13-134
UWUCC: AP-2/11/14
Senate: Info-2/25/14

Undergraduate Distance Education Review Form

(Required for all courses taught by distance education for more than one-third of teaching contact hours.)

Existing and Special Topics Course

Course: ACCT 401 ADVANCED ACCOUNTING

Instructor(s) of Record: RONALD WOAN

Phone: 7243577565 **Email:** RONWOAN@IUP.EDU

Step Two: Departmental/Dean Approval

Recommendation: ☑ Positive (The objectives of this course can be met via distance education)

☐ Negative

1/29/2014
Signature of Department Designee Date

Endorsed: 1/30/2014
Signature of College Dean Date

Forward form and supporting materials to Liberal Studies Office for consideration by the University-wide Undergraduate Curriculum Committee. Dual-level courses also require review by the University-wide Graduate Committee for graduate-level section.

Step Three: University-wide Undergraduate Curriculum Committee Approval

Recommendation: ☒ Positive (The objectives of this course can be met via distance education)

☐ Negative

Gail S Sechrist 2/12/14
Signature of Committee Co-Chair Date

Forward form and supporting materials to the Provost within 30 calendar days after received by committee.

Step Four: Provost Approval

☑ Approved as distance education course ☐ Rejected as distance education course

Timothy S. Moerland 2/17/14
Signature of Provost Date

Forward form and supporting materials to Associate Provost.

RECEIVED
FEB 17 2014
ASSOCIATE PROVOST OFFICE

FEB 12 2014
Liberal Studies

Received
FEB 4 2014
Liberal Studies

Undergraduate Distance Education Review Form
(Required for all courses taught by distance education for more than one-third of teaching contact hours)

Existing and Special Topics Course

Course: ACCT 401 Advanced Accounting
Instructor(s) of Record:
Ronald Woan, Ph.D. and Seung Hwan Kim, Ph.D.
Phone: 7-7565 (Woan) & 7-5742 (Kim)
Email: ronwoan@iup.edu (Woan) & seung.kim@iup.edu (Kim)

Step One: **Proposers**

A. Provide a brief narrative rationale for each of the items, A1- A5.

1. **How is/are the instructor(s) qualified in the distance education delivery method as well as the discipline?**

Dr Ronald Woan

- In his twenty-one years at IUP, Dr Ronald Woan has developed and taught several on-line and hybrid courses. These include ACCT 201, ACCT 202, ACCT311 and ACCT401.
- Dr. Woan has taught the Advanced Accounting course for many years both at IUP and elsewhere.
- Dr. Woan has published an academic research article dealing with Advanced Accounting issues in a refereed academic journal.
- Dr. Woan has used Pearson's *MyAccountingLab/MyLabMastering*, McGraw-Hill's *Connect Accounting,* WebCT, Moodle and D2L for course deliveries.
- Dr. Woan is approved by the Graduate School for graduate instruction, and is classified as being Academically Qualified according to the standards of the Association to Advance Collegiate Schools of Business (AACSB).

Dr. Seung Hwan Kim

- Dr. Kim received his master's and doctorate in accounting from Southern Illinois University Carbondale.
- Since 2008, Dr. Kim has taught various accounting courses.
- Dr. Kim has published an academic research article in a refereed academic journal.
- Dr. Kim has experience with various learning management systems (*WebCT, Blackboard,* Pearson's *MyAccountingLab,* McGraw-Hill's *Connect Accounting* and *D2L*).
- Dr. Kim is academically qualified by the standards of the Association to Advance Collegiate Schools of Business (AACSB International) and is approved for graduate instruction by the Graduate School of IUP.

2. **How will <u>each objective</u> in the course be met using distance education technologies?**

For all objectives;

1. The instructor will develop and set-up all of the required learning resources on IUP's Learning Management System (LMS) and the textbook publisher's on-line learning electronic platform.

2. This on-line course will require students to purchase the textbook and the textbook's on-line access code so that they can complete on-line homework and other on-line assignments.
3. The on-line course will also use IUP's Learning Management System (LMS) to provide learning resources and assessments for students. These include course materials, quizzes, exams, assignments, video, and discussion board.
4. During the semester, the instructor will respond to student emails on a daily basis and will monitor the discussion board.
5. The LMS will display individual student grades so that students can monitor their cumulative grade as the semester progresses.

Objectives

At the completion of this course students should be able to meet the following objectives:

1. To deepen and widen students' knowledge of partnership accounting by exposing them to complex situations of organization, operation and liquidation of partnerships.
   - To meet this objective, students should (preferably in this order):
     i. Read the chapters in the text book and take appropriate notes
     ii. Read through the power point slides provided on the LMS
     iii. Complete two on-line homework assignments scheduled by the instructor. Students have three attempts to complete each homework question
     iv. Attempt two one-hour quizzes, available on McGraw-Hill's *Connect Accounting*. Students will have two attempts with the higher scores used for grading.
2. To give the students a background in agency and branch accounting which serves as an introduction to the more complex issues of business combinations and consolidations.
   - To meet this objective, students should (preferably in this order):
     i. Read the chapters in the text book and take appropriate notes
     ii. Read through the power point slides provided on the LMS
     iii. Complete two on-line homework assignments scheduled by the instructor. Students have three attempts to complete each homework question
     iv. Attempt two one-hour quizzes, available on McGraw-Hill's *Connect Accounting*. Students will have two attempts with the higher scores used for grading.
3. To give adequate coverage of accounting for business combinations and preparation of consolidated financial statements in fairly complex situations in accordance with the applicable accounting pronouncements.
   - To meet this objective, students should (preferably in this order):
     i. Read the chapters in the text book and take appropriate notes
     ii. Read through the power point slides provided on the LMS
     iii. Complete two on-line homework assignments scheduled by the instructor. Students have three attempts to complete each homework question
     iv. Attempt two one-hour quizzes, available on McGraw-Hill's *Connect Accounting*. Students will have two attempts with the higher scores used for grading.

4. To discuss accounting for installment sales and consignments and highlight the revenue recognition, valuation, taxation and other principles related to the topic.

   - To meet this objective, students should (preferably in this order):
     i. Read the chapters in the text book and take appropriate notes
     ii. Read through the power point slides provided on the LMS
     iii. Complete two on-line homework assignments scheduled by the instructor. Students have three attempts to complete each homework question
     iv. Attempt two one-hour quizzes, available on McGraw-Hill's *Connect Accounting*. Students will have two attempts with the higher scores used for grading.

5. To give the students exposure to fund and fiduciary accounting.

   - To meet this objective, students should (preferably in this order):
     i. Read the chapters in the text book and take appropriate notes
     ii. Read through the power point slides provided on the LMS
     iii. Complete two on-line homework assignments scheduled by the instructor. Students have three attempts to complete each homework question
     iv. Attempt two one-hour quizzes, available on McGraw-Hill's *Connect Accounting*. Students will have two attempts with the higher scores used for grading.

3. How will instructor-student and student-student, if applicable, interaction take place?

Instructor interaction with the students will occur on different levels and times throughout the course. They are;

i. At the beginning of the course during the presentation of the syllabus and overall orientation of the student to distance education, (week one).
ii. During the course in the presentation of new materials and in response to general questions and comments raised by students, (weeks two to fourteen).
iii. Individualize assistance during scheduled online office hours.
iv. Instructor participation via the discussion board, (weeks one to fifteen).

Student-to-student and student-to-instructor interaction will take place via the discussion board and email.

4. **How will student achievement be evaluated?**

Student achievement will be determined by several criteria:

a. On-line homework assignments. Ten homework assignments will be required. Software provided by the textbook publisher will be used to assign homework and assist the instructor in scoring and monitoring the student's progress. Instructors will allow students to attempt the homework up to three times. The software provides students with instant feedback on their answer. It also provides the students with the opportunity to work additional problems and check their answers. The highest score attained by a student counts towards his/her final grade.

b. On-line quizzes. Ten quizzes will be given on-line to allow the student to determine their competency of the course concepts. Students will be allowed two attempts to obtain the highest score for the quizzes. The quiz questions will be algorithmic thereby requiring students to work every question on each attempt. The higher score on each attempt counts towards the student's final grade.

c. Exams. Five ninety minutes on-line exams will be required. Students have only one attempt for each exam.

5. **How will academic honesty for tests and assignments be addressed?**

The course syllabus will detail the university's Academic Integrity Policy and it will be a part of the course on-line orientation. Students will also be asked to acknowledge the receipt of this policy and their understanding of the consequence relating to academic dishonesty. Class assignments, quizzes and exams will be designed, monitored and implemented in such a way as to reduce the student's opportunities to cheat or plagiarize. Examples include:

a. The allotted time and window for completing the quiz and exam will restrict each student's opportunities to seek external assistance.

b. Quiz and exam questions will be algorithmic and scrambled so that no two exams are exactly the same.

c. The ability to print quiz and exam questions and answers will be blocked.

Since the issue of academic honesty is of major concern in the delivery on distance learning courses, as new techniques are developed to reduce dishonest behavior, they will be incorporated into the course.

Appendix A: Current Syllabus of Record

Syllabus of Record Format – ACCT401/501

I. Catalog Description

ACCT 401 Advanced Accounting

3 Credits
3 Lecture hours
3c-01-3cr

Prerequisite: ACCT 305

A study of accounting issues of specialized nature including partnerships, organization and liquidation, agency and branch accounting, accounting for business combinations, preparation of consolidated financial statements, accounting for government and not-for-profit entities, accounting for estates and trusts, and receivership accounting.

II. Course Objectives

1. To deepen and widen students' knowledge of partnership accounting by exposing them to complex situations of organization, operation and liquidation of partnerships.
2. To give the students a background in agency and branch Accounting which serves as an introduction to the more complex issues of business combinations and consolidations.
3. To give adequate coverage of accounting for business combinations and preparation of consolidated financial statements in fairly complex situations in accordance with the applicable accounting pronouncements.
4. To discuss accounting for installment sales and consignments and highlight the revenue recognition, valuation, taxation and other principles related to the topic.
5. To give the students exposure to fund and fiduciary accounting.

III. Course Outline

1. Partnership Organization and Operation

    1) Characteristics of partnership
    2) Points to be covered in a partnership contract
    3) Owners' equity accounts for partners
    4) Loans to and from partners
    5) Various profit sharing arrangements
    6) Income Statement presentation for a partnership
    7) Statement of partners' capitals
    8) Admission of a new partner (Purchase of an interest by direct payment to one or more partners, acquisition of an interest by investment using bonus and goodwill methods, bonus or goodwill allowed to a new partner)
    9) Retirement of a partner
        a. Computing the settlement price
        b. Payment of bonus to retiring partner
        c. Settlement with retiring partner for less than the carrying value

2. Partnership liquidation: joint venture

    1) The meaning of dissolution and liquidation
    2) Division of loss or gain from liquidation
    3) Division of cash or partnership assets to partners at the end of the liquidation process assuming:
        a. Equity of each partner sufficient to absorb loss from liquidation
        b. Equity of one partner not sufficient to absorb his share of loss from liquidation
        c. Equities of two partners not sufficient to absorb their shares of loss from liquidation
        d. Partnership insolvent but partners personally solvent
        e. Partnership insolvent and partners personally insolvent
    4) Installment liquidation
    5) Characteristics and purposes of a joint venture
    6) Accounting for a joint venture using:
        a. Separate set of Accounting records
        b. Records of the participants

3. Accounting for Agencies and Branches

    1) Sales agency contrasted with branch
    2) Accounting system for a sales agency
    3) Accounting for reciprocal transactions in the books of home office and the books of the branch particularly for merchandise transfer when:
        a. billed at cost
        b. billed at a price in excess of cost
    4) Preparation of working paper for combined financial statements of home office and branch.
    5) Reconciliation of reciprocal accounts
    6) Transactions between branches

4. Business Combinations

    1) Reasons for business combinations
    2) Methods for arranging business combinations
        a. Statutory merger
        b. Statutory consolidation
        c. Acquisition of stock
        d. Acquisition of assets
    3) Establishing the price for a business combination
    4) Methods of accounting for business combinations
        a. Purchase Accounting
        b. Pooling of interest accounting
    5) Presentation and disclosure of business combinations in financial statements for both purchase and pooling of interest.

5. Consolidated Financial Statements at date of business combination
    1) Nature and need for consolidated financial statements
    2) Consolidation policy
    3) The meaning of "controlling financial interest"
    4) Consolidation of a wholly owned subsidiary at date of business combination assuming:
        a. Purchase
        b. Pooling of interests
    5) Consolidation of partially owned subsidiary at date of business combination assuming:
        a. Purchase
        b. Pooling-of-interests
    6) Advantages and shortcomings of consolidated financial statements

6. Consolidated financial statements subsequent to date of business combination
    1) Intercompany transactions and balances
        a. Loans on noted or open account
        b. Discounting of intercompany notes
        c. Leases of real or personal property
        d. Rendering of professional services
    2) Accounting for operating results of subsidiaries
        a. Equity method applied to pooled and purchased subsidiary
        b. Cost method applied to purchased subsidiary
    3) Preparation of consolidating financial statements working papers in situations involving intercompany transactions and balances and operating results of subsidiaries (pooled and purchased) accounted for by the equity and cost method.

7. Consolidated financial statements subsequent to date of business combination and involving intercompany profits and losses.
    1) Importance of eliminating intercompany profits and losses
    2) Intercompany sale of merchandise at cost and at a price in excess of cost: recording of the transaction and illustration of consolidation eliminations.
    3) Intercompany sale of property and equipment and intangible assets at cost and at a profit: recording of transaction and illustration of consolidation eliminations.
    4) Purchase of affiliates' bonds at a price higher or lower than the carrying amount: recording of the transaction and illustration of consolidation.

8. Consolidated financial statements: Special problems
    1) Installment acquisition of parent company's controlling interest in a subsidiary
    2) Changes in parent company's ownership interest in a subsidiary
    3) Subsidiary with preferred stock
    4) Stock dividends distributed by a subsidiary
    5) Treasury stock transactions of a subsidiary
    6) Parent company stock owned by a subsidiary
    7) Accounting for income taxes for a consolidated entity

9. Bankruptcy and corporate reorganization
    1) An introduction – explanation of the terms insolvent and bankrupt

2) An overview of the Bankruptcy Act
3) Ordinary bankruptcy (voluntary and involuntary)
4) Acts of bankruptcy
5) Role of court in ordinary bankruptcy
6) Financial condition of debtor company: the statement of affairs
7) Accounting and reporting for receiver or trustee
8) Statement of realization and liquidation
9) Arrangements
    a. Petition for arrangement
    b. Appointment of receiver or control by debtor
    c. Role of creditors
    d. Confirmation of arrangement
    e. Accounting for an arrangement
    f. Footnote disclosure of arrangements
10) Corporate Reorganization
    a. Petition for reorganization
    b. Appointment of trustee
    c. Plan or reorganization
    d. Accounting for a corporate reorganization
    e. Footnote disclosure of corporate reorganization
    f. Comparison between reorganization and arrangement

10. Installment sales and consignments
    1) Installment sales
        a. Characteristics of installment sales
        b. Methods of recognizing profits on installment sales (at time of sale, on cost recovery basis and on installment basis)
        c. Single sale of real estate on the installment plan
        d. Sales of merchandise on the installment plan by a dealer – recording transactions and adjusting entries
        e. Other accounting issues relating to installment sales (default and repossessions, trade-ins, interest on installment contracts receivables)
        f. The installment method of accounting for installment sales and income taxes
        g. Financial statement presentation of installment sales.
    2) Consignments
        a. The meaning of consignments
        b. Distinguishing between a consignment and a sale
        c. The right duties of the consignee
        d. The account sales
        e. Accounting methods for consignee
        f. Accounting methods for consignor
        g. Accounting for partial sale of consigned goods
        h. Return of unsold goods by consignee
        i. Advances from consignee

11. Accounting for government and not-for-profit entities
    1) Accounting for government entities

    a. Cash, accrual and modified accrual basis of accounting
    b. Recording the budget
    c. Illustration of accounting for several funds (general fund, special revenue funds, debt service funds, capital projects funds, enterprise funds, trust and agency funds, intragovernmental service funds, special assessment funds) and the financial statements for those funds.
    d. The general fixed assets and general long-term debt account groups

2) Accounting for not-for-profit entities
    a. Characteristics of not-for-profit entities
    b. Illustration of accounting and reporting for various funds (unrestricted fund, restricted fund, endowment fund, agency fund, annuity and life income fund, loan fund, plant fund)

12. Accounting for estates and trusts

1) Accounting for estates
    a. Provisions of uniform probate code governing estates
    b. Provisions of revised uniform principle and income act governing estates
    c. Illustration of accounting and reporting for an estate

2) Accounting for trusts
    a. Provisions of uniform probate code governing trusts
    b. Provisions of revised uniform principle and income act governing trusts
    c. Illustration of accounting and reporting for a trust

IV. Evaluation Methods

V. Example Grading Scale

A = 90 –100
B = 80—89
C = 70—79
D = 60—69
F = Less than 60

VI. Undergraduate Course Attendance Policy

"The university expects all students to attend class." Your attendance and participation in classroom activities is an important component in the overall learning environment and is therefore strongly encouraged. Although attendance is not mandatory, failure to attend classes will impair your level of performance on the chapter tests, exams, and your ability to complete the homework assignments and in-class exercises.

VII. Required Textbook

VIII. Special Resource Requirements

None

IX. Bibliography

Appendix B: Proposed Distance Education Syllabus of Record

Indiana University of Pennsylvania
On-line Syllabus of Record
ACCT401 Advanced Accounting

3c-01-3cr

Instructor:	Ronald Woan, Associate Professor
Office:	418F Eberly College of Business & Information Technology
Phone:	724-357-7565 (Office)
E-Mail:	ronwoan@iup.edu
Office Hours:	On-line office hours are between 10am and 12pm from Monday to Saturday (EST). Student emails will be replied to within 24 hours of receipt.
Class section:	On-line
Credits:	3
Prerequisite:	ACCT 305.
Required Text:	"Advanced Financial Accounting" by Christensen, Cottrell and Baker, Tenth Edition, McGraw-Hill IRWIN 2014 (including McGraw-Hill *Connect Accounting* access code)

I. Catalog Description

A study of accounting issues of specialized nature including partnerships, organization and liquidation, agency and branch accounting, accounting for business combinations, preparation of consolidated financial statements, accounting for government and not-for-profit entities, accounting for estates and trusts, and receivership accounting.

II. Objectives

At the completion of this course students should be able to meet the following objectives:

1. To deepen and widen students' knowledge of partnership accounting by exposing them to complex situations of organization, operation and liquidation of partnerships.
2. To give the students a background in agency and branch accounting which serves as an introduction to the more complex issues of business combinations and consolidations.
3. To give adequate coverage of accounting for business combinations and preparation of consolidated financial statements in fairly complex situations in accordance with the applicable accounting pronouncements.
4. To discuss accounting for installment sales and consignments and highlight the revenue recognition, valuation, taxation and other principles related to the topic.
5. To give the students exposure to fund and fiduciary accounting.

III. Course Outline

Chapter 1. Intercorporate Acquisition and Investments in Other Entities
Chapter 2. Reporting Intercorporate Investments and Consolidation of Wholly- Owned Subsidiaries with No Differential
Chapter 3. The Reporting entity and Consolidation of Less-than-Wholly-Owned Subsidiaries with No Differential
Chapter 4. Consolidation of Wholly -Owned Subsidiaries Acquired at More than Book Value
Chapter 5. Consolidation of Less-than-Wholly -Owned Subsidiaries Acquired at More than Book Value
Chapter 6. Intercompany Inventory Transactions
Chapter 7. Intercompany Transfers of Noncurrent Assets and Services
Chapter 8. Intercompany Indebtedness
Chapter 15. Partnerships: Formation, Operation, and Changes in Membership
Chapter 16. Partnerships: Liquidation

IV. Assessment Procedures

Success in this course is contingent upon each student being fully prepared for item of assessment. These include homework, quizzes, exams and projects. Readiness is enhanced by reading the textbook and practicing the end-of-chapter questions. Students are allowed three attempts for each homework question, two attempts for each quiz question, and one attempt for each exam. The highest score on each type of assessment counts towards the student's final grade.

During quizzes and each exam, students are not permitted to seek the assistance from another person. Students are to complete the exams alone. Suggestions of student collusion will be thoroughly investigated and penalties might be imposed.

Your final course grade will be computed based on the following 100 percent.

	Percentages (%)
On-line homework	10
On-line quizzes	10
Exam I	16
Exam II	16
Exam III	16
Exam IV	16
Exam V	16
Total	100

To get an A, a student must earn 90% or higher of the total points; B, 80% to less than 90%; C, 70% to less than 80%; D, 60% to less than 70% and F, below 60%.

Office Hours

The instructor's office hours are on-line only. They are shown on the first page of this syllabus. Student emails will be replied to within 24 hours of receipt during the week and 48 hours of receipt during weekend.

Final Comments

Accounting is not a spectator subject; it demands student engagement in order for learning to occur. The subject materials are cumulative, i.e., to comprehend one chapter material entails the understanding of the prior chapters' materials. To achieve reasonable competency, students must work on the subject materials in a continuous manner.

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ACCT401 via Distance Education

Class Schedule

Week	**Topic**
1	Read Chapter 1. Complete the on-line homework and Quiz on Chapter 1
2	Read Chapter 2. Complete the on-line homework and Quiz on Chapter 2
3	Review: Chaps. 1 & 2 in preparation for Exam I
3	**EXAM-I: Chaps. 1 & 2**
4	Read chapter 3. Complete the on-line homework and Quiz on Chapter 3
5	Read chapter 4. Complete the on-line homework and Quiz on Chapter 4
6	Review: Chaps. 3 & 4 in preparation for Exam II
6	**EXAM-II: Chaps. 3 & 4**
7	Read chapter 5. Complete the on-line homework and Quiz on Chapter 5
8	Read Chapter 6. Complete the on-line homework for Chapter 6. Complete the Quiz on Chapter 6.
9	Review: Chaps. 5 & 6 in preparation for Exam III
9	**EXAM-III: Chaps. 5 & 6**
10	Read Chapter 7. Complete the on-line homework and the Quiz on Chapter 7
11	Read Chapter 8. Complete the on-line homework and the Quiz on Chapter 8
12	Review: Chaps. 7 & 8 in preparation for Exam IV (Graduate students: Term paper due)
12	**EXAM-IV: Chaps. 7 & 8**
13	Read Chapter 15. Complete the on-line homework and the Quiz on Chapter 7
14	Read Chapter 16. Complete the on-line homework and the Quiz on Chapter 8
15	Review: Chaps. 15 & 16 in preparation for final exam
15	**FINAL EXAM: Chaps. 15 & 16**

Appendix C: Sample Lesson

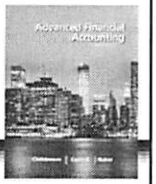
Topic

INTERCORPORATE ACQUISITIONS AND INVESTMENTS IN OTHER ENTITIES

Part 1: Powerpoint Slides
Part 2: Sample of On-line Homework
Part 3: Sample of On-line Quiz

Part 1: Powerpoint Slides

Chapter 1



Intercorporate Acquisitions and Investments in Other Entities

McGraw-Hill/Irwin

Learning Objective 1-1

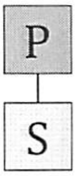
Understand and explain different methods of business expansion, the types of organizational structures, and the types of acquisitions.

Development of Complex Business Structures

- **Reasons for Enterprise expansion**
  - Size often allows economies of scale
  - New earning potential
  - Earnings stability through diversification
  - Management rewards for bigger company size
  - Prestige associated with company size

Organizational Structure and Business Objectives

- A ***subsidiary*** is a corporation that is controlled by another corporation, referred to as a ***parent company***.
  - Control is usually through majority ownership of its common stock.
- Because a subsidiary is a separate legal entity, the parent's risk associated with the subsidiary's activities is limited.



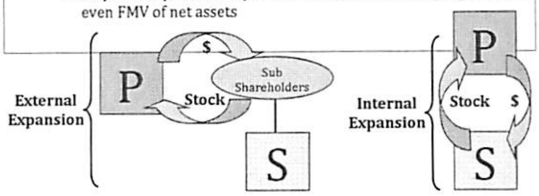
Organizational Structure and Ethical Considerations

- **Manipulation of financial reporting**
  - The use of subsidiaries or other entities to borrow money without reporting the debt on their balance sheets
  - Using special entities to manipulate profits
  - Manipulation of accounting for mergers and acquisitions
    - Pooling-of-interests allowed for manipulation
    - The FASB did away with it and modified acquisition accounting

---

Business Expansion: The Big Picture

- **Two Types of Expansion**
  - Internal Expansion
    - Investment account (Parent) = BV of net assets (Sub)
  - External Expansion
    - Acquisition price usually is not the same as BV, carrying value, or even FMV of net assets



Business Expansion for Within

- New entities are created
  - subsidiaries
  - partnerships
  - joint ventures
  - special entities
- Motivating factors:
  - Helps establish clear lines of control and facilitate the evaluation of operating results
  - Special tax incentives
  - Regulatory reasons
  - Protection from legal liability
  - Disposing of a portion of existing operations

Business Expansion

- A spin-off
  - Occurs when the ownership of a newly created or existing subsidiary is distributed to the parent's stockholders without the stockholders surrendering any of their stock in the parent company.
- A split-off
  - Occurs when the subsidiary's shares are exchanged for shares of the parent, thereby leading to a reduction in the outstanding shares of the parent company.

Control: How?

- The Usual Way
  - Owning more than 50% of the subsidiary's outstanding voting stock (50% plus only 1 share will do it)
- The Unusual Way
  - Having contractual agreements or financial arrangements that effectively achieve control
    - Informal arrangements
    - Formal agreements
      - Consummation of a written agreement requires recognition on the books of one or more of the companies that are a party to the combination.

Forms of Organizational Structure

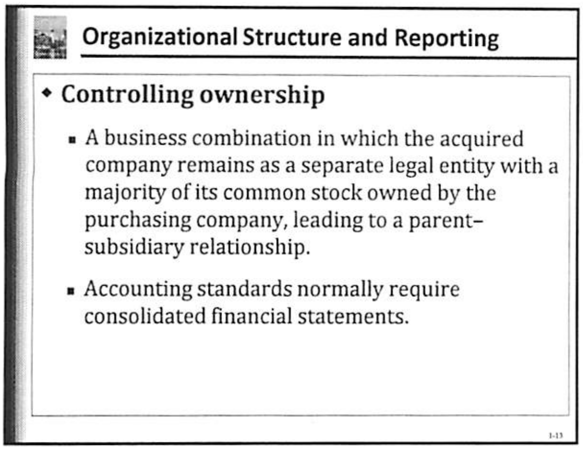
- Expansion through business combinations
  - Entry into new product areas or geographic regions by acquiring or combining with other companies.
  - A **business combination** occurs when "... an acquirer obtains control of one or more businesses."
  - The concept of control relates to the ability to direct policies and management.

Frequency of Business Combinations

- 1960s – Merger boom
  - Conglomerates
- 1980s – Increase in the number of business combinations
  - Leveraged buyouts and the resulting debt
- 1990s – All previous records for merger activity shattered
- Downturn of the early 2000s, and decline in mergers
- Increased activity toward the middle of 2003 that accelerated through the middle of the decade
  - Role of private equity
- Effect of the credit crunch of 2007-2008

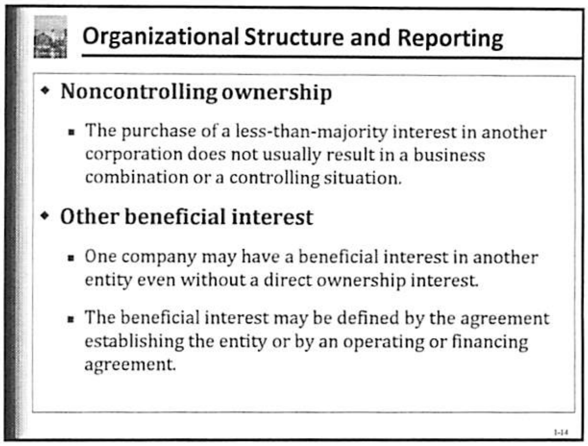
Organizational Structure and Reporting

- Merger
  - A business combination in which the acquired company's assets and liabilities are combined with those of the acquiring company, resulting in no additional organizational components.
- Financial reporting is based on the original organizational structure.



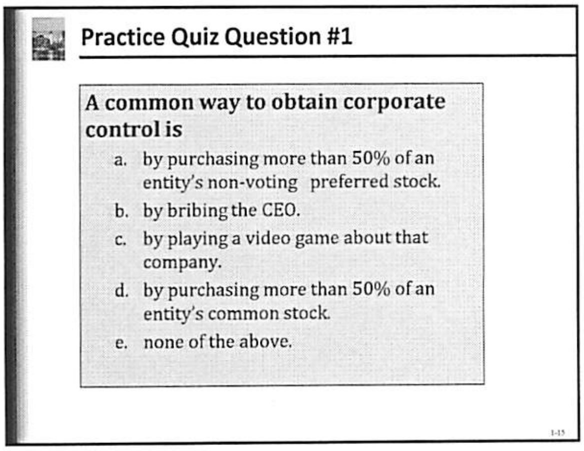
Organizational Structure and Reporting

- **Controlling ownership**
  - A business combination in which the acquired company remains as a separate legal entity with a majority of its common stock owned by the purchasing company, leading to a parent-subsidiary relationship.
  - Accounting standards normally require consolidated financial statements.



Organizational Structure and Reporting

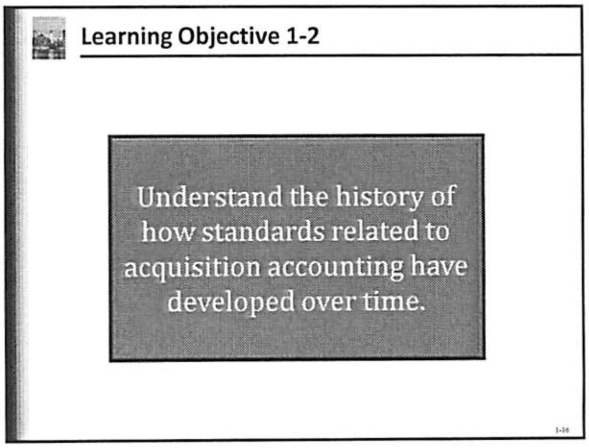
- **Noncontrolling ownership**
  - The purchase of a less-than-majority interest in another corporation does not usually result in a business combination or a controlling situation.
- **Other beneficial interest**
  - One company may have a beneficial interest in another entity even without a direct ownership interest.
  - The beneficial interest may be defined by the agreement establishing the entity or by an operating or financing agreement.



Practice Quiz Question #1

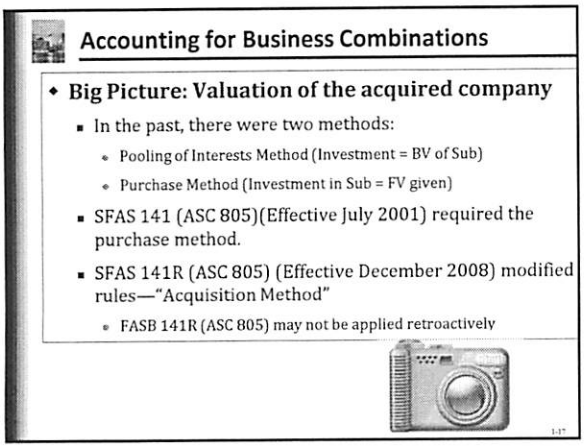
A common way to obtain corporate control is

a. by purchasing more than 50% of an entity's non-voting preferred stock.
b. by bribing the CEO.
c. by playing a video game about that company.
d. by purchasing more than 50% of an entity's common stock.
e. none of the above.



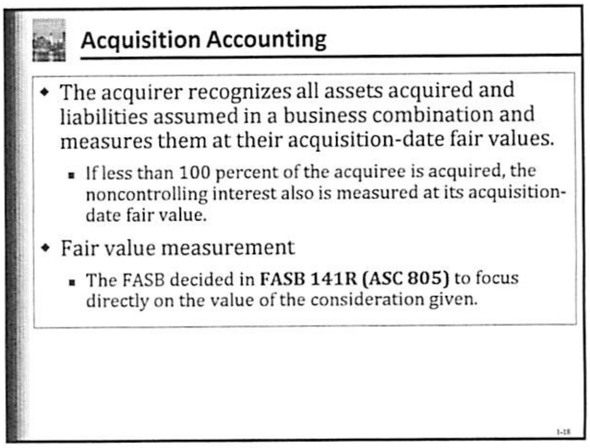
Learning Objective 1-2

Understand the history of how standards related to acquisition accounting have developed over time.



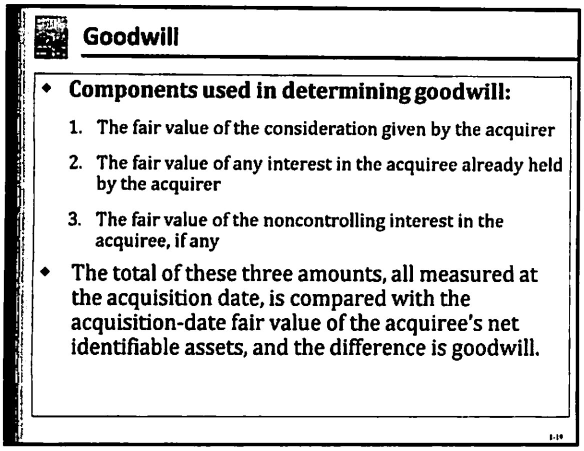
Accounting for Business Combinations

- **Big Picture: Valuation of the acquired company**
  - In the past, there were two methods:
    - Pooling of Interests Method (Investment = BV of Sub)
    - Purchase Method (Investment in Sub = FV given)
  - SFAS 141 (ASC 805)(Effective July 2001) required the purchase method.
  - SFAS 141R (ASC 805) (Effective December 2008) modified rules—"Acquisition Method"
    - FASB 141R (ASC 805) may not be applied retroactively



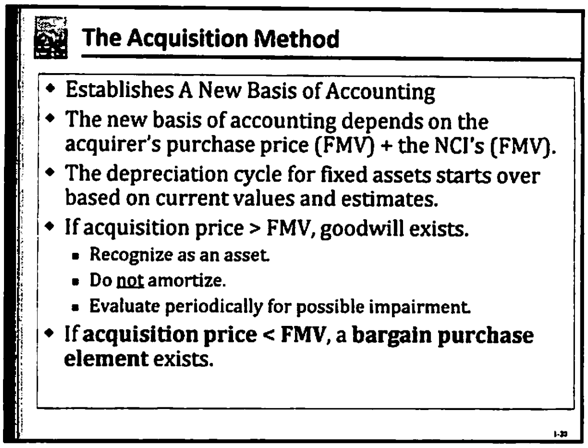
Acquisition Accounting

- The acquirer recognizes all assets acquired and liabilities assumed in a business combination and measures them at their acquisition-date fair values.
  - If less than 100 percent of the acquiree is acquired, the noncontrolling interest also is measured at its acquisition-date fair value.
- Fair value measurement
  - The FASB decided in **FASB 141R (ASC 805)** to focus directly on the value of the consideration given.



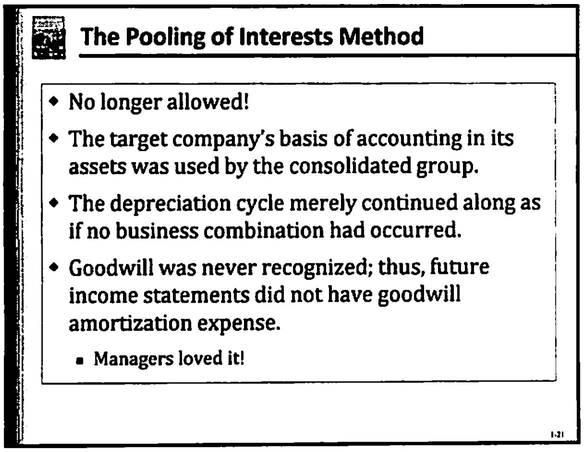
Goodwill

- **Components used in determining goodwill:**
  1. The fair value of the consideration given by the acquirer
  2. The fair value of any interest in the acquiree already held by the acquirer
  3. The fair value of the noncontrolling interest in the acquiree, if any
- The total of these three amounts, all measured at the acquisition date, is compared with the acquisition-date fair value of the acquiree's net identifiable assets, and the difference is goodwill.



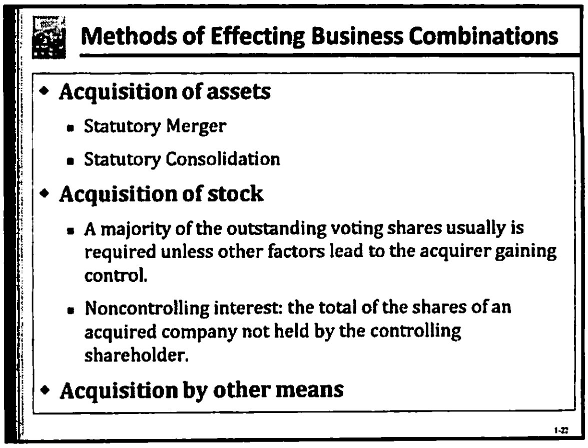
The Acquisition Method

- Establishes A New Basis of Accounting
- The new basis of accounting depends on the acquirer's purchase price (FMV) + the NCI's (FMV).
- The depreciation cycle for fixed assets starts over based on current values and estimates.
- If acquisition price > FMV, goodwill exists.
  - Recognize as an asset.
  - Do not amortize.
  - Evaluate periodically for possible impairment.
- If **acquisition price < FMV**, a **bargain purchase element** exists.



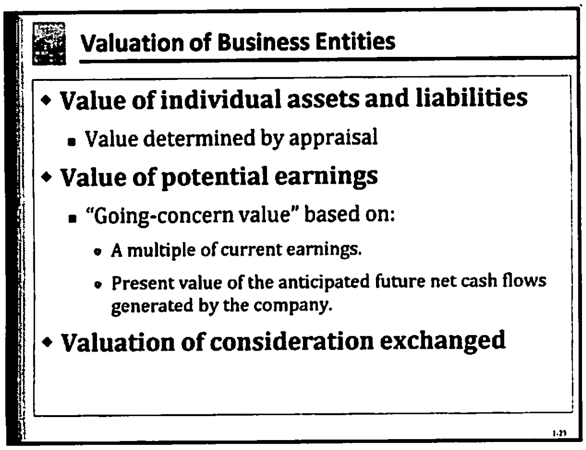
The Pooling of Interests Method

- No longer allowed!
- The target company's basis of accounting in its assets was used by the consolidated group.
- The depreciation cycle merely continued along as if no business combination had occurred.
- Goodwill was never recognized; thus, future income statements did not have goodwill amortization expense.
  - Managers loved it!



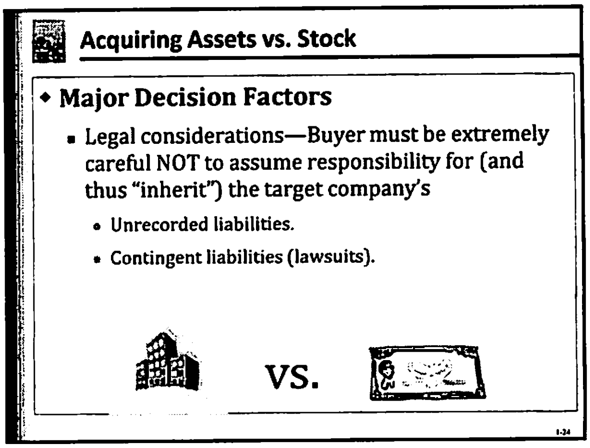
Methods of Effecting Business Combinations

- **Acquisition of assets**
  - Statutory Merger
  - Statutory Consolidation
- **Acquisition of stock**
  - A majority of the outstanding voting shares usually is required unless other factors lead to the acquirer gaining control.
  - Noncontrolling interest: the total of the shares of an acquired company not held by the controlling shareholder.
- **Acquisition by other means**



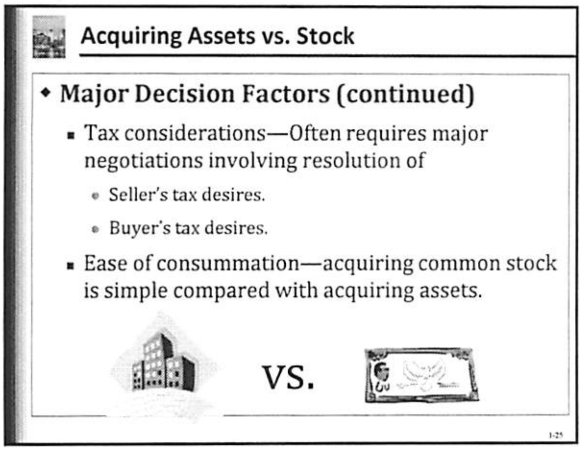
Valuation of Business Entities

- **Value of individual assets and liabilities**
  - Value determined by appraisal
- **Value of potential earnings**
  - "Going-concern value" based on:
    - A multiple of current earnings.
    - Present value of the anticipated future net cash flows generated by the company.
- **Valuation of consideration exchanged**



Acquiring Assets vs. Stock

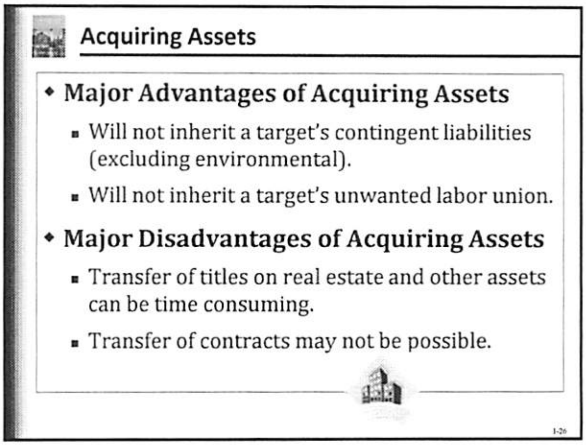
- **Major Decision Factors**
  - Legal considerations—Buyer must be extremely careful NOT to assume responsibility for (and thus "inherit") the target company's
    - Unrecorded liabilities.
    - Contingent liabilities (lawsuits).



Acquiring Assets vs. Stock

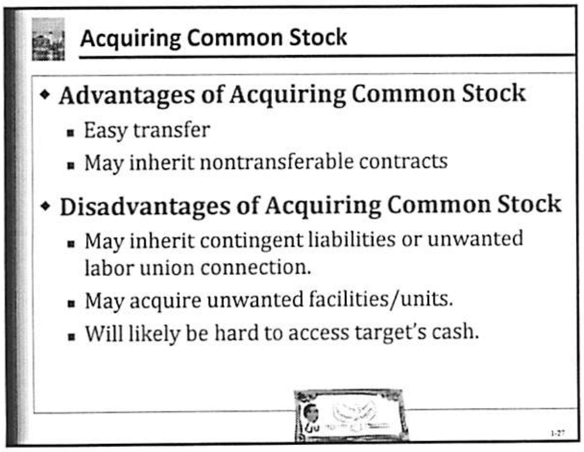
- **Major Decision Factors (continued)**
  - Tax considerations—Often requires major negotiations involving resolution of
    - Seller's tax desires.
    - Buyer's tax desires.
  - Ease of consummation—acquiring common stock is simple compared with acquiring assets.

VS.



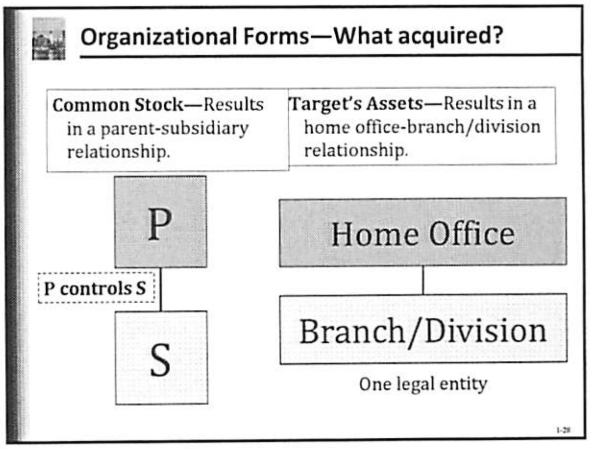
Acquiring Assets

- **Major Advantages of Acquiring Assets**
  - Will not inherit a target's contingent liabilities (excluding environmental).
  - Will not inherit a target's unwanted labor union.
- **Major Disadvantages of Acquiring Assets**
  - Transfer of titles on real estate and other assets can be time consuming.
  - Transfer of contracts may not be possible.



Acquiring Common Stock

- **Advantages of Acquiring Common Stock**
  - Easy transfer
  - May inherit nontransferable contracts
- **Disadvantages of Acquiring Common Stock**
  - May inherit contingent liabilities or unwanted labor union connection.
  - May acquire unwanted facilities/units.
  - Will likely be hard to access target's cash.



Organizational Forms—What acquired?

Common Stock—Results in a parent-subsidiary relationship.

Target's Assets—Results in a home office-branch/division relationship.

One legal entity

Practice Quiz Question #4

To qualify for acquisition accounting treatment,

a. one company must acquire common stock of the other combining company.
b. a statutory consolidation must occur.
c. each company must be approximately the same size.
d. a stock-for-stock exchange must occur.
e. none of the above.

Practice Quiz Question #5

In acquisition accounting,

a. common stock must be the consideration given.
b. goodwill is not reported.
c. a statutory merger occurs.
d. a change of basis in accounting occurs.
e. none of the above.

Learning Objective 1-3

Make calculations and prepare journal entries for the creation and purchase of a business entity.

Creating Business Entities

- The company transfers assets, and perhaps liabilities, to an entity that the company has created and controls and in which it holds majority ownership.
  - The company transfers assets and liabilities to the created entity at book value, and the transferring company recognizes an ownership interest in the newly created entity equal to the book value of the net assets transferred.

Creating Business Entities

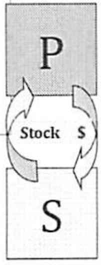
- Recognition of fair values of the assets transferred in excess of their carrying values on the books of the transferring company is not appropriate in the absence of an arm's-length transaction.
- No gains or losses are recognized on the transfer by the transferring company.

Creating Business Entities

- If the value of an asset transferred to a newly created entity has been impaired prior to the transfer and its fair value is less than the carrying value on the transferring company's books, the transferring company should recognize an impairment loss and transfer the asset to the new entity at the lower fair value.

Internal Expansion: Creating a subsidiary

- Parent sets up the new legal entity.
  - Based on state laws
- Parent transfers assets to the new company.
- Subsidiary begins to operate.
- *Example*: Parent sets up Sub and transfers $1,000 for no-par stock.



Parent:

Sub:

Practice Quiz Question #2

When a parent company creates a subsidiary through internal expansion, the parent's journal entry to transfer assets to the newly created entity will include a debit to

a. Acquisition Expense.
b. Cash.
c. Investment in Subsidiary.
d. Common Stock.
e. none of the above.

Learning Objective 1-4

Understand and explain the differences between different forms of business combinations.

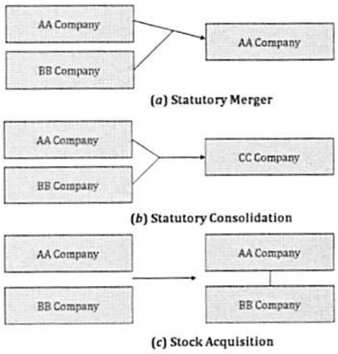
Forms of Business Combinations

- **A statutory merger**
  - The acquired company's assets and liabilities are transferred to the acquiring company, and the acquired company is dissolved, or liquidated.
  - The operations of the previously separate companies are carried on in a single legal entity.
- **A statutory consolidation**
  - Both combining companies are dissolved and the assets and liabilities of both companies are transferred to a newly created corporation.

Forms of Business Combinations

- **A stock acquisition**
  - One company acquires the voting shares of another company and the two companies continue to operate as separate, but related, legal entities.
  - The acquiring company accounts for its ownership interest in the other company as an investment.
- **Parent–subsidiary relationship**
  - For general-purpose financial reporting, a parent company and its subsidiaries present consolidated financial statements that appear largely as if the companies had actually merged into one.

Forms of Business Combinations

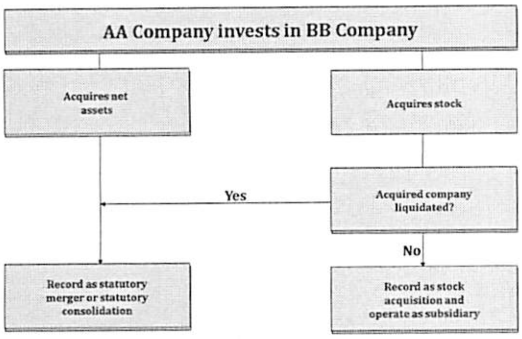


(a) Statutory Merger

(b) Statutory Consolidation

(c) Stock Acquisition

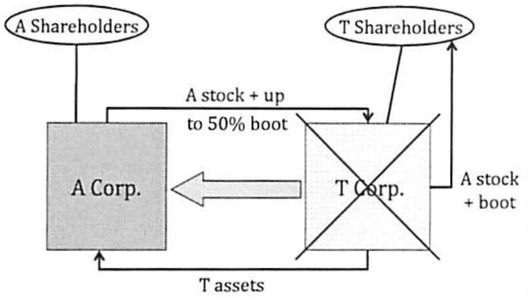
Determining the Type of Business Combination



Forms of Business Combination—Details

- **Option #1: Statutory Merger**
  - **Peaceful Merger:**
    - One entity transfers assets to another in exchange for stock and/or cash.
    - It liquidates pursuant to state laws.
  - **Hostile Takeover:**
    - One company buys the stock of another, creating a temporary parent-subsidiary relationship.
    - The *parent* then liquidates the *subsidiary* into the *parent* pursuant to state laws.
  - The result: one legal entity survives.

Statutory Merger: *Peaceful Merger*



A Shareholders

T Shareholders

A stock + up to 50% boot

A Corp.

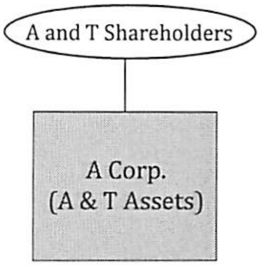
T Corp.

A stock + boot

T assets

- Need SH approval from both corporations.

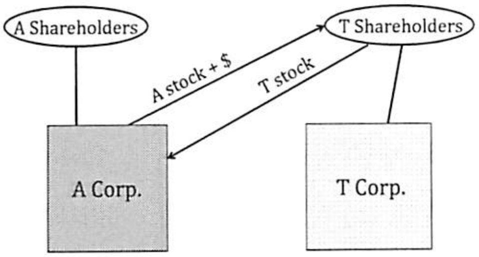
Statutory Merger: *The Result*



A and T Shareholders

A Corp.
(A & T Assets)

Statutory Merger: *Hostile Takeover*



A Shareholders

T Shareholders

A stock + $

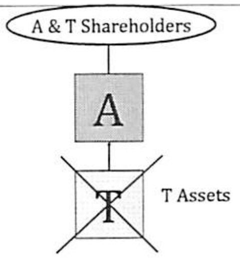
T stock

A Corp.

T Corp.

Statutory Merger: *Hostile Takeover*

- A takes all of T's assets and liquidates the corporate shell.



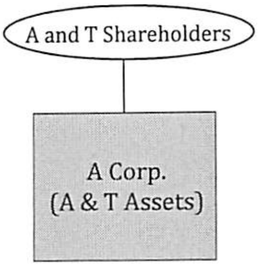
A & T Shareholders

A

T

T Assets

Statutory Merger: *The (Same) Result*

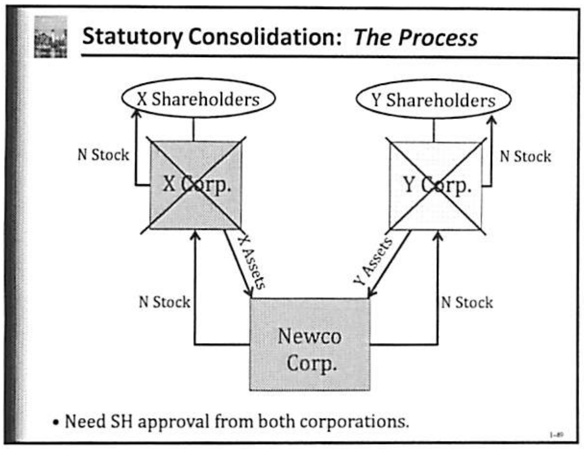


A and T Shareholders

A Corp.
(A & T Assets)

Forms of Business Combination—Details

- **Option #2: Statutory Consolidation**
  - New corporation (Newco) is created.
  - Newco issues stock to **both** combining companies in exchange for their stock.
  - Each combining company becomes a **temporary subsidiary** of Newco.
  - Both subs are **liquidated** into Newco and become **divisions**.
  - **Result: One legal entity** survives.



Statutory Consolidation: *The Process*

X Shareholders

Y Shareholders

N Stock

X Corp.

Y Corp.

N Stock

X Assets

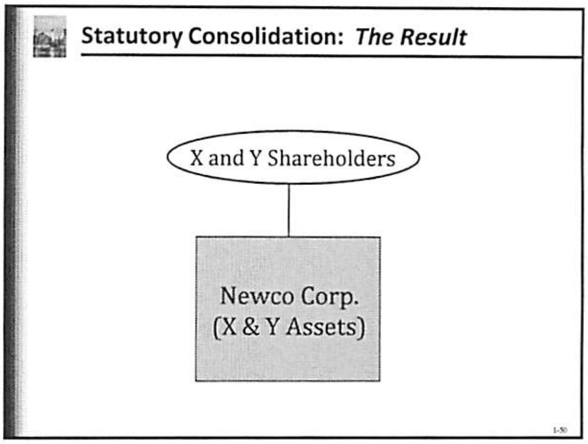
Y Assets

N Stock

N Stock

Newco Corp.

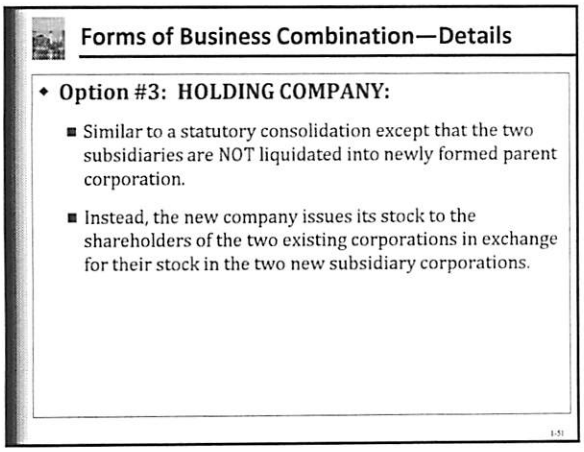
- Need SH approval from both corporations.



Statutory Consolidation: *The Result*

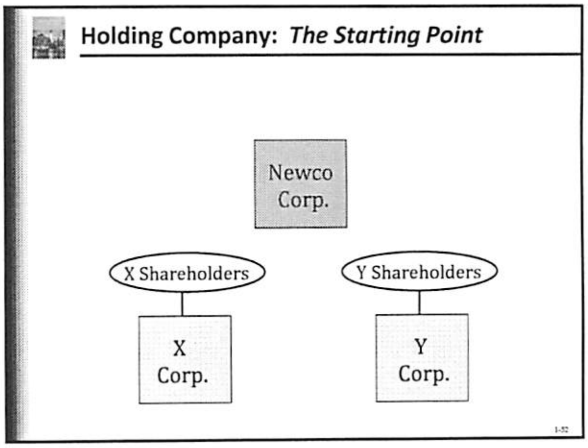
X and Y Shareholders

Newco Corp. (X & Y Assets)



Forms of Business Combination—Details

- **Option #3: HOLDING COMPANY:**
  - Similar to a statutory consolidation except that the two subsidiaries are NOT liquidated into newly formed parent corporation.
  - Instead, the new company issues its stock to the shareholders of the two existing corporations in exchange for their stock in the two new subsidiary corporations.



Holding Company: *The Starting Point*

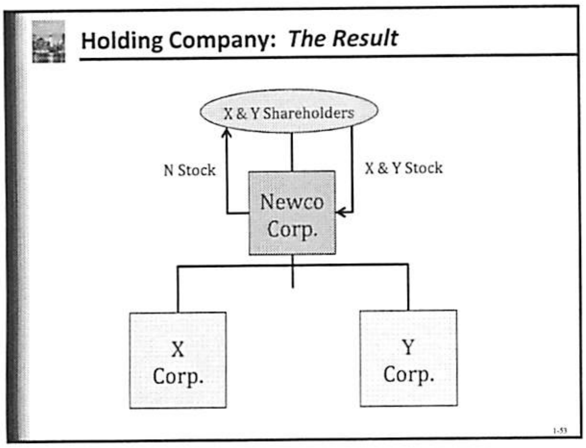
Newco Corp.

X Shareholders

Y Shareholders

X Corp.

Y Corp.



Holding Company: *The Result*

X & Y Shareholders

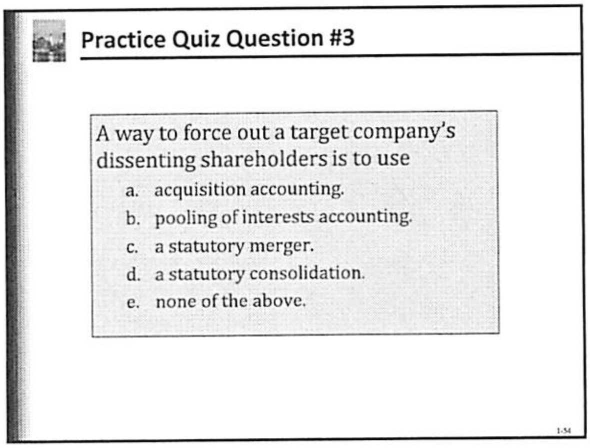
N Stock

X & Y Stock

Newco Corp.

X Corp.

Y Corp.



Practice Quiz Question #3

A way to force out a target company's dissenting shareholders is to use

a. acquisition accounting.
b. pooling of interests accounting.
c. a statutory merger.
d. a statutory consolidation.
e. none of the above.

Learning Objective 1-5

Make calculations and business combination journal entries in the presence of a differential, goodwill, or a bargain purchase element.

The Acquisition Method: Items Included in the Acquirer's Cost

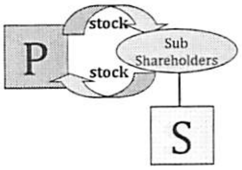
- **Category #1:** The fair value of the consideration given
- **Category #2:** Certain out-of-pocket direct costs
  - In the past, these were included in acquisition.
  - Now expense!
- **Category #3:** Contingent consideration
  - Paid subsequent to the acquisition date

Acquirer's Cost: Category 1

- **Types of Consideration:** Practically any type
  - Cash
  - Common stock
  - Preferred stock
  - Notes receivable or Bonds
  - Used trucks

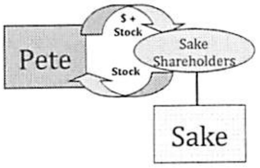
Acquirer's Cost: Category 1

- **General Rule**
  - Use the FMV of the consideration *given.*
- **Exception**
  - Use the FMV of the property *received...* if it is more readily determinable.



Group Exercise 1: *Basic Acquisition*

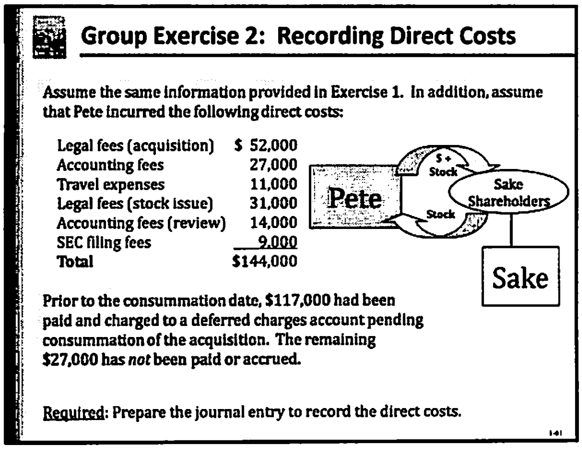
Pete Inc. acquired 100% of the outstanding common stock of Sake Inc. for $2,500,000 cash and 20,000 shares of its own common stock ($1 par value), which was trading at $50 per share at the acquisition date.



Required: Prepare the journal entry to record the acquisition.

Acquirer's Cost: Category 2

- In the past, costs traceable to the acquisition were capitalized:
  - Legal fees—the acquisition agreement
  - Purchase investigation fees
  - Finder's fees
  - Travel costs
  - Professional consulting fees
- ASC 805 requires that they be expensed in the acquisition period.
- Do not expense direct costs of issuing stock
  - Charge to Additional Paid-In Capital



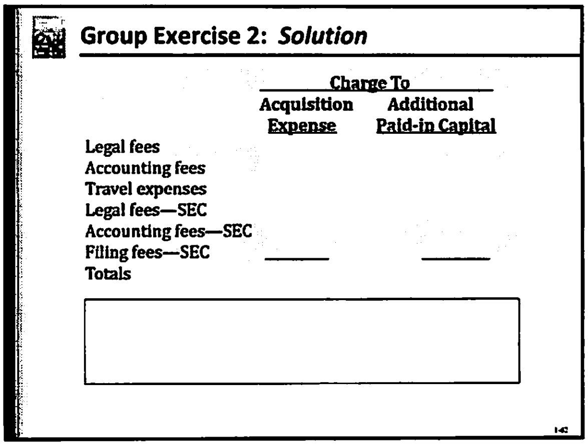
Group Exercise 2: Recording Direct Costs

Assume the same information provided in Exercise 1. In addition, assume that Pete incurred the following direct costs:

Legal fees (acquisition)	$ 52,000
Accounting fees	27,000
Travel expenses	11,000
Legal fees (stock issue)	31,000
Accounting fees (review)	14,000
SEC filing fees	9,000
Total	$144,000

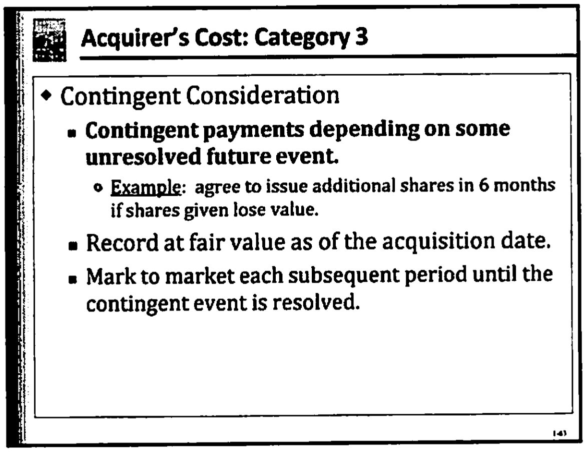
Prior to the consummation date, $117,000 had been paid and charged to a deferred charges account pending consummation of the acquisition. The remaining $27,000 has *not* been paid or accrued.

Required: Prepare the journal entry to record the direct costs.



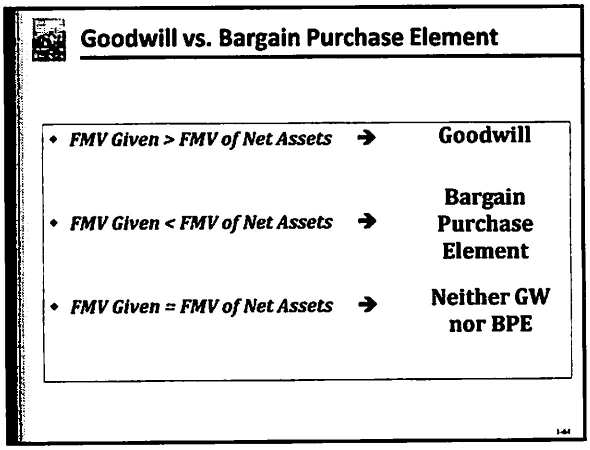
Group Exercise 2: *Solution*

	Charge To	
	Acquisition Expense	Additional Paid-in Capital
Legal fees		
Accounting fees		
Travel expenses		
Legal fees—SEC		
Accounting fees—SEC		
Filing fees—SEC		
Totals		



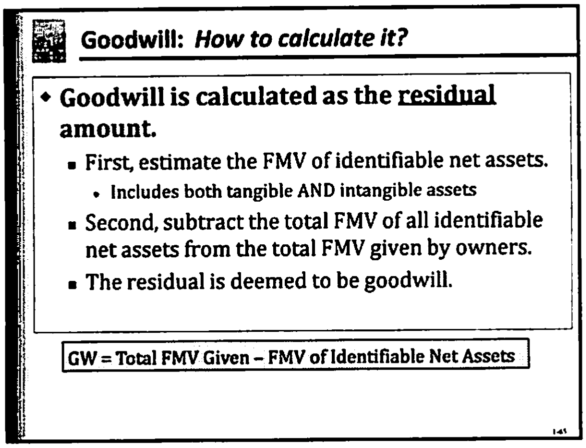
Acquirer's Cost: Category 3

- Contingent Consideration
  - **Contingent payments depending on some unresolved future event.**
    - Example: agree to issue additional shares in 6 months if shares given lose value.
  - Record at fair value as of the acquisition date.
  - Mark to market each subsequent period until the contingent event is resolved.



Goodwill vs. Bargain Purchase Element

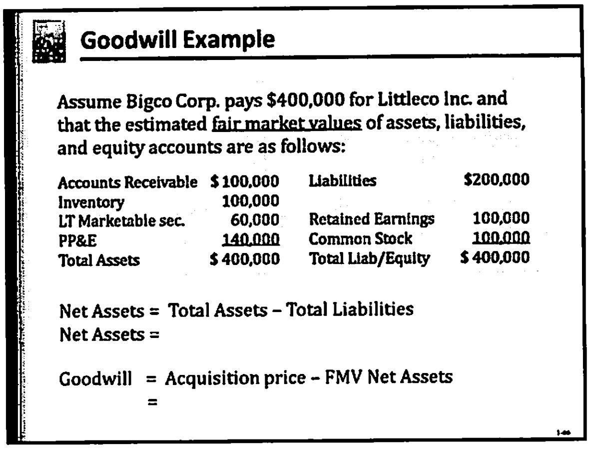
- *FMV Given > FMV of Net Assets* → **Goodwill**
- *FMV Given < FMV of Net Assets* → **Bargain Purchase Element**
- *FMV Given = FMV of Net Assets* → **Neither GW nor BPE**



Goodwill: *How to calculate it?*

- **Goodwill is calculated as the residual amount.**
  - First, estimate the FMV of identifiable net assets.
    - Includes both tangible AND intangible assets
  - Second, subtract the total FMV of all identifiable net assets from the total FMV given by owners.
  - The residual is deemed to be goodwill.

GW = Total FMV Given – FMV of Identifiable Net Assets



Goodwill Example

Assume Bigco Corp. pays $400,000 for Littleco Inc. and that the estimated fair market values of assets, liabilities, and equity accounts are as follows:

Accounts Receivable	$ 100,000	Liabilities	$200,000
Inventory	100,000		
LT Marketable sec.	60,000	Retained Earnings	100,000
PP&E	140,000	Common Stock	100,000
Total Assets	$ 400,000	Total Liab/Equity	$ 400,000

Net Assets = Total Assets – Total Liabilities
Net Assets =

Goodwill = Acquisition price – FMV Net Assets
=

Goodwill Example Continued

Journal Entry:

Goodwill: What to Do With It?

- **Goodwill**
  - Must capitalize as an asset
  - Cannot amortize to earnings
  - Must periodically (at least annually) assess for impairment
  - If impaired, must write it down—charge to earnings

Bargain Purchase Element: What to Do With It?

- **Bargain Purchase Element**
  - Still record assets and liabilities assumed at their fair values.
  - The amount by which consideration given exceeds the fair value of net assets is a gain to the acquirer.

Bargain Purchase Example

Assume Bigco Corp. pays $150,000 for Littleco Inc. and that the estimated fair market values of assets, liabilities, and equity accounts are as follows:

Accounts Receivable	$ 100,000	Liabilities	$200,000
Inventory	100,000		
LT Marketable sec.	60,000	Retained Earnings	100,000
PP&E	140,000	Common Stock	100,000
Total Assets	$ 400,000	Total Liab/Equity	$ 400,000

Net Assets = Total Assets – Total Liabilities

Net Assets =

Goodwill = Acquisition price – Net Assets

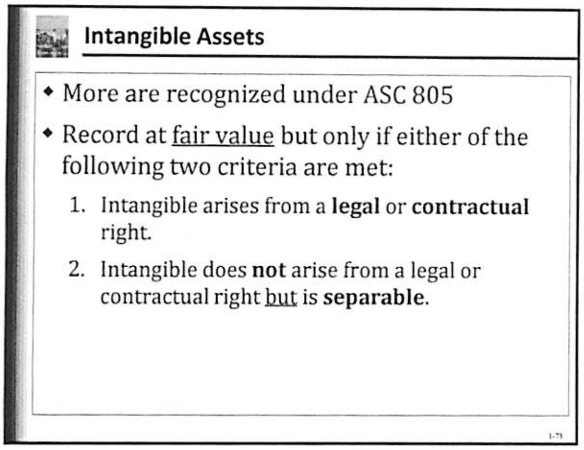
=

Goodwill Example Continued

Journal Entry:

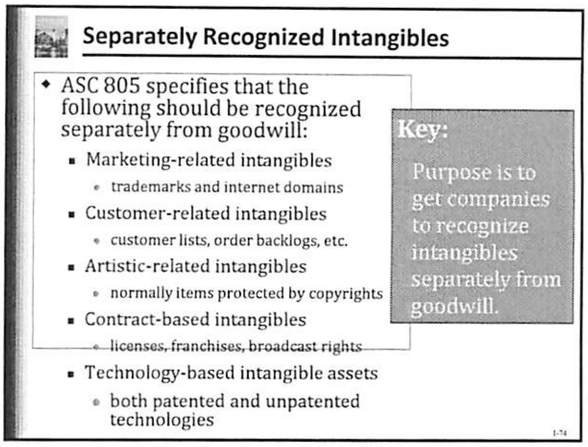
Acquisition of Intangibles

- ASC 805
  - An intangible asset should be recognized separately from goodwill only if its benefits can be separately identified.
  - Finite intangible assets should be amortized over their useful life with no arbitrary cap (i.e., no 40-year limit).
  - Some intangible assets (such as goodwill) may have an indefinite or infinite life. They should not be amortized, but tested for impairment at least annually.



Intangible Assets

- More are recognized under ASC 805
- Record at fair value but only if either of the following two criteria are met:
  1. Intangible arises from a **legal** or **contractual** right.
  2. Intangible does **not** arise from a legal or contractual right but is **separable**.

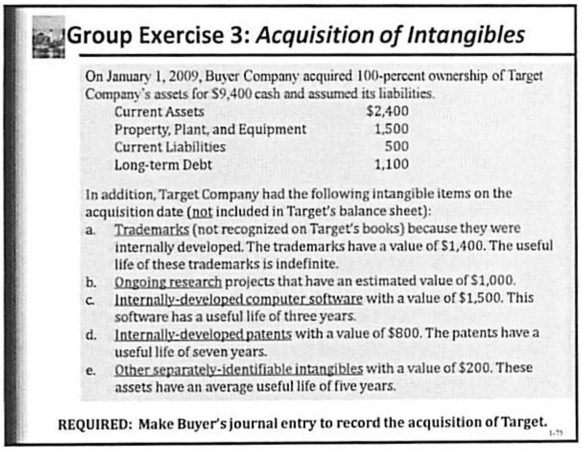


Separately Recognized Intangibles

- ASC 805 specifies that the following should be recognized separately from goodwill:
  - Marketing-related intangibles
    - trademarks and internet domains
  - Customer-related intangibles
    - customer lists, order backlogs, etc.
  - Artistic-related intangibles
    - normally items protected by copyrights
  - Contract-based intangibles
    - licenses, franchises, broadcast rights
  - Technology-based intangible assets
    - both patented and unpatented technologies

Key:

Purpose is to get companies to recognize intangibles separately from goodwill.



Group Exercise 3: *Acquisition of Intangibles*

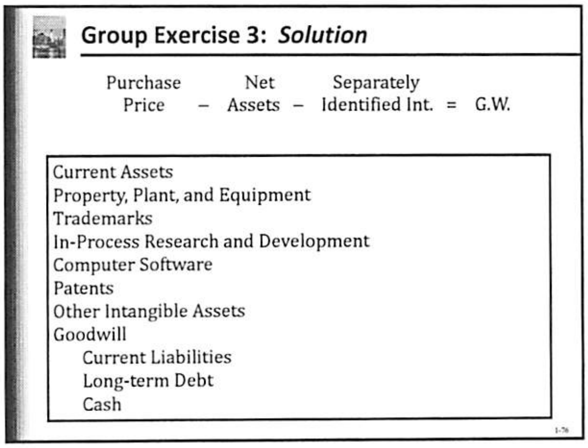
On January 1, 2009, Buyer Company acquired 100-percent ownership of Target Company's assets for $9,400 cash and assumed its liabilities.

Current Assets	$2,400
Property, Plant, and Equipment	1,500
Current Liabilities	500
Long-term Debt	1,100

In addition, Target Company had the following intangible items on the acquisition date (not included in Target's balance sheet):

a. Trademarks (not recognized on Target's books) because they were internally developed. The trademarks have a value of $1,400. The useful life of these trademarks is indefinite.
b. Ongoing research projects that have an estimated value of $1,000.
c. Internally-developed computer software with a value of $1,500. This software has a useful life of three years.
d. Internally-developed patents with a value of $800. The patents have a useful life of seven years.
e. Other separately-identifiable intangibles with a value of $200. These assets have an average useful life of five years.

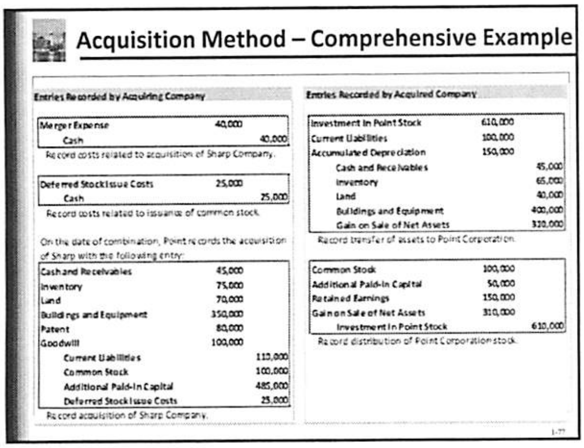
REQUIRED: Make Buyer's journal entry to record the acquisition of Target.



Group Exercise 3: *Solution*

Purchase Price – Net Assets – Separately Identified Int. = G.W.

Current Assets
Property, Plant, and Equipment
Trademarks
In-Process Research and Development
Computer Software
Patents
Other Intangible Assets
Goodwill
    Current Liabilities
    Long-term Debt
    Cash



Acquisition Method – Comprehensive Example

Entries Recorded by Acquiring Company

Merger Expense	40,000	
Cash		40,000

Record costs related to acquisition of Sharp Company.

Deferred Stock Issue Costs	25,000	
Cash		25,000

Record costs related to issuance of common stock.

On the date of combination, Point records the acquisition of Sharp with the following entry:

Cash and Receivables	45,000	
Inventory	75,000	
Land	70,000	
Buildings and Equipment	350,000	
Patent	80,000	
Goodwill	100,000	
Current Liabilities		110,000
Common Stock		100,000
Additional Paid-In Capital		485,000
Deferred Stock Issue Costs		25,000

Record acquisition of Sharp Company.

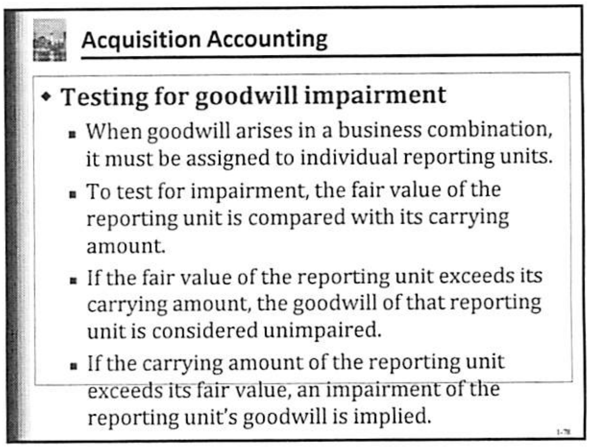
Entries Recorded by Acquired Company

Investment in Point Stock	610,000	
Current Liabilities	100,000	
Accumulated Depreciation	150,000	
Cash and Receivables		45,000
Inventory		65,000
Land		40,000
Buildings and Equipment		400,000
Gain on Sale of Net Assets		310,000

Record transfer of assets to Point Corporation.

Common Stock	100,000	
Additional Paid-In Capital	50,000	
Retained Earnings	150,000	
Gain on Sale of Net Assets	310,000	
Investment in Point Stock		610,000

Record distribution of Point Corporation stock.



Acquisition Accounting

- **Testing for goodwill impairment**
  - When goodwill arises in a business combination, it must be assigned to individual reporting units.
  - To test for impairment, the fair value of the reporting unit is compared with its carrying amount.
  - If the fair value of the reporting unit exceeds its carrying amount, the goodwill of that reporting unit is considered unimpaired.
  - If the carrying amount of the reporting unit exceeds its fair value, an impairment of the reporting unit's goodwill is implied.

Acquisition Accounting

- The amount of the reporting unit's goodwill impairment is measured as the excess of the carrying amount of the unit's goodwill over the implied value of its goodwill.
- The implied value of its goodwill is determined as the excess of the fair value of the reporting unit over the fair value of its net assets excluding goodwill.
- Goodwill impairment losses are recognized in income from continuing operations or income before extraordinary gains and losses.

Acquisition Accounting

- **Financial reporting subsequent to a business combination**
  - Financial statements prepared subsequent to a business combination reflect the combined entity only from the date of combination.
  - When a combination occurs during a fiscal period, income earned by the acquiree prior to the combination is not reported in the income of the combined enterprise.

Practice Quiz Question #6

A form of consideration that is not allowed in acquisition accounting is

a. Cash.
b. Bonds.
c. Preferred stock.
d. Common stock.
e. none of the above.

Practice Quiz Question #7

Which of the following costs can be added to the cost of an acquisition?

a. Legal fees.
b. Accounting fees.
c. Costs of issuing common stock.
d. A pro rata portion of the CEO's salary.
e. Travel costs.
f. Costs of the M&A department.
g. None of the above.

Learning Objective 1-6

Understand additional considerations associated with business combinations.

Additional Considerations

- Uncertainty in business combinations
  - Measurement Period
    - **ASC 805** allows for this period of time to properly ascertain fair values.
    - The period ends once the acquirer obtains the necessary information about the facts as of the acquisition date.
    - May not exceed one year.

Additional Considerations

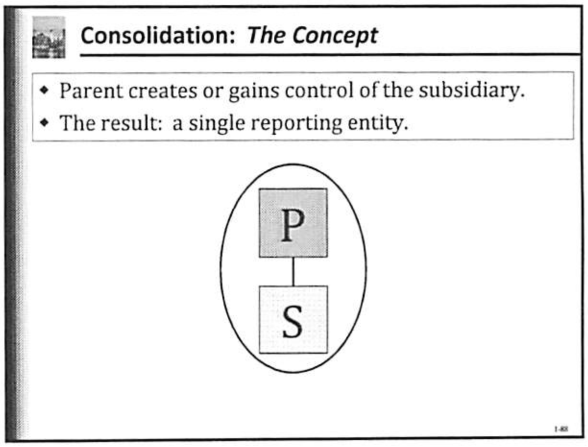
- **Contingent consideration**
  - Sometimes the consideration exchanged is not fixed in amount, but rather is contingent on future events; e.g., a contingent-share agreement
  - **ASC 805** requires contingent consideration to be valued at fair value as of the acquisition date and classified as either a liability or equity.
- **Acquiree contingencies**
  - Under **ASC 805**, the acquirer must recognize all contingencies that arise from contractual rights or obligations and other contingencies if it is more likely than not that they meet the definition of an asset/liability at the acquisition date.
  - Recorded by the acquirer at acquisition-date fair value.

Additional Considerations

- **In-process research and development**
  - The FASB concluded that valuable ongoing research and development projects of an acquiree are assets and should be recorded at their acquisition-date fair values, even if they have no alternative use.
  - These projects should be classified as indefinite-lived and, therefore, should not be amortized until completed or abandoned.
  - They should be tested for impairment.

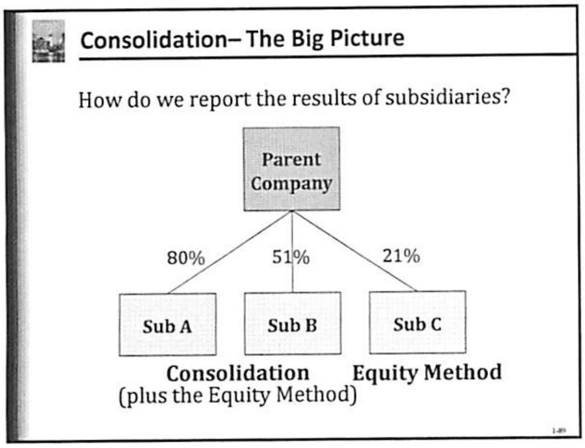
Additional Considerations

- **Noncontrolling equity held prior to combination**
  - An acquirer that held an equity position in an acquiree immediately prior to the acquisition date must revalue that equity position to its fair value at the acquisition date and recognize a gain or loss on the revaluation.
- **Acquisitions by contract alone**
  - The amount of the acquiree's net assets at the date of acquisition is attributed to the noncontrolling interest and included in the noncontrolling interest reported in subsequent consolidated financial statements.



Consolidation: *The Concept*

- Parent creates or gains control of the subsidiary.
- The result: a single reporting entity.

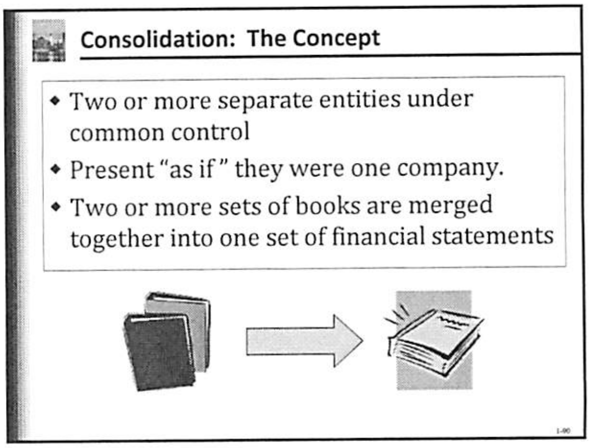


Consolidation– The Big Picture

How do we report the results of subsidiaries?

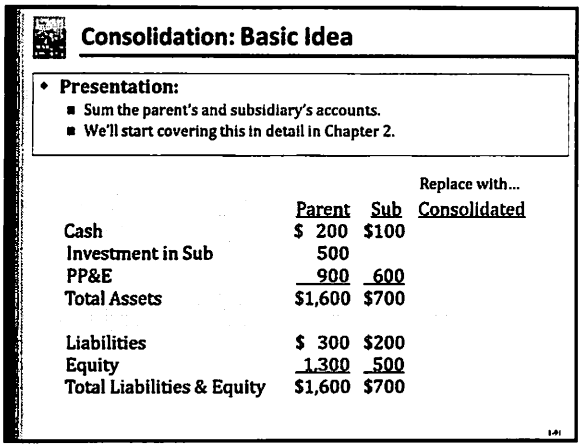
Consolidation
(plus the Equity Method)

Equity Method



Consolidation: The Concept

- Two or more separate entities under common control
- Present "as if" they were one company.
- Two or more sets of books are merged together into one set of financial statements

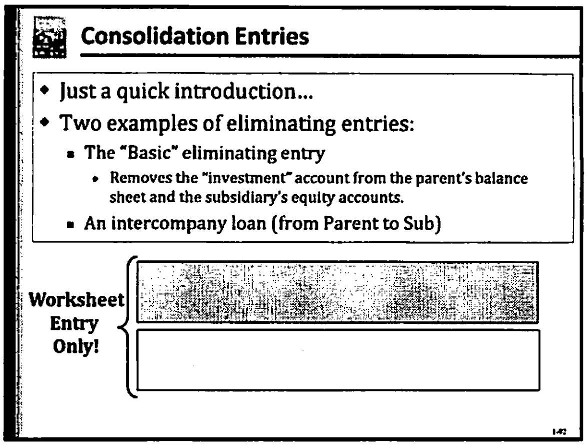


Consolidation: Basic Idea

- **Presentation:**
  - Sum the parent's and subsidiary's accounts.
  - We'll start covering this in detail in Chapter 2.

Replace with...

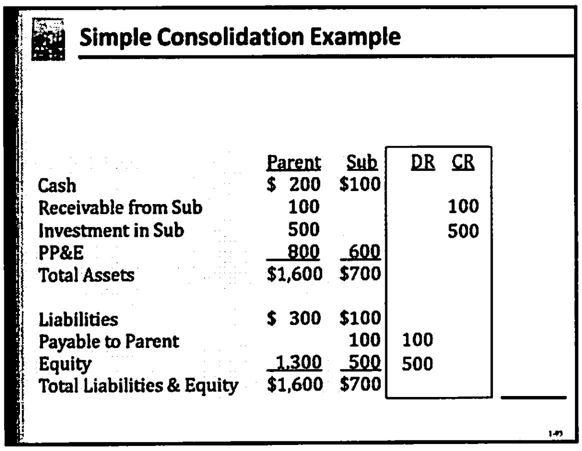
	Parent	Sub	Consolidated
Cash	$ 200	$100	
Investment in Sub	500		
PP&E	900	600	
Total Assets	$1,600	$700	
Liabilities	$ 300	$200	
Equity	1,300	500	
Total Liabilities & Equity	$1,600	$700	



Consolidation Entries

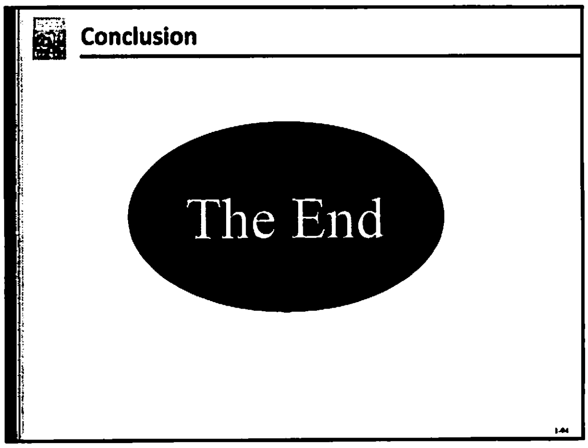
- Just a quick introduction...
- Two examples of eliminating entries:
  - The "Basic" eliminating entry
    - Removes the "investment" account from the parent's balance sheet and the subsidiary's equity accounts.
  - An intercompany loan (from Parent to Sub)

Worksheet Entry Only!



Simple Consolidation Example

	Parent	Sub	DR	CR
Cash	$ 200	$100		
Receivable from Sub	100			100
Investment in Sub	500			500
PP&E	800	600		
Total Assets	$1,600	$700		
Liabilities	$ 300	$100		
Payable to Parent		100	100	
Equity	1,300	500	500	
Total Liabilities & Equity	$1,600	$700		



Conclusion

The End

Part 2: Sample of On-line Homework

1. award:
10.00 points

Problems? Adjust credit for all students.

Ravine Corporation purchased 30 percent ownership of Valley Industries for $86,400 on Januar 20X6, when Valley had capital stock of $242,000 and retained earnings of $46,000. The following were reported by the companies for the years 20X6 through 20X9:

			Dividends Declared	
Year	Operating Income, Ravine Corporation	Net Income, Valley Industries	Ravine	Valley
20X6	$143,000	$34,000	$ 78,000	$24,000
20X7	98,000	54,000	78,000	44,000
20X8	222,000	10,000	98,000	40,000
20X9	163,000	44,000	108,000	24,000

Required:

a. What net income would Ravine Corporation have reported for each of the years, assuming Ra accounts for the intercorporate investment using the cost method and the equity method?

Net Income		
Year	**Cost Method**	**Equity Method**
20X6	$ 150,200	$ 153,200
20X7	$ 111,200	$ 114,200
20X8	$ 231,000	$ 225,000
20X9	$ 170,200	$ 176,200

b. Prepare all appropriate journal entries for 20X8 that Ravine made under both the cost and the e(methods.

Cost method:

Event	General Journal	Debit	Credit
1	Cash	12,000	
	Dividend income		9,0
	Investment in Valley stock		3,0

Equity method:

Event	General Journal	Debit	Credit
1	Cash	12,000	
	Investment in Valley stock		12,0
2	Investment in Valley stock	3,000	
	Income from Valley		3,0

Explanation:

a.
Ravine Corporation net income under Cost Method:

20X6 $143,000 + .30($24,000) = $150,200
20X7 $ 98,000 + .30($44,000) = $ 111,200
20X8 $ 222,000 + .30($20,000 + $10,000)[a] = $231,000
20X9 $163,000 + .30($24,000) = $170,200

[a] Dividends paid from undistributed earnings of prior years ($34,000 + $54,000 – $24,000 – $44,000 = $20,000) and $10,000 earnings of current period.

Ravine Corporation net income under Equity Method:

20X6 $143,000 + .30($34,000) = $153,200
20X7 $ 98,000 + .30($54,000) = $114,200
20X8 $222,000 + .30($10,000) = $225,000
20X9 $163,000 + .30($44,000) = $176,200

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2.

award:
10.00 points

Problems? Adjust credit for all students.

Small Company reported 20X7 net income of $59,000 and paid dividends of $15,000 during the
Mock Corporation acquired 30 percent of Small's shares on January 1, 20X7, for $101,000. At Decer
31, 20X7, Mock determined the fair value of the shares of Small to be $133,000. Mock repc
operating income of $81,000 for 20X7.

Required:
Compute Mock's net income for 20X7 assuming it uses

a. The cost method in accounting for its investment in Small.

Net income	$	85,500

b. The equity method in accounting for its investment in Small.

Net income	$	98,700

c. The fair value method in accounting for its investment in Small.

Net income	$	117,500

Explanation:

a.
Cost method:

Operating income reported by Mock	$81,000
Dividend income from Small ($15,000 × 0.30)	4,500
Net income reported by Mock	$85,500

b.
Equity method:

Operating income reported by Mock	$81,000
Income from investee ($59,000 × 0.30)	17,700
Net income reported by Mock	$98,700

c.
Fair value method:

Operating income reported by Mock	$ 81,000

Unrealized gain on increase in value of Small stock	32,000
Dividend income from Small ($15,000 × 0.30)	4,500
Net income reported by Mock	$117,500

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3. award: **10.00 points** Problems? Adjust credit for all students.

Blank Corporation acquired 100 percent of Faith Corporation's common stock on December 31, 2 for $191,000. Data from the balance sheets of the two companies included the following amounts a the date of acquisition:

Item	Blank Corporation	Faith Corporation
Assets		
Cash	$ 72,000	$ 30,000
Accounts Receivable	86,000	38,000
Inventory	111,000	60,000
Buildings and Equipment (net)	216,000	161,000
Investment in Faith Corporation Stock	191,000	
Total Assets	$ 676,000	$ 289,000
Liabilities and Stockholders' Equity		
Accounts Payable	$ 83,000	$ 27,000
Notes Payable	141,000	71,000
Common Stock	91,000	53,000
Retained Earnings	361,000	138,000
Total Liabilities and Stockholders' Equity	$ 676,000	$ 289,000

At the date of the business combination, the book values of Faith's net assets and liabil approximated fair value. Assume Faith Corporation's accumulated depreciation on buildings equipment on the acquisition date was $22,000.

Required:

a. Prepare all journal entries needed to prepare a consolidated balance sheet immediately following business combination.

Event	General Journal	Debit	Credit
1	Investment in Faith	191,000	
	Cash		191,0
2	Common stock	53,000	
	Retained earnings	138,000	
	Investment in Faith		191,0
3	Accumulated depreciation	22,000	
	Buildings & equipment		22,0

b. Prepare a consolidated balance sheet worksheet.

Blank & Faith Corporation's

Consolidated Balance Sheet worksheet

December 31, 20X2.

			Eli
	Blank	**Faith**	**DR**
Assets			
Cash	$ 72,000	$ 30,000	
Accounts Receivable	86,000	38,000	
Inventory	111,000	60,000	
Buildings & Equipment (net)	216,000	161,000	
Investment in Faith	191,000		
Total Assets	$ 676,000	$ 289,000	$
Liabilities and Stockholders' Equity			
Accounts Payable	$ 83,000	$ 27,000	
Notes Payable	141,000	71,000	
Common Stock	91,000	53,000	5
Retained Earnings	361,000	138,000	13
Total Liabilities and Stockholders' Equity	$ 676,000	$ 289,000	$ 19

Explanation:

a.

Book Value Calculations:

	Total Book Value	=	Common Stock	+	Retained Earnings
Ending book value	191,000		53,000		138,000

(Since the buildings and equipment are reported net of accumulated depreciation on the balance sh this entry will not affect the worksheet. However, if sufficient information had been given, this entry w have made a difference in the worksheet balances for Buildings and Equipment and Accumul Depreciation. Additionally, this entry would impact any footnote disclosure of the details of Buildings Equipment.)

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4. award: **10.00 points** Problems? Adjust credit for all students.

Trim Corporation acquired 100 percent of Round Corporation's voting common stock on Januar 20X2, for $405,000. At that date, the book values and fair values of Round's assets and liabilities v equal. Round reported the following summarized balance sheet data:

Assets	$700,000	Accounts Payable	$ 94,000
		Bonds Payable	201,000
		Common Stock	127,000
		Retained Earnings	278,000
Total	$700,000	Total	$700,000

Round reported net income of $78,000 for 20X2 and paid dividends of $16,000.

Required:

a. Prepare the journal entries recorded by Trim Corporation during 20X2 on its books if Trim acco for its investment in Round using the equity method.

Event	General Journal	Debit	Credit
1	Investment in Round Corporation	405,000	
	Cash		405,0
2	Investment in Round Corporation	78,000	
	Income from Round Corporation		78,0
3	Cash	16,000	
	Investment in Round Corporation		16,0

b. Prepare the eliminating entries needed at December 31, 20X2, to prepare consolidated fina statements.

Event	General Journal	Debit	Credit
1	Common stock	127,000	
	Retained earnings	278,000	
	Income from Round Corporation	78,000	
	Dividends declared		16,0
	Investment in Round Corporation		467,0

Explanation:

b.

Book Value Calculations:

	Total Book Value	=	Common Stock	+	Retained Earnings
Original book value	405,000		127,000		278,000
+ Net Income	78,000				78,000
− Dividends	(16,000)				(16,000)
Ending book value	467,000		127,000		340,000

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5. award:
10.00 points

Problems? Adjust credit for all students.

Peanut Company acquired 100 percent of Snoopy Company's outstanding common stock for $306
on January 1, 20X8, when the book value of Snoopy's net assets was equal to $306,000. Peanut ι
the cost method to account for investments. Trial balance data for Peanut and Snoopy as of Decer
31, 20X8, are as follows:

	Peanut Company		Snoopy Company	
	Debit	Credit	Debit	Credit
Cash	$ 236,000		$ 77,000	
Accounts Receivable	196,000		76,000	
Inventory	195,000		86,000	
Investment in Snoopy Stock	306,000		0	
Land	215,000		86,000	
Buildings and Equipment	706,000		197,000	
Cost of Goods Sold	285,000		131,000	
Depreciation Expense	53,000		16,000	
Selling & Administrative Expense	240,000		46,000	
Dividends Declared	108,000		39,000	
Accumulated Depreciation		$ 440,000		$ 32,000
Accounts Payable		73,000		58,000
Bonds Payable		183,000		92,000
Common Stock		491,000		207,000
Retained Earnings		528,000		99,000
Sales		786,000		266,000
Dividend Income		39,000		0
Total	$2,540,000	$2,540,000	$754,000	$754,000

(Assume the company prepares the optional Accumulated Depreciation Elimination Entry.)

Required:

a. Prepare the journal entries on Peanut's books for the acquisition of Snoopy on January 1, 20X
well as any normal cost method entry(ies) related to the investment in Snoopy Company during 2C

Event	General Journal	Debit	Cred
1	Investment in Snoopy Company	306,000	
	Cash		30
2	Cash	39,000	
	Dividend income		3

b. Prepare a consolidation worksheet for 20X8.

Peanut Company and Snoopy Company

Worksheet for Consolidated Financial Statements

December 31, 20X8

	Peanut Co.	Snoopy Co.	Elimina
			DR
Income Statement			
Sales	$ 786,000	$ 266,000	
Less: Cost of goods sold	(285,000)	(131,000)	
Less: Depreciation expense	(53,000)	(16,000)	
Less: Selling & Administrative expense	(240,000)	(46,000)	
Dividend income	39,000		39,00
Net income	$ 247,000	$ 73,000	$ 39,00
Statement of Retained Earnings			
Beginning balance	$ 528,000	$ 99,000	$ 99,00
Net income	247,000	73,000	39,00
Less: Dividends declared	(108,000)	(39,000)	
Ending Balance	$ 667,000	$ 133,000	$ 138,00
Balance Sheet			
Assets			
Cash	$ 236,000	$ 77,000	
Accounts receivable	196,000	76,000	
Inventory	195,000	86,000	
Investment in Snoopy Co.	306,000		
Land	215,000	86,000	
Building & Equipment	706,000	197,000	
Less: Accumulated depreciation	(440,000)	(32,000)	16,00
Total Assets	$ 1,414,000	$ 490,000	$ 16,00
Liabilities & Equity			
Accounts payable	$ 73,000	$ 58,000	
Bonds payable	183,000	92,000	
Common stock	491,000	207,000	207,00
Retained earnings	667,000	133,000	138,00
Total Liabilities & Equity	$ 1,414,000	$ 490,000	$ 345,00

Explanation:

b.

Book Value Calculations:

	Total Book Value	=	Common Stock	+	Retained Earnings
Original book value	306,000		207,000		99,000

General Journal	Debit	Credit
Investment Elimination Entry		
Common Stock	207,000	
Retained Earnings	99,000	
Investment in Snoopy Co.		306,00
Dividend Elimination		
Dividend Income	39,000	
Dividends Declared		39,00
Optional Accumulated Depreciation Elimination Entry		
Accumulated Depreciation	16,000	
Building & Equipment		16,00

The amount of this entry is found by looking at the depreciation expense ($16,000) for the year an accumulated depreciation at the end of the year ($32,000). The difference must be what wa accumulated depreciation at the date of the acquisition. Note that this assumes there were no sale other disposals of Building and equipment during the year.

	Investment in Snoopy Co.			Dividend Income		
Acquisition Price	306,000					
					39,000	Dividends
Ending Balance	306,000				39,000	Ending Balance
		306,000	Basic	39,000		
	0				0	

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6. award: **10.00 points** Problems? Adjust credit for all students.

Peanut Company acquired 100 percent of Snoopy Company's outstanding common stock for $305 on January 1, 20X8, when the book value of Snoopy's net assets was equal to $305,000. Peanut the equity method to account for investments. Trial balance data for Peanut and Snoopy as of Decer 31, 20X8, are as follows (Assume the company prepares the optional Accumulated Depreci Elimination Entry):

	Peanut Company		Snoopy Company	
	Debit	Credit	Debit	Credit
Cash	$ 150,000		$ 72,000	
Accounts Receivable	181,000		82,000	
Inventory	207,000		86,000	
Investment in Snoopy Stock	342,000		0	
Land	216,000		81,000	
Buildings & Equipment	717,000		185,000	
Cost of Goods Sold	209,000		127,000	
Depreciation Expense	59,000		14,000	
Selling & Administrative Expense	227,000		56,000	
Dividends Declared	105,000		24,000	
Accumulated Depreciation		$ 449,000		$ 28,000
Accounts Payable		60,000		45,000
Bonds Payable		195,000		91,000
Common Stock		490,000		202,000
Retained Earnings		372,000		103,000
Sales		786,000		258,000
Income from Snoopy		61,000		0
Total	$2,413,000	$2,413,000	$727,000	$727,000

Required:

a. Prepare the journal entries on Peanut's books for the acquisition of Snoopy on January 1, 20X well as any normal equity method entry(ies) related to the investment in Snoopy Company d 20X8.

Event	General Journal	Debit	Cred
1	Investment in Snoopy Company	305,000	
	Cash		30
2	Investment in Snoopy Company	61,000	
	Income from Snoopy Company		6
3	Cash	24,000	
	Investment in Snoopy Company		2

b. Prepare a consolidation worksheet for 20X8.

Peanut Company and Snoopy Company

Worksheet for Consolidated Financial Statements

December 31, 20X8

			Elimin
	Peanut Co.	Snoopy Co.	DR
Income Statement			
Sales	$ 786,000	$ 258,000	
Less: Cost of goods sold	(209,000)	(127,000)	
Less: Depreciation expense	(59,000)	(14,000)	
Less: Selling & Administrative expense	(227,000)	(56,000)	
Income from Snoopy Co.	61,000		61,0
Net income	$ 352,000	$ 61,000	$ 61,0
Statement of Retained Earnings			
Beginning balance	$ 372,000	$ 103,000	$ 103,0
Net income	352,000	61,000	61,0
Less: Dividends declared	(105,000)	(24,000)	
Ending Balance	$ 619,000	$ 140,000	$ 164,0
Balance Sheet			
Assets			
Cash	$ 150,000	$ 72,000	
Accounts receivable	181,000	82,000	
Inventory	207,000	86,000	
Investment in Snoopy co.	342,000		
Land	216,000	81,000	
Buildings & Equipment	717,000	185,000	
Less: Accumulated depreciation	(449,000)	(28,000)	14,0
Total Assets	$ 1,364,000	$ 478,000	$ 14,0
Liabilities & Equity			
Accounts payable	$ 60,000	$ 45,000	
Bonds payable	195,000	91,000	
Common stock	490,000	202,000	202,0
Retained earnings	619,000	140,000	164,0
Total Liabilities & Equity	$ 1,364,000	$ 478,000	$ 366,0

Explanation:

b.

Book Value Calculations:

	Total Book Value	=	Common Stock	+	Retained Earnings
Original book value	305,000		202,000		103,000
+ Net Income	61,000				61,000
– Dividends	(24,000)				(24,000)
Ending book value	342,000		202,000		140,000

General Journal	Debit	Credit
Basic Elimination Entry		
Common Stock	202,000	
Retained Earnings	103,000	
Income from Snoopy Co.	61,000	
Dividends Declared		24,00
Investment in Snoopy Co.		342,00
Optional Accumulated Depreciation Elimination Entry		
Accumulated Depreciation	14,000	
Building & Equipment		14,00

The amount of this entry is found by looking at the depreciation expense ($14,000) for the year and t accumulated depreciation at the end of the year (28,000). The difference must be what was in accumulated depreciation at the date of the acquisition. Note that this assumes there were no sales c other disposals of Building and equipment during the year.

	Investment in Snoopy Co.			Income from Snoopy Co.		
Acquisition Price	305,000					
Net Income	61,000				61,000	Net Income
		24,000	Dividends			
Ending Balance	342,000				61,000	Ending Balance
		342,000	Basic	61,000		
	0				0	

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7. award: **10.00 points** Problems? Adjust credit for all students.

Wealthy Manufacturing Company purchased 20 percent of the voting shares of Diversified Prod Corporation on March 23, 20X4. On December 31, 20X8, Wealthy Manufacturing's controller attem to prepare income statements and retained earnings statements for the two companies using following summarized 20X8 data:

	Wealthy Manufacturing	Diversified Products
Net Sales	$ 853,000	$402,000
Cost of Goods Sold	655,000	301,000
Other Expenses	96,000	27,000
Dividends Declared & Paid	33,000	13,000
Retained Earnings, 1/1/X8	424,000	261,000

Wealthy Manufacturing uses the equity method in accounting for its investment in Diversified Prod The controller was also aware of the following specific transactions for Diversified Products in 2 which were not included in the preceding data:

1. On June 30, 20X8, Diversified incurred a $21,000 extraordinary loss from a volcanic eruption ne Greenland facility.
2. Diversified sold its entire Health Technologies division on September 30, 20X8, for $375,000. The value of Health Technologies division's net assets on that date was $331,000. The division incurre operating loss of $34,000 in the first nine months of 20X8.
3. During 20X8, Diversified sold one of its delivery trucks after it was involved in an accident recorded a gain of $11,000.

Required:

a. Prepare an income statement and retained earnings statement for Diversified Products for 2 **(Amounts to be deducted and loss amounts should be indicated by a minus sign.)**

Diversified Products Corporation
Income Statement
Year Ended December 31, 20X8

Net sales	
Cost of goods sold	
Gross profit	
Other expenses	$ (27,000)
Gain on sale of truck	11,000
Income from continuing operations	
Discontinued operations:	
Operating loss from discontinued division	(34,000)
Gain on sale of division	44,000
Income before Extraordinary Item	
Extraordinary Item:	
Loss on volcanic activity	
Net income	

b. Prepare an income statement and retained earnings statement for Wealthy Manufacturing for 2 **(Amounts to be deducted and loss amounts should be indicated by a minus sign.)**

Wealthy Manufacturing Company

Income Statement

Year Ended December 31, 20X8

Net sales	
Cost of goods sold	
Gross profit	
Other expenses	$
Income from continuing operations of Diversified Products Corporation	
Income from continuing operations	
Discontinued operations:	
Share of operating loss reported by Diversified Produts on discontinued division	
Share of gain on sale of division reported by Diversified Products	
Income before Extraordinary Item	
Extraordinary Item:	
Share of loss on volcanic activity reported by Diversified Products	
Net income	

Wealthy Manufacturing Company

Retained Earnings Statement

Year Ended December 31, 20X8

Retained earnings, January 1, 20X8	$	424,000
Add: Net income		116,800
	$	540,800
Less: Dividends declared		(33,000)
Retained earnings, December 31, 20X8	$	507,800

Explanation:

No further explanation details are available for this problem.

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8. award: **10.00 points** Problems? Adjust credit for all students.

Idle Corporation has been acquiring shares of Fast Track Enterprises at book value for the last sev years. Fast Track provided data including the following:

	20X2	20X3	20X4	20X5
Net Income	$42,000	$56,000	$42,000	$52,000
Dividends	20,000	20,000	10,000	20,000

Fast Track declares and pays its annual dividend on November 15 each year. Its net book valu January 1, 20X2, was $269,000. Idle purchased shares of Fast Track on three occasions:

Date	Percent of Ownership Purchased	Amount Paid
January 1, 20X2	10%	$26,900
July 1, 20X3	5	18,830
January 1, 20X5	14	60,256

Required:
Prepare the journal entries to be recorded on Idle's books in 20X5 related to its investment in Fast Tr

Event	General Journal	Debit	Credit
1	Investment in Fast Track Enterprises stock	60,256	
	Cash		60,2
2	Investment in Fast Track Enterprises stock	11,000	
	Retained earnings		11,0
3	Cash	5,800	
	Investment in Fast Track Enterprises stock		5,8
4	Investment in Fast Track Enterprises stock	15,080	
	Income from Fast Track Enterprises		15,0

Explanation:

(2)
Record Pick-up of Difference Between Cost and Equity Income:

20X2 0.10($42,000 – $20,000)		$ 2,200
20X3 0.10($56,000 / 2)	$2,800	
0.15[($56,000 / 2) – $20,000]	1,200	4,000
20X4 0.15($42,000 – $10,000)		4,800
Amount of increase		$11,000

(3)
Record Dividend from Fast Track Enterprises: $20,000 × 0.29 = $5,800

(4)
Record Equity-method Income: $52,000 × 0.29 = $15,080

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Part 3: Sample of On-line Quiz

1. award:
10.00
points

During its inception, Devon Company purchased land for $100,000 and a building for $180,000. After exactly 3 years, it transferred these assets and cash of $50,000 to a newly created subsidiary, Regan Company, in exchange for 15,000 shares of Regan's $10 par value stock. Devon uses straight-line depreciation. Useful life for the building is 30 years, with zero residual value. An appraisal revealed that the building has a fair value of $200,000.

Based on the information provided, what amount would be reported by Devon Company as investment in Regan Company common stock?

→○ $312,000
○ $180,000
○ $330,000
○ $150,000

Multiple Choice	Learning Objective: 01-02 Understand the history of the development of standards related to acquisition accounting over time.
Difficulty: Medium	Learning Objective: 01-03 Make calculations and prepare journal entries for the creation and purchase of a business entity.

2. award:
10.00
points

During its inception, Devon Company purchased land for $100,000 and a building for $180,000. After exactly 3 years, it transferred these assets and cash of $50,000 to a newly created subsidiary, Regan Company, in exchange for 15,000 shares of Regan's $10 par value stock. Devon uses straight-line depreciation. Useful life for the building is 30 years, with zero residual value. An appraisal revealed that the building has a fair value of $200,000.

Based on the preceding information, Regan Company will report

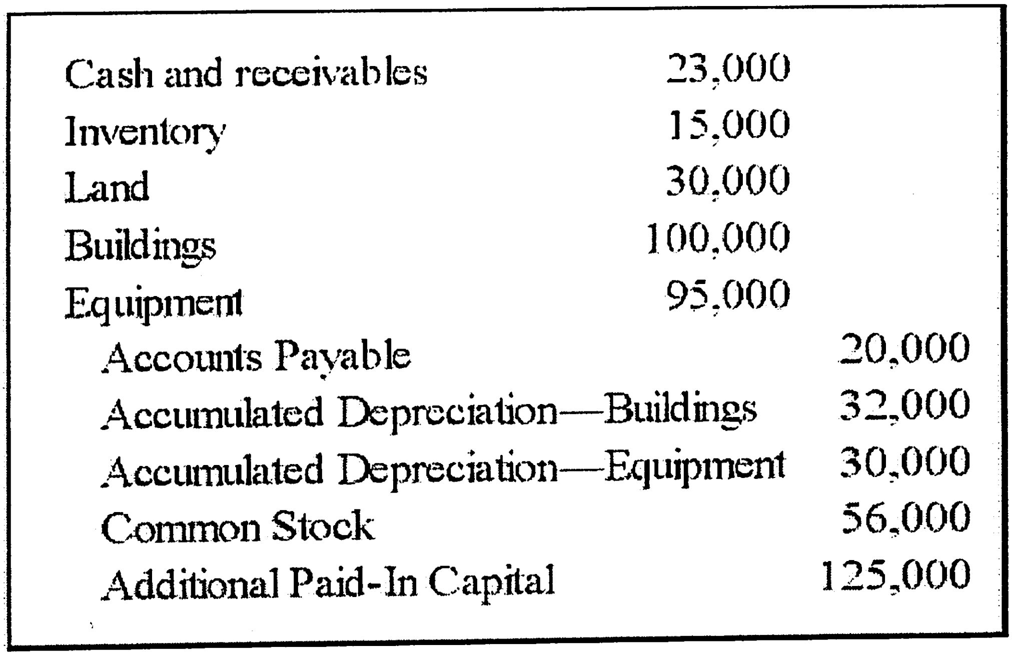
○ additional paid-in capital of $0.
○ additional paid-in capital of $150,000.
→○ additional paid-in capital of $162,000.
○ additional paid-in capital of $180,000.

Multiple Choice	Difficulty: Medium	Learning Objective: 01-03 Make calculations and prepare journal entries for the creation and purchase of a business entity.

3.

award:
10.00
points

In order to reduce the risk associated with a new line of business, Conservative Corporation established Spin Company as a wholly owned subsidiary. It transferred assets and accounts payable to Spin in exchange for its common stock. Spin recorded the following entry when the transaction occurred:



Cash and receivables	23,000	
Inventory	15,000	
Land	30,000	
Buildings	100,000	
Equipment	95,000	
Accounts Payable		20,000
Accumulated Depreciation—Buildings		32,000
Accumulated Depreciation—Equipment		30,000
Common Stock		56,000
Additional Paid-In Capital		125,000

Based on the preceding information, what number of shares of $7 par value stock did Spin issue to Conservative?

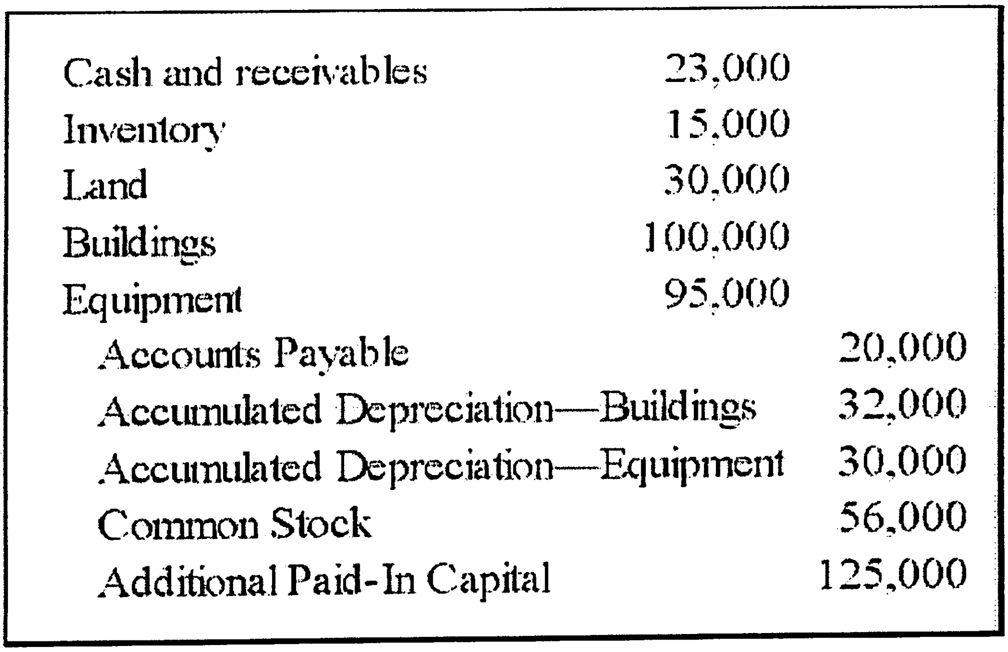
○ 10,000
○ 7,000
→○ 8,000
○ 25,000

Multiple Choice	Difficulty: Medium	Learning Objective: 01-05 Make calculations and business combination journal entries in the presence of a differential, goodwill, or a bargain purchase element.

4.

award:
10.00
points

In order to reduce the risk associated with a new line of business, Conservative Corporation established Spin Company as a wholly owned subsidiary. It transferred assets and accounts payable to Spin in exchange for its common stock. Spin recorded the following entry when the transaction occurred:



Cash and receivables	23,000	
Inventory	15,000	
Land	30,000	
Buildings	100,000	
Equipment	95,000	
Accounts Payable		20,000
Accumulated Depreciation—Buildings		32,000
Accumulated Depreciation—Equipment		30,000
Common Stock		56,000
Additional Paid-In Capital		125,000

Based on the preceding information, what amount did Conservative report as its investment in Spin after the transfer of assets and liabilities?

→○ $181,000

○ $221,000

○ $263,000

○ $243,000

Multiple Choice	Learning Objective: 01-02 Understand the history of the development of standards related to acquisition accounting over time.
Difficulty: Medium	Learning Objective: 01-03 Make calculations and prepare journal entries for the creation and purchase of a business entity.

5. award: **10.00 points**

Rivendell Corporation and Foster Company merged as of January 1, 20X9. To effect the merger, Rivendell paid finder's fees of $40,000, legal fees of $13,000, audit fees related to the stock issuance of $10,000, stock registration fees of $5,000, and stock listing application fees of $4,000.

Based on the preceding information, under the acquisition method:

○ $72,000 of stock issue costs are treated as goodwill.

→○ $19,000 of stock issue costs are treated as a reduction in the issue price.

○ $19,000 of stock issue costs are expensed.

○ $72,000 of stock issue costs are expensed.

Multiple Choice	Difficulty: Medium	Learning Objective: 01-05 Make calculations and business

		combination journal entries in the presence of a differential, goodwill, or a bargain purchase element.

6. award: **10.00 points**

Plummet Corporation reported the book value of its net assets at $400,000 when Zenith Corporation acquired 100 percent ownership. The fair value of Plummet's net assets was determined to be $510,000 on that date.

Based on the preceding information, what amount of goodwill will be reported in consolidated financial statements presented immediately following the combination if Zenith paid $550,000 for the acquisition?

○ $0
○ $50,000
○ $150,000
→○ $40,000

Multiple Choice	Difficulty: Medium	Learning Objective: 01-05 Make calculations and business combination journal entries in the presence of a differential, goodwill, or a bargain purchase element.

7. award: **10.00 points**

Plummet Corporation reported the book value of its net assets at $400,000 when Zenith Corporation acquired 100 percent ownership. The fair value of Plummet's net assets was determined to be $510,000 on that date.

Based on the preceding information, what amount of goodwill will be reported in consolidated financial statements presented immediately following the combination if Zenith paid $500,000 for the acquisition?

→○ $0
○ $50,000
○ $150,000
○ $40,000

Multiple Choice	Difficulty: Medium	Learning Objective: 01-05 Make calculations and business combination journal entries in the presence of a differential, goodwill, or a bargain purchase element.

8. award: **10.00 points**

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

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

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

○ $0

○ $60,000

○ $30,000

→○ $10,000

Multiple Choice Difficulty: Hard Learning Objective: 01-05 Make calculations and business combination journal entries in the presence of a differential, goodwill, or a bargain purchase element.

9. award: **10.00 points**

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

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

Based on the preceding information, what amount of goodwill impairment will be recognized for this division if its fair value is determined to be $195,000?

○ $5,000

○ $30,000

○ $60,000

→○ $55,000

Multiple Choice Difficulty: Hard Learning Objective: 01-05 Make calculations and business combination journal entries in the presence of a differential, goodwill, or a bargain purchase element.