

# What is a Business Combination?

## Worksheet

A business combination occurs when an acquirer obtains control of one or more businesses; under the acquisition method, identifiable assets and liabilities are measured at fair value, and any excess of purchase price over their net fair value is recognized as goodwill.

## Questions

- Under the acquisition method, identifiable assets and liabilities acquired are measured at:
  - Historical cost
  - Fair value at the acquisition date
  - Book value of the acquiree
  - Replacement cost only
- If the purchase price is less than the fair value of net identifiable assets, the acquirer recognizes:
  - Goodwill
  - A bargain purchase gain
  - A loss on acquisition
  - Negative retained earnings
- Goodwill in a business combination represents:
  - Only brand value
  - Future economic benefits from assets not individually identified and recognized
  - A liability to be paid later
  - Cash paid for inventory
- Acquisition-related costs (e.g., legal, advisory fees) under the acquisition method are:
  - Capitalized into goodwill
  - Expensed as incurred
  - Added to fair value of net assets
  - Deducted from consideration transferred
- Purchase price is \$15,000,000; fair value of identifiable net assets is \$11,000,000. Find goodwill.
- Purchase price is \$8,000,000; fair value of identifiable net assets is \$9,200,000.
- An acquirer buys 90% of a company for \$20,000,000; the fair value of 100% of net assets is \$18,000,000, and NCI's fair value is \$2,000,000 (full goodwill method). Find goodwill.
- Define: What is a business combination?
- Define: How is goodwill calculated?
- Define: What is a bargain purchase?

## Answer Key

1. B) Fair value at the acquisition date - IFRS 3/ASC 805 require identifiable assets and liabilities to be recognized at acquisition-date fair value.
2. B) A bargain purchase gain - A negative difference is a bargain purchase, recognized as a gain in the income statement.
3. B) Future economic benefits from assets not individually identified and recognized - Goodwill captures synergies, workforce, and other benefits not separately recognizable as identifiable assets.
4. B) Expensed as incurred - IFRS 3/ASC 805 require acquisition-related costs to be expensed in the period incurred, not capitalized.
5.  $GW = \$15,000,000 - \$11,000,000 = \$4,000,000$
6.  $GW = \$8,000,000 - \$9,200,000 = -\$1,200,000$  Negative result a \$1,200,000 bargain purchase gain is recognized in income
7. Total consideration =  $\$20,000,000 + \$2,000,000 = \$22,000,000$  Goodwill =  $\$22,000,000 - \$18,000,000 = \$4,000,000$
8. A transaction where an acquirer obtains control of one or more businesses.
9. Goodwill = Purchase price - Fair value of identifiable net assets acquired.
10. When purchase price is less than the fair value of net assets acquired; the difference is recognized as a gain.

### Bounlu

All cards, step-by-step solutions and an AI tutor are in the Notek app.  
Promy turns exam dates into automatic reminders.