Multiple Choice:

[QUESTION]
1. At the date of an acquisition which is not a bargain purchase, the acquisition method
   A) Consolidates the subsidiary’s assets at fair value and the liabilities at book value.
   B) Consolidates all subsidiary assets and liabilities at book value.
   C) Consolidates all subsidiary assets and liabilities at fair value.
   D) Consolidates current assets and liabilities at book value, and long-term assets and liabilities at
      fair value.
   E) Consolidates the subsidiary’s assets at book value and the liabilities at fair value.
   Answer: C
   Learning Objective: 02-04
   Learning Objective: 02-05
   Topic: Acquisition—Valuation principles
   Topic: Acquisition—Allocate fair value
   Difficulty: 1 Easy
   Blooms: Remember
   AACSB: Reflective Thinking
   AICPA: BB Critical Thinking
   AICPA: FN Measurement

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

<table>
<thead>
<tr>
<th></th>
<th>Parent</th>
<th>Subsidiary</th>
</tr>
</thead>
<tbody>
<tr>
<td>A)</td>
<td>Book Value</td>
<td>Book Value</td>
</tr>
<tr>
<td>B)</td>
<td>Book Value</td>
<td>Fair Value</td>
</tr>
<tr>
<td>C)</td>
<td>Fair Value</td>
<td>Fair Value</td>
</tr>
<tr>
<td>D)</td>
<td>Fair Value</td>
<td>Book Value</td>
</tr>
<tr>
<td>E)</td>
<td>Cost</td>
<td>Cost</td>
</tr>
</tbody>
</table>

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

[QUESTION]
3. Lisa Co. paid cash for all of the voting common stock of Victoria Corp. Victoria will continue
   to exist as a separate corporation. Entries for the consolidation of Lisa and Victoria would be
   recorded in
A) A worksheet.
B) Lisa's general journal.
C) Victoria's general journal.
D) Victoria's secret consolidation journal.
E) The general journals of both companies.
Answer: A
Learning Objective: 02-07
Topic: Consolidation worksheet
Difficulty: 1 Easy
Bloom's: Remember
AACSB: Reflective Thinking
AICPA: BB Critical Thinking
AICPA: FN Measurement

[QUESTION]
4. Using the acquisition method for a business combination, goodwill is generally calculated as the:
A) Cost of the investment less the subsidiary's book value at the beginning of the year.
B) Cost of the investment less the subsidiary's book value at the acquisition date.
C) Cost of the investment less the subsidiary's fair value at the beginning of the year.
D) Cost of the investment less the subsidiary's fair value at acquisition date.
E) Zero, it is no longer allowed under federal law.
Answer: D
Learning Objective: 02-04
Learning Objective: 02-05
Topic: Acquisition—Valuation principles
Topic: Acquisition—Calculate goodwill or bargain
Difficulty: 2 Medium
Bloom's: Remember
AACSB: Reflective Thinking
AICPA: BB Critical Thinking
AICPA: FN Measurement

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

<table>
<thead>
<tr>
<th>Direct Combination Costs</th>
<th>Stock Issuance Costs</th>
</tr>
</thead>
<tbody>
<tr>
<td>A) Increase Investment</td>
<td>Decrease Investment</td>
</tr>
<tr>
<td>B) Increase Investment</td>
<td>Decrease Additional Paid-in Capital</td>
</tr>
<tr>
<td>C) Increase Investment</td>
<td>Increase Expenses</td>
</tr>
<tr>
<td>D) Decrease Additional Paid-in Capital</td>
<td>Increase Investment</td>
</tr>
<tr>
<td>E) Increase Expenses</td>
<td>Decrease Investment</td>
</tr>
</tbody>
</table>

Answer: B
Learning Objective: 02-09
Topic: Legacy methods—Purchase and pooling
Difficulty: 2 Medium
Bloom's: Remember
AACSB: Reflective Thinking
6. How are direct and indirect costs accounted for when applying the acquisition method for a business combination?

<table>
<thead>
<tr>
<th>Direct Costs</th>
<th>Indirect Costs</th>
</tr>
</thead>
<tbody>
<tr>
<td>A. Expensed</td>
<td>Expensed</td>
</tr>
<tr>
<td>B. Increase</td>
<td>Decrease additional paid-in</td>
</tr>
<tr>
<td>Investment account</td>
<td>capital</td>
</tr>
<tr>
<td>C. Expensed</td>
<td>Decrease additional paid-in</td>
</tr>
<tr>
<td>Investment account</td>
<td>capital</td>
</tr>
<tr>
<td>D. Increase</td>
<td>Expensed</td>
</tr>
<tr>
<td>Investment account</td>
<td>Increase investment account</td>
</tr>
</tbody>
</table>

Answer: A

7. What is the primary difference between: (i) accounting for a business combination when the subsidiary is dissolved; and (ii) accounting for a business combination when the subsidiary retains its incorporation?
   A) If the subsidiary is dissolved, it will not be operated as a separate division.
   B) If the subsidiary is dissolved, assets and liabilities are consolidated at their book values.
   C) If the subsidiary retains its incorporation, there will be no goodwill associated with the acquisition.
   D) If the subsidiary retains its incorporation, assets and liabilities are consolidated at their book values.
   E) If the subsidiary retains its incorporation, the consolidation is not formally recorded in the accounting records of the acquiring company.

Answer: E

8. According to GAAP, which of the following is true with respect to the pooling of interest method of accounting for business combinations?
   A) It was the only method used prior to 2002.
B) It must be used for all new acquisitions.
C) GAAP allowed its use prior to 2002.
D) It, or the acquisition method, may be used at the acquirer’s discretion.
E) GAAP requires it to be used instead of the acquisition method for business combinations for which $50 billion or more in consideration is transferred.
Answer: C

Learning Objective: 02-09
Topic: Legacy methods—Purchase and pooling
Difficulty: 1 Easy
Blooms: Remember
AACSB: Reflective Thinking
AICPA: BB Critical Thinking
AICPA: FN Measurement

[QUESTION]
9. Which of the following examples accurately describes a difference in the types of business combinations?
A) A statutory merger can only be effected through an asset acquisition while a statutory consolidation can only be effected through a capital stock acquisition.
B) A statutory merger can only be effected through a capital stock acquisition while a statutory consolidation can only be effected through an asset acquisition.
C) A statutory merger requires the dissolution of the acquired company while a statutory consolidation requires dissolution of the companies involved in the combination following the transfer of assets or stock to a newly formed entity.
D) A statutory consolidation requires dissolution of the acquired company while a statutory merger does not require dissolution.
E) Both a statutory merger and a statutory consolidation can only be effected through an asset acquisition but only a statutory consolidation requires dissolution of the acquired company.
Answer: C

Learning Objective: 02-03
Topic: Business combination—Differentiate across forms
Difficulty: 3 Hard
Blooms: Remember
AACSB: Reflective Thinking
AICPA: BB Critical Thinking
AICPA: FN Measurement

[QUESTION]
10. Acquired in-process research and development is considered as
A) A definite-lived asset subject to amortization.
B) A definite-lived asset subject to testing for impairment.
C) An indefinite-lived asset subject to amortization.
D) An indefinite-lived asset subject to testing for impairment.
E) A research and development expense at the date of acquisition.
Answer: D

Learning Objective: 02-08
Topic: In-process research and development
Difficulty: 1 Easy
Blooms: Remember
AACSB: Reflective Thinking
AICPA: BB Critical Thinking
AICPA: FN Measurement

[QUESTION]
11. Which of the following statements is true regarding the acquisition method of accounting for a business combination?
   A) The combination must involve the exchange of equity securities only.
   B) The transaction establishes an acquisition fair value basis for the company being acquired.
   C) The two companies may be about the same size, and it is difficult to determine the acquired company and the acquiring company.
   D) The transaction may be considered to be the uniting of the ownership interests of the companies involved.
   E) The acquired subsidiary must be smaller in size than the acquiring parent.
   Answer: B

Learning Objective: 02-04
Topic: Acquisition—Valuation principles
Difficulty: 1 Easy
Blooms: Remember
AACSB: Reflective Thinking
AICPA: BB Critical Thinking
AICPA: FN Measurement

[QUESTION]
12. With respect to recognizing and measuring the fair value of a business combination in accordance with the acquisition method of accounting, which of the following should the acquirer consider when determining fair value?
   A) Only assets received by the acquirer.
   B) Only consideration transferred by the acquirer.
   C) The consideration transferred by the acquirer plus the fair value of assets received less liabilities assumed.
   D) The par value of stock transferred by the acquirer, and the book value of identifiable assets transferred by the entity acquired.
   E) The book value of identifiable assets transferred to the acquirer as part of the business combination less any liabilities assumed.
   Answer: C

Learning Objective: 02-04
Topic: Acquisition—Valuation principles
Difficulty: 3 Hard
Blooms: Understand
AACSB: Reflective Thinking
AICPA: BB Critical Thinking
AICPA: FN Measurement

[QUESTION]
13. A statutory merger is a(n)
   A) Business combination in which only one of the two companies continues to exist as a legal corporation.
   B) Business combination in which both companies continue to exist.
   C) Acquisition of a competitor.
   D) Acquisition of a supplier or a customer.
   E) Legal proposal to acquire outstanding shares of the target's stock.
   Answer: A
Learning Objective: 02-03
Topic: Business combination—Differentiate across forms
Difficulty: 2 Medium
Blooms: Remember
AACSB: Reflective Thinking
AICPA: BB Critical Thinking
AICPA: FN Measurement

[QUESTION]
14. In a business combination where a subsidiary retains its incorporation and which is accounted for under the acquisition method, how should stock issuance costs and direct combination costs be treated?
A) Stock issuance costs and direct combination costs are expensed as incurred.
B) Direct combination costs are ignored, and the stock issuance costs result in a reduction to additional paid-in capital.
C) Direct combination costs are expensed as incurred and stock issuance costs result in a reduction to additional paid-in capital.
D) Both are treated as part of the acquisition consideration transferred.
E) Both reduce additional paid-in capital.
Answer: C

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

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

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

[QUESTION]
REFER TO: 02-01
15. Assume that Bullen issued 12,000 shares of common stock, with a $5 par value and a $47 fair value, to obtain all of Vicker's outstanding stock. In this acquisition transaction, how much goodwill should be recognized?

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

Answer: B

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

[QUESTION]
REFER TO: 02-01

16. Assume that Bullen issued 12,000 shares of common stock with a $5 par value and a $47 fair value for all of the outstanding stock of Vicker. What is the consolidated balance for Land as a result of this acquisition transaction?

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

Answer: D

Learning Objective: 02-05
Learning Objective: 02-06a
Learning Objective: 02-07
Topic: Acquisition—Allocate fair value
Topic: Acquisition—Calculate consolidated balances
Difficulty: 2 Medium
Blooms: Apply
AACSB: Knowledge Application
AICPA: BB Critical Thinking
AICPA: FN Measurement
Feedback: $280,000 (Bullen Land) + $240,000 (Vicker Land) = $520,000

[QUESTION]
REFER TO: 02-01
17. Assume that Bullen issued 12,000 shares of common stock with a $5 par value and a $47 fair value for all of the outstanding shares of Vicker. What will be the consolidated Additional Paid-In Capital and Retained Earnings (January 1, 2018 balances) as a result of this acquisition transaction?
A) $60,000 and $490,000.
B) $60,000 and $250,000.
C) $380,000 and $250,000.
D) $524,000 and $250,000.
E) $524,000 and $420,000.
Answer: D
Learning Objective: 02-05
Learning Objective: 02-06a
Learning Objective: 02-07
Topic: Acquisition—Calculate consideration transferred
Topic: Acquisition—Calculate consolidated balances
Difficulty: 3 Hard
Blooms: Apply
AACSB: Knowledge Application
AICPA: BB Critical Thinking
AICPA: FN Measurement
Feedback: Consolidated Additional Paid-In Capital = Bullen APIC ($20,000) + APIC related to stock issued in connection with Vicker business combination ($42 × 12,000) = $20,000 + $504,000 = $524,000
Bullen’s Retained Earnings: $250,000

[QUESTION]
REFER TO: 02-01

18. Assume that Bullen issued preferred stock with a par value of $240,000 and a fair value of $500,000 for all of the outstanding shares of Vicker in an acquisition business combination. What will be the balance in the consolidated Inventory and Land accounts?
A) $440,000, $496,000.
B) $440,000, $520,000.
C) $425,000, $505,000.
D) $400,000, $500,000.
E) $427,000, $510,000.
Answer: B
Learning Objective: 02-05
Learning Objective: 02-06a
Learning Objective: 02-07
Topic: Acquisition—Allocate fair value
Topic: Acquisition—Calculate consolidated balances
Difficulty: 2 Medium
Blooms: Apply
AACSB: Knowledge Application
AICPA: BB Critical Thinking
AICPA: FN Measurement
Feedback: Inventory $230,000 BV + $210,000 FV = $440,000
Land $280,000 BV + $240,000 FV = $520,000

[QUESTION]
REFER TO: 02-01
19. Assume that Bullen paid a total of $480,000 in cash for all of the shares of Vicker. In addition, Bullen paid $35,000 for secretarial and management time allocated to the acquisition transaction. What will be the balance in consolidated goodwill?

A) $0.
B) $20,000.
C) $35,000.
D) $55,000.
E) $65,000.

Answer: B

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

REFERENCE: 02-02

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

<table>
<thead>
<tr>
<th></th>
<th>Botkins</th>
<th>Volkerson</th>
</tr>
</thead>
<tbody>
<tr>
<td>Common stock ($1 par value)</td>
<td>$220,000</td>
<td>$54,000</td>
</tr>
<tr>
<td>Additional paid-in capital</td>
<td>110,000</td>
<td>25,000</td>
</tr>
<tr>
<td>Retained earnings</td>
<td>360,000</td>
<td>130,000</td>
</tr>
</tbody>
</table>

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

[QUESTION]

REFER TO: 02-02

20. Assume that Botkins acquired Volkerson on January 1, 2017 and that Volkerson maintains a separate corporate existence. At what amount did Botkins record the investment in Volkerson?

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

Answer: B

Learning Objective: 02-06c
Topic: Journal entry—Investment with no dissolution
Difficulty: 1 Easy
Blooms: Apply
AACSB: Knowledge Application
AICPA: BB Critical Thinking
AICPA: FN Measurement
Feedback: $3.25 × 56,000 = $182,000
21. Assume that Botkins acquired Volkerson on January 1, 2017. Immediately afterwards, what is the value of the consolidated Common Stock?

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

Answer: D

Feedback: $220,000 + ($1.00 × 56,000) = $276,000

22. Chapel Hill Company had common stock of $350,000 and retained earnings of $490,000. Blue Town Inc. had common stock of $700,000 and retained earnings of $980,000. On January 1, 2018, Blue Town issued 34,000 shares of common stock with a $12 par value and a $35 fair value for all of Chapel Hill Company’s outstanding common stock. This combination was accounted for using the acquisition method. Immediately after the combination, what was the amount of total consolidated net assets?

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

Answer: D

Feedback: Consideration Transferred = Net Fair Value of Assets Acquired and Liabilities
Consideration Transferred: $35 per share × 34,000 shares = $1,190,000
Net Fair Value of Assets/Liabilities: $700,000 + $980,000 = $1,680,000
Total: $1,190,000 + $1,680,000 = $2,870,000
23. Which of the following is a not reason for a business combination to take place?
A) Cost savings through elimination of duplicate facilities.
B) Quick entry for new and existing products into domestic and foreign markets.
C) Diversification of business risk.
D) Vertical integration.
E) Increase in stock price of the acquired company.
Answer: E

Learning Objective: 02-01
Topic: Business combination—Reasons to combine
Difficulty: 1 Easy
Blooms: Remember
AACSB: Reflective Thinking
AICPA: BB Critical Thinking
AICPA: FN Measurement

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

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

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

Learning Objective: 02-03
Topic: Business combination—Differentiate across forms
Difficulty: 2 Medium
Blooms: Remember
[QUESTION]
26. In a transaction accounted for using the acquisition method where consideration transferred exceeds book value of the acquired company, which statement is true for the acquiring company with regard to its investment?
A) Net assets of the acquired company are revalued to their fair values and any excess of consideration transferred over fair value of net assets acquired is allocated to goodwill.
B) Net assets of the acquired company are maintained at book value and any excess of consideration transferred over book value of net assets acquired is allocated to goodwill.
C) Acquired assets are revalued to their fair values. Acquired liabilities are maintained at book values. Any excess is allocated to goodwill.
D) Acquired long-term assets are revalued to their fair values. Any excess is allocated to goodwill.
Answer: A

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

[QUESTION]
27. In a transaction accounted for using the acquisition method where consideration transferred is less than fair value of net assets acquired, which statement is true?
A) Negative goodwill is recorded.
B) A deferred credit is recorded.
C) A gain on bargain purchase is recorded.
D) Long-term assets of the acquired company are reduced in proportion to their fair values. Any excess is recorded as a deferred credit.
E) Long-term assets and liabilities of the acquired company are reduced in proportion to their fair values. Any excess is recorded as gain.
Answer: C

Learning Objective: 02-04
Learning Objective: 02-05
Topic: Acquisition—Valuation principles
Topic: Acquisition—Calculate goodwill or bargain
Difficulty: 1 Easy
Blooms: Analyze
AACSB: Analytical Thinking
AICPA: BB Critical Thinking
AICPA: FN Measurement

[QUESTION]
28. Which of the following statements is true regarding the acquisition method of accounting for a business combination?
A) Net assets of the acquired company are reported at their fair values.
B) Net assets of the acquired company are reported at their book values.
C) Any goodwill associated with the acquisition is reported as a development cost.
D) The acquisition can only be effected by a mutual exchange of voting common stock.
E) Indirect costs of the combination reduce additional paid-in capital.

Answer: A

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

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

Answer: C

Learning Objective: 02-09
Topic: Legacy methods—Purchase and pooling
Difficulty: 2 Medium
Blooms: Remember
AACSB: Reflective Thinking
AICPA: BB Critical Thinking
AICPA: FN Measurement

REFERENCE: 02-03
The financial statements for Goodwin, Inc., and Corr Company for the year ended December 31, 2018, prior to the business combination whereby Goodwin acquired Corr, are as follows (in thousands):
On December 31, 2018, Goodwin obtained a loan for $600 and used the proceeds, along with the transfer of 30 shares of its $10 par value common stock, in exchange for all of Corr’s common stock. At the time of the transaction, Goodwin’s common stock had a fair value of $40 per share. In connection with the business combination, Goodwin paid $25 to a broker for arranging the transaction and $35 in stock issuance costs. At the time of the transaction, Corr’s equipment was actually worth $1,400 but its buildings were only valued at $560.

[QUESTION]
REFER TO: 02-03

30. Assuming that Corr retains a separate corporate existence after this acquisition, at what amount is the investment recorded on Goodwin's books?

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

Answer: B
Learning Objective: 02-06b
Learning Objective: 02-06c
Topic: Costs of combination
Topic: Journal entry—Investment with no dissolution
Difficulty: 2 Medium
Blooms: Apply
AACSB: Knowledge Application
AICPA: BB Critical Thinking
AICPA: FN Measurement
Feedback: $600 Cash + ($40 per share × 30 shares) = $1,800 Investment

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

[QUESTION]
REFER TO: 02-03
32. Compute the consolidated revenues for 2018.
   A) $2,700.
   B) $ 720.
   C) $ 920.
   D) $3,300.
   E) $1,540.
   Answer: A
Learning Objective: 02-06a
Learning Objective: 02-07
Topic: Acquisition—Calculate consolidated balances
Difficulty: 1 Easy
Blooms: Apply
AACSB: Knowledge Application
AICPA: BB Critical Thinking
AICPA: FN Measurement
Feedback: $2,700 Parent’s Revenue Only
33. Compute the consolidated receivables and inventory for 2018.
A) $1,200.
B) $1,515.
C) $1,540.
D) $1,800.
E) $2,140.
Answer: C
Learning Objective: 02-05
Learning Objective: 02-06a
Learning Objective: 02-07
Topic: Acquisition—Allocate fair value
Topic: Acquisition—Calculate consolidated balances
Difficulty: 1 Easy
Blooms: Apply
AACSB: Knowledge Application
AICPA: BB Critical Thinking
AICPA: FN Measurement
Feedback: $1,200 + $340 = $1,540

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

35. Compute the consolidated cash account at December 31, 2018.
A) $460.
B) $425.
C) $400.
D) $435.
Feedback: Consolidated Cash Equals Goodwin’s Cash + Corr’s Cash – Cash to Pay Costs and Expenses Related to Business Combination
Goodwin’s Cash: $240
Corr’s Cash: $220
Costs and Expenses: $25 + $35 = $60
Consolidated Total = $240 + $220 = $460 – ($25 + $35) = $400

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

[QUESTION]
REFER TO: 02-03
37. Compute the consolidated equipment (net) account at December 31, 2018.
A) $2,100.
B) $3,500.
C) $3,300.
D) $3,000.
E) $3,200.
Feedback: Consolidated Value of Equipment (net) Determined by adding the book value of Goodwin’s Equipment Account ($2,100) to the Fair Value of Corr’s Equipment (net) ($1,400) for a total consolidated fair value of $3,500

[QUESTION]
REFER TO: 02-03
38. Compute the consideration transferred for this acquisition at December 31, 2018.
A) $ 900.
B) $1,165.
C) $1,200.
D) $1,765.
E) $1,800.
Answer: E

Feedback: Consideration transferred equals fair value of cash ($600) + fair value of Goodwin stock issued ($40 per share × 30 shares) = $600 + $1,200 = $1,800

[QUESTION]
REFER TO: 02-03
39. Compute the goodwill arising from this acquisition at December 31, 2018.
A) $ 0.
B) $100.
C) $125.
D) $160.
E) $ 45.
Answer: B

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

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

[QUESTION]
REFER TO: 02-03
41. Compute the consolidated additional paid-in capital at December 31, 2018.
A) $ 810.
B) $1,350.
C) $1,675.
D) $1,910.
E) $1,875.
Answer: C
Learning Objective: 02-05
Learning Objective: 02-06a
Learning Objective: 02-06b
Learning Objective: 02-07
Topic: Acquisition—Calculate consideration transferred
Topic: Costs of combination
Topic: Acquisition—Calculate consolidated balances
Difficulty: 3 Hard
Blooms: Apply
AACSB: Knowledge Application
AICPA: BB Critical Thinking
AICPA: FN Measurement
Feedback: Goodwin’s APIC total ($810) + Corr’s APIC total
Corr’s APIC total: Excess of FV of shares issued on combination to Corr over par value, ($40 - $10) × 30 shares = $30 × 30 shares = $900) less Stock Issuance Costs ($35) = $900 - $35 = $865
Consolidated APIC = $810 (Goodwin) + $865 (Corr) = $1,675

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

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

REFERENCE: 02-04

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Page 2-20
On January 1, 2018, the Moody Company entered into a transaction for 100% of the outstanding common stock of Osorio Company. To acquire these shares, Moody issued $400 in long-term liabilities and also issued 40 shares of common stock having a par value of $1 per share but a fair value of $10 per share. Moody paid $20 to lawyers, accountants, and brokers for assistance in bringing about this acquisition. Another $15 was paid in connection with stock issuance costs. Prior to these transactions, the balance sheets for the two companies were as follows:

Note: Parentheses indicate a credit balance.

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

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

[QUESTION]
45. What is the amount of goodwill arising from this acquisition?
   A) $230.
   B) $120.
   C) $520.
   D) None. There is a gain on bargain purchase of $230.
   E) None. There is a gain on bargain purchase of $265.
   Answer: D

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

[QUESTION]

REFER TO: 02-04

46. Compute the amount of consolidated inventories at date of acquisition.
   A) $1,080.
   B) $1,350.
   C) $1,360.
   D) $1,370.
   E) $290.
   Answer: D

Learning Objective: 02-05
Learning Objective: 02-06a
Learning Objective: 02-07
Topic: Acquisition—Allocate fair value
Topic: Acquisition—Calculate consolidated balances
Difficulty: 2 Medium
Blooms: Apply
AACSB: Knowledge Application
AICPA: BB Critical Thinking
AICPA: FN Measurement
Feedback: Moody Inventory ($1,080 Book Value on Acquisition Date) + Osario Inventory ($290 - Fair Value on Acquisition Date) = $1,370

[QUESTION]
47. Compute the amount of consolidated buildings (net) at date of acquisition.
   A) $1,700.
   B) $1,760.
   C) $1,640.
   D) $1,320.
   E) $ 500.
   Answer: B
   Learning Objective: 02-05
   Learning Objective: 02-06a
   Learning Objective: 02-07
   Topic: Acquisition—Allocate fair value
   Topic: Acquisition—Calculate consolidated balances
   Difficulty: 2 Medium
   Blooms: Apply
   AACSB: Knowledge Application
   AICPA: BB Critical Thinking
   AICPA: FN Measurement
   Feedback: Moody Buildings on Acquisition Date (Book Value of $1,260) + Osario Buildings on Acquisition Date ($500 Fair Value) = $1,760

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

49. Compute the amount of consolidated equipment at date of acquisition.
   A) $480.
   B) $580.
   C) $559.
   D) $570.
   E) $560.
   Answer: B
[QUESTION]
REFER TO: 02-04
50. Compute the amount of consolidated common stock at date of acquisition.
A) $370.
B) $570.
C) $610.
D) $330.
E) $530.
Answer: A

Learning Objective: 02-05
Topic: Acquisition—Calculate consideration transferred
Difficulty: 2 Medium
Blooms: Apply
AACSB: Knowledge Application
AICPA: BB Critical Thinking
AICPA: FN Measurement
Feedback: Moody’s Common Stock ($330) + Common Stock Issued in Connection With Osario Business Combination ($1.00 par value per share x 40 shares = $40) = $330 + $40 = $370

[QUESTION]
REFER TO: 02-04
51. Compute the amount of consolidated additional paid-in capital at date of acquisition.
A) $1,080.
B) $1,420.
C) $1,065.
D) $1,425.
E) $1,440.
Answer: D

Learning Objective: 02-05
Learning Objective: 02-06b
Learning Objective: 02-06c
Learning Objective: 02-07
Topic: Acquisition—Calculate consideration transferred
Topic: Costs of combination
Topic: Acquisition—Calculate consolidated balances
Difficulty: 3 Hard
Blooms: Apply
AACSB: Knowledge Application
Feedback:
Moody’s APIC on Acquisition Date: $1,080
APIC Adjustments Related to Osario Business Combination: Excess of Fair Value Over Par Value ($9.00 per share x 40 shares = $360) + Stock Issuance Costs ($15) = $360 + $15 = $375
Combined APIC = $1,080 + $375 = $1,425

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

REFERENCE: 02-05
Carnes has the following account balances as of December 31, 2017 before an acquisition transaction takes place.

<table>
<thead>
<tr>
<th>Account</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Inventory</td>
<td>$100,000</td>
</tr>
<tr>
<td>Land</td>
<td>400,000</td>
</tr>
<tr>
<td>Buildings (net)</td>
<td>500,000</td>
</tr>
<tr>
<td>Common stock ($10 par)</td>
<td>600,000</td>
</tr>
<tr>
<td>Additional paid-in capital</td>
<td>200,000</td>
</tr>
<tr>
<td>Retained Earnings</td>
<td>200,000</td>
</tr>
<tr>
<td>Revenues</td>
<td>450,000</td>
</tr>
<tr>
<td>Expenses</td>
<td>250,000</td>
</tr>
</tbody>
</table>

The fair value of Carnes’ Land and Buildings are $650,000 and $550,000, respectively. On December 31, 2017, Riley Company issues 30,000 shares of its $10 par value ($25 fair value)
common stock in exchange for all of the shares of Carnes’ common stock. Riley paid $10,000 for costs to issue the new shares of stock. Before the acquisition, Riley has $700,000 in its common stock account and $300,000 in its additional paid-in capital account.

[QUESTION]
REFER TO: 02-05
53. On December 31, 2017, assuming that Carnes will retain its separate corporate existence, what value is assigned to Riley’s investment account?
A) $ 150,000.
B) $ 300,000.
C) $ 750,000.
D) $ 760,000.
E) $1,350,000.
Answer: C
Learning Objective: 02-06c
Topic: Journal entry—Investment with no dissolution
Difficulty: 1 Easy
Blooms: Apply
AACSB: Knowledge Application
AICPA: BB Critical Thinking
AICPA: FN Measurement
Feedback: Consideration Paid = Fair Value of $25 per share x 30,000 shares = $750,000

[QUESTION]
REFER TO: 02-05
54. At the date of acquisition, by how much does Riley’s additional paid-in capital increase or decrease?
A) $ 0.
B) $440,000 increase.
C) $450,000 increase.
D) $640,000 increase.
E) $650,000 decrease.
Answer: B
Learning Objective: 02-05
Learning Objective: 02-06a
Learning Objective: 02-06b
Learning Objective: 02-06c
Topic: Acquisition—Calculate consideration transferred
Topic: Costs of combination
Topic: Journal entry—Dissolution
Topic: Journal entry—Investment with no dissolution
Difficulty: 1 Easy
Blooms: Apply
AACSB: Knowledge Application
AICPA: BB Critical Thinking
AICPA: FN Measurement
Feedback: APIC increases by the excess of the fair value over the par value of shares issued in connection with business combination less stock issuance costs.
$25 fair value per share - $10 par value per share = $15 per share x 30,000 shares = $450,000 - $10,000 stock issuance costs = $440,000
55. What will the consolidated common stock account be as a result of this acquisition?
   A) $300,000.
   B) $990,000.
   C) $1,000,000.
   D) $1,590,000.
   E) $1,600,000.
   Answer: C
   Learning Objective: 02-05
   Learning Objective: 02-06a
   Learning Objective: 02-07
   Topic: Acquisition—Calculate consideration transferred
   Topic: Acquisition—Calculate consolidated balances
   Difficulty: 1 Easy
   Blooms: Apply
   AACSB: Knowledge Application
   AICPA: BB Critical Thinking
   AICPA: FN Measurement
   Feedback: Riley Common Stock Account Before Acquisition: $700,000
   Par Value of Stock Issued in Connection With Business Combination: $10 par value per share x 30,000 shares = $300,000
   Total: $700,000 + $300,000 = $1,000,000

56. What will be the consolidated additional paid-in capital as a result of this acquisition?
   A) $440,000.
   B) $740,000.
   C) $750,000.
   D) $940,000.
   E) $950,000.
   Answer: B
   Learning Objective: 02-05
   Learning Objective: 02-06a
   Learning Objective: 02-06b
   Learning Objective: 02-07
   Topic: Acquisition—Calculate consideration transferred
   Topic: Costs of combination
   Topic: Acquisition—Calculate consolidated balances
   Difficulty: 2 Medium
   Blooms: Apply
   AACSB: Knowledge Application
   AICPA: BB Critical Thinking
   AICPA: FN Measurement
   Feedback: $300,000 (Riley APIC Balance on Acquisition Date) + $440,000 Additional Business Combination Related APIC (Calculated in Question 54) = $740,000

REFERENCE: 02-06
The financial balances for the Atwood Company and the Franz Company as of December 31, 2018, are presented below. Also included are the fair values for Franz Company’s net assets.
<table>
<thead>
<tr>
<th></th>
<th>Atwood</th>
<th>Franz Co.</th>
<th>Franz Co.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Book Value</td>
<td>Book Value</td>
<td>Fair Value</td>
</tr>
<tr>
<td></td>
<td>12/31/2018</td>
<td>12/31/2018</td>
<td>12/31/2018</td>
</tr>
<tr>
<td>Cash</td>
<td>$870</td>
<td>$240</td>
<td>$240</td>
</tr>
<tr>
<td>Receivables</td>
<td>660</td>
<td>600</td>
<td>600</td>
</tr>
<tr>
<td>Inventory</td>
<td>1,230</td>
<td>420</td>
<td>580</td>
</tr>
<tr>
<td>Land</td>
<td>1,800</td>
<td>260</td>
<td>250</td>
</tr>
<tr>
<td>Buildings (net)</td>
<td>1,800</td>
<td>540</td>
<td>650</td>
</tr>
<tr>
<td>Equipment (net)</td>
<td>660</td>
<td>380</td>
<td>400</td>
</tr>
<tr>
<td>Accounts payable</td>
<td>(570)</td>
<td>(240)</td>
<td>(240)</td>
</tr>
<tr>
<td>Accrued expenses</td>
<td>(270)</td>
<td>(60)</td>
<td>(60)</td>
</tr>
<tr>
<td>Long-term liabilities</td>
<td>(2,700)</td>
<td>(1,020)</td>
<td>(1,120)</td>
</tr>
<tr>
<td>Common stock ($20 par)</td>
<td>(1,980)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Common stock ($5 par)</td>
<td></td>
<td>(420)</td>
<td></td>
</tr>
<tr>
<td>Additional paid-in capital</td>
<td>(210)</td>
<td>(180)</td>
<td></td>
</tr>
<tr>
<td>Retained earnings</td>
<td>(1,170)</td>
<td>(480)</td>
<td></td>
</tr>
<tr>
<td>Revenues</td>
<td>(2,880)</td>
<td>(660)</td>
<td></td>
</tr>
<tr>
<td>Expenses</td>
<td>2,760</td>
<td>620</td>
<td></td>
</tr>
</tbody>
</table>

Note: Parenthesis indicate a credit balance

Assume an acquisition business combination took place at December 31, 2018. Atwood issued 50 shares of its common stock with a fair value of $35 per share for all of the outstanding common shares of Franz. Stock issuance costs of $15 (in thousands) and direct costs of $10 (in thousands) were paid.

[QUESTION]
REFER TO: 02-06
57. Compute the amount of the consideration transferred by Atwood to acquire Franz.
A) $1,750.
B) $1,760.
C) $1,775.
D) $1,300.
E) $1,120.
Answer: A

Learning Objective: 02-05
Learning Objective: 02-06a
Learning Objective: 02-06c
Topic: Acquisition—Calculate consideration transferred
Topic: Journal entry—Dissolution
Topic: Journal entry—Investment with no dissolution
Difficulty: 2 Medium
Blooms: Apply
AACCSP: Knowledge Application
AICPA: BB Critical Thinking
AICPA: FN Measurement
Feedback: Atwood Shares Issued in Connection With Business Combination = $35 Fair Value
per share x 50 shares = $1,750

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

[QUESTION]
REFER TO: 02-06
59. Compute consolidated inventory at the date of the acquisition.
A) $1,650.
B) $1,810.
C) $1,230.
D) $580.
E) $1,830.
Answer: B
Learning Objective: 02-05
Learning Objective: 02-06a
Learning Objective: 02-07
Topic: Acquisition—Allocate fair value
Topic: Acquisition—Calculate consolidated balances
Topic: Consolidation worksheet
Difficulty: 2 Medium
Blooms: Apply
AACSB: Knowledge Application
AICPA: BB Critical Thinking
AICPA: FN Measurement
Feedback: Atwood Acquisition Date Inventory ($1,230 book value) + Acquisition Date Fair Value of Franz Inventory ($580) = $1,230 + $580 = $1,810
60. Compute consolidated land at the date of the acquisition.
   A) $2,060.
   B) $1,800.
   C) $ 260.
   D) $2,050.
   E) $2,070.
   Answer: D

61. Compute consolidated buildings (net) at the date of the acquisition.
   A) $2,450.
   B) $2,340.
   C) $1,800.
   D) $ 650.
   E) $1,690.
   Answer: A

62. Compute consolidated long-term liabilities at the date of the acquisition.
   A) $2,600.
   B) $2,700.
   C) $2,800.
D) $3,720.
E) $3,820.
Answer: E
Learning Objective: 02-05
Learning Objective: 02-06a
Learning Objective: 02-07
Topic: Acquisition—Allocate fair value
Topic: Acquisition—Calculate consolidated balances
Topic: Consolidation worksheet
Difficulty: 2 Medium
Blooms: Apply
AACSB: Knowledge Application
AICPA: BB Critical Thinking
AICPA: FN Measurement
Feedback: Atwood Acquisition Date Long-Term Liabilities ($2,700 book value) + Franz
Acquisition Date Long-Term Liabilities at Fair Value ($1,120) = $3,820

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

[QUESTION]
REFER TO: 02-06
64. Compute consolidated equipment (net) at the date of the acquisition.
A) $  400.
B) $  660.
C) $1,060.
D) $1,040.
E) $1,050.
Answer: C
Learning Objective: 02-05
Learning Objective: 02-06a
Learning Objective: 02-07
Topic: Acquisition—Allocate fair value
Topic: Acquisition—Calculate consolidated balances
Topic: Consolidation worksheet
Difficulty: 2 Medium
Blooms: Apply
AACSB: Knowledge Application
AICPA: BB Critical Thinking
AICPA: FN Measurement
Feedback: Atwood Acquisition Date Equipment ($660 book value) + Franz Acquisition Date Equipment ($400 Fair Value) = $1,060

[QUESTION]
REFER TO: 02-06
65. Compute fair value of the net assets acquired at the date of the acquisition.
A) $1,300.
B) $1,340.
C) $1,500.
D) $1,750.
E) $2,480.
Answer: A
Learning Objective: 02-05
Topic: Acquisition—Allocate fair value
Difficulty: 2 Medium
Blooms: Apply
AACSB: Knowledge Application
AICPA: BB Critical Thinking
AICPA: FN Measurement
Feedback: Net Assets = Fair Value of Assets Acquired Less Fair Value of Liabilities Assumed
Franz Assets: $240 (Cash) + $600 (Accounts Receivable) + $580 (Inventory) + $250 (Land) + $650 (Building) + Equipment ($400) = $2,720
Franz Liabilities: Long Term Liabilities at Acquisition Date ($1,120 fair value) + Accounts Payable ($240 fair value) + Accrued Expenses ($60 fair value) = $1,420
Net Assets Total: $1,300

[QUESTION]
REFER TO: 02-06
66. Compute consolidated retained earnings at the date of the acquisition.
A) $1,160.
B) $1,170.
C) $1,280.
D) $1,290.
E) $1,640.
Answer: C
Learning Objective: 02-06a
Learning Objective: 02-06b
Learning Objective: 02-07
67. Compute consolidated revenues immediately following the acquisition.
   A) $3,540.
   B) $2,880.
   C) $1,170.
   D) $1,650.
   E) $4,050.
   Answer: B

Learning Objective: 02-06a
Learning Objective: 02-07

Feedback: $2,880 Revenues of the Parent Only

68. Compute consolidated cash at the completion of the acquisition.
   A) $1,350.
   B) $1,085.
   C) $1,110.
   D) $ 870.
   E) $ 845.
   Answer: B

Learning Objective: 02-06a
Learning Objective: 02-06b
Learning Objective: 02-07

Feedback: $870 + $240 - $15 - $10 = $1,085
Refer to: 02-06

69. Compute consolidated expenses immediately following the acquisition.

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

Answer: B

Learning Objective: 02-06a
Learning Objective: 02-06b
Learning Objective: 02-07
Topic: Costs of combination
Topic: Acquisition—Calculate consolidated balances
Topic: Consolidation worksheet
Difficulty: 2 Medium
Blooms: Apply
AACSB: Knowledge Application
AICPA: BB Critical Thinking
AICPA: FN Measurement
Feedback: $2,760 + $10 = $2,770

Reference: 02-07

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

<table>
<thead>
<tr>
<th></th>
<th>Boxwood 12/31/17</th>
<th>Tranz Co. 12/31/17</th>
<th>Tranz Co. Fair Value 12/31/17</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash</td>
<td>$ 870</td>
<td>$ 240</td>
<td>$ 240</td>
</tr>
<tr>
<td>Receivables</td>
<td>660</td>
<td>600</td>
<td>600</td>
</tr>
<tr>
<td>Inventory</td>
<td>1,230</td>
<td>420</td>
<td>580</td>
</tr>
<tr>
<td>Land</td>
<td>1,800</td>
<td>260</td>
<td>250</td>
</tr>
<tr>
<td>Buildings (net)</td>
<td>1,800</td>
<td>540</td>
<td>650</td>
</tr>
<tr>
<td>Equipment (net)</td>
<td>660</td>
<td>380</td>
<td>400</td>
</tr>
<tr>
<td>Accounts payable</td>
<td>( 570)</td>
<td>( 240)</td>
<td>( 240)</td>
</tr>
<tr>
<td>Accrued expenses</td>
<td>( 270)</td>
<td>( 60)</td>
<td>( 60)</td>
</tr>
<tr>
<td>Long-term liabilities</td>
<td>(2,700)</td>
<td>(1,020)</td>
<td>(1,120)</td>
</tr>
<tr>
<td>Common stock ($20 par)</td>
<td>(1,980)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Common stock ($5 par)</td>
<td></td>
<td>( 420)</td>
<td></td>
</tr>
<tr>
<td>Additional paid-in capital</td>
<td>( 210)</td>
<td>( 180)</td>
<td></td>
</tr>
<tr>
<td>Retained earnings</td>
<td>(1,170)</td>
<td>( 480)</td>
<td></td>
</tr>
<tr>
<td>Revenues</td>
<td>(2,880)</td>
<td>( 660)</td>
<td></td>
</tr>
<tr>
<td>Expenses</td>
<td>2,760</td>
<td>620</td>
<td></td>
</tr>
</tbody>
</table>

Note: Parentheses indicate a credit balance
Assume a business combination took place at December 31, 2017. Boxwood issued 50 shares of its common stock with a fair value of $35 per share for all of the outstanding common shares of Tranz. Stock issuance costs of $15 (in thousands) and direct costs of $10 (in thousands) were paid to effect this acquisition transaction. To settle a difference of opinion regarding Tranz’s fair value, Boxwood promises to pay an additional $5.2 (in thousands) to the former owners if Tranz’s earnings exceed a certain sum during the next year. Given the probability of the required contingency payment and utilizing a 4% discount rate, the expected present value of the contingency is $5 (in thousands).

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

[QUESTION]
REFER TO: 02-07
71. Compute consolidated inventory immediately following the acquisition.
A) $1,650.
B) $1,810.
C) $1,230.
D) $ 580.
E) $1,830.
Answer: B
Learning Objective: 02-05
Learning Objective: 02-06a
Learning Objective: 02-07
Topic: Acquisition—Allocate fair value
Topic: Acquisition—Calculate consolidated balances
Topic: Consolidation worksheet
Difficulty: 2 Medium
Blooms: Apply
AACSB: Knowledge Application
AICPA: BB Critical Thinking
AICPA: FN Measurement
Feedback: $1,230 book value + $580 fair value = $1,810
72. Compute consolidated land immediately following the acquisition.
   A) $2,060.
   B) $1,800.
   C) $260.
   D) $2,050.
   E) $2,070.
   Answer: D
   Learning Objective: 02-05
   Learning Objective: 02-06a
   Learning Objective: 02-07
   Topic: Acquisition—Allocate fair value
   Topic: Acquisition—Calculate consolidated balances
   Topic: Consolidation worksheet
   Difficulty: 2 Medium
   Blooms: Apply
   AACSB: Knowledge Application
   AICPA: BB Critical Thinking
   AICPA: FN Measurement
   Feedback: $1,800 Book Value + $250 Fair Value = $2,050

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

74. Compute consolidated goodwill immediately following the acquisition.
   A) $440.
   B) $442.
   C) $450.
D) $455.
E) $452.
Answer: D

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

[QUESTION]
REFER TO: 02-07
75. Compute consolidated equipment immediately following the acquisition.
A) $ 400.
B) $ 660.
C) $1,060.
D) $1,040.
E) $1,050.
Answer: C

Learning Objective: 02-05
Learning Objective: 02-06a
Learning Objective: 02-07
Topic: Acquisition—Allocate fair value
Topic: Acquisition—Calculate consolidated balances
Topic: Consolidation worksheet
Difficulty: 2 Medium
Blooms: Apply
AACSB: Knowledge Application
AICPA: BB Critical Thinking
AICPA: FN Measurement
Feedback: $660 + $400 = $1,060

[QUESTION]
REFER TO: 02-07
76. Compute consolidated retained earnings as a result of this acquisition.
A) $1,160.
B) $1,170.
C) $1,265.
D) $1,280.
E) $1,650.
Answer: D

Learning Objective: 02-06a
Learning Objective: 02-06b
Learning Objective: 02-07
Topic: Costs of combination
Topic: Acquisition—Calculate consolidated balances
Topic: Consolidation worksheet
Feedback: Components of ending retained earnings (revenues and expenses) are extended across the worksheet, then combined vertically.
Atwood’s Total Expenses = Balance Sheet Expenses + Transaction Expenses = $2,760 + $10 = $2,770
Atwood’s Ending Retained Earnings = Revenues ($2,880) – Total Expenses ($2,770) = $110
Total Ending Retained Earnings = $1,170 + $110 = $1,280

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

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

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

Answer: D

Feedback: Cash of Parent + Cash of Subsidiary – (Post-Transaction Costs + Post-Transaction Expenses) = $870 + $240 – ($15 + $10) = $870 + $240 - $25 = $1,085

REFERENCE: 02-08

Flynn acquires 100 percent of the outstanding voting shares of Macek Company on January 1, 2018. To obtain these shares, Flynn pays $400 cash (in thousands) and issues 10,000 shares of $20 par value common stock on this date. Flynn's stock had a fair value of $36 per share on that date. Flynn also pays $15 (in thousands) to a local investment firm for arranging the acquisition. An additional $10 (in thousands) was paid by Flynn in stock issuance costs.

The book values for both Flynn and Macek as of January 1, 2018 follow. The fair value of each of Flynn and Macek accounts is also included. In addition, Macek holds a fully amortized trademark that still retains a $40 (in thousands) value. The figures below are in thousands. Any related question also is in thousands.
80. By how much will Flynn’s additional paid-in capital increase as a result of this acquisition?
A) $150,000.
B) $160,000.
C) $230,000.
D) $350,000.
E) $360,000.

Answer: A

Learning Objective: 02-05
Learning Objective: 02-06a
Learning Objective: 02-06b
Learning Objective: 02-06c
Topic: Acquisition—Calculate consideration transferred
Topic: Costs of combination
Topic: Journal entry—Dissolution
Topic: Journal entry—Investment with no dissolution
Difficulty: 2 Medium
Blooms: Apply
AACSB: Knowledge Application
AICPA: BB Critical Thinking
AICPA: FN Measurement
Feedback: APIC adjusted for excess of fair value of stock issued as business combination
consideration over its par value, and stock issuance costs
Excess of Fair Value Over Par Value = $36 - $20 = $16 per share
Total Excess = $16 × 10,000 shares = $160,000
Stock Issuance Costs: $10,000
Total APIC Adjustment = $160,000 - $10,000 = $150,000

81. What amount will be reported for goodwill as a result of this acquisition?
A) $ 30,000.
B) $ 55,000.
C) $ 65,000.
D) $175,000.
E) $200,000.
Answer: B
Learning Objective: 02-05
Learning Objective: 02-08
Topic: Acquisition—Calculate goodwill or bargain
Topic: Intangibles acquired
Difficulty: 2 Medium
Blooms: Apply
AACSB: Knowledge Application
AICPA: BB Critical Thinking
AICPA: FN Measurement
Feedback: Goodwill = Excess of Consideration Paid Over Net Fair Value of Assets and Liabilities
Consideration Paid: Cash + Fair Value of Stock = $400,000 + ($36 × 10,000 shares) = $400,000 + $360,000 = $760,000
Fair Value of Assets = $80,000 (cash) + $160,000 (receivables) + $300,000 (inventory) + $130,000 (land) + $280,000 (buildings) + $75,000 (equipment) + $40,000 (trademark) = $1,065,000
Liabilities at Fair Value = $300,000 (long-term liabilities) + $60,000 (accounts payable) = $360,000
Net Assets and Liabilities: $705,000
Goodwill = $760,000 - $705,000 = $55,000

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

[QUESTION]
REFER TO: 02-08
83. What amount will be reported for consolidated inventory?
   A) $1,000,000.
   B) $ 960,000.
   C) $ 920,000.
   D) $ 660,000.
   E) $ 620,000.
   Answer: B
   Learning Objective: 02-05
   Learning Objective: 02-06a
   Learning Objective: 02-07
   Topic: Acquisition—Allocate fair value
   Topic: Acquisition—Calculate consolidated balances
   Topic: Consolidation worksheet
   Difficulty: 2 Medium
   Blooms: Apply
   AACSB: Knowledge Application
   AICPA: BB Critical Thinking
   AICPA: FN Measurement
   Feedback: Flynn Inventory ($660,000) + Fair Value of Macek Inventory ($300,000) = $960,000

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

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

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

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

[QUESTION]
REFER TO: 02-08
87. What amount will be reported for consolidated common stock?
A) $1,000,000.
B) $1,080,000.
C) $1,200,000.
D) $1,280,000.
E) $1,360,000.
Answer: C
Learning Objective: 02-05
Learning Objective: 02-06a
Learning Objective: 02-07
Topic: Acquisition—Calculate consideration transferred
Topic: Acquisition—Calculate consolidated balances
Feedback: Flynn common stock ($1,000,000) + Par Value of Stock Issued in Connection with the Business Combination ($20 \times 10,000 \text{ shares} = $200,000) = $1,200,000

[QUESTION]
REFER TO: 02-08

88. Assuming the combination occurred prior to 2009 and was accounted for under the purchase method, what amount will be reported for consolidated retained earnings?

A) $1,830,000.
B) $1,350,000.
C) $1,080,000.
D) $1,560,000.
E) $1,535,000.

Answer: C

Learning Objective: 02-09

Topic: Legacy methods—Purchase and pooling
Difficulty: 2 Medium
Blooms: Apply
AACSB: Knowledge Application
AICPA: BB Critical Thinking
AICPA: FN Measurement
Feedback: $1,080,000 Retained Earnings of the Parent Only

[QUESTION]
REFER TO: 02-08

89. Under the acquisition method, what amount will be reported for consolidated retained earnings?

A) $1,065,000.
B) $1,080,000.
C) $1,525,000.
D) $1,535,000.
E) $1,560,000.

Answer: A

Learning Objective: 02-06a
Learning Objective: 02-06b
Learning Objective: 02-07

Topic: Costs of combination
Topic: Acquisition—Calculate consolidated balances
Topic: Consolidation worksheet
Difficulty: 2 Medium
Blooms: Apply
AACSB: Knowledge Application
AICPA: BB Critical Thinking
AICPA: FN Measurement
Feedback: $1,080,000 - $15,000 = $1,065,000
[QUESTION]
REFER TO: 02-08
90. What amount will be reported for consolidated additional paid-in capital?
A) $365,000.
B) $350,000.
C) $360,000.
D) $375,000.
E) $345,000.
Answer: B
Learning Objective: 02-05
Learning Objective: 02-06a
Learning Objective: 02-06b
Learning Objective: 02-06c
Learning Objective: 02-07
Topic: Acquisition—Calculate consideration transferred
Topic: Costs of combination
Topic: Acquisition—Calculate consolidated balances
Topic: Consolidation worksheet
Difficulty: 3 Hard
Blooms: Apply
AACSB: Knowledge Application
AICPA: BB Critical Thinking
AICPA: FN Measurement
Feedback: Flynn’s APIC balance + Macek’s APIC Adjustments
Flynn’s APIC balance ($200,000) + Macek’s APIC Adjustment ($150,000 from question 80) =
$200,000 + $150,000 = $350,000

[QUESTION]
REFER TO: 02-08
91. What amount will be reported for consolidated cash after the acquisition is completed?
A) $475,000.
B) $500,000.
C) $555,000.
D) $580,000.
E) $875,000.
Answer: C
Learning Objective: 02-05
Learning Objective: 02-06a
Learning Objective: 02-06b
Learning Objective: 02-07
Topic: Acquisition—Calculate consideration transferred
Topic: Costs of combination
Topic: Acquisition—Calculate consolidated balances
Topic: Consolidation worksheet
Difficulty: 3 Hard
Blooms: Apply
AACSB: Knowledge Application
AICPA: BB Critical Thinking
AICPA: FN Measurement
Feedback: Flynn’s Cash + Fair Value of Macek’s Cash at Acquisition – (Business Combination Costs + Business Combination Expenses + Business Combination Consideration Paid) = $900,000 + $80,000 – ($15,000 + $10,000 + $400,000) = $980,000 – $425,000 = $555,000

Essay:

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

Answer: The appropriate term is **statutory merger**.

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

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

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

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

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

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

Learning Objective: 02-03
Learning Objective: 02-06a
Learning Objective: 02-06c
Topic: Business combination—Differentiate across forms
Topic: Journal entry—Dissolution
Topic: Journal entry—Investment with no dissolution
Difficulty: 2 Medium
Blooms: Understand
AACSB: Reflective Thinking
AICPA: BB Critical Thinking
AICPA: FN Measurement
[QUESTION]
95. How are direct combination costs accounted for in an acquisition transaction?

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Learning Objective: 02-04
Learning Objective: 02-05
Topic: Acquisition—Valuation principles
Topic: Acquisition—Calculate goodwill or bargain
Difficulty: 2 Medium
Blooms: Remember
AACSB: Reflective Thinking
[QUESTION]
104. Describe the accounting for direct costs, indirect costs, and issuance costs under the acquisition method of accounting for a business combination.

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

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

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

Answer: There is no difference in consolidated results.

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

Problems:

[QUESTION]
106. Bale Co. acquired Silo Inc. on December 31, 2018, in an acquisition business combination transaction. Bale's net income for the year was $1,400,000, while Silo had net income of $400,000 earned evenly during the year. Bale paid $100,000 in direct combination costs, $50,000 in indirect costs, and $30,000 in stock issuance costs to effect the combination.

Required:
What is consolidated net income for 2018?

Answer:
Bale’s net income for 2018 $1,400,000
Less: direct combination costs 100,000
Less: indirect combination costs 50,000
Consolidated net income for 2018 $1,250,000
Note: Silo’s net income does not affect consolidated net income until after the date of acquisition. The combination costs belong to Bale only.
Learning Objective: 02-06b
Learning Objective: 02-06a
Learning Objective: 02-07
Topic: Costs of combination
Topic: Acquisition—Calculate consolidated balances
Difficulty: 2 Medium
Blooms: Apply
AACSB: Knowledge Application
AICPA: BB Critical Thinking
AICPA: FN Measurement

[QUESTION]
107. Fine Co. issued its common stock in exchange for the common stock of Dandy Corp. in an acquisition. At the date of the combination, Fine had land with a book value of $480,000 and a fair value of $620,000. Dandy had land with a book value of $170,000 and a fair value of $190,000.
Required:
What was the consolidated balance for Land in a consolidated balance sheet prepared at the date of the acquisition combination?

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

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

[QUESTION]
108. Jernigan Corp. had the following account balances at 12/1/17:
Several of Jernigan's accounts have fair values that differ from book value. The fair values are:

- Land — $480,000
- Building — $720,000
- Inventory — $336,000
- Liabilities — $396,000

Inglewood Inc. acquired all of the outstanding common shares of Jernigan by issuing 20,000 shares of common stock having a $6 par value per share, but a $66 fair value per share. Stock issuance costs amounted to $12,000.

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

**Answer:**

Fair value consideration transferred by Inglewood (20,000 shares × $66) $1,320,000

Fair value of Jernigan assets acquired and liabilities assumed ($1,236,000)

Excess of consideration transferred over net fair value of assets and liabilities $ 84,000

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

<table>
<thead>
<tr>
<th>Asset/Price</th>
<th>Fair Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Receivables</td>
<td>$ 96,000</td>
</tr>
<tr>
<td>Inventory</td>
<td>336,000</td>
</tr>
<tr>
<td>Land</td>
<td>480,000</td>
</tr>
<tr>
<td>Building</td>
<td>720,000</td>
</tr>
<tr>
<td>Liabilities</td>
<td>(396,000)</td>
</tr>
<tr>
<td>Goodwill</td>
<td>$ 84,000</td>
</tr>
</tbody>
</table>

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

REFERENCE: 02-09
Salem Co. had the following account balances as of December 1, 2017:
Bellington Inc. transferred $1.7 million in cash and 12,000 shares of its newly issued $30 par value common stock (valued at $90 per share) to acquire all of Salem's outstanding common stock.

[QUESTION]

REFER TO: 02-09

109. Determine the balance for Goodwill that would be included in a December 1, 2017, consolidation.

Answer:

Fair value of consideration transferred:
- Cash: $1,700,000
- Stock issued: 1,080,000
- Total consideration transferred: $2,780,000

Fair value of assets acquired:
- Inventory: $720,000
- Land: 600,000
- Buildings: 1,200,000
- Total of Assets: $2,520,000

Excess of consideration transferred over fair value of assets transferred: $260,000

Allocations to specific accounts based on the acquisition-date fair value:
- Inventory: $720,000
- Land: 600,000
- Buildings: 1,200,000
- Goodwill: 260,000

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

[QUESTION]
110. Assume that Bellington paid cash of $2.8 million. No stock is issued. An additional $50,000 is paid in direct combination costs.

Required:
For Goodwill, determine what balance would be included in a December 1, 2017 consolidation.

Answer:
Fair value of consideration transferred:
Cash $2,800,000

Total consideration transferred: $2,800,000

Fair value of assets acquired:
Inventory $720,000
Land 600,000
Buildings 1,200,000
Total of Assets ($2,520,000)

Excess of consideration transferred over fair value of assets transferred: $280,000

Allocations to specific accounts based on the acquisition-date fair value
Inventory $720,000
Land 600,000
Buildings 1,200,000
Goodwill 280,000

[QUESTION]
111. On January 1, 2018, Chester Inc. acquired 100% of Festus Corp.'s outstanding common stock by exchanging 37,500 shares of Chester's $2 par value common voting stock. On January 1, 2018, Chester's voting common stock had a fair value of $40 per share. Festus' voting common shares were selling for $6.50 per share. Festus' balances on the acquisition date, just prior to acquisition are listed below.
Required:
Compute the value of Goodwill on the date of acquisition, 1/1/18.

Answer:
Fair value of consideration transferred:

<table>
<thead>
<tr>
<th>Description</th>
<th>Book Value</th>
<th>Fair Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Stock</td>
<td>$1,500,000</td>
<td>$1,500,000</td>
</tr>
<tr>
<td>Total consideration transferred:</td>
<td>$1,500,000</td>
<td></td>
</tr>
</tbody>
</table>

Fair value of assets acquired:

<table>
<thead>
<tr>
<th>Description</th>
<th>Book Value</th>
<th>Fair Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash</td>
<td>$30,000</td>
<td>$30,000</td>
</tr>
<tr>
<td>Accounts Receivable</td>
<td>120,000</td>
<td>120,000</td>
</tr>
<tr>
<td>Inventory</td>
<td>200,000</td>
<td>230,000</td>
</tr>
<tr>
<td>Land</td>
<td>230,000</td>
<td>290,000</td>
</tr>
<tr>
<td>Building (net)</td>
<td>450,000</td>
<td>600,000</td>
</tr>
<tr>
<td>Equipment (net)</td>
<td>175,000</td>
<td>160,000</td>
</tr>
<tr>
<td>Accounts Payable</td>
<td>(80,000)</td>
<td>(80,000)</td>
</tr>
<tr>
<td>Common Stock, $1 par</td>
<td>(500,000)</td>
<td>(500,000)</td>
</tr>
<tr>
<td>Paid-in Capital</td>
<td>(350,000)</td>
<td></td>
</tr>
<tr>
<td>Retained Earnings, 1/1/18</td>
<td>(275,000)</td>
<td></td>
</tr>
</tbody>
</table>

Total fair value of assets acquired $1,430,000

Fair value of liabilities assumed:

<table>
<thead>
<tr>
<th>Description</th>
<th>Book Value</th>
<th>Fair Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accounts Payable</td>
<td>80,000</td>
<td>(80,000)</td>
</tr>
</tbody>
</table>

Net fair value of assets acquired and liabilities assumed $1,350,000

Excess of consideration transferred over fair value of assets transferred: $150,000

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

<table>
<thead>
<tr>
<th>Description</th>
<th>Book Value</th>
<th>Fair Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash</td>
<td>$30,000</td>
<td>$30,000</td>
</tr>
<tr>
<td>Accounts Receivable</td>
<td>120,000</td>
<td>120,000</td>
</tr>
<tr>
<td>Inventory</td>
<td>200,000</td>
<td>230,000</td>
</tr>
<tr>
<td>Land</td>
<td>230,000</td>
<td>290,000</td>
</tr>
<tr>
<td>Buildings</td>
<td>450,000</td>
<td>600,000</td>
</tr>
<tr>
<td>Equipment</td>
<td>175,000</td>
<td>160,000</td>
</tr>
<tr>
<td>Goodwill</td>
<td></td>
<td>150,000</td>
</tr>
</tbody>
</table>

Learning Objective: 02-05
The financial statements for Jode Inc. and Lakely Corp., just prior to their combination, for the year ending December 31, 2017, follow. Lakely’s buildings were undervalued on its financial records by $60,000.

### Question

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

**Answer:**

**Entry One** – To record the issuance of common stock by Jode to execute the purchase.
Entry Two – To record the combination costs.

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Professional fee expense</td>
<td>34,000</td>
</tr>
<tr>
<td>Paid-in capital</td>
<td>24,000</td>
</tr>
<tr>
<td>Cash</td>
<td>58,000</td>
</tr>
</tbody>
</table>

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

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

Answer:

\[
\begin{align*}
\text{Consolidated Net Income} & \\
\text{Jode’s Revenues} & = \$1,300,000 \\
\text{Jode’s Expenses} & = (1,214,000) \\
\text{Consolidated net income} & = $86,000
\end{align*}
\]

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

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

[QUESTION]
REFER TO: 02-10

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

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

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

On December 31, 2018 (subsequent to the preceding statements), Black exchanged 10,000 shares of its $10 par value common stock for all of the outstanding shares of Blue. Black's stock on that date has a fair value of $50 per share. Black was willing to issue 10,000 shares of stock because Blue's land was appraised at $204,000. Black also paid $14,000 to attorneys and accountants who assisted in creating this combination.

Required:
Assuming that these two companies retained their separate legal identities, prepare a
consolidation worksheet as of December 31, 2018.

Answer:
Bargain Purchase Acquisition Consolidation Worksheet

For the Year Ended 12/31/2018

<table>
<thead>
<tr>
<th>Account</th>
<th>Black Company</th>
<th>Blue Company</th>
<th>Consolidation Entries</th>
<th>Consolidated Balance</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td>Dr.</td>
<td>Cr.</td>
</tr>
<tr>
<td><strong>Income Statement</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sales</td>
<td>(360,000)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Expenses</td>
<td>254,000</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Bargain-Purchase—Gain</strong></td>
<td>(28,000)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Net Income</strong></td>
<td>(134,000)</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Statement of Retained Earnings**

|                  |                |              |     |                   |
|------------------|----------------|--------------|     |                   |
| R/E, 1/1/18      | (480,000)      |              |     | (480,000)          |
| Net Income       | (134,000)      |              |     | (134,000)          |
| Dividends declared | 36,000        |              |     | 36,000             |
| R/E, 12/31/18    | (578,000)      |              |     | (578,000)          |

**Balance Sheet**

<table>
<thead>
<tr>
<th>Account</th>
<th>Black Company</th>
<th>Blue Company</th>
<th>Consolidated Balance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current assets</td>
<td>346,000</td>
<td>120,000</td>
<td>466,000</td>
</tr>
<tr>
<td>Investment in Blue Co.</td>
<td>528,000</td>
<td></td>
<td>0</td>
</tr>
<tr>
<td>Land</td>
<td>120,000</td>
<td>108,000</td>
<td>324,000</td>
</tr>
<tr>
<td>Buildings (net)</td>
<td>480,000</td>
<td>336,000</td>
<td>816,000</td>
</tr>
<tr>
<td><strong>Total Assets</strong></td>
<td>1,474,000</td>
<td>564,000</td>
<td>1,606,000</td>
</tr>
<tr>
<td>Liabilities</td>
<td>(108,000)</td>
<td>(132,000)</td>
<td>(240,000)</td>
</tr>
<tr>
<td>Common Stock</td>
<td>(292,000)</td>
<td>(72,000)</td>
<td>(292,000)</td>
</tr>
<tr>
<td>Additional Paid-in Capital</td>
<td>(496,000)</td>
<td>(12,000)</td>
<td>(496,000)</td>
</tr>
<tr>
<td>R/E, 12/31/18</td>
<td>(578,000)</td>
<td>(348,000)</td>
<td>(578,000)</td>
</tr>
<tr>
<td><strong>Total Liabilities &amp; Stockholders’ Equity</strong></td>
<td>(1,474,000)</td>
<td>(564,000)</td>
<td>528,000</td>
</tr>
</tbody>
</table>
Calculation for Potential Goodwill:
Consideration transferred by Black Co. 500,000
Book value of Blue Co. (432,000) (Entry S)
Excess of Cost over Book Value 68,000 (Entry A)

Allocations:
<table>
<thead>
<tr>
<th>Item</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Land (204,000 - 108,000)</td>
<td>(96,000) (Entry A)</td>
</tr>
<tr>
<td>Bargain Purchase</td>
<td>(28,000) (Entry A)</td>
</tr>
</tbody>
</table>

Entry to record the acquisition on Black Co’s books

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

Entry S:
Common Stock 72,000
Additional Paid-in Capital 12,000
Retained Earnings - 12/31/18 348,000
Investment in Blue Co. 432,000
To eliminate Blue Co’s stockholders’ equity accounts and the book value of Blue Co’s net assets from Black Co’s investment account

Entry A:
Land 96,000
Investment in Blue Co. 96,000
To eliminate Black Co’s excess payment over book value from its investment account and reassign the excess to specific assets from the bargain purchase

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

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

<table>
<thead>
<tr>
<th></th>
<th>Green Co.</th>
<th>Gold Co.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales</td>
<td>$360,000</td>
<td>$228,000</td>
</tr>
<tr>
<td>Expenses</td>
<td>(240,000)</td>
<td>(132,000)</td>
</tr>
<tr>
<td>Net income</td>
<td>$120,000</td>
<td>$ 96,000</td>
</tr>
</tbody>
</table>
Retained earnings, January 1, 2018 | $480,000 | $252,000
Net income (from above) | 120,000 | 96,000
Dividends declared | (36,000) | -0-
Retained earnings, December 31, 2018 | $564,000 | $348,000

Current assets | $360,000 | $120,000
Land | 120,000 | 108,000
Building (net) | 480,000 | 336,000
Total assets | $960,000 | $564,000

Liabilities | $108,000 | $132,000
Common stock | 192,000 | 72,000
Additional paid-in capital | 96,000 | 12,000
Retained earnings, December 31, 2018 | 564,000 | 348,000
Total liabilities and stockholders’ equity | $960,000 | $564,000

On December 31, 2018 (subsequent to the preceding statements), Green exchanged 10,000 shares of its $10 par value common stock for all of the outstanding shares of Gold. Green's stock on that date has a fair value of $60 per share. Green was willing to issue 10,000 shares of stock because Gold's land was appraised at $204,000. Green also paid $14,000 to attorneys and accountants who assisted in creating this combination.

**Required:**
Assuming that these two companies retained their separate legal identities, prepare a consolidation worksheet as of December 31, 2018 after the acquisition transaction is completed.

**Answer:**
Acquisition Consolidation Worksheet
For the Year Ended 12/31/2018

<table>
<thead>
<tr>
<th>Account</th>
<th>Green Company</th>
<th>Gold Company</th>
<th>Consolidation Entries</th>
<th>Consolidated Balance</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Income Statement</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sales</td>
<td>(360,000)</td>
<td></td>
<td></td>
<td>(360,000)</td>
</tr>
<tr>
<td>Expenses</td>
<td>254,000</td>
<td></td>
<td></td>
<td>254,000</td>
</tr>
<tr>
<td>Net Income</td>
<td>(106,000)</td>
<td></td>
<td></td>
<td>(106,000)</td>
</tr>
<tr>
<td><strong>Statement of Retained Earnings</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>R/E, 1/1/18</td>
<td>(480,000)</td>
<td></td>
<td></td>
<td>(480,000)</td>
</tr>
<tr>
<td>Net Income</td>
<td>(106,000)</td>
<td></td>
<td></td>
<td>(106,000)</td>
</tr>
<tr>
<td>Dividends declared</td>
<td>36,000</td>
<td></td>
<td></td>
<td>36,000</td>
</tr>
<tr>
<td>R/E, 12/31/18</td>
<td>(550,000)</td>
<td></td>
<td></td>
<td>(550,000)</td>
</tr>
<tr>
<td><strong>Balance Sheet</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Current assets</td>
<td>346,000</td>
<td>120,000</td>
<td></td>
<td>466,000</td>
</tr>
<tr>
<td>Investment in Gold Co.</td>
<td>600,000</td>
<td></td>
<td>(S) 432,000</td>
<td>0</td>
</tr>
<tr>
<td>Land</td>
<td>120,000</td>
<td>108,000</td>
<td>(A) 96,000</td>
<td>324,000</td>
</tr>
<tr>
<td>Buildings (net)</td>
<td>480,000</td>
<td>336,000</td>
<td>(A) 72,000</td>
<td>816,000</td>
</tr>
<tr>
<td>Goodwill</td>
<td></td>
<td></td>
<td></td>
<td>72,000</td>
</tr>
<tr>
<td>Total Assets</td>
<td>1,546,000</td>
<td>564,000</td>
<td></td>
<td>1,678,000</td>
</tr>
<tr>
<td>Liabilities</td>
<td>(108,000)</td>
<td>(132,000)</td>
<td>(S) 72,000</td>
<td>(240,000)</td>
</tr>
<tr>
<td>Common Stock</td>
<td>(292,000)</td>
<td>(172,000)</td>
<td>(S) 72,000</td>
<td>(292,000)</td>
</tr>
<tr>
<td>Additional Paid-in Capital</td>
<td>(596,000)</td>
<td>(12,000)</td>
<td>(S) 12,000</td>
<td>(596,000)</td>
</tr>
<tr>
<td>R/E, 12/31/18</td>
<td>(550,000)</td>
<td>(348,000)</td>
<td>(S) 348,000</td>
<td>(550,000)</td>
</tr>
<tr>
<td><strong>Total Liabilities &amp; Stockholders' Equity</strong></td>
<td>(1,546,000)</td>
<td>(564,000)</td>
<td>600,000</td>
<td>(1,678,000)</td>
</tr>
</tbody>
</table>
Calculation of Goodwill:
Consideration transferred by Green Co.  
600,000  
Book value of Gold Co.  
(432,000) (Entry S)  
Excess of consideration transferred over Book Value  
168,000 (Entry A)  
Allocations:  
Land (204,000 - 108,000)  
(96,000) (Entry A)  
Excess cost not identified - Goodwill  
72,000 (Entry A)

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

Entry S:
Common Stock  
72,000
Additional Paid-in Capital  
12,000
Retained Earnings - 12/31/18  
348,000
Investment in Gold Co.  
432,000
To eliminate Gold Co.'s stockholders' equity accounts and the book value of Gold Co.'s net assets from Green Co.'s investment account

Entry A:
Land  
96,000
Goodwill  
72,000
Investment in Gold Co.  
168,000
To eliminate Green Co.'s excess payment over book value from its investment account and reassign the excess to specific assets and goodwill

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

[QUESTION]

117.
For each of the following situations, select the best letter answer to reflect the effect of the numbered item on the acquirer’s accounting entry at the date of combination when separate incorporation will be maintained. Item (4) requires two selections.

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

1. Direct costs.
2. Indirect costs.
5. Bargain purchase.

Answer: (1) I; (2) I; (3) G; (4) A, C; (5) H

Learning Objective: 02-04
Learning Objective: 02-05
Learning Objective: 02-06b
Learning Objective: 02-06c

Topic: Contingent consideration
Topic: Acquisition—Calculate goodwill or bargain
Topic: Costs of combination

Difficulty: 2 Medium

Blooms: Analyze
AACSBl: Analytical Thinking
AICPA: BB Critical Thinking
AICPA: FN Measurement