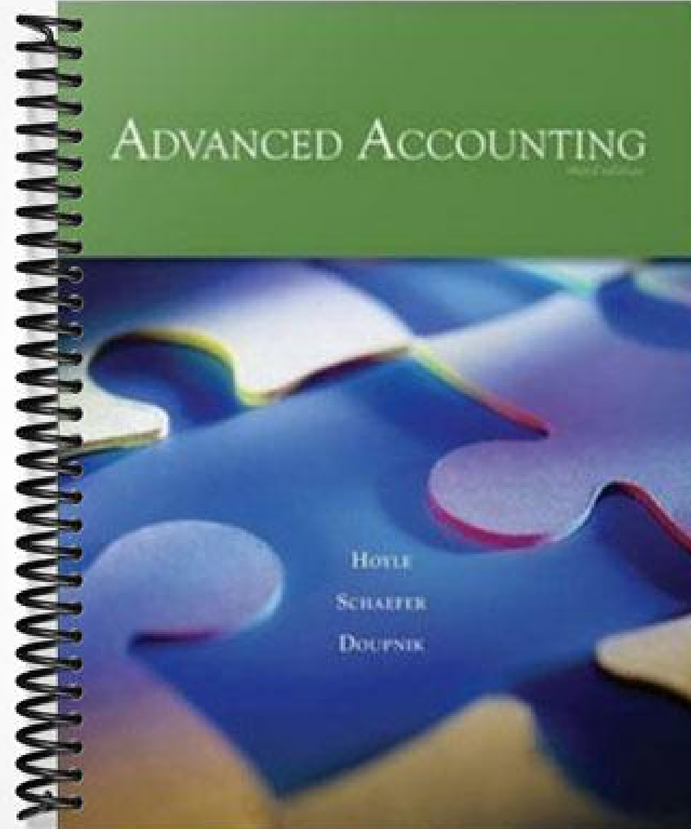
TEST BANK



Chapter 2
Consolidation of Financial Information

Multiple Choice

1. At the date of an acquisition which is not a *bargain purchase*, the purchase method
A) consolidates the subsidiary's assets at fair market value and the liabilities at book value.
B) consolidates all subsidiary assets and liabilities at book value.
C) consolidates all subsidiary assets and liabilities at fair market value.
D) consolidates current assets and liabilities at book value, long-term assets and liabilities at fair market value.
E) consolidates the subsidiary's assets at book value and the liabilities at fair market value.
Answer: C
Difficulty: Easy

2. In a purchase where control is achieved, how would the land accounts of the parent and the land accounts of the subsidiary be combined?

	Parent	Subsidiary
A)	BV	BV
B)	BV	FMV
C)	FMV	FMV
D)	FMV	BV
E)	Cost	Cost

A) Entry A.
B) Entry B.
C) Entry C.
D) Entry D.
E) Entry E.
Answer: B
Difficulty: Medium

3. Medium Lisa Co. paid cash for all of the voting common stock of Victoria Corp. Victoria will continue to exist as a separate corporation. Journal entries for the consolidation of Lisa and Victoria would be recorded in
A) a worksheet.
B) Lisa's general journal.
C) Victoria's general journal.
D) Victoria's secret consolidation journal.
E) the general journals of both companies.
Answer: A
Difficulty: Easy

4. Goodwill is generally defined as:
A) Cost of the investment less the subsidiary's book value at the beginning of the year.
B) Cost of the investment less the subsidiary's book value at the acquisition date.
C) Cost of the investment less the subsidiary's Fair Market Value at the beginning of the year.
D) Cost of the investment less the subsidiary's Fair Market Value at acquisition date.
E) is no longer allowed under federal law.
Answer: D
Difficulty: Medium

5. Direct combination costs and stock issuance costs are often incurred in the process of making a controlling investment in another company. How should those costs be accounted for in a Purchase transaction?

	Direct Combination Costs	Stock Issuance Costs
A)	Increase Investment	Decrease Investment
B)	Increase Investment	Decrease Paid-In Capital
C)	Increase Investment	Increase Expenses
D)	Decrease Paid-In Capital	Increase Investment
E)	Increase Expenses	Decrease Investment

A) Entry A.
B) Entry B.
C) Entry C.
D) Entry D.
E) Entry E.
Answer: B
Difficulty: Medium

6. On July 1, 2002, Big acquires 100% of Little. Both companies have a fiscal year end of 12/31/02. At 12/31/02, how much of the fair market value adjustment associated with inventory should be amortized?
A) 100% of the FMV adjustment.
B) 50% of the FMV adjustment.
C) 50% of 1/3 of the FMV adjustment, assuming the inventory FMV adjustment is amortized over a normal three-year period.
D) None of the FMV adjustment is amortized, ever.
E) The FASB does not allow inventory to be adjusted to FMV on the consolidated financial statements.
Answer: A
Difficulty: Medium

7. What is the *primary accounting difference* between purchase accounting when the subsidiary is dissolved and when the subsidiary retains its incorporation?
A) If the subsidiary is dissolved, it will not be operated as a separate division.
B) If the subsidiary is dissolved, assets and liabilities are consolidated at their book values.
C) If the subsidiary retains its incorporation, there will be no goodwill associated with the acquisition.
D) If the subsidiary retains its incorporation, assets and liabilities are consolidated at their book values.
E) If the subsidiary retains its incorporation, the consolidation is not formally recorded in the accounting records of the acquiring company.
Answer: E
Difficulty: Medium

8. According to SFAS No. 141, Pooling of Interest Method for business combinations
A) Is preferred to the purchase method.
B) Is allowed for all new acquisitions.
C) Is no longer allowed for business combinations after June 30, 2001.
D) Is no longer allowed for business combinations after December 31, 2001.
E) Is only allowed for large corporate mergers like Exxon and Mobil.
Answer: C
Difficulty: Easy

9. In a pooling of interests,
A) revenues and expenses are consolidated for the entire fiscal year, even if the combination occurred late in the year.
B) goodwill may be recognized.
C) consolidation is accomplished using the fair market values of both companies.
D) the transactions may involve the exchange of preferred stock or debt securities as well as common stock.
E) the transaction is properly regarded as an acquisition of one company by another.
Answer: A
Difficulty: Easy

10. A company is not required to consolidate a subsidiary in which it holds more than 50% of the voting stock when
A) the subsidiary is located in a foreign country.
B) the subsidiary in question is a finance subsidiary.
C) the company holds more than 50% but less than 60% of the subsidiary's voting stock.
D) the company holds less than 75% of the subsidiary's voting stock.
E) the subsidiary is in bankruptcy.
Answer: E
Difficulty: Medium

11. For which of the following accounts of a wholly-owned subsidiary is the FMV adjustment associated with the original combination not amortized?
A) Buildings.
B) Patents.
C) Direct Combination Costs.
D) Land.
E) Notes Payable.
Answer: D
Difficulty: Easy

12. Which one of the following is a characteristic of a business combination that should be accounted for as a *purchase*?
A) The combination must involve the exchange of equity securities only.
B) The transaction clearly establishes an acquisition price for the company being acquired.
C) The two companies may be about the same size, and it is difficult to determine the acquired company and the acquiring company.
D) The transaction may be considered to be the uniting of the ownership interests of the companies involved.
E) The acquired subsidiary must be smaller in size than the acquiring parent.
Answer: B
Difficulty: Easy

13. A *statutory merger* is a(n)
A) business combination in which only one of the two companies continues to exist as a legal corporation.
B) business combination in which both companies continues to exist.
C) acquisition of a competitor.
D) acquisition of a supplier or a customer.
E) legal proposal to acquire outstanding shares of the target's stock.
Answer: A
Difficulty: Medium

14. How are *stock issuance costs* and *direct consolidation costs* treated in a business combination which is accounted for as a purchase, when the subsidiary will retain its incorporation?
A) Stock issuance costs are a part of the acquisition costs, and the direct consolidation costs are a reduction to additional paid-in capital.
B) Direct consolidation costs are a part of the acquisition costs, and the stock issuance costs are a reduction to additional paid-in capital.
C) Both are treated as part of the acquisition price.
D) Both are treated as a reduction to additional paid-in capital.
E) Both are treated as a reduction to retained earnings.
Answer: B
Difficulty: Medium

Use the following to answer questions 15-20:
Bullen Inc. assumed 100% control over Vicker Inc. on January 1, 2002. The *book value* and *fair market value* of Vicker's accounts on that date (prior to creating the combination) follow, along with the *book value* of Bullen's accounts:

	Bullen Book Value	Vicker Book Value	Vicker Market Value	Remaining Useful Life
Retained earnings, 1/1/02	$160,000	$240,000		
Cash receivables	170,000	70,000	$70,000	
Inventory	230,000	170,000	210,000	
Land	280,000	220,000	240,000	
Buildings (net)	480,000	240,000	270,000	10 years
Equipment (net)	120,000	90,000	90,000	5 years
Liabilities	650,000	430,000	420,000	4 years
Common stock	360,000	80,000		
Additional paid-in capital	20,000	40,000		

15. Assume that Bullen issued 12,000 shares of common stock with a $5 *par value* and a $47 *fair market value* to obtain all of Vicker's outstanding stock. If this transaction is a *purchase*, how much *Goodwill* should be recognized?
A) $144,000.
B) $104,000.
C) $64,000.
D) $60,000.
E) $–0–.
Answer: B
Difficulty: Medium

16. Assume that Bullen issued 12,000 shares of common stock with a $5 *par value* and a $42 *fair market value* for all of the outstanding stock of Vicker. What is the *consolidated Land balance* if this transaction is accounted for as a purchase?
A) $460,000.
B) $510,000.
C) $500,000.
D) $520,000.
E) $490,000.
Answer: D
Difficulty: Medium

17. Assume that Bullen issued 12,000 shares of common stock with a $5 *par value* and a $42 *fair market value* for all of the outstanding shares of Vicker. What will be the *consolidated Additional Paid-In Capital* and *Retained Earnings* (January 1, 2002 balance) if this transaction is accounted for as a *purchase*?
A) $20,000 and $160,000.
B) $20,000 and $260,000.
C) $380,000 and $160,000.
D) $464,000 and $160,000.
E) $380,000 and $260,000.
Answer: D
Difficulty: Hard

18. What will be the total amortization expense related to Vicker's buildings, equipment, and liabilities for 2002?
A) $94,000.
B) $49,900.
C) $44,900.
D) $4,400.
E) $5,500.
Answer: E
Difficulty: Hard

19. Assume that Bullen issued preferred stock with a *par value* of $240,000 and a *fair market value* of $500,000 for all of the outstanding shares of Vicker in a combination accounted for as a *purchase*. What will be the balance in the *consolidated Inventory and Land* accounts?
A) $440,000, $496,000.
B) $440,000, $520,000.
C) $425,000, $505,000.
D) $402,000, $520,000.
E) $427,000, $510,000.
Answer: B
Difficulty: Hard

20. Assume that Bullen paid a total of $450,000 in cash for all of the shares of Vicker. In addition, Bullen paid $35,000 to a group of attorneys for their work in arranging the acquisition. What will be the balance in *consolidated Goodwill*?
A) $–0–.
B) $25,000.
C) $35,000.
D) $104,000.
Answer: B
Difficulty: Medium

Use the following to answer questions 21-22:
Prior to being united in a business combination, Botkins Inc. and Volkerson Corp. had the following stockholders' equity figures:

	Botkins	Volkerson
Common stock ($1 par value)	$ 220,000	$ 54,000
Additional paid-in capital	110,000	25,000
Retained earnings	360,000	130,000

Botkins issued 56,000 new shares of its common stock valued at $3.25 per share for all of the outstanding stock of Volkerson.

21. Assume that Botkins acquired Volkerson through a *purchase*. Immediately afterwards, what are *consolidated Additional Paid-In Capital* and *Retained Earnings*, respectively?
A) $133,000 and $360,000.
B) $236,000 and $360,000.
C) $130,000 and $360,000.
D) $236,000 and $490,000.
E) $133,000 and $490,000.
Answer: B
Difficulty: Medium

22. Assume that Botkins and Volkerson were being joined in a *pooling of interests*. Immediately afterwards, what is *consolidated Additional Paid-In Capital*?
A) $138,000.
B) $266,000.
C) $130,000.
D) $236,000.
E) $133,000.
Answer: E
Difficulty: Hard

23. Chapel Hill Company had *common stock* of $350,000 and *retained earnings* of $490,000. Blue Town Inc. had *common stock* of $700,000 and *retained earnings* of $980,000. On January 1, 2001, Blue Town issued 34,000 shares of common stock with a $12 *par value* and a $35 *fair market value* for all of Chapel Hill Company's outstanding common stock. This combination was accounted for as a purchase. Immediately after the combination, what was *the consolidated net assets*?
A) $2,520,000.
B) $1,190,000.
C) $1,680,000.
D) $2,870,000.
E) $2,030,000.
Answer: D
Difficulty: Medium

24. Which of the following is a reason for a business combination to take place?
A) Cost savings through elimination of duplicate facilities.
B) Quick entry for new and existing products into domestic and foreign markets.
C) Diversification of business risk.
D) Vertical integration.
E) All of the above.
Answer: E
Difficulty: Easy

25. Which of the following statements is true regarding a statutory merger?
A) The original companies dissolve while remaining as separate divisions of a newly created company.
B) Both companies remain in existence as legal corporations with one corporation now a subsidiary of the acquiring company.
C) The acquired company dissolves as a separate corporation and becomes a division of the acquiring company.
D) The acquiring company acquires the stock of the acquired company as an investment.
E) None of the above.
Answer: C
Difficulty: Medium

26. Which of the following statements is true regarding a statutory consolidation?
A) The original companies dissolve while remaining as separate divisions of a newly created company.
B) Both companies remain in existence as legal corporations with one corporation now a subsidiary of the acquiring company.
C) The acquired company dissolves as a separate corporation and becomes a division of the acquiring company.
D) The acquiring company acquires the stock of the acquired company as an investment.
E) None of the above.
Answer: A
Difficulty: Medium

27. In a transaction accounted for using the purchase method where cost exceeds book value, which statement is true?
A) Net assets of the acquired company are revalued to their fair market values and any excess of cost over fair market value is allocated to goodwill.
B) Net assets of the acquired company are maintained at book value and any excess of cost over book value is allocated to goodwill.
C) Assets are revalued to their fair market values. Liabilities are maintained at book values. Any excess is allocated to goodwill.
D) Long-term assets are revalued to their fair market values. Any excess is allocated to goodwill.
Answer: A
Difficulty: Medium

28. In a transaction accounted for using the purchase method where cost is less than fair market value, which statement is true?
A) Negative goodwill is recorded.
B) A deferred credit is recorded.
C) Long-term assets of the acquired company are reduced in proportion to their fair market values. Any excess is recorded as a deferred credit.
D) Long-term assets of the acquired company are reduced in proportion to their fair market values. Any excess is recorded as an extraordinary gain.
E) Long-term assets and liabilities of the acquired company are reduced in proportion to their fair market values. Any excess is recorded as an extraordinary gain.
Answer: D
Difficulty: Hard

29. Which of the following statements is true regarding the pooling of interests method of accounting for a business combination?
A) Net assets of the acquired company are reported at their book values.
B) Net assets of the acquired company are reported at their market values.
C) Any goodwill associated with the acquisition has an indefinite life.
D) Subsequent amounts of cost in excess of fair market value of net assets are amortized over their useful lives.
E) Indirect costs reduce additional paid-in capital.
Answer: A
Difficulty: Medium

30. Which of the following statements is true?
A) Pooling of interests is acceptable provided the twelve criteria required by the APB are met.
B) Pooling of interests is no longer acceptable for new combinations as stated in *SFAS No. 141*, "Business Combinations."
C) Companies that used pooling of interests method in the past must make a retroactive accounting change in accounting principle.
D) Companies that used pooling of interests method in the past must make a cumulative effect accounting change in accounting principle.
E) Companies that used pooling of interests in the past must make a prospective change in accounting principle.
Answer: B

Use the following to answer questions 31-40:
The financial statements for Goodwin, Inc., and Corr Company for the year ended December 31, 2003, follow (in thousands):

	Goodwin	Corr
Revenues	$2,700	$600
Expenses	1,980	400
Net income	$ 720	$200
Retained earnings 1/1	$2,400	$400
Net income	720	200
Dividends	(270)	(0)
Retained earnings, 12/31	$2,850	$600
Cash	$ 240	$ 220
Receivables and inventory	1,200	340
Buildings (net)	2,700	600
Equipment (net)	2,100	1,200
Total assets	$6,240	$2,360
Liabilities	$1,500	$ 820
Common stock	1,080	400
Additional paid-in capital	810	540
Retained earnings	2,850	600
Total liabilities & stockholders' equity	$6,240	$2,360

On December 31, 2003, Goodwin issued $600 in debt and 30 shares of its $10 par value common stock to the owners of Corr to purchase all of the outstanding shares of that company. Goodwin shares had a fair market value of $40 per share.

Goodwin paid $25 to a broker for arranging the transaction. Goodwin paid $35 in stock issuance costs. Corr's equipment was actually worth $1,400 but its buildings were only valued at $560.

Goodwin is applying the purchase method in accounting for the investment in Corr.

31. At what amount is the investment recorded on Goodwin's books?
A) $1,540.
B) $1,800.
C) $1,860.
D) $1,825.
E) $1,625.
Answer: D
Difficulty: Medium

32. Compute the consolidated revenues for 2003.
A) $2,700.
B) $720.
C) $920.
D) $3,300.
E) $1,540.
Answer: A
Difficulty: Easy

33. Compute the consolidated expenses for 2003.
A) $1,980.
B) $2,380.
C) $2,040.
D) $2,015.
E) $2,005.
Answer: A
Difficulty: Easy

34. Compute the consolidated cash account at December 31, 2003.
A) $460.
B) $425.
C) $400.
D) $435.
E) $240.
Answer: C
Difficulty: Medium

35. Compute the consolidated buildings (net) account at December 31, 2003.
A) $2,700.
B) $3,370.
C) $3,300.
D) $3,260.
E) $3,340.
Answer: D
Difficulty: Medium

36. Compute the consolidated equipment (net) account at December 31, 2003.
A) $2,100.
B) $3,500.
C) $3,300.
D) $3,000.
E) $3,200.
Answer: B
Difficulty: Medium

37. Compute the consolidated goodwill account at December 31, 2003.
A) $0.
B) $85.
C) $285.
D) $125.
E) $45.
Answer: D
Difficulty: Medium

38. Compute the consolidated common stock account at December 31, 2003.
A) $1,080.
B) $1,480.
C) $1,380.
D) $1,780.
E) $1,505.
Answer: C
Difficulty: Medium

39. Compute the consolidated additional paid-in capital at December 31, 2003.
A) $810.
B) $1,350.
C) $1,675.
D) $1,910.
E) $1,875.
Answer: C
Difficulty: Medium

40. Compute the consolidated retained earnings at December 31, 2003.
A) $2,850.
B) $3,450.
C) $2,400.
D) $2,800.
E) $2,810.
Answer: A
Difficulty: Medium

Use the following to answer questions 41-48:
On January 1, 2003, the Moody company purchased 100% of the outstanding common stock of Osorio Company. To acquire these shares, Moody issued $400 in long-term liabilities and 40 shares of common stock having a par value of $1 per share but a fair market value of $10 per share. Moody paid $20 to lawyers, accountants, and brokers for assistance in bringing about this purchase. Another $15 was paid in connection with stock issuance costs. Moody is applying the purchase method in accounting for Osorio.

Prior to these transactions, the balance sheets for the two companies were as follows:

	Moody	Osorio
Cash	$ 180	$ 40
Receivables	810	180
Inventories	1,080	280
Land	600	360
Buildings (net)	1,260	440
Equipment (net)	480	100
Accounts payable	(450)	(80)
Long-term liabilities	(1,290)	(400)
Common stock ($1 par)	(330)	
Common stock ($20 par)		(240)
Additional paid-in capital	(1,080)	(340)
Retained earnings	(1,260)	(340)

Note: Parentheses indicate a credit balance.
In Moody's appraisal of Osorio, three assets were deemed to be undervalued on the subsidiary's books: Inventory by $10, Land by $40, and Buildings by $60.

41. What amount was recorded as the investment in Osorio?
A) $780.
B) $820.
C) $800.
D) $835.
E) $815.
Answer: B
Difficulty: Medium

42. Compute the amount of consolidated inventories at date of acquisition.
A) $1,080.
B) $1,350.
C) $1,360.
D) $1,370.
E) $290.
Answer: D
Difficulty: Medium

43. Compute the amount of consolidated buildings at date of acquisition.
A) $1,700.
B) $1,760.
C) $1,655.
D) $1,550.
E) $1,660.
Answer: C
Difficulty: Hard

44. Compute the amount of consolidated land at date of acquisition.
A) $1,000.
B) $816.
C) $940.
D) $916.
E) $920.
Answer: D
Difficulty: Hard

45. Compute the amount of consolidated equipment at date of acquisition.
A) $580.
B) $480.
C) $559.
D) $570.
E) $560.
Answer: C
Difficulty: Hard

46. Compute the amount of consolidated common stock at date of acquisition.
A) $370.
B) $570.
C) $610.
D) $330.
E) $530.
Answer: A
Difficulty: Medium

47. Compute the amount of consolidated additional paid-in capital at date of acquisition.
A) $1,080.
B) $1,420.
C) $1,065.
D) $1,425.
E) $1,660.
Answer: D
Difficulty: Hard

48. Compute the amount of consolidated cash after recording the transaction.
A) $220.
B) $185.
C) $200.
D) $205.
E) $215.
Answer: B
Difficulty: Medium

Use the following to answer questions 49-52:
Carnes has the following account balances as of May 1, 2000:

Inventory	$100,000
Land	400,000
Buildings (net)	500,000
Common stock ($10 par)	600,000
Retained earnings	200,000
Revenues	450,000
Expenses	250,000

The fair market value of Carnes' Land and Buildings are $650,000 and $550,000, respectively. On May 1, 2000, Riley Company issues 30,000 shares of its $10 par value common stock in exchange for all of the shares of Carnes' common stock in a transaction that has qualified as a pooling of interests. Stock issuance costs of $25,000 are paid along with $20,000 of other direct combination costs.

49. On May 1, 2000, what value is assigned to the investment account?
A) $1,250,000.
B) $800,000.
C) $1,000,000.
D) $1,300,000.
E) $1,255,000.
Answer: B
Difficulty: Medium

50. At the date of acquisition, by how much does Riley's retained earnings increase or decrease?
A) $200,000 increase.
B) $200,000 decrease.
C) $700,000 increase.
D) $300,000 increase.
E) $300,000 decrease.
Answer: A
Difficulty: Medium

51. Assume Riley issues 70,000 shares instead of 30,000 at date of acquisition. Riley currently has $40,000 of additional paid-in capital on its books. By how much will Riley's retained earnings increase or decrease as a result of the combination?
A) $40,000 increase.
B) $200,000 increase.
C) $140,000 increase.
D) $160,000 increase.
E) $40,000 decrease.
Answer: C
Difficulty: Hard

52. Refer to the previous question. Assume Riley has no additional paid-in capital on its books. By how much will Riley's retained earnings increase or decrease as a result of the combination?
A) $100,000 increase.
B) $200,000 increase.
C) $100,000 decrease.
D) $200,000 decrease.
E) No change.
Answer: A
Difficulty: Hard

Use the following to answer questions 53-61:
The financial balances for the Atwood Company and the Franz Company as of December 31, 2000, are presented below. Also included are the fair market values for Franz Company's net assets.

	Atwood	Franz Co.	
		(in thousands)	
	Book Value December 31, 2000	Book Value December 31, 2000	Fair Market Value December 31, 2000
Cash	$ 870	$ 240	$ 240
Receivables	660	600	600
Inventory	1,230	420	580
Land	1,800	260	250
Buildings (net)	1,800	540	650
Equipment (net)	660	380	400
Accounts payable	(570)	(240)	(240)
Accrued expenses	(270)	(60)	(60)
Long-term liabilities	(2,700)	(1,020)	(1,120)
Common stock ($20 par)	(1,980)		
Common stock ($5 par)		(420)	
Additional paid-in capital	(210)	(180)	
Retained earnings	(1,170)	(480)	
Revenues	(2,880)	(660)	
Expenses	2,760	620	

Note: Parenthesis indicate a credit balance

In the following situations, determine the value that would be shown in the consolidated financial statements for Atwood Company at date of acquisition.
Assume a purchase took place at December 31, 2000. Atwood issued 50 shares of its common stock with a fair market value of $35 for all of the outstanding common shares of Franz. Stock issuance costs of $15 and direct costs of $10 were paid. Atwood is applying the **purchase method** in accounting for Franz.

53. Compute the investment cost at date of acquisition.
A) $1,760.
B) $1,750.
C) $1,775.
D) $1,765.
E) $1,120.
Answer: A
Difficulty: Medium

54. Compute consolidated inventory at date of acquisition.
A) $1,650.
B) $1,810.
C) $1,230.
D) $580.
E) $1,830.
Answer: B
Difficulty: Medium

55. Compute consolidated land at date of acquisition.
A) $2,060.
B) $1,800.
C) $260.
D) $2,050.
E) $2,070.
Answer: D
Difficulty: Medium

56. Compute consolidated buildings at date of acquisition.
A) $2,450.
B) $2,340.
C) $1,800.
D) $650.
E) $1,690.
Answer: A
Difficulty: Medium

57. Compute consolidated goodwill at date of acquisition.
A) $640.
B) $430.
C) $0.
D) $440.
E) $470.
Answer: D
Difficulty: Medium

58. Compute consolidated equipment at date of acquisition.
A) $400.
B) $660.
C) $1,060.
D) $1,040.
E) $1,050.
Answer: C
Difficulty: Medium

59. Compute consolidated retained earnings at date of acquisition.
A) $1,170.
B) $1,650.
C) $1,290.
D) $1,810.
E) $3,870.
Answer: A
Difficulty: Medium

60. Compute consolidated revenues at date of acquisition.
A) $3,540.
B) $2,880.
C) $1,170.
D) $1,650.
E) $4,050.
Answer: B
Difficulty: Medium

61. Compute consolidated expenses at date of acquisition.
A) $2,760.
B) $3,380.
C) $2,700.
D) $2,735.
E) $2,785.
Answer: A
Difficulty: Medium

Use the following to answer questions 62-71:
The financial balances for the Atwood Company and the Franz Company as of December 31, 2000, are presented below. Also included are the fair market values for Franz Company's net assets.

	Atwood	Franz Co.	
		(in thousands)	
	Book Value December 31, 2000	Book Value December 31, 2000	Fair Market Value December 31, 2000
Cash	$ 870	$ 240	$ 240
Receivables	660	600	600
Inventory	1,230	420	580
Land	1,800	260	250
Buildings (net)	1,800	540	650
Equipment (net)	660	380	400
Accounts payable	(570)	(240)	(240)
Accrued expenses	(270)	(60)	(60)
Long-term liabilities	(2,700)	(1,020)	(1,120)
Common stock ($20 par)	(1,980)		
Common stock ($5 par)		(420)	
Additional paid-in capital	(210)	(180)	
Retained earnings	(1,170)	(480)	
Revenues	(2,880)	(660)	
Expenses	2,760	620	

Note: Parenthesis indicate a credit balance

In the following situations, determine the value that would be shown in the consolidated financial statements for Atwood Company at date of acquisition.

Assume a purchase took place at December 31, 2000. Atwood issued 50 shares of its common stock with a fair market value of $35 for all of the outstanding common shares of Franz. Stock issuance costs of $15 and direct costs of $10 were paid. Atwood is applying the **acquisition method** in accounting for Franz. To settle a difference of opinion regarding Franz's fair value, Atwood promises to pay an additional $41,600 to the former owners if Franz's earnings exceed a certain sum during the next year. Given the probability of the required contingency payment and utilizing a 4% discount rate, the expected present value of the contingency is $5,000.

62. Compute the investment cost at date of acquisition.
A) $1,760.
B) $1,755.
C) $1,750.
D) $1,765.
E) $1,120.
Answer: B
Difficulty: Medium

63. Compute consolidated inventory at date of acquisition.
A) $1,650.
B) $1,810.
C) $1,230.
D) $580.
E) $1,830.
Answer: B
Difficulty: Medium

64. Compute consolidated land at date of acquisition.
A) $2,060.
B) $1,800.
C) $260.
D) $2,050.
E) $2,070.
Answer: D
Difficulty: Medium

65. Compute consolidated buildings at date of acquisition.
A) $2,450.
B) $2,340.
C) $1,800.
D) $650.
E) $1,690.
Answer: A
Difficulty: Medium

66. Compute consolidated goodwill at date of acquisition.
A) $430.
B) $435.
C) $0.
D) $440.
E) $470.
Answer: B
Difficulty: Medium

67. Compute consolidated equipment at date of acquisition.
A) $400.
B) $660.
C) $1,060.
D) $1,040.
E) $1,050.
Answer: C
Difficulty: Medium

68. Compute consolidated retained earnings at date of acquisition.
A) $1,170.
B) $1,650.
C) $1,290.
D) $1,810.
E) $3,870.
Answer: A
Difficulty: Medium

69. Compute consolidated revenues at date of acquisition.
A) $3,540.
B) $2,880.
C) $1,170.
D) $1,650.
E) $4,050.
Answer: B
Difficulty: Medium

70. Compute consolidated expenses at date of acquisition.
A) $2,760.
B) $3,380.
C) $2,700.
D) $2,735.
E) $2,785.
Answer: E
Difficulty: Medium

71. Compute the investment cost at date of acquisition.
A) $1,080.
B) $1,095.
C) $1,090.
D) $1,105.
E) $1,710.
Answer: A
Difficulty: Medium

Use the following to answer questions 81-90:
Flynn acquires 100 percent of the outstanding voting shares of Macek Company on January 1, 2003. To obtain these shares, Flynn pays $400,000 and issues 10,000 shares of $20 par value common stock on this date. Flynn's stock had a fair market value of $36 per share on that date. Flynn also pays $15,000 to a local investment firm for arranging the acquisition. An additional $10,000 was paid by Flynn in stock issuance costs.
The book values for both Flynn and Macek as of January 1, 2003 follow. The fair market value of each of Flynn and Macek accounts is also included. In addition, Macek holds a fully amortized trademark that still retains a $40,000 value. The figures below are in thousands.

	Flynn, Inc.	Macek Company	
		Book Value	Fair Market Value
Cash	$ 900	$ 80	$ 80
Receivables	480	180	160
Inventory	660	260	300
Land	300	120	130
Buildings (net)	1,200	220	280
Equipment	360	100	75
Accounts payable	480	60	60
Long-term liabilities	1,140	340	300
Common stock	1,200	80	
Retained earnings	1,080	480	

Assume that this combination is accounted for using the purchase method.

81. What amount will be reported for goodwill?
A) $35.
B) $(5).
C) $110.
D) $70.
E) $175.
Answer: D
Difficulty: Hard
Refer To: 02_09

82. What amount will be reported for consolidated receivables?
A) $660.
B) $640.
C) $500.
D) $460.
E) $480.
Answer: B
Difficulty: Medium

83. What amount will be reported for consolidated inventory?
A) $960.
B) $920.
C) $700.
D) $620.
E) $660.
Answer: A
Difficulty: Medium

84. What amount will be reported for consolidated buildings (net)?
A) $1,420.
B) $1,260.
C) $1,140.
D) $1,480.
E) $1,200.
Answer: D
Difficulty: Medium

85. What amount will be reported for consolidated equipment (net)?
A) $385.
B) $335.
C) $435.
D) $460.
E) $360.
Answer: C
Difficulty: Medium

86. What amount will be reported for consolidated long-term liabilities?
A) $1,480.
B) $1,440.
C) $1,180.
D) $1,100.
E) $1,520.
Answer: B
Difficulty: Medium

87. What amount will be reported for consolidated common stock?
A) $1,200.
B) $1,280.
C) $1,400.
D) $1,480.
E) $1,390.
Answer: C
Difficulty: Medium

88. What amount will be reported for consolidated retained earnings?
A) $1,830.
B) $1,350.
C) $1,080.
D) $1,560.
E) $1,535.
Answer: C
Difficulty: Medium

89. What amount will be reported for consolidated additional paid-in capital?
A) $165.
B) $150.
C) $160.
D) $175.
E) $145.
Answer: B
Difficulty: Hard

90. What amount will be reported for consolidated cash after the purchase transaction?
A) $900.
B) $875.
C) $955.
D) $980.
E) $555.
Answer: E
Difficulty: Medium

Essay

91. What term is used to refer to a business combination in which only one of the original companies continues to exist?
Answer: The appropriate term is *statutory merger*
Difficulty: Medium

92. Dutch Co. has loaned $90,000 to its subsidiary, Hans Corp., which retains separate incorporation. How would this loan be treated on a *consolidated balance sheet*?
Answer: The loan represents an intercompany payable and receivable, and it would be eliminated in preparing a consolidated balance sheet.
Difficulty: Medium

93. How are *stock issuance costs* accounted for in a business combination accounted for as a *purchase*?
Answer: *Stock issuance costs* reduce the balance in *Additional Paid-In Capital*.
Difficulty: Medium

94. How are *direct combination costs* accounted for in a *purchase*?
Answer: In a *purchase*, *direct combination costs* are treated as part of the cost of the investment.
Difficulty: Medium

95. Peterman Co. owns 55% of Samson Co. Under what circumstances would Peterman not be required to prepare *consolidated financial statements*?
Answer: Peterman would not be required to prepare *consolidated financial statements* if control of Samson is *temporary* or if, despite majority ownership, Peterman does not have control over Samson. A lack of control might exist if Samson is in a country that imposes restrictions on Peterman's actions.
Difficulty: Medium

96. How would you account for *in-process research and development* purchased in a business combination?
Answer: In-Process Research and Development is expensed immediately.
Difficulty: Medium

97. Elon Corp. purchased all of the common stock of Finley Co., paying slightly less than the *fair market value* of Finley's net assets. How should the *difference between the purchase price and the fair market value* be treated?
Answer: The *difference between the purchase price and the fair market value* is used to reduce the balances in long-term assets (except for long-term investments).
Difficulty: Medium

98. For *purchase* accounting, why are assets and liabilities of the subsidiary consolidated at *fair market value*?
Answer: A *purchase* is considered to be the acquisition of one company by another. The acquisition of an asset or a group of assets is generally recorded at *fair market value*. The purchase is assumed to occur through a bargained exchange that establishes an *acquisition price*. Because the assets and liabilities are being purchased, they should be recorded at *fair market value* as of the date of the purchase.
Difficulty: Medium

99. Goodwill is often created, or purchased, during a business combination. Why doesn't Goodwill show up on the Parent company's trial balance as a separate account?
Answer: While the Goodwill does not show up on the Parent company's books, it is implied as part of the account called Investment in Subsidiary. During the consolidation process, the Investment account is broken down into its component parts. Goodwill, along with other items such as subsidiary FMV adjustments, is then shown separately as part of the consolidated financial statement balances.
Difficulty: Medium

100. What are the three departures from SFAS 141 according to the FASB Exposure Draft *Business Combinations*?
Answer: The acquisition method embraces a fair value concept as measured by the fair value of consideration transferred as opposed to a cost-based measure. This requires three departures: (1) Direct combination costs are expensed as incurred (and not considered a part of the investment cost); (2) Contingent consideration obligations are recognized as part of the purchase price; and (3) When a bargain purchase occurs, the acquirer measures and recognizes the fair values of each of the assets acquired and liabilities assumed at the date of the combination, and as a result no assets or liabilities are recorded at amounts below their assessed fair values as under SFAS 141. A gain on the bargain purchase is recognized at the acquisition date.
Difficulty: Medium

101. How is contingent consideration accounted for according to the FASB Exposure Draft *Business Combinations*?
Answer: The fair value approach of the acquisition method views contingent payments as part of the consideration transferred. Under this view, contingencies have a value to those who receive the consideration and represent measurable obligations of the acquirer. The amount of the contingent consideration is measured as the expected present value of and increases the investment cost.
Difficulty: Medium.

102. How are bargain purchases different between SFAS 141 and the FASB Exposure Draft *Business Combinations*?
Answer: Under SFAS 141 (the purchase method), a bargain purchase reduces long-term assets, excluding long-term investments, utilizing the relative fair value method. Those reductions may reduce those assets to a value of zero, and any remaining bargain is considered a deferred credit. Under the FASB Exposure Draft, *Business Combinations* (the acquisition method), even the long-term assets are recorded at their fair values and a bargain purchase is recorded as a *Gain on Bargain Purchase*.
Difficulty: Medium.

103. Describe the accounting for direct costs and indirect costs under: (1) The pooling-of-interests method; (2) The purchase method; and (3) The acquisition method.
Answer: (1) Both direct and indirect costs are expensed under the pooling-of-interests method. (2) Indirect costs reduce additional paid-in capital but direct costs are considered an increase in the investment cost under the purchase method. (3) Both direct and indirect costs are expensed under the acquisition method.
Difficulty: Medium.

104. Bale Co. acquired Silo Inc. on October 1, 2002, in a transaction accounted for as a purchase. Bale's *net income* for the year was $1,400,000, while Silo had *net income* of $400,000 earned evenly during the year. There was no goodwill or other allocations.
Required:
What is *consolidated net income* for 2002?
Difficulty: Medium
Answer:

Bale's net income for 2002	$1,400,000
Silo's net income for three months ($400,000 x ¼ year)	100,000
Consolidated net income for 2002	$1,500,000

105. Eaton Corp. and Jett Co. exchanged common stock on September 1, 2000, in a transaction which met all requirements for a *pooling of interests*. Eaton's *net income* for 2000 was $540,000, and Jett had *net income* of $390,000, both earned evenly throughout the year.
Required:
What is *consolidated net income* for 2000?
Difficulty: Medium
Answer:

Eaton's net income for 2000	$540,000
Jett's net income for 2000	390,000
Consolidated net income for 2000	$930,000

106. Fine Co. issued its common stock in exchange for the common stock of Dandy Corp. in a *purchase combination*. At the date of the combination, Fine had land with a *book value* of $480,000 and a *fair market value* of $620,000. Dandy had land with a *book value* of $170,000 and a *fair market value* of $190,000. The purchase was not a bargain purchase.
Required:
If a *consolidated balance sheet* was prepared at the date of the combination, what was the *consolidated balance* for *Land*?
Difficulty: Medium
Answer:

Book value of Fine Co.'s land	$480,000
Fair market value of Dandy Corp.'s land	190,000
Consolidated balance for land	$670,000

107. Lorne Co. issued its common stock in exchange for the common stock of Fenn Corp. in a combination accounted for as a *pooling of interests*. At the date of the combination, Lorne had land with a *book value* of $700,000 and a *fair market value* of $980,000. Fenn had land with a *book value* of $280,000 and a *fair market value* of $250,000. The purchase was not a *bargain purchase*.
Required:
If a *consolidated balance sheet* was prepared at the date of the combination, what was the *consolidated balance* for *Land*?
Difficulty: Medium
Answer:

Book value of Lorne Co.'s land	$700,000
Fair market value of Fenn Corp.'s land	280,000
Consolidated balance for land	$980,000

108. Jernigan Corp. had the following account balances at 12/31/01:

Receivables	$ 96,000
Inventory	240,000
Land	720,000
Building	600,000
Liabilities	480,000
Common stock	120,000
Additional paid-in capital	120,000
Retained earnings, 1/1/01	840,000
Revenues	360,000
Expenses	264,000

Several of Jernigan's accounts have market values that differ from book value: Land — $480,000; Building — $720,000; Inventory — $336,000; and Liabilities — $396,000.
Inglewood Inc. obtained all of the outstanding common shares of Jernigan by issuing 20,000 shares of common stock having a $6 *par value,* but a $66 *fair market value*. *Stock issuance costs* amounted to $12,000. The transaction was accounted for as a *purchase*.
Required:
What allocations were made of Inglewood's purchase price to *specific accounts* and to *Goodwill*?
Difficulty: Medium
Answer:

Purchase price (20,000 shares x $66)		$1,320,000
Book value		($1,176,000)
Price in excess of book value		$ 144,000
Allocations to specific accounts based on the difference between fair market value and book value:		
Inventory	$ 96,000	
Land	(240,000)	
Building	120,000	
Liabilities	84,000	(60,000)
Goodwill		$ 84,000

109. Salem Co. had the following account balances as of February 1, 2001:

Inventory	$ 720,000
Land	600,000
Buildings — net (valued at $1,200,000)	1,080,000
Common stock ($10 par value)	960,000
Retained earnings, January 1, 2001	1,320,000
Revenues	720,000
Expenses	600,000

Bellington Inc. paid $1.7 million in cash and issued 12,000 shares of its $30 par value common stock (valued at $90 per share) for all of Salem's outstanding common stock. This investment is accounted for using the purchase method.
Required:
Determine the balance for Goodwill that would be included in a February 1, 2001, consolidation.
Difficulty: Medium
Answer:

Purchase price (fair market value):		
Cash	$ 1,700,000	
Stock issued (12,000 shares x $90)	1,080,000	$ 2,780,000
Book value of assets (no liabilities are indicated)		(2,400,000)
Cost in excess of book value		$ 380,000
Excess cost assigned to the Buildings account based on fair market value		(120,000)
Goodwill		$ 260,000

110. Use the same information as presented in the previous question but assume that Bellington paid cash of $2.8 million. No stock is issued. An additional $50,000 is paid in *direct combination costs*.
Required:
For *Goodwill*, determine what balance would be included in a February 1, 2002 consolidation.
Difficulty: Medium
Answer:

Purchase price (includes combination costs)	$ 2,850,000
Book value of assets (no liabilities are indicated)	(2,400,000)
Cost in excess of book value	$ 450,000
Excess cost assigned to the Buildings account based on fair market value	(120,000)
Goodwill	$ 330,000

111. On January 1, 2002, Chester Inc. acquires 100% of Festus Corp.'s outstanding common stock by exchanging 37,500 shares of Chester's $2 par value common voting stock. On January 1, 2002, Chester's voting common stock had a market value of $40.00 per share. Festus' voting common shares were selling for $6.50 per share. Festus' balances on the acquisition date, just prior to acquisition are listed below. Chester is accounting for the investment in Festus using the purchase method.

	Book Value	Fair Market Value
Cash	$ 30,000	
Accounts Receivable	120,000	$ 120,000
Inventory	200,000	230,000
Land	230,000	290,000
Building (net)	450,000	600,000
Equipment (net)	175,000	160,000
Accounts Payable	(80,000)	(80,000)
Common Stock, $1 par	(500,000)	
Paid-in Capital	(350,000)	
Retained Earnings, 12/31/01	(275,000)	

Required:
Compute the value of the Goodwill account on the date of acquisition, 1/1/02.

Difficulty: Hard
Answer:

Cost of Chester's Investment in Festus	$ 1,500,000
Less: BV of Festus' net assets	1,125,000
Cost in excess of Book Value to be allocated	$ 375,000
Inventory	(30,000)
Land	(60,000)
Building	(150,000)
Equipment	15,000
Goodwill	$ 150,000

Use the following to answer questions 112-114:
The financial statements for Jode Inc. and Lakely Corp., just prior to their combination, for the year ending December 31, 2002, follow. Lakely's buildings were undervalued on its financial records by $60,000.

	Jode Inc.	Lakely Corp.
Revenues	$ 1,300,000	$ 500,000
Expenses	(1,180,000)	(290,000)
Net income	$ 120,000	$ 210,000
Retained earnings, January 1, 2002	$ 700,000	$ 500,000
Net income (from above)	120,000	210,000
Dividends paid	(110,000)	(110,000)
Retained earnings, December 31, 2002	$ 710,000	$ 600,000
Cash	$ 160,000	$ 120,000
Receivables and inventory	240,000	240,000
Buildings (net)	700,000	350,000
Equipment (net)	700,000	600,000
Total assets	$ 1,800,000	$ 1,310,000
Liabilities	$ 250,000	$ 195,000
Common stock	750,000	430,000
Additional paid-in capital	90,000	85,000
Retained earnings, 12/31/02	710,000	600,000
Total liabilities and stockholders' equity	$ 1,800,000	$ 1,310,000

On December 31, 2002, Jode issued 54,000 new shares of its $10 par value stock to the owners of Lakely in exchange for all of the outstanding shares of that company. Jode's shares had a *fair market value* on that date of $35 per share. Jode paid $34,000 to a bank for assisting in the arrangements. Jode also paid $24,000 in *stock issuance costs*. This combination is accounted for as a purchase.

112. *Required:*
Prepare the *journal entries* to record (1) the issuance of stock by Jode and (2) the payment of the combination costs.
Difficulty: Medium
Answer:

Entry One – To record the issuance of common stock by Jode to execute the purchase.

	Debit	Credit
Investment in Lakely Corp.	1,890,000	
Common Stock (par value)		540,000
Paid-in Capital		1,350,000

Entry Two – To record the combination costs.

	Debit	Credit
Investment in Lakely Corp. (Combination costs)	34,000	
Paid-in Capital	24,000	
Cash		58,000

113. *Required:*
Determine consolidated *Net Income* for at December 31, 2002.
Difficulty: Medium
Answer:

Consolidated Net Income	
Jode's Revenues	$ 1,300,000
Jode's Expenses	(1,180,000)
Consolidated net income	$120,000

Note: In a purchase, the subsidiary's revenues and expenses prior to the date of acquisition are NOT consolidated.

114. *Required:*
Determine consolidated *Paid-in Capital* at December 31, 2002.
Difficulty: Medium
Answer:

Consolidated Paid-in Capital:	
Jode's Paid-in Capital prior to the date of acquisition	$ 90,000
Additional Paid-in Capital arising from the purchase transaction (54,000 shares issued × $25 per share in excess of par value)	1,350,000
Less: Stock issuance costs	(24,000)
Consolidated Paid-in Capital	$1,416,000

Use the following to answer questions 115-117:
On 4/1/02, Sey Mold Corporation purchased 100% of DotDot.Com for $2,000,000 cash. On the date of acquisition, DotDot's net book value was $900,000. DotDot's assets included land that was undervalued by $300,000, a building that was undervalued by $400,000, and equipment that was overvalued by $50,000. The building had a remaining useful life of 8 years and the equipment had a remaining useful life of 4 years. Any excess is allocated to an undervalued patent and is amortized over 5 years.

115. *Required:*
Determine the amortization expense related to the combination at the year-end date of 12/31/02.
Difficulty: Hard
Answer:

	Amount	Life	Amortization for 3/4 of the year
Cost of Sey Mold's acquisition	$2,000,000		
BV of DotDot.com at 4/4/02	(900,000)		
Cost in excess of BV to be allocated	$1,100,000		
Land	(300,000)		
Building	(400,000)	8	$37,500
Equipment	50,000	4	(9,375)
Patent	$ 450,000	5	67,500
Total Amortization			$95,625

116. *Required:*
Determine the amortization expense related to the combination at the year-end date of 12/31/06.
Difficulty: Hard
Answer:
Amortization for December 31, 2006:

Building	$ 50,000
Equipment (1/4 year remaining)	(3,125)
Patent	67,500
Total	$114,375

117. *Required:*
Determine the amortization expense related to the consolidation at the year-end date of 12/31/12.
Difficulty: Medium
Answer:
By 2012, all of the FMV adjustments and the patent will have been fully amortized. The Amortization Expense for 2012 related to the combination will be $0.

118. The following are preliminary financial statements for Black Co. and Blue Co. for the year ending December 31, 2002.

	Black Co.	Blue Co.
Sales	$360,000	$228,000
Expenses	(240,000)	(132,000)
Net income	$120,000	$ 96,000
Retained earning, January 1, 2002	$480,000	$252,000
Net income (from above)	120,000	96,000
Dividends paid	(36,000)	-0-
Retained earnings, December 31, 2002	$564,000	$348,000
Current assets	$360,000	$120,000
Land	120,000	108,000
Building (net)	480,000	336,000
Total assets	$960,000	$554,000
Liabilities	$108,000	$132,000
Common stock	192,000	72,000
Additional paid-in capital	96,000	12,000
Retained earnings, December 31,2002	564,000	348,000
Total liabilities and stockholders' equity	$960,000	564,000

On December 31, 2002 (subsequent to the preceding statements), Black exchanged 10,000 shares of its $10 par value common stock for all of the outstanding shares of Blue. Black's stock on that date has a *fair market value* of $60 per share. Black was willing to issue 10,000 shares of stock because Blue's land was appraised at $204,000. Black also paid $14,000 to several attorneys and accountants who assisted in creating this combination.
Required:
Assuming that these two companies retained their separate legal identities, prepare a consolidation worksheet as of December 31, 2002.

Difficulty: Hard
Answer:
Purchase Consolidation Worksheet

For the Year Ended 12/31/2002

Account	Black Company	Blue Company	Consolidation Entries Dr.	Consolidation Entries Cr.	Consolidated Balance
Income Statement					
Sales	(360,000)				(360,000)
Expenses	240,000				240,000
Net Income	(120,000)				(120,000)
Statement of Retained Earnings					
R/E, 1/1/02	(480,000)				(480,000)
Net Income	(120,000)				(120,000)
Dividends	36,000				36,000
R/E, 12/31/02	(564,000)				(564,000)
Balance Sheet					
Current assets	346,000	120,000			466,000
Investment in Blue Co.	614,000			614,000	0
Land	120,000	108,000	96,000		324,000
Buildings (net)	480,000	336,000			816,000
Goodwill			86,000		86,000
Total Assets	1,560,000	564,000			1,692,000
Liabilities	(108,000)	(132,000)			(240,000)
Common Stock	(292,000)	(72,000)	72,000		(292,000)
Additional Paid-in Capital	(596,000)	(12,000)	12,000		(596,000)
R/E, 12/31/02	(564,000)	(348,000)	348,000		(564,000)
Total Liabilities & Stockholders' Equity	(1,560,000)	(564,000)	614,000	614,000	(1,692,000)

Calculation of Goodwill:

Purchase price paid by Black Co.	614,000	
Book value of Blue Co.	(432,000)	(Entry S)
Excess of Cost over Book Value	182,000	(Entry A)
Allocations:		
Land (204,000 - 108,000)	(96,000)	(Entry A)
Excess cost not identified - Goodwill	86,000	(Entry A)

Adjustment to Book Values on Black Co's books for acquisition:			Adjusted Balances @ 12/31/02
Investment in Blue Co. (purchase price)	614,000		614,000
Common Stock - Black (10,000 x $10 Par)		100,000	292,000
Add'l Paid-in Capital - Black (10,000 x $50)		500,000	596,000
Cash (paid for direct acquisition costs)		14,000	346,000

Entry S:

Common Stock	72,000	
Additional Paid-in Capital	12,000	
Retained Earnings - 12/31/02	348,000	
Investment in Blue Co.		432,000

To eliminate Blue Co's stockholders' equity accounts and the book value of Blue Co's net assets from Black Co's investment account

Entry A:

Land	96,000	
Goodwill	86,000	
Investment in Blue Co.		182,000

To eliminate Black Co's excess payment over book value from its investment account, which should be zero, and reassign the excess to specific assets and goodwill

119. How are direct and indirect costs accounted for when applying the acquisition method?

	Direct Costs	Indirect Costs
A.	Expensed	Expensed
B.	Increase investment account	Decrease additional paid-in capital
C.	Expensed	Decrease additional paid-in capital
D.	Increase investment account	Expensed
E.	Increase investment account	Increase investment account

Answer: A
Difficulty: Easy

120. For each of the following situations, select the best answer concerning accounting for combinations:
(A) Pooling-of-interests method only.
(B) Purchase method only.
(C) Acquisition method only.
(D) Pooling-of-interests method and purchase method, but not acquisition method.
(E) Purchase method and acquisition method, but not pooling-of-interests method.
(F) Pooling-of-interests method and acquisition method, but not purchase method.
(G) All methods (pooling-of-interests, purchase, and acquisition.)
(H) None of the methods (neither pooling-of-interests, purchase, nor acquisition.)

_____1. Direct costs are expensed.
_____2. Indirect costs are expensed.
_____3. Direct costs reduce the additional paid-in capital of the acquirer.
_____4. Both direct costs and indirect costs increase the investment account.
_____5. Direct costs increase the investment account, and indirect costs reduce the acquirer's additional paid-in capital account.
_____6. Contingent consideration increases the investment account at date of acquisition.
_____7. Contingent consideration increases the investment account at a date subsequent to the acquisition date.
_____ 8. A bargain purchase reduces the recorded value of long-term assets.
_____9. A bargain purchase is ignored or not applicable.
_____10. A bargain purchase is recorded at date of acquisition as a gain.
_____11. The combination clearly defines an acquired company and an acquiring company.
_____12. Method(s) appropriate to combinations prior to June 30, 2001.
_____13. Method(s) appropriate between July 1, 2001 and December 31, 2005.
Answer: (1) F; (2) F; (3) H; (4) H; (5) B; (6) C; (7) B; (8) B; (9) A; (10) C; (11) E; (12) D; (13) B