CHAPTER 6: OTHER BALANCE SHEET ITEMS

LESSON 2: GOODWILL AND NONCONTROLLING INTERESTS

Question 1

Correct answer: A

Goodwill is computed as the excess of the acquisition purchase cost - €18.5 million, over the acquirer's interest in the fair value of the net assets acquired, i.e. 100% x €16 million (12 + 2 + 2.5 + 4 + 3 – 6 – 1.5), €16 million, which results in goodwill of €2.5 million.

Question 2

Correct answer: B

Deducting the acquirer's interest in the fair value of the net assets acquired (100% x €16 million) from the acquisition purchase cost (€15 million) results in no excess. The goodwill recognised as a result of the acquisition is therefore zero.

Question 3

Correct answer: B

The assets and liabilities of subsidiary companies are recognised in full (100%), irrespective of the actual equity stake held, hence the property plant and equipment reported on the consolidated balance sheet as a result of the acquisition is 100% of €14 million (fair value of Manor House Resort and Spa's property, plant and equipment).

The noncontrolling interests resulting from the acquisition are computed as the equity interest of minority shareholders in subsidiaries which are less than 100% owned by the parent company, so 25% x €16 million (fair value of the net assets of Manor House Resort and Spa), i.e. €4 million.

Question 4

Correct answer: C

Under both IFRS and US GAAP negative goodwill is never reported on the balance sheet. Instead it is recognised in the consolidated income statement and presented as a gain on a bargain purchase.

Question 5

Correct answer: C

Statement C is incorrect as under both IFRS and US GAAP goodwill is never amortised.

Statement A is correct. The presence of noncontrolling interests within equity shows that the Becker Group owns less than 100% of the share capital in at least some of its subsidiaries.

Statement B is correct. Tangible book value is computed as the carrying amount of net assets/equity (€13.1 million + €2.4 million) less goodwill (€4.4) and intangible assets (€2.0 million and €3.5 million), i.e. €5.6 million.

Question 6

Correct answer: C

The typical analyst adjustments in respect of goodwill include deducting the carrying amount of goodwill from total assets (decrease total assets by €28,000) and reversing any goodwill write-offs recognised within income (increase income by €30,000).