$1,980.
- B. \$2,005.
- C. \$2,040.
- D. \$2,380.
- E. \$2,405.

36. Compute the consolidated cash account at December 31, 20X1.

- A. \$460.
- B. \$425.
- C. \$400.
- D. \$435.
- E. \$240.

37. Compute the consolidated buildings (net) account at December 31, 20X1.

- A. \$2,700.
- B. \$3,370.
- C. \$3,300.
- D. \$3,260.
- E. \$3,340.

38. Compute the consolidated equipment (net) account at December 31, 20X1.

- A. \$2,100.
- B. \$3,500.
- C. \$3,300.
- D. \$3,000.
- E. \$3,200.

39. Compute the consideration transferred for this acquisition at December 31, 20X1.

- A. \$900.
- B. \$1,165.
- C. \$1,200.
- D. \$1,765.
- E. \$1,800.

40. Compute the goodwill arising from this acquisition at December 31, 20X1.

- A. \$0.
- B. \$100.
- C. \$125.
- D. \$160.
- E. \$45.

41. Compute the consolidated common stock account at December 31, 20X1.

- A. \$1,080.
- B. \$1,480.
- C. \$1,380.
- D. \$2,280.
- E. \$2,680.

42. Compute the consolidated additional paid-in capital at December 31, 20X1.

- A. \$810.
- B. \$1,350.
- C. \$1,675.
- D. \$1,910.
- E. \$1,875.

43. Compute the consolidated liabilities at December 31, 20X1.

- A. \$1,500.
- B. \$2,100.
- C. \$2,320.
- D. \$2,920.
- E. \$2,885.

44. Compute the consolidated retained earnings at December 31, 20X1.

- A. \$2,800.
- B. \$2,825.
- C. \$2,850.
- D. \$3,425.
- E. \$3,450.

On January 1, 20X1, the Moody company entered into a transaction for 100% of the outstanding common stock of Osorio Company. To acquire these shares, Moody issued \$400 in long-term liabilities and 40 shares of common stock having a par value of \$1 per share but a fair value of \$10 per share. Moody paid \$20 to lawyers, accountants, and brokers for assistance in bringing about this acquisition. Another \$15 was paid in connection with stock issuance costs. Prior to these transactions, the balance sheets for the two companies were as follows:

	<u>Moody</u>	<u>Osorio</u>
Cash	\$ 180	\$ 40
Receivables	810	180
Inventories	1,080	280
Land	600	360
Buildings (net)	1,260	440
Equipment (net)	480	100
Accounts payable	(450)	(80)
Long-term liabilities	(1,290)	(400)
Common stock (\$1 par)	(330)	
Common stock (\$20 par)		(240)
Additional paid-in capital	(1,080)	(340)
Retained earnings	(1,260)	(340)

Note: Parentheses indicate a credit balance.

In Moody's appraisal of Osorio, three assets were deemed to be undervalued on the subsidiary's books: Inventory by \$10, Land by \$40, and Buildings by \$60.

45. What amount was recorded as the investment in Osorio?
- A. \$930.
  - B. \$820.
  - C. \$800.
  - D. \$835.
  - E. \$815.



46. What amount was recorded as goodwill arising from this acquisition?

- A. \$230.
- B. \$120.
- C. \$520.
- D. None. There is a gain on bargain purchase of \$230.
- E. None. There is a gain on bargain purchase of \$265.

47. Compute the amount of consolidated inventories at date of acquisition.

- A. \$1,080.
- B. \$1,350.
- C. \$1,360.
- D. \$1,370.
- E. \$290.

48. Compute the amount of consolidated buildings (net) at date of acquisition.

- A. \$1,700.
- B. \$1,760.
- C. \$1,640.
- D. \$1,320.
- E. \$500.

49. Compute the amount of consolidated land at date of acquisition.

- A. \$1,000.
- B. \$960.
- C. \$920.
- D. \$400.
- E. \$320.

50. Compute the amount of consolidated equipment at date of acquisition.

- A. \$480.
- B. \$580.
- C. \$559.
- D. \$570.
- E. \$560.

51. Compute the amount of consolidated common stock at date of acquisition.

- A. \$370.
- B. \$570.
- C. \$610.
- D. \$330.
- E. \$530.

52. Compute the amount of consolidated additional paid-in capital at date of acquisition.

- A. \$1,080.
- B. \$1,420.
- C. \$1,065.
- D. \$1,425.
- E. \$1,440.

53. Compute the amount of consolidated cash after recording the acquisition transaction.

- A. \$220.
- B. \$185.
- C. \$200.
- D. \$205.
- E. \$215.

Carnes has the following account balances as of May 1, 2010 before an acquisition transaction takes place.

Inventory	\$100,000
Land	400,000
Buildings (net)	500,000
Common stock (\$10 par)	600,000
Additional paid-in capital	200,000
Retained Earnings	200,000
Revenues	450,000
Expenses	250,000

The fair value of Carnes' Land and Buildings are \$650,000 and \$550,000, respectively. On May 1, 2010, Riley Company issues 30,000 shares of its \$10 par value (\$25 fair value) common stock in exchange for all of the shares of Carnes' common stock. Riley paid \$10,000 for costs to issue the new shares of stock. Before the acquisition, Riley has \$700,000 in its common stock account and \$300,000 in its additional paid-in capital account.

54. On May 1, 2010, what value is assigned to Riley's investment account?

- A. \$150,000.
- B. \$300,000.
- C. \$750,000.
- D. \$760,000.
- E. \$1,350,000.

55. At the date of acquisition, by how much does Riley's additional paid-in capital increase or decrease?

- A. \$0.
- B. \$440,000 increase.
- C. \$450,000 increase.
- D. \$640,000 increase.
- E. \$650,000 decrease.

56. What will be Riley's balance in its common stock account as a result of this acquisition?

- A. \$300,000.
- B. \$990,000.
- C. \$1,000,000.
- D. \$1,590,000.
- E. \$1,600,000.

57. What will be the consolidated additional paid-in capital as a result of this acquisition?

- A. \$440,000.
- B. \$740,000.
- C. \$750,000.
- D. \$940,000.
- E. \$950,000.

The financial balances for the Atwood Company and the Franz Company as of December 31, 20X1, are presented below. Also included are the fair values for Franz Company's net assets.

	Atwood	Franz Co.	
	(all numbers are in thousands)		
	<u>Book Value</u> <u>December 31,</u> 20X1	<u>Book Value</u> <u>December 31,</u> 20X1	<u>Fair Value</u> <u>December 31,</u> 20X1
Cash	\$ 870	\$ 240	\$ 240
Receivables	660	600	600
Inventory	1,230	420	580
Land	1,800	260	250
Buildings (net)	1,800	540	650
Equipment (net)	660	380	400
Accounts payable	( 570)	( 240)	( 240)
Accrued expenses	( 270)	( 60)	( 60)
Long-term liabilities	(2,700)	(1,020)	(1,120)
Common stock (\$20 par)	(1,980)		
Common stock (\$5 par)		( 420)	
Additional paid-in capital	( 210)	( 180)	
Retained earnings	(1,170)	( 480)	
Revenues	(2,880)	( 660)	
Expenses	2,760	620	

Note: Parenthesis indicate a credit balance

Assume an acquisition business combination took place at December 31, 20X1. Atwood issued 50 shares of its common stock with a fair value of \$35 per share for all of the outstanding common shares of Franz. Stock issuance costs of \$15 (in thousands) and direct costs of \$10 (in thousands) were paid.

58. Compute the investment to be recorded at date of acquisition.

- A. \$1,750.
- B. \$1,760.
- C. \$1,775.
- D. \$1,300.
- E. \$1,120.

59. Compute the consolidated common stock at date of acquisition.

- A. \$1,000.
- B. \$2,980.
- C. \$2,400.
- D. \$3,400.
- E. \$3,730.

60. Compute consolidated inventory at the date of the acquisition.

- A. \$1,650.
- B. \$1,810.
- C. \$1,230.
- D. \$580.
- E. \$1,830.

61. Compute consolidated land at the date of the acquisition.

- A. \$2,060.
- B. \$1,800.
- C. \$260.
- D. \$2,050.
- E. \$2,070.

62. Compute consolidated buildings (net) at the date of the acquisition.

- A. \$2,450.
- B. \$2,340.
- C. \$1,800.
- D. \$650.
- E. \$1,690.

63. Compute consolidated long-term liabilities at the date of the acquisition.

- A. \$2,600.
- B. \$2,700.
- C. \$2,800.
- D. \$3,720.
- E. \$3,820.

64. Compute consolidated goodwill at the date of the acquisition.

- A. \$360.
- B. \$450.
- C. \$460.
- D. \$440.
- E. \$475.

65. Compute consolidated equipment (net) at the date of the acquisition.

- A. \$400.
- B. \$660.
- C. \$1,060.
- D. \$1,040.
- E. \$1,050.

66. Compute fair value of the net assets acquired at the date of the acquisition.

- A. \$1,300.
- B. \$1,340.
- C. \$1,500.
- D. \$1,750.
- E. \$2,480.

67. Compute consolidated retained earnings at the date of the acquisition.

- A. \$1,160.
- B. \$1,170.
- C. \$1,280.
- D. \$1,290.
- E. \$1,640.

68. Compute consolidated revenues at the date of the acquisition.

- A. \$3,540.
- B. \$2,880.
- C. \$1,170.
- D. \$1,650.
- E. \$4,050.

69. Compute consolidated cash at the completion of the acquisition.

- A. \$1,350.
- B. \$1,085.
- C. \$1,110.
- D. \$870.
- E. \$845.

70. Compute consolidated expenses at the date of the acquisition.

- A. \$2,760.
- B. \$2,770.
- C. \$2,785.
- D. \$3,380.
- E. \$3,390.



Presented below are the financial balances for the Atwood Company and the Franz Company as of December 31, 2010, immediately before Atwood acquired Franz. Also included are the fair values for Franz Company's net assets at that date.

	Atwood	Franz Co.	Franz Co.
	(all amounts in thousands)		
	Book Value	Book Value	Fair Value
	<u>December 31,</u>	<u>December 31,</u>	<u>December 31,</u>
	2010	2010	2010
Cash	\$ 870	\$ 240	\$ 240
Receivables	660	600	600
Inventory	1,230	420	580
Land	1,800	260	250
Buildings (net)	1,800	540	650
Equipment (net)	660	380	400
Accounts payable	( 570)	( 240)	( 240)
Accrued expenses	( 270)	( 60)	( 60)
Long-term liabilities	(2,700)	(1,020)	(1,120)
Common stock (\$20 par)	(1,980)		
Common stock (\$5 par)		( 420)	
Additional paid-in capital	( 210)	( 180)	
Retained earnings	(1,170)	( 480)	
Revenues	(2,880)	( 660)	
Expenses	2,760	620	

Note: Parenthesis indicate a credit balance

Assume a business combination took place at December 31, 2010. Atwood issued 50 shares of its common stock with a fair value of \$35 per share for all of the outstanding common shares of Franz. Stock issuance costs of \$15 (in thousands) and direct costs of \$10 (in thousands) were paid to effect this acquisition transaction. To settle a difference of opinion regarding Franz's fair value, Atwood promises to pay an additional \$5.2 (in thousands) to the former owners if Franz's earnings exceed a certain sum during the next year. Given the probability of the required contingency payment and utilizing a 4% discount rate, the expected present value of the contingency is \$5 (in thousands).

71. Compute the investment to be recorded at date of acquisition.

- A. \$1,750.
- B. \$1,755.
- C. \$1,755.2.
- D. \$1,760.
- E. \$1,765.

72. Compute consolidated inventory at date of acquisition.

- A. \$1,650.
- B. \$1,810.
- C. \$1,230.
- D. \$580.
- E. \$1,830.

73. Compute consolidated land at date of acquisition.

- A. \$2,060.
- B. \$1,800.
- C. \$260.
- D. \$2,050.
- E. \$2,070.

74. Compute consolidated buildings (net) at date of acquisition.

- A. \$2,450.
- B. \$2,340.
- C. \$1,800.
- D. \$650.
- E. \$1,690.

75. Compute consolidated goodwill at date of acquisition.

- A. \$440.
- B. \$440.2.
- C. \$450.
- D. \$455.
- E. \$455.2.

76. Compute consolidated equipment at date of acquisition.

- A. \$400.
- B. \$660.
- C. \$1,060.
- D. \$1,040.
- E. \$1,050.

77. Compute consolidated retained earnings as a result of this acquisition.

- A. \$1,160.
- B. \$1,170.
- C. \$1,265.
- D. \$1,280.
- E. \$1,650.

78. Compute consolidated revenues at date of acquisition.

- A. \$3,540.
- B. \$2,880.
- C. \$1,170.
- D. \$1,650.
- E. \$4,050.

79. Compute consolidated expenses at date of acquisition.

- A. \$2,735.
- B. \$2,760.
- C. \$2,770.
- D. \$2,785.
- E. \$3,380.

80. Compute the consolidated cash upon completion of the acquisition.

- A. \$1,350.
- B. \$1,110.
- C. \$1,080.
- D. \$1,085.
- E. \$635.

Flynn acquires 100 percent of the outstanding voting shares of Macek Company on January 1, 20X1. To obtain these shares, Flynn pays \$400 cash (in thousands) and issues 10,000 shares of \$20 par value common stock on this date. Flynn's stock had a fair value of \$36 per share on that date. Flynn also pays \$15 (in thousands) to a local investment firm for arranging the acquisition. An additional \$10 (in thousands) was paid by Flynn in stock issuance costs. The book values for both Flynn and Macek as of January 1, 20X1 follow. The fair value of each of Flynn and Macek accounts is also included. In addition, Macek holds a fully amortized trademark that still retains a \$40 (in thousands) value. *The figures below are in thousands.* Any related question also is in thousands.

	<u>Flynn, Inc.</u>	<u>Macek Company</u>	
		<u>Book Value</u>	<u>Fair Value</u>
Cash	\$ 900	\$ 80	\$ 80
Receivables	480	180	160
Inventory	660	260	300
Land	300	120	130
Buildings (net)	1,200	220	280
Equipment	360	100	75
Accounts payable	480	60	60
Long-term liabilities	1,140	340	300
Common stock	1,000	80	
Additional paid-in capital	200	0	
Retained earnings	1,080	480	

81. By how much will Flynn's additional paid-in capital increase as a result of this acquisition?
- A. \$150.
  - B. \$160.
  - C. \$230.
  - D. \$350.
  - E. \$360.

82. What amount will be reported for goodwill as a result of this acquisition?

- A. \$30.
- B. \$55.
- C. \$65.
- D. \$175.
- E. \$200.

83. What amount will be reported for consolidated receivables?

- A. \$660.
- B. \$640.
- C. \$500.
- D. \$460.
- E. \$480.

84. What amount will be reported for consolidated inventory?

- A. \$1,000.
- B. \$960.
- C. \$920.
- D. \$660.
- E. \$620.

85. What amount will be reported for consolidated buildings (net)?

- A. \$1,420.
- B. \$1,260.
- C. \$1,140.
- D. \$1,480.
- E. \$1,200.

86. What amount will be reported for consolidated equipment (net)?

- A. \$385.
- B. \$335.
- C. \$435.
- D. \$460.
- E. \$360.

87. What amount will be reported for consolidated long-term liabilities?

- A. \$1,520.
- B. \$1,480.
- C. \$1,440.
- D. \$1,180.
- E. \$1,100.

88. What amount will be reported for consolidated common stock?

- A. \$1,000.
- B. \$1,080.
- C. \$1,200.
- D. \$1,280.
- E. \$1,360.

89. Assuming the combination is accounted for as a purchase, what amount will be reported for consolidated retained earnings?

- A. \$1,830.
- B. \$1,350.
- C. \$1,080.
- D. \$1,560.
- E. \$1,535.

90. What amount will be reported for consolidated retained earnings?

- A. \$1,065.
- B. \$1,080.
- C. \$1,525.
- D. \$1,535.
- E. \$1,560.

91. What amount will be reported for consolidated additional paid-in capital?

- A. \$365.
- B. \$350.
- C. \$360.
- D. \$375.
- E. \$345.

92. What amount will be reported for consolidated cash after the acquisition is completed?
- A. \$475.
  - B. \$500.
  - C. \$555.
  - D. \$580.
  - E. \$875.

**Essay Questions**

93. What term is used to refer to a business combination in which only one of the original companies continues to exist?

94. How are stock issuance costs accounted for in an acquisition business combination?

95. What is the primary difference between recording an acquisition when the subsidiary is dissolved and when separate incorporation is maintained?

96. How are direct combination costs accounted for in an acquisition transaction?

97. Peterman Co. owns 55% of Samson Co. Under what circumstances would Peterman not be required to prepare consolidated financial statements?

98. How would you account for in-process research and development acquired in a business combination accounted for as an acquisition?

99. Elon Corp. obtained all of the common stock of Finley Co., paying slightly less than the fair value of Finley's net assets acquired. How should the difference between the consideration transferred and the fair value of the net assets be treated if the transaction is accounted for as an acquisition?



100. For acquisition accounting, why are assets and liabilities of the subsidiary consolidated at fair value?

101. Goodwill is often acquired as part of a business combination. Why, when separate incorporation is maintained, does Goodwill not appear on the Parent company's trial balance as a separate account?

102. How are direct combination costs, contingent consideration, and a bargain purchase reflected in recording an acquisition transaction?

103. How is contingent consideration accounted for in an acquisition business combination transaction?

104. How are bargain purchases accounted for in an acquisition business transaction?

105. Describe the accounting for direct costs, indirect costs, and issuance costs under the acquisition method of accounting for a business combination.

106. What is the difference in consolidated results between a business combination whereby the acquired company is dissolved, and a business combination whereby separate incorporation is maintained?

107. Bale Co. acquired Silo Inc. on December 31, 20X1, in an acquisition business combination transaction. Bale's net income for the year was \$1,400,000, while Silo had net income of \$400,000 earned evenly during the year. Bale paid \$100,000 in direct combination costs, \$50,000 in indirect costs, and \$30,000 in stock issue costs to effect the combination.

*Required:* What is consolidated net income for 20X1?

108. Fine Co. issued its common stock in exchange for the common stock of Dandy Corp. in an acquisition. At the date of the combination, Fine had land with a book value of \$480,000 and a fair value of \$620,000. Dandy had land with a book value of \$170,000 and a fair value of \$190,000.

*Required:* What was the consolidated balance for Land in a consolidated balance sheet prepared at the date of the acquisition combination?

109. Jernigan Corp. had the following account balances at 12/1/10:

Receivables	\$ 96,000
Inventory	240,000
Land	720,000
Building	600,000
Liabilities	480,000
Common stock	120,000
Additional paid-in capital	120,000
Retained earnings, 12/1/10	840,000
Revenues	360,000
Expenses	264,000

Several of Jernigan's accounts have fair values that differ from book value. The fair values are: Land — \$480,000; Building — \$720,000; Inventory — \$336,000; and Liabilities — \$396,000. Inglewood Inc. acquired all of the outstanding common shares of Jernigan by issuing 20,000 shares of common stock having a \$6 par value, but a \$66 fair value. Stock issuance costs amounted to \$12,000.

*Required:* Prepare a fair value allocation and goodwill schedule at the date of the acquisition.

Salem Co. had the following account balances as of December 1, 2010:

Inventory	\$ 720,000
Land	600,000
Buildings—net (valued at \$1,200,000)	1,080,000
Common stock (\$10 par value)	960,000
Retained earnings, December 1, 2010	1,320,000
Revenues	720,000
Expenses	600,000

Bellington Inc. transferred \$1.7 million in cash and 12,000 shares of its newly issued \$30 par value common stock (valued at \$90 per share) to acquire all of Salem's outstanding common stock.

110. Determine the balance for Goodwill that would be included in a December 1, 2010, consolidation.

111. Assume that Bellington paid cash of \$2.8 million. No stock is issued. An additional \$50,000 is paid in direct combination costs.

*Required:* For Goodwill, determine what balance would be included in a December 1, 2010 consolidation.

112. On January 1, 2011, Chester Inc. acquired 100% of Festus Corp.'s outstanding common stock by exchanging 37,500 shares of Chester's \$2 par value common voting stock. On January 1, 2011, Chester's voting common stock had a fair value of \$40 per share. Festus' voting common shares were selling for \$6.50 per share. Festus' balances on the acquisition date, just prior to acquisition are listed below.

	<u>Book Value</u>	<u>Fair Value</u>
Cash	\$ 30,000	
Accounts Receivable	120,000	\$ 120,000
Inventory	200,000	230,000
Land	230,000	290,000
Building (net)	450,000	600,000
Equipment (net)	175,000	160,000
Accounts Payable	(80,000)	(80,000)
Common Stock, \$1 par	(500,000)	
Paid-in Capital	(350,000)	
Retained Earnings, 12/31/10	(275,000)	

Required: Compute the value of the Goodwill account on the date of acquisition, 1/1/11.

The financial statements for Jode Inc. and Lakely Corp., just prior to their combination, for the year ending December 31, 2010, follow. Lakely's buildings were undervalued on its financial records by \$60,000.

	Jode Inc.	Lakely Corp.
Revenues	\$ 1,300,000	\$ 500,000
Expenses	( 1,180,000)	( 290,000)
Net income	<u>\$ 120,000</u>	<u>\$ 210,000</u>
Retained earnings, January 1, 2010	\$ 700,000	\$ 500,000
Net income (from above)	120,000	210,000
Dividends paid	( 110,000)	( 110,000)
Retained earnings, December 31, 2010	<u>\$ 710,000</u>	<u>\$ 600,000</u>
Cash	\$ 160,000	\$ 120,000
Receivables and inventory	240,000	240,000
Buildings (net)	700,000	350,000
Equipment (net)	700,000	600,000
Total assets	<u>\$ 1,800,000</u>	<u>\$ 1,310,000</u>
Liabilities	\$ 250,000	\$ 195,000
Common stock	750,000	430,000
Additional paid-in capital	90,000	85,000
Retained earnings, 12/31/10	710,000	600,000
Total liabilities and stockholders' equity	<u>\$ 1,800,000</u>	<u>\$ 1,310,000</u>

On December 31, 2010, Jode issued 54,000 new shares of its \$10 par value stock in exchange for all the outstanding shares of Lakely. Jode's shares had a fairvalue on that date of \$35 per share. Jode paid \$34,000 to an investment bank for assisting in the arrangements. Jode also paid \$24,000 in stock issuance costs to effect the acquisition of Lakely. Lakely will retain its incorporation.

113. Prepare the journal entries to record (1) the issuance of stock by Jode and (2) the payment of the combination costs.

114. Determine consolidated net income for the year ended December 31, 2010.

115. Determine consolidated Additional paid-in Capital at December 31, 2010.



116. The following are preliminary financial statements for Black Co. and Blue Co. for the year ending December 31, 20X1.

	<u>Black Co.</u>	<u>Blue Co.</u>
Sales	\$360,000	\$228,000
Expenses	<u>(240,000)</u>	<u>(132,000)</u>
Net income	<u>\$120,000</u>	<u>\$ 96,000</u>
Retained earning, January 1, 20X1	\$480,000	\$252,000
Net income (from above)	120,000	96,000
Dividends paid	<u>(36,000)</u>	<u>-0-</u>
Retained earnings, December 31, 20X1	<u>\$564,000</u>	<u>\$348,000</u>
Current assets	\$360,000	\$120,000
Land	120,000	108,000
Building (net)	<u>480,000</u>	<u>336,000</u>
Total assets	<u>\$960,000</u>	<u>\$564,000</u>
Liabilities	\$108,000	\$132,000
Common stock	192,000	72,000
Additional paid-in capital	96,000	12,000
Retained earnings, December 31, 20X1	<u>564,000</u>	<u>348,000</u>
Total liabilities and stockholders' equity	<u>\$960,000</u>	<u>\$564,000</u>

On December 31, 20X1 (subsequent to the preceding statements), Black exchanged 10,000 shares of its \$10 par value common stock for all of the outstanding shares of Blue. Black's stock on that date has a fair value of \$50 per share. Black was willing to issue 10,000 shares of stock because Blue's land was appraised at \$204,000. Black also paid \$14,000 to several attorneys and accountants who assisted in creating this combination.

*Required:* Assuming that these two companies retained their separate legal identities, prepare a consolidation worksheet as of December 31, 20X1 assuming the transaction is treated as a purchase combination.

117. The following are preliminary financial statements for Black Co. and Blue Co. for the year ending December 31, 20X1 prior to Black's acquisition of Blue.

	<u>Black Co.</u>	<u>Blue Co.</u>
Sales	\$360,000	\$228,000
Expenses	<u>(240,000)</u>	<u>(132,000)</u>
Net income	<u>\$120,000</u>	<u>\$ 96,000</u>
Retained earnings, January 1, 20X1	\$480,000	\$252,000
Net income (from above)	120,000	96,000
Dividends paid	<u>(36,000)</u>	<u>-0-</u>
Retained earnings, December 31, 20X1	<u>\$564,000</u>	<u>\$348,000</u>
Current assets	\$360,000	\$120,000
Land	120,000	108,000
Building (net)	<u>480,000</u>	<u>336,000</u>
Total assets	<u>\$960,000</u>	<u>\$564,000</u>
Liabilities	\$108,000	\$132,000
Common stock	192,000	72,000
Additional paid-in capital	96,000	12,000
Retained earnings, December 31, 20X1	<u>564,000</u>	<u>348,000</u>
Total liabilities and stockholders' equity	<u>\$960,000</u>	<u>564,000</u>

On December 31, 20X1 (subsequent to the preceding statements), Black exchanged 10,000 shares of its \$10 par value common stock for all of the outstanding shares of Blue. Black's stock on that date has a fair value of \$60 per share. Black was willing to issue 10,000 shares of stock because Blue's land was appraised at \$204,000. Black also paid \$14,000 to several attorneys and accountants who assisted in creating this combination.

*Required:* Assuming that these two companies retained their separate legal identities, prepare a consolidation worksheet as of December 31, 20X1 after the acquisition transaction is completed.

118. For each of the following situations, select the best letter answer to reflect the effect of the numbered item on the acquirer's accounting entry at the date of combination when separate incorporation will be maintained. Items (4) and (6) require two selections.

- (A) Increase Investment account.
- (B) Decrease Investment account.
- (C) Increase Liabilities.
- (D) Increase Common stock.
- (E) Decrease common stock.
- (F) Increase Additional paid-in capital.
- (G) Decrease Additional paid-in capital.
- (H) Increase Retained earnings
- (I) Decrease Retained earnings

- \_\_\_\_\_ 1. Direct costs.
- \_\_\_\_\_ 2. Indirect costs.
- \_\_\_\_\_ 3. Stock issue costs.
- \_\_\_\_\_ 4. Contingent consideration.
- \_\_\_\_\_ 5. Bargain purchase.
- \_\_\_\_\_ 6. In-process research and development acquired.

## Chapter 02 Consolidation of Financial Information **Answer Key**

### Multiple Choice Questions

1. At the date of an acquisition which is not a bargain purchase, the acquisition method
- A. consolidates the subsidiary's assets at fair value and the liabilities at book value.
  - B. consolidates all subsidiary assets and liabilities at book value.
  - C.** consolidates all subsidiary assets and liabilities at fair value.
  - D. consolidates current assets and liabilities at book value, long-term assets and liabilities at fair value.
  - E. consolidates the subsidiary's assets at book value and the liabilities at fair value.

*AACSB: Reflective thinking*

*AICPA FN: Measurement*

*Blooms: Knowledge*

*Difficulty: 1 Easy*

*Learning Objective: 02-04 Describe the valuation principles of the acquisition method.*

*Learning Objective: 02-05 Determine the total fair value of the consideration transferred for an acquisition and allocate that fair value to specific subsidiary assets acquired (including goodwill); and liabilities assumed; or a gain on bargain purchase.*

2. In an acquisition where control is achieved, how would the land accounts of the parent and the land accounts of the subsidiary be combined?

	<u>Parent</u>	<u>Subsidiary</u>
A)	Book Value	Book Value
B)	Book Value	Fair Value
C)	Fair Value	Fair Value
D)	Fair Value	Book Value
E)	Cost	Cost

- A. Entry A.
- B.** Entry B.
- C. Entry C.
- D. Entry D.
- E. Entry E.

*AACSB: Reflective thinking*

*AICPA FN: Measurement*

*Blooms: Knowledge*

*Difficulty: 2 Medium*

*Learning Objective: 02-04 Describe the valuation principles of the acquisition method.*

*Learning Objective: 02-05 Determine the total fair value of the consideration transferred for an acquisition and allocate that fair value to specific subsidiary assets acquired (including goodwill); and liabilities assumed; or a gain on bargain purchase.*

3. Lisa Co. paid cash for all of the voting common stock of Victoria Corp. Victoria will continue to exist as a separate corporation. Entries for the consolidation of Lisa and Victoria would be recorded in

- A.** a worksheet.
- B. Lisa's general journal.
- C. Victoria's general journal.
- D. Victoria's secret consolidation journal.
- E. the general journals of both companies.

*AACSB: Reflective thinking*

*AICPA FN: Measurement*

*Blooms: Knowledge*

*Difficulty: 1 Easy*

*Learning Objective: 02-07 Prepare a worksheet to consolidate the accounts of two companies that form a business combination if dissolution is not to take place.*



4. Using the acquisition method for a business combination, goodwill is generally defined as:
- A. Cost of the investment less the subsidiary's book value at the beginning of the year.
  - B. Cost of the investment less the subsidiary's book value at the acquisition date.
  - C. Cost of the investment less the subsidiary's fair value at the beginning of the year.
  - D.** Cost of the investment less the subsidiary's fair value at acquisition date.
  - E. is no longer allowed under federal law.

*AACSB: Reflective thinking*

*AICPA FN: Measurement*

*Blooms: Knowledge*

*Difficulty: 2 Medium*

*Learning Objective: 02-04 Describe the valuation principles of the acquisition method.*

5. Direct combination costs and stock issuance costs are often incurred in the process of making a controlling investment in another company. How should those costs be accounted for in a pre-2009 purchase transaction?

	<u>Direct Combination Costs</u>	<u>Stock Issuance Costs</u>
A)	Increase Investment	Decrease Investment
B)	Increase Investment	Decrease Paid-In Capital
C)	Increase Investment	Increase Expenses
D)	Decrease Paid-In Capital	Increase Investment
E)	Increase Expenses	Decrease Investment

- A. Entry A.
- B.** Entry B.
- C. Entry C.
- D. Entry D.
- E. Entry E.

*AACSB: Reflective thinking*

*AICPA FN: Measurement*

*Blooms: Knowledge*

*Difficulty: 2 Medium*

*Learning Objective: 02-09 Identify the general characteristics of the purchase method and the general characteristics of a pooling of interests. Also recognize that although the pooling of interests and purchase methods are no longer applicable for new business combinations their financial reporting effects will be evident for decades to come.*

6. How are direct and indirect costs accounted for when applying the acquisition method for a business combination?

	<u>Direct Costs</u>	<u>Indirect Costs</u>
A.	Expensed	Expensed
B.	Increase investment account	Decrease additional paid-in capital
C.	Expensed	Decrease additional paid-in capital
D.	Increase investment account	Expensed
E.	Increase investment account	Increase investment account

- A. Entry A.
- B. Entry B.
- C. Entry C.
- D. Entry D.
- E. Entry E.

AACSB: Reflective thinking

AICPA FN: Measurement

Blooms: Knowledge

Difficulty: 1 Easy

Learning Objective: 02-05 Determine the total fair value of the consideration transferred for an acquisition and allocate that fair value to specific subsidiary assets acquired (including goodwill); and liabilities assumed; or a gain on bargain purchase.

7. What is the *primary* accounting difference between accounting for when the subsidiary is dissolved and when the subsidiary retains its incorporation?

- A. If the subsidiary is dissolved, it will not be operated as a separate division.
- B. If the subsidiary is dissolved, assets and liabilities are consolidated at their book values.
- C. If the subsidiary retains its incorporation, there will be no goodwill associated with the acquisition.
- D. If the subsidiary retains its incorporation, assets and liabilities are consolidated at their book values.
- E. If the subsidiary retains its incorporation, the consolidation is not formally recorded in the accounting records of the acquiring company.

AACSB: Reflective thinking

AICPA FN: Measurement

Blooms: Comprehension

Difficulty: 2 Medium

Learning Objective: 02-06 Prepare the journal entry to consolidate the accounts of a subsidiary if dissolution takes place.

Learning Objective: 02-07 Prepare a worksheet to consolidate the accounts of two companies that form a business combination if dissolution is not to take place.



8. According to GAAP, the pooling of interest method for business combinations
- A. Is preferred to the purchase method.
  - B. Is allowed for all new acquisitions.
  - C.** Is no longer allowed for business combinations after June 30, 2001.
  - D. Is no longer allowed for business combinations after December 31, 2001.
  - E. Is only allowed for large corporate mergers like Exxon and Mobil.

*AACSB: Reflective thinking*

*AICPA FN: Measurement*

*Blooms: Knowledge*

*Difficulty: 1 Easy*

*Learning Objective: 02-09 Identify the general characteristics of the purchase method and the general characteristics of a pooling of interests. Also recognize that although the pooling of interests and purchase methods are no longer applicable for new business combinations their financial reporting effects will be evident for decades to come.*

9. An example of a difference in types of business combination is:
- A. A statutory merger can only be effected by an asset acquisition while a statutory consolidation can only be effected by a capital stock acquisition.
  - B. A statutory merger can only be effected by a capital stock acquisition while a statutory consolidation can only be effected by an asset acquisition.
  - C.** Both a statutory merger and a statutory consolidation requires dissolution of at least one company.
  - D. A statutory consolidation requires dissolution of the acquired company while a statutory merger does not require dissolution.
  - E. Both a statutory merger and a statutory consolidation can only be effected by an asset acquisition but only a statutory consolidation requires dissolution of the acquired company.

*AACSB: Reflective thinking*

*AICPA FN: Measurement*

*Blooms: Knowledge*

*Difficulty: 3 Hard*

*Learning Objective: 02-03 Define the term business combination and differentiate across various forms of business combinations.*

10. Acquired in-process research and development is considered as
- A. a definite-lived asset subject to amortization.
  - B. a definite-lived asset subject to testing for impairment.
  - C. an indefinite-lived asset subject to amortization.
  - D.** an indefinite-lived asset subject to testing for impairment.
  - E. a research and development expense at the date of acquisition.

*AACSB: Reflective thinking*

*AICPA FN: Measurement*

*Blooms: Knowledge*

*Difficulty: 1 Easy*

*Learning Objective: 02-08 Describe the two criteria for recognizing intangible assets apart from goodwill in a business combination.*

11. Which one of the following is a characteristic of a business combination accounted for as an acquisition?
- A. The combination must involve the exchange of equity securities only.
  - B.** The transaction establishes an acquisition fair value basis for the company being acquired.
  - C. The two companies may be about the same size, and it is difficult to determine the acquired company and the acquiring company.
  - D. The transaction may be considered to be the uniting of the ownership interests of the companies involved.
  - E. The acquired subsidiary must be smaller in size than the acquiring parent.

*AACSB: Reflective thinking*

*AICPA FN: Measurement*

*Blooms: Knowledge*

*Difficulty: 1 Easy*

*Learning Objective: 02-04 Describe the valuation principles of the acquisition method.*

12. Which one of the following is a characteristic of a business combination that is accounted for as an acquisition?

- A. Fair value only for items received by the acquirer can enter into the determination of the acquirer's accounting valuation of the acquired company.
- B. Fair value only for the consideration transferred by the acquirer can enter into the determination of the acquirer's accounting valuation of the acquired company.
- C.** Fair value for the consideration transferred by the acquirer as well as the fair value of items received by the acquirer can enter into the determination of the acquirer's accounting valuation of the acquired company.
- D. Fair value for only consideration transferred and identifiable assets received by the acquirer can enter into the determination of the acquirer's accounting valuation of the acquired company.
- E. Only fair value of identifiable assets received enters into the determination of the acquirer's accounting valuation of the acquired company.

*AACSB: Reflective thinking*

*AICPA FN: Measurement*

*Blooms: Comprehension*

*Difficulty: 3 Hard*

*Learning Objective: 02-04 Describe the valuation principles of the acquisition method.*

13. A *statutory merger* is a(n)

- A.** business combination in which only one of the two companies continues to exist as a legal corporation.
- B. business combination in which both companies continues to exist.
- C. acquisition of a competitor.
- D. acquisition of a supplier or a customer.
- E. legal proposal to acquire outstanding shares of the target's stock.

*AACSB: Reflective thinking*

*AICPA FN: Measurement*

*Blooms: Knowledge*

*Difficulty: 2 Medium*

*Learning Objective: 02-03 Define the term business combination and differentiate across various forms of business combinations.*

14. How are *stock issuance costs* and *direct combination costs* treated in a business combination which is accounted for as an acquisition when the subsidiary will retain its incorporation?

- A. Stock issuance costs are a part of the acquisition costs, and the direct combination costs are expensed.
- B. Direct combination costs are a part of the acquisition costs, and the stock issuance costs are a reduction to additional paid-in capital.
- C.** Direct combination costs are expensed and stock issuance costs are a reduction to additional paid-in capital.
- D. Both are treated as part of the acquisition consideration transferred.
- E. Both are treated as a reduction to additional paid-in capital.

*AACSB: Reflective thinking*

*AICPA FN: Measurement*

*Blooms: Knowledge*

*Difficulty: 2 Medium*

*Learning Objective: 02-05 Determine the total fair value of the consideration transferred for an acquisition and allocate that fair value to specific subsidiary assets acquired (including goodwill); and liabilities assumed; or a gain on bargain purchase.*

*Learning Objective: 02-06 Prepare the journal entry to consolidate the accounts of a subsidiary if dissolution takes place.*

Bullen Inc. acquired 100% of the voting common stock of Vicker Inc. on January 1, 20X1. The book value and fair value of Vicker's accounts on that date (prior to creating the combination) follow, along with the book value of Bullen's accounts:

	Bullen Book Value	Vicker Book Value	Vicker Fair Value
Retained earnings, 1/1/X1	\$250,000	\$240,000	
Cash and receivables	170,000	70,000	\$70,000
Inventory	230,000	170,000	210,000
Land	280,000	220,000	240,000
Buildings (net)	480,000	240,000	270,000
Equipment (net)	120,000	90,000	90,000
Liabilities	650,000	430,000	420,000
Common stock	360,000	80,000	
Additional paid-in capital	20,000	40,000	

15. Assume that Bullen issued 12,000 shares of common stock with a \$5 par value and a \$47 fair value to obtain all of Vicker's outstanding stock. In this acquisition transaction, how much goodwill should be recognized?

- A. \$144,000.
- B. \$104,000.**
- C. \$64,000.
- D. \$60,000.
- E. \$0.

*AACSB: Analytic*

*AICPA FN: Measurement*

*Blooms: Application*

*Difficulty: 2 Medium*

*Learning Objective: 02-04 Describe the valuation principles of the acquisition method.*

*Learning Objective: 02-05 Determine the total fair value of the consideration transferred for an acquisition and allocate that fair value to specific subsidiary assets acquired (including goodwill); and liabilities assumed; or a gain on bargain purchase.*

*Learning Objective: 02-06 Prepare the journal entry to consolidate the accounts of a subsidiary if dissolution takes place.*

*Learning Objective: 02-07 Prepare a worksheet to consolidate the accounts of two companies that form a business combination if dissolution is not to take place.*

16. Assume that Bullen issued 12,000 shares of common stock with a \$5 par value and a \$42 fair value for all of the outstanding stock of Vicker. What is the consolidated Land as a result of this acquisition transaction?

- A. \$460,000.
- B. \$510,000.
- C. \$500,000.
- D. \$520,000.**
- E. \$490,000.

*AACSB: Analytic*

*AICPA FN: Measurement*

*Blooms: Application*

*Difficulty: 2 Medium*

*Learning Objective: 02-05 Determine the total fair value of the consideration transferred for an acquisition and allocate that fair value to specific subsidiary assets acquired (including goodwill); and liabilities assumed; or a gain on bargain purchase.*

*Learning Objective: 02-06 Prepare the journal entry to consolidate the accounts of a subsidiary if dissolution takes place.*

*Learning Objective: 02-07 Prepare a worksheet to consolidate the accounts of two companies that form a business combination if dissolution is not to take place.*

17. Assume that Bullen issued 12,000 shares of common stock with a \$5 par value and a \$42 fair value for all of the outstanding shares of Vicker. What will be the consolidated Additional Paid-In Capital and Retained Earnings (January 1, 20X1 balances) as a result of this acquisition transaction?

- A. \$60,000 and \$490,000.
- B. \$60,000 and \$250,000.
- C. \$380,000 and \$250,000.
- D. \$464,000 and \$250,000.**
- E. \$464,000 and \$420,000.

*AACSB: Analytic*

*AICPA FN: Measurement*

*Blooms: Application*

*Difficulty: 3 Hard*

*Learning Objective: 02-04 Describe the valuation principles of the acquisition method.*

*Learning Objective: 02-05 Determine the total fair value of the consideration transferred for an acquisition and allocate that fair value to specific subsidiary assets acquired (including goodwill); and liabilities assumed; or a gain on bargain purchase.*

*Learning Objective: 02-06 Prepare the journal entry to consolidate the accounts of a subsidiary if dissolution takes place.*

*Learning Objective: 02-07 Prepare a worksheet to consolidate the accounts of two companies that form a business combination if dissolution is not to take place.*

18. Assume that Bullen issued preferred stock with a par value of \$240,000 and a fair value of \$500,000 for all of the outstanding shares of Vicker in an acquisition business combination. What will be the balance in the consolidated Inventory and Land accounts?

- A. \$440,000, \$496,000.
- B. \$440,000, \$520,000.**
- C. \$425,000, \$505,000.
- D. \$400,000, \$500,000.
- E. \$427,000, \$510,000.

*AACSB: Analytic*

*AICPA FN: Measurement*

*Blooms: Application*

*Difficulty: 2 Medium*

*Learning Objective: 02-05 Determine the total fair value of the consideration transferred for an acquisition and allocate that fair value to specific subsidiary assets acquired (including goodwill); and liabilities assumed; or a gain on bargain purchase.*

*Learning Objective: 02-06 Prepare the journal entry to consolidate the accounts of a subsidiary if dissolution takes place.*

*Learning Objective: 02-07 Prepare a worksheet to consolidate the accounts of two companies that form a business combination if dissolution is not to take place.*

19. Assume that Bullen paid a total of \$480,000 in cash for all of the shares of Vicker. In addition, Bullen paid \$35,000 for secretarial and management time allocated to the acquisition transaction. What will be the balance in consolidated goodwill?

- A. \$0.
- B. \$20,000.**
- C. \$35,000.
- D. \$55,000.

*AACSB: Analytic*

*AICPA FN: Measurement*

*Blooms: Application*

*Difficulty: 2 Medium*

*Learning Objective: 02-05 Determine the total fair value of the consideration transferred for an acquisition and allocate that fair value to specific subsidiary assets acquired (including goodwill); and liabilities assumed; or a gain on bargain purchase.*

*Learning Objective: 02-06 Prepare the journal entry to consolidate the accounts of a subsidiary if dissolution takes place.*

*Learning Objective: 02-07 Prepare a worksheet to consolidate the accounts of two companies that form a business combination if dissolution is not to take place.*

20. Assume that Bullen paid a total of \$480,000 in cash for all of the shares of Vicker. In addition, Bullen paid \$35,000 to a group of attorneys for their work in arranging the combination to be accounted for as an acquisition. What will be the balance in consolidated goodwill?

- A. \$0.
- B. \$20,000.**
- C. \$35,000.
- D. \$55,000.

*AACSB: Analytic*

*AICPA FN: Measurement*

*Blooms: Application*

*Difficulty: 2 Medium*

*Learning Objective: 02-05 Determine the total fair value of the consideration transferred for an acquisition and allocate that fair value to specific subsidiary assets acquired (including goodwill); and liabilities assumed; or a gain on bargain purchase.*

*Learning Objective: 02-06 Prepare the journal entry to consolidate the accounts of a subsidiary if dissolution takes place.*

*Learning Objective: 02-07 Prepare a worksheet to consolidate the accounts of two companies that form a business combination if dissolution is not to take place.*

Prior to being united in a business combination, Botkins Inc. and Volkerson Corp. had the following stockholders' equity figures:

	Botkins	Volkerson
Common stock (\$1 par value)	\$ 220,000	\$ 54,000
Additional paid-in capital	110,000	25,000
Retained earnings	360,000	130,000

Botkins issued 56,000 new shares of its common stock valued at \$3.25 per share for all of the outstanding stock of Volkerson.

21. Assume that Botkins acquired Volkerson on January 1, 2010. At what amount did Botkins record the investment in Volkerson?

- A. \$56,000.
- B. \$182,000.**
- C. \$209,000.
- D. \$261,000.
- E. \$312,000.

*AACSB: Analytic*

*AICPA FN: Measurement*

*Blooms: Application*

*Difficulty: 1 Easy*

*Learning Objective: 02-04 Describe the valuation principles of the acquisition method.*

*Learning Objective: 02-05 Determine the total fair value of the consideration transferred for an acquisition and allocate that fair value to specific subsidiary assets acquired (including goodwill); and liabilities assumed; or a gain on bargain purchase.*

*Learning Objective: 02-06 Prepare the journal entry to consolidate the accounts of a subsidiary if dissolution takes place.*

*Learning Objective: 02-07 Prepare a worksheet to consolidate the accounts of two companies that form a business combination if dissolution is not to take place.*



22. Assume that Botkins acquired Volkerson on January 1, 2010. Immediately afterwards, what is consolidated Common Stock?

- A. \$456,000.
- B. \$402,000.
- C. \$274,000.
- D.** \$276,000.
- E. \$330,000.

*AACSB: Analytic*

*AICPA FN: Measurement*

*Blooms: Application*

*Difficulty: 2 Medium*

*Learning Objective: 02-05 Determine the total fair value of the consideration transferred for an acquisition and allocate that fair value to specific subsidiary assets acquired (including goodwill); and liabilities assumed; or a gain on bargain purchase.*

*Learning Objective: 02-06 Prepare the journal entry to consolidate the accounts of a subsidiary if dissolution takes place.*

*Learning Objective: 02-07 Prepare a worksheet to consolidate the accounts of two companies that form a business combination if dissolution is not to take place.*

23. Chapel Hill Company had common stock of \$350,000 and retained earnings of \$490,000. Blue Town Inc. had common stock of \$700,000 and retained earnings of \$980,000. On January 1, 2011, Blue Town issued 34,000 shares of common stock with a \$12 par value and a \$35 fair value for all of Chapel Hill Company's outstanding common stock. This combination was accounted for as an acquisition. Immediately after the combination, what was the consolidated net assets?

- A. \$2,520,000.
- B. \$1,190,000.
- C. \$1,680,000.
- D.** \$2,870,000.
- E. \$2,030,000.

*AACSB: Analytic*

*AICPA FN: Measurement*

*Blooms: Application*

*Difficulty: 2 Medium*

*Learning Objective: 02-05 Determine the total fair value of the consideration transferred for an acquisition and allocate that fair value to specific subsidiary assets acquired (including goodwill); and liabilities assumed; or a gain on bargain purchase.*

*Learning Objective: 02-06 Prepare the journal entry to consolidate the accounts of a subsidiary if dissolution takes place.*

*Learning Objective: 02-07 Prepare a worksheet to consolidate the accounts of two companies that form a business combination if dissolution is not to take place.*

24. Which of the following is a *not* a reason for a business combination to take place?
- A. Cost savings through elimination of duplicate facilities.
  - B. Quick entry for new and existing products into domestic and foreign markets.
  - C. Diversification of business risk.
  - D. Vertical integration.
  - E.** Increase in stock price of the acquired company.

*AACSB: Reflective thinking*

*AICPA FN: Measurement*

*Blooms: Knowledge*

*Difficulty: 1 Easy*

*Learning Objective: 02-01 Discuss the motives for business combinations.*

25. Which of the following statements is true regarding a statutory merger?
- A. The original companies dissolve while remaining as separate divisions of a newly created company.
  - B. Both companies remain in existence as legal corporations with one corporation now a subsidiary of the acquiring company.
  - C.** The acquired company dissolves as a separate corporation and only the acquiring company survives.
  - D. The acquiring company acquires the stock of the acquired company as an investment.
  - E. A statutory merger is no longer a legal option.

*AACSB: Reflective thinking*

*AICPA FN: Measurement*

*Blooms: Knowledge*

*Difficulty: 2 Medium*

*Learning Objective: 02-03 Define the term business combination and differentiate across various forms of business combinations.*

26. Which of the following statements is true regarding a statutory consolidation?

- A.** The original companies dissolve while remaining as separate divisions of a newly created company.
- B. Both companies remain in existence as legal corporations with one corporation now a subsidiary of the acquiring company.
- C. The acquired company dissolves as a separate corporation and becomes a division of the acquiring company.
- D. The acquiring company acquires the stock of the acquired company as an investment.
- E. A statutory consolidation is no longer a legal option.

*AACSB: Reflective thinking*

*AICPA FN: Measurement*

*Blooms: Knowledge*

*Difficulty: 2 Medium*

*Learning Objective: 02-03 Define the term business combination and differentiate across various forms of business combinations.*

27. In a transaction accounted for using the acquisition method where consideration transferred exceeds book value of the acquired company, which statement is true for the acquiring company with regard to its investment?

- A.** Net assets of the acquired company are revalued to their fair values and any excess of consideration transferred over fair value of net assets acquired is allocated to goodwill.
- B. Net assets of the acquired company are maintained at book value and any excess of consideration transferred over book value of net assets acquired is allocated to goodwill.
- C. Acquired assets are revalued to their fair values. Acquired liabilities are maintained at book values. Any excess is allocated to goodwill.
- D. Acquired long-term assets are revalued to their fair values. Any excess is allocated to goodwill.

*AACSB: Reflective thinking*

*AICPA FN: Measurement*

*Blooms: Analysis*

*Difficulty: 2 Medium*

*Learning Objective: 02-04 Describe the valuation principles of the acquisition method.*

*Learning Objective: 02-05 Determine the total fair value of the consideration transferred for an acquisition and allocate that fair value to specific subsidiary assets acquired (including goodwill); and liabilities assumed; or a gain on bargain purchase.*

28. In a transaction accounted for using the acquisition method where consideration transferred is less than fair value of net assets acquired, which statement is true?

A. Negative goodwill is recorded.

B. A deferred credit is recorded.

**C.** A gain on bargain purchase is recorded.

D. Long-term assets of the acquired company are reduced in proportion to their fair values. Any excess is recorded as a deferred credit.

E. Long-term assets and liabilities of the acquired company are reduced in proportion to their fair values. Any excess is recorded as an extraordinary gain.

*AACSB: Reflective thinking*

*AICPA FN: Measurement*

*Blooms: Knowledge*

*Difficulty: 1 Easy*

*Learning Objective: 02-04 Describe the valuation principles of the acquisition method.*

*Learning Objective: 02-05 Determine the total fair value of the consideration transferred for an acquisition and allocate that fair value to specific subsidiary assets acquired (including goodwill); and liabilities assumed; or a gain on bargain purchase.*

29. Which of the following statements is true regarding the acquisition method of accounting for a business combination?

**A.** Net assets of the acquired company are reported at their fair values.

B. Net assets of the acquired company are reported at their book values.

C. Any goodwill associated with the acquisition is reported as a development cost.

D. The acquisition can only be effected by a mutual exchange of voting common stock.

E. Indirect costs of the combination reduce additional paid-in capital.

*AACSB: Reflective thinking*

*AICPA FN: Measurement*

*Blooms: Knowledge*

*Difficulty: 2 Medium*

*Learning Objective: 02-05 Determine the total fair value of the consideration transferred for an acquisition and allocate that fair value to specific subsidiary assets acquired (including goodwill); and liabilities assumed; or a gain on bargain purchase.*

30. Which of the following statements is true?

- A. The pooling of interests for business combinations is an alternative to the acquisition method.
- B. The purchase method for business combinations is an alternative to the acquisition method.
- C.** Neither the purchase method nor the pooling of interests method is allowed for new business combinations.
- D. Any previous business combination originally accounted for under purchase or pooling of interests accounting method will now be accounted for under the acquisition method of accounting for business combinations.
- E. Companies previously using the purchase or pooling of interests accounting method must report a change in accounting principle when consolidating those subsidiaries with new acquisition combinations.

*AACSB: Reflective thinking*

*AICPA FN: Measurement*

*Blooms: Knowledge*

*Difficulty: 2 Medium*

*Learning Objective: 02-09 Identify the general characteristics of the purchase method and the general characteristics of a pooling of interests. Also recognize that although the pooling of interests and purchase methods are no longer applicable for new business combinations their financial reporting effects will be evident for decades to come.*

The financial statements for Goodwin, Inc., and Corr Company for the year ended December 31, 20X1, prior to Goodwin's acquisition business combination transaction regarding Corr, follow (in thousands):

	<u>Goodwin</u>	<u>Corr</u>
Revenues	\$2,700	\$600
Expenses	<u>1,980</u>	<u>400</u>
Net income	<u>\$ 720</u>	<u>\$200</u>
Retained earnings 1/1	\$2,400	\$400
Net income	720	200
Dividends	<u>(270)</u>	<u>(0)</u>
Retained earnings, 12/31	<u>\$2,850</u>	<u>\$600</u>
Cash	\$ 240	\$ 220
Receivables and inventory	1,200	340
Buildings (net)	2,700	600
Equipment (net)	<u>2,100</u>	<u>1,200</u>
Total assets	<u>\$6,240</u>	<u>\$2,360</u>
Liabilities	\$1,500	\$ 820
Common stock	1,080	400
Additional paid-in capital	810	540
Retained earnings	<u>2,850</u>	<u>600</u>
Total liabilities & stockholders' equity	<u>\$6,240</u>	<u>\$2,360</u>

On December 31, 20X1, Goodwin issued \$600 in debt and 30 shares of its \$10 par value common stock to the owners of Corr to acquire all of the outstanding shares of that company. Goodwin shares had a fair value of \$40 per share. Goodwin paid \$25 to a broker for arranging the transaction. Goodwin paid \$35 in stock issuance costs. Corr's equipment was actually worth \$1,400 but its buildings were only valued at \$560.

31. In this acquisition business combination, at what amount is the investment recorded on Goodwin's books?

- A. \$1,540.
- B. \$1,800.
- C. \$1,860.
- D.** \$1,825.
- E. \$1,625.

*AACSB: Analytic*

*AICPA FN: Measurement*

*Blooms: Application*

*Difficulty: 2 Medium*

*Learning Objective: 02-07 Prepare a worksheet to consolidate the accounts of two companies that form a business combination if dissolution is not to take place.*

32. In this acquisition business combination, what total amount of common stock and additional paid-in capital is recorded on Goodwin's books?

- A. \$265.
- B.** \$1,165.
- C. \$1,200.
- D. \$1,235.
- E. \$1,765.

*AACSB: Analytic*

*AICPA FN: Measurement*

*Blooms: Application*

*Difficulty: 2 Medium*

*Learning Objective: 02-04 Describe the valuation principles of the acquisition method.*

*Learning Objective: 02-05 Determine the total fair value of the consideration transferred for an acquisition and allocate that fair value to specific subsidiary assets acquired (including goodwill); and liabilities assumed; or a gain on bargain purchase.*

*Learning Objective: 02-06 Prepare the journal entry to consolidate the accounts of a subsidiary if dissolution takes place.*

*Learning Objective: 02-07 Prepare a worksheet to consolidate the accounts of two companies that form a business combination if dissolution is not to take place.*

33. Compute the consolidated revenues for 20X1.

- A. \$2,700.
- B. \$720.
- C. \$920.
- D. \$3,300.
- E. \$1,540.

*AACSB: Analytic*

*AICPA FN: Measurement*

*Blooms: Application*

*Difficulty: 1 Easy*

*Learning Objective: 02-06 Prepare the journal entry to consolidate the accounts of a subsidiary if dissolution takes place.*

*Learning Objective: 02-07 Prepare a worksheet to consolidate the accounts of two companies that form a business combination if dissolution is not to take place.*

34. Compute the consolidated receivables and inventory for 20X1.

- A. \$1,200.
- B. \$1,515.
- C. \$1,540.
- D. \$1,800.
- E. \$2,140.

*AACSB: Analytic*

*AICPA FN: Measurement*

*Blooms: Application*

*Difficulty: 1 Easy*

*Learning Objective: 02-05 Determine the total fair value of the consideration transferred for an acquisition and allocate that fair value to specific subsidiary assets acquired (including goodwill); and liabilities assumed; or a gain on bargain purchase.*

*Learning Objective: 02-06 Prepare the journal entry to consolidate the accounts of a subsidiary if dissolution takes place.*

*Learning Objective: 02-07 Prepare a worksheet to consolidate the accounts of two companies that form a business combination if dissolution is not to take place.*



35. Compute the consolidated expenses for 20X1.

- A. \$1,980.
- B. \$2,005.**
- C. \$2,040.
- D. \$2,380.
- E. \$2,405.

*AACSB: Analytic*

*AICPA FN: Measurement*

*Blooms: Application*

*Difficulty: 2 Medium*

*Learning Objective: 02-05 Determine the total fair value of the consideration transferred for an acquisition and allocate that fair value to specific subsidiary assets acquired (including goodwill); and liabilities assumed; or a gain on bargain purchase.*

*Learning Objective: 02-06 Prepare the journal entry to consolidate the accounts of a subsidiary if dissolution takes place.*

*Learning Objective: 02-07 Prepare a worksheet to consolidate the accounts of two companies that form a business combination if dissolution is not to take place.*

36. Compute the consolidated cash account at December 31, 20X1.

- A. \$460.
- B. \$425.
- C. \$400.**
- D. \$435.
- E. \$240.

*AACSB: Analytic*

*AICPA FN: Measurement*

*Blooms: Application*

*Difficulty: 2 Medium*

*Learning Objective: 02-05 Determine the total fair value of the consideration transferred for an acquisition and allocate that fair value to specific subsidiary assets acquired (including goodwill); and liabilities assumed; or a gain on bargain purchase.*

*Learning Objective: 02-06 Prepare the journal entry to consolidate the accounts of a subsidiary if dissolution takes place.*

*Learning Objective: 02-07 Prepare a worksheet to consolidate the accounts of two companies that form a business combination if dissolution is not to take place.*

37. Compute the consolidated buildings (net) account at December 31, 20X1.

- A. \$2,700.
- B. \$3,370.
- C. \$3,300.
- D.** \$3,260.
- E. \$3,340.

*AACSB: Analytic*

*AICPA FN: Measurement*

*Blooms: Application*

*Difficulty: 2 Medium*

*Learning Objective: 02-05 Determine the total fair value of the consideration transferred for an acquisition and allocate that fair value to specific subsidiary assets acquired (including goodwill); and liabilities assumed; or a gain on bargain purchase.*

*Learning Objective: 02-06 Prepare the journal entry to consolidate the accounts of a subsidiary if dissolution takes place.*

*Learning Objective: 02-07 Prepare a worksheet to consolidate the accounts of two companies that form a business combination if dissolution is not to take place.*

38. Compute the consolidated equipment (net) account at December 31, 20X1.

- A. \$2,100.
- B.** \$3,500.
- C. \$3,300.
- D. \$3,000.
- E. \$3,200.

*AACSB: Analytic*

*AICPA FN: Measurement*

*Blooms: Application*

*Difficulty: 2 Medium*

*Learning Objective: 02-05 Determine the total fair value of the consideration transferred for an acquisition and allocate that fair value to specific subsidiary assets acquired (including goodwill); and liabilities assumed; or a gain on bargain purchase.*

*Learning Objective: 02-06 Prepare the journal entry to consolidate the accounts of a subsidiary if dissolution takes place.*

*Learning Objective: 02-07 Prepare a worksheet to consolidate the accounts of two companies that form a business combination if dissolution is not to take place.*

39. Compute the consideration transferred for this acquisition at December 31, 20X1.

- A. \$900.
- B. \$1,165.
- C. \$1,200.
- D. \$1,765.
- E. \$1,800.**

*AACSB: Analytic*

*AICPA FN: Measurement*

*Blooms: Application*

*Difficulty: 2 Medium*

*Learning Objective: 02-04 Describe the valuation principles of the acquisition method.*

*Learning Objective: 02-05 Determine the total fair value of the consideration transferred for an acquisition and allocate that fair value to specific subsidiary assets acquired (including goodwill); and liabilities assumed; or a gain on bargain purchase.*

*Learning Objective: 02-06 Prepare the journal entry to consolidate the accounts of a subsidiary if dissolution takes place.*

*Learning Objective: 02-07 Prepare a worksheet to consolidate the accounts of two companies that form a business combination if dissolution is not to take place.*

40. Compute the goodwill arising from this acquisition at December 31, 20X1.

- A. \$0.
- B. \$100.**
- C. \$125.
- D. \$160.
- E. \$45.

*AACSB: Analytic*

*AICPA FN: Measurement*

*Blooms: Application*

*Difficulty: 2 Medium*

*Learning Objective: 02-04 Describe the valuation principles of the acquisition method.*

*Learning Objective: 02-05 Determine the total fair value of the consideration transferred for an acquisition and allocate that fair value to specific subsidiary assets acquired (including goodwill); and liabilities assumed; or a gain on bargain purchase.*

*Learning Objective: 02-06 Prepare the journal entry to consolidate the accounts of a subsidiary if dissolution takes place.*

*Learning Objective: 02-07 Prepare a worksheet to consolidate the accounts of two companies that form a business combination if dissolution is not to take place.*

41. Compute the consolidated common stock account at December 31, 20X1.

- A. \$1,080.
- B. \$1,480.
- C. \$1,380.**
- D. \$2,280.
- E. \$2,680.

*AACSB: Analytic*

*AICPA FN: Measurement*

*Blooms: Application*

*Difficulty: 2 Medium*

*Learning Objective: 02-04 Describe the valuation principles of the acquisition method.*

*Learning Objective: 02-05 Determine the total fair value of the consideration transferred for an acquisition and allocate that fair value to specific subsidiary assets acquired (including goodwill); and liabilities assumed; or a gain on bargain purchase.*

*Learning Objective: 02-06 Prepare the journal entry to consolidate the accounts of a subsidiary if dissolution takes place.*

*Learning Objective: 02-07 Prepare a worksheet to consolidate the accounts of two companies that form a business combination if dissolution is not to take place.*

42. Compute the consolidated additional paid-in capital at December 31, 20X1.

- A. \$810.
- B. \$1,350.
- C. \$1,675.**
- D. \$1,910.
- E. \$1,875.

*AACSB: Analytic*

*AICPA FN: Measurement*

*Blooms: Application*

*Difficulty: 3 Hard*

*Learning Objective: 02-04 Describe the valuation principles of the acquisition method.*

*Learning Objective: 02-05 Determine the total fair value of the consideration transferred for an acquisition and allocate that fair value to specific subsidiary assets acquired (including goodwill); and liabilities assumed; or a gain on bargain purchase.*

*Learning Objective: 02-06 Prepare the journal entry to consolidate the accounts of a subsidiary if dissolution takes place.*

*Learning Objective: 02-07 Prepare a worksheet to consolidate the accounts of two companies that form a business combination if dissolution is not to take place.*

43. Compute the consolidated liabilities at December 31, 20X1.

- A. \$1,500.
- B. \$2,100.
- C. \$2,320.
- D.** \$2,920.
- E. \$2,885.

*AACSB: Analytic*

*AICPA FN: Measurement*

*Blooms: Application*

*Difficulty: 2 Medium*

*Learning Objective: 02-05 Determine the total fair value of the consideration transferred for an acquisition and allocate that fair value to specific subsidiary assets acquired (including goodwill); and liabilities assumed; or a gain on bargain purchase.*

44. Compute the consolidated retained earnings at December 31, 20X1.

- A. \$2,800.
- B.** \$2,825.
- C. \$2,850.
- D. \$3,425.
- E. \$3,450.

*AACSB: Analytic*

*AICPA FN: Measurement*

*Blooms: Application*

*Difficulty: 2 Medium*

*Learning Objective: 02-04 Describe the valuation principles of the acquisition method.*

*Learning Objective: 02-05 Determine the total fair value of the consideration transferred for an acquisition and allocate that fair value to specific subsidiary assets acquired (including goodwill); and liabilities assumed; or a gain on bargain purchase.*

*Learning Objective: 02-06 Prepare the journal entry to consolidate the accounts of a subsidiary if dissolution takes place.*

*Learning Objective: 02-07 Prepare a worksheet to consolidate the accounts of two companies that form a business combination if dissolution is not to take place.*

On January 1, 20X1, the Moody company entered into a transaction for 100% of the outstanding common stock of Osorio Company. To acquire these shares, Moody issued \$400 in long-term liabilities and 40 shares of common stock having a par value of \$1 per share but a fair value of \$10 per share. Moody paid \$20 to lawyers, accountants, and brokers for assistance in bringing about this acquisition. Another \$15 was paid in connection with stock issuance costs. Prior to these transactions, the balance sheets for the two companies were as follows:

	<u>Moody</u>	<u>Osorio</u>
Cash	\$ 180	\$ 40
Receivables	810	180
Inventories	1,080	280
Land	600	360
Buildings (net)	1,260	440
Equipment (net)	480	100
Accounts payable	(450)	(80)
Long-term liabilities	(1,290)	(400)
Common stock (\$1 par)	(330)	
Common stock (\$20 par)		(240)
Additional paid-in capital	(1,080)	(340)
Retained earnings	(1,260)	(340)

Note: Parentheses indicate a credit balance.

In Moody's appraisal of Osorio, three assets were deemed to be undervalued on the subsidiary's books: Inventory by \$10, Land by \$40, and Buildings by \$60.

45. What amount was recorded as the investment in Osorio?

- A. \$930.
- B. \$820.
- C. \$800.**
- D. \$835.
- E. \$815.

*AACSB: Analytic*

*AICPA FN: Measurement*

*Blooms: Application*

*Difficulty: 2 Medium*

*Learning Objective: 02-07 Prepare a worksheet to consolidate the accounts of two companies that form a business combination if dissolution is not to take place.*

46. What amount was recorded as goodwill arising from this acquisition?

- A. \$230.
- B. \$120.
- C. \$520.
- D. None. There is a gain on bargain purchase of \$230.**
- E. None. There is a gain on bargain purchase of \$265.

*AACSB: Analytic*

*AICPA FN: Measurement*

*Blooms: Application*

*Difficulty: 2 Medium*

*Learning Objective: 02-04 Describe the valuation principles of the acquisition method.*

*Learning Objective: 02-05 Determine the total fair value of the consideration transferred for an acquisition and allocate that fair value to specific subsidiary assets acquired (including goodwill); and liabilities assumed; or a gain on bargain purchase.*

*Learning Objective: 02-06 Prepare the journal entry to consolidate the accounts of a subsidiary if dissolution takes place.*

*Learning Objective: 02-07 Prepare a worksheet to consolidate the accounts of two companies that form a business combination if dissolution is not to take place.*

47. Compute the amount of consolidated inventories at date of acquisition.

- A. \$1,080.
- B. \$1,350.
- C. \$1,360.
- D.** \$1,370.
- E. \$290.

*AACSB: Analytic*

*AICPA FN: Measurement*

*Blooms: Application*

*Difficulty: 2 Medium*

*Learning Objective: 02-05 Determine the total fair value of the consideration transferred for an acquisition and allocate that fair value to specific subsidiary assets acquired (including goodwill); and liabilities assumed; or a gain on bargain purchase.*

*Learning Objective: 02-06 Prepare the journal entry to consolidate the accounts of a subsidiary if dissolution takes place.*

*Learning Objective: 02-07 Prepare a worksheet to consolidate the accounts of two companies that form a business combination if dissolution is not to take place.*

48. Compute the amount of consolidated buildings (net) at date of acquisition.

- A. \$1,700.
- B.** \$1,760.
- C. \$1,640.
- D. \$1,320.
- E. \$500.

*AACSB: Analytic*

*AICPA FN: Measurement*

*Blooms: Application*

*Difficulty: 2 Medium*

*Learning Objective: 02-05 Determine the total fair value of the consideration transferred for an acquisition and allocate that fair value to specific subsidiary assets acquired (including goodwill); and liabilities assumed; or a gain on bargain purchase.*

*Learning Objective: 02-06 Prepare the journal entry to consolidate the accounts of a subsidiary if dissolution takes place.*

*Learning Objective: 02-07 Prepare a worksheet to consolidate the accounts of two companies that form a business combination if dissolution is not to take place.*



49. Compute the amount of consolidated land at date of acquisition.

- A.** \$1,000.
- B. \$960.
- C. \$920.
- D. \$400.
- E. \$320.

*AACSB: Analytic*

*AICPA FN: Measurement*

*Blooms: Application*

*Difficulty: 2 Medium*

*Learning Objective: 02-05 Determine the total fair value of the consideration transferred for an acquisition and allocate that fair value to specific subsidiary assets acquired (including goodwill); and liabilities assumed; or a gain on bargain purchase.*

*Learning Objective: 02-06 Prepare the journal entry to consolidate the accounts of a subsidiary if dissolution takes place.*

*Learning Objective: 02-07 Prepare a worksheet to consolidate the accounts of two companies that form a business combination if dissolution is not to take place.*

50. Compute the amount of consolidated equipment at date of acquisition.

- A. \$480.
- B.** \$580.
- C. \$559.
- D. \$570.
- E. \$560.

*AACSB: Analytic*

*AICPA FN: Measurement*

*Blooms: Application*

*Difficulty: 2 Medium*

*Learning Objective: 02-05 Determine the total fair value of the consideration transferred for an acquisition and allocate that fair value to specific subsidiary assets acquired (including goodwill); and liabilities assumed; or a gain on bargain purchase.*

*Learning Objective: 02-06 Prepare the journal entry to consolidate the accounts of a subsidiary if dissolution takes place.*

*Learning Objective: 02-07 Prepare a worksheet to consolidate the accounts of two companies that form a business combination if dissolution is not to take place.*

51. Compute the amount of consolidated common stock at date of acquisition.

- A. \$370.
- B. \$570.
- C. \$610.
- D. \$330.
- E. \$530.

*AACSB: Analytic*

*AICPA FN: Measurement*

*Blooms: Application*

*Difficulty: 2 Medium*

*Learning Objective: 02-04 Describe the valuation principles of the acquisition method.*

*Learning Objective: 02-05 Determine the total fair value of the consideration transferred for an acquisition and allocate that fair value to specific subsidiary assets acquired (including goodwill); and liabilities assumed; or a gain on bargain purchase.*

*Learning Objective: 02-06 Prepare the journal entry to consolidate the accounts of a subsidiary if dissolution takes place.*

*Learning Objective: 02-07 Prepare a worksheet to consolidate the accounts of two companies that form a business combination if dissolution is not to take place.*

52. Compute the amount of consolidated additional paid-in capital at date of acquisition.

- A. \$1,080.
- B. \$1,420.
- C. \$1,065.
- D. \$1,425.
- E. \$1,440.

*AACSB: Analytic*

*AICPA FN: Measurement*

*Blooms: Application*

*Difficulty: 3 Hard*

*Learning Objective: 02-04 Describe the valuation principles of the acquisition method.*

*Learning Objective: 02-05 Determine the total fair value of the consideration transferred for an acquisition and allocate that fair value to specific subsidiary assets acquired (including goodwill); and liabilities assumed; or a gain on bargain purchase.*

*Learning Objective: 02-06 Prepare the journal entry to consolidate the accounts of a subsidiary if dissolution takes place.*

*Learning Objective: 02-07 Prepare a worksheet to consolidate the accounts of two companies that form a business combination if dissolution is not to take place.*

53. Compute the amount of consolidated cash after recording the acquisition transaction.

- A. \$220.
- B. \$185.**
- C. \$200.
- D. \$205.
- E. \$215.

*AACSB: Analytic*

*AICPA FN: Measurement*

*Blooms: Application*

*Difficulty: 2 Medium*

*Learning Objective: 02-05 Determine the total fair value of the consideration transferred for an acquisition and allocate that fair value to specific subsidiary assets acquired (including goodwill); and liabilities assumed; or a gain on bargain purchase.*

*Learning Objective: 02-06 Prepare the journal entry to consolidate the accounts of a subsidiary if dissolution takes place.*

*Learning Objective: 02-07 Prepare a worksheet to consolidate the accounts of two companies that form a business combination if dissolution is not to take place.*

Carnes has the following account balances as of May 1, 2010 before an acquisition transaction takes place.

Inventory	\$100,000
Land	400,000
Buildings (net)	500,000
Common stock (\$10 par)	600,000
Additional paid-in capital	200,000
Retained Earnings	200,000
Revenues	450,000
Expenses	250,000

The fair value of Carnes' Land and Buildings are \$650,000 and \$550,000, respectively. On May 1, 2010, Riley Company issues 30,000 shares of its \$10 par value (\$25 fair value) common stock in exchange for all of the shares of Carnes' common stock. Riley paid \$10,000 for costs to issue the new shares of stock. Before the acquisition, Riley has \$700,000 in its common stock account and \$300,000 in its additional paid-in capital account.

54. On May 1, 2010, what value is assigned to Riley's investment account?

- A. \$150,000.
- B. \$300,000.
- C. \$750,000.**
- D. \$760,000.
- E. \$1,350,000.

*AACSB: Analytic*

*AICPA FN: Measurement*

*Blooms: Application*

*Difficulty: 1 Easy*

*Learning Objective: 02-07 Prepare a worksheet to consolidate the accounts of two companies that form a business combination if dissolution is not to take place.*

55. At the date of acquisition, by how much does Riley's additional paid-in capital increase or decrease?

- A. \$0.
- B. \$440,000 increase.**
- C. \$450,000 increase.
- D. \$640,000 increase.
- E. \$650,000 decrease.

*AACSB: Analytic*

*AICPA FN: Measurement*

*Blooms: Application*

*Difficulty: 1 Easy*

*Learning Objective: 02-04 Describe the valuation principles of the acquisition method.*

*Learning Objective: 02-05 Determine the total fair value of the consideration transferred for an acquisition and allocate that fair value to specific subsidiary assets acquired (including goodwill); and liabilities assumed; or a gain on bargain purchase.*

*Learning Objective: 02-06 Prepare the journal entry to consolidate the accounts of a subsidiary if dissolution takes place.*

*Learning Objective: 02-07 Prepare a worksheet to consolidate the accounts of two companies that form a business combination if dissolution is not to take place.*

56. What will be Riley's balance in its common stock account as a result of this acquisition?

- A. \$300,000.
- B. \$990,000.
- C. \$1,000,000.**
- D. \$1,590,000.
- E. \$1,600,000.

*AACSB: Analytic*

*AICPA FN: Measurement*

*Blooms: Application*

*Difficulty: 1 Easy*

*Learning Objective: 02-04 Describe the valuation principles of the acquisition method.*

*Learning Objective: 02-05 Determine the total fair value of the consideration transferred for an acquisition and allocate that fair value to specific subsidiary assets acquired (including goodwill); and liabilities assumed; or a gain on bargain purchase.*

*Learning Objective: 02-06 Prepare the journal entry to consolidate the accounts of a subsidiary if dissolution takes place.*

*Learning Objective: 02-07 Prepare a worksheet to consolidate the accounts of two companies that form a business combination if dissolution is not to take place.*

57. What will be the consolidated additional paid-in capital as a result of this acquisition?

- A. \$440,000.
- B. \$740,000.**
- C. \$750,000.
- D. \$940,000.
- E. \$950,000.

*AACSB: Analytic*

*AICPA FN: Measurement*

*Blooms: Application*

*Difficulty: 2 Medium*

*Learning Objective: 02-04 Describe the valuation principles of the acquisition method.*

*Learning Objective: 02-05 Determine the total fair value of the consideration transferred for an acquisition and allocate that fair value to specific subsidiary assets acquired (including goodwill); and liabilities assumed; or a gain on bargain purchase.*

*Learning Objective: 02-06 Prepare the journal entry to consolidate the accounts of a subsidiary if dissolution takes place.*

*Learning Objective: 02-07 Prepare a worksheet to consolidate the accounts of two companies that form a business combination if dissolution is not to take place.*

The financial balances for the Atwood Company and the Franz Company as of December 31, 20X1, are presented below. Also included are the fair values for Franz Company's net assets.

	Atwood	Franz Co.	
	(all numbers are in thousands)		
	Book Value <u>December 31,</u> 20X1	Book Value <u>December 31,</u> 20X1	Fair Value <u>December 31,</u> 20X1
Cash	\$ 870	\$ 240	\$ 240
Receivables	660	600	600
Inventory	1,230	420	580
Land	1,800	260	250
Buildings (net)	1,800	540	650
Equipment (net)	660	380	400
Accounts payable	( 570)	( 240)	( 240)
Accrued expenses	( 270)	( 60)	( 60)
Long-term liabilities	(2,700)	(1,020)	(1,120)
Common stock (\$20 par)	(1,980)		
Common stock (\$5 par)		( 420)	
Additional paid-in capital	( 210)	( 180)	
Retained earnings	(1,170)	( 480)	
Revenues	(2,880)	( 660)	
Expenses	2,760	620	

Note: Parenthesis indicate a credit balance

Assume an acquisition business combination took place at December 31, 20X1. Atwood issued 50 shares of its common stock with a fair value of \$35 per share for all of the outstanding common shares of Franz. Stock issuance costs of \$15 (in thousands) and direct costs of \$10 (in thousands) were paid.

58. Compute the investment to be recorded at date of acquisition.

- A.** \$1,750.
- B. \$1,760.
- C. \$1,775.
- D. \$1,300.
- E. \$1,120.

*AACSB: Analytic*

*AICPA FN: Measurement*

*Blooms: Application*

*Difficulty: 2 Medium*

*Learning Objective: 02-07 Prepare a worksheet to consolidate the accounts of two companies that form a business combination if dissolution is not to take place.*

59. Compute the consolidated common stock at date of acquisition.

- A. \$1,000.
- B.** \$2,980.
- C. \$2,400.
- D. \$3,400.
- E. \$3,730.

*AACSB: Analytic*

*AICPA FN: Measurement*

*Blooms: Application*

*Difficulty: 2 Medium*

*Learning Objective: 02-04 Describe the valuation principles of the acquisition method.*

*Learning Objective: 02-05 Determine the total fair value of the consideration transferred for an acquisition and allocate that fair value to specific subsidiary assets acquired (including goodwill); and liabilities assumed; or a gain on bargain purchase.*

*Learning Objective: 02-06 Prepare the journal entry to consolidate the accounts of a subsidiary if dissolution takes place.*

*Learning Objective: 02-07 Prepare a worksheet to consolidate the accounts of two companies that form a business combination if dissolution is not to take place.*

60. Compute consolidated inventory at the date of the acquisition.

- A. \$1,650.
- B. \$1,810.**
- C. \$1,230.
- D. \$580.
- E. \$1,830.

*AACSB: Analytic*

*AICPA FN: Measurement*

*Blooms: Application*

*Difficulty: 2 Medium*

*Learning Objective: 02-05 Determine the total fair value of the consideration transferred for an acquisition and allocate that fair value to specific subsidiary assets acquired (including goodwill); and liabilities assumed; or a gain on bargain purchase.*

*Learning Objective: 02-06 Prepare the journal entry to consolidate the accounts of a subsidiary if dissolution takes place.*

*Learning Objective: 02-07 Prepare a worksheet to consolidate the accounts of two companies that form a business combination if dissolution is not to take place.*

61. Compute consolidated land at the date of the acquisition.

- A. \$2,060.
- B. \$1,800.
- C. \$260.
- D. \$2,050.**
- E. \$2,070.

*AACSB: Analytic*

*AICPA FN: Measurement*

*Blooms: Application*

*Difficulty: 2 Medium*

*Learning Objective: 02-05 Determine the total fair value of the consideration transferred for an acquisition and allocate that fair value to specific subsidiary assets acquired (including goodwill); and liabilities assumed; or a gain on bargain purchase.*

*Learning Objective: 02-06 Prepare the journal entry to consolidate the accounts of a subsidiary if dissolution takes place.*

*Learning Objective: 02-07 Prepare a worksheet to consolidate the accounts of two companies that form a business combination if dissolution is not to take place.*



62. Compute consolidated buildings (net) at the date of the acquisition.

- A.** \$2,450.
- B. \$2,340.
- C. \$1,800.
- D. \$650.
- E. \$1,690.

*AACSB: Analytic*

*AICPA FN: Measurement*

*Blooms: Application*

*Difficulty: 2 Medium*

*Learning Objective: 02-05 Determine the total fair value of the consideration transferred for an acquisition and allocate that fair value to specific subsidiary assets acquired (including goodwill); and liabilities assumed; or a gain on bargain purchase.*

*Learning Objective: 02-06 Prepare the journal entry to consolidate the accounts of a subsidiary if dissolution takes place.*

*Learning Objective: 02-07 Prepare a worksheet to consolidate the accounts of two companies that form a business combination if dissolution is not to take place.*

63. Compute consolidated long-term liabilities at the date of the acquisition.

- A. \$2,600.
- B. \$2,700.
- C. \$2,800.
- D. \$3,720.
- E.** \$3,820.

*AACSB: Analytic*

*AICPA FN: Measurement*

*Blooms: Application*

*Difficulty: 2 Medium*

*Learning Objective: 02-05 Determine the total fair value of the consideration transferred for an acquisition and allocate that fair value to specific subsidiary assets acquired (including goodwill); and liabilities assumed; or a gain on bargain purchase.*

*Learning Objective: 02-06 Prepare the journal entry to consolidate the accounts of a subsidiary if dissolution takes place.*

*Learning Objective: 02-07 Prepare a worksheet to consolidate the accounts of two companies that form a business combination if dissolution is not to take place.*

64. Compute consolidated goodwill at the date of the acquisition.

- A. \$360.
- B.** \$450.
- C. \$460.
- D. \$440.
- E. \$475.

*AACSB: Analytic*

*AICPA FN: Measurement*

*Blooms: Application*

*Difficulty: 2 Medium*

*Learning Objective: 02-04 Describe the valuation principles of the acquisition method.*

*Learning Objective: 02-05 Determine the total fair value of the consideration transferred for an acquisition and allocate that fair value to specific subsidiary assets acquired (including goodwill); and liabilities assumed; or a gain on bargain purchase.*

*Learning Objective: 02-06 Prepare the journal entry to consolidate the accounts of a subsidiary if dissolution takes place.*

*Learning Objective: 02-07 Prepare a worksheet to consolidate the accounts of two companies that form a business combination if dissolution is not to take place.*

65. Compute consolidated equipment (net) at the date of the acquisition.

- A. \$400.
- B. \$660.
- C.** \$1,060.
- D. \$1,040.
- E. \$1,050.

*AACSB: Analytic*

*AICPA FN: Measurement*

*Blooms: Application*

*Difficulty: 2 Medium*

*Learning Objective: 02-05 Determine the total fair value of the consideration transferred for an acquisition and allocate that fair value to specific subsidiary assets acquired (including goodwill); and liabilities assumed; or a gain on bargain purchase.*

*Learning Objective: 02-06 Prepare the journal entry to consolidate the accounts of a subsidiary if dissolution takes place.*

*Learning Objective: 02-07 Prepare a worksheet to consolidate the accounts of two companies that form a business combination if dissolution is not to take place.*

66. Compute fair value of the net assets acquired at the date of the acquisition.

- A. \$1,300.
- B. \$1,340.
- C. \$1,500.
- D. \$1,750.
- E. \$2,480.

*AACSB: Analytic*

*AICPA FN: Measurement*

*Blooms: Application*

*Difficulty: 2 Medium*

*Learning Objective: 02-05 Determine the total fair value of the consideration transferred for an acquisition and allocate that fair value to specific subsidiary assets acquired (including goodwill); and liabilities assumed; or a gain on bargain purchase.*

*Learning Objective: 02-06 Prepare the journal entry to consolidate the accounts of a subsidiary if dissolution takes place.*

*Learning Objective: 02-07 Prepare a worksheet to consolidate the accounts of two companies that form a business combination if dissolution is not to take place.*

67. Compute consolidated retained earnings at the date of the acquisition.

- A. \$1,160.
- B. \$1,170.
- C. \$1,280.
- D. \$1,290.
- E. \$1,640.

*AACSB: Analytic*

*AICPA FN: Measurement*

*Blooms: Application*

*Difficulty: 3 Hard*

*Learning Objective: 02-04 Describe the valuation principles of the acquisition method.*

*Learning Objective: 02-05 Determine the total fair value of the consideration transferred for an acquisition and allocate that fair value to specific subsidiary assets acquired (including goodwill); and liabilities assumed; or a gain on bargain purchase.*

*Learning Objective: 02-06 Prepare the journal entry to consolidate the accounts of a subsidiary if dissolution takes place.*

*Learning Objective: 02-07 Prepare a worksheet to consolidate the accounts of two companies that form a business combination if dissolution is not to take place.*

68. Compute consolidated revenues at the date of the acquisition.

- A. \$3,540.
- B. \$2,880.**
- C. \$1,170.
- D. \$1,650.
- E. \$4,050.

*AACSB: Analytic*

*AICPA FN: Measurement*

*Blooms: Application*

*Difficulty: 2 Medium*

*Learning Objective: 02-06 Prepare the journal entry to consolidate the accounts of a subsidiary if dissolution takes place.*

*Learning Objective: 02-07 Prepare a worksheet to consolidate the accounts of two companies that form a business combination if dissolution is not to take place.*

69. Compute consolidated cash at the completion of the acquisition.

- A. \$1,350.
- B. \$1,085.**
- C. \$1,110.
- D. \$870.
- E. \$845.

*AACSB: Analytic*

*AICPA FN: Measurement*

*Blooms: Application*

*Difficulty: 2 Medium*

*Learning Objective: 02-05 Determine the total fair value of the consideration transferred for an acquisition and allocate that fair value to specific subsidiary assets acquired (including goodwill); and liabilities assumed; or a gain on bargain purchase.*

*Learning Objective: 02-06 Prepare the journal entry to consolidate the accounts of a subsidiary if dissolution takes place.*

*Learning Objective: 02-07 Prepare a worksheet to consolidate the accounts of two companies that form a business combination if dissolution is not to take place.*

70. Compute consolidated expenses at the date of the acquisition.

A. \$2,760.

**B. \$2,770.**

C. \$2,785.

D. \$3,380.

E. \$3,390.

*AACSB: Analytic*

*AICPA FN: Measurement*

*Blooms: Application*

*Difficulty: 2 Medium*

*Learning Objective: 02-05 Determine the total fair value of the consideration transferred for an acquisition and allocate that fair value to specific subsidiary assets acquired (including goodwill); and liabilities assumed; or a gain on bargain purchase.*

*Learning Objective: 02-06 Prepare the journal entry to consolidate the accounts of a subsidiary if dissolution takes place.*

*Learning Objective: 02-07 Prepare a worksheet to consolidate the accounts of two companies that form a business combination if dissolution is not to take place.*

Presented below are the financial balances for the Atwood Company and the Franz Company as of December 31, 2010, immediately before Atwood acquired Franz. Also included are the fair values for Franz Company's net assets at that date.

	Atwood	Franz Co.	Franz Co.
	(all amounts in thousands)		
	Book Value	Book Value	Fair Value
	<u>December 31,</u>	<u>December 31,</u>	<u>December 31,</u>
	2010	2010	2010
Cash	\$ 870	\$ 240	\$ 240
Receivables	660	600	600
Inventory	1,230	420	580
Land	1,800	260	250
Buildings (net)	1,800	540	650
Equipment (net)	660	380	400
Accounts payable	( 570)	( 240)	( 240)
Accrued expenses	( 270)	( 60)	( 60)
Long-term liabilities	(2,700)	(1,020)	(1,120)
Common stock (\$20 par)	(1,980)		
Common stock (\$5 par)		( 420)	
Additional paid-in capital	( 210)	( 180)	
Retained earnings	(1,170)	( 480)	
Revenues	(2,880)	( 660)	
Expenses	2,760	620	

Note: Parenthesis indicate a credit balance

Assume a business combination took place at December 31, 2010. Atwood issued 50 shares of its common stock with a fair value of \$35 per share for all of the outstanding common shares of Franz. Stock issuance costs of \$15 (in thousands) and direct costs of \$10 (in thousands) were paid to effect this acquisition transaction. To settle a difference of opinion regarding Franz's fair value, Atwood promises to pay an additional \$5.2 (in thousands) to the former owners if Franz's earnings exceed a certain sum during the next year. Given the probability of the required contingency payment and utilizing a 4% discount rate, the expected present value of the contingency is \$5 (in thousands).

71. Compute the investment to be recorded at date of acquisition.

- A. \$1,750.
- B. \$1,755.**
- C. \$1,755.2.
- D. \$1,760.
- E. \$1,765.

*AACSB: Analytic*

*AICPA FN: Measurement*

*Blooms: Application*

*Difficulty: 2 Medium*

*Learning Objective: 02-04 Describe the valuation principles of the acquisition method.*

*Learning Objective: 02-07 Prepare a worksheet to consolidate the accounts of two companies that form a business combination if dissolution is not to take place.*

72. Compute consolidated inventory at date of acquisition.

- A. \$1,650.
- B. \$1,810.**
- C. \$1,230.
- D. \$580.
- E. \$1,830.

*AACSB: Analytic*

*AICPA FN: Measurement*

*Blooms: Application*

*Difficulty: 2 Medium*

*Learning Objective: 02-05 Determine the total fair value of the consideration transferred for an acquisition and allocate that fair value to specific subsidiary assets acquired (including goodwill); and liabilities assumed; or a gain on bargain purchase.*

*Learning Objective: 02-06 Prepare the journal entry to consolidate the accounts of a subsidiary if dissolution takes place.*

*Learning Objective: 02-07 Prepare a worksheet to consolidate the accounts of two companies that form a business combination if dissolution is not to take place.*

73. Compute consolidated land at date of acquisition.

- A. \$2,060.
- B. \$1,800.
- C. \$260.
- D.** \$2,050.
- E. \$2,070.

*AACSB: Analytic*

*AICPA FN: Measurement*

*Blooms: Application*

*Difficulty: 2 Medium*

*Learning Objective: 02-05 Determine the total fair value of the consideration transferred for an acquisition and allocate that fair value to specific subsidiary assets acquired (including goodwill); and liabilities assumed; or a gain on bargain purchase.*

*Learning Objective: 02-06 Prepare the journal entry to consolidate the accounts of a subsidiary if dissolution takes place.*

*Learning Objective: 02-07 Prepare a worksheet to consolidate the accounts of two companies that form a business combination if dissolution is not to take place.*

74. Compute consolidated buildings (net) at date of acquisition.

- A.** \$2,450.
- B. \$2,340.
- C. \$1,800.
- D. \$650.
- E. \$1,690.

*AACSB: Analytic*

*AICPA FN: Measurement*

*Blooms: Application*

*Difficulty: 2 Medium*

*Learning Objective: 02-05 Determine the total fair value of the consideration transferred for an acquisition and allocate that fair value to specific subsidiary assets acquired (including goodwill); and liabilities assumed; or a gain on bargain purchase.*

*Learning Objective: 02-06 Prepare the journal entry to consolidate the accounts of a subsidiary if dissolution takes place.*

*Learning Objective: 02-07 Prepare a worksheet to consolidate the accounts of two companies that form a business combination if dissolution is not to take place.*



75. Compute consolidated goodwill at date of acquisition.

- A. \$440.
- B. \$440.2.
- C. \$450.
- D.** \$455.
- E. \$455.2.

*AACSB: Analytic*

*AICPA FN: Measurement*

*Blooms: Application*

*Difficulty: 2 Medium*

*Learning Objective: 02-05 Determine the total fair value of the consideration transferred for an acquisition and allocate that fair value to specific subsidiary assets acquired (including goodwill); and liabilities assumed; or a gain on bargain purchase.*

*Learning Objective: 02-06 Prepare the journal entry to consolidate the accounts of a subsidiary if dissolution takes place.*

*Learning Objective: 02-07 Prepare a worksheet to consolidate the accounts of two companies that form a business combination if dissolution is not to take place.*

76. Compute consolidated equipment at date of acquisition.

- A. \$400.
- B. \$660.
- C.** \$1,060.
- D. \$1,040.
- E. \$1,050.

*AACSB: Analytic*

*AICPA FN: Measurement*

*Blooms: Application*

*Difficulty: 2 Medium*

*Learning Objective: 02-05 Determine the total fair value of the consideration transferred for an acquisition and allocate that fair value to specific subsidiary assets acquired (including goodwill); and liabilities assumed; or a gain on bargain purchase.*

*Learning Objective: 02-06 Prepare the journal entry to consolidate the accounts of a subsidiary if dissolution takes place.*

*Learning Objective: 02-07 Prepare a worksheet to consolidate the accounts of two companies that form a business combination if dissolution is not to take place.*

77. Compute consolidated retained earnings as a result of this acquisition.

- A. \$1,160.
- B. \$1,170.
- C. \$1,265.
- D.** \$1,280.
- E. \$1,650.

*AACSB: Analytic*

*AICPA FN: Measurement*

*Blooms: Application*

*Difficulty: 3 Hard*

*Learning Objective: 02-04 Describe the valuation principles of the acquisition method.*

*Learning Objective: 02-05 Determine the total fair value of the consideration transferred for an acquisition and allocate that fair value to specific subsidiary assets acquired (including goodwill); and liabilities assumed; or a gain on bargain purchase.*

*Learning Objective: 02-06 Prepare the journal entry to consolidate the accounts of a subsidiary if dissolution takes place.*

*Learning Objective: 02-07 Prepare a worksheet to consolidate the accounts of two companies that form a business combination if dissolution is not to take place.*

78. Compute consolidated revenues at date of acquisition.

- A. \$3,540.
- B.** \$2,880.
- C. \$1,170.
- D. \$1,650.
- E. \$4,050.

*AACSB: Analytic*

*AICPA FN: Measurement*

*Blooms: Application*

*Difficulty: 2 Medium*

*Learning Objective: 02-05 Determine the total fair value of the consideration transferred for an acquisition and allocate that fair value to specific subsidiary assets acquired (including goodwill); and liabilities assumed; or a gain on bargain purchase.*

*Learning Objective: 02-06 Prepare the journal entry to consolidate the accounts of a subsidiary if dissolution takes place.*

*Learning Objective: 02-07 Prepare a worksheet to consolidate the accounts of two companies that form a business combination if dissolution is not to take place.*

79. Compute consolidated expenses at date of acquisition.

- A. \$2,735.
- B. \$2,760.
- C. \$2,770.**
- D. \$2,785.
- E. \$3,380.

*AACSB: Analytic*

*AICPA FN: Measurement*

*Blooms: Application*

*Difficulty: 2 Medium*

*Learning Objective: 02-05 Determine the total fair value of the consideration transferred for an acquisition and allocate that fair value to specific subsidiary assets acquired (including goodwill); and liabilities assumed; or a gain on bargain purchase.*

*Learning Objective: 02-06 Prepare the journal entry to consolidate the accounts of a subsidiary if dissolution takes place.*

*Learning Objective: 02-07 Prepare a worksheet to consolidate the accounts of two companies that form a business combination if dissolution is not to take place.*

80. Compute the consolidated cash upon completion of the acquisition.

- A. \$1,350.
- B. \$1,110.
- C. \$1,080.
- D. \$1,085.**
- E. \$635.

*AACSB: Analytic*

*AICPA FN: Measurement*

*Blooms: Application*

*Difficulty: 2 Medium*

*Learning Objective: 02-05 Determine the total fair value of the consideration transferred for an acquisition and allocate that fair value to specific subsidiary assets acquired (including goodwill); and liabilities assumed; or a gain on bargain purchase.*

*Learning Objective: 02-06 Prepare the journal entry to consolidate the accounts of a subsidiary if dissolution takes place.*

*Learning Objective: 02-07 Prepare a worksheet to consolidate the accounts of two companies that form a business combination if dissolution is not to take place.*

Flynn acquires 100 percent of the outstanding voting shares of Macek Company on January 1, 20X1. To obtain these shares, Flynn pays \$400 cash (in thousands) and issues 10,000 shares of \$20 par value common stock on this date. Flynn's stock had a fair value of \$36 per share on that date. Flynn also pays \$15 (in thousands) to a local investment firm for arranging the acquisition. An additional \$10 (in thousands) was paid by Flynn in stock issuance costs. The book values for both Flynn and Macek as of January 1, 20X1 follow. The fair value of each of Flynn and Macek accounts is also included. In addition, Macek holds a fully amortized trademark that still retains a \$40 (in thousands) value. *The figures below are in thousands.* Any related question also is in thousands.

	<u>Flynn, Inc.</u>	<u>Macek Company</u>	
		<u>Book Value</u>	<u>Fair Value</u>
Cash	\$ 900	\$ 80	\$ 80
Receivables	480	180	160
Inventory	660	260	300
Land	300	120	130
Buildings (net)	1,200	220	280
Equipment	360	100	75
Accounts payable	480	60	60
Long-term liabilities	1,140	340	300
Common stock	1,000	80	
Additional paid-in capital	200	0	
Retained earnings	1,080	480	

81. By how much will Flynn's additional paid-in capital increase as a result of this acquisition?

- A.** \$150.
- B. \$160.
- C. \$230.
- D. \$350.
- E. \$360.

AACSB: Analytic

AICPA FN: Measurement

Blooms: Application

Difficulty: 2 Medium

Learning Objective: 02-04 Describe the valuation principles of the acquisition method.

Learning Objective: 02-05 Determine the total fair value of the consideration transferred for an acquisition and allocate that fair value to specific subsidiary assets acquired (including goodwill); and liabilities assumed; or a gain on bargain purchase.

Learning Objective: 02-06 Prepare the journal entry to consolidate the accounts of a subsidiary if dissolution takes place.

Learning Objective: 02-07 Prepare a worksheet to consolidate the accounts of two companies that form a business combination if dissolution is not to take place.

82. What amount will be reported for goodwill as a result of this acquisition?

- A. \$30.
- B.** \$55.
- C. \$65.
- D. \$175.
- E. \$200.

AACSB: Analytic

AICPA FN: Measurement

Blooms: Application

Difficulty: 2 Medium

Learning Objective: 02-04 Describe the valuation principles of the acquisition method.

Learning Objective: 02-05 Determine the total fair value of the consideration transferred for an acquisition and allocate that fair value to specific subsidiary assets acquired (including goodwill); and liabilities assumed; or a gain on bargain purchase.

Learning Objective: 02-06 Prepare the journal entry to consolidate the accounts of a subsidiary if dissolution takes place.

Learning Objective: 02-07 Prepare a worksheet to consolidate the accounts of two companies that form a business combination if dissolution is not to take place.

83. What amount will be reported for consolidated receivables?

- A. \$660.
- B. \$640.**
- C. \$500.
- D. \$460.
- E. \$480.

*AACSB: Analytic*

*AICPA FN: Measurement*

*Blooms: Application*

*Difficulty: 2 Medium*

*Learning Objective: 02-05 Determine the total fair value of the consideration transferred for an acquisition and allocate that fair value to specific subsidiary assets acquired (including goodwill); and liabilities assumed; or a gain on bargain purchase.*

*Learning Objective: 02-06 Prepare the journal entry to consolidate the accounts of a subsidiary if dissolution takes place.*

*Learning Objective: 02-07 Prepare a worksheet to consolidate the accounts of two companies that form a business combination if dissolution is not to take place.*

84. What amount will be reported for consolidated inventory?

- A. \$1,000.
- B. \$960.**
- C. \$920.
- D. \$660.
- E. \$620.

*AACSB: Analytic*

*AICPA FN: Measurement*

*Blooms: Application*

*Difficulty: 2 Medium*

*Learning Objective: 02-05 Determine the total fair value of the consideration transferred for an acquisition and allocate that fair value to specific subsidiary assets acquired (including goodwill); and liabilities assumed; or a gain on bargain purchase.*

*Learning Objective: 02-06 Prepare the journal entry to consolidate the accounts of a subsidiary if dissolution takes place.*

*Learning Objective: 02-07 Prepare a worksheet to consolidate the accounts of two companies that form a business combination if dissolution is not to take place.*

85. What amount will be reported for consolidated buildings (net)?

- A. \$1,420.
- B. \$1,260.
- C. \$1,140.
- D.** \$1,480.
- E. \$1,200.

*AACSB: Analytic*

*AICPA FN: Measurement*

*Blooms: Application*

*Difficulty: 2 Medium*

*Learning Objective: 02-05 Determine the total fair value of the consideration transferred for an acquisition and allocate that fair value to specific subsidiary assets acquired (including goodwill); and liabilities assumed; or a gain on bargain purchase.*

*Learning Objective: 02-06 Prepare the journal entry to consolidate the accounts of a subsidiary if dissolution takes place.*

*Learning Objective: 02-07 Prepare a worksheet to consolidate the accounts of two companies that form a business combination if dissolution is not to take place.*

86. What amount will be reported for consolidated equipment (net)?

- A. \$385.
- B. \$335.
- C.** \$435.
- D. \$460.
- E. \$360.

*AACSB: Analytic*

*AICPA FN: Measurement*

*Blooms: Application*

*Difficulty: 2 Medium*

*Learning Objective: 02-05 Determine the total fair value of the consideration transferred for an acquisition and allocate that fair value to specific subsidiary assets acquired (including goodwill); and liabilities assumed; or a gain on bargain purchase.*

*Learning Objective: 02-06 Prepare the journal entry to consolidate the accounts of a subsidiary if dissolution takes place.*

*Learning Objective: 02-07 Prepare a worksheet to consolidate the accounts of two companies that form a business combination if dissolution is not to take place.*

87. What amount will be reported for consolidated long-term liabilities?

- A. \$1,520.
- B. \$1,480.
- C. \$1,440.**
- D. \$1,180.
- E. \$1,100.

*AACSB: Analytic*

*AICPA FN: Measurement*

*Blooms: Application*

*Difficulty: 2 Medium*

*Learning Objective: 02-05 Determine the total fair value of the consideration transferred for an acquisition and allocate that fair value to specific subsidiary assets acquired (including goodwill); and liabilities assumed; or a gain on bargain purchase.*

*Learning Objective: 02-06 Prepare the journal entry to consolidate the accounts of a subsidiary if dissolution takes place.*

*Learning Objective: 02-07 Prepare a worksheet to consolidate the accounts of two companies that form a business combination if dissolution is not to take place.*

88. What amount will be reported for consolidated common stock?

- A. \$1,000.
- B. \$1,080.
- C. \$1,200.**
- D. \$1,280.
- E. \$1,360.

*AACSB: Analytic*

*AICPA FN: Measurement*

*Blooms: Application*

*Difficulty: 2 Medium*

*Learning Objective: 02-04 Describe the valuation principles of the acquisition method.*

*Learning Objective: 02-05 Determine the total fair value of the consideration transferred for an acquisition and allocate that fair value to specific subsidiary assets acquired (including goodwill); and liabilities assumed; or a gain on bargain purchase.*

*Learning Objective: 02-06 Prepare the journal entry to consolidate the accounts of a subsidiary if dissolution takes place.*

*Learning Objective: 02-07 Prepare a worksheet to consolidate the accounts of two companies that form a business combination if dissolution is not to take place.*



89. Assuming the combination is accounted for as a purchase, what amount will be reported for consolidated retained earnings?

- A. \$1,830.
- B. \$1,350.
- C. \$1,080.**
- D. \$1,560.
- E. \$1,535.

*AACSB: Analytic*

*AICPA FN: Measurement*

*Blooms: Application*

*Difficulty: 2 Medium*

*Learning Objective: 02-09 Identify the general characteristics of the purchase method and the general characteristics of a pooling of interests. Also recognize that although the pooling of interests and purchase methods are no longer applicable for new business combinations their financial reporting effects will be evident for decades to come.*

90. What amount will be reported for consolidated retained earnings?

- A. \$1,065.**
- B. \$1,080.
- C. \$1,525.
- D. \$1,535.
- E. \$1,560.

*AACSB: Analytic*

*AICPA FN: Measurement*

*Blooms: Application*

*Difficulty: 2 Medium*

*Learning Objective: 02-04 Describe the valuation principles of the acquisition method.*

*Learning Objective: 02-05 Determine the total fair value of the consideration transferred for an acquisition and allocate that fair value to specific subsidiary assets acquired (including goodwill); and liabilities assumed; or a gain on bargain purchase.*

*Learning Objective: 02-06 Prepare the journal entry to consolidate the accounts of a subsidiary if dissolution takes place.*

*Learning Objective: 02-07 Prepare a worksheet to consolidate the accounts of two companies that form a business combination if dissolution is not to take place.*

91. What amount will be reported for consolidated additional paid-in capital?

- A. \$365.
- B.** \$350.
- C. \$360.
- D. \$375.
- E. \$345.

*AACSB: Analytic*

*AICPA FN: Measurement*

*Blooms: Application*

*Difficulty: 3 Hard*

*Learning Objective: 02-04 Describe the valuation principles of the acquisition method.*

*Learning Objective: 02-05 Determine the total fair value of the consideration transferred for an acquisition and allocate that fair value to specific subsidiary assets acquired (including goodwill); and liabilities assumed; or a gain on bargain purchase.*

*Learning Objective: 02-06 Prepare the journal entry to consolidate the accounts of a subsidiary if dissolution takes place.*

*Learning Objective: 02-07 Prepare a worksheet to consolidate the accounts of two companies that form a business combination if dissolution is not to take place.*

92. What amount will be reported for consolidated cash after the acquisition is completed?

- A. \$475.
- B. \$500.
- C.** \$555.
- D. \$580.
- E. \$875.

*AACSB: Analytic*

*AICPA FN: Measurement*

*Blooms: Application*

*Difficulty: 3 Hard*

*Learning Objective: 02-05 Determine the total fair value of the consideration transferred for an acquisition and allocate that fair value to specific subsidiary assets acquired (including goodwill); and liabilities assumed; or a gain on bargain purchase.*

*Learning Objective: 02-06 Prepare the journal entry to consolidate the accounts of a subsidiary if dissolution takes place.*

*Learning Objective: 02-07 Prepare a worksheet to consolidate the accounts of two companies that form a business combination if dissolution is not to take place.*

**Essay Questions**

93. What term is used to refer to a business combination in which only one of the original companies continues to exist?

The appropriate term is *statutory merger*.

*AACSB: Reflective thinking*

*AICPA FN: Measurement*

*Blooms: Knowledge*

*Difficulty: 2 Medium*

*Learning Objective: 02-03 Define the term business combination and differentiate across various forms of business combinations.*

94. How are stock issuance costs accounted for in an acquisition business combination?

Stock issuance costs reduce the balance in the acquirer's Additional Paid-In Capital in an acquisition business combination.

*AACSB: Reflective thinking*

*AICPA FN: Measurement*

*Blooms: Knowledge*

*Difficulty: 2 Medium*

*Learning Objective: 02-05 Determine the total fair value of the consideration transferred for an acquisition and allocate that fair value to specific subsidiary assets acquired (including goodwill); and liabilities assumed; or a gain on bargain purchase.*

*Learning Objective: 02-06 Prepare the journal entry to consolidate the accounts of a subsidiary if dissolution takes place.*

*Learning Objective: 02-07 Prepare a worksheet to consolidate the accounts of two companies that form a business combination if dissolution is not to take place.*

95. What is the primary difference between recording an acquisition when the subsidiary is dissolved and when separate incorporation is maintained?

When the subsidiary is dissolved, the acquirer records in its books the fair value of individual assets and liabilities acquired as well as the resulting goodwill from the acquisition. However, when separate incorporation is maintained, the acquirer only records the total fair value of assets and liabilities acquired, as well as the resulting goodwill, in one account as an investment.

*AACSB: Reflective thinking*

*AICPA FN: Measurement*

*Blooms: Knowledge*

*Difficulty: 2 Medium*

*Learning Objective: 02-05 Determine the total fair value of the consideration transferred for an acquisition and allocate that fair value to specific subsidiary assets acquired (including goodwill); and liabilities assumed; or a gain on bargain purchase.*

*Learning Objective: 02-06 Prepare the journal entry to consolidate the accounts of a subsidiary if dissolution takes place.*

*Learning Objective: 02-07 Prepare a worksheet to consolidate the accounts of two companies that form a business combination if dissolution is not to take place.*

96. How are direct combination costs accounted for in an acquisition transaction?

In an acquisition, direct combination costs are expensed in the period of the acquisition.

*AACSB: Reflective thinking*

*AICPA FN: Measurement*

*Blooms: Knowledge*

*Difficulty: 2 Medium*

*Learning Objective: 02-05 Determine the total fair value of the consideration transferred for an acquisition and allocate that fair value to specific subsidiary assets acquired (including goodwill); and liabilities assumed; or a gain on bargain purchase.*

*Learning Objective: 02-06 Prepare the journal entry to consolidate the accounts of a subsidiary if dissolution takes place.*

*Learning Objective: 02-07 Prepare a worksheet to consolidate the accounts of two companies that form a business combination if dissolution is not to take place.*

97. Peterman Co. owns 55% of Samson Co. Under what circumstances would Peterman not be required to prepare consolidated financial statements?

Peterman would not be required to prepare consolidated financial statements if control of Samson is temporary or if, despite majority ownership, Peterman does not have control over Samson. A lack of control might exist if Samson is in a country that imposes restrictions on Peterman's actions.

*AACSB: Reflective thinking*

*AICPA FN: Measurement*

*Blooms: Comprehension*

*Difficulty: 2 Medium*

*Learning Objective: 02-02 Recognize when consolidation of financial information into a single set of statements is necessary.*

*Learning Objective: 02-03 Define the term business combination and differentiate across various forms of business combinations.*

98. How would you account for in-process research and development acquired in a business combination accounted for as an acquisition?

In-Process Research and Development is capitalized as an asset of the combination and reported as intangible assets with indefinite lives subject to impairment reviews.

*AACSB: Reflective thinking*

*AICPA FN: Measurement*

*Blooms: Knowledge*

*Difficulty: 2 Medium*

*Learning Objective: 02-08 Describe the two criteria for recognizing intangible assets apart from goodwill in a business combination.*

99. Elon Corp. obtained all of the common stock of Finley Co., paying slightly less than the fair value of Finley's net assets acquired. How should the difference between the consideration transferred and the fair value of the net assets be treated if the transaction is accounted for as an acquisition?

The difference between the consideration transferred and the fair value of the net assets acquired is recognized as a gain on bargain purchase.

*AACSB: Reflective thinking*

*AICPA FN: Measurement*

*Blooms: Knowledge*

*Difficulty: 2 Medium*

*Learning Objective: 02-04 Describe the valuation principles of the acquisition method.*

100. For acquisition accounting, why are assets and liabilities of the subsidiary consolidated at fair value?

The acquisition transaction is assumed to occur through an orderly transaction between market participants at the measurement date of the acquisition. Thus identified assets and liabilities acquired have been assigned fair value for the transfer to the acquirer and this is a relevant and faithful representation for consolidation.

*AACSB: Reflective thinking*

*AICPA FN: Measurement*

*Blooms: Knowledge*

*Difficulty: 2 Medium*

*Learning Objective: 02-04 Describe the valuation principles of the acquisition method.*

101. Goodwill is often acquired as part of a business combination. Why, when separate incorporation is maintained, does Goodwill not appear on the Parent company's trial balance as a separate account?

While the Goodwill does not appear on the Parent company's books, it is implied as part of the account called Investment in Subsidiary. During the consolidation process, the Investment account is broken down into its component parts. Goodwill, along with other items such as subsidiary fair value adjustments, is then shown separately as part of the consolidated financial statement balances.

*AACSB: Reflective thinking*

*AICPA FN: Measurement*

*Blooms: Comprehension*

*Difficulty: 2 Medium*

*Learning Objective: 02-08 Describe the two criteria for recognizing intangible assets apart from goodwill in a business combination.*

102. How are direct combination costs, contingent consideration, and a bargain purchase reflected in recording an acquisition transaction?

The acquisition method embraces a fair value concept as measured by the fair value of consideration transferred. (1) Direct combination costs are expensed as incurred; (2) Contingent consideration obligations are recognized at their present value of the potential obligation as part of the acquisition consideration transferred; (3) When a bargain purchase occurs, the acquirer measures and recognizes the fair values of each of the assets acquired and liabilities assumed at the date of the combination, and as a result a gain on the bargain purchase is recognized at the acquisition date.

*AACSB: Reflective thinking*

*AICPA FN: Measurement*

*Blooms: Knowledge*

*Difficulty: 2 Medium*

*Learning Objective: 02-04 Describe the valuation principles of the acquisition method.*

*Learning Objective: 02-05 Determine the total fair value of the consideration transferred for an acquisition and allocate that fair value to specific subsidiary assets acquired (including goodwill); and liabilities assumed; or a gain on bargain purchase.*

*Learning Objective: 02-06 Prepare the journal entry to consolidate the accounts of a subsidiary if dissolution takes place.*

*Learning Objective: 02-07 Prepare a worksheet to consolidate the accounts of two companies that form a business combination if dissolution is not to take place.*

103. How is contingent consideration accounted for in an acquisition business combination transaction?

The fair value approach of the acquisition method views contingent payments as part of the consideration transferred. Under this view, contingencies have a value to those who receive the consideration and represent measurable obligations of the acquirer. The amount of the contingent consideration is measured as the expected present value of a potential payment and increases the investment value recorded.

*AACSB: Reflective thinking*

*AICPA FN: Measurement*

*Blooms: Knowledge*

*Difficulty: 2 Medium*

*Learning Objective: 02-04 Describe the valuation principles of the acquisition method.*

104. How are bargain purchases accounted for in an acquisition business transaction?

A bargain purchase results when the collective fair values of the net identified assets acquired and liabilities assumed exceed the fair value of consideration transferred. The assets and liabilities acquired are recorded at their fair values and the bargain purchase is recorded as a Gain on Bargain Purchase.

*AACSB: Reflective thinking*

*AICPA FN: Measurement*

*Blooms: Knowledge*

*Difficulty: 2 Medium*

*Learning Objective: 02-04 Describe the valuation principles of the acquisition method.*

105. Describe the accounting for direct costs, indirect costs, and issuance costs under the acquisition method of accounting for a business combination.

Direct and indirect combination costs are expensed and issuance costs reduce the otherwise fair value of the consideration issued under the acquisition method of accounting for business combinations.

*AACSB: Reflective thinking*

*AICPA FN: Measurement*

*Blooms: Knowledge*

*Difficulty: 2 Medium*

*Learning Objective: 02-05 Determine the total fair value of the consideration transferred for an acquisition and allocate that fair value to specific subsidiary assets acquired (including goodwill); and liabilities assumed; or a gain on bargain purchase.*

*Learning Objective: 02-06 Prepare the journal entry to consolidate the accounts of a subsidiary if dissolution takes place.*

*Learning Objective: 02-07 Prepare a worksheet to consolidate the accounts of two companies that form a business combination if dissolution is not to take place.*

106. What is the difference in consolidated results between a business combination whereby the acquired company is dissolved, and a business combination whereby separate incorporation is maintained?

There is no difference in consolidated results.

*AACSB: Reflective thinking*

*AICPA FN: Measurement*

*Blooms: Knowledge*

*Difficulty: 1 Easy*

*Learning Objective: 02-06 Prepare the journal entry to consolidate the accounts of a subsidiary if dissolution takes place.*

*Learning Objective: 02-07 Prepare a worksheet to consolidate the accounts of two companies that form a business combination if dissolution is not to take place.*



107. Bale Co. acquired Silo Inc. on December 31, 20X1, in an acquisition business combination transaction. Bale's net income for the year was \$1,400,000, while Silo had net income of \$400,000 earned evenly during the year. Bale paid \$100,000 in direct combination costs, \$50,000 in indirect costs, and \$30,000 in stock issue costs to effect the combination.

*Required:* What is consolidated net income for 20X1?

Bale's net income for 20X1	\$1,400,000
Less: direct combination costs	100,000
Less: indirect combination costs	<u>50,000</u>
Consolidated net income for 20X1	<u>\$1,250,000</u>

Note: Silo's net income does not affect consolidated net income until after the date of acquisition. The combination costs belong to Bale only.

*AACSB: Analytic*

*AICPA FN: Measurement*

*Blooms: Application*

*Difficulty: 2 Medium*

*Learning Objective: 02-05 Determine the total fair value of the consideration transferred for an acquisition and allocate that fair value to specific subsidiary assets acquired (including goodwill); and liabilities assumed; or a gain on bargain purchase.*

*Learning Objective: 02-06 Prepare the journal entry to consolidate the accounts of a subsidiary if dissolution takes place.*

*Learning Objective: 02-07 Prepare a worksheet to consolidate the accounts of two companies that form a business combination if dissolution is not to take place.*

108. Fine Co. issued its common stock in exchange for the common stock of Dandy Corp. in an acquisition. At the date of the combination, Fine had land with a book value of \$480,000 and a fair value of \$620,000. Dandy had land with a book value of \$170,000 and a fair value of \$190,000.

*Required:* What was the consolidated balance for Land in a consolidated balance sheet prepared at the date of the acquisition combination?

Book value of Fine Co.'s land	\$480,000
Fair value of Dandy Corp.'s land	<u>190,000</u>
Consolidated balance for land	<u>\$670,000</u>

*AACSB: Analytic*

*AICPA FN: Measurement*

*Blooms: Application*

*Difficulty: 2 Medium*

*Learning Objective: 02-05 Determine the total fair value of the consideration transferred for an acquisition and allocate that fair value to specific subsidiary assets acquired (including goodwill); and liabilities assumed; or a gain on bargain purchase.*

*Learning Objective: 02-06 Prepare the journal entry to consolidate the accounts of a subsidiary if dissolution takes place.*

*Learning Objective: 02-07 Prepare a worksheet to consolidate the accounts of two companies that form a business combination if dissolution is not to take place.*

109. Jernigan Corp. had the following account balances at 12/1/10:

Receivables	\$ 96,000
Inventory	240,000
Land	720,000
Building	600,000
Liabilities	480,000
Common stock	120,000
Additional paid-in capital	120,000
Retained earnings, 12/1/10	840,000
Revenues	360,000
Expenses	264,000

Several of Jernigan's accounts have fair values that differ from book value. The fair values are: Land — \$480,000; Building — \$720,000; Inventory — \$336,000; and Liabilities — \$396,000. Inglewood Inc. acquired all of the outstanding common shares of Jernigan by issuing 20,000 shares of common stock having a \$6 par value, but a \$66 fair value. Stock issuance costs amounted to \$12,000.

*Required:* Prepare a fair value allocation and goodwill schedule at the date of the acquisition.

Fair value consideration transferred by Inglewood (20,000 shares x \$66)		\$1,320,000
Book value of Jernigan		<u>(\$1,176,000)</u>
Excess of fair value over book value		\$ 144,000
Allocations to specific accounts based on the difference between fair value and book value:		
Inventory	\$ 96,000	
Land	(240,000)	
Building	120,000	
Liabilities	<u>84,000</u>	<u>(60,000)</u>
Goodwill		<u>\$ 84,000</u>

## Chapter 02 Consolidation of Financial Information

AACSB: Analytic

AICPA FN: Measurement

Blooms: Application

Difficulty: 2 Medium

Learning Objective: 02-04 Describe the valuation principles of the acquisition method.

Learning Objective: 02-05 Determine the total fair value of the consideration transferred for an acquisition and allocate that fair value to specific subsidiary assets acquired (including goodwill); and liabilities assumed; or a gain on bargain purchase.

Learning Objective: 02-06 Prepare the journal entry to consolidate the accounts of a subsidiary if dissolution takes place.

Learning Objective: 02-07 Prepare a worksheet to consolidate the accounts of two companies that form a business combination if dissolution is not to take place.

Salem Co. had the following account balances as of December 1, 2010:

Inventory	\$ 720,000
Land	600,000
Buildings—net (valued at \$1,200,000)	1,080,000
Common stock (\$10 par value)	960,000
Retained earnings, December 1, 2010	1,320,000
Revenues	720,000
Expenses	600,000

Bellington Inc. transferred \$1.7 million in cash and 12,000 shares of its newly issued \$30 par value common stock (valued at \$90 per share) to acquire all of Salem's outstanding common stock.

110. Determine the balance for Goodwill that would be included in a December 1, 2010, consolidation.

Fair value of consideration transferred:		
Cash	\$ 1,700,000	
Stock issued (12,000 shares x \$90)	<u>1,080,000</u>	\$ 2,780,000
Book value of assets (no liabilities are indicated)		<u>( 2,400,000)</u>
Excess of fair value over book value		\$ 380,000
Allocation to the Buildings account based on fair and book value difference		<u>(120,000)</u>
Goodwill		<u><u>\$ 260,000</u></u>

AACSB: Analytic

AICPA FN: Measurement

Blooms: Application

Difficulty: 2 Medium

Learning Objective: 02-04 Describe the valuation principles of the acquisition method.

Learning Objective: 02-05 Determine the total fair value of the consideration transferred for an acquisition and allocate that fair value to specific subsidiary assets acquired (including goodwill); and liabilities assumed; or a gain on bargain purchase.

Learning Objective: 02-06 Prepare the journal entry to consolidate the accounts of a subsidiary if dissolution takes place.

Learning Objective: 02-07 Prepare a worksheet to consolidate the accounts of two companies that form a business combination if dissolution is not to take place.

111. Assume that Bellington paid cash of \$2.8 million. No stock is issued. An additional \$50,000 is paid in direct combination costs.

*Required:* For Goodwill, determine what balance would be included in a December 1, 2010 consolidation.

Consideration transferred - cash	\$ 2,800,000
Book value of assets (no liabilities are indicated)	( 2,400,000)
Excess of fair value over book value	<u>\$ 400,000</u>
Allocation to the Buildings account based on fair and book value difference	<u>(120,000)</u>
Goodwill	<u><u>\$ 280,000</u></u>

*AACSB: Analytic*

*AICPA FN: Measurement*

*Blooms: Application*

*Difficulty: 2 Medium*

*Learning Objective: 02-04 Describe the valuation principles of the acquisition method.*

*Learning Objective: 02-05 Determine the total fair value of the consideration transferred for an acquisition and allocate that fair value to specific subsidiary assets acquired (including goodwill); and liabilities assumed; or a gain on bargain purchase.*

*Learning Objective: 02-06 Prepare the journal entry to consolidate the accounts of a subsidiary if dissolution takes place.*

*Learning Objective: 02-07 Prepare a worksheet to consolidate the accounts of two companies that form a business combination if dissolution is not to take place.*

112. On January 1, 2011, Chester Inc. acquired 100% of Festus Corp.'s outstanding common stock by exchanging 37,500 shares of Chester's \$2 par value common voting stock. On January 1, 2011, Chester's voting common stock had a fair value of \$40 per share. Festus' voting common shares were selling for \$6.50 per share. Festus' balances on the acquisition date, just prior to acquisition are listed below.

	<u>Book Value</u>	<u>Fair Value</u>
Cash	\$ 30,000	
Accounts Receivable	120,000	\$ 120,000
Inventory	200,000	230,000
Land	230,000	290,000
Building (net)	450,000	600,000
Equipment (net)	175,000	160,000
Accounts Payable	(80,000)	(80,000)
Common Stock, \$1 par	(500,000)	
Paid-in Capital	(350,000)	
Retained Earnings, 12/31/10	(275,000)	

Required: Compute the value of the Goodwill account on the date of acquisition, 1/1/11.

Fair value of consideration transferred	\$ 1,500,000
Less: BV of Festus' net assets	1,125,000
Excess of fair value over book value	<u>\$ 375,000</u>
Allocation: Inventory	(30,000)
Land	(60,000)
Building	(150,000)
Equipment	15,000
Goodwill	<u><u>\$ 150,000</u></u>

Chapter 02 Consolidation of Financial Information

AACSB: Analytic

AICPA FN: Measurement

Blooms: Application

Difficulty: 2 Medium

Learning Objective: 02-04 Describe the valuation principles of the acquisition method.

Learning Objective: 02-05 Determine the total fair value of the consideration transferred for an acquisition and allocate that fair value to specific subsidiary assets acquired (including goodwill); and liabilities assumed; or a gain on bargain purchase.

Learning Objective: 02-06 Prepare the journal entry to consolidate the accounts of a subsidiary if dissolution takes place.

Learning Objective: 02-07 Prepare a worksheet to consolidate the accounts of two companies that form a business combination if dissolution is not to take place.

The financial statements for Jode Inc. and Lakely Corp., just prior to their combination, for the year ending December 31, 2010, follow. Lakely's buildings were undervalued on its financial records by \$60,000.

	<u>Jode Inc.</u>	<u>Lakely Corp.</u>
Revenues	\$ 1,300,000	\$ 500,000
Expenses	( 1,180,000)	( 290,000)
Net income	<u>\$ 120,000</u>	<u>\$ 210,000</u>
Retained earnings, January 1, 2010	\$ 700,000	\$ 500,000
Net income (from above)	120,000	210,000
Dividends paid	( 110,000)	( 110,000)
Retained earnings, December 31, 2010	<u>\$ 710,000</u>	<u>\$ 600,000</u>
Cash	\$ 160,000	\$ 120,000
Receivables and inventory	240,000	240,000
Buildings (net)	700,000	350,000
Equipment (net)	700,000	600,000
Total assets	<u>\$ 1,800,000</u>	<u>\$ 1,310,000</u>
Liabilities	\$ 250,000	\$ 195,000
Common stock	750,000	430,000
Additional paid-in capital	90,000	85,000
Retained earnings, 12/31/10	710,000	600,000
Total liabilities and stockholders' equity	<u>\$ 1,800,000</u>	<u>\$ 1,310,000</u>

On December 31, 2010, Jode issued 54,000 new shares of its \$10 par value stock in exchange for all the outstanding shares of Lakely. Jode's shares had a fairvalue on that date of \$35 per share. Jode paid \$34,000 to an investment bank for assisting in the arrangements. Jode also paid \$24,000 in stock issuance costs to effect the acquisition of Lakely. Lakely will retain its incorporation.



113. Prepare the journal entries to record (1) the issuance of stock by Jode and (2) the payment of the combination costs.

*Entry One* - To record the issuance of common stock by Jode to execute the purchase.

Investment in Lakely Corp.	1,890,000	
Common Stock (par value)		540,000
Paid-in Capital		1,350,000

*Entry Two* - To record the combination costs.

Professional fee expense	34,000	
Paid-in capital	24,000	
Cash		58,000

AACSB: Analytic

AICPA FN: Measurement

Blooms: Application

Difficulty: 2 Medium

Learning Objective: 02-04 Describe the valuation principles of the acquisition method.

Learning Objective: 02-05 Determine the total fair value of the consideration transferred for an acquisition and allocate that fair value to specific subsidiary assets acquired (including goodwill); and liabilities assumed; or a gain on bargain purchase.

Learning Objective: 02-07 Prepare a worksheet to consolidate the accounts of two companies that form a business combination if dissolution is not to take place.

114. Determine consolidated net income for the year ended December 31, 2010.

<u>Consolidated Net Income</u>	
Jode's Revenues	\$ 1,300,000
Jode's Expenses	(1,214,000)
Consolidated net income	<u>\$ 86,000</u>

Note: The subsidiary's revenues and expenses *prior to the date of acquisition are NOT consolidated.*

AACSB: Analytic

AICPA FN: Measurement

Blooms: Application

Difficulty: 2 Medium

Learning Objective: 02-07 Prepare a worksheet to consolidate the accounts of two companies that form a business combination if dissolution is not to take place.

115. Determine consolidated Additional paid-in Capital at December 31, 2010.

<u>Consolidated additional paid-in capital</u>	
Jode's additional paid-in capital	\$ 90,000
Additional Paid-in Capital arising from the acquisition (54,000 shares issued × \$25 per share in excess of par value)	1,350,000
Less: Stock issuance costs	(24,000)
Consolidated Additional paid-in Capital	<u>\$1,416,000</u>

AACSB: Analytic

AICPA FN: Measurement

Blooms: Application

Difficulty: 2 Medium

Learning Objective: 02-04 Describe the valuation principles of the acquisition method.

Learning Objective: 02-05 Determine the total fair value of the consideration transferred for an acquisition and allocate that fair value to specific subsidiary assets acquired (including goodwill); and liabilities assumed; or a gain on bargain purchase.

Learning Objective: 02-07 Prepare a worksheet to consolidate the accounts of two companies that form a business combination if dissolution is not to take place.

116. The following are preliminary financial statements for Black Co. and Blue Co. for the year ending December 31, 20X1.

	<u>Black Co.</u>	<u>Blue Co.</u>
Sales	\$360,000	\$228,000
Expenses	<u>(240,000)</u>	<u>(132,000)</u>
Net income	<u>\$120,000</u>	<u>\$ 96,000</u>
Retained earning, January 1, 20X1	\$480,000	\$252,000
Net income (from above)	120,000	96,000
Dividends paid	<u>(36,000)</u>	<u>-0-</u>
Retained earnings, December 31, 20X1	<u>\$564,000</u>	<u>\$348,000</u>
Current assets	\$360,000	\$120,000
Land	120,000	108,000
Building (net)	<u>480,000</u>	<u>336,000</u>
Total assets	<u>\$960,000</u>	<u>\$564,000</u>
Liabilities	\$108,000	\$132,000
Common stock	192,000	72,000
Additional paid-in capital	96,000	12,000
Retained earnings, December 31, 20X1	<u>564,000</u>	<u>348,000</u>
Total liabilities and stockholders' equity	<u>\$960,000</u>	<u>\$564,000</u>

On December 31, 20X1 (subsequent to the preceding statements), Black exchanged 10,000 shares of its \$10 par value common stock for all of the outstanding shares of Blue. Black's stock on that date has a fair value of \$50 per share. Black was willing to issue 10,000 shares of stock because Blue's land was appraised at \$204,000. Black also paid \$14,000 to several attorneys and accountants who assisted in creating this combination.

*Required:* Assuming that these two companies retained their separate legal identities, prepare a consolidation worksheet as of December 31, 20X1 assuming the transaction is treated as a purchase combination.

## Bargain Purchase Acquisition Consolidation Worksheet

For the Year Ended 12/31/20X1

Account	Black Company	Blue Company	Consolidation Entries		Consolidated Balance
			Dr.	Cr.	
<b>Income Statement</b>					
Sales	(360,000)				(360,000)
Expenses	254,000				254,000
Bargain-Purchase—Gain					(28,000)
Net Income	(106,000)				(134,000)
<b>Statement of Retained Earnings</b>					
R/E, 1/1/X1	(480,000)				(480,000)
Net Income	(106,000)				(134,000)
Dividends	36,000				36,000
R/E, 12/31/X1	(550,000)				(578,000)
<b>Balance Sheet</b>					
Current assets	346,000	120,000		(S) 432,000	466,000
Investment in Blue Co.	500,000			(A) 68,000	0
Land	120,000	108,000	(A) 96,000		324,000
Buildings (net)	480,000	336,000			816,000
Total Assets	1,446,000	564,000			1,606,000
<b>Liabilities</b>					
Liabilities	(108,000)	(132,000)			(240,000)
Common Stock	(292,000)	(72,000)	(S) 72,000		(292,000)
Additional Paid-in Capital	(496,000)	(12,000)	(S) 12,000		(496,000)
R/E, 12/31/X1	(550,000)	(348,000)	(S) 348,000		(578,000)
Total Liabilities & Stockholders' Equity	(1,446,000)	(564,000)	528,000	528,000	(1,606,000)

Chapter 02 Consolidation of Financial Information

**Calculation of Goodwill:**

Consideration transferred by Black Co.	500,000	
Book value of Blue Co.	(432,000)	(Entry S)
Excess of Cost over Book Value	<u>68,000</u>	(Entry A)

Allocations:

Land (204,000 - 108,000)	<u>(96,000)</u>	(Entry A)
-Bargain Purchase	<u>(78,000)</u>	(Entry A)

Adjusted  
Balances @ 12/31/2

**Entry to record the acquisition on Black Co's books**

Professional fee expense	14,000		<u>254,000</u>
Investment in Blue Co.	500,000		<u>500,000</u>
Common Stock - Black (10,000 x \$10 Par)		100,000	292,000
Add'l Paid-in Capital - Black (10,000 x \$40)		400,000	596,000
Cash (paid for direct acquisition costs)		14,000	346,000

**Entry S:**

Common Stock	72,000	
Additional Paid-in Capital	12,000	
Retained Earnings - 12/31/X1	348,000	
Investment in Blue Co.		432,000
To eliminate Blue Co's stockholders' equity accounts and the book value of Blue Co's net assets from Black Co's investment account		

**Entry A:**

Land	96,000	
Gain - Bargain Purchase		28,000
Investment in Blue Co.		68,000
To eliminate Black Co's excess payment over book value from its investment account and reassign the excess to specific assets and bargain purchase		

AACSB: Analytic

AICPA FN: Measurement

Blooms: Application

Difficulty: 3 Hard

Learning Objective: 02-04 Describe the valuation principles of the acquisition method.

Learning Objective: 02-05 Determine the total fair value of the consideration transferred for an acquisition and allocate that fair value to specific subsidiary assets acquired (including goodwill); and liabilities assumed; or a gain on bargain purchase.

Learning Objective: 02-07 Prepare a worksheet to consolidate the accounts of two companies that form a business combination if dissolution is not to take place.

117. The following are preliminary financial statements for Black Co. and Blue Co. for the year ending December 31, 20X1 prior to Black's acquisition of Blue.

	<u>Black Co.</u>	<u>Blue Co.</u>
Sales	\$360,000	\$228,000
Expenses	<u>(240,000)</u>	<u>(132,000)</u>
Net income	<u>\$120,000</u>	<u>\$ 96,000</u>
Retained earnings, January 1, 20X1	\$480,000	\$252,000
Net income (from above)	120,000	96,000
Dividends paid	<u>(36,000)</u>	<u>-0-</u>
Retained earnings, December 31, 20X1	<u>\$564,000</u>	<u>\$348,000</u>
Current assets	\$360,000	\$120,000
Land	120,000	108,000
Building (net)	<u>480,000</u>	<u>336,000</u>
Total assets	<u>\$960,000</u>	<u>\$564,000</u>
Liabilities	\$108,000	\$132,000
Common stock	192,000	72,000
Additional paid-in capital	96,000	12,000
Retained earnings, December 31, 20X1	<u>564,000</u>	<u>348,000</u>
Total liabilities and stockholders' equity	<u>\$960,000</u>	<u>564,000</u>

On December 31, 20X1 (subsequent to the preceding statements), Black exchanged 10,000 shares of its \$10 par value common stock for all of the outstanding shares of Blue. Black's stock on that date has a fair value of \$60 per share. Black was willing to issue 10,000 shares of stock because Blue's land was appraised at \$204,000. Black also paid \$14,000 to several attorneys and accountants who assisted in creating this combination.

*Required:* Assuming that these two companies retained their separate legal identities, prepare a consolidation worksheet as of December 31, 20X1 after the acquisition transaction is completed.

## Acquisition Consolidation Worksheet

For the Year Ended 12/31/20X1

Account	Black Company	Blue Company	Consolidation Entries		Consolidated Balance
			Dr.	Cr.	
<b>Income Statement</b>					
Sales	(360,000)				(360,000)
Expenses	254,000				254,000
Net Income	<u>(106,000)</u>				<u>(106,000)</u>
<b>Statement of Retained Earnings</b>					
R/E, 1/1/X1	(480,000)				(480,000)
Net Income	(106,000)				(106,000)
Dividends	36,000				36,000
R/E, 12/31/X1	<u>(550,000)</u>				<u>(550,000)</u>
<b>Balance Sheet</b>					
Current assets	346,000	120,000		(S) 432,000	466,000
Investment in Blue Co.	600,000			(A) 168,000	0
Land	120,000	108,000	(A) 96,000		324,000
Buildings (net)	480,000	336,000			816,000
Goodwill			(A) 72,000		72,000
Total Assets	<u>1,546,000</u>	<u>564,000</u>			<u>1,678,000</u>
Liabilities	(108,000)	(132,000)			(240,000)
Common Stock	(292,000)	(72,000)	(S) 72,000		(292,000)
Additional Paid-in Capital	(596,000)	(12,000)	(S) 12,000		(596,000)
R/E, 12/31/X1	(550,000)	(348,000)	(S) 348,000		(550,000)
Total Liabilities & Stockholders' Equity	<u>(1,546,000)</u>	<u>(564,000)</u>	600,000	600,000	<u>(1,678,000)</u>

Chapter 02 Consolidation of Financial Information

**Calculation of Goodwill:**

Consideration transferred by Black Co.	600,000	
Book value of Blue Co.	(432,000)	(Entry S)
Excess of consideration transferred over Book Value	<u>168,000</u>	(Entry A)

Allocations:

Land (204,000 - 108,000)	<u>(96,000)</u>	(Entry A)
Excess cost not identified - Goodwill	<u><u>72,000</u></u>	(Entry A)

Adjusted  
Balances @ 12/31/X1  
For W/S 52  
254,000

**Black Co's entry to record acquisition:**

Professional fee expense	14,000		
Investment in Blue Co.	600,000		600,000
Common Stock - Black (10,000 x \$10 Par)		100,000	292,000
Add'l Paid-in Capital - Black (10,000 x \$50)		500,000	596,000
Cash (paid for direct acquisition costs)		14,000	346,000

**Entry S:**

Common Stock	72,000	
Additional Paid-in Capital	12,000	
Retained Earnings - 12/31/X1	348,000	
Investment in Blue Co.		432,000
To eliminate Blue Co's stockholders' equity accounts and the book value of Blue Co's net assets from Black Co's investment account		

**Entry A:**

Land	96,000	
Goodwill	72,000	
Investment in Blue Co.		182,000
To eliminate Black Co's excess payment over book value from its investment account and reassign the excess to specific assets and goodwill		

AACSB: Analytic

AICPA FN: Measurement

Blooms: Application

Difficulty: 3 Hard

Learning Objective: 02-04 Describe the valuation principles of the acquisition method.

Learning Objective: 02-05 Determine the total fair value of the consideration transferred for an acquisition and allocate that fair value to specific subsidiary assets acquired (including goodwill); and liabilities assumed; or a gain on bargain purchase.

Learning Objective: 02-07 Prepare a worksheet to consolidate the accounts of two companies that form a business combination if dissolution is not to take place.



118. For each of the following situations, select the best letter answer to reflect the effect of the numbered item on the acquirer's accounting entry at the date of combination when separate incorporation will be maintained. Items (4) and (6) require two selections.

- (A) Increase Investment account.
- (B) Decrease Investment account.
- (C) Increase Liabilities.
- (D) Increase Common stock.
- (E) Decrease common stock.
- (F) Increase Additional paid-in capital.
- (G) Decrease Additional paid-in capital.
- (H) Increase Retained earnings
- (I) Decrease Retained earnings

- \_\_\_\_\_ 1. Direct costs.
- \_\_\_\_\_ 2. Indirect costs.
- \_\_\_\_\_ 3. Stock issue costs.
- \_\_\_\_\_ 4. Contingent consideration.
- \_\_\_\_\_ 5. Bargain purchase.
- \_\_\_\_\_ 6. In-process research and development acquired.

(1) I; (2) I; (3) G; (4) A, C; (5) H; (6) A, I

*AACSB: Reflective thinking*

*AICPA FN: Measurement*

*Blooms: Comprehension*

*Difficulty: 2 Medium*

*Learning Objective: 02-04 Describe the valuation principles of the acquisition method.*

*Learning Objective: 02-05 Determine the total fair value of the consideration transferred for an acquisition and allocate that fair value to specific subsidiary assets acquired (including goodwill); and liabilities assumed; or a gain on bargain purchase.*

*Learning Objective: 02-06 Prepare the journal entry to consolidate the accounts of a subsidiary if dissolution takes place.*

*Learning Objective: 02-07 Prepare a worksheet to consolidate the accounts of two companies that form a business combination if dissolution is not to take place.*

*Learning Objective: 02-08 Describe the two criteria for recognizing intangible assets apart from goodwill in a business combination.*