

Chapter 2– Advanced Accounting, 3rd Edition by Hamlen, Huefner and Largay

Practice Quiz

1. Topic: Types of combinations

LO 1

Argo Corporation acquires Ballentine Company. Argo records the cost of the acquisition as an asset on its balance sheet for *which one* of the following types of combinations?

- a. Merger
- b. Consolidation
- c. Asset acquisition
- d. Stock acquisition

2. Topic: Types of combinations

LO 1

Which one of the following types of business combinations requires the use of a working paper each year to combine the separate accounts of the parent and the subsidiary for presentation in the annual report?

- a. Merger
- b. Consolidation
- c. Stock acquisition
- d. Asset acquisition

3. Topic: Measuring and reporting assets and liabilities acquired

LO 2

Tendon Corporation pays \$100,000,000 for Valley Company. Valley's book value is \$2,000,000, and its assets and liabilities are reported at amounts approximating fair value. It has the following unreported intangibles:

	<u>Fair value</u>
In-process research & development	\$ 3,000,000
Assembled workforce	25,000,000
Potential contracts with prospective customers	10,000,000
Brand names	8,000,000

The goodwill reported for this acquisition is:

- a. \$52,000,000
- b. \$77,000,000
- c. \$87,000,000
- d. \$90,000,000

4. Topic: Measuring and reporting assets and liabilities acquired

LO 2

An acquired company's balance sheet is as follows (*in thousands*):

	Book Value	Market Value
	Dr (Cr)	
Current assets	\$ 600	\$ 400
Plant & equipment, net	40,000	30,000
Patents & copyrights	2,000	20,000
Liabilities	(32,000)	(33,000)
Capital stock	(1,000)	
Retained earnings	(9,600)	

The company also has the following previously unreported intangible assets (*in thousands*):

Customer lists	\$ 2,000
Favorable leases	7,000
Technical expertise of employees	10,000

If the acquirer pays \$100,000,000 for the company, reported goodwill is:

- a. \$ 63,600,000
- b. \$ 73,600,000
- c. \$ 82,600,000
- d. \$106,600,000

5. Topic: Measurement of consideration paid

LO 2

Eton Corporation acquires Fairfield Company in a stock acquisition. Consideration paid is as follows:

Cash paid to former shareholders of Fairfield	\$80,000,000
Fair value of \$0.50 par stock issued to former shareholders of Fairfield, 2,000,000 shares	30,000,000
Cash paid for registration fees on stock issued	2,000,000
Cash paid for outside merger consultants	3,500,000

The entry to record the acquisition on Eton's books includes a credit to additional paid-in capital for:

- a. \$30,000,000
- b. \$29,000,000
- c. \$28,000,000
- d. \$27,000,000

6. Topic: Measurement of consideration paid

LO 2

Halifax Corporation acquires Nova Company in a merger. Consideration paid is as follows:

Cash paid to former shareholders of Nova	\$20,000,000
Fair value of stock issued to Nova's former shareholders	90,000,000
Cash paid for registration fees on stock issued	2,000,000
Cash paid for outside merger consultants	3,500,000
Expected present value of earnout agreement	200,000

The fair value of Nova's identifiable net assets acquired is \$50,000,000.

How much goodwill is reported for this acquisition?

- a. \$63,700,000
- b. \$63,500,000
- c. \$60,000,000
- d. \$60,200,000

7. Topic: Subsequent changes in acquisition values

LO 3

Villa Corporation reports goodwill of \$10 million on acquisition of Webster Company. Six months after the acquisition, Villa learns that at the date of acquisition, Webster owed \$1,000,000 to a private lender. This debt was overlooked in the original acquisition entry.

How is this new information reported in the consolidated financial statements?

- a. Decrease in goodwill of \$1 million
- b. Increase in goodwill of \$1 million
- c. Loss of \$1 million on the consolidated income statement
- d. Gain of \$1 million on the consolidated income statement

8. Topic: Bargain purchase**LO 4**

Petra Corporation purchased all of the outstanding shares of Stuckey Corporation for \$25,000,000. Stuckey's assets and liabilities at the date of acquisition are as follows:

	<u>Fair Value</u>	<u>Book Value</u>
	<u>Dr (Cr)</u>	
Current assets	\$ 6,500,000	\$ 8,000,000
Plant assets	60,000,000	90,000,000
Current liabilities	(4,000,000)	(4,000,000)
Noncurrent liabilities	(67,000,000)	(69,000,000)

Stuckey has previously unreported intangibles, meeting the criteria for capitalization, with a fair value of 35,000,000.

The gain on acquisition is:

- a. \$ 1,500,000
- b. \$40,500,000
- c. \$ 2,000,000
- d. \$ 5,500,000

9. Topic: In-process research and development**LO 5**

An acquired company has the following balance sheet (*in thousands*):

	<u>Book Value</u>	<u>Market Value</u>
	<u>Dr (Cr)</u>	
Current assets	\$ 300	\$ 500
Plant & equipment, net	20,000	15,000
Liabilities	(16,000)	(16,000)
Capital stock	(500)	
Retained earnings	(3,800)	

In addition, the company has previously unrecorded in-process research & development valued at \$22,000,000.

If the acquirer's acquisition cost is \$50,000,000, reported goodwill is:

- a. \$28,500,000
- b. \$50,500,000
- c. \$66,500,000
- d. \$44,500,000

10. Topic: Preacquisition contingency

LO 5

An acquired company has an unsettled lawsuit, in which it is the defendant. The expected present value of the obligation is \$5,000,000, and the lawsuit meets the requirements for recognition at acquisition date. No changes in the reported value are made until the lawsuit is settled, 18 months after acquisition, for \$3,000,000.

In the year of settlement, the effect of the settlement is to report the \$2,000,000 change in the value of the lawsuit as:

- a. A decrease in goodwill
- b. A gain
- c. An increase in goodwill
- d. A loss