Chapter 02
Consolidation of Financial Information

Multiple Choice Questions

1. At the date of an acquisition which is not a bargain purchase, the acquisition method
A. Consolidates the subsidiary's assets at fair 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 value
D. Consolidates current assets and liabilities at book value, long-term assets and liabilities at fair value
E. Consolidates the subsidiary's assets at book value and the liabilities at fair value

Difficulty: Easy

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

	Parent	Subsidiary
A)	Book Value	Book Value
B)	Book Value	Fair Value
C)	Fair Value	Fair Value
D)	Fair Value	Book Value
E)	Cost	Cost

A. Entry A
B. Entry B
C. Entry C
D. Entry D
E. Entry E

Difficulty: Medium

3. Lisa Co. paid cash for all of the voting common stock of Victoria Corp. Victoria will continue to exist as a separate corporation. 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

Difficulty: Easy

4. Using the purchase method, 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 Value at the beginning of the year
D. Cost of the investment less the subsidiary's Fair Value at acquisition date
E. Is no longer allowed under federal law

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

Difficulty: Medium

6. 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 an Acquisition 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

Difficulty: Medium

7. What is the *primary* accounting difference between accounting for 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

Difficulty: Medium

8. According to SFAS No. 141, the 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

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 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

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

Difficulty: Medium

11. Which one of the following is a characteristic of a business combination that should be accounted for as an *acquisition*?
A. The combination must involve the exchange of equity securities only
B. The transaction establishes an acquisition fair value basis 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

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

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

Difficulty: Medium

14. How are *stock issuance costs* and *direct combination costs* treated in a business combination which is accounted for as an acquisition when the subsidiary will retain its incorporation?
A. Stock issuance costs are a part of the acquisition costs and the direct combination costs are expensed
B. Direct combination costs are a part of the acquisition costs and the stock issuance costs are a reduction to additional paid-in capital
C. Direct combination costs are expensed and stock issuance costs are a reduction to additional paid-in capital
D. Both are treated as part of the acquisition price
E. Both are treated as a reduction to additional paid-in capital

Difficulty: Medium

Bullen Inc. assumed 100% control over Vicker Inc. on January 1, 20X1. The book value and fair 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 Fair Value
Retained earnings, 1/1/X1	$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
Equipment (net)	120,000	90,000	90,000
Liabilities	650,000	430,000	420,000
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 value to obtain all of Vicker's outstanding stock. In this transaction (which is not a pooling of interests), how much goodwill should be recognized?
A. $144,000
B. $104,000
C. $64,000
D. $60,000
E. $0

Difficulty: Medium

16. Assume that Bullen issued 12,000 shares of common stock with a $5 par value and a $42 fair value for all of the outstanding stock of Vicker. What is the consolidated Land as a result of this transaction (which is not a pooling of interests)?
A. $460,000
B. $510,000
C. $500,000
D. $520,000
E. $490,000

Difficulty: Medium

17. Assume that Bullen issued 12,000 shares of common stock with a $5 par value and a $42 fair value for all of the outstanding shares of Vicker. What will be the consolidated Additional Paid-In Capital and Retained Earnings (January 1, 20X1 balances) as a result of this transaction (which is not a pooling of interests)?
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

Difficulty: Hard

18. Assume that Bullen issued preferred stock with a par value of $240,000 and a fair value of $500,000 for all of the outstanding shares of Vicker in a business combination (which is not a pooling of interests). 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

Difficulty: Hard

19. Assume that Bullen paid a total of $480,000 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 combination to be accounted for as a purchase. What will be the balance in consolidated goodwill?
A. $0
B. $20,000
C. $35,000
D. $55,000

Difficulty: Medium

20. Assume that Bullen paid a total of $480,000 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 combination to be accounted for as an acquisition. What will be the balance in consolidated goodwill?
A. $0
B. $20,000
C. $35,000
D. $55,000

Difficulty: Medium

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 as a purchase combination. 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

Difficulty: Medium

22. Assume that Botkins and Volkerson were being joined in a pooling of interests and this occurred on January 1, 2000, using the same values given. Immediately afterwards, what is consolidated Additional Paid-In Capital?
A. $138,000
B. $266,000
C. $130,000
D. $236,000
E. $133,000

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, 2009, Blue Town issued 34,000 shares of common stock with a $12 par value and a $35 fair value for all of Chapel Hill Company's outstanding common stock. This combination was accounted for as an acquisition. 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

Difficulty: Medium

24. Which of the following is a *not* 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. Cost synergies throughout the organizations

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. A statutory merger is no longer a legal option

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. A statutory consolidation is no longer a legal option

Difficulty: Medium

27. In a transaction accounted for using the *purchase* method where cost exceeds book value, which statement is true for the acquiring company with regard to its investment?
A. Net assets of the acquired company are revalued to their fair values and any excess of cost over fair 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 values. Liabilities are maintained at book values. Any excess is allocated to goodwill
D. Long-term assets are revalued to their fair values. Any excess is allocated to goodwill

Difficulty: Medium