CPE

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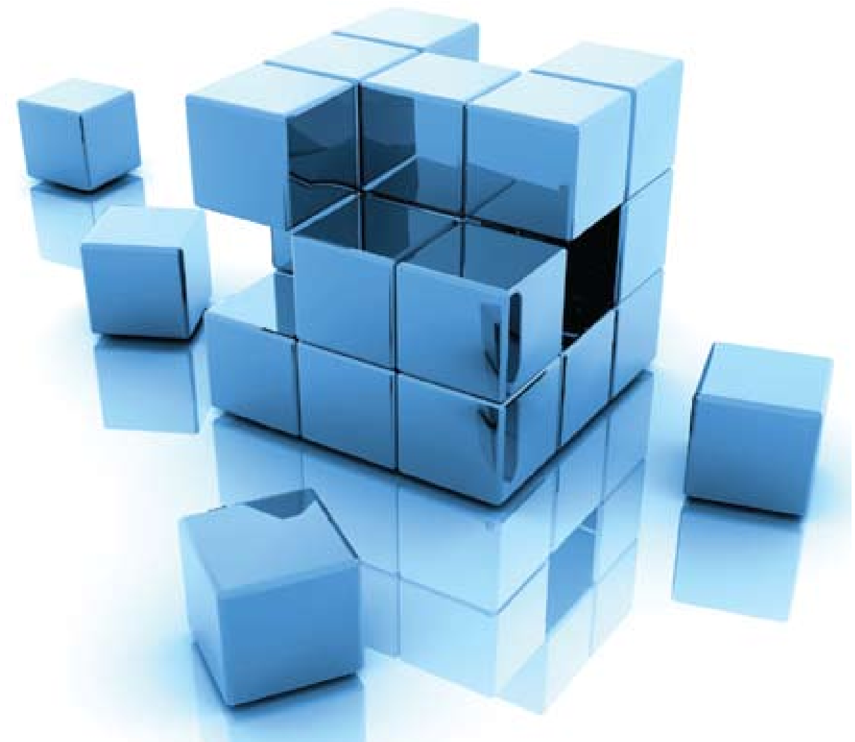
The Consolidation and Deconsolidation of Variable Interest Entities – An Illustrative Exercise



CPE Self-Study

Curriculum: Accounting and Auditing

Level: Intermediate

Designed For: CPAs in public practice and industry.

Objectives: To review the mechanism of consolidation of variable interest entities under the new accounting pronouncements SFAS 141(R) and SFAS 160.

Key Topics: Mechanism of consolidation, application of fair value, application of VIE losses, and deconsolidation.

Prerequisites: None

Advanced Preparation: None

This article presents an illustrative exercise highlighting the promulgations involved in the consolidation and deconsolidation of a variable interest entity (VIE), particularly guidance distilled from the following pronouncements:

- Statement of Financial Accounting Standards No. 160, *Noncontrolling Interests in Consolidated Financial Statements, an amendment of ARB 51* [SFAS 160] [Financial Accounting Standards Board (FASB) ASC 810].
- Statement of Financial Accounting Standards No. 141, *Business Combinations*, (revised 2007) [SFAS 141(R)] [FASB ASC 805].
- FASB Interpretation No. 46 (revised December 2003), *Consolidation of Variable Interest Entities, an interpretation of ARB No. 51* [FIN 46(R)] [FASB ASC 810]. In June 2009, FASB issued Statement of Financial Accounting Standards No. 167, *Amendments to FASB Interpretation No. 46(R)* [SFAS 167], which will be effective as of the beginning of each reporting entity's first annual reporting period that begins after November 15, 2009.
- Accounting Research Bulletin No. 51, *Consolidated Financial Statements* [ARB 51] [FASB ASC 810].

The essence of these pronouncements is that the accounting results of a VIE operations, as a whole, should be merged with the results of a primary beneficiary operations proportional to the primary beneficiary's percentage of interest, and any changes in ownership interests should be reflected in the equity interest, based upon its respective fair value. As a result, under the combined provisions of the above pronouncements, the primary beneficiary's statement of operations reflects a consistent and less volatile result than the previous standards.

SFAS 167 amends the consolidation guidance for VIEs and is in response to the perceived flaws in the accounting model, highlighted most recently by the economic downturn. This pronouncement intends to address the concerns about the preparer's ability to structure transactions to avoid consolidation, balanced with the need for more relevant, timely and reliable information about an enterprise's involvement in a VIE. SFAS 167 requires a primary beneficiary to consolidate a VIE based on whether the entity (1) has the power to direct matters that most significantly impact the activities of the VIE, and (2) has the obligation to absorb losses or the right to receive benefits of the VIE that could potentially be significant to the VIE.

Today's CPA, in its March/April issue, published an article, "Focus on Fair Values," which discussed the fair value approach for business combinations under SFAS 141(R). This article, however, discusses the applicability of SFAS 141(R) to the consolidation process of business combinations in general and VIEs in particular. In addition to a general illustration of the consolidation process of a VIE under the new accounting standards, it deals with practical application of several technical issues:

- application of the fair market value for an asset (IPR&D in this example) transferred from a primary beneficiary to a VIE (in the first year);
- application of the fair value of the consideration received by which the VIE interests of the primary beneficiary is adjusted (in the second year);
- application of losses proportionate to the interests of primary beneficiary and VIE even if it results in a deficit in the VIE interests balance (in the third year);
- deconsolidation of a VIE and recognition of related gain (in the fourth year).

A VIE is an entity subject to FIN 46(R)'s risk and rewards model rather than the conventional voting interest model of ARB 51. Under the conventional voting interest model of ARB 51, a subsidiary is subject to consolidation if another entity (the parent company) has more than 50 percent of its voting rights. An entity is subject to the risk and rewards model, on the other hand, if it cannot sustain its operations without subordination from another entity (the primary beneficiary) and lacks the ability to make operational and strategic decisions.

A primary beneficiary is an entity that has economic interests in a VIE and consolidates it based on FIN 46(R). A primary beneficiary usually has the highest amount of risks and has the potential to receive the greatest amount of rewards (usually exceeding 50 percent), but there are other criteria involved like being able to control the VIE operationally or strategically and subordinating the financial funding of a VIE.

The following scenario illustrates the consolidation and deconsolidation of a VIE. In this example, the authors have assumed that the fair value of Entity V (the VIE) is $600 (including $100 In Process Research and Development costs) and the acquisition-related costs are zero and no goodwill and intangible assets have resulted due to this business combination. For the sake of simplicity, the following illustration ignores the effect of taxes on the financial results. Further, in order to simplify the illustration, the authors have assumed that the statement of operations and the net profit or loss from operations for both Entities A (the primary beneficiary) and V (the VIE) remain the same throughout this presentation.

First Year

The authors assumed that Entity A is operating at a loss prior to the first year (Figure 1), principally due to losses sustained by a segment of its operation referred to as Product V. Entity A spins-off Product V to form Entity V.

Figure 1. Statements of Operations.

	Prior to Spin-Off	First Year Subsequent to Spin-Off		
	Entity A	Entity A	Entity V	Consolidated
Revenues	$1,000	$1,000	$0	$1,000
Expenditures	1,100	700	400	1,100
VIE Interest Loss	0	0	0	(240)
Profit (Loss)	($100)	$300	($400)	$140

In order to form Entity V, some of Entity A's employees now work for Entity V and invest $100 total for a 20 percent interest in Entity V. The authors have assumed there have been no restructuring charges related to employee termination at the time of business combination. Entity A invests $200 for a 40 percent interest in Entity V along with Venture Capitalists A and B who each contribute $100 and receive each a 20 percent interest. Entity A's common stock is subordinated to preferred stock (with voting rights proportionate to their equity interests) of other equity holders.

Further, Entity A transfers to Entity V the In Process Research and Development Assets (IPR&D) the fair value of which is $100. In lieu of this transaction, Entity A obtains the right to elect the management of Entity V as long as the total equity contributions from other investors remain under $1,000. Figure 2 reflects the Capital Contribution Table of Entity V upon its inception.

Figure 2. Capital Contribution Table.

	Amount	Percentage of Equity Interest
Entity A	$200	40%
Entity A (IPR&D)	100	0%
Venture A	100	20%
Venture B	100	20%
VIE Management	100	20%
Total	$600	100%

We have assumed that the percentage of voting rights is equal to the percentage of equity interests throughout this illustration.

Paragraphs 5 and 11 of FIN 46(R) [FASB ASC 810-10-15-14 and 810-10-15-16] require consolidation of VIEs when at least one of the following characteristics exists:

- The equity investment at risk is not sufficient to permit the entity to finance its activities without additional subordinated financial support.
- The equity investors lack at least one of the following characteristics:
  - The direct or indirect ability to make business decisions.
  - The obligations to absorb the expected losses of the entity.
  - The right to receive the expected residual returns of the entity.
- The voting rights of the equity investors are not proportionate to their economic interests.

Paragraphs 1A, 14, C26, and C77 of SFAS 167 similarly provide that if a variable interest holder has the power to direct the activities of a VIE and absorb losses and receive benefits significant to a VIE, it should be considered a primary beneficiary and consolidate the VIE.

We have determined that Entity V is a VIE since it meets most, if not all, of the above characteristics for a VIE. It should be noted, however, that meeting only one of the above criteria is enough to make an entity, which is engaged in such a relationship, a VIE:

- Entity V is a development stage enterprise that lacks adequate equity investment to continue its operations without additional financing. Further, it needs subordinated financial support from a third party (Entity A) to secure such funding.
- Entity V lacks the direct ability to make financial and business decisions since Entity A elects Entity V's management team and can indirectly make operational and strategic decisions.
- The voting rights of equity investors of Entity V are not proportionate to their economic interests. For example, in the first year, Entity A has 40 percent equity interest and voting rights, but its economic interest of $300 ($200 cash plus $100 IPR&D contribution) is 50 percent of the total capital contribution of $600 that Entity V has obtained. The economic interests and voting rights in Entity V remain out of sync for the equity holders during the duration of consolidation.

Further, we have determined that Entity A is the primary beneficiary (analogues to a parent company in a voting interest model) and should consolidate Entity V:

- Since Entity A is a common shareholder and its equity interest is subordinated to other preferred shareholders, it absorbs 50 percent (equivalent to its $300 economic interest) of the loss that Entity V incurs during the first year even though it has only 40 percent of Entity V's equity interest.

- The voting right of Entity A (40 percent in the first year and 22 percent in the second and third years) is not proportionate to its economic interest due to $100 contribution of IPR&D and its equity in the form of common shares.
- Entity A makes operational and strategic decisions for Entity V by electing the management team of Entity V.
- Entity V cannot obtain any additional financing without subordination and guarantees from Entity A.

It should be noted, however, that under the voting interest model, Entity A was not required to consolidate Entity V since it has less than 50 percent of voting interests.

Paragraph 66 of SFAS 141(R) [FASB ASC 805-20-35-35-5] states that the capitalized IPR&D acquired in a business combination will be accounted for as indefinite-lived (not available for use) intangible assets, subject to impairment testing until completion or abandonment of the projects. Upon completion of each project, the acquirer will make a separate determination of the useful life of the asset. Further, the assets, liabilities, and VIE interests of the VIE should be measured using the fair value basis. Moreover, paragraph 20 of FIN 46(R) [FASB ASC 810-10-30-3] and paragraph 18 of SFAS 167 state that if the primary beneficiary of a VIE transfers assets or liabilities to the VIE at, after, or shortly before the date that the entity becomes the primary beneficiary, the assets are recognized at the same amounts at which the assets and liabilities would have been measured if they had not been transferred (i.e., no gain or loss is recognized).

Entity A makes the following journal entry in its books recognizing the investment in VIE subsequent to the spin off. The fair market value of IPR&D would not be reflected in Entity A's books since its value must be measured as if it had not been transferred (i.e., nil); therefore, IPR&D will remain as a permanent reconciling consolidation entry as long as Entity A consolidates financial results of Entity V and the IPR&D is not impaired:

Dr. Investment	$200	
Cr. Cash		$200

Entity V, on the other hand, makes the following entry in its books for capital contribution from Entity A:

Dr. Cash	$200	
Dr. IPR&D	$100	
Cr. Common stock		$300

Entity V makes the following additional entry in its books for capital contribution from other investors:

Dr. Cash	$300	
Cr. Preferred stock		$300

The following journal entries reflect the eliminating entries for consolidation of Entity A and Entity V at the beginning and end of the first year:

<u>At the beginning of the first year:</u>

Dr. Common stock (Entity V for IPR&D)	$100	
Cr. IPR&D (Entity V)		$100
Dr. Common stock (Entity V)	$200	
Dr. Preferred stock (Entity V)	$300	
Cr. Investment (Entity A)		$200
Cr. VIE interests (Consolidation)		$300

<u>At the end of the first year:</u>

Dr. Common stock (Entity V for IPR&D)	$100	
Cr. IPR&D (Entity V)		$100
Dr. Common stock (Entity V)	$200	
Dr. Preferred stock (Entity V)	$300	
Cr. Retained deficit (Entity V)		$400
Cr. Investment (Entity A)		$200
Dr. Retained deficit (Consolidation) *	$160	
Cr. VIE interests (Consolidation) **		$ 60

* Retained deficit at the consolidated level after one year is $160 (40 percent of a $400 loss).

** The VIE interests is $300 at spin-off representing 60 percent of $500 (VIE equity less IPR&D). One year later, the VIE interests at the consolidated level is $60 representing $300 (the VIE interests at spin-off) less $240 (60 percent of a $400 first year loss of Entity V). Note that IPR&D is not reflected in the calculation of VIE interests in the consolidated balance sheets.

The statements of operations for the various entities during the first year of operations (Figure 1) and selected balance sheet information at the beginning of the first year (Figure 3) and at the end of the first year (Figure 4) are as follows.

Note that the consolidated balance sheets presented in this article reflect only the impact of the consolidation of Entity V and have excluded the financial position of Entity A to simplify the presentation.

Figure 3. Selected Balance Sheet Accounts.

<u>At the beginning of the first year:</u>
Selected balance sheet data representing the consolidation of Entity V:

	Entity A	Entity V	Eliminations	Consolidated
Investment	$200		($200)	$ -
IPR&D		$100	($100)	$ -
VIE Interests			($300)	$300
Common Stock		$300	$300	$ -
Preferred Stock		$300	$300	$ -
Retained Earnings (Deficit)		$ -	$ -	$ -
Equity Interests		$600		$ -
Additional Paid In Capital (APIC)	$ -	$ -	$ -	$ -

Figure 4. Selected Balance Sheet Accounts.

<u>At the end of the first year:</u>
Selected balance sheet data representing the consolidation of Entity V:

	Entity A	Entity V	Eliminations	Consolidated
Investment	$200		($200)	$ -
IPR&D		$100	($100)	$ -
VIE Interests			($60)	$60
Common Stock		$300	$300	$ -
Preferred Stock		$300	$300	$ -
Retained Earnings (Deficit)		($400)	($240)	($160)*
Equity Interests		$200		$ -
Additional Paid In Capital (APIC)	$ -			$ -

* The $160 consolidated Retained deficit at the end of the first year reflects $400 total accumulated loss of Entity V for the first year of operation less the VIE's share of losses for $240 during the same period.

Second Year

The second year example reflects the provisions of Paragraph 33 of SFAS 160 [FASB ASC 810.10.55.4C] that no gains or losses shall be recognized in consolidated net income or loss and the carrying amount of the VIE interests shall be adjusted to reflect any changes in the ownership interests. The difference between the fair value of the consideration received or paid and the amount by which VIE interests are adjusted shall be accounted for as equity transactions in the Additional Paid-in Capital.

Assuming that operations during the second year continue with a loss of $400, Entity V will need another infusion of capital. Therefore, in the second year subsequent to spin-off, Venture Capitalist C and Venture Capitalist D each contribute $200 for a 20 percent interest each in Entity V in the form of preferred stock. Figure 5 reflects the Capital Contribution Table of Entity V at the end of the second year.

Figure 5. Capital Contribution Table.

	Initial Investment	Additional Investment	Total Capital Contribution	Percentage of Equity Interest
Entity A	$200	$0	$200	22%
Entity A (IPR&D)	100	-	100	0%
Venture A	100	-	100	14%
Venture B	100	-	100	14%
VIE Management	100	-	100	14%
Venture C	-	200	200	18%
Venture D	-	200	200	18%
Total	$600	$400	$1,000	100%

Entity V makes the following entry upon receipt of additional equity:

Dr. Cash	$400	
Cr. Preferred stock		$400

Entity A makes the following entry to true up the value of its investment:

Dr. Investment	$ 70	
Cr. Additional Paid-in Capital (APIC) *		$ 70

* The book value of Entity V at the end of the first year, excluding IPR&D, is $100 and interest of Entity A at 40 percent in this book value amounts to $40. Subsequent to this funding, the book value of Entity V increases to $500 ($400 new capital contribution plus $100 prior book value) and interest of Entity A at 22 percent in this book value amounts to $110. Changes in a primary beneficiary's ownership interest while the primary beneficiary retains its controlling interest in the VIE shall be accounted as equity transactions; therefore, $70 ($110 less $40) is reflected in Entity A's APIC.

Assuming the circumstances that caused Entity A to be designated as a primary beneficiary in the first year still continues to exist in the second year, Entity A shall consolidate the financial results of Entity V. The following journal entry reflects the eliminating journal entry for consolidation of Entity A and Entity V:

Dr. Common stock (IPR&D of Entity V)	$100	
Cr. IPR&D (Entity V)		$100
Dr. Common stock (Entity V)	$200	
Cr. Investment (Entity A)		$270
Dr. Preferred stock (Entity V)	$700	
Cr. Retained deficit (Consolidated) *		$552
Cr. VIE interests (Consolidated) **		$ 78

* The Retained deficit of $552 reflects the elimination of the VIE share of loss and is comprised of the first year retained deficit of $240 ($400 times 60 percent VIE interest) plus the second year retained deficit of $312 ($400 times 78 percent VIE interest). Therefore, the residual Retained deficit related to Entity V that should be reflected in the consolidated balance sheet is $248 ($800 total loss less $552 VIE share of loss).

** The VIE interest is comprised of total capital contribution of $900 (common and preferred stocks), less Retained deficit of $552, and less Entity A's investment balance of $270.

The statements of operations for the various entities during the second year of operations (Figure 6) and selected balance sheet information at the end of the second year (Figure 7) are as follows.

Figure 6. Second Year Statements of Operations.

	Entity A	Entity V	Consolidated
Revenues	$1,000	$ -	$1,000
Expenditures	700	400	1,100
VIE Interest Loss	-	-	(312)
Profit (Loss)	$300	($400)	$212

Figure 7. Selected Balance Sheet Accounts.

At the end of the second year:
Selected balance sheet data representing the consolidation of Entity V:

	Entity A	Entity V	Eliminations	Consolidated
Investment	$270		($270)	$ -
IPR&D		$100	($100)	$ -
VIE Interests			($78)	$78
Common Stock		$300	$300	$ -
Preferred Stock		$700	$700	$ -
Retained Earnings (Deficit)		($800)	($552)	($248)*
Equity Interests		$200		$ -
Additional Paid In Capital (APIC)	$70			$70

* The $248 consolidated Retained deficit at the end of the second year reflects $800 total accumulated loss of Entity V for the first two years of operations less the VIE's share of losses for $552 during the same periods.

Third Year

The example in the third year reflects provision of paragraph B39 of Appendix B of SFAS 160, which states that losses attributable to the primary beneficiary and the VIE interests be attributed proportionately to those interests even if it results in a deficit in the VIE interests balance. This was a major reversal from paragraph 15 of ARB 51 [FASB ASC 810-10-45], which required Entity A to consolidate Entity V as a wholly owned subsidiary once the losses of Entity V exceeded its equity.

Entity V incurs an additional loss of $400 during the third year; therefore, it needs additional financing to continue its operation, and as such, it raises additional funding of $400 in the form of a bank loan guaranteed by Entity A.

Entity V makes the following journal entry upon receipt of debt financing:

Dr. Cash	$400	
Cr. Bank Loan		$400

Assuming that Entity A has remained a primary beneficiary into the third year, it shall continue consolidating the financial results of Entity V. The following journal entry reflects the eliminating journal entry for consolidation of Entity A and Entity V:

Dr. Common stock (IPR&D of Entity V)	$100	
Cr. IPR&D (Entity V)		$100
Dr. Common stock (Entity V)	$200	
Cr. Investment (Entity A)		$270
Dr. Preferred stock (Entity V)	$700	
Cr. Retained deficit (Consolidated) *		$864
Dr. VIE interests (Consolidated) **	$234	

* The Retained deficit of $864 reflects the elimination of the VIE share of loss and is comprised of the first year Retained deficit of $240 ($400 times 60 percent VIE interest) plus the second year Retained deficit of $312 ($400 times 78 percent VIE interest) plus the third year Retained deficit of $312 ($400 times 78 percent VIE interest). Therefore, the residual Retained deficit related to Entity V that should be reflected in the consolidated balance sheet is $336 ($1,200 total loss less $864 VIE share of loss).

** The debit balance of VIE interests for $234 is comprised of $78 credit balance at the end of the second year and $312 ($400 times 78 percent) debit balance in the third year.

The capital contribution table during the third year remains the same as the second year.

The statements of operations for the various entities during the third year (Figure 8) and selected balance sheet information at the end of the third year (Figure 9) are as follows.

Figure 8. Third Year Statements of Operations.

	Entity A	Entity V	Consolidated
Revenues	$1,000	$ -	$1,000
Expenditures	700	400	1,100
VIE Interest Loss	-	-	(312)
Profit (Loss)	$300	($400)	$212

Figure 9. Selected Balance Sheet Accounts.

At the end of the third year:
Selected balance sheet data representing the consolidation of Entity V:

	Entity A	Entity V	Eliminations	Consolidated
Investment	$270		($270)	$ -
IPR&D		$100	($100)	$ -
Bank Loan		$400		$400
VIE Interests	$ -		$234	($234)
Common Stock		$300	$300	$ -
Preferred Stock		$700	$700	$ -
Retained Earnings (Deficit)		($1,200)	($864)	($336)*
Equity Interests		$200		$ -
Additional Paid In Capital (APIC)	$70			$70

* Consolidated Retained deficit for $336 at the end of the third year reflects $1,200 total accumulated loss of Entity V for the first three years of operations less the VIE's share of losses for $864 during the same periods.

Fourth Year

While there has been much literature surrounding the consolidation of entities, there is little regarding the deconsolidation of such entities, as well as the gains and losses recognized due to deconsolidation. Deconsolidation of a VIE could result in a substantial gain in the operating results of a primary beneficiary if the VIE has been operating with negative equity and incurring operating losses for a prolonged period of time.

In this example, Entity A sells its interest to a third party for $500 at the beginning of the fourth year and thereby terminates its relationship with Entity V. As a result, Entity A is no longer required to consolidate Entity V since it has lost its primary beneficiary status. According to paragraphs 35 through 57, B53 and B54 of SFAS 160 [FASB ASC 810-10-40], the primary beneficiary, upon deconsolidation of a VIE, derecognizes the assets, liabilities, and equity components related to the VIE, and any gain or loss should be measured by comparing the fair value of the consideration received with the carrying amount of the subsidiary's net assets.

The following journal entry by Entity A reflects deconsolidation of Entity V:

Dr. Cash	$500	
Dr. APIC	$ 70	
Cr. Investment		$270
Dr. Retained deficit	$336	
Cr. Deconsolidation gain		$636

The statement of income of Entity A for the fourth year is as follows (Figure 10).

Figure 10. Fourth Year Statement of Operations of Entity A.

	Entity A
Revenues	$1,000
Expenditures	700
Deconsolidation Gain	636
Profit	$936

International Convergence

The Financial Accounting Standards Board (FASB) and International Accounting Standards Board (IASB) have been working together to promote international convergence of accounting standards since 2002. They jointly developed the two principles-based standards of SFAS 141(R) and SFAS 160 as part of this convergence project. These two new standards, together with FIN 46(R) and SFAS 167, emphasize fair value accounting and significantly affect how companies present consolidated financial statements when a VIE interest is present.

Under SFAS 141(R) and SFAS 160, the primary beneficiary and the VIE are viewed as a whole and as such, the total assets, liabilities, VIE interests, revenues, expenditures, and income (loss) of both entities are reported in the consolidated financial statements. These two pronouncements reflect FASB's recent moves to emphasis the balance sheet rather than statement of operations. The authors believe that these two pronouncements provide for a more consistent and better method of reporting for the consolidation of VIEs.

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Today's CPA offers the self-study exam below for readers to earn one hour of continuing professional education credit. The questions are based on technical information from the preceding article.

Mail the completed test by **October 31, 2009** to TSCPA for grading. If you score 70 or better, you will receive a certificate verifying you have earned one hour of CPE credit – granted as of the date the test arrived in the TSCPA office – in accordance with the rules of the Texas State Board of Public Accountancy (TSBPA). If you score below 70, you will receive a letter with your grade. The answers for this exam will be posted in the next issue of *Today's CPA*. Answers to last issue's self-study exam: 1. b, 2. d, 3. c, 4. b, 5. a, 6. e, 7. c, 8. a, 9. d, 10. d

The Consolidation and Deconsolidation of Variable Interest Entities - An Illustrative Exercise

1. Which accounting promulgation is responsible for the risk and rewards model?
   a. ARB 51.
   b. SFAS 141(R).
   c. SFAS 160.
   d. FIN 46(R).

2. Assume Entity A spins-off Product V to form Entity V and that Entity V qualifies as a Variable Interest Entity and Entity A as a Primary Beneficiary. Also assume that Entity A invests $1,000 for a 40 percent interest in Entity V along with venture capitalists who contribute a total of $1,500 and receive a 60 percent interest. Which of the following would be included in the journal entry reflecting the eliminating entries for consolidation of Entity A and Entity V at the beginning of the first year?
   a. VIE interests (Consolidation) Credit $1,500
   b. VIE interests (Consolidation) Debit $400
   c. VIE interests (Consolidation) Credit $1,000
   d. Common stock (Entity V) Credit $2,500

3. Referring to the facts in question 2 above and assuming that Entity V had a loss of $2,000 during the first year of operation, what is the value of the Retained deficit (consolidated) account at the consolidated level after the first year?
   a. $2,000
   b. $300
   c. $800
   d. $2,500

4. Referring to the facts in question 2 above and assuming that Entity V had a loss of $300 during the second year of operation, what is the value of the Retained deficit (consolidated) account at the consolidated level after two years?
   a. $300
   b. $1,380
   c. $920
   d. $2,300

5. To properly reflect changes in ownership interests, any difference between the fair value of the consideration received or paid and the amount by which VIE interests are adjusted should be accounted for:
   a. as equity transactions in Additional paid-in capital.
   b. as a gains/losses on the consolidated net income or loss.
   c. as an adjustment to the Primary Beneficiary's Investment account.
   d. in Other comprehensive income or loss.

6. What is the proper treatment of IPR&D in an acquisition according to SFAS 141(R)?
   a. IPR&D must be expensed upon acquisition.
   b. IPR&D value rolls into the acquisition journal entry and gets reflected in goodwill.
   c. IPR&D must be accounted for as indefinite-lived intangible assets subject to impairment.
   d. IPR&D must be accounted for as indefinite-lived intangible assets subject to amortization.

7. The difference between the fair value of the consideration received or paid and the amount by which VIE interests are adjusted shall be accounted for as:
   a. revenues in the statement of operations.
   b. an APIC entry in the equity.
   c. an adjustment to retained earnings.
   d. not recognized until deconsolidation.

8. What is the accounting pronouncement that deals with deconsolidation of a VIE?
   a. SFAS 141(R).
   b. FIN 46(R).
   c. SFAS 160.
   d. All of the above.

9. Which of the following statements is correct?
   a. Investment of an entity in any development stage enterprise makes that entity automatically a primary beneficiary.
   b. A development stage enterprise can never become a VIE.
   c. An entity must own at least 40 percent of equity interest in the development stage enterprise to be considered a primary beneficiary.
   d. An entity that has created a development stage enterprise which cannot raise any additional financing without a subordinated financial support from that entity is a primary beneficiary.

10. An entity is considered a primary beneficiary and must consolidate a VIE under one or all of the following scenarios.
   a. The entity can make management and strategic decisions for the VIE.
   b. The entity absorbs the 50 percent or more of the loss of the VIE.
   c. The entity has voting rights not proportionate to its economic interest.
   d. All of the above.

PARTICIPATION EVALUATION (Please check one.)

5=excellent 4=good 3=average 2=below average 1=poor

1. The authors' knowledge of the subject is: 5__ 4__ 3__ 2__ 1__.
2. The comprehensiveness of the article is: 5__ 4__ 3__ 2__ 1__.
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