**Note: The Questions and Answers provided in this file are available to students in the Enhanced E-book.**

Chapter Number: 1

1) Which one of the following statements is incorrect?

a) In an asset acquisition, the books of the acquired company are closed out, and its assets and liabilities are transferred to the books of the acquirer.

b) In many cases, stock acquisitions entail lower total cost than asset acquisitions.

c) Regulations pertaining to one of the firms do not automatically extend to the entire merged entity in a stock acquisition.

d) A stock acquisition occurs when one corporation pays cash, issues stock, or issues debt for all or part of the voting stock of another company; and the acquired company dissolves and ceases to exist as a separate legal entity.

Answer: d

Question Title: Practice (Multiple Choice) Question 04

Difficulty: Medium

Section Reference: 1.5

Learning Objective: 5 Distinguish between an asset and a stock acquisition.

2) Which of the following can be used as consideration in a stock acquisition?

a) Cash

b) Debt

c) Stock

d) Any of these may be used

Answer: d

Question Title: Practice (Multiple Choice) Question 05

Difficulty: Medium

Section Reference: 1.5

Learning Objective: 5 Distinguish between an asset and a stock acquisition.

3) Stock given as consideration for a business combination is valued at:

a) fair market value

b) par value

c) historical cost

d) None of these

Answer: a

Question Title: Practice (Multiple Choice) Question 06

Difficulty: Medium

Learning Objective: 6 Indicate the factors used to determine the price and the method of payment for a business combination.

Section Reference: 1.8

4) The objectives of accounting for Business Combinations and Noncontrolling Interests in Consolidated Financial Statements are as follows:

a) to improve the relevance, comparability, and transparency of financial information related to business combinations.

b) to eliminate the amortization of Goodwill.

c) to facilitate the convergence project of the FASB and the International Accounting Standards Board.

d) to improve the relevance, comparability, and transparency of financial information related to business combinations and to eliminate the amortization of Goodwill.

Answer: d

Question Title: Practice (Multiple Choice) Question 07

Difficulty: Medium

Learning Objective: 9 Discuss the Statements of Financial Accounting Concepts (SFAC).

Section Reference: 1.1

5) The standard for the impairment of goodwill is an example of a:

a) consumption of benefit approach.

b) loss or lack of benefit approach.

c) component of other comprehensive income.

d) direct matching of expenses to revenues.

Answer: b

Question Title: Practice (Multiple Choice) Question 08

Difficulty: Easy

Learning Objective: 9 Discuss the Statements of Financial Accounting Concepts (SFAC).

Section Reference: 1.11

6) Which of the following is not a component of other comprehensive income under GAAP?

a) earnings.

b) gains and losses that bypass earnings.

c) impairment losses.

d) accumulated other comprehensive income.

Answer: d

Question Title: Practice (Multiple Choice) Question 09

Difficulty: Easy

Learning Objective: 9 Discuss the Statements of Financial Accounting Concepts (SFAC).

Section Reference: 1.10

7) The excess of the amount offered in an acquisition over the stock price of the acquired firm is the:

a) bonus.

b) goodwill.

c) implied offering price.

d) takeover premium.

Answer: d

Question Title: Practice (Multiple Choice) Question 10

Difficulty: Easy

Learning Objective: 6 Indicate the factors used to determine the price and the method of payment for a business combination.

Section Reference: 1.6