

## Chapter 1: Intercorporate Acquisitions and Investments in Other Entities

### 1. Development of Complex Business Structures

- **Reasons for Enterprise Expansion:**

- Size often allows economies of scale.
- New earning potential.
- Earnings stability through diversification.
- Management rewards for bigger company size.
- Prestige associated with company size.

- أسباب توسع الشركات:

- الحجم الكبير يتيح تحقيق وفورات الحجم.
- إمكانية تحقيق أرباح جديدة.
- استقرار الأرباح من خلال التنوع.
- مكافآت إدارية لحجم الشركة الأكبر.
- السمعة المرتبطة بحجم الشركة.

### 2. Organizational Structure and Business Objectives

- **Definition of a Subsidiary:**

- A subsidiary is a corporation controlled by another corporation (parent company).
- Control is usually achieved through majority ownership of common stock.
- A subsidiary is a separate legal entity, so the parent's risk is limited to its investment.

- تعريف الشركة التابعة:

- الشركة التابعة هي شركة تخضع لسيطرة شركة أخرى (الشركة الأم).
- يتم تحقيق السيطرة عادةً من خلال امتلاك أغلبية الأسهم العادية.

- تعتبر الشركة التابعة كيانًا قانونيًا منفصلاً، لذا فإن مخاطر الشركة الأم تقتصر على استثمارها.

### 3. Organizational Structure and Ethical Considerations

- **Manipulation of Financial Reporting:**

- Subsidiaries or other entities may be used to:
  - Borrow money without reporting the debt on their balance sheets.
  - Manipulate profits using special entities.
  - Misrepresent mergers or acquisitions through accounting manipulation.
- The FASB eliminated the pooling-of-interests method to address manipulation.

- **الاعتبارات الأخلاقية في الهيكل التنظيمي:**

- قد يتم استخدام الشركات التابعة أو الكيانات الأخرى لـ:
  - الاقتراض دون الإبلاغ عن الديون في الميزانيات العمومية.
  - التلاعب بالأرباح باستخدام كيانات خاصة.
  - تحريف عمليات الاندماج أو الاستحواذ من خلال التلاعب المحاسبي.
- ألغى مجلس معايير المحاسبة المالية (FASB) طريقة "دمج المصالح" لمعالجة هذا التلاعب.

### 4. Two Types of Expansion

- **Internal Expansion:**

- The investment account of the parent company equals the book value of the subsidiary's net assets.

- **نوعان من التوسع:**

- **التوسع الداخلي:**

- حساب الاستثمار للشركة الأم يساوي القيمة الدفترية لصافي أصول الشركة التابعة.

- **External Expansion:**

- The acquisition price is usually different from the book value, carrying value, or fair market value of the subsidiary's net assets.

○ التوسع الخارجي :

- سعر الاستحواذ عادةً ما يكون مختلفاً عن القيمة الدفترية أو القيمة المسجلة أو القيمة السوقية الصافية العادلة لأصول الشركة التابعة.

## 5. Business Expansion through New Entities

- **New entities include:**

- Subsidiaries.
- Partnerships.
- Joint ventures.
- Special entities.

• التوسع التجاري من خلال كيانات جديدة:

○ الكيانات الجديدة تشمل :

- الشركات التابعة.
- الشراكات.
- المشاريع المشتركة.
- الكيانات الخاصة.

- **Reasons for new entities:**

- Clear lines of control.
- Facilitate evaluation of operating results.
- Tax incentives.
- Regulatory reasons.
- Legal liability protection.

○ أسباب إنشاء كيانات جديدة :

- خطوط تحكم واضحة.
- تسهيل تقييم نتائج التشغيل.
- الحوافز الضريبية.
- أسباب تنظيمية.
- الحماية من المسؤولية القانونية.

## 6. Spin-Offs and Split-Offs

• الفصل والتقسيم:

### • Spin-Off:

- Ownership of a newly created or existing subsidiary is distributed to the parent company's stockholders without them surrendering their shares.

○ الفصل (Spin-Off):

- يتم توزيع ملكية شركة تابعة جديدة أو موجودة على مساهمي الشركة الأم دون تخليهم عن أسهمهم.

### • Split-Off:

- Ownership of the subsidiary is exchanged for shares of the parent company, reducing the parent's outstanding shares.

○ التقسيم (Split-Off):

- يتم تبادل ملكية الشركة التابعة بأسهم الشركة الأم، مما يؤدي إلى تقليل الأسهم القائمة للشركة الأم.

## 7. Control (How It's Achieved)

• السيطرة (كيف يتم تحقيقها):

### • Usual Way:

- Owning more than 50% of the subsidiary's outstanding voting stock.

○ الطريقة المعتادة :

- امتلاك أكثر من 50% من الأسهم العادية للشركة التابعة.

- **Unusual Way:**

- Using contractual agreements or financial arrangements to achieve control.

- الطريقة غير المعتادة :

- استخدام الاتفاقيات التعاقدية أو الترتيبات المالية لتحقيق السيطرة.

## 8. Business Expansion through Combinations

- التوسع التجاري من خلال الاندماج:

- **Traditional View:**

- Control is gained by acquiring a majority of the company's common stock.

- الرؤية التقليدية :

- يتم تحقيق السيطرة من خلال الاستحواذ على أغلبية الأسهم العادية للشركة.

- **Alternative Ways:**

- Informal arrangements.

- Formal agreements, where written agreements require recognition on the books of one or more companies.

- طرق بديلة :

- ترتيبات غير رسمية.

- اتفاقيات رسمية تتطلب الاعتراف بها في السجلات المالية للشركات المعنية.

## 9. Forms of Organizational Structure

- أشكال الهيكل التنظيمي:

- **Business Combinations:**

- Entry into new product areas or geographic regions by acquiring or combining with other companies.

○ الاندماجات التجارية :

- الدخول إلى مجالات منتجات جديدة أو مناطق جغرافية من خلال الاستحواذ أو الدمج مع شركات أخرى.

• **Types of Combinations:**

- Merger: Combining assets/liabilities into one company.
- Consolidation: Two companies dissolve and form a new entity.
- Stock Acquisition: One company acquires voting shares of another.

○ أنواع الاندماجات :

- الاندماج: دمج أصول/التزامات شركتين في واحدة.
- التوحيد: حل شركتين وإنشاء كيان جديد.
- الاستحواذ على الأسهم: شراء شركة واحدة لأسهم التصويت لشركة أخرى.

**10. Frequency of Business Combinations**

• **Trends:**

- 1960s: Conglomerates.
- 1980s: Leveraged buyouts.
- 1990s: Record merger activity.
- 2000s: Decline due to credit crunch.

• تكرار الاندماجات التجارية:

○ الاتجاهات :

- الستينيات: تكتلات.
- الثمانينيات: عمليات شراء مدعومة بالديون.
- التسعينيات: نشاط اندماج قياسي.
- 2000: انخفاض بسبب أزمة الائتمان

## 11. Organizational Structure and Reporting

### • الهيكل التنظيمي وإعداد التقارير :

#### • Merger:

- A business combination where the acquired company's assets and liabilities are combined with those of the acquiring company.
- Results in no additional organizational components.
- Financial reporting is based on the original organizational structure.

#### ○ الاندماج:

- عملية دمج أصول والتزامات الشركة المستحوذ عليها مع الشركة المستحوذة.
- لا ينتج عنها مكونات تنظيمية إضافية.
- إعداد التقارير المالية يعتمد على الهيكل التنظيمي الأصلي.

#### • Controlling Ownership:

- The acquired company remains a separate legal entity.
- Parent company owns a majority of the acquired company's common stock.
- Consolidated financial statements are required.

#### ○ الملكية المسيطرة:

- تظل الشركة المستحوذ عليها كياناً قانونياً منفصلاً.
- تمتلك الشركة الأم أغلبية الأسهم العادية للشركة المستحوذ عليها.
- تتطلب معايير المحاسبة إعداد قوائم مالية موحدة.

#### • Noncontrolling Ownership:

- When less than a majority of another company's stock is acquired.
- Usually does not result in a business combination or controlling situation.

#### ○ الملكية غير المسيطرة:

- عندما يتم شراء أقل من أغلبية أسهم شركة أخرى.
- لا يؤدي ذلك عادةً إلى اندماج تجاري أو وضع سيطرة.

- **Other Beneficial Interests:**

- Sometimes, a company may have a beneficial interest in another entity without direct ownership.
- This interest may be defined by contracts or financial agreements.

- مصالغ أخرى مفيدة:

- قد تمتلك الشركة مصالغ مفيدة في كيان آخر دون ملكية مباشرة.
- يتم تعريف هذا الاهتمام من خلال العقود أو الاتفاقيات المالية.

## 12. Business Expansion through Combinations

- التوسع التجاري من خلال الاندماج :

- **Control through Stock Ownership:**

- Usually achieved by owning more than 50% of voting stock.
- Can also be achieved through contractual or financial arrangements.

- السيطرة من خلال ملكية الأسهم:

- تتحقق عادةً من خلال امتلاك أكثر من 50% من أسهم التصويت.
- يمكن تحقيقها أيضًا من خلال الترتيبات التعاقدية أو المالية.

- **Business Combination:**

- Occurs when an acquirer gains control of one or more businesses.
- Control is defined as the ability to direct policies and management.

- الاندماج التجاري:

- يحدث عندما يكتسب المستحوذ السيطرة على شركة أو أكثر.
- تُعرّف السيطرة على أنها القدرة على توجيه السياسات والإدارة.

### 13. Forms of Business Combinations

• أشكال الاندماجات التجارية :

#### 1. Statutory Merger:

- The acquired company's assets and liabilities are transferred to the acquiring company.
- The acquired company is dissolved or liquidated.
- Operations of both companies are carried out in a single legal entity.

○ الاندماج القانوني:

1. يتم نقل أصول والتزامات الشركة المستحوذ عليها إلى الشركة المستحوذ.
2. يتم تصفية أو حل الشركة المستحوذ عليها.
3. يتم تشغيل عمليات كلتا الشركتين في كيان قانوني واحد.

#### 2. Statutory Consolidation:

- Both companies dissolve.
- Assets and liabilities are transferred to a newly created corporation.

○ التوحيد القانوني:

1. يتم حل الشركتين.
2. يتم نقل الأصول والالتزامات إلى شركة جديدة تم إنشاؤها.

#### 3. Stock Acquisition:

- One company acquires the voting shares of another.
- Both companies continue to operate as separate legal entities.
- This creates a parent-subsidary relationship.

الاستحواذ على الأسهم:

- تستحوذ إحدى الشركات على أسهم التصويت لشركة أخرى.

- تستمر الشركتان في العمل ككيانات قانونية منفصلة.
- يؤدي ذلك إلى إنشاء علاقة شركة أم وشركة تابعة.

#### 14. Frequency of Business Combinations

- **Historical Trends:**

- **1960s:** Rise of conglomerates.
- **1980s:** Leveraged buyouts and increased debt.
- **1990s:** Record-breaking merger activity.
- **2000s:** Decline during the credit crunch but rebounded in the mid-2000s.

- تكرار عمليات الاندماج التجاري :

- الاتجاهات التاريخية :

- الستينيات : ظهور التكتلات.
- الثمانينيات : عمليات شراء مدعومة بالديون.
- التسعينيات : نشاط اندماج قياسي.
- الألفينات : انخفاض خلال أزمة الائتمان، مع تعافي في منتصف العقد.

#### 15. Accounting for Business Combinations

- المحاسبة عن الاندماجات التجارية :

- **Methods of Accounting:**

- **Acquisition Method:**

- All assets acquired and liabilities assumed are measured at fair value.
- If less than 100% of the acquiree is acquired, the noncontrolling interest is measured at its acquisition-date fair value.
- Goodwill or Bargain Purchase Element is recorded depending on the difference between acquisition price and fair value of net assets.

## ○ طرق المحاسبة:

## ▪ طريقة الاستحواذ:

- يتم قياس جميع الأصول المكتتة والالتزامات المفترضة بالقيمة العادلة.
- إذا تم شراء أقل من 100% من الشركة المستحوذ عليها، يتم قياس الحصة غير المسيطرة بالقيمة العادلة بتاريخ الاستحواذ.
- يتم تسجيل الشهرة أو عنصر الشراء بسعر منخفض بناءً على الفرق بين سعر الاستحواذ والقيمة العادلة لصافي الأصول.

## ○ Goodwill:

- Recognized when acquisition price > fair value of net identifiable assets.
- Recorded as an intangible asset but not amortized.
- Tested periodically for impairment.

## ○ الشهرة:

- يتم التعرف عليها إذا كان سعر الاستحواذ < القيمة العادلة لصافي الأصول المحددة.
- تُسجل كأصل غير ملموس ولكن لا يتم استهلاكها.
- يتم اختبارها دورياً لوجود انخفاض في قيمتها.

## ○ Bargain Purchase:

- Recognized when acquisition price < fair value of net identifiable assets.
- The difference is recorded as a gain.

## ○ الشراء بسعر منخفض: (Bargain Purchase)

- يتم التعرف عليه إذا كان سعر الاستحواذ > القيمة العادلة لصافي الأصول المحددة.
- يتم تسجيل الفرق كربح.

## 16. Additional Considerations

## • اعتبارات إضافية:

- **Measurement Period:**

- FASB 141R allows a one-year period to determine fair values of assets and liabilities.

- فترة القياس:

- تسمح FASB 141R بفترة سنة واحدة لتحديد القيم العادلة للأصول والالتزامات.

- **Contingent Consideration:**

- Consideration based on future events is recorded at fair value on the acquisition date.

- التعويض المشروط:

- يتم تسجيل التعويض بناءً على الأحداث المستقبلية بالقيمة العادلة في تاريخ الاستحواذ.

- **In-Process Research and Development:**

- Ongoing R&D projects are recorded at fair value and tested for impairment.

- البحث والتطوير الجاري:

- يتم تسجيل مشاريع البحث والتطوير الجارية بالقيمة العادلة واختبارها للانخفاض.

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إدي الميش لخبازه

## Test Bank

1. **Assuming no impairment in value prior to transfer, assets transferred by a parent company to another entity it has created should be recorded by the newly created entity at the assets':**
  - book value on the parent company's books at the date of transfer.
  
2. **Given the increased development of complex business structures, which of the following regulators is responsible for the continued usefulness of accounting reports?**
  - A. Securities and Exchange Commission (SEC)
  - B. Public Company Accounting Oversight Board (PCAOB)
  - C. Financial Accounting Standards Board (FASB)
  - D. All of the above
  
3. **A business combination in which the acquired company's assets and liabilities are combined with those of the acquiring company into a single entity is defined as:**
  - Statutory Merger
  
4. **In which of the following situations do accounting standards not require that the financial statements of the parent and subsidiary be consolidated:**
  - A corporation owns less-than a controlling interest in an unincorporated company

Given:

Assets:

- Cash and receivables: \$23,000
- Inventory: \$15,000
- Land: \$30,000
- Buildings: \$100,000

- Equipment: \$95,000

### Liabilities and Equity:

- Accounts payable: \$20,000
  - Accumulated depreciation—buildings: \$32,000
  - Accumulated depreciation—equipment: \$30,000
  - Common stock: \$56,000
  - Additional paid-in capital: \$125,000
5. **Based on the preceding information, what number of shares of \$7 par value stock did Spin issue to Conservative?**
- 8,000   $56,000/56,000/7 = 8,000$  shares.
6. **Based on the preceding information, what was Conservative's book value of assets transferred to Spin Company?**
- 201,000

**Net book value of buildings** = \$100,000 - \$32,000 = \$68,000

**Net book value of equipment** = \$95,000 - \$30,000 = \$65,000

Total book value = Cash and receivables + Inventory + Land + Net book value of buildings +  
Net book value of equipment

$$= 23,000 + 15,000 + 30,000 + 68,000 + 65,000 = 201,000$$

7. **Based on the preceding information, what amount did Conservative report as its investment in Spin after the transfer of assets and liabilities?**
- \$181,000

Net assets transferred = Total assets transferred – Liabilities transferred

$$= 201,000 - 20,000 = 181,000$$

8. **Based on the preceding information, immediately after the transfer:**

- Conservative's total assets decreased by \$20,000.

$$\text{Net decrease} = 201,000 - 181,000 = 20,000$$

**Given:**

During its inception, Devon Company purchased land for \$100,000 and a building for \$180,000. After exactly 3 years, it transferred these assets and cash of \$50,000 to a newly created subsidiary, Regan Company, in exchange for 15,000 shares of Regan's \$10 par value stock. Devon uses straight-line depreciation. Useful life for the building is 30 years, with zero residual value. An appraisal revealed that the building has a fair value of \$200,000.

9. **Based on the information provided, at the time of the transfer, Regan Company should record:**

- Building at 180,000 and accumulated depreciation of 18,000.

$$\text{Depreciation} = (180,000/30) \times 3 = 18,000.$$

10. **Based on the information provided, what amount would be reported by Devon Company as investment in Regan Company common stock?**

- A. \$312,000

$$\text{Building Book value} = \text{Purchase cost} - \text{Accumulated depreciation} = 180,000 - 18,000 = 162,000$$

$$\begin{aligned} \text{Total net book value} &= \text{Land} + \text{Building (book value)} + \text{Cash} \\ &= 100,000 + 162,000 + 50,000 = 312,000 \end{aligned}$$

11. **Based on the preceding information, Regan Company will report:**

- additional paid-in capital of \$162,000.

$$312,000 - (15,000 \text{ shares} \times 10) = 162,000$$

12. **Which of the following situations best describes a business combination to be accounted for as a statutory merger?**

- Only one of the combining companies survives and the other loses its separate identity.

**13. A statutory consolidation is a type of business combination in which:**

- each of the combining companies is dissolved and the net assets of both companies are transferred to a newly created corporation.

**Given**

Rivendell Corporation and Foster Company merged as of January 1, 20X9. To effect the merger, Rivendell paid finder's fees of \$40,000, legal fees of \$13,000, audit fees related to the stock issuance of \$10,000, stock registration fees of \$5,000, and stock listing application fees of \$4,000.

**14. Based on the preceding information, under the acquisition method, what amount relating to the business combination would be expensed?**

- \$53,000  \$40,000 + \$13,000

**15. Based on the preceding information, under the acquisition method:**

- \$19,000 of stock issue costs are treated as a reduction in the issue price.

**16. Using the preceding information, what amount would have been expensed if the purchase method of accounting was used?**

- \$0  **Full Mark Work**

**17. Using the preceding information, what amount would have been expensed if the pooling-of-interests method of accounting was used?**

- \$72,000

Total expensed costs = 40,000 + 13,000 + 10,000 + 5,000 + 4,000 = 72,000

**18. Burrough Corporation paid \$80,000 to acquire all of Helyar Company's net assets. Helyar reported assets with a book value of \$60,000 and fair value of \$98,000 and liabilities with a book value and fair value of \$23,000 on the date of combination. Burrough also paid \$3,000 to a search firm for finder's fees related to the acquisition.**

What amount will be recorded as goodwill by Burrough Corporation while recording its investment in Helyar?

- \$5,000

$$\text{Goodwill} = 80,000 - (98,000 - 23,000) = \$5,000.$$

Given:

Plummet Corporation reported the book value of its net assets at \$400,000 when Zenith Corporation acquired 100 percent ownership. The fair value of Plummet's net assets was determined to be \$510,000 on that date.

19. Based on the preceding information, what amount of goodwill will be reported in consolidated financial statements presented immediately following the combination if Zenith paid \$550,000 for the acquisition?

- 40,000

$$\text{Goodwill} = 550,000 - 510,000 = 40,000.$$

20. Based on the preceding information, what amount will be recorded by Zenith as its investment in Plummet, if it paid \$500,000 for the acquisition?

- \$500,000

21. Based on the preceding information, what amount of goodwill will be reported in consolidated financial statements presented immediately following the combination if Zenith paid \$500,000 for the acquisition?

- \$0

22. The fair value of net identifiable assets of a reporting unit of X Company is \$300,000. On X Company's books, the carrying value of this reporting unit's net assets is \$350,000, including \$60,000 goodwill. If the fair value of the reporting unit is subsequently \$335,000, what amount of goodwill impairment will be recognized for this unit?

- \$25,000

Implied Fair Value of Goodwill =  $335,000 - 300,000 = 35,000$

Goodwill Impairment =  $60,000 - 35,000 = 25,000$

**23. The fair value of net identifiable assets of a reporting unit of Y Company is \$270,000. The carrying value of the reporting unit's net assets on Y Company's books is \$320,000, including \$50,000 goodwill. If the reported goodwill impairment for the unit is \$10,000, what would be the fair value of the reporting unit?**

- \$310,000

Fair value = Carrying value – Impairment =  $320,000 - 10,000 = 310,000$ .

**24. Which of the following observations is (are) consistent with the acquisition method of accounting for business combinations?**

- I. Expenses related to the business combination are expensed.
- II. Stock issue costs are treated as a reduction in the issue price.
- III. All merger and stock issue costs are expensed.
- IV. No goodwill is ever recorded.

- I and II

**25. Which of the following observations refers to the term differential?**

- Excess of consideration exchanged over book value of net identifiable assets.

**26. Which of the following observations concerning "goodwill" is **NOT** correct?**

- A. Once written down, it may be written up for recoveries.
- B. It must be tested for impairment at least annually.
- C. Goodwill impairment losses are recognized in income from continuing operations or income before extraordinary gains and losses.
- D. It must be reported as a separate line item in the balance sheet.

27. **The length of the measurement period allowed to value the assets and liabilities in an acquired business combination starts on the date of acquisition and lasts until:**

- All necessary information about the facts of the acquisition is obtained, not to exceed one year

28. **FASB 141R (ASC 805) requires contingent consideration in a business combination to be classified as:**

- A liability or equity

29. **For all acquired contingencies, the acquirer should do all of the following except:**

- A. Provide documentation from the acquirer's attorney regarding pending lawsuits and loan guarantees
- B. Provide a description of each contingency
- C. Disclose the amount recognized at the acquisition date
- D. Describe the estimated range of possible undiscounted outcomes of the contingency

30. **FASB 141R (ASC 805) requires that ongoing research and development projects be treated in all of the following ways except:**

- A. Recorded at acquisition-date fair values
- B. Classified as intangible assets having indefinite lives
- C. Expensed immediately
- D. Tested for impairment periodically