FINAL EXAM

Course # 171044
Business Combinations & Consolidated Reporting

based on the electronic .pdf file(s):

Business Combinations And Consolidated Financial Reporting
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7 CPE Credit Hours
Accounting & Auditing

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Chapter 1 - Business Combinations

1. The pooling of interests method was eliminated

   - ______ In 2001
   - ______ In 2003
   - ______ In 2008
   - ______ In 2012

2. The purchase method is no longer acceptable for new business combinations having fiscal years beginning after

   - ______ December 15, 2001
   - ______ December 15, 2003
   - ______ December 15, 2008
   - ______ December 15, 2012

3. Which of the following is NOT a reason for a company to expand through a combination, rather than by building new facilities?

   - ______ A combination might provide cost efficiencies.
   - ______ A combination might provide an opportunity to invest in a company without having to take responsibility for its financial results.
   - ______ A combination might provide more product offerings.
   - ______ A combination might provide increased market share.

4. The two new standards reflected in the Codification as ASC 805, Business Combinations, and ASC 810, Consolidation, which require prospective treatment for business combinations having fiscal years beginning after December 15, 2008, mandate what is referred to as the

   - ______ Pooling-of interest method.
   - ______ Purchase method.
   - ______ Push-down method.
   - ______ Acquisition method.

5. Historically, much of the controversy concerning accounting requirements for business combinations involved the ________ method.

   - ______ Purchase
   - ______ Pooling of interests
   - ______ Equity
   - ______ Acquisition

6. A statutory merger differs from a statutory consolidation because

   - ______ A statutory merger dissolves all but one of the prior entities, but a statutory consolidation dissolves all of the prior entities.
   - ______ A statutory consolidation dissolves all but one of the prior entities, but a statutory merger dissolves all of the prior entities.
   - ______ A statutory merger is created when two entities join, but a statutory consolidation is created when more than two entities join.

- ______ A statutory consolidation is created when two entities join, but a statutory merger is created when more than two entities join.

7. Durer Inc. acquired Sea Corporation in a business combination and Sea Corp went out of existence. Sea Corp developed a patent listed as an asset on Sea Corp's books at the patent office filing cost. In recording the combination,
   - ______ Fair value is not assigned to the patent because the research and development costs have been expensed by Sea Corp.
   - ______ Sea Corp's prior expenses to develop the patent are recorded as an asset by Durer at purchase.
   - ______ The patent is recorded as an asset at fair market value.
   - ______ The patent's market value increases goodwill.

8. In a business combination, which of the following will occur?
   - ______ All identifiable assets and liabilities are recorded at fair value at the date of acquisition.
   - ______ All identifiable assets and liabilities are recorded at book value at the date of acquisition.
   - ______ Goodwill is recorded if the fair value of the net assets acquired exceeds the book value of the net assets acquired.
   - ______ None of the above is correct.

9. Pepper Company paid $2,500,000 for the net assets of Salt Corporation and Salt was then dissolved. Salt had no liabilities. The fair values of Salt's assets were $3,750,000. Salt's only non-current assets were land and buildings with book values of $100,000 and $520,000, respectively, and fair values of $180,000 and $730,000, respectively. At what value will the buildings be recorded by Pepper?
   - ______ $730,000
   - ______ $520,000
   - ______ $210,000
   - ______ $0

10. Under the acquisition method, in a business combination, when the fair value of net assets acquired exceeds the fair value of consideration transferred, which of the following statements is correct?
    - ______ A gain from a bargain purchase is recognized for the amount that the fair value of net assets acquired exceeds the fair value of consideration transferred.
    - ______ The difference is allocated first to reduce proportionately (according to market value) non-current assets, then to non-monetary current assets, and any negative remainder is classified as a deferred credit.
    - ______ The difference is allocated first to reduce proportionately (according to market value) non-current assets, and any negative remainder is classified as an extraordinary gain.
    - ______ The difference is allocated first to reduce proportionately (according to market value) non-current, depreciable assets to zero, and any negative remainder is classified as a deferred credit.

11. With respect to goodwill, an impairment
    - ______ Will be amortized over the remaining useful life.
    - ______ Is a two-step process which analyzes each business segment of the entity.
    - ______ Is a one-step process considering the entire firm.
    - ______ Occurs when asset values are adjusted to fair value in a purchase.

12. Picasso Co. issued 5,000 shares of its $1 par common stock, valued at $100,000, to acquire shares of Seurat Company in an all-stock transaction. Picasso paid the investment bankers

$35,000 and will treat the investment banker fee under the acquisition method as

- ______ An operating expense for the current year.
- ______ A prior period adjustment to retained earnings.
- ______ Additional goodwill on the consolidated balance sheet.
- ______ A reduction to additional paid-in capital.

13. According to Accounting Standards Update (ASU) No. 2010-22 (August 2010), Accounting for Various Topics, fees to an investment banker for underwriting services related to a business combination or purchase of an asset should be

- ______ Expensed.
- ______ Allocated between acquisition-related services and debt issue costs based on fair value.
- ______ Recognized as part of the Investment in Subsidiary.
- ______ Treated as a reduction to Additional Paid in Capital.

14. Push-down accounting

- ______ Requires a subsidiary to use the same accounting principles as its parent company.
- ______ Is required when the parent company uses the equity method to account for its investment in a subsidiary.
- ______ Is required when the parent company uses the cost method to account for its investment in a subsidiary.
- ______ Requires the subsidiary to record the subsidiary's assets and liabilities at fair value at the acquisition date.

15. According to the acquisition method, liabilities assumed in an acquisition will be valued at the ________.

- ______ Historical cost
- ______ Business fair value
- ______ Current replacement cost
- ______ Present value using market interest rates

16. Under the acquisition method, Bargain purchases

- ______ Are recognized as income on transaction closing date.
- ______ Reduce noncurrent assets proportionately; any excess is extraordinary gain.
- ______ Increase current assets.
- ______ Are ignored.

17. Under the acquisition method, in process R&D costs are

- ______ Capitalized at cost
- ______ Expensed
- ______ Amortized
- ______ Capitalized at fair value

18. Under Accounting Standards Update (ASU) No. 2010-29 in December 2010, if a calendar year-end company completed a business combination in April 2X13, disclosures would be provided as if the business combination occurred

- ______ As of December 31, 2X12
- ______ As of April 30, 2X13

______ As of January 1, 2X13

______ As December 31, 2X13

Chapter 2 - Consolidated Financial Reporting

19. A parent corporation owns 55% of the outstanding voting common stock of one domestic subsidiary. The parent has control over the subsidiary. Which of the following statements is correct?

    ______ The parent corporation must prepare consolidated financial statements for the economic entity.

    ______ The parent corporation must use the fair value method.

    ______ The parent company may use the equity method but the subsidiary cannot be consolidated.

    ______ The parent company can use the equity method or the fair value/cost method.

20. A subsidiary can be excluded from consolidation if

    ______ Control does not rest with the majority owner (less than 50%).

    ______ The subsidiary is in legal reorganization.

    ______ The subsidiary is operating under severe foreign-exchange restrictions.

    ______ All of the above are correct.

21. Pregler Inc. has 70% ownership of Sach Company, but should exclude Sach from its consolidated financial statements if

    ______ Sach is in a regulated industry.

    ______ Pregler uses the equity method for Sach.

    ______ Sach is in legal reorganization.

    ______ Sach is in a foreign country and records its books in a foreign currency.

22. Subsequent to an acquisition, the parent company and consolidated financial statement amounts would NOT be the same for

    ______ Investments in unconsolidated subsidiaries.

    ______ Investments in consolidated subsidiaries.

    ______ Capital stock.

    ______ Ending retained earnings.

23. A newly acquired subsidiary had pre-existing goodwill on its books. The parent company's consolidated balance sheet will

    ______ Not show any value for the subsidiary's pre-existing goodwill.

    ______ Treat the goodwill similarly to other intangible assets of the acquired company.

    ______ Not show any value for the pre-existing goodwill unless all other assets of the subsidiary are stated at their full fair value.

    ______ Always show the pre-existing goodwill of the subsidiary at its book value.

24. Noncontrolling (minority) shareholders' interests

    ______ Must be clearly identified and presented within stockholders' equity in the consolidated financial statements, but separate from the parent's equity.

    ______ Must be reflected in the "mezzanine" section of the balance sheet, between liabilities and stockholders' equity

- Must be reported on the face of the income statement along with the earnings associated with the controlling interest (parent)
- Must be presented within stockholders' equity in the consolidated financial statements along with the parent's equity.

25. Panini Corporation owns 85% of the outstanding voting stock of Strathmore Company and Malone Corporation owns the remaining 15% of Strathmore's voting stock. On the consolidated financial statements of Panini Corporation and Strathmore, Malone is
    - An affiliate.
    - A noncontrolling interest.
    - An equity investee.
    - A related party.

26. On June 1, 2X13, Puell Company acquired 100% of the stock of Sorrell Inc. On this date, Puell had Retained Earnings of $100,000 and Sorrell had Retained Earnings of $50,000. On December 31, 2X13, Puell had Retained Earnings of $120,000 and Sorrell had Retained Earnings of $60,000. The amount of Retained Earnings that appeared in the December 31, 2X13 consolidated balance sheet was
    - $120,000.
    - $130,000.
    - $170,000.
    - $180,000.

27. Perth Corporation acquired a 100% interest in Sansone Company for $1,600,000 when Sansone had no liabilities. The book values and fair values of Sansone's assets were: BOOK VALUES: Current Assets = $350,000; Equipment = $150,000, Land and Buildings = $570,000, Total Assets = $1,070,000. FAIR VALUE: Current Assets = $400,000; Equipment = $210,000, Land and Buildings = $590,000, Total Assets = $1,200,000. Immediately following the acquisition, equipment will be included on the consolidated balance sheet at
    - $150,000.
    - $200,000.
    - $210,000.
    - $280,000.

28. At the beginning of 2X13, Parling Food Services acquired a 90% interest in Simmons' Orchards when Simmons' book values of identifiable net assets equaled their fair values. On December 26, 2X13, Simmons declared dividends of $50,000, and the dividends were unpaid at year-end. Parling had not recorded the dividend receivable at December 31. A consolidated working paper entry is necessary to
    - Enter $50,000 dividends receivable in the consolidated balance sheet.
    - Enter $45,000 dividends receivable in the consolidated balance sheet.
    - Reduce the dividends payable account by $45,000 in the consolidated balance sheet.
    - Eliminate the dividend payable account from the consolidated balance sheet.

29. On consolidated working papers, a subsidiary's net income is
    - Deducted from beginning consolidated retained earnings.
    - Deducted from ending consolidated retained earnings.
    - Allocated between the noncontrolling (minority) interest share and the parent's share.
    - Only an entry in the parent company's general ledger.

30. When performing a consolidation, if the balance sheet does not balance,

- ______ that indicates that the Investment in Subsidiary account on the parent's books should not be adjusted to -0-, because there is excess value represented in the investment.
- ______ it is usually because of the noncontrolling interest, as these amounts do not appear on the companies' general ledgers.
- ______ the debit and credit totals of the adjusting/eliminating columns of the consolidation working paper should be checked to confirm that they balance, and if so, then there is no need to check the individual line items.
- ______ the amount that it is "off" will always equal the noncontrolling interest in the current year net income of the subsidiary.

31. Under the purchase method,

- ______ Noncontrolling interest on balance sheet reported as percentage of book value of subsidiary net assets.
- ______ Each additional purchase (step) requires separate fair value allocations and amortization.
- ______ In the year of the acquisition, show 100% of full-year acquiree income and expense and deduct preacquisition income for the months not owned.
- ______ All of the above

32. The accounting for noncontrolling interests (ASC 810-10-65-1A) is to be applied prospectively for fiscal years beginning

- ______ On or after December 15, 2008.
- ______ After November 15, 2009.
- ______ On the acquisition date.
- ______ On or after December 15, 2012.

33. Which of the following statements is NOT true?

- ______ Combined financial statements present the financial status and operating results of legally separate entities, related by common ownership, as if they were a single entity.
- ______ Consolidated financial statements are prepared when the parent has control over its affiliates.
- ______ When combined financial statements are prepared, intercompany transactions and profits are added.
- ______ The major difference between combined and consolidated financial statements is that in the former none of the combining companies has an ownership interest in any of the other combining companies.

34. Which of the following items should be treated in the same manner in both combined financial statements and consolidated statements? I) Different Fiscal Periods, II) Foreign Operations

- ______ Neither I nor II
- ______ II, but not I
- ______ Both I and II
- ______ I, but not II

35. In the preparation of consolidated financial statements, which of the following intercompany transactions must be eliminated as part of the preparation of the consolidation working papers?

- ______ All revenues, expenses, gains, losses, receivables, and payables
- ______ All revenues, expenses, gains, and losses but not receivables and payables
- ______ Receivables and payables but not revenues, expenses, gains, and losses

______ Only sales revenue and cost of goods sold

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