Advanced Accounting 7th edition Jeter Test Bank

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Package Title: Test Bank Questions
Course Title: Advanced Accounting, 6e
Chapter Number: 2

Question Type: Multiple Choice

1) SFAS 141R requires that all business combinations be accounted for using:

a) the pooling of interests method.
b) the acquisition method.
c) either the acquisition or the pooling of interests methods.
d) neither the acquisition nor the pooling of interests methods.

Answer: b

Question Title: Test Bank (Multiple Choice) Question 01
Difficulty: Easy
Learning Objective: 1 Describe the major changes in the accounting for business combinations passed by the FASB in December 2007, and the reasons for those changes.
Section Reference: 2.1

2) Under the acquisition method, if the fair values of identifiable net assets exceed the value implied by the purchase price of the acquired company, the excess should be:

a) accounted for as goodwill.
b) allocated to reduce current and long-lived assets.
c) allocated to reduce current assets and classify any remainder as an extraordinary gain.
d) allocated to reduce any previously recorded goodwill on the seller's books and classify any remainder as an ordinary gain.

Answer: d

Question Title: Test Bank (Multiple Choice) Question 02
Difficulty: Easy
Learning Objective: 6 Describe the valuation of assets, including goodwill, and liabilities acquired in a business combination accounted for by the acquisition method.
Section Reference: 2.3

3) In a period in which an impairment loss occurs, SFAS No. 142 requires each of the following note disclosures EXCEPT:

a) a description of the facts and circumstances leading to the impairment.

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b) the amount of goodwill by reporting segment.
c) the method of determining the fair value of the reporting unit.
d) the amounts of any adjustments made to impairment estimates from earlier periods, if significant.

Answer: b

Question Title: Test Bank (Multiple Choice) Question 03
Difficulty: Easy
Learning Objective: 3 Discuss the goodwill impairment test, including its frequency, the steps laid out in the new standard, and some of the implementation problems.
Section Reference: 2.1

4) Once a reporting unit is determined to have a fair value below its carrying value, the goodwill impairment loss is computed by comparing the:

a) fair value of the reporting unit and the fair value of the identifiable net assets.
b) carrying value of the goodwill to its implied fair value.
c) fair value of the reporting unit to its carrying amount (goodwill included).
d) carrying value of the reporting unit to the fair value of the identifiable net assets.

Answer: b

Question Title: Test Bank (Multiple Choice) Question 04
Difficulty: Medium
Learning Objective: 3 Discuss the goodwill impairment test, including its frequency, the steps laid out in the new standard, and some of the implementation problems.
Section Reference: 2.1

5) SFAS 141R requires that the acquirer disclose each of the following for each material business combination EXCEPT the:

a) name and a description of the acquiree acquired.
b) percentage of voting equity instruments acquired.
c) fair value of the consideration transferred.
d) each of the above is a required disclosure

Answer: d

Question Title: Test Bank (Multiple Choice) Question 05
Difficulty: Easy
Learning Objective: 9 Describe the disclosure requirements according to current GAAP related to each business combination that takes place during a given year.
Section Reference: 2.1

6) In a leveraged buyout, the portion of the net assets of the new corporation provided by the management group is recorded at:

a) appraisal value.
b) book value.
c) fair value.
d) lower of cost or market.

Answer: b

Question Title: Test Bank (Multiple Choice) Question 06
Difficulty: Medium
Learning Objective: 8 Describe a leveraged buyout.
Section Reference: 2.6

7) When the acquisition price of an acquired firm is less than the fair value of the identifiable net assets, all of the following are recorded at fair value EXCEPT:

a) Assumed liabilities.
b) Current assets.
c) Long-lived assets.
d) Each of these is recorded at fair value.

Answer: d

Question Title: Test Bank (Multiple Choice) Question 07
Difficulty: Easy
Learning Objective: 6 Describe the valuation of assets, including goodwill, and liabilities acquired in a business combination accounted for by the acquisition method.
Section Reference: 2.3

8) Under SFAS 141R:

a) both direct and indirect costs are to be capitalized.
b) both direct and indirect costs are to be expensed.
c) direct costs are to be capitalized and indirect costs are to be expensed.
d) indirect costs are to be capitalized and direct costs are to be expensed.

Answer: b

Question Title: Test Bank (Multiple Choice) Question 08
Difficulty: Easy

Learning Objective: 4 Explain how acquisition expenses are reported.
Section Reference: 2.1

9) A business combination is accounted for properly as an acquisition. Which of the following expenses related to effecting the business combination should enter into the determination of net income of the combined corporation for the period in which the expenses are incurred?

a) Security issue cost, yes; overhead allocated merger, yes
b) Security issue cost, yes; overhead allocated merger, no
c) Security issue cost, no; overhead allocated merger, yes
d) Security issue cost, no; overhead allocated merger, no

Answer: c

Question Title: Test Bank (Multiple Choice) Question 09
Difficulty: Medium
Learning Objective: 4 Explain how acquisition expenses are reported.
Section Reference: 2.1

10) In a business combination, which of the following costs are assigned to the valuation of the security?

a) Professional or Security, yes; Consulting fees issued cost, yes
b) Professional or Security, yes; Consulting fees issued cost, no
c) Professional or Security, no; Consulting fees issued cost, yes
d) Professional or Security, no; Consulting fees issued cost, no

Answer: c

Question Title: Test Bank (Multiple Choice) Question 10
Difficulty: Medium
Learning Objective: 4 Explain how acquisition expenses are reported.
Section Reference: 2.1

11) Parental Company and Sub Company were combined in an acquisition transaction. Parental was able to acquire Sub at a bargain price. The sum of the fair values of identifiable assets acquired less the fair value of liabilities assumed exceeded the cost to Parental. After eliminating previously recorded goodwill, there was still some "negative goodwill." Proper accounting treatment by Parental is to report the amount as:

a) paid-in capital.
b) a deferred credit, which is amortized.
c) an ordinary gain.

d) an extraordinary gain.

Answer: c

Question Title: Test Bank (Multiple Choice) Question 11
Difficulty: Easy
Learning Objective: 6 Describe the valuation of assets, including goodwill, and liabilities acquired in a business combination accounted for by the acquisition method.
Section Reference: 2.3

12) With an acquisition, direct and indirect expenses are:

a) expensed in the period incurred.
b) capitalized and amortized over a discretionary period.
c) considered a part of the total cost of the acquired company.
d) charged to retained earnings when incurred.

Answer: a

Question Title: Test Bank (Multiple Choice) Question 12
Difficulty: Easy
Learning Objective: 6 Describe the valuation of assets, including goodwill, and liabilities acquired in a business combination accounted for by the acquisition method.
Section Reference: 2.1

13) In a business combination accounted for as an acquisition, how should the excess of fair value of net assets acquired over the consideration paid be treated?

a) Amortized as a credit to income over a period not to exceed forty years.
b) Amortized as a charge to expense over a period not to exceed forty years.
c) Amortized directly to retained earnings over a period not to exceed forty years.
d) Recorded as an ordinary gain.

Answer: d

Question Title: Test Bank (Multiple Choice) Question 13
Difficulty: Easy
Learning Objective: 6 Describe the valuation of assets, including goodwill, and liabilities acquired in a business combination accounted for by the acquisition method.
Section Reference: 2.1

14) P Corporation issued 10,000 shares of common stock with a fair value of $25 per share for all the outstanding common stock of S Company in a business combination properly accounted for as an acquisition. The fair value of S Company's net assets on that date was $220,000. P Company also agreed to issue an additional 2,000 shares of common stock with a fair value of $50,000 to the former stockholders of S Company as an earnings contingency. Assuming that the contingency is expected to be met, the $50,000 fair value of the additional shares to be issued should be treated as a(n):

a) decrease in noncurrent liabilities of S Company that were assumed by P Company.
b) decrease in consolidated retained earnings.
c) increase in consolidated goodwill.
d) decrease in consolidated other contributed capital.

Answer: c

Question Title: Test Bank (Multiple Choice) Question 14
Difficulty: Medium
Learning Objective: 7 Explain how contingent consideration affects the valuation of assets acquired in a business combination accounted for by the acquisition method.
Section Reference: 2.5

15) On February 5, Pryor Corporation paid $1,600,000 for all the issued and outstanding common stock of Shaw, Inc., in a transaction properly accounted for as an acquisition. The book values and fair values of Shaw's assets and liabilities on February 5 were as follows:

	Book Value	**Fair Value**
Cash	$ 160,000	$160,000
Receivables (net)	180,000	180,000
Inventory	315,000	300,000
Plant and equipment (net)	820,000	920,000
Liabilities	(350,000)	(350,000)
Net assets	$1,125,000	$1,210,000

What is the amount of goodwill resulting from the business combination?

a) $-0-.
b) $475,000.
c) $85,000.
d) $390,000.

Answer: d

Question Title: Test Bank (Multiple Choice) Question 15

Difficulty: Easy
Learning Objective: 6 Describe the valuation of assets, including goodwill, and liabilities acquired in a business combination accounted for by the acquisition method.
Section Reference: 2.3

16) P Company purchased the net assets of S Company for $225,000. On the date of P's purchase, S Company had no investments in marketable securities and $30,000 (book and fair value) of liabilities. The fair values of S Company's assets, when acquired, were:

Current assets	$120,000
Noncurrent assets	180,000
Total	$300,000

How should the $45,000 difference between the fair value of the net assets acquired ($270,000) and the consideration paid ($225,000) be accounted for by P Company?

a) The noncurrent assets should be recorded at $ 135,000.
b) The $45,000 difference should be credited to retained earnings.
c) The current assets should be recorded at $102,000, and the noncurrent assets should be recorded at $153,000.
d) An ordinary gain of $45,000 should be recorded.

Answer: d

Question Title: Test Bank (Multiple Choice) Question 16
Difficulty: Easy
Learning Objective: 6 Describe the valuation of assets, including goodwill, and liabilities acquired in a business combination accounted for by the acquisition method.
Section Reference: 2.3

17) If the value implied by the purchase price of an acquired company exceeds the fair values of identifiable net assets, the excess should be:

a) allocated to reduce any previously recorded goodwill and classify any remainder as an ordinary gain.
b) recognized as ordinary gain or loss.
c) allocated to reduce long-lived assets.
d) accounted for as goodwill.

Answer: d

Question Title: Test Bank (Multiple Choice) Question 17
Difficulty: Easy

Learning Objective: 6 Describe the valuation of assets, including goodwill, and liabilities acquired in a business combination accounted for by the acquisition method.
Section Reference: 2.3

18) P Co. issued 5,000 shares of its common stock, valued at $200,000, to the former shareholders of S Company two years after S Company was acquired in an all-stock transaction. The additional shares were issued because P Company agreed to issue additional shares of common stock if the average post combination earnings over the next two years exceeded $500,000. P Company will treat the issuance of the additional shares as a (decrease in):

a) consolidated retained earnings.
b) consolidated goodwill.
c) consolidated paid-in capital.
d) non-current liabilities of S Company assumed by P Company.

Answer: c

Question Title: Test Bank (Multiple Choice) Question 18
Difficulty: Medium
Learning Objective: 7 Explain how contingent consideration affects the valuation of assets acquired in a business combination accounted for by the acquisition method.
Section Reference: 2.5

19) The fair value of assets and liabilities of the acquired entity is to be reflected in the financial statements of the combined entity. When the acquisition takes place over a period of time rather than all at once, at what time is the fair value of the assets and liabilities of the acquired entity determined under SFAS 141R?

a) the date the interest in the acquiree was acquired.
b) the date the acquirer obtains control of the acquiree
c) the date of acquisition of the largest portion of the interest in the acquiree.
d) the date of the financial statements.

Answer: b

Question Title: Test Bank (Multiple Choice) Question 19
Difficulty: Medium
Learning Objective: 1 Describe the major changes in the accounting for business combinations passed by the FASB in December 2007, and the reasons for those changes.
Section Reference: 2.1

20) The first step in determining goodwill impairment involves comparing the:

a) implied value of a reporting unit to its carrying amount (goodwill excluded).
b) fair value of a reporting unit to its carrying amount (goodwill excluded).
c) implied value of a reporting unit to its carrying amount (goodwill included).
d) fair value of a reporting unit to its carrying amount (goodwill included).

Answer: d

Question Title: Test Bank (Multiple Choice) Question 20
Difficulty: Medium
Learning Objective: 3 Discuss the goodwill impairment test, including its frequency, the steps laid out in the new standard, and some of the implementation problems.
Section Reference: 2.1

21) If an impairment loss is recorded on previously recognized goodwill due to the transitional goodwill impairment test, the loss should be treated as a(n):

a) loss from a change in accounting principles.
b) extraordinary loss
c) loss from continuing operations.
d) loss from discontinuing operations.

Answer: a

Question Title: Test Bank (Multiple Choice) Question 21
Difficulty: Hard
Learning Objective: 3 Discuss the goodwill impairment test, including its frequency, the steps laid out in the new standard, and some of the implementation problems.
Section Reference: 2.1

22) P Company acquires all of the voting stock of S Company for $930,000 cash. The book values of S Company's assets are $800,000, but the fair values are $840,000 because land has a fair value above its book value. Goodwill from the combination is computed as:

a) $130,000.
b) $90,000.
c) $40,000.
d) $0.

Answer: b

Question Title: Test Bank (Multiple Choice) Question 22
Difficulty: Easy
Learning Objective: 6 Describe the valuation of assets, including goodwill, and liabilities acquired in a business combination accounted for by the acquisition method.

Section Reference: 2.1

23) Under SFAS 141R, what value of the assets and liabilities is reflected in the financial statements on the acquisition date of a business combination?

a) Carrying value
b) Fair value
c) Book value
d) Average value

Answer: b

Question Title: Test Bank (Multiple Choice) Question 23
Difficulty: Easy
Learning Objective: 1 Describe the major changes in the accounting for business combinations passed by the FASB in December 2007, and the reasons for those changes.
Section Reference: 2.1

24) North Company issued 24,000 shares of its $20 par value common stock for the net assets of Prairie Company in business combination under which Prairie Company will be merged into North Company. On the date of the combination, North Company common stock had a fair value of $30 per share. Balance sheets for North Company and Prairie Company immediately prior to the combination were as follows:

	North	**Prairie**
Current Assets	$ 1,314,000	$ 192,000
Plant and Equipment (net)	1,725,000	408,000
Total	$ 3,039,000	$ 600,000
Liabilities	$ 900,000	$150,000
Common Stock, $20 par value	1,650,000	240,000
Other Contributed Capital	218,000	60,000
Retained Earnings	271,000	150,000
Total	$3,039,000	$600,000

If the business combination is treated as an acquisition and Prairie Company's net assets have a fair value of $686,400, North Company's balance sheet immediately after the combination will include goodwill of:

a) $30,600.
b) $38,400.
c) $33,600.
d) $56,400.

Answer: c

Question Title: Test Bank (Multiple Choice) Question 24
Difficulty: Medium
Learning Objective: 6 Describe the valuation of assets, including goodwill, and liabilities acquired in a business combination accounted for by the acquisition method.
Section Reference: 2.1

25) North Company issued 24,000 shares of its $20 par value common stock for the net assets of Prairie Company in business combination under which Prairie Company will be merged into North Company. On the date of the combination, North Company common stock had a fair value of $30 per share. Balance sheets for North Company and Prairie Company immediately prior to the combination were as follows:

	North	**Prairie**
Current Assets	$ 1,314,000	$ 192,000
Plant and Equipment (net)	1,725,000	408,000
Total	$ 3,039,000	$ 600,000
Liabilities	$ 900,000	$150,000
Common Stock, $20 par value	1,650,000	240,000
Other Contributed Capital	218,000	60,000
Retained Earnings	271,000	150,000
Total	$3,039,000	$600,000

If the business combination is treated as an acquisition and the fair value of Prairie Company's current assets is $270,000, its plant and equipment is $726,000, and its liabilities are $168,000, North Company's financial statements immediately after the combination will include:

a) Negative goodwill of $108,000.
b) Plant and equipment of $2,133,000.
c) Plant and equipment of $2,343,000.
d) An ordinary gain of $108,000.

Answer: d

Question Title: Test Bank (Multiple Choice) Question 25
Difficulty: Medium
Learning Objective: 6 Describe the valuation of assets, including goodwill, and liabilities acquired in a business combination accounted for by the acquisition method.
Section Reference: 2.3

26) On May 1, 2016, the Phil Company paid $1,200,000 for 80% of the outstanding common stock of Sage Corporation in a transaction properly accounted for as an acquisition. The recorded assets and liabilities of Sage Corporation on May 1, 2016, follow:

Cash	$100,000
Inventory	200,000
Property & equipment (Net of accumulated depreciation)	800,000
Liabilities	(160,000)

On May 1, 2016, it was determined that the inventory of Sage had a fair value of $220,000 and the property and equipment (net) has a fair value of $1,200,000. What is the amount of goodwill resulting from the business combination?

a) $0.
b) $112,000.
c) $140,000.
d) $28,000.

Answer: c

Question Title: Test Bank (Multiple Choice) Question 26
Difficulty: Hard
Learning Objective: 6 Describe the valuation of assets, including goodwill, and liabilities acquired in a business combination accounted for by the acquisition method.
Section Reference: 2.3

27) Posch Company issued 12,000 shares of its $20 par value common stock for the net assets of Sato Company in a business combination under which Sato Company will be merged into Posch Company. On the date of the combination, Posch Company common stock had a fair value of $30 per share. Balance sheets for Posch Company and Sato Company immediately prior to the combination were as follows:

	Posch	**Sato**
Current Assets	$ 657,000	$ 96,000
Plant and Equipment (net)	863,000	204,000
Total	$1,520,000	$300,000
Liabilities	$ 450,000	$ 75,000
Common Stock, $20 par value	825,000	120,000
Other Contributed Capital	109,000	30,000
Retained Earnings	136,000	75,000
Total	$1,520,000	$300,000

If the business combination is treated as an acquisition and Sato Company's net assets have a fair value of $343,200, Posch Company's balance sheet immediately after the combination will include goodwill of:

a) $15,300.
b) $19,200.
c) $16,800.
d) $28,200.

Answer: c

Question Title: Test Bank (Multiple Choice) Question 27
Difficulty: Medium
Learning Objective: 6 Describe the valuation of assets, including goodwill, and liabilities acquired in a business combination accounted for by the acquisition method.
Section Reference: 2.3

28) Posch Company issued 12,000 shares of its $20 par value common stock for the net assets of Sato Company in a business combination under which Sato Company will be merged into Posch Company. On the date of the combination, Posch Company common stock had a fair value of $30 per share. Balance sheets for Posch Company and Sato Company immediately prior to the combination were as follows:

	Posch	**Sato**
Current Assets	$ 657,000	$ 96,000
Plant and Equipment (net)	863,000	204,000
Total	$1,520,000	$300,000
Liabilities	$ 450,000	$ 75,000
Common Stock, $20 par value	825,000	120,000
Other Contributed Capital	109,000	30,000
Retained Earnings	136,000	75,000
Total	$1,520,000	$300,000

If the business combination is treated as an acquisition and the fair value of Sato Company's current assets is $135,000, its plant and equipment is $363,000, and its liabilities are $84,000, Posch Company's financial statements immediately after the combination will include:

a) Negative goodwill of $54,000.
b) Plant and equipment of $1,226,000.
c) Plant and equipment of $1,172,000.
d) An extraordinary gain of $54,000.

Answer: b

Question Title: Test Bank (Multiple Choice) Question 28
Difficulty: Medium
Learning Objective: 6 Describe the valuation of assets, including goodwill, and liabilities acquired in a business combination accounted for by the acquisition method.
Section Reference: 2.3

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

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

Based on the preceding information, what amount of goodwill will be reported for this division if its fair value is determined to be $200,000?

a) $0
b) $60,000
c) $30,000
d) $10,000

Answer: d

Question Title: Test Bank (Multiple Choice) Question 29
Difficulty: Medium
Learning Objective: 3 Discuss the goodwill impairment test, including its frequency, the steps laid out in the new standard, and some of the implementation problems.
Section Reference: 2.1

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

a) $0
b) $10,000
c) $25,000
d) $35,000

Answer: c

Question Title: Test Bank (Multiple Choice) Question 30
Difficulty: Medium
Learning Objective: 3 Discuss the goodwill impairment test, including its frequency, the steps laid out in the new standard, and some of the implementation problems.
Section Reference: 2.1

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

a) $320,000
b) $310,000
c) $270,000
d) $290,000

Answer: b

Question Title: Test Bank (Multiple Choice) Question 31
Difficulty: Medium
Learning Objective: 3 Discuss the goodwill impairment test, including its frequency, the steps laid out in the new standard, and some of the implementation problems.
Section Reference: 2.1

32) Porpoise Corporation acquired Sims Company through an exchange of common shares. All of Sims' assets and liabilities were immediately transferred to Porpoise. Porpoise Company's common stock was trading at $20 per share at the time of exchange. The following selected information is also available:

	Porpoise Company	
	Before Acquisition	*After Acquisition*
Par value of shares outstanding	$200,000	$250,000
Additional Paid in Capital	350,000	550,000

What number of shares was issued at the time of the exchange?

a) 5,000
b) 17,500
c) 12,500
d) 10,000

Answer: c

Question Title: Test Bank (Multiple Choice) Question 32
Difficulty: Medium
Learning Objective: 5 Describe the use of pro forma statements in business combinations.
Section Reference: 2.2

Question Type: Essay

33) SFAS No. 142 requires that goodwill impairment be tested annually for each reporting unit. Discuss the necessary steps of the goodwill impairment test.

Answer: In the first step of the goodwill impairment test, the fair value of the reporting unit is compared to its carrying amount. If the fair value is less than the carrying amount, then the carrying value of the goodwill is compared to its implied fair value. A loss is recognized when the carrying value of goodwill is higher than its fair value.

Question Title: Test Bank (Essay) Question 33
Difficulty: Easy
Learning Objective: 3 Discuss the goodwill impairment test, including its frequency, the steps laid out in the new standard, and some of the implementation problems.
Section Reference: 2.1

34) Briefly describe the different treatment under SFAS 141 vs. SFAS 141R for the following issues:

- Business definition
- Acquisition costs
- In-process R&D
- Contingent consideration

Answer:

Issue	SFAS No. 141	SFAS No. 141R
Business definition	A business is defined as a self-sustaining integrated set of activities and assets conducted and managed for the purpose of providing a return to investors. The definition would exclude early-stage development entities.	A business or a group of assets no longer must be self-sustaining. The business or group of assets must be capable of generating a revenue stream. This definition would include early-stage development entities.
Acquisition costs	Capitalize the costs.	Expense as incurred.
In-process R&D	Included as part of purchase price, but then immediately expensed.	Included as part of purchase price, treated as an asset.

Contingent consideration	Record when determinable and reflect subsequent changes in the purchase price.	Record at fair value on the acquisition date with subsequent changes recorded on the income statement.

Question Title: Test Bank (Essay) Question 34
Difficulty: Medium
Learning Objective: 1 Describe the major changes in the accounting for business combinations passed by the FASB in December 2007, and the reasons for those changes.
Section Reference: 2.1

35) Balance sheet information for Hope Corporation at January 1, 2016, is summarized as follows:

Current assets	$ 920,000	Liabilities	$ 1,200,000
Plant assets	1,800,000	Capital stock $10 par	800,000
		Retained earnings	720,000
	$2,720,000		$ 2,720,000

Hope's assets and liabilities are fairly valued except for plant assets that are undervalued by $200,000. On January 2, 2016, Robin Corporation issues 80,000 shares of its $10 par value common stock for all of Hope's net assets and Hope is dissolved. Market quotations for the two stocks on this date are:

Robin common:	$28
Hope common:	$19

Robin pays the following fees and costs in connection with the combination:

Finder's fee	$10,000
Costs of registering and issuing stock	5,000
Legal and accounting fees	6,000

Required:

A. Calculate Robin's investment cost of Hope Corporation.

B. Calculate any goodwill from the business combination.

Answer:

A.	FMV of shares issued by Robin (80,000 sh × $28) =	$2,240,000
B.	Investment cost from Part A	$2,240,000
	Less: Fair value of Hope's net assets ($2,720,000+$200,000–$1,200,000)	1,720,000
	Goodwill from investment	$ 520,000

Question Title: Test Bank (Problem) Question 2-1
Difficulty: Medium
Learning Objective: 6 Describe the valuation of assets, including goodwill, and liabilities acquired in a business combination accounted for by the acquisition method.
Section Reference: 2.3

36) Maplewood Corporation purchased the net assets of West Corporation on January 2, 2016 for $560,000 and also paid $20,000 in direct acquisition costs. West's balance sheet on January 1, 2016 was as follows:

Accounts receivable-net	$ 180,000	Current liabilities	$ 70,000
Inventory	360,000	Long term debt	160,000
Land	40,000	Common stock ($1 par)	20,000
Building-net	60,000	Paid-in capital	430,000
Equipment-net	80,000	Retained earnings	40,000
Total assets	$720,000	Total liab. & equity	$ 720,000

Fair values agree with book values except for inventory, land, and equipment, which have fair values of $400,000, $50,000 and $70,000, respectively. West has patent rights valued at $20,000.

Required:
A. Prepare Maplewood's general journal entry for the cash purchase of West's net assets.

B. Assume Maplewood Corporation purchased the net assets of West Corporation for $500,000 rather than $560,000, prepare the general journal entry.

Answer:

A. Accounts	Receivable	180,000	
Inventory		400,000	
Land		50,000	
Building		60,000	
Equipment		70,000	
Patent		20,000	
Goodwill		10,000	
Acquisition	Expense		20,000
	Current Liabilities		70,000
	Long-term Debt		160,000
	Cash		580,000

B. Acquisition	Expense	20,000	
Accounts Receivable		180,000	
Inventory		400,000	
Land		50,000	
Building		60,000	

Equipment		70,000	
Patent		20,000	
	Current Liabilities		70,000
	Long-term Debt		160,000
	Cash		520,000
	Gain on Acquisition		50,000

Question Title: Test Bank (Problem) Question 2-2
Difficulty: Medium
Learning Objective: 6 Describe the valuation of assets, including goodwill, and liabilities acquired in a business combination accounted for by the acquisition method.
Section Reference: 2.3

37) Edina Company acquired the assets (except cash) and assumed the liabilities of Burns Company on January 1, 2016, paying $2,600,000 cash. Immediately prior to the acquisition, Burns Company's balance sheet was as follows:

	BOOK VALUE	FAIR VALUE
Accounts receivable (net)	$ 240,000	$ 220,000
Inventory	290,000	320,000
Land	960,000	1,508,000
Buildings (net)	1,020,000	1,392,000
Total	$2,510,000	$3,440,000
Accounts payable	$ 270,000	$ 270,000
Note payable	600,000	600,000
Common stock, $5 par	420,000	
Other contributed capital	640,000	
Retained earnings	580,000	
Total	$2,510,000	

Edina Company agreed to pay Burns Company's former stockholders $200,000 cash in 2017 if post- combination earnings of the combined company reached $1,000,000 during 2016.

Required:
A. Prepare the journal entry necessary for Edina Company to record the acquisition on January 1, 2016. It is expected that the earnings target is likely to be met.

B. Prepare the journal entry necessary for Edina Company in 2017 assuming the earnings contingency was not met.

Answer:

A. Accounts Receivable	240,000	
Inventory	320,000	

Land	1,508,000	
Buildings	1,392,000	
Goodwill	30,000	
Allowance for Uncollectible Accounts		20,000
Accounts Payable		270,000
Note Payable		600,000
Cash		2,600,000
Goodwill	200,000	
Liability for Contingent Consideration		200,000
Cost of acquisition	$2,600,000	
Fair value of net assets acquired ($3,440,000 – $870,000)	2,570,000	
Goodwill	$ 30,000	

B. Liability for Contingent Consideration	200,000	
Income from Change in Estimate		200,000

Question Title: Test Bank (Problem) Question 2-3
Difficulty: Hard
Learning Objective: 6 Describe the valuation of assets, including goodwill, and liabilities acquired in a business combination accounted for by the acquisition method., 7 Explain how contingent consideration affects the valuation of assets acquired in a business combination accounted for by the acquisition method.
Section Reference: 2.3, 2.5

38) Condensed balance sheets for Rich Company and Jordan Company on January 1, 2016 are as follows:

	Rich	Jordan
Current Assets	$ 440,000	$200,000
Plant and Equipment (net)	1,080,000	340,000
Total Assets	$1,520,000	$540,000
Total Liabilities	$ 230,000	$ 80,000
Common Stock, $10 par value	840,000	240,000
Other Contributed Capital	300,000	130,000
Retained Earnings	150,000	90,000
Total Equities	$1,520,000	$540,000

On January 1, 2016 the stockholders of Rich and Jordan agreed to a consolidation whereby a new corporation, Cannon Company, would be formed to consolidate Rich and Jordan. Cannon Company issued 70,000 shares of its $20 par value common stock for the net assets of Rich and Jordan. On the date of consolidation, the fair values of Rich's and Jordan's current assets and

liabilities were equal to their book values. The fair value of plant and equipment for each company was: Rich, $1,270,000; Jordan, $360,000.

An investment banking house estimated that the fair value of Cannon Company's common stock was $35 per share. Rich will incur $45,000 of direct acquisition costs and $15,000 in stock issue costs.

Required:
Prepare the journal entries to record the consolidation on the books of Cannon Company assuming that the consolidation is accounted for as an acquisition.

Answer:

Current Assets ($440,000 + $200,000)	640,000	
Plant and Equipment ($1,270,000 + $360,000)	1,630,000	
Goodwill	490,000	
Liabilities ($230,000 + $80,000)		310,000
Common Stock (70,000 shares @ $20/share)		1,400,000
Other Contributed Capital (70,000 × ($35 – $20))		1,050,000
Acquisition Expense	45,000	
Cash		45,000
Other Contributed Capital	15,000	
Cash		15,000

Question Title: Test Bank (Problem) Question 2-4
Difficulty: Hard
Learning Objective: 6 Describe the valuation of assets, including goodwill, and liabilities acquired in a business combination accounted for by the acquisition method.
Section Reference: 2.3

39) The stockholders' equities of Penn Corporation and Simon Corporation were as follows on January 1, 2016:

	Penn Corp.	Simon Corp.
Common Stock, $1 par	$1,000,000	$ 600,000
Other Contributed Capital	2,800,000	1,100,000
Retained Earnings	600,000	340,000
Total Stockholders' Equity	$4,400,000	$2,040,000

On January 2, 2016 Penn Corp. issued 100,000 of its shares with a market value of $14 per share in exchange for all of Simon's shares, and Simon Corp. was dissolved. Penn Corp. paid $10,000 to register and issue the new common shares.

Required:
Prepare the stockholders' equity section of Penn Corp. balance sheet after the business combination on January 2, 2016.

Answer:

Stockholders' Equity:	
Common Stock, $1 par	$1,100,000
Other Contributed Capital	4,090,000 [$2,800,000 + (100,000 × $13) – $10,000]
Retained Earnings	600,000
Total stockholders' Equity	$ 5,790,000

Question Title: Test Bank (Problem) Question 2-5
Difficulty: Medium
Learning Objective: 6 Describe the valuation of assets, including goodwill, and liabilities acquired in a business combination accounted for by the acquisition method.
Section Reference: 2.3

40) The managers of Savage Company own 10,000 of its 100,000 outstanding common shares. Swann Company is formed by the managers of Savage Company to take over Savage Company in a leveraged buyout. The managers contribute their shares in Savage Company and Swann Company then borrows $675,000 to purchase the remaining 90,000 shares of Savage Company for $600,000; the remaining $75,000 is used for working capital. Savage Company is then merged into Swann Company effective January 1, 2016. Data relevant to Savage Company immediately prior to the leveraged buyout follow:

	Book Value	Fair Value
Current Assets	$ 90,000	$ 90,000
Plant Assets	255,000	525,000
Liabilities	(45,000)	(45,000)
Stockholders' Equity	$300,000	$570,000

Required:
A. Prepare journal entries on Swann Company's books to reflect the effects of the leveraged buyout.

B. Determine the balance of each of the following immediately after the merger:
1. Current Assets
2. Plant Assets
3. Note Payable
4. Common Stock

Answer:
A.

Investment in Savage Company ($300,000 × .10)	30,000

Common Stock		30,000
Cash	675,000	
Note Payable		675,000
Investment in Savage Company	600,000	
Cash		600,000
Current Assets	90,000	
Plant Assets (1)	498,000	
Goodwill (2)	87,000	
Liabilities		45,000
Investment in Savage		630,000

(1) $255,000 + [.90 × ($525,000 – $255,000)] = $498,000

(2) Cost of shares	$600,000
Book value of net assets (.90 × $300,000) =	270,000
Difference between cost and book valu	$330,000
Allocated to:	
Plant assets (.90 × ($525,000 – $255,000)) =	243,000
Goodwill	87,000

B.

1.	Current Assets ($90,000 + $75,000)	165,000
2.	Plant Assets ($255,000 + $243,000)	498,000
3.	Note Payable	675,000
4.	Common Stock	30,000

Question Title: Test Bank (Problem) Question 2-6
Difficulty: Hard
Learning Objective: 8 Describe a leveraged buyout.
Section Reference: 2.3

41) On January 1, 2013, Brighton Company acquired the net assets of Dakota Company for $1,580,000 cash. The fair value of Dakota's identifiable net assets was $1,310,000 on his date. Brighton Company decided to measure goodwill impairment using the present value of future cash flows to estimate the fair value of the reporting unit (Dakota). The information for these subsequent years is as follows:

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Year	*Present value of Future Cash Flows*	*Carrying value of Dakota's Identifiable Net Assets**	*Fair Value Dakota's Identifiable Net Assets*
2016	$1,400,000	$1,160,000	$1,190,000
2017	$1,400,000	$1,120,000	$1,210,000

* Identifiable net assets do not include goodwill.

Required:

A: For each year determine the amount of goodwill impairment, if any.

B: Prepare the journal entries needed each year to record the goodwill impairment (if any) on Brighton's books.

Answer:

A.

2016:	**Step 1:** Fair value of the reporting unit		$1,400,000
	Carrying value of unit:		
	Carrying value of identifiable net assets	$1,160,000	
	Carrying value of goodwill ($1,580,000 – $1,310,000)	270,000	
			1,430,000
	Excess of carrying value over fair value		$30,000
	The excess of carrying value over fair value means that step 2 is required.		
	Step 2: Fair value of the reporting unit		$1,400,000
	Fair value of identifiable net assets		1,190,000
	Implied value of goodwill		210,000
	Recorded value of goodwill ($1,580,000 – $1,310,000)		270,000
	Impairment loss		$60,000
2017:	**Step 1:** Fair value of the reporting unit		$1,400,000
	Carrying value of unit:		
	Carrying value of identifiable net assets	$1,120,000	
	Carrying value of goodwill ($270,000 – $40,000)	230,000	
			1,350,000
	Excess of Fair value over Carrying value		$ 50,000
	The excess of fair value over carrying value means that step 2 is not required.		

B.

2016:	Impairment Loss—Goodwill	60,000	
	Goodwill		60,000
2017:	No entry		

Question Title: Test Bank (Problem) Question 2-7
Difficulty: Medium
Learning Objective: 3 Discuss the goodwill impairment test, including its frequency, the steps laid out in the new standard, and some of the implementation problems.
Section Reference: 2.1

42) The following balance sheets were reported on January 1, 2016, for Wood Company and Rose Company:

	Wood	Rose
Cash	$ 150,000	$ 30,000
Inventory	450,000	150,000
Equipment (net)	1,320,000	570,000
Total	$1,920,000	$750,000
Total liabilities	$ 450,000	$150,000
Common stock, $20 par value	600,000	300,000
Other contributed capital	375,000	105,000
Retained earnings	495,000	195,000
Total	$1,920,000	$750,000

Required:
Appraisals reveal that the inventory has a fair value $180,000, and the equipment has a current value of $615,000. The book value and fair value of liabilities are the same. Assuming that Wood Company wishes to acquire Rose for cash in an asset acquisition, determine the following cutoff amounts:

A. The purchase price above which Wood would record goodwill.
B. The purchase price at which Wood would record a $50,000 gain.
C. The purchase price below which Wood would obtain a "bargain."
D. The purchase price at which Wood would record $75,000 of goodwill.

Answer:
a. Fair Value of Identifiable Net Assets

Book values $750,000 – $150,000 =	$600,000
Write up of Inventory and Equipment:	
($30,000 + $45,000) =	75,000
Purchase price above which goodwill would result	$675,000

b. Any existing goodwill would be eliminated before recording a gain:

$675,000 Fair Value of Identifiable Net Assets – $50,000 Gain = $625,000.

c. Anything below $675,000 is technically considered a bargain.

d. Goodwill would be $75,000 at a purchase price of $750,000 or ($675,000 + $75,000).

Question Title: Test Bank (Problem) Question 2-8
Difficulty: Hard
Learning Objective: 5 Describe the use of pro forma statements in business combinations.
Section Reference: 2.2