INTEGRATED REVIEW II: ADVANCED FINANCIAL ACCOUNTING AND REPORTING

MODULE 10: BUSINESS COMBINATIONS (PFRS 3)

PART I: SUMMARY NOTES

## Classification of Business Combinations

**According to structure of combination**

Horizontal Merger - A combination of two firms that produce the same type of good or service. Usually competitors before.

Vertical Merger - A merger between a firm and one of its suppliers or customers.

Conglomerate Merger - A merger of companies in totally different industries.

**According to form of acquisition**

1. **Acquisition of Net Assets** - Acquirer acquires the assets of target company and also assumes its liabilities. The target company will be dissolved and ceased to exist as a legal entity.

a. **Statutory merger** – one company acquires all the net assets of one or more other companies through an exchange of stock, payment of cash or other assets or issue of debt instruments. The acquiring company survives and the acquired company dissolves.

Company A + Company B = Company A or Company B

b. **Statutory Consolidation** – results when a new corporation is formed to acquire the net assets of two or more other corporations.

Company A + Company B = Company C

2. **Stock acquisition** – occurs when one corporation pays cash or issues stock or debt for all part of voting stock of another company, and the acquired companies remained intact as a separate legal entity. There is a parent-subsidiary relationship between acquirer and acquiree. Acquires voting stock for control.

a. **Fully-owned** – acquirer (parent) acquires 100% of voting stock of the subsidiary.

b. **Partially-owned** – acquirer (parent) acquires less than 100% of the voting stock and acquires control over the subsidiary (over 50% of voting shares). NCI (non-controlling interest)

**Steps in acquisition method of business combination**

1. identifying the acquirer (keyword: control)

2. determining the acquisition date

3. recognizing and measuring the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree; and

4. recognizing and measuring goodwill or a gain from a bargain purchase

## Computation template

General Format (Acquisition of assets and 100% subsidiary)

Price paid (Consideration transferred)

| | |
|---|---|
| Cash | xx |
| Non-cash assets | xx |
| Liabilities | xx |

| | | |
|---|---|---|
| Equity | xx | |
| Contingent consideration | xx | |
| Total | | xx |
| Less: BV of net assets acquired | | (xx) |
| Excess of cost over BV | | xx |
| Less: Adjustments to FV | | (xx) |
| Goodwill/(Gain on BP) | | xx/(xx) |

Note:

1. Acquisition costs incurred whether direct or indirect are treated as expense (PFRS 3, p. 53). Exception is cost to issues debt or equity securities (treated as discount or deducted from share premium)

2. Fair values of assets and liabilities under business combination may reported at provisional amounts subject to adjustment in goodwill/gain on BP during the measurement period. The measurement period shall not exceed one year from the acquisition date

Less than 100% subsidiary (applicable to stock acquisition only)

| | 100% Total FV | 80% Controlling | 20% NCI |
|---|---|---|---|
| Price paid (Consideration transferred) | xx | xx | xx |
| Less: BV of net assets acquired | (xx) | (xx) | (xx) |
| Excess of cost over BV | xx | xx | xx |
| Less: Adjustments to FV | (xx) | (xx) | (xx) |
| Goodwill/(Gain on BP) | xx/(xx) | xx/(xx) | xx/(xx) |

PART II. STRAIGHT PROBLEM (DEMO)

Problem 1 (Asset acquisition): Tree Corporation is a company involved in manufacturing cars. On January 1, 2017, the board of directors of the said company decided to acquire the net assets of Knee Corporation and Dudd Corporation, suppliers of materials they used in production. The merger is expected to result in producing high quality cars with lower total cost.

The following information was gathered from the books of the entities on January 1, 2017:

| Particulars | Tree | Knee | Dudd |
|---|---|---|---|
| Current assets | P1,375,000 | P390,000 | P260,000 |
| Noncurrent assets | 3,125,000 | 2,550,000 | 1,700,000 |
| Liabilities | 325,000 | 210,000 | 140,000 |
| Ordinary share capital, P100 par | 2,748,500 | 1,780,200 | 1,186,800 |
| Share premium – Ordinary share | 176,500 | 169,800 | 113,200 |
| Accumulated profits (losses) | 1,250,000 | 780,000 | 520,000 |

Tree will issue 22,500 of its ordinary shares in exchange for the net assets of Knee and 11,200 of its ordinary shares in exchange for the net assets of Dudd. The fair value of Tree's shares is P150. In addition, the following fair values were available:

| Particulars | Knee | Dudd |
|---|---|---|
| Current assets | P450,000 | P230,000 |
| Noncurrent assets | 2,150,000 | 1,975,000 |

The following out of pocket costs of the combination were as follows:

| | |
|---|---|
| Legal fees for the contract of business combination | P8,000 |

| | |
|---|---|
| Audit fee for SEC registration of share issue | 9,000 |
| Printing costs of share certificates | 5,000 |
| Broker's fee | 4,000 |
| Accountant's fee for pre-acquisition audit | 10,000 |
| Other direct cost of acquisition | 7,000 |
| Internal secretarial, general and allocated expenses | 9,000 |
| Documentary stamp tax on the new shares | 2,000 |

Required:

1. Record the acquisition of the net assets of Knee and Dudd and related transactions on the books of Tree.
2. Determine the following amount that will appear in the balance sheet of Tree on January 1, 2017
   a. Goodwill arising from acquisition of Knee.
   b. Gain from acquisition of Dudd (to be added to accumulated P & L)
   c. Current assets
   d. Noncurrent assets
   e. Total assets
   f. Total liabilities
   g. Ordinary share capital
   h. Share premium
   i. Accumulated profits (losses)
   j. Shareholders' equity
3. Determine the amount of goodwill arising from business combination assuming that Tree agreed to pay an additional P500,000 on January 1, 2019 to Knee Company, if the average income of Knee Company during 2-year period of 2017 – 2018 exceeds P5,000,000 per year. The expected value is P200,000 calculated based on the 40% probability of achieving the target average income.

PART III. MULTIPLE CHOICE QUESTIONS

Problem 1 (Asset Acquistion): Geri acquired the net assets of Mark Corp. on July 1, 20x5. In exchange for net assets at fair market value of Mark Co. amounting to P835,740, Geri issued 81,600 shares at a market price of P12 per share (P9 par value). Out of pocket costs of the combination were as follows:

| | | |
|---|---|---|
| Legal fees for the contract of business combination | P10,000 | |
| Audit fee for SEC registration of share issue | 13,000 | |
| Costs of shares of stock certificates | 7,000 | |
| Broker's fee | | 8,000 |
| Other direct cost of acquisition | | 22,000 |
| General and allocated expenses | | 25,000 |

Geri will pay an additional cash consideration of P546,000 in the event that Mark's net income will be equal or greater than P1,140,000 for the period ended December 31, 20x5. At acquisition, there is a high probability of reaching the target net income and the fair value of the additional consideration was determined to be P234,000. Actual net income for the period ended December 31, 20x5 amounted to P1,500,000. The additional consideration was paid.

1. What is the amount of goodwill to be recognized in the statement of financial position as of December 31, 20x5
   a. P 0 b. P257,040 c. **P377,460** d. P425,640
2. What amount chargable to operations (loss/expense) to be recognized for the year ended December 31, 20x5?
   a. P 0 b. P337,000 c. **P377,000** d. P397,000

On July 1, 2014, the Magic Company acquired 100% of the Nato Company for a consideration transferred of P160 million. At the acquisition date, the carrying amount of Nato's net assets was P100 million. At the acquisition date, a provisional fair value of P120 million was attributed to the net assets. An additional valuation was received on May 31, 2015 increased this provisional value to P135 million and on July 30, 2015, this fair value was finalized at P140 million.

3. What amount should Magic present for goodwill on its statement of financial position on December 31, 2015, according to PFRS 3 Business Combinations?
   a. P20 miilion b. **P25 million** c. P30 million d. P60 miilion

Dosmann, Inc.,acquired net assets of Lizzi Corporation on January 1, 2014, for P700,000 in cash. This portion of the consideration transferred results in a fair-value allocation of P35,000 to equipment and goodwill of P88,000. At the acquisition date, Dosman also agrees to pay Lizzi's previous owners an additional P110,000 on January 1, 2016, if Lizzi earns a 10 percent return on the fair value of its assets in 2014 and 2015. Lizzi's profits exceed this threshold in both years.

4. Which of the following is true?
   a. The additional P110,000 payment is a reduction in retained earnings
   b. **The fair value of the expected contingent payment increases goodwill at the acquisition date**.
   c. Goodwill as of January 1, 2016, increases by P110,000
   d. The P110,000 is recorded as an expense in 2016

P Company assigned provisionally a fair value of P1,000,000 to land it acquired when it purchased S Company. Ten months later, P obtained information that the land was worth P700,000 at the date of acquisition. Two years after the acquisition, the land is worth P1,100,000.

5. How does P account for these value changes?
   a. Loss of P300,000, reported on the income statement; no recognition of increases in value to P1,100,000
   b. **Increase goodwill by P300,000; no recognition of increase in value to P1,100,000**
   c. Decrease goodwill by a net amount of P100,000
   d. Loss of P300,000 and gain of P400,000, reported in the income statement

Balance sheet information for Hope Company at January 1, 20x4 is summarized as follows:

| | | | |
|---|---|---|---|
| Current assets | P920,000 | Liabilities | P 1,200,000 |
| Plant assets | 1,800,000 | Capital stock P10 par | 800,000 |
| | | Retained earnings | 720,000 |
| Total | P2,720,000 | Total | P2,720,000 |

Hope's assets and liabilities are fairly values except for the plant assets that are undervalued by P200,000. On January 2, 20x4, Robin Corporation issues 80,000 shares of its P10 par value common stock for all of Hope's net assets and Hope is dissolved. Market quotations for the two stocks on this date are:

Robin common: P28
Hope common: P19

Robin pays the following fees and costs in connection with the combination

Finder's fee: P10,000
Costs of registering and issuing stock: P5,000
Legal and accounting fees: P6,000

6. Determine goodwill or gain from bargain purchase from the acquisition
   a. P520,000 goodwill c. P390,000 goodwill
   b. P200,000 gain d. P920,000 gain

Maplewood Corporation purchased the net assets of West Corporation on January 2, 20x4 for P500,000 and also paid P20,000 in direct acquisition costs. West balance sheet on January 1, 20x4 were as follows:

| | |
|---|---|
| Accounts receivable, net | P180,000 |
| Inventory | 360,000 |
| Land | 40,000 |
| Buildings, net | 60,000 |
| Equipment, net | 80,000 |
| Current liabilities | 70,000 |
| Long-term debt | 160,000 |
| Common stock, P1 par | 20,000 |
| Paid-in capital | 430,000 |
| Retained earnings | 40,000 |

Fair value agree with book values except for inventory, land and equipment which have fair values of P400,000, P50,000 and P70,000 respectively. West has patent rights valued at P20,000.

7. The bargain purchase gain amounted to:
   a. None b. P30,000 c. P50,000 d. P70,000

Blue Company merged into Soda Corp. on June 30, 2020. In exchange for the net assets at fair market value of Blue Co amounting to P2,785,800, Soda issued 68,000 ordinary shares at P36 par value, with at a market price of P41 per share. Relevant data on ordinary shareholders' equity immediately before the combination show:

| Particulars | Soda | Blue |
|---|---|---|
| Share capital | P8,790,000 | P2,030,000 |
| Share premium | 3,834,000 | 782,000 |
| Retained earnings (deficit) | (1,516,000) | 495,000 |

Out of pocket costs of the combination were as follows:

| | |
|---|---|
| Legal fees for the contract of business combination | P174,700 |
| Audit fee for SEC registration of stock issue | 198,400 |
| Printing costs of stock certificates | 144,900 |
| Broker's fee | 135,000 |
| Accountant's fee for pre-acquisition audit | 161,000 |
| Other direct cost of acquisition | 90,400 |
| General and allocated expenses | 115,300 |
| Listing fees in issuing new shares | 172,000 |

Included as part of the acquisition agreement is the additional cash consideration of P163,000 in the event Soda Co's share price will reach P32 per share by year-end

At acquisition date, the share price is P27.50 and increased by P4.80 by December 31, 2020.

At acquisition date, there was only a low probability of reaching the target share price, so the fair value of the additional consideration was determined at P74,000.

8. What is the amount of expense to be recognized in the statement of comprehensive income for the year ended December 31, 2020?
   a. P676,400 b. P851,700 c. P765,400 d. **P937,400**

Ang Company issued 120,000 shares of its P25 par common stock for the net assets of Chan Corporation in a business combination completed on March 1, 2010. Chan Corporation's net assets are worth P3,800,000 at FMV. Out of pocket costs of the combination were as follows:

| | |
|---|---|
| Legal fees | 26,000 |
| Contingent consideration (highly probable & measurable) | 18,000 |
| Printing costs of stock certificates | 8,500 |
| Finder's fees | 27,000 |
| Professional fees paid to a CPA | 21,000 |
| Fees paid to company lawyers | 23,450 |
| Fees paid to company accountants | 38,900 |

The goodwill from the business combination is P418,000.

9. How much is the FMV per share of Ang Company at March 1, 2010?
   a. P 25 b. P 40 c. P 30 d. P 35

PART I. NOTES

Business combination is achieved by acquisition of stock when an existing company acquires a majority or all of the stock of another existing company. The acquirer records the acquisition by debiting the Investment in Stock account for the consideration given (price paid), which includes cash disbursed, the fair value of other assets given or securities issued. After the acquisition of stock, a relationship exist that of parent/subsidiary relationship. The acquirer is called the parent and the acquiree is called the subsidiary.

**Consolidated financial statements**

These are the financial statements of a group in which the assets, liabilities, equity, income, expenses and cash flows of the parent and its subsidiaries are presented as those of a single economic entity. Consolidated financial statements are prepared when an entity controls one or more other entities.

**Consolidation Procedures**

PFRS 10 requires parent company to present consolidated financial statements to external reporting. It means that the parent is required to combine the financial statements of all of its controlled subsidiaries. It also defines what constitutes control for the purpose of business combination.

The steps in consolidation are as follows (PFRS 10, B86)

1. Combine like items of assets, liabilities, equity, income, expenses and cash flows of the parent with those of its subsidiaries.
2. Offset (eliminate) the carrying amount of the parent's investment in each subsidiary and the parent's portion of equity of each subsidiary. (We will use Determination and Allocation of Excess Schedule and working paper elimination entries for this step)
3. Eliminate in full intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between entities of the group (profits or losses resulting from intragroup transactions that are recognized in assets, such as inventory and fixed assets, are eliminated in full).

Computation Template (Goodwill/Gain on BP)

| Determination and Allocation of Excess | 100% | 80% | 20% |
|---|---|---|---|
| | Total FV | Controlling | NCI |
| Price paid (Consideration transferred) | xx | xx | xx |
| Less: BV of net assets acquired | (xx) | (xx) | (xx) |
| Excess of cost over BV | xx | xx | xx |
| Less: Adjustments to FV | (xx) | (xx) | (xx) |
| Goodwill/(Gain on BP) | xx/(xx) | xx/(xx) | xx/(xx) |

**Non-Controlling Interest**

A parent shall present non-controlling interests in the consolidated statement of financial position within equity, separately from the equity of the owners of the parent.

For measurement of non-controlling interests, PFRS 3 (P19) provides that the acquirer shall measure at the acquisition date components of non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation at either:

(a) fair value; or

(b) the present ownership instruments' proportionate share in the recognized amounts of the acquiree's identifiable net assets.

All other components of non-controlling interests shall be measured at their acquisition-date fair values, unless another measurement basis is required by IFRSs

Determination of Consolidated Balances

At the date of acquisition, only consolidated statement of financial position is prepared. In subsequent years, since the date of acquisition, a complete set of financial is prepared in consolidation. However, special considerations should be taken in determining the consolidated balance of the following:

1. Consolidated net income

2. Share of NCI in net income of subsidiary

3. Controlling interest in net income of subsidiary

4. Consolidated retained earnings

General Format

| | Parent | Subs | Consolidated |
|---|---|---|---|
| Net income fr its own oper | xx | xx | |
| Adj: Amortization | | (xx) | |
| Realized gross profit | xx - down | xx - up | |
| Unrealized gross profit | (xx) - down | (xx) - up | |
| Adjusted net income | xx | xx | xx |

**Separate Financial Statements (PAS 27)**

Both parent and subsidiary, having separate legal entity from each other, are allowed to present separate financial statements for its own operations.

When parent company prepares separate financial statements, it shall account for investments in subsidiaries

(a) at cost;

(b) at fair value in accordance with IFRS 9; or

(c) using the equity method as described in IAS 28

In equity method, the priority areas are the following

a. Investment income

b. Investment account

Computation format (Equity Method)

| | |
|---|---|
| Net income - S | xx |
| Adj: Amortization of excess | (xx) |
| Adj Net income - S | xx |
| Multiply by | % |
| Investment income (Equity Method) | xx |

| | |
|---|---|
| Investment in S (beg) | xx |
| Add: Investment income | xx |

| | |
|---|---|
| Less: Share in div - S | (xx) |
| Investment in S (end) | xx |

PART II. STRAIGHT PROBLEM (Comprehensive/Partially-owned Subsidiary/Consolidated balances)

On January 1, 2019, Father Company acquired an 80 percent interest in Sun Company for P425,000. The acquisition-date fair value of the 20 percent noncontrolling interest's ownership shares was P102,500. Also as of that date, Sun reported total stockholders' equity of P400,000: P100,000 in common stock and P300,000 in retained earnings. In setting the acquisition price, Father appraised four accounts at values different from the balances reported within Sun's financial records.

Buildings (8-year life) . . . . . . . . . . . . . . . . . . . . . Undervalued by P20,000
Land . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . Undervalued by P50,000
Equipment (5-year life) . . . . . . . . . . . . . . . . . . . Undervalued by P12,500
Royalty agreement (20-year life) . . . . . . . . . . . . Not recorded, valued at P30,000

As of December 31, 2023, the trial balances of these two companies are as follows:

| Debits | Father Co | Sun Co |
|---|---|---|
| Current assets | 605,000 | 280,000 |
| Investment in Sun Company | 425,000 | |
| Land | 200,000 | 300,000 |
| Buildings (net) | 640,000 | 290,000 |
| Equipment (net) | 380,000 | 160,000 |
| Expenses | 550,000 | 190,000 |
| Dividends | 90,000 | 20,000 |
| Total | 2,890,000 | 1,240,000 |
| | | |
| Credits | | |
| Liabilities | 910,000 | 300,000 |
| Common stock | 480,000 | 100,000 |
| Retained earnings, 1/1/23 | 704,000 | 480,000 |
| Revenues | 780,000 | 360,000 |
| Dividend income | 16,000 | 0 |
| Total | 2,890,000 | 1,240,000 |
| | | |

Included in these figures is a P20,000 debt that Sun owes to the parent company. No goodwill impairments have occurred since the Sun Company acquisition.

Required

a. Determine consolidated totals for Father Company and Sun Company for the year 2023.

b. Prepare worksheet entries to consolidate the trial balances of Father Company and Sun Company for the year 2023.

c. Assume instead that the acquisition-date fair value of the noncontrolling interest was P112,500. What balances in the December 31, 2023, consolidated statements would change?

PART III. MULTIPLE CHOICE QUESTIONS

Problem 1 (100% subsidiary): The financial statements for Goodwin Inc., and Corr Company for the year ended December 31, 2019 prior to Goodwin's business combination transaction regarding Corr follow (in thousands):

| Particulars | Goodwin | Carr |
|---|---|---|
| Revenues | P2,700 | P600 |
| Expenses | 1,980 | 400 |
| Net Income | P720 | P200 |
| | | |
| Retained earnings, 1/1 | P2,400 | P400 |
| Net income | 720 | 200 |
| Dividends | (270) | (0) |
| Retained earnings, 12/31 | P2,850 | P600 |
| | | |
| Cash | P240 | P220 |
| Receivables and Inventory | 1,200 | 340 |
| Buildings (net) | 2,700 | 600 |
| Equipment (net) | 2,100 | 1,200 |
| Total assets | P6,240 | P2,360 |
| | | |
| Liabilities | P1,500 | P820 |
| Common stock | 1,080 | 400 |
| Additional paid in capital | 810 | 540 |
| Retained earnings | 2,850 | 600 |
| Total liabilities and equity | P6,240 | P2,360 |

On December 31, 2019, Goodwin issued P600 in debt and 30 shares of its P10 par value common stock to the owners of Corr to purchase all of the outstanding shares of that company. Goodwin shares had a fair value of P40 per share. Goodwin paid P25 to a broker for arranging the transaction. Goodwin paid P35 in stock issuance costs. Corr's equipment was actually worth P1,400 but its buildings were only valued at P560.

1. If the combination is accounted for as an acquisition, at what amount is the investment recorded in Goodwin's books?
   a. P1,540 b. **P1,800** c. P1,825 d. P1,860
2. Compute the consolidated revenues for 2019
   a. P3,300 b. **P2,700** c. P1,540 d. P720
3. Assuming the combination is accounted for as an acquisition, compute the consolidated expenses for 2019
   a. P1,980 b. **P2,005** c. P2,015 d. P2,040
4. Compute the consolidated cash account at December 31, 2019
   a. P460 b. P435 c. P425 d. **P400**
5. Compute the consolidated buildings (net) account at December 31, 2019
   a. P2,700 b. P3,370 c. **P3,260** d. P3,300
6. Compute the consolidated equipment (net) account at December 31, 2019
   a. P2,100 b. P3,200 c. P3,300 d. **P3,500**
7. Assuming the combination is accounted for as an acquisition, compute the consolidated goodwill account at December 31, 2019:
   a. P 0 b. **P100** c. P125 d. P160
8. Compute the consolidated common stock account at December 31, 2019
   a. P1,080 b. **P1,380** c. P1,480 d. P2,280
9. Compute the additional paid in capital account at December 31, 2019
   a. P810 b. P1,350 c. **P1,675** d. P1,910
10. Assuming the combination is accounted for as an acquisition, compute the consolidated retained earnings at December 31, 2019
    a. P2,800 b. **P2,825** c. P2,850 d. P3,425

Problem 2 (Partially-Owned Subsidary): Company Z acquires 80% of Company Y for P10 million, carrying value of Company Y net assets at the time of acquisition being P6,000,000 and fair value of these net identifiable assets being P8,000,000

Determine the following:

1. Goodwill arising on consolidation is to be valued on the proportionate basis
   a. P1,600,000 b. P2,000,000 c. **P3,600,000** d. P4,500,000
2. Non-controlling interest arising on consolidation is to be valued on the proportionate basis
   a. P1,200,000 b. **P1,600,000** c. P2,500,000 d. P3,000,000
3. Goodwill arising on consolidation is to be valued on the fair value basis
   a. P1,600,000 b. P2,000,000 c. P3,600,000 d. **P4,500,000**
4. Non-controlling interest arising on consolidation is to be valued on the fair value basis
   a. P1,200,000 b. P1,600,000 c. **P2,500,000** d. P3,000,000

Problem 3 (Partially-Owned Subsidary): Entity Subsidiary has 40% of its shares publicly traded on a exchange. Entity Parent purchases the 60% non-publicly traded shares in one transaction, paying P6,300,000. Based on the trading price of the shares of Entity Subsidiary at the date of gaining control a value of P4,000,000 assigned to the 40% non-controlling interest (or fair value of non-controlling interest), indicating that Entity Subsidiary has paid a control premium of P300,000. The fair value of Entity Subsidiary's net assets is P7,000,000 and a carrying value of P5,000,000.

Determine the following:

5. Goodwill arising on consolidation is to be valued on the proportionate basis
   a. P1,200,000 b. **P2,100,000** c. P3,300,000 d. P4,120,000
6. Non-controlling interest arising on consolidation is to be valued on the proportionate basis
   a. P2,000,000 b. **P2,800,000** c. P4,000,000 d. P4,120,000
7. Goodwill arising on consolidation is to be valued on the fair value basis
   a. P1,200,000 b. P2,100,000 c. **P3,300,000** d. P4,120,000
8. Non-controlling interest arising on consolidation is to be valued on the fair value basis
   a. P2,000,000 b. P2,800,000 c. **P4,000,000** d. P4,120,000
9. Fair value basis. Assume the price paid amounted to P6,294,000 which includes control premium of P294,000 with no fair value of non-controlling interest given. Goodwill arising on consolidation is to be valued on the fair value basis
   a. P2,100,000 b. P3,300,000 c. **P3,294,000** d. P4,120,000

Problem 4 (Step Acquisition): Pares Company acquires 15 percent of Serap's Company's common stock for P500,000 cash and carries the investment as a financial asset. A few months later, Pares purchases another 60 percent of Serap's Company's stock for P2,160,000. At that date, Serap Company reports identifiable assets with a book value of P3,900,000 and a fair value of P5,100,000 and it has liabilities with a book value and fair value of P1,900,000. The fair value of the 25% non-controlling interest in Serap Company is P900,000.

10. Goodwill arising on consolidation is to be value on the proportionate basis
    a. P84,000 b. P100,000 c. **P300,000** d. P400,000
11. Non-controlling interest arising on consolidation is to be value on the proportionate basis
    a. P300,000 b. P500,000 c. **P800,000** d. P900,000
12. Goodwill arising on consolidation is to be value on the fair value basis
    a. P84,000 b. P100,000 c. P300,000 d. **P400,000**
13. Non-controlling interest arising on consolidation is to be value on the fair value basis
    a. P300,000 b. P500,000 c. P800,000 d. **P900,000**
14. The remeasurement gain or loss to be recognized to profit and loss account if 15% ownership is a FVTPL (fair value through profit and loss) when the additional shares are acquired
    a. Zero b. **P40,000 gain** c. P40,000 loss d. P68,000 loss

15. The remeasurement gain or loss to be recognized to profit and loss account if 15% ownership is a FVOCI (fair value through other comprehensive income) when the additional shares are acquired
    a. **Zero** b. P40,000 gain c. P40,000 loss d. P68,000 loss

Problem 5 (Gain from Bargain Purchase): Parlor Company acquires 75 percent of Salon Company's common stock for P225,000 cash. At that date, the non-controlling interest in Salon has a book value of P52,500 and a fair value of P82,000. Also on that date, Salon reports identifiable assets with a book value of P400,000 and a fair value of P510,000, and it has liabilities with a book value and fair value of P190,000

16. Gain on bargain purchase arising on consolidation if fair value of net identifiable assets is to be valued on the proportionate basis:
    a. Zero b. P13,000 c. **P15,000** d. P17,333
17. Gain on bargain purchase arising on consolidation if fair value of net identifiable assets is to be valued on the fair value basis:
    a. Zero b. **P13,000** c. P15,000 d. P17,333

Problem 6 (Deconsolidation): Pedro Company owns 80,000 shares of Santa Corporation's 100,000 outstanding common shares, acquired at book value. The December 31, 2018 consolidated balance sheet presented by Pedro and Santa included net assets of Santa in the amount of P600,000. On January 1, 2019, Pedro sells 70,000 shares of Santa for P490,000. The fair value of Pedro's remaining 10% interest in Santa is P70,000. What amount of gain or loss, if any, should be recognized on the sale of Pedro's shares resulting in deconsolidation, and how much of that should be attributed to Pedro?

18. Determine the gain or loss on disposal (or deconsolidation)
    a. P40,000 loss b. P80,000 loss c. P10,000 gain d. **P80,000 gain**

Problem 7 (Partially-Owned Subsidiary): Power Corporation acquired 70 percent of Silk Corporation's common stock on December 31, 2019. Balance sheet data for the two companies immediately following acquisition follow:

| Item | Power | Silk |
|---|---|---|
| Cash | P44,000 | P30,000 |
| Accounts receivable | 110,000 | 45,000 |
| Inventory | 130,000 | 70,000 |
| Land | 80,000 | 25,000 |
| Buildings and equipment | 500,000 | 400,000 |
| Less: Accumulated depreciation | (223,000) | (165,000) |
| Investment in Silk Corporation stock | 150,500 | |
| Total Assets | P791,500 | P405,000 |
| Accounts payable | P61,500 | P28,000 |
| Taxes payable | 95,000 | 37,000 |
| Bonds payable | 280,000 | 200,000 |
| Common stock | 150,000 | 50,000 |
| Retained earnings | 205,000 | 90,000 |
| Total liabilities and stockholders' equity | P791,500 | P405,000 |

After the date of business combination, the book values of Silk's net assets and liabilities approximated their fair value except for inventory, which had a fair value of P85,000, and land, which had a fair value of P45,000. The fair value of non-controlling interest was P64,500 on December 31, 2019. For each of the questions below, indicate the appropriate total that should appear in the consolidated balance sheet immediately after the business combination on the basis of full goodwill (fair value) approach.

1. What amount of inventory will be reported?
   a. P179,000 b. P200,000 c. P210,500 d. **P215,000**
2. What amount of goodwill will be reported?
   a. P 0 b. P28,000 c. **P40,000** d. P52,000
3. What amount of total assets will be reported?
   a. P1,081,000 b. **P1,121,000** c. P1,196,500 d. P1,231,500
4. What amount of Investment in Silk will be reported?

a. **P 0** b. P140,000 c. P150,500 d. P215,000

5. What amount of total liabilities will be reported?
   a. P265,000 b. P436,500 c. P622,000 d. **P701,500**
6. What amount will be reported as non-controlling interest?
   a. P42,000 b. P52,500 c. P60,900 d. **P64,500**
7. What amount of parent's share or controlling interest in related earnings will be reported?
   a. P295,000 b. P268,000 c. P232,000 d. **P205,000**
8. What amount of consolidated retained earnings will be reported?
   a. P295,000 b. P268,000 c. P232,000 d. **P205,000**
9. What amount of stockholders' equity will be reported?
   a. P355,000 b. P397,000 c. **P419,500** d. P495,000

10. Par Company owns 60% of Sub Company's outstanding capital stock. On May 1, 2019, Par advanced Sub P70,000 in cash, which was still outstanding at December 31, 2019. What portion of this advance should be eliminated in the preparation of the December 31, 2019 consolidated balance sheet?
    a. **P70,000** b. P42,000 c. P28,000 d. Zero
11. Dean, Inc. owns 100% of Roy Corporation, a consolidated subsidiary, and 80% of Wall, Inc., an unconsolidated subsidiary at December 31. On the same date, Dean has receivables of P200,000 from Roy and P175,000 from Wall. In its December 31 consolidated balance sheet, Dean should report accounts receivable from investees at:
    a. P 0 b. P35,000 c. **P175,000** d. P235,000

Problem 8 (Consolidated Net Income): On January 1, 2013 P Company acquired 80% interest in S Company for P2,000,000 cash. The stockholders' equity of S at the time of acquisition is P1,875,000. On January 1, 2013, NCI is measured at its implied fair value. The excess of cost over book value of interest acquired is allocated to the following assets:

| | |
|---|---|
| Inventories | P100,000 (sold in 2013) |
| Building | P200,000 (5-year remaining life) |

During 2013, S Company reported total comprehensive income of P500,000 and paid dividends of P100,000.

1. What is the fair value of NCI on January 1, 2013?
   a. **P500,000** b. P375,000 c. P525,000 d. P400,000
2. How much goodwill (gain on acquisition) is reported in the consolidated statement of financial position on January 1, 2013?
   a. **P325,000** b. P200,000 c. P(325,000) d. P(375,000)
3. What is the consolidated total comprehensive income attributable to parent on December 31, 2013, if P's net income for 2013 is P600,000 (excluding dividend income)
   a. P860,000 b. P888,000 c. P808,000 d. P948,000
4. What is the NCI is net assets of subsidiary on December 31, 2013?
   a. P455,000 b. **P552,000** c. P495,000 d. P495,900

Problem 9 (Non-Controlling Interest): Power Corporation purchased a 70% interest in Star Company on January 1, 2013 for P140,000, when Star's stockholders' equity consisted of P30,000 common stock, P100,000 additional paid-in-capital, and P200,000 retained earnings. Income and dividends data for Star are as follows:

| | |
|---|---|
| Net income (or loss) | P50,000 |
| Dividends | 5,000 |

NCI is measured at fair value

5. If Power reported separate income from own operations of P120,000 for 2013, what is the consolidated total comprehensive income for 2013?
   a. P113,870 b. **P170,000** c. P115,370 d. P116,500
6. What is the NCI at December 31, 2013?
   a. P149,600 b. P148,000 c. **P73,500** d. P151,370

7. Simple Company, a 70%-owned subsidiary of Punter Corporation, reported net income of P240,000 and paid dividends totalling P90,000 during Year 3. Year 3 amortization differences between current fair values and carrying amounts of Simple's

identifiable net assets at the date of business combination was P45,000. The non-controlling interest in net income of Simple for Year 3 was

a. **P58,500** b. P13,500 c. P27,000 d. P72,000

8. Primer Company acquired an 80% interest in SealCoat Company on January 1, 20x4 for P450,000 cash when SealCoat Company had a common stock of P250,000 and retained earnings of P250,000. All excess was attributable to plant assets with a 10-year life. SealCoat Company made P50,000 in 20x4 and paid no dividends. Primer Company's separate net income in 20x4 was P625,000. The controlling interest in consolidated net income for 20x4 is

   a. P675,000 b. **P665,000** c. P660,000 d. P625,000

9. Park Company acquired 90% interest in Southwest Company on December 31, 20x4 for P320,000. During 20x5 Southwest had a net income of P22,000 and paid a cash dividend of P7,000. Applying the cost method would give a debit balance in the Investment in Southwest Company account at the end of 20x5 of:

   a. P335,000 b. P333,500 c. P313,700 d. **P320,000**

Problem 10 (Equity Method): Pedro purchased 100% of the common stock of Sanburn Company on January 1, 20x4, for P500,000. ON that date, the stockholders' equity of Sanburn Company was P380,000. On the purchase date, inventory of Sanburn Company, which was sold during 20x4, was understated by P20,000. Any remaining excess of cost over book value is attributable to building with a 20-year life. The reported income and dividends paid by Sanburn Company were as follows:

| Particulars | 20x4 | 20x5 |
|---|---|---|
| Net income | P80,000 | P90,000 |
| Dividends paid | 10,000 | 10,000 |

1. Using cost method, which of the following amounts are correct?

   | Investment income 20x4 | Investment account balance, 12/31/x4 |
   |---|---|
   | a. **P10,000** | **P500,000** |
   | b. P70,000 | P570,000 |
   | c. P70,000 | P550,000 |
   | d. P10,000 | P550,000 |

2. Using cost method, which of the following amounts are correct?

   | Investment income 20x5 | Investment account balance, 12/31/x5 |
   |---|---|
   | a. **P10,000** | **P500,000** |
   | b. P70,000 | P570,000 |
   | c. P70,000 | P550,000 |
   | d. P10,000 | P550,000 |

3. Using equity method, which of the following amounts are correct?

   | Investment income 20x4 | Investment account balance, 12/31/x4 |
   |---|---|
   | a. P55,000 | P555,000 |
   | b. **P55,000** | **P545,000** |
   | c. P90,000 | P565,000 |
   | d. P80,000 | P570,000 |

4. Using equity method, which of the following amounts are correct?

   | Investment income 20x5 | Investment account balance, 12/31/x5 |
   |---|---|
   | a. P55,000 | P545,000 |
   | b. P55,000 | P555,000 |
   | c. **P85,000** | **P620,000** |
   | d. P90,000 | P570,000 |