File: Chapter 02 - Consolidation of Financial Information

Multiple Choice:

[QUESTION]
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, and long-term assets and liabilities at fair value.
E) Consolidates the subsidiary's assets at book value and the liabilities at fair value.
Answer: C
Learning Objective: 02-04
Learning Objective: 02-05
Topic: Acquisition—Valuation principles
Topic: Acquisition—Allocate fair value
Difficulty: 1 Easy
Blooms: Remember
AACSB: Reflective Thinking
AICPA: BB Critical Thinking
AICPA: FN Measurement

[QUESTION]
2. In an acquisition where 100% control is acquired, how would the land accounts of the parent and the land accounts of the subsidiary be reported on consolidated financial statements?

	Parent	Subsidiary
A)	Book Value	Book Value
B)	Book Value	Fair Value
C)	Fair Value	Fair Value
D)	Fair Value	Book Value
E)	Cost	Cost

Answer: B
Learning Objective: 02-04
Learning Objective: 02-05
Topic: Acquisition—Valuation principles
Topic: Acquisition—Allocate fair value
Difficulty: 2 Medium
Blooms: Remember
AACSB: Reflective Thinking
AICPA: BB Critical Thinking
AICPA: FN Measurement

[QUESTION]
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.
Answer: A
Learning Objective: 02-07
Topic: Consolidation worksheet
Difficulty: 1 Easy
Blooms: Remember
AACSB: Reflective Thinking
AICPA: BB Critical Thinking
AICPA: FN Measurement

[QUESTION]
4. Using the acquisition method for a business combination, goodwill is generally calculated as the:
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) Zero, it is no longer allowed under federal law.
Answer: D
Learning Objective: 02-04
Learning Objective: 02-05
Topic: Acquisition—Valuation principles
Topic: Acquisition—Calculate goodwill or bargain
Difficulty: 2 Medium
Blooms: Remember
AACSB: Reflective Thinking
AICPA: BB Critical Thinking
AICPA: FN Measurement

[QUESTION]
5. Direct combination costs and amounts incurred to register and issue stock in connection with a business combination. How should those costs be accounted for in a pre-2009 business combination?

	Direct Combination Costs	Stock Issuance Costs
A)	Increase Investment	Decrease Investment
B)	Increase Investment	Decrease Additional Paid-in Capital
C)	Increase Investment	Increase Expenses
D)	Decrease Additional Paid-in Capital	Increase Investment
E)	Increase Expenses	Decrease Investment

Answer: B
Learning Objective: 02-09
Topic: Legacy methods—Purchase and pooling
Difficulty: 2 Medium
Blooms: Remember
AACSB: Reflective Thinking

AICPA: BB Critical Thinking
AICPA: FN Measurement

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

	Direct Costs	Indirect Costs
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

Answer: A
Learning Objective: 02-06b
Topic: Costs of combination
Difficulty: 1 Easy
Blooms: Remember
AACSB: Reflective Thinking
AICPA: BB Critical Thinking
AICPA: FN Measurement

[QUESTION]
7. What is the ***primary*** difference between: (i) accounting for a business combination when the subsidiary is dissolved; and (ii) accounting for a business combination 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.
Answer: E
Learning Objective: 02-03
Learning Objective: 02-06a
Learning Objective: 02-06c
Topic: Business combination—Differentiate across forms
Topic: Journal entry—Dissolution
Topic: Journal entry—Investment with no dissolution
Difficulty: 2 Medium
Blooms: Understand
AACSB: Reflective Thinking
AICPA: BB Critical Thinking
AICPA: FN Measurement

[QUESTION]
8. According to GAAP, which of the following is true with respect to the pooling of interest method of accounting for business combinations?
A) It was the only method used prior to 2002.

B) It must be used for all new acquisitions.
C) GAAP allowed its use prior to 2002.
D) It, or the acquisition method, may be used at the acquirer's discretion.
E) GAAP requires it to be used instead of the acquisition method for business combinations for which $50 billion or more in consideration is transferred.
Answer: C
Learning Objective: 02-09
Topic: Legacy methods—Purchase and pooling
Difficulty: 1 Easy
Blooms: Remember
AACSB: Reflective Thinking
AICPA: BB Critical Thinking
AICPA: FN Measurement

[QUESTION]
9. Which of the following examples accurately describes a difference in the types of business combinations?
A) A statutory merger can only be effected through an asset acquisition while a statutory consolidation can only be effected through a capital stock acquisition.
B) A statutory merger can only be effected through a capital stock acquisition while a statutory consolidation can only be effected through an asset acquisition.
C) A statutory merger requires the dissolution of the acquired company while a statutory consolidation requires dissolution of the companies involved in the combination following the transfer of assets or stock to a newly formed entity.
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 through an asset acquisition but only a statutory consolidation requires dissolution of the acquired company.
Answer: C
Learning Objective: 02-03
Topic: Business combination—Differentiate across forms
Difficulty: 3 Hard
Blooms: Remember
AACSB: Reflective Thinking
AICPA: BB Critical Thinking
AICPA: FN Measurement

[QUESTION]
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.
Answer: D
Learning Objective: 02-08
Topic: In-process research and development
Difficulty: 1 Easy
Blooms: Remember
AACSB: Reflective Thinking
AICPA: BB Critical Thinking

AICPA: FN Measurement

[QUESTION]
11. Which of the following statements is true regarding the acquisition method of accounting for a business combination?
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.
Answer: B
Learning Objective: 02-04
Topic: Acquisition—Valuation principles
Difficulty: 1 Easy
Blooms: Remember
AACSB: Reflective Thinking
AICPA: BB Critical Thinking
AICPA: FN Measurement

[QUESTION]
12. With respect to recognizing and measuring the fair value of a business combination in accordance with the acquisition method of accounting, which of the following should the acquirer consider when determining fair value?
A) Only assets received by the acquirer.
B) Only consideration transferred by the acquirer.
C) The consideration transferred by the acquirer plus the fair value of assets received less liabilities assumed.
D) The par value of stock transferred by the acquirer, and the book value of identifiable assets transferred by the entity acquired.
E) The book value of identifiable assets transferred to the acquirer as part of the business combination less any liabilities assumed.
Answer: C
Learning Objective: 02-04
Topic: Acquisition—Valuation principles
Difficulty: 3 Hard
Blooms: Understand
AACSB: Reflective Thinking
AICPA: BB Critical Thinking
AICPA: FN Measurement

[QUESTION]
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 continue 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.
Answer: A

Learning Objective: 02-03
Topic: Business combination—Differentiate across forms
Difficulty: 2 Medium
Blooms: Remember
AACSB: Reflective Thinking
AICPA: BB Critical Thinking
AICPA: FN Measurement

[QUESTION]
14. In a business combination where a subsidiary retains its incorporation and which is accounted for under the acquisition method, how should *stock issuance costs* and *direct combination costs* be treated?
A) Stock issuance costs and direct combination costs are expensed as incurred.
B) Direct combination costs are ignored, and the stock issuance costs result in a reduction to additional paid-in capital.
C) Direct combination costs are expensed as incurred and stock issuance costs result in a reduction to additional paid-in capital.
D) Both are treated as part of the acquisition consideration transferred.
E) Both reduce additional paid-in capital.
Answer: C
Learning Objective: 02-06b
Topic: Costs of combination
Difficulty: 2 Medium
Blooms: Remember
AACSB: Reflective Thinking
AICPA: BB Critical Thinking
AICPA: FN Measurement

REFERENCE: 02-01
Bullen Inc. acquired 100% of the voting common stock of Vicker Inc. on January 1, 2018. The book value and fair value of Vicker's accounts on that date (prior to creating the combination) are as follows, along with the book value of Bullen's accounts:

	Bullen Book Value	Vicker Book Value	Vicker Fair Value
Retained earnings, 1/1/20	$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	

[QUESTION]
REFER TO: 02-01

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.
Answer: B
Learning Objective: 02-05
Topic: Acquisition—Calculate consideration transferred
Topic: Acquisition—Calculate goodwill or bargain
Difficulty: 2 Medium
Blooms: Apply
AACSB: Knowledge Application
AICPA: BB Critical Thinking
AICPA: FN Measurement
Feedback: Goodwill = Consideration Transferred less Acquisition Date Fair Value of Net Assets Acquired and Liabilities Assumed
Consideration Transferred: $47 × 12,000 = $564,000
Fair Value of Assets Acquired: 70,000 (cash and receivables) + 210,000 (inventory) + 240,000 (land) + 270,000 (buildings) + 90,000 (equipment) = $880,000
Fair Value of Liabilities Assumed: $420,000
Consideration Less Net Assets/Liabilities = $880,000 - $420,000 = $460,000
Goodwill: $564,000 - $460,000 = $104,000

[QUESTION]
REFER TO: 02-01
16. Assume that Bullen issued 12,000 shares of common stock with a $5 par value and a $47 fair value for all of the outstanding stock of Vicker. What is the consolidated balance for Land as a result of this acquisition transaction?
A) $460,000.
B) $510,000.
C) $500,000.
D) $520,000.
E) $490,000.
Answer: D
Learning Objective: 02-05
Learning Objective: 02-06a
Learning Objective: 02-07
Topic: Acquisition—Allocate fair value
Topic: Acquisition—Calculate consolidated balances
Difficulty: 2 Medium
Blooms: Apply
AACSB: Knowledge Application
AICPA: BB Critical Thinking
AICPA: FN Measurement
Feedback: $280,000 (Bullen Land) + $240,000 (Vicker Land) = $520,000

[QUESTION]
REFER TO: 02-01

17. Assume that Bullen issued 12,000 shares of common stock with a $5 par value and a $47 fair value for all of the outstanding shares of Vicker. What will be the consolidated Additional Paid-In Capital and Retained Earnings (January 1, 2018 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) $524,000 and $250,000.
E) $524,000 and $420,000.
Answer: D
Learning Objective: 02-05
Learning Objective: 02-06a
Learning Objective: 02-07
Topic: Acquisition—Calculate consideration transferred
Topic: Acquisition—Calculate consolidated balances
Difficulty: 3 Hard
Blooms: Apply
AACSB: Knowledge Application
AICPA: BB Critical Thinking
AICPA: FN Measurement
Feedback: Consolidated Additional Paid-In Capital = Bullen APIC ($20,000) + APIC related to stock issued in connection with Vicker business combination ($42 × 12,000) = $20,000 + $504,000 = $524,000
Bullen's Retained Earnings: $250,000

[QUESTION]
REFER TO: 02-01
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.
Answer: B
Learning Objective: 02-05
Learning Objective: 02-06a
Learning Objective: 02-07
Topic: Acquisition—Allocate fair value
Topic: Acquisition—Calculate consolidated balances
Difficulty: 2 Medium
Blooms: Apply
AACSB: Knowledge Application
AICPA: BB Critical Thinking
AICPA: FN Measurement
Feedback: Inventory $230,000 BV + $210,000 FV = $440,000
Land $280,000 BV + $240,000 FV = $520,000

[QUESTION]
REFER TO: 02-01

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.
E) $65,000.
Answer: B
Learning Objective: 02-05
Learning Objective: 02-06b
Topic: Acquisition—Calculate goodwill or bargain
Topic: Costs of combination
Difficulty: 2 Medium
Blooms: Apply
AACSB: Knowledge Application
AICPA: BB Critical Thinking
AICPA: FN Measurement
Feedback: Fair value of consideration transferred less fair value of net assets = goodwill
$480,000 – (70,000+210,000+240,000+270,000+90,000-420,000) = $20,000 Excess

REFERENCE: 02-02
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.

[QUESTION]
REFER TO: 02-02
20. Assume that Botkins acquired Volkerson on January 1, 2017 and that Volkerson maintains a separate corporate existence. 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.
Answer: B
Learning Objective: 02-06c
Topic: Journal entry—Investment with no dissolution
Difficulty: 1 Easy
Blooms: Apply
AACSB: Knowledge Application
AICPA: BB Critical Thinking
AICPA: FN Measurement
Feedback: $3.25 × 56,000 = $182,000

[QUESTION]
REFER TO: 02-02
21. Assume that Botkins acquired Volkerson on January 1, 2017. Immediately afterwards, what is the value of the consolidated Common Stock?
A) $456,000.
B) $402,000.
C) $274,000.
D) $276,000.
E) $330,000.
Answer: D
Learning Objective: 02-05
Learning Objective: 02-06a
Learning Objective: 02-07
Topic: Acquisition—Calculate consideration transferred
Topic: Acquisition—Calculate consolidated balances
Difficulty: 2 Medium
Blooms: Apply
AACSB: Knowledge Application
AICPA: BB Critical Thinking
AICPA: FN Measurement
Feedback: $220,000 + ($1.00 × 56,000) = $276,000

[QUESTION]
22. 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, 2018, 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 using the acquisition method. Immediately after the combination, what was the amount of total consolidated net assets?
A) $2,520,000.
B) $1,190,000.
C) $1,680,000.
D) $2,870,000.
E) $2,030,000.
Answer: D
Learning Objective: 02-05
Learning Objective: 02-06a
Learning Objective: 02-07
Topic: Acquisition—Calculate goodwill or bargain
Topic: Acquisition—Calculate consolidated balances
Difficulty: 2 Medium
Blooms: Apply
AACSB: Knowledge Application
AICPA: BB Critical Thinking
AICPA: FN Measurement
Feedback: Consideration Transferred = Net Fair Value of Assets Acquired and Liabilities Assumed
Consideration Transferred: $35 per share × 34,000 shares = $1,190,000
Net Fair Value of Assets/Liabilities: $700,000 + $980,000 = $1,680,000
Total: $1,190,000 + $1,680,000 = $2,870,000

[QUESTION]
23. 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.
Answer: E
Learning Objective: 02-01
Topic: Business combination—Reasons to combine
Difficulty: 1 Easy
Blooms: Remember
AACSB: Reflective Thinking
AICPA: BB Critical Thinking
AICPA: FN Measurement

[QUESTION]
24. 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 becomes a division of the acquiring company.
D) The acquiring company acquires the stock of the acquired company as an investment.
E) A statutory merger is no longer a legal option.
Answer: C
Learning Objective: 02-03
Topic: Business combination—Differentiate across forms
Difficulty: 2 Medium
Blooms: Remember
AACSB: Reflective Thinking
AICPA: BB Critical Thinking
AICPA: FN Measurement

[QUESTION]
25. 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.
Answer: A
Learning Objective: 02-03
Topic: Business combination—Differentiate across forms
Difficulty: 2 Medium
Blooms: Remember

AACSB: Reflective Thinking
AICPA: BB Critical Thinking
AICPA: FN Measurement

[QUESTION]
26. 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.
Answer: A
Learning Objective: 02-04
Learning Objective: 02-05
Topic: Acquisition—Valuation principles
Topic: Acquisition—Allocate fair value
Difficulty: 2 Medium
Blooms: Analyze
AACSB: Analytical Thinking
AICPA: BB Critical Thinking
AICPA: FN Measurement

[QUESTION]
27. 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 gain.
Answer: C
Learning Objective: 02-04
Learning Objective: 02-05
Topic: Acquisition—Valuation principles
Topic: Acquisition—Calculate goodwill or bargain
Difficulty: 1 Easy
Blooms: Analyze
AACSB: Analytical Thinking
AICPA: BB Critical Thinking
AICPA: FN Measurement

[QUESTION]
28. 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.
Answer: A
Learning Objective: 02-04
Topic: Acquisition—Valuation principles
Difficulty: 2 Medium
Blooms: Remember
AACSB: Reflective Thinking
AICPA: BB Critical Thinking
AICPA: FN Measurement

[QUESTION]
29. 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.
Answer: C
Learning Objective: 02-09
Topic: Legacy methods—Purchase and pooling
Difficulty: 2 Medium
Blooms: Remember
AACSB: Reflective Thinking
AICPA: BB Critical Thinking
AICPA: FN Measurement

REFERENCE: 02-03
The financial statements for Goodwin, Inc., and Corr Company for the year ended December 31, 2018, prior to the business combination whereby Goodwin acquired Corr, are as follows (in thousands):

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

On December 31, 2018, Goodwin obtained a loan for $600 and used the proceeds, along with the transfer of 30 shares of its $10 par value common stock, in exchange for all of Corr's common stock. At the time of the transaction, Goodwin's common stock had a fair value of $40 per share.

In connection with the business combination, Goodwin paid $25 to a broker for arranging the transaction and $35 in stock issuance costs. At the time of the transaction, Corr's equipment was actually worth $1,400 but its buildings were only valued at $560.

[QUESTION]
REFER TO: 02-03
30. Assuming that Corr retains a separate corporate existence after this acquisition, 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.
Answer: B
Learning Objective: 02-06b
Learning Objective: 02-06c
Topic: Costs of combination
Topic: Journal entry—Investment with no dissolution
Difficulty: 2 Medium
Blooms: Apply
AACSB: Knowledge Application
AICPA: BB Critical Thinking
AICPA: FN Measurement

Feedback: $600 Cash + ($40 per share × 30 shares) = $1,800 Investment

[QUESTION]
REFER TO: 02-03
31. In this acquisition business combination, what total amount of common stock and additional paid-in capital should Goodwin recognize on its consolidated financial statements?
A) $ 265.
B) $1,165.
C) $1,200.
D) $1,235.
E) $1,765.
Answer: B
Learning Objective: 02-05
Learning Objective: 02-06a
Learning Objective: 02-06b
Learning Objective: 02-07
Topic: Acquisition—Calculate consideration transferred
Topic: Costs of combination
Topic: Acquisition—Calculate consolidated balances
Difficulty: 2 Medium
Blooms: Apply
AACSB: Knowledge Application
AICPA: BB Critical Thinking
AICPA: FN Measurement
Feedback: Total for Common Stock equals par value of stock; with respect to stock issued, APIC is adjusted by the amount fair value exceeds par value + stock issuance costs.
Common Stock: $10 par value per share x 30 shares = $300
APIC: Excess Value of Stock Over Par = $30 x 30 shares = $900
APIC: Stock Issuance Costs = $35
Total APIC = $300 + $900 - $35 = $1,165

[QUESTION]
REFER TO: 02-03
32. Compute the consolidated revenues for 2018.
A) $2,700.
B) $ 720.
C) $ 920.
D) $3,300.
E) $1,540.
Answer: A
Learning Objective: 02-06a
Learning Objective: 02-07
Topic: Acquisition—Calculate consolidated balances
Difficulty: 1 Easy
Blooms: Apply
AACSB: Knowledge Application
AICPA: BB Critical Thinking
AICPA: FN Measurement
Feedback: $2,700 Parent’s Revenue Only

[QUESTION]

REFER TO: 02-03
33. Compute the consolidated receivables and inventory for 2018.
A) $1,200.
B) $1,515.
C) $1,540.
D) $1,800.
E) $2,140.
Answer: C
Learning Objective: 02-05
Learning Objective: 02-06a
Learning Objective: 02-07
Topic: Acquisition—Allocate fair value
Topic: Acquisition—Calculate consolidated balances
Difficulty: 1 Easy
Blooms: Apply
AACSB: Knowledge Application
AICPA: BB Critical Thinking
AICPA: FN Measurement
Feedback: $1,200 + $340 = $1,540

[QUESTION]
REFER TO: 02-03
34. Compute the consolidated expenses for 2018.
A) $1,980.
B) $2,005.
C) $2,040.
D) $2,380.
E) $2,405.
Answer: B
Learning Objective: 02-06a
Learning Objective: 02-06b
Learning Objective: 02-07
Topic: Costs of combination
Topic: Acquisition—Calculate consolidated balances
Difficulty: 2 Medium
Blooms: Apply
AACSB: Knowledge Application
AICPA: BB Critical Thinking
AICPA: FN Measurement
Feedback: Consolidated Expenses = Goodwin's Expenses + Corr's Expenses immediately following the transaction
Goodwin's Expenses = $1,980 (2018 Expenses Reported on Financial Statements) + $25 (Fees Expensed as Incurred) = $2,005

[QUESTION]
REFER TO: 02-03
35. Compute the consolidated cash account at December 31, 2018.
A) $460.
B) $425.
C) $400.
D) $435.

E) $240.
Answer: C
Learning Objective: 02-05
Learning Objective: 02-06a
Learning Objective: 02-06b
Learning Objective: 02-07
Topic: Acquisition—Calculate consideration transferred
Topic: Costs of combination
Topic: Acquisition—Calculate consolidated balances
Difficulty: 2 Medium
Blooms: Apply
AACSB: Knowledge Application
AICPA: BB Critical Thinking
AICPA: FN Measurement
Feedback: Consolidated Cash Equals Goodwin's Cash + Corr's Cash – Cash to Pay Costs and Expenses Related to Business Combination
Goodwin's Cash: $240
Corr's Cash: $220
Costs and Expenses: $25 + $35 = $60
Consolidated Total = $240 + $220 = $460 – ($25 + $35) = $400

[QUESTION]
REFER TO: 02-03
36. Compute the consolidated buildings (net) account at December 31, 2018.
A) $2,700.
B) $3,370.
C) $3,300.
D) $3,260.
E) $3,340.
Answer: D
Learning Objective: 02-05
Learning Objective: 02-06a
Learning Objective: 02-07
Topic: Acquisition—Allocate fair value
Topic: Acquisition—Calculate consolidated balances
Difficulty: 2 Medium
Blooms: Apply
AACSB: Knowledge Application
AICPA: BB Critical Thinking
AICPA: FN Measurement
Feedback: Consolidated Value of Buildings Determined by adding the book value of Goodwin's buildings ($2,700) to the Fair Value of Corr's buildings ($560 FV) = $3,260

[QUESTION]
REFER TO: 02-03
37. Compute the consolidated equipment (net) account at December 31, 2018.
A) $2,100.
B) $3,500.
C) $3,300.
D) $3,000.
E) $3,200.

Answer: B
Learning Objective: 02-05
Learning Objective: 02-06a
Learning Objective: 02-07
Topic: Acquisition method—Allocate fair value
Topic: Acquisition—Calculate consolidated balances
Difficulty: 2 Medium
Blooms: Apply
AACSB: Knowledge Application
AICPA: BB Critical Thinking
AICPA: FN Measurement
Feedback: Consolidated Value of Equipment (net) Determined by adding the book value of Goodwin's Equipment Account ($2,100) to the Fair Value of Corr's Equipment (net) ($1,400) for a total consolidated fair value of $3,500

[QUESTION]
REFER TO: 02-03
38. Compute the consideration transferred for this acquisition at December 31, 2018.
A) $ 900.
B) $1,165.
C) $1,200.
D) $1,765.
E) $1,800.
Answer: E
Learning Objective: 02-05
Topic: Acquisition—Calculate consideration transferred
Difficulty: 2 Medium
Blooms: Apply
AACSB: Knowledge Application
AICPA: BB Critical Thinking
AICPA: FN Measurement
Feedback: Consideration transferred equals fair value of cash ($600) + fair value of Goodwin stock issued ($40 per share × 30 shares) = $600 + $1,200 = $1,800

[QUESTION]
REFER TO: 02-03
39. Compute the goodwill arising from this acquisition at December 31, 2018.
A) $ 0.
B) $100.
C) $125.
D) $160.
E) $ 45.
Answer: B
Learning Objective: 02-05
Topic: Acquisition—Calculate goodwill or bargain
Difficulty: 2 Medium
Blooms: Apply
AACSB: Knowledge Application
AICPA: BB Critical Thinking
AICPA: FN Measurement

Feedback: Goodwill equals excess of: (i) fair value of assets received and liabilities assumed; less (ii) consideration paid.
Fair value of assets received: $220 cash + $340 receivables and inventory + $560 fair value of buildings (net) + $1,400 fair value of equipment (net) = $2,520
Fair value of liabilities assumed: $820
Consideration paid: $600 cash + FV of common stock ($40 × 30 = $1,200) = $1,800
Goodwill = Consideration Paid ($1,800) less Fair Value of assets received and liabilities assumed ($2,520 assets received - $820 liabilities assumed = $1,700) = $1,800 - $1,700 = $100

[QUESTION]
REFER TO: 02-03
40. Compute the consolidated common stock account at December 31, 2018.
A) $1,080.
B) $1,480.
C) $1,380.
D) $2,280.
E) $2,680.
Answer: C
Learning Objective: 02-05
Learning Objective: 02-06a
Learning Objective: 02-07
Topic: Acquisition—Calculate consideration transferred
Topic: Acquisition—Calculate consolidated balances
Difficulty: 2 Medium
Blooms: Apply
AACSB: Knowledge Application
AICPA: BB Critical Thinking
AICPA: FN Measurement
Feedback: Goodwin Stock (par value $1,080) + Stock Issued for Corr (par value $10 × 30 shares) = $1,080 + $300 = $1,380

[QUESTION]
REFER TO: 02-03
41. Compute the consolidated additional paid-in capital at December 31, 2018.
A) $ 810.
B) $1,350.
C) $1,675.
D) $1,910.
E) $1,875.
Answer: C
Learning Objective: 02-05
Learning Objective: 02-06a
Learning Objective: 02-06b
Learning Objective: 02-07
Topic: Acquisition—Calculate consideration transferred
Topic: Costs of combination
Topic: Acquisition—Calculate consolidated balances
Difficulty: 3 Hard
Blooms: Apply
AACSB: Knowledge Application
AICPA: BB Critical Thinking

AICPA: FN Measurement
Feedback: Goodwin’s APIC total ($810) + Corr’s APIC total
Corr’s APIC total: Excess of FV of shares issued on combination to Corr over par value, ($40 - $10) × 30 shares = $30 × 30 shares = $900) less Stock Issuance Costs ($35) = $900 - $35 = $865
Consolidated APIC = $810 (Goodwin) + $865 (Corr) = $1,675

[QUESTION]
REFER TO: 02-03
42. Compute the consolidated liabilities at December 31, 2018.
A) $1,500.
B) $2,100.
C) $2,320.
D) $2,920.
E) $2,885.
Answer: D
Learning Objective: 02-06a
Learning Objective: 02-07
Topic: Acquisition—Calculate consolidated balances
Difficulty: 2 Medium
Blooms: Apply
AACSB: Knowledge Application
AICPA: BB Critical Thinking
AICPA: FN Measurement
Feedback: Goodwin’s liabilities plus Corr’s liabilities equal consolidated liabilities
Goodwin’s Liabilities: $1,500 Existing + $600 to fund consideration paid on business consolidation = $2,100
Corr’s Liabilities: $820
Consolidated Liabilities = $2,100 (Goodwin) + $820 (Corr) = $2,920

[QUESTION]
REFER TO: 02-03
43. Compute the consolidated retained earnings at December 31, 2018.
A) $2,800.
B) $2,825.
C) $2,850.
D) $3,425.
E) $3,450.
Answer: B
Learning Objective: 02-06a
Learning Objective: 02-06b
Learning Objective: 02-07
Topic: Costs of combination
Topic: Acquisition—Calculate consolidated balances
Difficulty: 2 Medium
Blooms: Apply
AACSB: Knowledge Application
AICPA: BB Critical Thinking
AICPA: FN Measurement
Feedback: $2,850 - $25 Broker Expense = $2,825

REFERENCE: 02-04

On January 1, 2018, 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 also issued 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:

	Moody	Osorio
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.

[QUESTION]
REFER TO: 02-04
44. If Osorio retains a separate corporate existence, what amount was recorded as the investment in Osorio?
A) $930.
B) $820.
C) $800.
D) $835.
E) $815.
Answer: C
Learning Objective: 02-06c
Topic: Journal entry—Investment with no dissolution
Difficulty: 2 Medium
Blooms: Apply
AACSB: Knowledge Application
AICPA: BB Critical Thinking
AICPA: FN Measurement
Feedback: Total Consideration Paid = Cash and Stock
Cash: $400
Common Stock (Par Value): $1.00 × 40 shares = $40
APIC: Excess of fair value of stock over par value = ($10 - $1) x (40 shares) = $9 × 40 = $360
Total Consideration: $400 + $40 + $360 = $800

[QUESTION]

REFER TO: 02-04
45. What is the amount of 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.
Answer: D
Learning Objective: 02-05
Topic: Acquisition—Calculate goodwill or bargain
Difficulty: 2 Medium
Blooms: Apply
AACSB: Knowledge Application
AICPA: BB Critical Thinking
AICPA: FN Measurement
Feedback: Goodwill = Total Consideration Paid – Excess of Fair Value of Assets Acquired Over Liabilities Assumed
Total Consideration Paid: $800
Fair Value of Assets Acquired: Cash ($40) + $180 (Accounts Receivables) + $290 (Inventory) + $400 (Land) + $500 (Buildings) = $1,050
Fair Value of Liabilities Assumed: $400 (Long Term Liabilities) + $80 (Accounts Payable) = $480
Bargain Purchase Gain: Consideration ($800) – Excess of Fair Value of Assets Acquired Over Liabilities Assumed ($1,050) = $250
Less Combination Expenses: $20
Total Gain on Purchase = $250 - $20 = $230

[QUESTION]
REFER TO: 02-04
46. Compute the amount of consolidated inventories at date of acquisition.
A) $1,080.
B) $1,350.
C) $1,360.
D) $1,370.
E) $ 290.
Answer: D
Learning Objective: 02-05
Learning Objective: 02-06a
Learning Objective: 02-07
Topic: Acquisition—Allocate fair value
Topic: Acquisition—Calculate consolidated balances
Difficulty: 2 Medium
Blooms: Apply
AACSB: Knowledge Application
AICPA: BB Critical Thinking
AICPA: FN Measurement
Feedback: Moody Inventory ($1,080 Book Value on Acquisition Date) + Osario Inventory ($290 - Fair Value on Acquisition Date) = $1,370

[QUESTION]
REFER TO: 02-04

47. 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.
Answer: B
Learning Objective: 02-05
Learning Objective: 02-06a
Learning Objective: 02-07
Topic: Acquisition—Allocate fair value
Topic: Acquisition—Calculate consolidated balances
Difficulty: 2 Medium
Blooms: Apply
AACSB: Knowledge Application
AICPA: BB Critical Thinking
AICPA: FN Measurement
Feedback: Moody Buildings on Acquisition Date (Book Value of $1,260) + Osario Buildings on Acquisition Date ($500 Fair Value) = $1,760

[QUESTION]
REFER TO: 02-04
48. Compute the amount of consolidated land at date of acquisition.
A) $1,000.
B) $ 960.
C) $ 920.
D) $ 400.
E) $ 320.
Answer: A
Learning Objective: 02-05
Learning Objective: 02-06a
Learning Objective: 02-07
Topic: Acquisition—Allocate fair value
Topic: Acquisition—Calculate consolidated balances
Difficulty: 2 Medium
Blooms: Apply
AACSB: Knowledge Application
AICPA: BB Critical Thinking
AICPA: FN Measurement
Feedback: Moody's Land (Book Value of $600) + Osario Land (Fair Value on Acquisition Date of $400) = $1,000

[QUESTION]
REFER TO: 02-04
49. Compute the amount of consolidated equipment at date of acquisition.
A) $480.
B) $580.
C) $559.
D) $570.
E) $560.
Answer: B

Learning Objective: 02-05
Learning Objective: 02-06a
Learning Objective: 02-07
Topic: Acquisition—Allocate fair value
Topic: Acquisition—Calculate consolidated balances
Difficulty: 2 Medium
Blooms: Apply
AACSB: Knowledge Application
AICPA: BB Critical Thinking
AICPA: FN Measurement
Feedback: Moody Acquisition Date Equipment (Book Value of $480) + (Osario's Equipment with Fair Value on Acquisition Date of $100) = $580

[QUESTION]
REFER TO: 02-04
50. Compute the amount of consolidated common stock at date of acquisition.
A) $370.
B) $570.
C) $610.
D) $330.
E) $530.
Answer: A
Learning Objective: 02-05
Topic: Acquisition—Calculate consideration transferred
Difficulty: 2 Medium
Blooms: Apply
AACSB: Knowledge Application
AICPA: BB Critical Thinking
AICPA: FN Measurement
Feedback: Moody's Common Stock ($330) + Common Stock Issued in Connection With Osario Business Combination ($1.00 par value per share x 40 shares = $40) = $330 + $40 = $370

[QUESTION]
REFER TO: 02-04
51. 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.
Answer: D
Learning Objective: 02-05
Learning Objective: 02-06b
Learning Objective: 02-06c
Learning Objective: 02-07
Topic: Acquisition—Calculate consideration transferred
Topic: Costs of combination
Topic: Acquisition—Calculate consolidated balances
Difficulty: 3 Hard
Blooms: Apply
AACSB: Knowledge Application

AICPA: BB Critical Thinking
AICPA: FN Measurement
Feedback:
Moody's APIC on Acquisition Date: $1,080
APIC Adjustments Related to Osario Business Combination: Excess of Fair Value Over Par Value ($9.00 per share x 40 shares = $360) + Stock Issuance Costs ($15) = $360 + $15 = $375
Combined APIC = $1,080 + $375 = $1,425

[QUESTION]
REFER TO: 02-04
52. Compute the amount of consolidated cash after recording the acquisition transaction.
A) $220.
B) $185.
C) $200.
D) $205.
E) $215.
Answer: B
Learning Objective: 02-05
Learning Objective: 02-06b
Learning Objective: 02-07
Topic: Acquisition—Calculate consideration transferred
Topic: Costs of combination
Topic: Acquisition—Calculate consolidated balances
Difficulty: 2 Medium
Blooms: Apply
AACSB: Knowledge Application
AICPA: BB Critical Thinking
AICPA: FN Measurement
Feedback:
Moody's Cash on Acquisition Date: $180
Osario's Cash on Acquisition Date: $40
Reductions to Cash for Business Combination Related Costs and Expenses ($20 + $15) = $35
Combined: $180 + $40 Sub - $35 = $185

REFERENCE: 02-05
Carnes has the following account balances as of December 31, 2017 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 December 31, 2017, 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.

[QUESTION]
REFER TO: 02-05
53. On December 31, 2017, assuming that Cames will retain its separate corporate existence, 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.
Answer: C
Learning Objective: 02-06c
Topic: Journal entry—Investment with no dissolution
Difficulty: 1 Easy
Blooms: Apply
AACSB: Knowledge Application
AICPA: BB Critical Thinking
AICPA: FN Measurement
Feedback: Consideration Paid = Fair Value of $25 per share x 30,000 shares = $750,000

[QUESTION]
REFER TO: 02-05
54. 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.
Answer: B
Learning Objective: 02-05
Learning Objective: 02-06a
Learning Objective: 02-06b
Learning Objective: 02-06c
Topic: Acquisition—Calculate consideration transferred
Topic: Costs of combination
Topic: Journal entry—Dissolution
Topic: Journal entry—Investment with no dissolution
Difficulty: 1 Easy
Blooms: Apply
AACSB: Knowledge Application
AICPA: BB Critical Thinking
AICPA: FN Measurement
Feedback: APIC increases by the excess of the fair value over the par value of shares issued in connection with business combination less stock issuance costs.
$25 fair value per share - $10 par value per share = $15 per share x 30,000 shares = $450,000 - $10,000 stock issuance costs = $440,000

[QUESTION]
REFER TO: 02-05
55. What will the consolidated common stock account be as a result of this acquisition?
A) $ 300,000.
B) $ 990,000.
C) $1,000,000.
D) $1,590,000.
E) $1,600,000.
Answer: C
Learning Objective: 02-05
Learning Objective: 02-06a
Learning Objective: 02-07
Topic: Acquisition—Calculate consideration transferred
Topic: Acquisition—Calculate consolidated balances
Difficulty: 1 Easy
Blooms: Apply
AACSB: Knowledge Application
AICPA: BB Critical Thinking
AICPA: FN Measurement
Feedback: Riley Common Stock Account Before Acquisition: $700,000
Par Value of Stock Issued in Connection With Business Combination: $10 par value per share x 30,000 shares = $300,000
Total: $700,000 + $300,000 = $1,000,000

[QUESTION]
REFER TO: 02-05
56. 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.
Answer: B
Learning Objective: 02-05
Learning Objective: 02-06a
Learning Objective: 02-06b
Learning Objective: 02-07
Topic: Acquisition—Calculate consideration transferred
Topic: Costs of combination
Topic: Acquisition—Calculate consolidated balances
Difficulty: 2 Medium
Blooms: Apply
AACSB: Knowledge Application
AICPA: BB Critical Thinking
AICPA: FN Measurement
Feedback: $300,000 (Riley APIC Balance on Acquisition Date) + $440,000 Additional Business Combination Related APIC (Calculated in Question 54) = $740,000

REFERENCE: 02-06
The financial balances for the Atwood Company and the Franz Company as of December 31, 2018, are presented below. Also included are the fair values for Franz Company's net assets.

	Atwood	Franz Co.	Franz Co.
	(all numbers are in thousands)		
	Book Value	Book Value	Fair Value
	12/31/2018	12/31/2018	12/31/2018
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, 2018. 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.

[QUESTION]
REFER TO: 02-06
57. Compute the amount of the consideration transferred by Atwood to acquire Franz.
A) $1,750.
B) $1,760.
C) $1,775.
D) $1,300.
E) $1,120.
Answer: A
Learning Objective: 02-05
Learning Objective: 02-06a
Learning Objective: 02-06c
Topic: Acquisition—Calculate consideration transferred
Topic: Journal entry—Dissolution
Topic: Journal entry—Investment with no dissolution
Difficulty: 2 Medium
Blooms: Apply
AACSB: Knowledge Application
AICPA: BB Critical Thinking
AICPA: FN Measurement
Feedback: Atwood Shares Issued in Connection With Business Combination = $35 Fair Value

per share x 50 shares = $1,750

[QUESTION]
REFER TO: 02-06
58. Compute the consolidated common stock at the date of acquisition.
A) $1,000.
B) $2,980.
C) $2,400.
D) $3,400.
E) $3,730.
Answer: B
Learning Objective: 02-05
Learning Objective: 02-06a
Learning Objective: 02-07
Topic: Acquisition—Calculate consideration transferred
Topic: Acquisition—Calculate consolidated balances
Topic: Consolidation worksheet
Difficulty: 2 Medium
Blooms: Apply
AACSB: Knowledge Application
AICPA: BB Critical Thinking
AICPA: FN Measurement
Feedback: Atwood Common Stock Account on Acquisition Date: $1,980
Franz Related Business Combination Common Stock: $20 par value per share × 50 shares = $1,000
Total Common Stock Account: $1,980 + $1,000 = $2,980

[QUESTION]
REFER TO: 02-06
59. Compute consolidated inventory at the date of the acquisition.
A) $1,650.
B) $1,810.
C) $1,230.
D) $ 580.
E) $1,830.
Answer: B
Learning Objective: 02-05
Learning Objective: 02-06a
Learning Objective: 02-07
Topic: Acquisition—Allocate fair value
Topic: Acquisition—Calculate consolidated balances
Topic: Consolidation worksheet
Difficulty: 2 Medium
Blooms: Apply
AACSB: Knowledge Application
AICPA: BB Critical Thinking
AICPA: FN Measurement
Feedback: Atwood Acquisition Date Inventory ($1,230 book value) + Acquisition Date Fair Value of Franz Inventory ($580) = $1,230 + $580 = $1,810

[QUESTION]

REFER TO: 02-06
60. Compute consolidated land at the date of the acquisition.
A) $2,060.
B) $1,800.
C) $ 260.
D) $2,050.
E) $2,070.
Answer: D
Learning Objective: 02-05
Learning Objective: 02-06a
Learning Objective: 02-07
Topic: Acquisition—Allocate fair value
Topic: Acquisition—Calculate consolidated balances
Topic: Consolidation worksheet
Difficulty: 2 Medium
Blooms: Apply
AACSB: Knowledge Application
AICPA: BB Critical Thinking
AICPA: FN Measurement
Feedback: Atwood Acquisition Date Land ($1,800 book value) + Franz Acquisition Date Land Fair Value ($250) = $2,050 Consolidated Value

[QUESTION]
REFER TO: 02-06
61. Compute consolidated buildings (net) at the date of the acquisition.
A) $2,450.
B) $2,340.
C) $1,800.
D) $ 650.
E) $1,690.
Answer: A
Learning Objective: 02-05
Learning Objective: 02-06a
Learning Objective: 02-07
Topic: Acquisition—Allocate fair value
Topic: Acquisition—Calculate consolidated balances
Topic: Consolidation worksheet
Difficulty: 2 Medium
Blooms: Apply
AACSB: Knowledge Application
AICPA: BB Critical Thinking
AICPA: FN Measurement
Feedback: Atwood Acquisition Date Buildings ($1,800 book value) + Franz Acquisition Date Building Fair Value ($650) = $2,450

[QUESTION]
REFER TO: 02-06
62. 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.
Answer: E
Learning Objective: 02-05
Learning Objective: 02-06a
Learning Objective: 02-07
Topic: Acquisition—Allocate fair value
Topic: Acquisition—Calculate consolidated balances
Topic: Consolidation worksheet
Difficulty: 2 Medium
Blooms: Apply
AACSB: Knowledge Application
AICPA: BB Critical Thinking
AICPA: FN Measurement
Feedback: Atwood Acquisition Date Long-Term Liabilities ($2,700 book value) + Franz Acquisition Date Long-Term Liabilities at Fair Value ($1,120) = $3,820

[QUESTION]
REFER TO: 02-06
63. Compute consolidated goodwill at the date of the acquisition.
A) $360.
B) $450.
C) $460.
D) $440.
E) $475.
Answer: B
Learning Objective: 02-05
Learning Objective: 02-06a
Learning Objective: 02-07
Topic: Acquisition—Calculate goodwill or bargain
Topic: Consolidation worksheet
Difficulty: 2 Medium
Blooms: Apply
AACSB: Knowledge Application
AICPA: BB Critical Thinking
AICPA: FN Measurement
Feedback:
Goodwill = Total Consideration Paid – Excess of Fair Value of Assets Acquired Over Liabilities Assumed
Total Consideration Paid: $1,750
Net Assets/Liabilities at Fair Value: $1,300
Goodwill: Consideration ($1,750) – Net Assets/Liabilities ($1,300) = $450
Consolidated Goodwill: $450

[QUESTION]
REFER TO: 02-06
64. Compute consolidated equipment (net) at the date of the acquisition.
A) $ 400.
B) $ 660.
C) $1,060.
D) $1,040.

E) $1,050.
Answer: C
Learning Objective: 02-05
Learning Objective: 02-06a
Learning Objective: 02-07
Topic: Acquisition—Allocate fair value
Topic: Acquisition—Calculate consolidated balances
Topic: Consolidation worksheet
Difficulty: 2 Medium
Blooms: Apply
AACSB: Knowledge Application
AICPA: BB Critical Thinking
AICPA: FN Measurement
Feedback: Atwood Acquisition Date Equipment ($660 book value) + Franz Acquisition Date Equipment ($400 Fair Value) = $1,060

[QUESTION]
REFER TO: 02-06
65. 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.
Answer: A
Learning Objective: 02-05
Topic: Acquisition—Allocate fair value
Difficulty: 2 Medium
Blooms: Apply
AACSB: Knowledge Application
AICPA: BB Critical Thinking
AICPA: FN Measurement
Feedback: Net Assets = Fair Value of Assets Acquired Less Fair Value of Liabilities Assumed
Franz Assets: $240 (Cash) + $600 (Accounts Receivable) + $580 (Inventory) + $250 (Land) + $650 (Building) + Equipment ($400) = $2,720
Franz Liabilities: Long Term Liabilities at Acquisition Date ($1,120 fair value) + Accounts Payable ($240 fair value) + Accrued Expenses ($60 fair value) = $1,420
Net Assets Total: $1,300

[QUESTION]
REFER TO: 02-06
66. 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.
Answer: C
Learning Objective: 02-06a
Learning Objective: 02-06b
Learning Objective: 02-07

Topic: Costs of combination
Topic: Acquisition—Calculate consolidated balances
Topic: Consolidation worksheet
Difficulty: 3 Hard
Blooms: Apply
AACSB: Knowledge Application
AICPA: BB Critical Thinking
AICPA: FN Measurement
Feedback: $1,170 + ($2,880 - $2760 - $10) = $1,280

[QUESTION]
REFER TO: 02-06
67. Compute consolidated revenues immediately following the acquisition.
A) $3,540.
B) $2,880.
C) $1,170.
D) $1,650.
E) $4,050.
Answer: B
Learning Objective: 02-06a
Learning Objective: 02-07
Topic: Acquisition—Calculate consolidated balances
Topic: Consolidation worksheet
Difficulty: 2 Medium
Blooms: Apply
AACSB: Knowledge Application
AICPA: BB Critical Thinking
AICPA: FN Measurement
Feedback: $2,880 Revenues of the Parent Only

[QUESTION]
REFER TO: 02-06
68. Compute consolidated cash at the completion of the acquisition.
A) $1,350.
B) $1,085.
C) $1,110.
D) $ 870.
E) $ 845.
Answer: B
Learning Objective: 02-06a
Learning Objective: 02-06b
Learning Objective: 02-07
Topic: Costs of combination
Topic: Acquisition—Calculate consolidated balances
Topic: Consolidation worksheet
Difficulty: 2 Medium
Blooms: Apply
AACSB: Knowledge Application
AICPA: BB Critical Thinking
AICPA: FN Measurement
Feedback: $870 + $240 - $15 - $10 = $1,085

[QUESTION]
REFER TO: 02-06
69. Compute consolidated expenses immediately following the acquisition.
A) $2,760.
B) $2,770.
C) $2,785.
D) $3,380.
E) $3,390.
Answer: B
Learning Objective: 02-06a
Learning Objective: 02-06b
Learning Objective: 02-07
Topic: Costs of combination
Topic: Acquisition—Calculate consolidated balances
Topic: Consolidation worksheet
Difficulty: 2 Medium
Blooms: Apply
AACSB: Knowledge Application
AICPA: BB Critical Thinking
AICPA: FN Measurement
Feedback: $2,760 + $10 = $2,770

REFERENCE: 02-07
Presented below are the financial balances for the Boxwood Company and the Tranz Company as of December 31, 2017, immediately before Boxwood acquired Tranz. Also included are the fair values for Tranz Company's net assets at that date.

	Boxwood	Tranz Co.	Tranz Co.
		(all amounts in thousands)	
	Book Value 12/31/17	Book Value 12/31/17	Fair Value 12/31/17
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, 2017. Boxwood issued 50 shares of its common stock with a fair value of $35 per share for all of the outstanding common shares of Tranz. 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 Tranz's fair value, Boxwood promises to pay an additional $5.2 (in thousands) to the former owners if Tranz'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).

[QUESTION]
REFER TO: 02-07
70. Compute the investment to be recorded at the date of acquisition.
A) $1,750.
B) $1,755.
C) $1,725.
D) $1,760.
E) $1,765.
Answer: B
Learning Objective: 02-04
Learning Objective: 02-06c
Topic: Contingent consideration
Topic: Journal entry—Investment with no dissolution
Difficulty: 2 Medium
Blooms: Apply
AACSB: Knowledge Application
AICPA: BB Critical Thinking
AICPA: FN Measurement
Feedback: $35 × 50 shares = $1,750 + $5 = $1,755

[QUESTION]
REFER TO: 02-07
71. Compute consolidated inventory immediately following the acquisition.
A) $1,650.
B) $1,810.
C) $1,230.
D) $ 580.
E) $1,830.
Answer: B
Learning Objective: 02-05
Learning Objective: 02-06a
Learning Objective: 02-07
Topic: Acquisition—Allocate fair value
Topic: Acquisition—Calculate consolidated balances
Topic: Consolidation worksheet
Difficulty: 2 Medium
Blooms: Apply
AACSB: Knowledge Application
AICPA: BB Critical Thinking
AICPA: FN Measurement
Feedback: $1,230 book value + $580 fair value = $1,810

[QUESTION]
REFER TO: 02-07
72. Compute consolidated land immediately following the acquisition.
A) $2,060.
B) $1,800.
C) $ 260.
D) $2,050.
E) $2,070.
Answer: D
Learning Objective: 02-05
Learning Objective: 02-06a
Learning Objective: 02-07
Topic: Acquisition—Allocate fair value
Topic: Acquisition—Calculate consolidated balances
Topic: Consolidation worksheet
Difficulty: 2 Medium
Blooms: Apply
AACSB: Knowledge Application
AICPA: BB Critical Thinking
AICPA: FN Measurement
Feedback: $1,800 Book Value + $250 Fair Value = $2,050

[QUESTION]
REFER TO: 02-07
73. Compute consolidated buildings (net) immediately following the acquisition.
A) $2,450.
B) $2,340.
C) $1,800.
D) $ 650.
E) $1,690.
Answer: A
Learning Objective: 02-05
Learning Objective: 02-06a
Learning Objective: 02-07
Topic: Acquisition—Allocate fair value
Topic: Acquisition—Calculate consolidated balances
Topic: Consolidation worksheet
Difficulty: 2 Medium
Blooms: Apply
AACSB: Knowledge Application
AICPA: BB Critical Thinking
AICPA: FN Measurement
Feedback: $1,800 book value + $650 fair value = $2,450

[QUESTION]
REFER TO: 02-07
74. Compute consolidated goodwill immediately following the acquisition.
A) $440.
B) $442.
C) $450.

D) $455.
E) $452.
Answer: D
Learning Objective: 02-04
Learning Objective: 02-05
Topic: Contingent consideration
Topic: Acquisition—Calculate goodwill or bargain
Difficulty: 2 Medium
Blooms: Apply
AACSB: Knowledge Application
AICPA: BB Critical Thinking
AICPA: FN Measurement
Feedback: $35 fair value × 50 shares = $1,750 – ($1,300 - $5 Contingency) = $455

[QUESTION]
REFER TO: 02-07
75. Compute consolidated equipment immediately following the acquisition.
A) $ 400.
B) $ 660.
C) $1,060.
D) $1,040.
E) $1,050.
Answer: C
Learning Objective: 02-05
Learning Objective: 02-06a
Learning Objective: 02-07
Topic: Acquisition—Allocate fair value
Topic: Acquisition—Calculate consolidated balances
Topic: Consolidation worksheet
Difficulty: 2 Medium
Blooms: Apply
AACSB: Knowledge Application
AICPA: BB Critical Thinking
AICPA: FN Measurement
Feedback: $660 + $400 = $1,060

[QUESTION]
REFER TO: 02-07
76. 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.
Answer: D
Learning Objective: 02-06a
Learning Objective: 02-06b
Learning Objective: 02-07
Topic: Costs of combination
Topic: Acquisition—Calculate consolidated balances
Topic: Consolidation worksheet

Difficulty: 3 Hard
Blooms: Apply
AACSB: Knowledge Application
AICPA: BB Critical Thinking
AICPA: FN Measurement
Feedback: Components of ending retained earnings (revenues and expenses) are extended across the worksheet, then combined vertically.
Atwood's Total Expenses = Balance Sheet Expenses + Transaction Expenses = $2,760 + $10 = $2,770
Atwood's Ending Retained Earnings = Revenues ($2,880) – Total Expenses ($2,770) = $110
Total Ending Retained Earnings = $1,170 + $110 = $1,280

[QUESTION]
REFER TO: 02-07
77. Compute consolidated revenues immediately following the acquisition.
A) $3,540.
B) $2,880.
C) $1,170.
D) $1,650.
E) $4,050.
Answer: B
Learning Objective: 02-06a
Learning Objective: 02-07
Topic: Acquisition—Calculate consolidated balances
Topic: Consolidation worksheet
Difficulty: 2 Medium
Blooms: Apply
AACSB: Knowledge Application
AICPA: BB Critical Thinking
AICPA: FN Measurement
Feedback: $2,880 Revenues of the Parent Only

[QUESTION]
REFER TO: 02-07
78. Compute consolidated expenses immediately following the acquisition.
A) $2,735.
B) $2,760.
C) $2,770.
D) $2,785.
E) $3,380.
Answer: C
Learning Objective: 02-05
Learning Objective: 02-06a
Learning Objective: 02-06b
Learning Objective: 02-07
Topic: Costs of combination
Topic: Acquisition—Calculate consolidated balances
Topic: Consolidation worksheet
Difficulty: 2 Medium
Blooms: Apply
AACSB: Knowledge Application

AICPA: BB Critical Thinking
AICPA: FN Measurement
Feedback: Atwood's Total Expenses = Balance Sheet Expenses + Transaction Expenses = $2,760 + $10 = $2,770

[QUESTION]
REFER TO: 02-07
79. Compute the consolidated cash upon completion of the acquisition.
A) $1,350.
B) $1,110.
C) $1,080.
D) $1,085.
E) $ 635.
Answer: D
Learning Objective: 02-05
Learning Objective: 02-06a
Learning Objective: 02-06b
Learning Objective: 02-07
Topic: Costs of combination
Topic: Acquisition—Calculate consolidated balances
Topic: Consolidation worksheet
Difficulty: 2 Medium
Blooms: Apply
AACSB: Knowledge Application
AICPA: BB Critical Thinking
AICPA: FN Measurement
Feedback: Cash of Parent + Cash of Subsidiary – (Post-Transaction Costs + Post-Transaction Expenses) = $870 + $240 – ($15 + $10) = $870 + $240 - $25 = $1,085

REFERENCE: 02-08
Flynn acquires 100 percent of the outstanding voting shares of Macek Company on January 1, 2018. 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, 2018 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.

	Flynn, Inc.	Macek Company Book Value	Macek Company Fair Value
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	

[QUESTION]
REFER TO: 02-08
80. By how much will Flynn's additional paid-in capital increase as a result of this acquisition?
A) $150,000.
B) $160,000.
C) $230,000.
D) $350,000.
E) $360,000.
Answer: A
Learning Objective: 02-05
Learning Objective: 02-06a
Learning Objective: 02-06b
Learning Objective: 02-06c
Topic: Acquisition—Calculate consideration transferred
Topic: Costs of combination
Topic: Journal entry—Dissolution
Topic: Journal entry—Investment with no dissolution
Difficulty: 2 Medium
Blooms: Apply
AACSB: Knowledge Application
AICPA: BB Critical Thinking
AICPA: FN Measurement
Feedback: APIC adjusted for excess of fair value of stock issued as business combination consideration over its par value, and stock issuance costs
Excess of Fair Value Over Par Value = $36 - $20 = $16 per share
Total Excess = $16 × 10,000 shares = $160,000
Stock Issuance Costs: $10,000
Total APIC Adjustment = $160,000 - $10,000 = $150,000

[QUESTION]
REFER TO: 02-08
81. What amount will be reported for goodwill as a result of this acquisition?
A) $ 30,000.

B) $ 55,000.
C) $ 65,000.
D) $175,000.
E) $ 200,000.
Answer: B
Learning Objective: 02-05
Learning Objective: 02-08
Topic: Acquisition—Calculate goodwill or bargain
Topic: Intangibles acquired
Difficulty: 2 Medium
Blooms: Apply
AACSB: Knowledge Application
AICPA: BB Critical Thinking
AICPA: FN Measurement
Feedback: Goodwill = Excess of Consideration Paid Over Net Fair Value of Assets and Liabilities
Consideration Paid: Cash + Fair Value of Stock = $400,000 + ($36 × 10,000 shares) = $400,000 + $360,000 = $760,000
Fair Value of Assets = $80,000 (cash) + $160,000 (receivables) + $300,000 (inventory) + $130,000 (land) + $280,000 (buildings) + $75,000 (equipment) + $40,000 (trademark) = $1,065,000
Liabilities at Fair Value = $300,000 (long-term liabilities) + $60,000 (accounts payable) = $360,000
Net Assets and Liabilities: $705,000
Goodwill = $760,000 - $705,000 = $55,000

[QUESTION]
REFER TO: 02-08
82. What amount will be reported for consolidated receivables?
A) $660,000.
B) $640,000.
C) $500,000.
D) $460,000.
E) $480,000.
Answer: B
Learning Objective: 02-05
Learning Objective: 02-06a
Learning Objective: 02-07
Topic: Acquisition—Allocate fair value
Topic: Acquisition—Calculate consolidated balances
Topic: Consolidation worksheet
Difficulty: 2 Medium
Blooms: Apply
AACSB: Knowledge Application
AICPA: BB Critical Thinking
AICPA: FN Measurement
Feedback: Flynn Receivable ($480,000) + Fair Value of Macek Receivable ($160,000) = $640,000

[QUESTION]
REFER TO: 02-08

83. What amount will be reported for consolidated inventory?
A) $1,000,000.
B) $ 960,000.
C) $ 920,000.
D) $ 660,000.
E) $ 620,000.
Answer: B
Learning Objective: 02-05
Learning Objective: 02-06a
Learning Objective: 02-07
Topic: Acquisition—Allocate fair value
Topic: Acquisition—Calculate consolidated balances
Topic: Consolidation worksheet
Difficulty: 2 Medium
Blooms: Apply
AACSB: Knowledge Application
AICPA: BB Critical Thinking
AICPA: FN Measurement
Feedback: Flynn Inventory ($660,000) + Fair Value of Macek Inventory ($300,000) = $960,000

[QUESTION]
REFER TO: 02-08
84. What amount will be reported for consolidated buildings (net)?
A) $1,420,000.
B) $1,260,000.
C) $1,140,000.
D) $1,480,000.
E) $1,200,000.
Answer: D
Learning Objective: 02-05
Learning Objective: 02-06a
Learning Objective: 02-07
Topic: Acquisition—Allocate fair value
Topic: Acquisition—Calculate consolidated balances
Topic: Consolidation worksheet
Difficulty: 2 Medium
Blooms: Apply
AACSB: Knowledge Application
AICPA: BB Critical Thinking
AICPA: FN Measurement
Feedback: Flynn Buildings ($1,200,000) + Fair Value of Macek Buildings ($280,000) = $1,480,000

[QUESTION]
REFER TO: 02-08
85. What amount will be reported for consolidated equipment (net)?
A) $385,000.
B) $335,000.
C) $435,000.
D) $460,000.
E) $360,000.

Answer: C
Learning Objective: 02-05
Learning Objective: 02-06a
Learning Objective: 02-07
Topic: Acquisition—Allocate fair value
Topic: Acquisition—Calculate consolidated balances
Topic: Consolidation worksheet
Difficulty: 2 Medium
Blooms: Apply
AACSB: Knowledge Application
AICPA: BB Critical Thinking
AICPA: FN Measurement
Feedback: Flynn Equipment ($360,000) + Fair Value of Macek Equipment ($75,000) = $435,000

[QUESTION]
REFER TO: 02-08
86. What amount will be reported for consolidated long-term liabilities?
A) $1,520,000.
B) $1,480,000.
C) $1,440,000.
D) $1,180,000.
E) $1,100,000.
Answer: C
Learning Objective: 02-05
Learning Objective: 02-06a
Learning Objective: 02-07
Topic: Acquisition—Allocate fair value
Topic: Acquisition—Calculate consolidated balances
Topic: Consolidation worksheet
Difficulty: 2 Medium
Blooms: Apply
AACSB: Knowledge Application
AICPA: BB Critical Thinking
AICPA: FN Measurement
Feedback: Flynn Long-Term Liabilities ($1,140,000) + Fair Value of Macek Long-Term Liabilities ($300,000) = $1,440,000

[QUESTION]
REFER TO: 02-08
87. What amount will be reported for consolidated common stock?
A) $1,000,000.
B) $1,080,000.
C) $1,200,000.
D) $1,280,000.
E) $1,360,000.
Answer: C
Learning Objective: 02-05
Learning Objective: 02-06a
Learning Objective: 02-07
Topic: Acquisition—Calculate consideration transferred
Topic: Acquisition—Calculate consolidated balances

Topic: Consolidation worksheet
Difficulty: 2 Medium
Blooms: Apply
AACSB: Knowledge Application
AICPA: BB Critical Thinking
AICPA: FN Measurement
Feedback: Flynn common stock ($1,000,000) + Par Value of Stock Issued in Connection with the Business Combination ($20 × 10,000 shares = $200,000) = $1,200,000

[QUESTION]
REFER TO: 02-08
88. Assuming the combination occurred prior to 2009 and was accounted for under the *purchase method*, what amount will be reported for consolidated retained earnings?
A) $1,830,000.
B) $1,350,000.
C) $1,080,000.
D) $1,560,000.
E) $1,535,000.
Answer: C
Learning Objective: 02-09
Topic: Legacy methods—Purchase and pooling
Difficulty: 2 Medium
Blooms: Apply
AACSB: Knowledge Application
AICPA: BB Critical Thinking
AICPA: FN Measurement
Feedback: $1,080,000 Retained Earnings of the Parent Only

[QUESTION]
REFER TO: 02-08
89. Under the acquisition method, what amount will be reported for consolidated retained earnings?
A) $1,065,000.
B) $1,080,000.
C) $1,525,000.
D) $1,535,000.
E) $1,560,000.
Answer: A
Learning Objective: 02-06a
Learning Objective: 02-06b
Learning Objective: 02-07
Topic: Costs of combination
Topic: Acquisition—Calculate consolidated balances
Topic: Consolidation worksheet
Difficulty: 2 Medium
Blooms: Apply
AACSB: Knowledge Application
AICPA: BB Critical Thinking
AICPA: FN Measurement
Feedback: $1,080,000 - $15,000 = $1,065,000

[QUESTION]
REFER TO: 02-08
90. What amount will be reported for consolidated additional paid-in capital?
A) $365,000.
B) $350,000.
C) $360,000.
D) $375,000.
E) $345,000.
Answer: B
Learning Objective: 02-05
Learning Objective: 02-06a
Learning Objective: 02-06b
Learning Objective: 02-06c
Learning Objective: 02-07
Topic: Acquisition—Calculate consideration transferred
Topic: Costs of combination
Topic: Acquisition—Calculate consolidated balances
Topic: Consolidation worksheet
Difficulty: 3 Hard
Blooms: Apply
AACSB: Knowledge Application
AICPA: BB Critical Thinking
AICPA: FN Measurement
Feedback: Flynn's APIC balance + Macek's APIC Adjustments
Flynn's APIC balance ($200,000) + Macek's APIC Adjustment ($150,000 from question 80) = $200,000 + $150,000 = $350,000

[QUESTION]
REFER TO: 02-08
91. What amount will be reported for consolidated cash after the acquisition is completed?
A) $475,000.
B) $500,000.
C) $555,000.
D) $580,000.
E) $875,000.
Answer: C
Learning Objective: 02-05
Learning Objective: 02-06a
Learning Objective: 02-06b
Learning Objective: 02-07
Topic: Acquisition—Calculate consideration transferred
Topic: Costs of combination
Topic: Acquisition—Calculate consolidated balances
Topic: Consolidation worksheet
Difficulty: 3 Hard
Blooms: Apply
AACSB: Knowledge Application
AICPA: BB Critical Thinking
AICPA: FN Measurement

Feedback: Flynn's Cash + Fair Value of Macek's Cash at Acquisition – (Business Combination Costs + Business Combination Expenses + Business Combination Consideration Paid) = $900,000 + $80,000 – ($15,000 + $10,000 + $400,000) = $980,000 – $425,000 = $555,000

Essay:

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

Answer: The appropriate term is *statutory merger*.
Learning Objective: 02-03
Topic: Business combination—Differentiate across forms
Difficulty: 2 Medium
Blooms: Remember
AACSB: Reflective Thinking
AICPA: BB Critical Thinking
AICPA: FN Measurement

[QUESTION]
93. How are stock issuance costs accounted for in an acquisition business combination?

Answer: Stock issuance costs reduce the balance in the acquirer's Additional Paid-In Capital in an acquisition business combination.
Learning Objective: 02-06b
Topic: Costs of combination
Difficulty: 2 Medium
Blooms: Remember
AACSB: Reflective Thinking
AICPA: BB Critical Thinking
AICPA: FN Measurement

[QUESTION]
94. What is the primary difference between recording an acquisition when the subsidiary is dissolved and when separate incorporation is maintained?

Answer: 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 consideration transferred as an investment.
Learning Objective: 02-03
Learning Objective: 02-06a
Learning Objective: 02-06c
Topic: Business combination—Differentiate across forms
Topic: Journal entry—Dissolution
Topic: Journal entry—Investment with no dissolution
Difficulty: 2 Medium
Blooms: Understand
AACSB: Reflective Thinking
AICPA: BB Critical Thinking
AICPA: FN Measurement

[QUESTION]
95. How are direct combination costs accounted for in an acquisition transaction?

Answer: In an acquisition, direct combination costs are expensed in the period of the acquisition.
Learning Objective: 02-06b
Topic: Costs of combination
Difficulty: 2 Medium
Blooms: Remember
AACSB: Reflective Thinking
AICPA: BB Critical Thinking
AICPA: FN Measurement

[QUESTION]
96. Peterman Co. owns 55% of Samson Co. Under what circumstances would Peterman ***not*** be required to prepare consolidated financial statements?

Answer: 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.
Learning Objective: 02-02
Topic: Business combination—Control–Need to consolidate
Difficulty: 2 Medium
Blooms: Understand
AACSB: Reflective Thinking
AACSB: Communication
AICPA: BB Critical Thinking
AICPA: FN Measurement

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

Answer: 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.
Learning Objective: 02-08
Topic: In-process research and development
Difficulty: 2 Medium
Blooms: Remember
AACSB: Reflective Thinking
AICPA: BB Critical Thinking
AICPA: FN Measurement

[QUESTION]
98. 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?

Answer: The difference between the consideration transferred and the fair value of the net assets

acquired is recognized as a gain on bargain purchase.
Learning Objective: 02-04
Topic: Acquisition—Valuation principles
Difficulty: 2 Medium
Blooms: Remember
AACSB: Reflective Thinking
AICPA: BB Critical Thinking
AICPA: FN Measurement

[QUESTION]
99. For acquisition accounting, why are assets and liabilities of the subsidiary consolidated at fair value?

Answer: 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.
Learning Objective: 02-04
Topic: Acquisition—Valuation principles
Difficulty: 2 Medium
Blooms: Understand
AACSB: Reflective Thinking
AACSB: Communication
AICPA: BB Critical Thinking
AICPA: FN Measurement

[QUESTION]
100. 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?

Answer: 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.
Learning Objective: 02-08
Topic: Intangibles acquired
Difficulty: 2 Medium
Blooms: Understand
AACSB: Reflective Thinking
AACSB: Communication
AICPA: BB Critical Thinking
AICPA: FN Measurement

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

Answer: 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.
Learning Objective: 02-04
Learning Objective: 02-05
Learning Objective: 02-06a
Learning Objective: 02-06b
Learning Objective: 02-06c
Topic: Contingent consideration
Topic: Acquisition—Valuation principles
Topic: Acquisition—Calculate goodwill or bargain
Topic: Costs of combination
Difficulty: 2 Medium
Blooms: Remember
AACSB: Reflective Thinking
AICPA: BB Critical Thinking
AICPA: FN Measurement

[QUESTION]
102. How is contingent consideration accounted for in an acquisition business combination transaction?

Answer: 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.
Learning Objective: 02-04
Topic: Contingent consideration
Difficulty: 2 Medium
Blooms: Remember
AACSB: Reflective Thinking
AICPA: BB Critical Thinking
AICPA: FN Measurement

[QUESTION]
103. How are bargain purchases accounted for in an acquisition business transaction?

Answer: 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.
Learning Objective: 02-04
Learning Objective: 02-05
Topic: Acquisition—Valuation principles
Topic: Acquisition—Calculate goodwill or bargain
Difficulty: 2 Medium
Blooms: Remember
AACSB: Reflective Thinking

AICPA: BB Critical Thinking
AICPA: FN Measurement

[QUESTION]
104. Describe the accounting for direct costs, indirect costs, and issuance costs under the acquisition method of accounting for a business combination.

Answer: 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.
Learning Objective: 02-06b
Topic: Costs of combination
Difficulty: 2 Medium
Blooms: Remember
AACSB: Reflective Thinking
AICPA: BB Critical Thinking
AICPA: FN Measurement

[QUESTION]
105. 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?

Answer: There is no difference in consolidated results.
Learning Objective: 02-06a
Learning Objective: 02-06c
Learning Objective: 02-07
Topic: Journal entry—Dissolution
Topic: Journal entry—Investment with no dissolution
Topic: Acquisition—Calculate consolidated balances
Difficulty: 1 Easy
Blooms: Remember
AACSB: Reflective Thinking
AICPA: BB Critical Thinking
AICPA: FN Measurement

Problems:

[QUESTION]
106. Bale Co. acquired Silo Inc. on December 31, 2018, 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 issuance costs to effect the combination.
Required:
What is consolidated net income for 2018?

Answer:

Bale’s net income for 2018	$1,400,000
Less: direct combination costs	100,000
Less: indirect combination costs	50,000
Consolidated net income for 2018	$1,250,000

Note: Silo's net income does not affect consolidated net income until after the date of acquisition. The combination costs belong to Bale only.
Learning Objective: 02-06b
Learning Objective: 02-06a
Learning Objective: 02-07
Topic: Costs of combination
Topic: Acquisition—Calculate consolidated balances
Difficulty: 2 Medium
Blooms: Apply
AACSB: Knowledge Application
AICPA: BB Critical Thinking
AICPA: FN Measurement

[QUESTION]
107. 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?

Answer:

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

Learning Objective: 02-05
Learning Objective: 02-06a
Learning Objective: 02-07
Topic: Acquisition—Allocate fair value
Topic: Acquisition—Calculate consolidated balances
Difficulty: 2 Medium
Blooms: Apply
AACSB: Knowledge Application
AICPA: BB Critical Thinking
AICPA: FN Measurement

[QUESTION]
108. Jernigan Corp. had the following account balances at 12/1/17:

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, 12/1/12	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 per share, but a $66 fair value per share. Stock issuance costs amounted to $12,000.

Required:

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

Answer:

Fair value consideration transferred by Inglewood (20,000 shares × $66)		$1,320,000
Fair value of Jernigan assets acquired and liabilities assumed		($1,236,000)
Excess of consideration transferred over net fair value of assets and liabilities		$ 84,000
Allocations to specific accounts based on the acquisition-date fair value		
Receivables	$ 96,000	
Inventory	336,000	
Land	480,000	
Building	720,000	
Liabilities	(396,000)	1,236,000
Goodwill		$ 84,000

Learning Objective: 02-05
Topic: Acquisition—Calculate goodwill or bargain
Difficulty: 2 Medium
Blooms: Apply
AACSB: Knowledge Application
AICPA: BB Critical Thinking
AICPA: FN Measurement

REFERENCE: 02-09
Salem Co. had the following account balances as of December 1, 2017:

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, 2017		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.

[QUESTION]
REFER TO: 02-09
109. Determine the balance for Goodwill that would be included in a December 1, 2017, consolidation.

Answer:

Fair value of consideration transferred:		
Cash	$1,700,000	
Stock issued	1,080,000	
Total consideration transferred:		$2,780,000
Fair value of assets acquired:		
Inventory	$ 720,000	
Land	600,000	
Buildings	1,200,000	
Total of Assets		($2,520,000)
Excess of consideration transferred over fair value of assets transferred:		$260,000
Allocations to specific accounts based on the acquisition-date fair value		
Inventory	$ 720,000	
Land	600,000	
Buildings	1,200,000	
Goodwill	260,000	

Learning Objective: 02-05
Learning Objective: 02-06a
Learning Objective: 02-07
Topic: Acquisition—Calculate goodwill or bargain
Difficulty: 2 Medium
Blooms: Apply
AACSB: Knowledge Application
AICPA: BB Critical Thinking
AICPA: FN Measurement

[QUESTION]

REFER TO: 02-09
110. 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, 2017 consolidation.

Answer:

Fair value of consideration transferred:		
Cash	$2,800,000	
Total consideration transferred:		$2,800,000
Fair value of assets acquired:		
Inventory	$ 720,000	
Land	600,000	
Buildings	1,200,000	
Total of Assets		($2,520,000)
Excess of consideration transferred over fair value of assets transferred:		$280,000
Allocations to specific accounts based on the acquisition-date fair value		
Inventory	$ 720,000	
Land	600,000	
Buildings	1,200,000	
Goodwill	280,000	

Learning Objective: 02-05
Learning Objective: 02-06a
Learning Objective: 02-06b
Learning Objective: 02-07
Topic: Acquisition—Calculate goodwill or bargain
Topic: Costs of combination
Difficulty: 2 Medium
Blooms: Apply
AACSB: Knowledge Application
AICPA: BB Critical Thinking
AICPA: FN Measurement

[QUESTION]
111. On January 1, 2018, 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, 2018, 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.

	Book Value	Fair Value
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, 1/1/18	(275,000)	

Required:
Compute the value of Goodwill on the date of acquisition, 1/1/18.

Answer:

Fair value of consideration transferred:		
Stock	$1,500,000	
Total consideration transferred:		$1,500,000
Fair value of assets acquired:		
Cash	$ 30,000	
Accounts Receivable	120,000	
Inventory	230,000	
Land	290,000	
Buildings	600,000	
Equipment	160,000	
Total fair value of assets acquired	$ 1,430,000	
Fair value of liabilities assumed:		
Accounts Payable	80,000	(80,000)
Net fair value of assets acquired and liabilities assumed		$ 1,350,000
Excess of consideration transferred over fair value of assets transferred:		$ 150,000

Allocations to specific accounts based on the acquisition-date fair value

Cash	$ 30,000
Accounts Receivable	120,000
Inventory	230,000
Land	290,000
Buildings	600,000
Equipment	160,000
Goodwill	150,000

Learning Objective: 02-05

Learning Objective: 02-06a
Learning Objective: 02-07
Topic: Acquisition—Calculate goodwill or bargain
Difficulty: 2 Medium
Blooms: Apply
AACSB: Knowledge Application
AICPA: BB Critical Thinking
AICPA: FN Measurement

REFERENCE: 02-10
The financial statements for Jode Inc. and Lakely Corp., just prior to their combination, for the year ending December 31, 2017, 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	$ 120,000	$ 210,000
Retained earnings, January 1, 2017	$ 700,000	$ 500,000
Net income (from above)	120,000	210,000
Dividends declared	(110,000)	(110,000)
Retained earnings, December 31, 2017	$ 710,000	$ 600,000
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	$ 1,800,000	$ 1,310,000
Liabilities	$ 250,000	$ 195,000
Common stock	750,000	430,000
Additional paid-in capital	90,000	85,000
Retained earnings, 12/31/17	710,000	600,000
Total liabilities and stockholders' equity	$ 1,800,000	$ 1,310,000

On December 31, 2017, 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 fair value 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.

[QUESTION]
REFER TO: 02-10
112. Prepare the journal entries to record: (1) the issuance of stock by Jode; and (2) the payment of the combination costs.

Answer:
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

Learning Objective: 02-06b
Learning Objective: 02-06c
Topic: Journal entry—Investment with no dissolution
Topic: Costs of combination
Difficulty: 2 Medium
Blooms: Apply
AACSB: Knowledge Application
AICPA: BB Critical Thinking
AICPA: FN Measurement

[QUESTION]
REFER TO: 02-10
113. *Required:*
Determine consolidated net income for the year ended December 31, 2017.

Answer:

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

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

Learning Objective: 02-07
Topic: Acquisition—Calculate consolidated balances
Topic: Consolidation worksheet
Difficulty: 2 Medium
Blooms: Apply
AACSB: Knowledge Application
AICPA: BB Critical Thinking
AICPA: FN Measurement

[QUESTION]
REFER TO: 02-10
114. Determine consolidated Additional Paid-In Capital at December 31, 2017.

Answer:

Consolidated Additional Paid-In Capital	
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	$1,416,000

Learning Objective: 02-06b
Learning Objective: 02-07
Topic: Costs of combination
Topic: Acquisition—Calculate consolidated balances
Topic: Consolidation worksheet
Difficulty: 2 Medium
Blooms: Apply
AACSB: Knowledge Application
AICPA: BB Critical Thinking
AICPA: FN Measurement

[QUESTION]
115. The following are preliminary financial statements for Black Co. and Blue Co. for the year ending December 31, 2018, prior to Black’s acquisition of Blue Co.

	Black Co.	Blue Co.
Sales	$360,000	$228,000
Expenses	(240,000)	(132,000)
Net income	$120,000	$ 96,000
Retained earning, January 1, 2018	$480,000	$252,000
Net income (from above)	120,000	96,000
Dividends paid	(36,000)	-0-
Retained earnings, December 31, 2018	$564,000	$348,000
Current assets	$360,000	$120,000
Land	120,000	108,000
Building (net)	480,000	336,000
Total assets	$960,000	$564,000
Liabilities	$108,000	$132,000
Common stock	192,000	72,000
Additional Paid-In Capital	96,000	12,000
Retained earnings, December 31, 2018	564,000	348,000
Total liabilities and stockholders’ equity	$960,000	$564,000

On December 31, 2018 (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 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, 2018.

Answer:
Bargain Purchase Acquisition Consolidation Worksheet

For the Year Ended 12/31/2018

Account	Black Company	Blue Company	Consolidation Entries Dr.	Consolidation Entries Cr.	Consolidated Balance
Income Statement					
Sales	(360,000)				(360,000)
Expenses	254,000				254,000
Bargain-Purchase—Gain	(28,000)				(28,000)
Net Income	(134,000)				(134,000)
Statement of Retained Earnings					
R/E, 1/1/18	(480,000)				(480,000)
Net Income	(134,000)				(134,000)
Dividends declared	36,000				36,000
R/E, 12/31/18	(578,000)				(578,000)
Balance Sheet					
Current assets	346,000	120,000			466,000
Investment in Blue Co.	528,000			**(S) 432,000** **(A) 96,000**	0
Land	120,000	108,000	**(A) 96,000**		324,000
Buildings (net)	480,000	336,000			816,000
Total Assets	1,474,000	564,000			1,606,000
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, 12/31/18	(578,000)	(348,000)	(S) 348,000		(578,000)
Total Liabilities & Stockholders' Equity	(1,474,000)	(564,000)	528,000	528,000	(1,606,000)

Calculation for Potential Goodwill:		
Consideration transferred by Black Co.	500,000	
Book value of Blue Co.	(432,000)	(Entry S)
Excess of Cost over Book Value	68,000	(Entry A)
Allocations:		
Land (204,000 - 108,000)	(96,000)	(Entry A)
– Bargain Purchase	(28,000)	(Entry A)

Entry to record the acquisition on Black Co's books		
Professional fee expense	14,000	
Investment in Blue Co.	528,000	
Common Stock - Black (10,000 × $10 Par)		100,000
Add'l Paid-in Capital - Black (10,000 × $40)		400,000
Cash (paid for direct acquisition costs)		14,000
Gain on Bargain Purchase		28,000

Entry S:		
Common Stock	72,000	
Additional Paid-in Capital	12,000	
Retained Earnings - 12/31/18	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	
Investment in Blue Co.		96,000

To eliminate Black Co's excess payment over book value from its investment account and reassign the excess to specific assets from the bargain purchase

Learning Objective: 02-05
Learning Objective: 02-06b
Learning Objective: 02-07
Topic: Acquisition—Calculate goodwill or bargain
Topic: Costs of combination
Topic: Consolidation worksheet
Difficulty: 3 Hard
Blooms: Apply
AACSB: Knowledge Application
AICPA: BB Critical Thinking
AICPA: FN Measurement

[QUESTION]
116. The following are preliminary financial statements for Green Co. and Gold Co. for the year ending December 31, 2018 prior to Black's acquisition of Blue.

	Green Co.	Gold Co.
Sales	$360,000	$228,000
Expenses	(240,000)	(132,000)
Net income	$120,000	$ 96,000

Retained earnings, January 1, 2018	$480,000	$252,000
Net income (from above)	120,000	96,000
Dividends declared	(36,000)	-0-
Retained earnings, December 31, 2018	$564,000	$348,000
Current assets	$360,000	$120,000
Land	120,000	108,000
Building (net)	480,000	336,000
Total assets	$960,000	$564,000
Liabilities	$108,000	$132,000
Common stock	192,000	72,000
Additional paid-in capital	96,000	12,000
Retained earnings, December 31, 2018	564,000	348,000
Total liabilities and stockholders' equity	$960,000	564,000

On December 31, 2018 (subsequent to the preceding statements), Green exchanged 10,000 shares of its $10 par value common stock for all of the outstanding shares of Gold. Green's stock on that date has a fair value of $60 per share. Green was willing to issue 10,000 shares of stock because Gold's land was appraised at $204,000. Green also paid $14,000 to 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, 2018 after the acquisition transaction is completed.

Answer:

Acquisition Consolidation Worksheet

For the Year Ended 12/31/2018

Account	Green Company	Gold Company	Consolidation Entries Dr.	Consolidation Entries Cr.	Consolidated Balance
Income Statement					
Sales	(360,000)				(360,000)
Expenses	254,000				254,000
Net Income	(106,000)				(106,000)
Statement of Retained Earnings					
R/E, 1/1/18	(480,000)				(480,000)
Net Income	(106,000)				(106,000)
Dividends declared	36,000				36,000
R/E, 12/31/18	(550,000)				(550,000)
Balance Sheet					
Current assets	346,000	120,000			466,000
Investment in Gold Co.	600,000			(S) 432,000 (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	1,546,000	564,000			1,678,000
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, 12/31/18	(550,000)	(348,000)	(S) 348,000		(550,000)
Total Liabilities & Stockholders' Equity	(1,546,000)	(564,000)	600,000	600,000	(1,678,000)

Calculation of Goodwill:

Consideration transferred by Green Co.	600,000	
Book value of Gold Co.	(432,000)	(Entry S)
Excess of consideration transferred over Book Value	168,000	(Entry A)
Allocations:		
Land (204,000 - 108,000)	(96,000)	(Entry A)
Excess cost not identified - Goodwill	72,000	(Entry A)

Green Co.'s entry to record acquisition:

Professional fee expense	14,000	
Investment in Gold Co.	600,000	
Common Stock - Green (10,000 × $10 Par)		100,000
Add'l Paid-in Capital - Green (10,000 × $50)		500,000
Cash (paid for direct acquisition costs)		14,000

Entry S:

Common Stock	72,000	
Additional Paid-in Capital	12,000	
Retained Earnings - 12/31/18	348,000	
Investment in Gold Co.		432,000

To eliminate Gold Co.'s stockholders' equity accounts and the book value of Gold Co.'s net assets from Green Co.'s investment account

Entry A:

Land	96,000	
Goodwill	72,000	
Investment in Gold Co.		168,000

To eliminate Green Co.'s excess payment over book value from its investment account and reassign the excess to specific assets and goodwill

Learning Objective: 02-05
Learning Objective: 02-06b
Learning Objective: 02-07
Topic: Acquisition—Calculate goodwill or bargain
Topic: Costs of combination
Topic: Consolidation worksheet
Difficulty: 3 Hard
Blooms: Apply
AACSB: Knowledge Application
AICPA: BB Critical Thinking
AICPA: FN Measurement

[QUESTION]
117.
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. Item (4) requires 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.

Answer: (1) I; (2) I; (3) G; (4) A, C; (5) H
Learning Objective: 02-04
Learning Objective: 02-05
Learning Objective: 02-06b
Learning Objective: 02-06c
Topic: Contingent consideration
Topic: Acquisition—Calculate goodwill or bargain
Topic: Costs of combination
Difficulty: 2 Medium
Blooms: Analyze
AACSB: Analytical Thinking
AICPA: BB Critical Thinking
AICPA: FN Measurement