


Pool Canvas

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Name Chapter 1--Business Combinations: New Rules for a Long-Standing Business Practice

Description

Instructions

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[◀ Add Question Here](#)

Question 1 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

Question An economic advantage of a business combination includes

- Answer**
- Utilizing duplicative assets.
 - Creating separate management teams.
 - Shared fixed costs.
 - Horizontally combining levels within the marketing chain.

Correct Feedback Business combinations may viewed as a way to take advantage of economies of scale by utilizing common facilities and sharing fixed costs.

Incorrect Feedback Business combinations may viewed as a way to take advantage of economies of scale by utilizing common facilities and sharing fixed costs.

[◀ Add Question Here](#)

Question 2 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

Question One large Midwestern bank's acquisition of another midwestern bank would be an example of a:

- Answer**
- market extension merger.
 - conglomerate merger.
 - product extension merger.
 - horizontal merger.

Correct Feedback A horizontal merger occurs when two companies offering similar products or services that are likely competitors in the same marketplace merge.

Incorrect Feedback A horizontal merger occurs when two companies offering similar products or services that are likely competitors in the same marketplace merge.

[◀ Add Question Here](#)

Question 3 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

Question A large nation-wide bank's acquisition of a major investment advisory firm would be an example of a:

- Answer**
- market extension merger.
 - conglomerate merger.
 - product extension merger.
 - horizontal merger.

Correct Feedback A product extension merger occurs when the acquiring company is expanding its product offerings in the market place in which it sells.

Incorrect Feedback A product extension merger occurs when the acquiring company is expanding its product offerings in the market place in which it sells.

[◀ Add Question Here](#)

Question 4 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

Question A building materials company's acquisition of a television station would be an example of a:

- Answer**
- market extension merger.
 - conglomerate merger.
 - product extension merger.
 - horizontal merger.

Correct Feedback Because these firms are in unrelated lines of business, this would be a conglomerate merger.

Incorrect Feedback Because these firms are in unrelated lines of business, this would be a conglomerate merger.

[◀ Add Question Here](#)

Question 5 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

Question A tax advantage of business combination can occur when the existing owner of a company sells out and receives:

- Answer**
- cash to defer the taxable gain as a "tax-free reorganization."
 - stock to defer the taxable gain as a "tax-free reorganization."
 - cash to create a taxable gain.
 - stock to create a taxable gain.

Correct Feedback If the owners of a business sell their interests for cash or accept debt instruments, they would have an immediate taxable gain. However, if they accept common stock of another corporation and the transaction is crafted as such, they may account for the transaction as a "tax-free reorganization." If this is the case, no taxes are paid until they sell the shares received in the transaction.

Incorrect Feedback If the owners of a business sell their interests for cash or accept debt instruments, they would have an immediate taxable gain. However, if they accept common stock of another corporation and the transaction is crafted as such, they may account for the transaction as a "tax-free reorganization." If this is the case, no taxes are paid until they sell the shares received in the transaction.

[◀ Add Question Here](#)

Question 6 **Multiple Choice** **0 points**

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Question A controlling interest in a company implies that the parent company

- Answer**
- owns all of the subsidiary's stock.
 - has acquired a majority of the subsidiary's common stock.
 - has paid cash for a majority of the subsidiary's stock.
 - has transferred common stock for a majority of the subsidiary's outstanding bonds and debentures.

Correct Feedback Typically, a controlling interest is over 50% of the company's voting stock.

Incorrect Feedback Typically, a controlling interest is over 50% of the company's voting stock.

[◀ Add Question Here](#)

Question 7 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

Question Some advantages of obtaining control by acquiring a controlling interest in stock include all **but**:

- Answer**
- Negotiations are made directly with the acquiree's management.
 - The legal liability of each corporation is limited to its own assets.
 - The cost may be lower since only a controlling interest in the assets, not the total assets, is acquired.
 - Tax advantages may result from preservation of the legal entities.

Correct Feedback If a company was acquiring a controlling interest in stock, the negotiations would be with the target company's stockholders.

Incorrect Feedback If a company was acquiring a controlling interest in stock, the negotiations would be with the target company's stockholders.

[◀ Add Question Here](#)

Question 8 **Multiple Choice** **0 points**

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Question A(n) _____ occurs when the management of the target company purchases a controlling interest in that company and the company incurs a significant amount of debt as a result.

- Answer**
- greenmail
 - statutory merger
 - poison pill
 - leveraged buyout

Correct Feedback A leveraged buyout is defensive move against an unfriendly takeover where management of the target company purchases a controlling interest in the company. Usually, a significant amount of debt is incurred.

Incorrect Feedback A leveraged buyout is defensive move against an unfriendly takeover where management of the target company purchases a controlling interest in the company. Usually, a significant amount of debt is incurred.

[◀ Add Question Here](#)

Question 9 **Multiple Choice** **0 points**

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Question Acquisition costs such as the fees of accountants and lawyers that were necessary to negotiate and consummate the purchase are

- Answer**
- recorded as a deferred asset and amortized over a period not to exceed 15 years
 - expensed if immaterial but capitalized and amortized if over 2% of the acquisition price
 - expensed in the period of the purchase
 - included as part of the price paid for the company purchased

Correct Feedback Direct costs of the acquisition, such as professional fees incurred to negotiate and consummate the purchase are expensed in the period of purchase. Costs related to the issuance of securities related to the purchase may be deducted from the value assigned to paid-in capital in excess of par.

Incorrect Feedback Direct costs of the acquisition, such as professional fees incurred to negotiate and consummate the purchase are expensed in the period of purchase. Costs related to the issuance of securities related to the purchase may be deducted from the value assigned to paid-in capital in excess of par.

[◀ Add Question Here](#)

Question 10 **Multiple Choice** **0 points**

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Question Which of the following costs of a business combination can be deducted from the value assigned to paid-in capital in excess of par?

- Answer**
- Direct and indirect acquisition costs.
 - Direct acquisition costs.
 - Direct acquisition costs and stock issue costs if stock is issued as consideration.
 - Stock issue costs if stock is issued as consideration.

Correct Feedback Stock issue costs can be deducted from the value assigned to paid-in capital in excess of par when stock is issued as consideration. All other direct and indirect acquisition costs are expensed.

Incorrect Feedback Stock issue costs can be deducted from the value assigned to paid-in capital in excess of par when stock is issued as consideration. All other direct and indirect acquisition costs are expensed.

[◀ Add Question Here](#)

Question 11 **Multiple Choice** **0 points**

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Question When determining the fair values of assets acquired in an acquisition, the highest level of measurement per GAAP is

- Answer**
- adjusted market value based on prices of similar assets.
 - unadjusted market values in an actively traded market.
 - based on discounted cash flows.
 - the entity's best estimate of an exit or sale value.

Correct Feedback FASB provides a hierarchy of values where the highest level measurement possible should be used. The level is as follows:

- Level 1 - Unadjusted quoted market values in an actively traded market.
- Level 2 - Adjusted market value based on prices of similar assets or on observable other inputs such as interest rates.
- Level 3 - Fair value based on unobservable inputs such as the entity's best estimate of an exit value.

Incorrect Feedback FASB provides a hierarchy of values where the highest level measurement possible should be used. The level is as follows:

- Level 1 - Unadjusted quoted market values in an actively traded market.
- Level 2 - Adjusted market value based on prices of similar assets or on observable other inputs such as interest rates.
- Level 3 - Fair value based on unobservable inputs such as the entity's best estimate of an exit value.

[◀ Add Question Here](#)

Question 12 **Multiple Choice** **0 points**

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Question Company B acquired the net assets of Company S in exchange for cash. The acquisition price exceeds the fair value of the net assets acquired. How should Company B determine the amounts to be reported for the plant and equipment, and for long-term debt of the acquired Company S?

	<u>Plant and Equipment</u>	<u>Long-Term Debt</u>
Answer		
	Fair value	S's carrying amount
	✓ Fair value	Fair value
	S's carrying amount	Fair value
	S's carrying amount	S's carrying amount

Correct Feedback All assets acquired and liabilities assumed in an acquisition should be recorded at fair value.

Incorrect Feedback All assets acquired and liabilities assumed in an acquisition should be recorded at fair value.

[Add Question Here](#)

Question 13 Multiple Choice

0 points

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Question Crystal Co. purchased all of the common stock of Sill Corp. on January 1 of the current year. Five years prior to the acquisition, Sill Corp. had issued 30-year bonds bearing an interest rate of 8%. At the time of the acquisition, the prevailing interest rate for similar bonds was 5%. These bonds should be included in the consolidated balance sheet at

- Answer**
- face value.
 - ✓ at a value higher than Sill's recorded value due to the change in interest rates.
 - at a value lower than Sill's recorded value due to the change in interest rates.
 - at Sill's recorded value.

Correct Feedback All assets acquired and liabilities assumed should be recorded at their fair values. A change in interest rates may result in a market value that is different than the recorded value of the bonds. Generally, when interest rates fall, prices on bonds with higher stated interest rates will increase as investors are generally willing to pay more for the higher rate of return.

Incorrect Feedback All assets acquired and liabilities assumed should be recorded at their fair values. A change in interest rates may result in a market value that is different than the recorded value of the bonds. Generally, when interest rates fall, prices on bonds with higher stated interest rates will increase as investors are generally willing to pay more for the higher rate of return.

[Add Question Here](#)

Question 14 Multiple Choice

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[Modify](#) [Remove](#)

Question ACME Co. paid \$110,000 for the net assets of Comb Corp. At the time of the acquisition the following information was available related to Comb's balance sheet:

	<u>Book Value</u>	<u>Fair Value</u>
Current Assets	\$50,000	\$ 50,000
Building	80,000	100,000
Equipment	40,000	50,000
Liabilities	30,000	30,000

What is the amount recorded by ACME for the Building?

- Answer**
- \$110,000
 - \$20,000
 - \$80,000
 - ✓ \$100,000

Correct Feedback Identifiable assets and liabilities of the acquiree are recorded at fair value.

Incorrect Feedback Identifiable assets and liabilities of the acquiree are recorded at fair value.

[Add Question Here](#)

Question 15 Multiple Choice

0 points

[Modify](#) [Remove](#)

Question ABC Co. is acquiring XYZ Inc. XYZ has the following intangible assets:

- Patent on a product that is deemed to have no useful life \$10,000.
- Customer list with an observable fair value of \$50,000.
- A 5-year operating lease with favorable terms having a discounted present value of \$8,000.
- Identifiable research and development costs of \$100,000.

ABC will record how much for acquired Intangible Assets from the purchase of XYZ Inc?

- Answer**
- \$168,000
 - \$58,000
 - ✓ \$158,000
 - \$150,000

Correct Feedback

	Amounts to be recorded
Patent	\$ -
Customer list	50,000
Favorable operating lease	8,000
Identifiable research and development costs	<u>100,000</u>
	<u>\$158,000</u>

Because the patent is on a product having no useful life, it has no value. It is appropriate to recognize the other intangibles in an acquisition.

Incorrect Feedback

	Amounts to be recorded
Patent	\$ -
Customer list	50,000
Favorable operating lease	8,000
Identifiable research and development costs	<u>100,000</u>
	<u>\$158,000</u>

Because the patent is on a product having no useful life, it has no value. It is appropriate to recognize the other intangibles in an acquisition.

[Add Question Here](#)

Question 16 Multiple Choice

0 points

[Modify](#) [Remove](#)

Question Which of the following would not be considered an identifiable intangible asset?

Answer Assembled workforce
 Customer lists
 Production backlog
 Internet domain name

Correct Feedback An assembled workforce is specifically stated by FASB as not qualifying as an identifiable intangible asset. Whatever value it has would be included in the value recorded for goodwill.

Incorrect Feedback An assembled workforce is specifically stated by FASB as not qualifying as an identifiable intangible asset. Whatever value it has would be included in the value recorded for goodwill.

[◀ Add Question Here](#)

Question 17 Multiple Choice

0 points

[Modify](#) | [Remove](#)

Question A contingent liability of an acquiree

Answer refers to future consideration due that is part of the acquisition agreement.
 is recorded when it is probable that future events will confirm its existence.
 may be recorded beyond the measurement period under certain circumstances.
 should be recorded even if the amount cannot be reasonably estimated.

Correct Feedback Two criteria must be met for an estimate of a contingent liability to be recorded: 1) information available indicates a liability had been incurred at the acquisition date, and 2) the amount of the liability can be reasonably estimated. Examples of a contingent liability might include pending claims, unfavorable lawsuits or environmental liabilities. Contingent liabilities should not be confused with contingent consideration that is part of the acquisition agreement.

Incorrect Feedback Two criteria must be met for an estimate of a contingent liability to be recorded: 1) information available indicates a liability had been incurred at the acquisition date, and 2) the amount of the liability can be reasonably estimated. Examples of a contingent liability might include pending claims, unfavorable lawsuits or environmental liabilities. Contingent liabilities should not be confused with contingent consideration that is part of the acquisition agreement.

[◀ Add Question Here](#)

Question 18 Multiple Choice

0 points

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Question Goodwill results when:

Answer a controlling interest is acquired.
 the price of the acquisition exceeds the sum of the fair values of the net identifiable assets acquired.
 the fair value of net assets acquired exceeds the acquisition price.
 the price of the acquisition exceeds the book value of an acquired company.

Correct Feedback If the acquisition price exceeds the sum of the fair value of the net identifiable assets acquired, the excess price is goodwill.

Incorrect Feedback If the acquisition price exceeds the sum of the fair value of the net identifiable assets acquired, the excess price is goodwill.

[◀ Add Question Here](#)

Question 19 Multiple Choice

0 points

[Modify](#) | [Remove](#)

Question Cozzi Company is being purchased and has the following balance sheet as of the purchase date:

Current assets	\$200,000	Liabilities	\$ 90,000
Fixed assets	<u>180,000</u>	Equity	<u>290,000</u>
Total	<u>\$380,000</u>	Total	<u>\$380,000</u>

The price paid for Cozzi's net assets is \$500,000. The fixed assets have a fair value of \$220,000, and the liabilities have a fair value of \$110,000. The amount of goodwill to be recorded in the purchase is:

Answer \$0
 \$150,000
 \$170,000
 \$190,000

Correct Feedback

Acquisition price		\$500,000
Fair value: Current assets	\$ 200,000	
Fixed assets	220,000	
Liabilities	<u>(110,000)</u>	<u>310,000</u>
Goodwill		<u>\$190,000</u>

Incorrect Feedback

Acquisition price		\$500,000
Fair value: Current assets	\$ 200,000	
Fixed assets	220,000	
Liabilities	<u>(110,000)</u>	<u>310,000</u>
Goodwill		<u>\$190,000</u>

[◀ Add Question Here](#)

Question 20 Multiple Choice

0 points

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Question Publics Company acquired the net assets of Citizen Company during 20X5. The purchase price was \$800,000. On the date of the transaction, Citizen had no long-term investments in marketable equity securities and \$400,000 in liabilities, of which the fair value approximated book value. The fair value of Citizen assets on the acquisition date was as follows:

Current assets	\$ 800,000
Noncurrent assets	<u>600,000</u>
	<u>\$1,400,000</u>

How should Publics account for the difference between the fair value of the net assets acquired and the acquisition price of \$800,000?

Answer Retained earnings should be reduced by \$200,000.
 A \$600,000 gain on acquisition of business should be recognized.
 A \$200,000 gain on acquisition of business should be recognized.
 A deferred credit of \$200,000 should be set up and subsequently amortized to future net income over a period not to exceed 40 years.

Correct Feedback

Fair value of total assets	\$1,400,000
Fair value of liabilities	<u>400,000</u>
Fair value of net assets	1,000,000
Acquisition price	<u>800,000</u>
Gain on acquisition of business	<u>\$ 200,000</u>

If the acquisition price exceeds the fair value of the identifiable net assets acquired, the price deficiency is a gain.

Incorrect Feedback	Fair value of total assets	\$1,400,000
	Fair value of liabilities	<u>400,000</u>
	Fair value of net assets	1,000,000
	Acquisition price	<u>800,000</u>
	Gain on acquisition of business	\$ <u>200,000</u>

If the acquisition price exceeds the fair value of the identifiable net assets acquired, the price deficiency is a gain.

[Add Question Here](#)

Question 21 **Multiple Choice**

0 points

[Modify](#) | [Remove](#)

Question ACME Co. paid \$110,000 for the net assets of Comb Corp. At the time of the acquisition the following information was available related to Comb's balance sheet:

	<u>Book Value</u>	<u>Fair Value</u>
Current Assets	\$50,000	\$ 50,000
Building	80,000	100,000
Equipment	40,000	50,000
Liabilities	30,000	30,000

What is the amount of goodwill or gain related to the acquisition?

- Answer**
- Goodwill of \$70,000
 - Goodwill of \$30,000
 - A gain of \$30,000
 - A gain of \$70,000

Correct Feedback

Acquisition price		\$110,000
Fair value of net assets acquired:		
Current assets	\$ 50,000	
Building	110,000	
Equipment	50,000	
Liabilities	<u>(30,000)</u>	<u>180,000</u>
Gain on acquisition of business		<u>\$(70,000)</u>

Incorrect Feedback

Acquisition price		\$110,000
Fair value of net assets acquired:		
Current assets	\$ 50,000	
Building	110,000	
Equipment	50,000	
Liabilities	<u>(30,000)</u>	<u>180,000</u>
Gain on acquisition of business		<u>\$(70,000)</u>

[Add Question Here](#)

Question 22 **Multiple Choice**

0 points

[Modify](#) | [Remove](#)

Question Jones company acquired Jackson Company for \$2,000,000 cash. At that time, the fair value of recorded assets and liabilities was \$1,500,000 and \$250,000, respectively. Jackson also had unrecorded copyrights valued at \$150,000 and its direct costs related to the acquisition were \$50,000. What was the amount of the goodwill related to the acquisition?

- Answer**
- \$600,000
 - \$650,000
 - \$550,000
 - \$700,000

Correct Feedback

Acquisition price		\$2,000,000
Fair value: Assets	\$1,500,000	
Copyrights	150,000	
Liabilities	<u>(250,000)</u>	<u>1,400,000</u>
Goodwill		<u>\$ 600,000</u>

Incorrect Feedback

Direct costs related to the acquisition are expensed in the period the acquisition is made.

Acquisition price		\$2,000,000
Fair value: Assets	\$1,500,000	
Copyrights	150,000	
Liabilities	<u>(250,000)</u>	<u>1,400,000</u>
Goodwill		<u>\$ 600,000</u>

Direct costs related to the acquisition are expensed in the period the acquisition is made.

[Add Question Here](#)

Question 23 **Multiple Choice**

0 points

[Modify](#) | [Remove](#)

Question Jones company acquired Jackson Company for \$2,000,000 cash. At that time, the fair value of recorded assets and liabilities was \$1,500,000 and \$250,000, respectively. Jackson also had in-process research and development projects valued at \$150,000 and its pension plan's projected benefit obligation exceeded the plan assets by \$50,000. What was the amount of the goodwill related to the acquisition?

- Answer**
- \$750,000
 - \$50,000
 - \$250,000
 - \$650,000

Correct Feedback

Acquisition price		\$2,000,000
Fair value: Assets	\$1,500,000	
Research and development	150,000	
Excess pension liability	<u>(50,000)</u>	
Liabilities	<u>(250,000)</u>	<u>1,350,000</u>
Goodwill		<u>\$ 650,000</u>

Incorrect Feedback

Acquisition price		\$2,000,000
Fair value: Assets	\$1,500,000	
Research and development	150,000	
Excess pension liability	<u>(50,000)</u>	
Liabilities	<u>(250,000)</u>	<u>1,350,000</u>
Goodwill		<u>\$ 650,000</u>

[Add Question Here](#)

Question 24 Multiple Choice

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Question Orbit Inc. purchased Planet Co. on January 1, 20X3. At that time an existing patent having a 5-year life was not recorded as a separately identified intangible asset. At the end of fiscal year 20X4, it is determined the patent is valued at \$20,000, and goodwill has a book value of \$100,000. How should intangible assets be reported at the beginning of fiscal year 20X5?

- Answer**
- Goodwill \$100,000 Patent \$0
 - Goodwill \$100,000 Patent \$20,000
 - Goodwill \$80,000 Patent \$20,000
 - Goodwill \$80,000 Patent \$16,000

Correct Feedback In no case may the measurement period exceed a year; therefore, goodwill will remain at its \$100,000 book value, and the patent will not be recorded.

Incorrect Feedback In no case may the measurement period exceed a year; therefore, goodwill will remain at its \$100,000 book value, and the patent will not be recorded.

[Add Question Here](#)

Question 25 Multiple Choice

0 points

[Modify](#) [Remove](#)

Question Orbit Inc. purchased Planet Co. on January 1, 20X3. At that time an existing patent having a 5-year estimated life was assigned a provisional value of \$10,000 and goodwill was assigned a value of \$100,000. By the end of fiscal year 20X3, better information was available that indicated the fair value of the patent was \$20,000. How should intangible assets be reported at the beginning of fiscal year 20X4?

- Answer**
- Goodwill \$100,000 Patent \$10,000
 - Goodwill \$90,000 Patent \$16,000
 - Goodwill \$84,000 Patent \$16,000
 - Goodwill \$90,000 Patent \$20,000

Correct Feedback Patent:

New estimate	\$ 20,000
Provisional value	<u>10,000</u>
Adjustment needed	\$ 10,000
Provisional goodwill	<u>100,000</u>
Adjusted goodwill	\$ <u>90,000</u>

Amortization of the patent in 20X3 based on the new estimate should be $\$20,000 / 5 = \$4,000$, so the book value of the patent at December 31, 20X3 would be \$16,000 ($\$20,000 - \$4,000$)

Incorrect Feedback Patent:

New estimate	\$ 20,000
Provisional value	<u>10,000</u>
Adjustment needed	\$ 10,000
Provisional goodwill	<u>100,000</u>
Adjusted goodwill	\$ <u>90,000</u>

Amortization of the patent in 20X3 based on the new estimate should be $\$20,000 / 5 = \$4,000$, so the book value of the patent at December 31, 20X3 would be \$16,000 ($\$20,000 - \$4,000$)

[Add Question Here](#)

Question 26 Multiple Choice

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Question Balter Inc. acquired Jersey Company on January 1, 20X5. When the purchase occurred Jersey Company had the following information related to fixed assets:

Land	\$ 80,000
Building	200,000
Accumulated Depreciation	(100,000)
Equipment	100,000
Accumulated Depreciation	(50,000)

The building has a 10-year remaining useful life and the equipment has a 5-year remaining useful life. The fair value of the assets on that date were:

Land	\$100,000
Building	130,000
Equipment	75,000

What is the 20X5 depreciation expense Balter will record related to purchasing Jersey Company?

- Answer**
- \$8,000
 - \$15,000
 - \$28,000
 - \$30,000

Correct Feedback

Building	Fair value - \$130,000 / 10 years	\$13,000
Equipment	Fair value - \$ 75,000 / 5 years	<u>15,000</u>
		\$28,000

Incorrect Feedback

Building	Fair value - \$130,000 / 10 years	\$13,000
Equipment	Fair value - \$ 75,000 / 5 years	<u>15,000</u>
		\$28,000

[Add Question Here](#)

Question 27 Multiple Choice

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Question Polk issues common stock to acquire all the assets of the Sam Company on January 1, 20X5. There is a contingent share agreement, which states that if the income of the Sam Division exceeds a certain level during 20X5 and 20X6, additional shares will be issued on January 1, 20X7. The impact of issuing the additional shares is to

- Answer**
- increase the price assigned to fixed assets.
 - have no effect on asset values, but to reassign the amounts assigned to equity accounts.
 - reduce retained earnings.
 - record additional goodwill.

Correct Feedback An agreement to issue added stock upon the occurrence of a future event is considered to be a change in the estimate of the value of shares issued. The only entry made is at the date of the added stock issue to reassign the original consideration assigned to the stock to a greater number of shares. This typically results in an entry to increase the Common Stock account and decrease Paid-in Capital in Excess of Par.

Incorrect Feedback An agreement to issue added stock upon the occurrence of a future event is considered to be a change in the estimate of the value of shares issued. The only entry made is at the date of the added stock issue to reassign the original consideration assigned to the stock to a greater number of shares. This typically results in an entry to increase the Common Stock account and decrease Paid-in Capital in Excess of Par.

[Add Question Here](#)

Question 28 Multiple Choice

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Question Jones company acquired Jackson Company for \$2,000,000 cash. At that time, the fair value of recorded assets and liabilities was \$1,500,000 and \$250,000, respectively. If Jackson meets specified sales targets, Jones is required to pay an additional \$200,000 in cash per the acquisition agreement. Jones estimates the probability of this to be 50%. The direct costs related to the acquisition were \$50,000. What was the amount of the goodwill related to the acquisition?

- Answer**
- \$900,000
 - \$950,000
 - \$850,000
 - \$750,000

Correct Feedback

Acquisition price: Cash at closing		\$2,000,000
Contingent consideration		<u>100,000</u>
		2,100,000
Fair value: Assets	\$1,500,000	
Liabilities	<u>(250,000)</u>	<u>1,250,000</u>
Goodwill		\$ <u>850,000</u>

Direct costs related to the acquisition are expensed in the period the acquisition is made.

Incorrect Feedback

Acquisition price: Cash at closing		\$2,000,000
Contingent consideration		<u>100,000</u>
		2,100,000
Fair value: Assets	\$1,500,000	
Liabilities	<u>(250,000)</u>	<u>1,250,000</u>
Goodwill		\$ <u>850,000</u>

Direct costs related to the acquisition are expensed in the period the acquisition is made.

[Add Question Here](#)

Question 29 Multiple Choice

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[Modify](#) [Remove](#)

Question ACME Co. paid \$110,000 for the net assets of Comb Corp. At the time of the acquisition the following information was available related to Comb's balance sheet:

	<u>Book Value</u>	<u>Fair Value</u>
Current Assets	\$50,000	\$ 50,000
Building	80,000	100,000
Equipment	40,000	50,000
Liabilities	30,000	30,000

What is the amount of gain or loss on disposal of business should Comb Corp. recognize?

- Answer**
- Gain of \$60,000
 - Gain of \$60,000
 - Loss of \$30,000
 - Loss of \$60,000

Correct Feedback

Acquisition price		\$110,000
Book values of net assets acquired:		
Current assets		\$ 50,000
Building		80,000
Equipment		40,000
Liabilities		<u>(30,000)</u>
Loss on sale of business		140,000
		\$(30,000)

Incorrect Feedback

Acquisition price		\$110,000
Book values of net assets acquired:		
Current assets		\$ 50,000
Building		80,000
Equipment		40,000
Liabilities		<u>(30,000)</u>
Loss on sale of business		140,000
		\$(30,000)

[Add Question Here](#)

Question 30 Multiple Choice

0 points

[Modify](#) [Remove](#)

Question Vibe Company purchased the net assets of Atlantic Company in a business combination accounted for as a purchase. As a result, goodwill was recorded. For tax purposes, this combination was considered to be a tax-free merger. Included in the assets is a building with an appraised value of \$210,000 on the date of the business combination. This asset had a net book value of \$70,000. The building had an adjusted tax basis to Atlantic (and to Vibe as a result of the merger) of \$120,000. Assuming a 40% income tax rate, at what amount should Vibe record this building on its books after the purchase?

	<u>Building</u>	<u>Deferred Tax Liability</u>
Answer	\$174,000	\$ 0
	\$140,000	\$36,000
	\$210,000	\$90,000
	<input checked="" type="checkbox"/> \$210,000	\$36,000

Correct Feedback

Fair value of building		\$210,000
Tax basis of building		<u>120,000</u>
Excess not deductible		90,000
Tax rate		<u>x 40%</u>
Deferred tax liability		\$ <u>36,000</u>

Incorrect Feedback

Fair value of building		\$210,000
Tax basis of building		<u>120,000</u>
Excess not deductible		90,000
Tax rate		<u>x 40%</u>
Deferred tax liability		\$ <u>36,000</u>

[Add Question Here](#)

Question 31 Multiple Choice

0 points

[Modify](#) [Remove](#)**Question** When an acquisition of another company occurs, FASB requires disclosing all of the following **except**:

- Answer**
- amounts recorded for each major class of assets and liabilities.
 - information concerning contingent consideration including a description of the arrangements and the range of outcomes.
 - ✓ results of operations for the current period if both companies had remained separate.
 - A qualitative description of factors that make up the goodwill recognized.

Correct Feedback FASB requires revenue and earnings of the acquiree since the acquisition date and proforma revenue and earnings had the acquisition occurred at the start of the accounting period, but does not require results of operations for the current period if both companies had remained separate.

Incorrect Feedback FASB requires revenue and earnings of the acquiree since the acquisition date and proforma revenue and earnings had the acquisition occurred at the start of the accounting period, but does not require results of operations for the current period if both companies had remained separate.

[Add Question Here](#)

Question 32 Multiple Choice

0 points

[Modify](#) [Remove](#)**Question** While performing a goodwill impairment test, the company had the following information:

Estimated implied fair value of reporting unit	\$420,000
Fair value of net assets on date of measurement (without goodwill)	\$400,000
Existing net book value of reporting unit (without goodwill)	\$380,000
Book value of goodwill	\$ 60,000

Based upon this information the proper conclusion is:

- Answer**
- The company should recognize a goodwill impairment loss of \$20,000.
 - Goodwill is not impaired.
 - ✓ The company should recognize a goodwill impairment loss of \$40,000.
 - The company should recognize a goodwill impairment loss of \$60,000.

Correct Feedback Impairment Test:

Estimated implied fair value of the reporting unit	\$420,000
Existing book values, including goodwill	440,000

Impairment is indicated since the book value of the unit exceeds the fair value.

Impairment Loss Calculation:

Estimated implied fair value of the reporting unit	\$420,000
Less: Fair value of net assets	<u>400,000</u>
Implied fair value of goodwill	20,000
Existing recorded goodwill	<u>60,000</u>
Estimated impairment loss	<u>\$ 40,000</u>

Incorrect Feedback Impairment Test:

Estimated implied fair value of the reporting unit	\$420,000
Existing book values, including goodwill	440,000

Impairment is indicated since the book value of the unit exceeds the fair value.

Impairment Loss Calculation:

Estimated implied fair value of the reporting unit	\$420,000
Less: Fair value of net assets	<u>400,000</u>
Implied fair value of goodwill	20,000
Existing recorded goodwill	<u>60,000</u>
Estimated impairment loss	<u>\$ 40,000</u>

[Add Question Here](#)

Question 33 Multiple Choice

0 points

[Modify](#) [Remove](#)**Question** In performing the impairment test for goodwill, the company had the following 20X6 and 20X7 information available.

	<u>20X6</u>	<u>20X7</u>
Fair value of the reporting unit	\$350,000	\$400,000
Net book value (including \$50,000 goodwill)	\$360,000	\$380,000

Assume that the carrying value of the identifiable assets are a reasonable approximation of their fair values. Based upon this information what are the 20X6 and 20X7 adjustment to goodwill, if any?

- | | <u>20X6</u> | <u>20X7</u> |
|---------------|-------------------|-------------------|
| Answer | no adjustment | \$20,000 decrease |
| | \$10,000 increase | \$20,000 decrease |
| | \$10,000 decrease | \$20,000 decrease |
| ✓ | \$10,000 decrease | no adjustment |

Correct Feedback Impairment Test 20X6:

Estimated implied fair value of the reporting unit	\$350,000
Existing book values, including goodwill	360,000

Impairment is indicated since the book value of the unit exceeds the fair value.

Impairment Loss Calculation:

Estimated implied fair value of the reporting unit	\$350,000
Less: Fair value of net assets (360,000 - 50,000)	<u>310,000</u>
Implied fair value of goodwill	40,000
Existing recorded goodwill	<u>50,000</u>
Estimated impairment loss	<u>\$ 10,000</u>

Impairment Test 20X7:

Estimated implied fair value of the reporting unit	\$400,000
--	-----------

	Existing book values, including goodwill	380,000
Incorrect Feedback	No impairment is indicated in 20X7.	
	Impairment Test 20X6:	
	Estimated implied fair value of the reporting unit	\$350,000
	Existing book values, including goodwill	360,000
	Impairment is indicated since the book value of the unit exceeds the fair value.	
	Impairment Loss Calculation:	
	Estimated implied fair value of the reporting unit	\$350,000
	Less: Fair value of net assets (360,000 - 50,000)	<u>310,000</u>
	Implied fair value of goodwill	40,000
	Existing recorded goodwill	<u>50,000</u>
	Estimated impairment loss	\$ <u>10,000</u>
	Impairment Test 20X7:	
	Estimated implied fair value of the reporting unit	\$400,000
	Existing book values, including goodwill	380,000
	No impairment is indicated in 20X7.	

[Add Question Here](#)**Question 34 Multiple Choice****0 points**[Modify](#) | [Remove](#)**Question** Which of the following income factors should **not** be considered in expected future income when estimating the value of goodwill?

- Answer**
- sales for the period
 - income tax expense
 - ✓ extraordinary items
 - cost of goods sold

Correct Feedback Because a forecast of future income may start by projecting recent years' incomes into the future, it is important to factor out "one-time" occurrences such as extraordinary items that will not likely recur in the near future.**Incorrect Feedback** Because a forecast of future income may start by projecting recent years' incomes into the future, it is important to factor out "one-time" occurrences such as extraordinary items that will not likely recur in the near future.[Add Question Here](#)**Question 35 Essay****0 points**[Modify](#) | [Remove](#)**Question** Internet Corporation is considering the acquisition of Homepage Corporation and has obtained the following audited condensed balance sheet:

		Homepage Corporation Balance Sheet December 31, 20X5		
		<u>Assets</u>	<u>Liabilities and Equity</u>	
Current assets		\$ 40,000	Current Liabilities	\$ 60,000
Land		20,000	Capital Stock (50,000 shares, \$1 par value)	50,000
Buildings (net)		80,000	Other Paid-in Capital	20,000
Equipment (net)		<u>60,000</u>	Retained Earnings	<u>70,000</u>
		<u>\$200,000</u>		<u>\$200,000</u>

Internet also acquired the following fair values for Homepage's assets and liabilities:

Current assets	\$ 55,000
Land	60,000
Buildings (net)	90,000
Equipment (net)	75,000
Current Liabilities	<u>(60,000)</u>
	<u>\$220,000</u>

Internet and Homepage agree on a price of \$280,000 for Homepage's net assets. Prepare the necessary journal entry to record the purchase given the following scenarios:

- Internet pays cash for Homepage Corporation and incurs \$5,000 of acquisition costs.
- Internet issues its \$5 par value stock as consideration. The fair value of the stock at the acquisition date is \$50 per share. Additionally, Internet incurs \$5,000 of security issuance costs.

Answer		Debit	Credit
a.	Current assets	55,000	
	Land	60,000	
	Buildings	90,000	
	Equipment	75,000	
	Goodwill (\$280,000 - \$220,000)	60,000	
	Acquisition expense	5,000	
	Current liabilities		60,000
	Cash		285,000
b.	Current assets	55,000	
	Land	60,000	
	Buildings	90,000	
	Equipment	75,000	
	Goodwill	60,000	
	Current liabilities		60,000
	Common stock		28,000
	Paid-in capital in excess of par		252,000
	Paid-in capital in excess of par *	5,000	
	Cash		5,000

*Alternatively, this amount could be charged to Acquisition Expense.

[Add Question Here](#)

Question 36 Essay

0 points

[Modify](#) [Remove](#)

Question On January 1, 20X5, Brown Inc. acquired Larson Company's net assets in exchange for Brown's common stock with a par value of \$100,000 and a fair value of \$800,000. Brown also paid \$10,000 in direct acquisition costs and \$15,000 in stock issuance costs.

On this date, Larson's condensed account balances showed the following:

	<u>Book Value</u>	<u>Fair Value</u>
Current Assets	\$280,000	\$370,000
Plant and Equipment	440,000	480,000
Accumulated Depreciation	(100,000)	
Intangibles – Patents	80,000	120,000
Current Liabilities	(140,000)	(140,000)
Long-Term Debt	(100,000)	(110,000)
Common Stock	(200,000)	
Other Paid-in Capital	(120,000)	
Retained Earnings	(140,000)	

Required:

Record Brown's purchase of Larson Company's net assets.

Answer	Acquisition price	\$800,000
	Fair value of acquired net assets:	
	Current assets	\$370,000
	Plant and equipment	480,000
	Intangibles - patents	120,000
	Current liabilities	(140,000)
	Long-term debt	(110,000)
	Goodwill	<u>720,000</u>
		<u>\$ 80,000</u>

	<u>Debit</u>	<u>Credit</u>
Current Assets	\$370,000	
Plant and Equipment	480,000	
Intangibles – Patents	120,000	
Intangibles – Goodwill	80,000	
Current Liabilities		\$140,000
Long-term Debt		110,000
Common Stock		100,000
Paid-in Capital in Excess of Par		700,000
Acquisition expenses*	25,000	
Cash		25,000

*alternative treatment: debit Paid-In Capital in Excess of Par for issue costs

[Add Question Here](#)

Question 37 Essay

0 points

[Modify](#) [Remove](#)

Question On January 1, 20X5, Zebb and Nottle Companies had condensed balance sheets as shown below:

	<u>Zebb Company</u>	<u>Nottle Company</u>
Current Assets	\$1,000,000	\$ 600,000
Plant and Equipment	1,500,000	800,000
	<u>\$2,500,000</u>	<u>\$1,400,000</u>
Current Liabilities	\$ 200,000	\$ 100,000
Long-Term Debt	300,000	300,000
Common Stock, \$10 par	1,400,000	400,000
Paid-in Capital in Excess of Par	0	100,000
Retained Earnings	600,000	500,000
	<u>\$2,500,000</u>	<u>\$1,400,000</u>

Required:

Record the acquisition of Nottle's net assets, the issuance of the stock and/or payment of cash, and payment of the related costs. Assume that Zebb issued 30,000 shares of new common stock with a fair value of \$25 per share and paid \$500,000 cash for all of the net assets of Nottle. Acquisition costs of \$50,000 and stock issuance costs of \$20,000 were paid in cash. Current assets had a fair value of \$650,000, plant and equipment had a fair value of \$900,000, and long-term debt had a fair value of \$330,000.

Answer	Current Assets	650,000	
	Plant and Equipment	900,000	
	Goodwill**	130,000	
	Acquisition Expenses*	70,000	
	Current Liabilities		100,000
	Long-Term Debt		330,000
	Common Stock		300,000
	Paid-in Capital in Excess of Par		450,000
	Cash (\$500,000 + 70,000)		570,000

*alternative treatment: debit Paid-in Capital in Excess of Par for issue costs

** Calculation of goodwill

Acquisition price:	
Cash	\$ 500,000
Common stock issued (30,000 shares x \$25)	<u>750,000</u>
	\$1,250,000

Fair value of acquired net assets:	
Current assets	\$650,000
Plant and equipment	900,000
Current liabilities	(100,000)
Long-term debt	(330,000)
Goodwill	<u>1,120,000</u>
	<u>\$ 130,000</u>

[Add Question Here](#)

Question 38 Essay

0 points

[Modify](#)[Remove](#)

Question On January 1, 20X1, Honey Bee Corporation purchased the net assets of Green Hornet Company for \$1,500,000. On this date, a condensed balance sheet for Green Hornet showed:

	Book Value	Fair Value
Current Assets	\$ 500,000	\$800,000
Long-Term Investments in Securities	200,000	150,000
Land	100,000	600,000
Buildings (net)	<u>700,000</u>	900,000
	<u>\$1,500,000</u>	
Current Liabilities	\$ 300,000	\$300,000
Long-Term Debt	550,000	600,000
Common Stock (no-par)	300,000	
Retained Earnings	<u>350,000</u>	
	<u>\$1,500,000</u>	

Required:

Record the entry on Honey Bee's books for the acquisition of Green Hornet's net assets.

Answer	Acquisition price	\$1,500,000
	Fair value of acquired net assets:	
	Current assets	\$800,000
	Long-term investments in securities	150,000
	Land	600,000
	Buildings	900,000
	Current liabilities	(300,000)
	Long-term debt	<u>(600,000)</u>
	Gain on acquisition of business	<u>1,550,000</u>
		<u>\$ 50,000</u>
	Current Assets	800,000
	Long-Term Investments in Securities	150,000
	Land	600,000
	Building	900,000
	Current Liabilities	300,000
	Long-Term Debt	600,000
	Gain on Acquisition of Business	50,000
	Cash	1,500,000

[Add Question Here](#)

Question 39 Essay

0 points

[Modify](#)[Remove](#)

Question Diamond acquired Heart's net assets. At the time of the acquisition Heart's Balance sheet was as follows:

Accounts Receivable	\$130,000
Inventory	70,000
Equipment, Net	50,000
Building, Net	250,000
Land	<u>100,000</u>
Total Assets	<u>\$600,000</u>
Bonds Payable	\$100,000
Common Stock	50,000
Retained Earnings	<u>450,000</u>
Total Liabilities and Stockholders' Equity	<u>\$600,000</u>

Fair values on the date of acquisition:

Inventory	\$100,000
Equipment	30,000
Building	350,000
Land	120,000
Brand Name	50,000
Bonds payable	120,000
Acquisition costs:	\$ 5,000

Required:

Record the entry for the purchase of the net assets of Heart by Diamond at the following cash prices:

- a. \$700,000
b. \$300,000

Answer	Fair value of acquired net assets:	
	Accounts receivable	\$130,000
	Inventory	100,000
	Equipment	30,000
	Buildings	350,000
	Land	120,000
	Brand name	50,000
	Bonds payable	<u>(120,000)</u>
	Total	<u>\$660,000</u>

a.	Accounts Receivable	130,000
	Inventory	100,000
	Equipment	30,000
	Building	350,000
	Land	120,000
	Brand Name	50,000
	Goodwill (\$700,000 - \$660,000)	40,000
	Acquisition Expenses	5,000

	Bonds Payable		100,000
	Premium on Bonds Payable		20,000
	Cash (\$700,000 + \$5,000)		705,000
b.	Accounts Receivable	130,000	
	Inventory	100,000	
	Equipment	30,000	
	Building	350,000	
	Land	120,000	
	Brand Name	50,000	
	Acquisition Expenses	5,000	
	Bonds Payable		100,000
	Premium on Bonds Payable		20,000
	Gain on Acquisition of Business (\$300,000 - \$660,000)		360,000
	Cash (\$300,000 + \$5,000)		305,000

[Add Question Here](#)**Question 40 Essay****0 points**[Modify](#) [Remove](#)

Question On January 1, July 1, and December 31, 20X5, a condensed trial balance for Nelson Company showed the following debits and (credits):

	<u>01/01/X5</u>	<u>07/01/X5</u>	<u>12/31/X5</u>
Current Assets	\$200,000	\$260,000	\$340,000
Plant and Equipment (net)	500,000	510,000	510,000
Current Liabilities	(50,000)	(70,000)	(60,000)
Long-Term Debt	(100,000)	(100,000)	(100,000)
Common Stock	(150,000)	(150,000)	(150,000)
Other Paid-in Capital	(100,000)	(100,000)	(100,000)
Retained Earnings, January 1	(300,000)	(300,000)	(300,000)
Dividends Declared			10,000
Revenues		(400,000)	(900,000)
Expenses		350,000	750,000

Assume that, on July 1, 20X5, Systems Corporation purchased the net assets of Nelson Company for \$750,000 in cash. On this date, the fair values for certain net assets were:

Current Assets	\$280,000
Plant and Equipment (remaining life of 10 years)	600,000

Nelson Company's books were NOT closed on June 30, 20X5.

For all of 20X5, Systems' revenues and expenses were \$1,500,000 and \$1,200,000, respectively.

Required:

(1) Record the entry on Systems' books for the July 1, 20X5 purchase of Nelson.

Answer	1.		<u>Debit</u>	<u>Credit</u>
		Current Assets	280,000	
		Plant and Equipment	600,000	
		Goodwill *	40,000	
		Current Liabilities		70,000
		Long-Term Debt		100,000
		Cash		750,000

* Goodwill is calculated as follows:

Acquisition price		\$750,000
Fair value of acquired net assets:		
Current assets	\$280,000	
Plant and equipment	600,000	
Current liabilities	(70,000)	
Long-term debt	(100,000)	
Goodwill		<u>710,000</u>
		<u>\$ 40,000</u>

[Add Question Here](#)**Question 41 Essay****0 points**[Modify](#) [Remove](#)

Question On January 1, 20X3 the fair values of Pink Coral's net assets were as follows:

Current Assets	100,000
Equipment	150,000
Land	50,000
Buildings	300,000
Liabilities	80,000

On January 1, 20X3, Blue Reef Company purchased the net assets of the Pink Coral Company by issuing 100,000 shares of its \$1 par value stock when the fair value of the stock was \$6.20. It was further agreed that Blue Reef would pay an additional amount on January 1, 20X5, if the average income during the 2-year period of 20X3-20X4 exceeded \$80,000 per year. The expected value of this consideration was calculated as \$184,000; the measurement period is one year. Blue Reef paid \$15,000 in professional fees to negotiate the purchase and construct the acquisition agreement and \$10,000 in stock issuance costs.

Required: Prepare Blue Reef's entries:

- on January 1, 20X3 to record the acquisition
- on August 1, 20X3 to revise the contingent consideration to \$170,000
- on January 1, 20X5 to settle the contingent consideration clause of the agreement for \$175,000

Answer	a.	Current Assets	100,000	
		Equipment	150,000	
		Land	50,000	
		Buildings	300,000	
		Goodwill *	284,000	
		Liabilities		80,000
		Estimated Liability for Contingent Consideration		184,000
		Common stock, \$1 Par (\$1 x 100,000 shares)		100,000
		Paid-in Capital in Excess of Par (\$620,000 - \$100,000)		520,000
		Acquisition Expense	15,000	

Paid-in Capital in Excess of Par **	10,000	
Cash		25,000
** Alternatively, this amount could be charged to acquisition expense.		
* Goodwill is calculated as follows:		
Acquisition price:		
Fair value of common stock issued (\$6.20 x 100,000 shares)		\$620,000
Contingent consideration		<u>184,000</u>
		804,000
Fair value of acquired net assets:		
Current assets	\$100,000	
Equipment	150,000	
Land	50,000	
Buildings	300,000	
Liabilities	<u>(80,000)</u>	<u>520,000</u>
Goodwill		\$ <u>284,000</u>
b. Estimated Liability for Contingent Consideration	14,000	
Goodwill		14,000
The adjustment is made to goodwill since this entry was made within the measurement period.		
c. Estimated Liability for Contingent Consideration	170,000	
Loss on Estimated Contingent Consideration	5,000	
Cash		175,000

[Add Question Here](#)**Question 42 Essay****0 points**[Modify](#) | [Remove](#)

Question The Blue Reef Company purchased the net assets of the Pink Coral Company on January 1, 20X1, and made the following entry to record the purchase:

Current Assets	100,000	
Equipment	150,000	
Land	50,000	
Buildings	300,000	
Goodwill	100,000	
Liabilities		80,000
Common Stock, \$1 Par		100,000
Paid-in Capital in Excess of Par		520,000

Required:

Make the required entry on January 1, 20X3, assuming that additional shares would be issued on that date to compensate for any fall in the value of Blue Reef common stock below \$16 per share. The settlement would be to cure the deficiency by issuing added shares based on their fair value on January 1, 20X3. The fair price of the shares on January 1, 20X3 was \$10.

Answer	Paid-in Capital in Excess of Par	60,000	
	Common Stock, \$1 par		60,000
	Deficiency: $(\$16 - \$10) \times 100,000$ shares issued to acquire		\$600,000
	Divide by \$10 fair value		$\div \$10.00$
	Added number of shares to issue		60,000

[Add Question Here](#)**Question 43 Essay****0 points**[Modify](#) | [Remove](#)

Question Poplar Corp. acquires the net assets of Sapling Company, which has the following balance sheet:

Accounts Receivable	\$ 50,000
Inventory	80,000
Equipment, Net	50,000
Land & Building, Net	<u>120,000</u>
Total Assets	<u>\$300,000</u>
Bonds Payable	\$ 90,000
Common Stock	100,000
Retained Earnings	<u>110,000</u>
Total Liabilities and Stockholders' Equity	<u>\$300,000</u>

Fair values on the date of acquisition:

Accounts receivable	\$ 50,000
Inventory	100,000
Equipment	30,000
Land and building	180,000
Customer list	30,000
Bonds payable	100,000

Acquisition costs: \$ 10,000

If Poplar paid \$300,000 what journal entries would be recorded by both Poplar Corp. and Sapling Company?

Answer	Poplar Corp:	
	Accounts Receivable	50,000
	Inventory	100,000
	Equipment	30,000
	Land & Building	180,000
	Customer List	30,000
	Goodwill (\$300,000 - \$290,000)	10,000
	Acquisition Expenses	10,000
	Bonds Payable	90,000
	Premium on Bonds Payable	10,000
	Cash (\$300,000 + \$10,000)	310,000

Fair value of acquired net assets:		
Accounts receivable	\$ 50,000	
Inventory	100,000	
Equipment	30,000	
Land and building	180,000	
Customer list	30,000	
Liabilities	(100,000)	
	<u>\$290,000</u>	
Sapling Company:		
Cash	300,000	
Bonds Payable	90,000	
Accounts Receivable		50,000
Inventory		80,000
Equipment		50,000
Land and Building		120,000
Gain on Sale of Business (\$300,000 - \$100,000 - \$110,000)		90,000

[Add Question Here](#)Question 44 **Essay****0 points**[Modify](#) [Remove](#)

Question The Chan Corporation purchased the net assets (existing liabilities were assumed) of the Don Company for \$900,000 cash. The balance sheet for the Don Company on the date of acquisition showed the following:

	<u>Assets</u>	
Current assets		\$100,000
Equipment		300,000
Accumulated depreciation		(100,000)
Plant		600,000
Accumulated depreciation		(250,000)
Total		<u>\$650,000</u>
	<u>Liabilities and Equity</u>	
Bonds payable, 8%		\$200,000
Common stock, \$1 par		100,000
Paid-in capital in excess of par		200,000
Retained earnings		150,000
Total		<u>\$650,000</u>

Required:

The equipment has a fair value of \$300,000, and the plant assets have a fair value of \$500,000. Assume that the Chan Corporation has an effective tax rate of 40%. Prepare the entry to record the purchase of the Don Company for each of the following separate cases with specific added information:

- The sale is a nontaxable exchange to the seller that limits the buyer to depreciation and amortization on only book value for tax purposes.
- The bonds have a current fair value of \$190,000. The transaction is a taxable exchange.
- There are \$100,000 of prior-year losses that can be used to claim a tax refund. The transaction is a taxable exchange.
- There are \$150,000 of past losses that can be carried forward to future years to offset taxes that will be due. The transaction is a taxable exchange.

Answer	a.	Current Assets	100,000	
		Equipment	300,000	
		Plant	500,000	
		Goodwill	300,000	
		Deferred Tax Liability*		100,000
		Bonds Payable		200,000
		Cash		900,000
		* 40% × (\$800,000 Fair Value – \$550,000 Book Value of fixed assets)		
	b.	Current Assets	100,000	
		Equipment	300,000	
		Plant	500,000	
		Goodwill	190,000	
		Bonds Payable		190,000
		Cash		900,000
	c.	Current Assets	100,000	
		Equipment	300,000	
		Plant	500,000	
		Tax Refund Receivable (\$100,000 × 40%)	40,000	
		Goodwill	160,000	
		Bonds Payable		200,000
		Cash		900,000
	d.	Current Assets	100,000	
		Equipment	300,000	
		Plant	500,000	
		Deferred Tax Asset (\$150,000 × 40%)	60,000	
		Goodwill	140,000	
		Bonds Payable		200,000
		Cash		900,000

[Add Question Here](#)Question 45 **Essay****0 points**[Modify](#) [Remove](#)

Question While acquisitions are often friendly, there are numerous occasions when a party does not want to be acquired. Discuss possible defensive strategies that firms can implement to fend off a hostile takeover attempt.

Answer GREENMAIL: A strategy is which the target company pays a premium price to purchase treasury shares. The shares purchased are owned by the hostile acquirer or shareholders who might sell to the hostile acquirer.

WHITE KNIGHT: A strategy in which the target company locates a different company to take it over, a company that is more likely to keep current management and employees in place.

SELLING THE CROWN JEWELS: A strategy in which the target company sells off vital assets in order to make the company less attractive to prospective acquirers.

POISON PILL: A strategy in which the target company issues stock rights to existing shareholders at a price far below fair value. The rights are only exercisable if an acquirer makes a bid for the target company. The resulting new shares make the acquisition more expensive.

LEVERAGED BUYOUT: A strategy in which the management of the target company attempts to purchase a controlling interest in the target company, in order to continue control of the company.

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Question 46 **Essay**

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Question Goodwill is an intangible asset. There are a variety of recommendations about how intangible assets should be included in the financial statements. Discuss the recommendations for proper disclosure of goodwill. Include a comparison with disclosure of other intangible assets.

Answer Goodwill arises when a company is purchased and the value assigned to identifiable assets, including intangible assets, is in excess of the price paid. As such goodwill represents the value of intangible assets that could not be valued individually.

During a purchase some intangible assets such as patents, customer lists, brand names, and favorable lease agreements may exist but have not been recorded. The fair value of these intangible assets should be determined and recorded separate from the value of goodwill associated with the purchase.

Intangible assets other than goodwill will be amortized over their economic lives. The amortization method should reflect the pattern of benefits conveyed by the asset, so that a straight-line method is to be used unless another systematic method is appropriate.

Intangible assets may be reported individually, in groups, or in the aggregate on the balance sheet after fixed assets and are displayed net of cumulative amortization. Details for current and cumulative amortization, along with significant residual values, are shown in the footnotes to the balance sheet.

Goodwill is subject to impairment procedures. These concerns must be addressed related to goodwill:

1. Goodwill must be allocated to reporting units if the purchased company contains more than one reporting unit.
2. A reporting unit valuation plan must be established within one year of a purchase. This will be used as the measurement process in future periods.
3. Impairment testing is normally done on an annual basis.
4. The procedure for determining impairment must be established.
5. The procedure for determining the amount of the impairment loss, which is also the decrease in the goodwill amount recorded, must be established.

Goodwill is considered impaired when the implied fair value of reporting unit is less than the carrying value of the reporting unit's net assets. Once goodwill is written down, it cannot be adjusted to a higher amount.

Changes to goodwill must be disclosed. The disclosure would include the amount of goodwill acquired, the goodwill impairment losses, and the goodwill written off as part of a disposal of a reporting unit.

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