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

Solutions to Practice Quiz

1. **Topic: Types of combinations**
   LO 1
   Answer: d

   Rationale: In a stock acquisition, Argo reports the cost as Investment in Ballentine. For all the others, Argo reports each asset and liability acquired, at fair value.

2. **Topic: Types of combinations**
   LO 1
   Answer: c

   Rationale: In a stock acquisition, the parent and subsidiary remain separate legal entities with separate books. To present consolidated financial statements, it is necessary to use a working paper to combine the separate accounts. With the other types of business combinations, the acquirer reports the individual assets and liabilities acquired directly on its books, and no working paper is required.

3. **Topic: Measuring and reporting assets and liabilities acquired**
   LO 2
   Answer: c

   Rationale: IPR&D and brand names are capitalized as intangible assets.
   $100,000,000 – $2,000,000 – $3,000,000 – $8,000,000 = $87,000,000

4. **Topic: Measuring and reporting assets and liabilities acquired**
   LO 2
   Answer: b

   Rationale: The entry to record the acquisition is *(in thousands)*:

Current assets	400	
Plant & equipment, net	30,000	
Patents & copyrights	20,000	
Customer lists	2,000	
Favorable leases	7,000	
Goodwill	73,600	
Liabilities		33,000
Consideration paid		100,000

5. **Topic: Measurement of consideration paid**
LO 2
Answer: d

Rationale: Registration fees are netted out of additional paid-in capital.
$30,000,000 fair value – $2,000,000 registration fees – $1,000,000 par value = $27,000,000

6. **Topic: Measurement of consideration paid**
LO 2
Answer: d

Rationale: The acquisition entry is as follows:

Identifiable net assets	50,000,000	
Merger expenses	3,500,000	
Goodwill	60,200,000	
Cash		25,500,000
Capital stock		88,000,000
Earnout liability		200,000

7. **Topic: Subsequent changes in acquisition values**
LO 3
Answer: b

Rationale: This is a correction of the original acquisition entry, since it relates to facts in existence at the date of acquisition, and it is within the one year constraint. The correction is:

Goodwill	1,000,000	
Liability		1,000,000

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

Rationale:

Cost		$25,000,000
Fair value of identifiable net assets:		
Current assets	$ 6,500,000	
Plant assets	60,000,000	
Intangibles	35,000,000	
Current liabilities	(4,000,000)	
Noncurrent liabilities	(67,000,000)	30,500,000
Gain		$ 5,500,000

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

Rationale: The entry to record the acquisition is *(in thousands)*:

Current assets	500	
Plant & equipment, net	15,000	
IPR&D	22,000	
Goodwill	28,500	
Liabilities		16,000
Consideration paid		50,000

10. **Topic: Preacquisition contingency**
LO 5
Answer: b

Rationale: The reduction in the liability occurs outside of the measurement period, and results in a gain, reported in income.