QUIZ Chapter 2 Business Combinations (PART 2)

Accountancy (First Asia Institute of Technology and Humanities)

Chapter 2
Business Combinations (Part 2)

NAME:		Date:
Professor:	Section:	Score:

QUIZ 1:

1. Given the following information, how is goodwill from a business combination computed under PFRS 3?

A = Consideration transferred
B = Non-controlling interest in net assets of subsidiary
C = Previously held equity interest
D = Fair value of net identifiable assets of subsidiary
% = Percentage of ownership acquired by the parent in the subsidiary

a. A+B+C-D
c. (A+C) – (D x %)
b. A – (D x %)
d. (A+B) – [(D x %) – B]

2. PFRS 3 requires that the contingent liabilities of the acquired entity should be recognized in the balance sheet at fair value. The existence of contingent liabilities is often reflected in a lower purchase price. Recognition of such contingent liabilities will

a. Decrease the value attributed to goodwill, thus decreasing the risk of impairment of goodwill.
b. Decrease the value attributed to goodwill, thus increasing the risk of impairment of goodwill.
c. Increase the value attributed to goodwill, thus decreasing the risk of impairment of goodwill.
d. Increase the value attributed to goodwill, thus increasing the risk of impairment of goodwill.

3. Are the following statements about an acquisition true or false, according to PFRS 3 Business combinations?

I. The acquirer should recognize the acquiree's contingent liabilities if certain conditions are met.
II. The acquirer should recognize the acquiree's contingent assets if certain conditions are met.

a. False, False
b. False, True
c. True, False
d. True, True

4. An acquirer should at the acquisition date recognize goodwill acquired in a business combination as an asset. Goodwill should be accounted for as follows:

a. Recognize as an intangible asset and amortize over its useful life.
b. Write off against retained earnings.
c. Recognize as an intangible asset and impairment test when a trigger event occurs.
d. Recognize as an intangible asset and annually impairment test (or more frequently if impairment is indicated).

5. On September 1, 20x1, TEPID Co. acquired LUKEWARM Co. in a business combination that resulted to goodwill. By December 31, 20x1, the initial allocation of goodwill is not yet completed. According to PAS 36, TEPID should

a. complete the initial allocation before the end of December 31, 20x1.

b. complete the initial allocation before the end of December 31, 20x2.
c. complete the initial allocation before the end of November 30, 20x1.
d. complete the initial allocation before the end of September 1, 20x2.

6. On September 1, 20x1, TEPID Co. acquired LUKEWARM Co. in a business combination that resulted to goodwill. By December 31, 20x1, the initial allocation of goodwill is not yet completed. According to PAS 36, TEPID should
a. complete the initial allocation before the end of December 31, 20x1.
b. complete the initial allocation before the end of December 31, 20x2.
c. complete the initial allocation before the end of November 30, 20x1.
d. complete the initial allocation before the end of September 1, 20x2.

7. Which of the following methods must be applied in accounting for business combinations under PFRS 3?
a. acquirer method   c. purchase method
b. acquisition method   d. pooling of interest

8. The company that obtains control over another company in a business combination transaction is referred to as the
a. acquirer   c. subsidiary
b. parent   d. a and b

9. According to PFRS 3, which of the following transaction costs would increase the amount of goodwill from a business combination?
a. legal fees, accounting fees and similar costs
b. issuance costs of equity securities
c. issuance costs of debt instruments
d. none of these

10. This refers to the additional consideration for a business combination to be given to the acquiree upon the happening of a contingency which is pre-agreed at the acquisition date.
a. Contingent liability
b. Contingent asset
c. Contingent consideration
d. Additional compensation

"For where you have envy and selfish ambition, there you find disorder and every evil practice." – (James 3:16)

NAME:		Date:
Professor:	Section:	Score:

QUIZ 2:

1. On January 1, 20x1, CONJUNCTION Co., and UNION, Inc. entered into a business combination effected through exchange of equity instruments. The combination resulted to CONJUNCTION obtaining 100% interest in UNION. Both of the combining entities are publicly listed. As of this date, CONJUNCTION's shares have a quoted price of ₱200 per share. CONJUNCTION Co. recognized goodwill of ₱600,000 on the business combination. No acquisition-related costs were incurred. Additional selected information at acquisition date is shown below:

	CONJUNCTION Co. *(before acquisition)*	***Combined entity*** *(after acquisition)*
Share capital	1,200,000	1,400,000
Share premium	600,000	2,400,000
Totals	*1,800,000*	*3,800,000*

Requirements: Compute for the following:

a. Number of shares issued by CONJUNCTION Co. in the business combination.
b. Par value per share of the shares issued.
c. Acquisition-date fair value of the net identifiable assets of UNION.

2. On January 1, 20x1, OBDURATE Co. acquired 30% ownership interest in STUBBORN, Inc. for ₱200,000. Because the investment gave OBDURATE significant influence over STUBBORN, the investment was accounted for under the equity method in accordance with PAS 28.

From 20x1 to the end of 20x3, OBDURATE recognized ₱100,000 net share in the profits of the associate and ₱20,000 share in dividends. Therefore, the carrying amount of the investment in associate account on January 1, 20x3, is ₱280,000.

On January 1, 20x4, OBDURATE acquired additional 60% ownership interest in STUBBORN, Inc. for ₱1,600,000. As of this date, OBDURATE has identified the following:

a. The previously held 30% interest has a fair value of ₱360,000.
b. STUBBORN's net identifiable assets have a fair value of ₱2,000,000.
c. OBDURATE elected to measure non-controlling interests at the non-controlling interest's proportionate share of STUBBORN's identifiable net assets.

Requirement: Compute for the goodwill.

3. OBSTREPEROUS Co. and NOISY, Inc. both engage in the same business. On January 1, 20x1, OBSTREPEROUS and NOISY signed a contract, the terms of which resulted in OBSTREPEROUS obtaining control over NOISY without any transfer of consideration between the parties.

The fair value of the identifiable net assets of NOISY, Inc. on January 1, 20x1 is ₱2,000,000. NOISY chose to measure non-controlling interest at the non-controlling interest's proportionate share of the acquiree's identifiable net assets.

Requirement: Compute for the goodwill.

4. On January 1, 20x1, DIAPHANOUS Co. acquired all of the identifiable assets and assumed all of the liabilities of TRANSPARENT, Inc. by paying cash of ₱2,000,000. On this date, the identifiable assets acquired and liabilities assumed have fair values of ₱3,200,000 and ₱1,800,000, respectively.

Additional information:
In addition to the business combination transaction, the following have also transcribed during the negotiation period:

a. After the business combination, TRANSPARENT will enter into liquidation and DIAPHANOUS agreed to reimburse TRANSPARENT for liquidation costs estimated at ₱40,000.
b. DIAPHANOUS agreed to reimburse TRANSPARENT for the appraisal fee of a building included in the identifiable assets acquired. The agreed reimbursement is ₱20,000.
c. DIAPHANOUS entered into an agreement to retain the top management of TRANSPARENT for continuing employment. On acquisition date, DIAPHANOUS agreed to pay the key employees signing bonuses totaling ₱200,000.
d. To persuade, Mr. Five-six Numerix, the previous major shareholder of TRANSPARENT, to sell his major holdings to DIAPHANOUS, DIAPHANOUS agreed to pay an additional ₱100,000 directly to Mr. Numerix.
e. Included in the valuation of identifiable assets are inventories with fair value of ₱180,000. Ms. Vital Statistix, a former major shareholder of TRANSPARENT, shall acquire title to the goods.

Requirement: Compute for the goodwill (gain on bargain purchase).

"Peacemakers who sow in peace reap a harvest of righteousness." – (James 3:18)

- END -

SOLUTIONS TO QUIZ 2:

1. *Solutions:*

Requirement (a): Number of shares issued

	CONJUNCTION Co.	Combined entity	Increase
Share capital	1,200,000	1,400,000	200,000
Share premium	600,000	2,400,000	1,800,000
Totals	*1,800,000*	*3,800,000*	*2,000,000*

The fair value of the shares transferred as consideration for the business combination is ***P2,000,000***.

The number of shares issued in the business combination is computed as follows:

Fair value of shares transferred	2,000,000
Divide by: CONJUNCTION's fair value per share	200
Number of shares issued	***10,000***

Requirement (b): Par value per share

The par value per share of the shares issued is computed as follows:

Increase in share capital account (see table above)	200,000
Divide by: Number of shares issued	10,000
Par value per share	***20***

Requirement (c): Acquisition-date fair value of the net identifiable assets acquired

(1)	Consideration transferred *(see previous computation)*	2,000,000
(2)	Non-controlling interest in the acquiree	-
(3)	Previously held equity interest in the acquiree	-
	Total	*2,000,000*
	Fair value of net identifiable assets acquired (squeeze)	***(1,400,000)***
	Goodwill *(given information)*	600,000

2. *Solution:*

(1)	Consideration transferred	1,600,000
(2)	Non-controlling interest in the acquiree (2M x ***10%****)	200,000
(3)	***Previously held equity interest in the acquiree***	360,000
	Total	*2,160,000*
	Fair value of net identifiable assets acquired	(2,000,000)
	Goodwill	***160,000***

*100% *minus* 90%

3. *Solution:*

(1)	Consideration transferred	-
(2)	Non-controlling interest in the acquiree (2M x ***100%***)	2,000,000
(3)	Previously held equity interest in the acquiree	-
	Total	*2,000,000*
	Fair value of net identifiable assets acquired	(2,000,000)
	Goodwill	***-***

4. *Solution:*

The consideration transferred on the business combination is computed as follows:

Cash payment on business combination	2,000,000
Additional payment to TRANSPARENT's former owner	100,000
Consideration transferred on the business combination	***3,100,000***

The fair value of net identifiable assets acquired is computed as follows:

Fair value of identifiable assets	2,200,000
Acquisition-date fair value of inventory not transferred to DIAPHANOUS	(180,000)
Adjusted fair value of identifiable assets acquired	*3,020,000*
Fair value of liabilities assumed	(1,800,000)
Adjusted fair value of net identifiable assets acquired	***1,220,000***

Goodwill (gain on bargain purchase) is computed as follows:

(1)	Consideration transferred	2,100,000
(2)	Non-controlling interest in the acquiree	-
(3)	Previously held equity interest in the acquiree	-
	Total	*2,100,000*
	Fair value of net identifiable assets acquired	(1,220,000)
	Goodwill	***880,000***