*Chapter 1*

BUSINESS COMBINATIONS

**Answers to Questions**

**1** A business combination is a union of business entities in which two or more previously separate and independent companies are brought under the control of a single management team. Three situations establish the control necessary for a business combination, namely, when one or more corporations become subsidiaries, when one company transfers its net assets to another, and when each combining company transfers its net assets to a newly formed corporation.

**2** The dissolution of all but one of the separate legal entities is *not* necessary for a business combination. An example of one form of business combination in which the separate legal entities are not dissolved is when one corporation becomes a subsidiary of another. In the case of a parent-subsidiary relationship, each combining company continues to exist as a separate legal entity even though both companies are under the control of a single management team.

**3** A business combination occurs when two or more previously separate and independent companies are brought under the control of a single management team. Merger and consolidation in a generic sense are frequently used as synonyms for the term *business combination*. In a technical sense, however, a *merger* is a type of business combination in which all but one of the combining entities are dissolved and a *consolidation* is a type of business combination in which a new corporation is formed to take over the assets of two or more previously separate companies and all of the combining companies are dissolved.

**4** Goodwill arises in a business combination accounted for under the acquisition method when the cost of the investment (fair value of the consideration transferred) exceeds the fair value of identifiable net assets acquired. Under GAAP, goodwill is not amortized for financial reporting purposes and will have no effect on net income, unless the goodwill is deemed to be impaired. If goodwill is impaired, a loss will be recognized.

**5** A bargain purchase occurs when the acquisition price is less than the fair value of the identifiable net assets acquired. The acquirer records the gain from a bargain purchase as an ordinary gain during the period of the acquisition. The gain equals the difference between the investment cost and the fair value of the identifiable net assets acquired.

**SOLUTIONS TO EXERCISES**

**Solution E1-1**

**1** b

**2** c

**3** c

**4** c

**Solution E1-2** [AICPA adapted]

**1 a**

 Plant and equipment should be recorded at the $220,000 fair value.

**2** c

|  |  |  |  |
| --- | --- | --- | --- |
|  | Investment cost |  | $1,600,000 |
|  |  |  |  |
|  | Less: Fair value of net assets |  |  |
|  |  Cash | $ 160,000 |  |
|  |  Inventory |  380,000 |  |
|  |  Property and equipment — net |  1,120,000 |  |
|  |  Liabilities |  (360,000) |  1,300,000 |
|  | Goodwill |  | $ 300,000 |

**Solution E1-3**

*Stockholders’ equity — Pop Corporation on January 3*

|  |  |
| --- | --- |
| Capital stock, $10 par, 600,000 shares outstanding | $ 6,000,000 |
|  |  |
| Other paid-in capital |  |
|  [$400,000 + $3,000,000 – $10,000] |  3,390,000 |
|  |  |
| Retained earnings [$1,200,000 - $20,000] |  1,180,000 |
|  Total stockholders’ equity | $10,570,000 |

*Entry to record combination*

|  |  |  |  |
| --- | --- | --- | --- |
| Investment in Son |  |  6,000,000 |  |
|  Capital stock, $10 par |  |  |  3,000,000 |
|  Other paid-in capital |  |  |  3,000,000 |
|  |  |  |  |
| Investment expense |  |  20,000 |  |
| Other paid-in capital |  |  10,000 |  |
|  Cash |  |  |  30,000 |
|  |  |  |  |
| Check: Net assets per books (book value) | $ 7,600,000 |  |  |
|  Goodwill and write-up of assets |  3,000,000 |  |  |
|  Less: Expense of direct costs  |  (20,000) |  |  |
|  Less: Issuance of stock |  (10,000) |  |  |
|  | $10,570,000 |  |  |

**Solution E1-4**

*Journal entries on Pam’s books to record the acquisition*

|  |  |  |
| --- | --- | --- |
| Investment in Sun |  10,200,000 |  |
| Common stock, $10 par |  |  4,800,000 |
| Additional paid-in capital |  |  5,400,000 |
| To record issuance of 480,000 shares of $10 par common stock with a fair value of $10,200,000 for the common stock of Sun in a business combination. |
|  |  |  |
| Additional paid-in capital |  60,000 |  |
| Investment expenses |  180,000 |  |
|  Other assets (or Cash) |  |  240,000 |
| To record costs of registering and issuing securities as a reduction of paid-in capital, and record direct and indirect costs of combination as expenses. |
|  |  |  |
| Current assets |  4,400,000 |  |
| Plant assets |  8,800,000 |  |
|  Liabilities |  |  1,200,000 |
|  Investment in Sun |  |  10,200,000 |
|  Gain from bargain purchase  |  |  1,800,000 |
| To record allocation of the $10,200,000 cost of Sun Company to identifiable assets and liabilities according to their fair values, and the gain from the bargain purchase,computed as follows: |
|  Cost |  | $10,200,000 |
|  Fair value of net assets acquired |  |  12,000,000 |
|  Bargain purchase amount |  | $ 1,800,000 |
|  |  |  |

**Solution E1-5**

*Journal entries on the books of Pop Corporation to record merger with Son Corporation*

|  |  |  |
| --- | --- | --- |
| Investment in Son |  1,060,000 |  |
|  Common stock, $10 par |  |  360,000 |
|  Additional paid-in capital |  |  300,000 |
|  Cash |  |  400,000 |
| To record issuance of 36,000 common shares and payment of cash in the acquisition of Son Corporation in a merger. |
| Investment expenses |  140,000 |  |
| Additional paid-in capital |  60,000 |  |
|  Cash |  |  200,000 |
| To record costs of registering and issuing securities and additional direct costs of combination. |
|  |  |  |
| Cash |  80,000 |  |
| Inventories |  200,000 |  |
| Other current assets |  40,000 |  |
| Plant assets — net |  560,000 |  |
| Goodwill |  320,000 |  |
|  Current liabilities |  |  60,000 |
|  Other liabilities |  |  80,000 |
|  Investment in Son |  | 1,060,000 |
| To record allocation of cost to assets received and liabilities assumed on the basis of their fair values and to goodwill computed as follows: |
|  |  |  |
|  Cost of investment |  | $1,060,000 |
|  Fair value of net assets acquired |  |  740,000 |
|  Goodwill |  | $ 320,000 |

**Solution E1-6\***

|  |  |  |
| --- | --- | --- |
| Net assets (+A) |  2,200 |  |
|  Common stock (+SE) |  |  1,200 |
|  Additional paid-in capital (+SE) |  |  800 |
|  Retained earnings (+SE) |  |  200 |

|  |  |  |
| --- | --- | --- |
| Expenses (E, -SE) |  60 |  |
|  Cash (-A) |  |  60 |
|   |  |   |
|   |  |   |

**Solution E1-7\***

|  |  |  |
| --- | --- | --- |
| Net assets (+A) |  2,100 |  |
|  Capital stock (+SE) |  |  1,470 |
|  Retained earnings (+SE) |  |  600 |
|  Investment in Sun Corporation (-A) |  |  30 |

**SOLUTIONS TO PROBLEMS**

**Solution P1-1**

(in thousands)

|  |  |
| --- | --- |
| *Preliminary computations* |  |
| Fair Value: Cost of investment in Son at January 2 |  |
|  (240,000 shares $40) | $9,600 |
| Book value of net assets ($8,000 - $960) | (7,040) |
| Excess fair value over book value | $2,560 |
|  |  |
| Excess assigned to: |  |
| Current assets | $ 640 |
| Remainder to goodwill |  1,920 |
| Excess fair value over book value | $2,560 |
|  |  |
| Note: $400,000 direct costs of combination are expensed. The excess fair value of Pop’s buildings is not considered. |  |

**Pop Corporation**

Balance Sheet at January 2, 2016

(in thousands)

*Assets*

|  |  |
| --- | --- |
| Current assets  |  |
|  ($2,080 + $960 + $640 excess - $640 direct costs) | $ 3,040 |
|  |  |
| Land ($800 + $1,600) |  2,400 |
|  |  |
| Buildings — net ($4,800 + $1,600) |  6,400 |
|  |  |
| Equipment — net ($3,520 + $3,840) |  7,360 |
|  |  |
| Goodwill |  1,920 |
| Total assets | $21,120 |
|  |  |
| *Liabilities and Stockholders’ Equity* |  |
|  |  |
| Current liabilities ($800 + $960) | $ 1,760 |
|  |  |
| Capital stock, $10 par ($8,000 + $2,400 new issue) |  10,400 |
|  |  |
| Additional paid-in capital  |  |
|  [$800 + ($30 240 shares) — $240 costs of issuing  and registering securities] |  7,760 |
|  |  |
| Retained earnings (subtract $400 expensed direct cost)  |  1,200 |
|  Total liabilities and stockholders’ equity | $ 21,120 |

**Solution P1-2**

|  |  |
| --- | --- |
| *Preliminary computations* |  |
| Fair Value: Cost of acquiring Son | $1,650,000 |
| Fair value of assets acquired and liabilities assumed |  1,340,000 |
|  Goodwill from acquisition of Son | $ 310,000 |

**Pop Corporation**

Balance Sheet

at January 2, 2016

*Assets*

|  |  |
| --- | --- |
| *Current assets* |  |
|  |  |
| Cash [$300,000 + $60,000 - $280,000 expenses paid] | $ 80,000 |
|  |  |
| Accounts receivable — net [$460,000 + $80,000 fair value] |  540,000 |
|  |  |
| Inventories [$1,040,000 + $240,000 fair value] |  1,280,000 |
|  |  |
| *Plant assets* |  |
|  |  |
| Land [$800,000 + $300,000 fair value] |  1,100,000 |
|  |  |
| Buildings — net [$2,000,000 + $600,000 fair value] |  2,600,000 |
|  |  |
| Equipment — net [$1,000,000 + $500,000 fair value] |  1,500,000 |
|  |  |
| Goodwill |  310,000 |
|  Total assets | $7,410,000 |

*Liabilities and Stockholders’ Equity*

|  |  |
| --- | --- |
| *Liabilities* |  |
|  |  |
| Accounts payable [$600,000 + $80,000] | $ 680,000 |
|  |  |
| Note payable [$1,200,000 + $360,000 fair value] |  1,560,000 |
|  |  |
| *Stockholders’ equity* |  |
|  |  |
| Capital stock, $10 par [$1,600,000 + (66,000 shares $10)] |  2,260,000 |
|  |  |
| Other paid-in capital  |  |
|  [$1,200,000 - $80,000 + ($1,650,000 - $660,000)] |  2,110,000 |
|  |  |
| Retained earnings (subtract $200,000 expensed direct costs) |  800,000 |
|  Total liabilities and stockholders’ equity | $7,410,000 |

**Solution P1-3**

*Pam issues 25,000 shares of stock for Sun’s outstanding shares*

|  |  |  |  |
| --- | --- | --- | --- |
| **1a** | Investment in Sun |  1,500,000 |  |
|  |  Capital stock, $10 par |  |  250,000 |
|  |  Additional paid-in capital |  |  1,250,000 |
| To record issuance of 25,000, $10 par shares with a market price of $60 per share in a business combination with Sun. |
|  | Investment expenses |  60,000 |  |
|  | Additional paid-in capital |  40,000 |  |
|  |  Cash |  |  100,000 |
| To record costs of combination in a business combination with Sun. |
|  | Cash |  20,000 |  |
|  | Inventories |  120,000 |  |
|  | Other current assets |  200,000 |  |
|  | Land |  200,000 |  |
|  | Plant and equipment — net |  700,000 |  |
|  | Goodwill |  360,000 |  |
|  |  Liabilities |  |  100,000 |
|  |  Investment in Sun |  |  1,500,000 |
|  |  |  |  |
| To assign investment cost to identifiable assets and liabilities according to their fair values and the remainder to goodwill. Goodwill is computed: $1,500,000 cost - $1,140,000 fair value of net assets acquired. |

|  |  |
| --- | --- |
| **1b** | **Pam Corporation** |
|  | Balance Sheet |
|  | January 2, 2016 |
|  |  (after business combination) |  |
|  |  |  |
|  | *Assets* |  |
|  |  Cash [$240,000 + $20,000 - $100,000] | $ 160,000 |
|  |  Inventories [$100,000 + $120,000] |  220,000 |
|  |  Other current assets [$200,000 + $200,000] |  400,000 |
|  |  Land [$160,000 + $200,000] |  360,000 |
|  |  Plant and equipment — net [$1,300,000 + $700,000] |  2,000,000 |
|  |  Goodwill |  360,000 |
|  |  Total assets | $3,500,000 |
|  |  |  |
|  | *Liabilities and Stockholders’ Equity* |  |
|  |  Liabilities [$400,000 + $100,000] | $ 500,000 |
|  |  Capital stock, $10 par [$1,000,000 + $250,000] |  1,250,000 |
|  |  Additional paid-in capital [$400,000 + $1,250,000 -  $40,000] |  1,610,000 |
|  |  Retained earnings (subtract $60,000 direct costs) |  140,000 |
|  |  Total liabilities and stockholders’ equity | $3,500,000 |

**Solution P1-3** (continued)

*Pam issues 15,000 shares of stock for Sun’s outstanding shares*

|  |  |  |  |
| --- | --- | --- | --- |
| **2a** | Investment in Sun (15,000 shares $60) |  900,000 |  |
|  |  Capital stock, $10 par |  |  150,000 |
|  |  Additional paid-in capital |  |  750,000 |
| To record issuance of 15,000, $10 par common shares with a market price of $60 per share. |
|  | Investment expense |  60,000 |  |
|  | Additional paid-in capital |  40,000 |  |
|  |  Cash |  |  100,000 |
| To record costs of combination in the acquisition of Sun. |
|  | Cash |  20,000 |  |
|  | Inventories |  120,000 |  |
|  | Other current assets |  200,000 |  |
|  | Land |  200,000 |  |
|  | Plant and equipment — net |  700,000 |  |
|  |  Liabilities |  |  100,000 |
|  |  Investment in Sun |  |  900,000 |
|  |  Gain on bargain purchase |  |  240,000 |
| To record Sun’s net assets at fair values and the gain on the bargain purchase. |
|  |  |  |  |
|  |  |  |  |
|  |
|  |  |  |  |
|  | Fair value of net assets acquired |  | $1,140,000 |
|  | Investment cost (Fair value of consideration)  |  |  900,000 |
|  |  Gain on Bargain Purchase |  | $ 240,000 |

|  |  |
| --- | --- |
| **2b** | **Pam Corporation** |
|  | Balance Sheet |
|  | January 2, 2016 |
|  |  (after business combination) |  |
|  |  |  |
|  | *Assets* |  |
|  |  Cash [$240,000 + $20,000 - $100,000] | $ 160,000 |
|  |  Inventories [$100,000 + $120,000] |  220,000 |
|  |  Other current assets [$200,000 + $200,000] |  400,000 |
|  |  Land [$160,000 + $200,000] |  360,000 |
|  |  Plant and equipment — net [$1,300,000 + $700,000] |  2,000,000 |
|  |  Total assets | $3,140,000 |
|  |  |  |
|  | *Liabilities and stockholders’ equity* |  |
|  |  Liabilities [$400,000 + $100,000] | $ 500,000 |
|  |  Capital stock, $10 par [$1,000,000 + $150,000] |  1,150,000 |
|  |  Additional paid-in capital [$400,000 + $750,000 -  $40,000] |  1,110,000 |
|  |  Retained earnings (subtract $60,000 direct costsand add $240,000 Gain from bargain purchase) |  380,000 |
|  |  Total liabilities and stockholders’ equity | $3,140,000 |

**Solution P1-4**

**1** *Schedule to allocate investment cost to assets and liabilities*

|  |  |  |
| --- | --- | --- |
|  | Investment cost (fair value), January 1 | $250,000 |
|  | Fair value acquired from Diego ($300,000 100%) |  300,000 |
|  |  Excess fair value over cost (bargain purchase gain) | $ 50,000 |

 Allocation:

|  |  |  |
| --- | --- | --- |
|  |  |  Allocation  |
|  | Cash | $ 40,000 |
|  | Receivables — net |  30,000 |
|  | Inventories |  100,000 |
|  | Land |  50,000 |
|  | Buildings — net |  100,000 |
|  | Equipment — net |  75,000 |
|  | Accounts payable |  (50,000) |
|  | Other liabilities |  (45,000) |
|  | Gain on bargain purchase |  (50,000) |
|  |  Totals | $ 250,000 |

|  |  |
| --- | --- |
| **2** | **Pablo Corporation** |
|  | Balance Sheet |
|  | at January 1, 2017 |
|  |  |  (after combination) |  |
|  | *Assets* |  | *Liabilities* |  |
|  |  |  |  |  |
|  | Cash | $ 90,000 | Accounts payable | $ 130,000 |
|  | Receivables — net |  80,000 | Note payable (5 years) |  200,000 |
|  | Inventories |  230,000 | Other liabilities |  145,000 |
|  | Land |  100,000 |  Liabilities |  475,000 |
|  | Buildings — net |  250,000 |  |  |
|  | Equipment — net |  175,000 | *Stockholders’ Equity* |  |
|  |  |  |  |  |
|  |  |  | Capital stock, $10 par |  200,000 |
|  |  |  | Other paid-in capital |  100,000 |
|  |  |  | Retained earnings\* |  150,000 |
|  |  |  |  Stockholders’ equity |  450,000 |
|  |  Total assets | $ 925,000 |  Total equities | $ 925,000 |
|  |  |  |  |  |
| \* Retained earnings reflects the $50,000 gain on the bargain purchase. |

**Solution P1-5**

**1** *Journal entries to record the acquisition of Huang Corporation*

|  |  |  |
| --- | --- | --- |
| Investment in Huang | 350,000 |  |
|  Common stock, $10 par |  | 100,000 |
|  Other paid-in capital |  | 200,000 |
|  Cash |  |  50,000 |
| To record acquisition of Huang for 10,000 shares of common stock and $50,000 cash |
| Investment expense |  30,000 |  |
| Other paid-in capital |  10,000 |  |
|  Cash |  |  40,000 |
| To record payment of costs to register and issue the shares of stock ($10,000) and for accounting and legal fees ($30,000). |
| Cash |  50,000 |  |
| Receivables—net |  50,000 |  |
| Inventories | 100,000 |  |
| Land | 100,000 |  |
| Buildings—net | 100,000 |  |
| Equipments—net | 100,000 |  |
|  Accounts payable |  |  50,000 |
|  Other liabilities |  |  75,000 |
|  Investment in Huang |  | 350,000 |
|  Gain on bargain purchase |  |  25,000 |
| To record the net assets of Saw at fair value and the gain on the bargain purchase. |
| *Gain on Bargain Purchase Calculation* |  |  |
| Acquisition price |  | $ 350,000 |
| Fair value of net assets acquired |  |  375,000 |
| Gain on bargain purchase |  | $ 25,000 |

Balance Sheet:

|  |
| --- |
| **Ling Corporation** |
| Balance Sheet |
| at January 1, 2017 |
| *Assets*  |  $ | *Liabilities* |  $ |
|  |  |  |  |
| Cash |  960,000 | Accounts payable | $ 850,000 |
| Receivable—net |  800,000 | Other liabilities |  1,075,000 |
| Inventories |  1,600,000 | Liabilities |  1,925,000 |
| Land |  1,100,000 |  |  |
| Buildings—net |  2,100,000 |   |   |
| Equipment—net |  1,600,000 | Stockholders’ equity |   |
|  |   |   |   |
|   |   | Common stock, $10 par |  3,100,000 |
|   |   | Other paid-in capital |  1,390,000 |
|   |   | Retained earnings\* |  1,745,000 |
|   |   | Stockholders’ equity |  6,235,000  |
| Total assets | $ 8,160,000 | Total equities | $ 8,160,000 |

**Solution P1-5** (continued)

**2** *Journal entries to record the acquisition of Huang Corporation:*

|  |  |  |
| --- | --- | --- |
| Investment in Huang | 400,000 |  |
| Common Stock, $10 par |  | 100,000 |
| Other paid-in capital |  | 200,000 |
| Cash |  | 100,000 |
| To record acquisition of Huang for 10,000 shares of common stock and $50,000 cash. |
| Investment expense |  30,000 |  |
| Other paid-in capital |  10,000 |  |
| Cash |  |  40,000 |
| To record payment of costs to register and issue the shares of stock ($10,000) and for accounting and legal fees ($30,000). |
| Cash |  50,000 |  |
| Receivables—net |  50,000 |  |
| Inventories | 100,000 |  |
| Land | 100,000 |  |
| Buildings—net | 100,000 |  |
| Equipments—net | 100,000 |  |
| Goodwill |  25,000 |  |
| Accounts payable |  |  50,000 |
| Other liabilities |  |  75,000 |
| Investment in Huang  |  | 400,000 |
| To record the net assets of Saw at fair value and the goodwill. |
| Goodwill calculation |  |  |
| Acquisition price |  | $400,000 |
| Fair value of net assets acquired |  | 375,000 |
| Goodwill |  | $ 25,000 |

Balance Sheet:

|  |
| --- |
| **Ling Corporation** |
| Balance Sheet |
| at January 1, 2017 |
| *Assets* |  | *Liabilities* |  |
|  |  |  |  |
| Cash | $ 910,000 | Accounts Payable | $ 850,000 |
| Receivable—net |  800,000 | Other Liabilities |  1,075,000 |
| Inventories |  1,600,000 | Liabilities |  1,925,000 |
| Land |  1,100,000 |  |  |
| Buildings—net |  2,100,000 |   |   |
| Equipment—net |  1,600,000 | Stockholders’ Equity |   |
|  Goodwill |  25,000 |   |   |
|   |   | Common Stock, $10 par |  3,100,000 |
|   |   | Other paid-in capital |  1,390,000 |
|   |   | Retained Earnings\* |  1,720,000 |
|   |   | Stockholders’ equity |  6,210,000 |
| Total assets | $ 8,135,000 | Total equities | $ 8,135,000 |

**Solution P1-6\***

|  |  |  |  |
| --- | --- | --- | --- |
|  |  |  | **Pooled Balance Sheets** |
|  | **Pop** | **Son** | **800,000 shares** | **1,000,000 shares** |
| Current assets | 15,000 | 4,000 | 19,000 | 19,000 |
| Plant assets - net | 40,000 | 6,000 | 46,000 | 46,000 |
|  Total assets | 55,000 | 10,000 | 65,000 | 65,000 |
|  |  |  |  |  |
| Liabilities | 10,000 | 3,000 | 13,000 | 13,000 |
| Common stock | 30,000 | 4,000 | 38,000 | 40,000 |
| APIC | 3,000 | 2,000 | 1,000 | 0 |
| Retained earnings | 12,000 | 1,000 | 13,000 | 12,000 |
|  Total equities | 55,000 | 10,000 | 65,000 | 65,000 |

**Solution P1-7\***

1.

|  |  |  |
| --- | --- | --- |
| Net assets (+A) |  800 |  |
|  Capital stock (+SE) |  |  350 |
|  Additional paid-in capital (+SE) |  |  150 |
|  Retained earnings (+SE) |  |  300 |

2.

|  |  |  |
| --- | --- | --- |
| Net assets (+A) |  800 |  |
| Additional paid-in capital (-SE) |  200 |  |
|  Capital stock (+SE) |  |  770 |
|  Retained earnings (+SE) |  |  230 |
|   |  |   |

**Solution P1-8\***

a.

|  |  |  |
| --- | --- | --- |
| Net assets (+A) |  11,500 |  |
| Treasury stock (-SE) |  500 |  |
|  Common stock (+SE) |  |  10,000 |
|  Additional paid-in capital (+SE) |  |  1,000 |
|  Retained earnings (+SE)  |  |  1,000 |

Investment expenses (E, -SE) 300

Cash(-A) 300

b.

|  |  |  |  |
| --- | --- | --- | --- |
|  | Pop Corporation | Son Corporation | Merger Pop’s Books |
| Current Assets | $6,500 | $4,500 | $10,700 |
| Plant & Equipment--net | 10,000 | 10,000 |  20,000 |
| Investment in Pop | \_\_\_\_\_\_ | \_\_\_500 | \_\_\_\_\_\_ |
| Total Assets | $16,500 | $15,000 | $30,700 |
| Liabilities | $1,500 | $3,000 | $4,500 |
| Common Stock | 10,000 |  8,000 | 20,000 |
| Add. Paid-in Capital | 2,000 | 3,000 | 3,000 |
| Retained Earnings | 3,000 | 1,000 | 3,700 |
| Treasury Stock | \_\_\_\_\_\_ | \_\_\_\_\_\_ |  (500) |
| Total Equities | $16,500 | $15,000 | $30,700 |

\*Current assets and retained earnings are reduced $300 for investment expenses.

**Solution PR 1-1 (ASC 350-20-50)**GAAP requires the following information for each balance sheet presented:

The change in the carrying amount of [goodwill](https://asc.fasb.org/glossarysection%26trid%3D2144448%26id%3DSL4710909-109267) during the period.

a.  The gross amount and accumulated impairment losses at the beginning of the period

b.  Additional goodwill recognized during the period, except goodwill included in a disposal group that, on acquisition, meets the criteria to be classified as held for sale

c.  Adjustments resulting from the subsequent recognition of deferred tax assets during the period

d.  Goodwill included in a disposal group classified as held for sale e.  Impairment losses recognized during the period in accordance with this Subtopic

f.  Net exchange differences arising during the period

g.  Any other changes in the carrying amounts during the period

h.  The gross amount and accumulated impairment losses at the end of the period.

**Solution** **PR 1-2 (ASC 805-20-30-12)** Yes, there are fair value exceptions. The codification lists those exceptions and provides separate guidance in accounting for these items.Here are the listed exceptions:

a.  Income taxes

b.  Employee benefits

c.  Indemnification assets

d.  Reacquired rights

e.  Share-based payment awards

f.  Assets held for sale

g.  Certain assets and liabilities arising from contingencies.