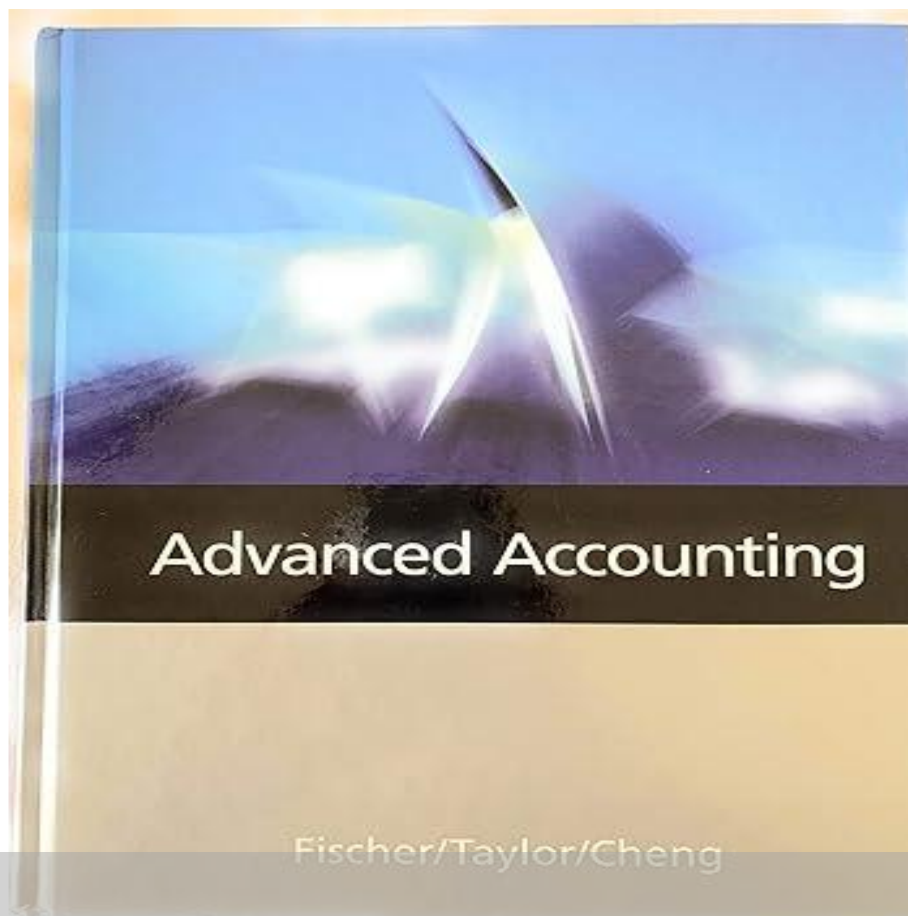
TEST BANK

Advanced Accounting 9th Edition,
Fischer, Taylor & Cheng



TEST BANK

Chapter 1 — Business Combinations: America's Most Popular Business Activity, Bringing an End to the Controversy

MULTIPLE CHOICE

1. An economic advantage of a business combination includes
   a. Utilizing duplicative assets.
   b. Creating separate management teams.
   c. Coordinated marketing campaigns.
   d. Horizontally combining levels within the marketing chain.

   ANS: C DIF: E OBJ: 1

2. A tax advantage of business combination can occur when the existing owner of a company sells out and receives:
   a. cash to defer the taxable gain as a "tax-free reorganization."
   b. stock to defer the taxable gain as a "tax-free reorganization."
   c. cash to create a taxable gain.
   d. stock to create a taxable gain.

   ANS: B DIF: E OBJ: 1

3. A controlling interest in a company implies that the parent company
   a. owns all of the subsidiary's stock.
   b. has influence over a majority of the subsidiary's assets.
   c. has paid cash for a majority of the subsidiary's stock.
   d. has transferred common stock for a majority of the subsidiary's outstanding bonds and debentures.

   ANS: B DIF: M OBJ: 2

4. Which of the following is a potential abuse that may arise when a business combination is accounted for as a pooling of interests?
   a. Assets of the buyer may be overvalued when the price paid by the investor is allocated among specific assets.
   b. Earnings of the pooled entity may be increased because of the combination only and not as a result of efficient operations.
   c. Liabilities may be undervalued when the price paid by the investor is allocated to specific liabilities.
   d. An undue amount of cost may be assigned to goodwill, thus potentially allowing an understatement of pooled earnings.

   ANS: B DIF: M OBJ: 3, Appendix A

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5. Company B acquired the assets (net of liabilities) of Company S in exchange for cash. The acquisition price exceeds the fair value of the net assets acquired. How should Company B determine the amounts to be reported for the plant and equipment, and for long-term debt of the acquired Company S?

	Plant and Equipment	Long-Term Debt
a.	Fair value	S's carrying amount
b.	Fair value	Fair value
c.	S's carrying amount	Fair value
d.	S's carrying amount	S's carrying amount

ANS: B DIF: E OBJ: 4

6. Publics Company acquired the net assets of Citizen Company during 20X5. The purchase price was $800,000. On the date of the transaction, Citizen had no long-term investments in marketable equity securities and $400,000 in liabilities. The fair value of Citizen assets on the acquisition date was as follows:

Current assets................................	$ 800,000
Noncurrent assets.............................	600,000
	$1,400,000

How should Publics account for the $200,000 difference between the fair value of the net assets acquired, $1,000,000, and the cost, $800,000?

a. Retained earnings should be reduced by $200,000.
b. Current assets should be recorded at $685,000 and noncurrent assets recorded at $515,000.
c. The noncurrent assets should be recorded at $400,000.
d. A deferred credit of $200,000 should be set up and subsequently amortized to future net income over a period not to exceed 40 years.

ANS: C DIF: M OBJ: 4

7. ABC Co. is acquiring XYZ Inc. XYZ has the following Intangible assets:
Patent on a product that is deemed to have no useful life $10,000.
Customer List with an observable fair value of $50,000.
A 5-year operating lease with favorable terms with a discounted present value of $8,000.
Identifiable R & D of $100,000.

ABC will record how much for acquired Intangible Assets from the Purchase of XYZ Inc?

a. $168,000
b. $58,000
c. $158,000
d. $150,000

ANS: B DIF: D OBJ: 4

8. Vibe Company purchased the net assets of Atlantic Company in a business combination accounted for as a purchase. As a result, goodwill was recorded. For tax purposes, this combination was considered to be a tax-free merger. Included in the assets is a building with an appraised value of $210,000 on the date of the business combination. This asset had a net book value of $70,000, based on the use of accelerated depreciation for accounting purposes. The building had an adjusted tax basis to Atlantic (and to Vibe as a result of the merger) of $120,000. Assuming a 36% income tax rate, at what amount should Vibe record this building on its books after the purchase?
   a. $120,000
   b. $134,400
   c. $140,000
   d. $210,000

   ANS: D DIF: M OBJ: 4

9. Goodwill represents the excess cost of an acquisition over the
   a. sum of the fair values assigned to intangible assets less liabilities assumed.
   b. sum of the fair values assigned to tangible and intangible assets acquired less liabilities assumed.
   c. sum of the fair values assigned to intangibles acquired less liabilities assumed.
   d. book value of an acquired company.

   ANS: B DIF: M OBJ: 5

10. When purchasing a company occurs, FASB recommends disclosing all of the following EXCEPT:
   a. goodwill related to each reporting segment.
   b. contingent payment agreements, options, or commitments included in the purchase agreement, including accounting methods to be followed.
   c. results of operations for the current period if both companies had remained separate.
   d. amount of in-process R&D purchased and written-off during the period.

   ANS: C DIF: M OBJ: 5

11. Cozzi Company is being purchased and has the following balance sheet as of the purchase date:

Current assets..........	$200,000	Liabilities....	$ 90,000
Fixed assets............	180,000	Equity.........	290,000
Total.................	$380,000	Total........	$380,000

The price paid for Cozzi's net assets (the purchaser assumes the liabilities) is $500,000. The fixed assets have a fair value of $220,000, and the liabilities have a fair value of $110,000. The amount of goodwill to be recorded in the purchase is __________.

a. $0
b. $50,000
c. $70,000
d. $90,000

ANS: C DIF: M OBJ: 6

12. Separately identified intangible assets are accounted for by amortizing:

a. exclusively by using impairment testing.
b. based upon a pattern that reflects the benefits conveyed by the asset.
c. over the useful economic life less residual value using only the straight-line method.
d. amortizing over a period not to exceed a maximum of 40 years.

ANS: B DIF: E OBJ: 6

13. Acme Co. is preparing a pro-forma set of financial statements after an acquisition of Coyote Co. The purchase price is less than the fair value of the assets acquired. However, the purchase price is greater than net book value of the acquired company.

a. Acme's goodwill will decrease over time.
b. Acme's amortization of intangible assets will increase over time.
c. Depreciation expense will be greater than Coyote Company's expense.
d. Coyote's loss on the sale of the assets will create a net loss carryforward.

ANS: C DIF: D OBJ: 6

14. While performing a goodwill impairment test, the company had the following information:

Estimated implied fair value of reporting unit (without goodwill)	$420,000
Existing net book value of reporting unit (without goodwill)	$380,000
Book value of goodwill	$60,000

Based upon this information the proper conclusion is:
a. The existing net book value plus goodwill is in excess of the implied fair value, therefore, no adjustment is required.
b. The existing net book value plus goodwill is less than the implied fair value plus goodwill, therefore, no adjustment is required.
c. The existing net book value plus goodwill is in excess of the implied fair value, therefore, goodwill needs to be decreased.
d. The existing net book value is less than the estimated implied fair value; therefore, goodwill needs to be decreased.

ANS: C DIF: D OBJ: 6

15. Balter Inc. acquired Jersey Company on January 1, 20X5. When the purchase occurred Jersey Company had the following information related to fixed assets:

Land	$ 80,000
Building	200,000
Accumulated Depreciation	(100,000)
Equipment	100,000
Accumulated Depreciation	(50,000)

The building has a 10-year remaining useful life and the equipment has a 5-year remaining useful life. The fair value of the assets on that date were:

Land	$100,000
Building	130,000
Equipment	75,000

What is the 20X5 depreciation expense Balter will record related to purchasing Jersey Company?
a. $8,000
b. $15,000
c. $28,000
d. $30,000

ANS: C DIF: M OBJ: 6

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16. In performing the 20X7 impairment test for goodwill, the company had the following 20X6 and 20X7 information is available.

	20X6	20X7
Implied fair value of reporting unit	$350,000	$400,000
Net book value of reporting unit (including goodwill)	$380,000	$360,000

Based upon this information what are the 20X6 and 20X7 adjustment to goodwill, if any?
a. 20X6 $0
   20X7 $40,000 decrease
b. 20X6 $30,000 increase
   20X7 $40,000 decrease
c. 20X6 $30,000 decrease
   20X7 $40,000 decrease
d. 20X6 $30,000 decrease
   20X7 $0

ANS: D DIF: D OBJ: 7

17. Couples Corporation purchases Players Corporation. The fair value of the net assets of Players is $750,000 and the fair value of priority accounts (including a deduction for depreciation) is $600,000. Which of the following purchase prices would require using allocation procedures?
a. $500,000
b. $600,000
c. $700,000
d. $800,000

ANS: B DIF: D OBJ: 7

18. ACME Co. paid $110,000 for the net assets of Comb Corp. At the time of the acquisition the following information was available related to Comb's balance sheet:

	Book Value	Fair Value
Current Assets	$50,000	$ 50,000
Building	80,000	100,000
Equipment	40,000	50,000
Liabilities	30,000	30,000

What is the amount recorded by ACME for the Building?
a. $40,000
b. $60,000
c. $80,000
d. $100,000

ANS: B DIF: D OBJ: 7

19. Which of the following business combination expenses would NOT qualify as a direct acquisition expense for a purchase?
a. Fees for purchase audit
b. Outside legal fees
c. Stock issuance fees
d. All are direct acquisition expenses.