OTHER BALANCE SHEET ITEMS

LESSON 2: GOODWILL AND NONCONTROLLING INTERESTS

The following information relates to Questions 1 - 3

On 31 December 2014 Excelsior Hospitality plc, a UK based hotel holding company and owner of the Excelsior Hospitality Group, acquired a stake in the share capital of Manor House Resort and Spa.

At the date of acquisition Manor House's summarised balance sheet showed (in € million):

ASSETS		**EQUITY**	11.5
Property, plant and equipment	12.0		
Trade receivables	4.0	**LIABILITIES**	
Cash	3.0	Bank loans	6.0
		Trade liabilities	1.5

Manor House's property, plant and equipment includes land and buildings whose fair value exceeds the reported book value by €2 million. In addition to this, the Manor House brand and logo have been valued at €2.5 million. The fair values of the company's remaining asset and liabilities are equal to the book values presented in the balance sheet above.

Question 1

Assuming Excelsior pays €18.5 million to acquire 100% of the share capital of Manor House Resort and Spa, what is the goodwill reported on the consolidated balance sheet of the Excelsior Hospitality Group as a result of the acquisition?

A €2.5 million

B €7.0 million

C -€0.5 million

Question 2

Assuming Excelsior pays €15.0 million to acquire 100% of the share capital of Manor House Resort and Spa, what is the goodwill reported on the consolidated balance sheet of the Excelsior Hospitality Group as a result of the acquisition?

A €4.5 million

B €0.0 million

C -€1.0 million

Question 3

Assuming Excelsior pays €12 million to acquire 75% of the share capital of Manor House Resort and Spa, what is the property, plant and equipment and noncontrolling interests reported on the consolidated balance sheet of the Excelsior Hospitality Group as a result of the acquisition?

	Property, plant and equipment	*Noncontrolling interests*
A	€10.5 million	€4.0 million
B	€14.0 million	€4.0 million
C	€10.5 million	€2.88 million

Question 4

Negative goodwill is recognised on the balance sheet:

A When the acquisition purchase cost exceeds the acquirer's interest in the fair value of net assets acquired.

B When the acquirer's interest in the fair value of net assets acquired exceeds the acquisition purchase cost.

C Neither of the above is correct.

Question 5

Given the following consolidated balance sheet of the Becker Group (in € million):

ASSETS		**EQUITY**	
Property, plant and equipment	9.0	Stockholder's equity	13.1
Goodwill	4.4	Noncontrolling interests	2.4
Intangible assets			
- software	2.0	**LIABILITIES**	
- acquired brands	3.5	Finance lease liability	2.8
Inventory	3.0	Bank loans	7.0
Cash	4.3	Trade liabilities	1.8
Prepaid expenses	1.2	Accrued expenses	0.3

which of the following statements is least likely correct?

A The Group includes subsidiaries which are less than 100% owned by Becker.

B The Group's tangible book value is €5.6 million.

C A decrease in reported goodwill may result from systematic amortisation or impairment.

Question 6

In its 2014 annual financial statements Wake industries recognises a goodwill impairment charge of €30,000 and presents goodwill with an end-of-year carrying amount of €28,000.

What are the analyst adjustments most likely to be made to Wake Industries' 2014 financial statements?

	2014 year-end Assets	*2014 Income*
A	Decrease by €28,000	Decrease by €28,000
B	Increase by €30,000	Increase by €30,000
C	Decrease by €28,000	Increase by €30,000

ASSETS	

EQUITY	

LIABILTIES	

INCOME STATEMENT	

ASSETS	

EQUITY	

LIABILTIES	

INCOME STATEMENT	

ASSETS	

EQUITY	

LIABILTIES	

INCOME STATEMENT	

ASSETS	

EQUITY	

LIABILTIES	

INCOME STATEMENT	